

## FUTURE FACTORS

# The 3Rs of retail banking



Regulate;



Revise;



Re-envision



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## Executive summary

Eight years after the financial crisis, regulation still occupies retail banking executives' time and resources. Thankfully, bankers no longer feel overwhelmed by constantly shifting rules.

This report therefore has a different tone from The Economist Intelligence Unit's first report on the future of retail banking sponsored by Temenos and published in 2014. Change is now the common narrative, with three interlocking "Rs" affecting all retail banks. "Regulate" still resonates as authorities finalise efforts to police the system without stymieing economic growth. Equally challenging is "Revise" as traditional players work out their roles as customer expectations change rapidly. Further impetus comes from the start-ups and non-banking disruptors who aim to "Re-envision" banking.

The danger of a systemic banking collapse has passed. Capital has been patched under Basel III rules. Yet, regulators and prosecutors have discovered that fining banks is popular and profitable. Extreme risk-taking has been tempered by compliance, cost and fear. Retail banks remain caught in the crossfire between the desire to protect taxpayers, the need to deliver essential services and the profit imperative. Can banks survive the onslaught? Yes, but only if they change—and fast. In a remarkable turnaround, the challenges and opportunities of a reworked

banking model have matched or replaced those regulatory fears.

Banks need to rebuild trust. Customers want seamless service on their tablets and smartphones, in real-time at low or no cost. Fewer people are visiting branches—and when they do, it is not for basic transactions. Behaviour and technology now drive strategic thinking with expensive, painful implications for physical networks and staff numbers. Business models and the economics of banking will be turned upside down by 2020. To assess the state of play and the height of those ambitions, The Economist Intelligence Unit surveyed 208 senior executives at retail banks around the world, to learn how they are adapting to regulatory, customer and technology changes.

Key findings of the research include the following.

- **Regulatory fear is receding.** Last year, just over half (51%) the retail banking respondents we interviewed said that regulation would have the biggest impact on their industry in the years to 2020. That figure has now dropped to 46%.
- **Bigger is not always better.** It is North American banks, especially the larger players, that are still feeling the regulatory heat (60%). Their European counterparts appear a little more

sanguine about the impact of regulation (49%) than last year (58%).

- **Changing behaviour.** Changing customer behaviour and demands are now expected to have as big an impact on the retail banking industry in the years to 2020 as regulation (46%). Asian banks are experiencing the biggest overhaul in demand and expectations (53%) as clients bypass PCs, preferring smartphones instead.

- **Stoking the competition.** New competitors are adding to the pressure, egged on by regulators keen to break powerful cabals. Over one-third (36%) of respondents expect technology and e-commerce companies to be their biggest competitors by 2020. Payment players such as Paypal or new banks may already be old hat (12% and 13%, respectively).

- **Digital developments.** Established players are pumping billions into building their digital defences. Digital strategies (46%) are a bigger priority than responding to regulation (35%), ring-fencing (27%), cutting costs (36%) or

dealing with non-performing loans (32%). Banks know that they cannot rely on a single website, app or channel. Cross-channel capabilities (45%) are essential.

- **Data dilemmas.** Successful digital strategies are expected to help banks sell more products effectively (40%), but they are not seen as effective for retention (5%). Banks are also concerned that they may struggle to mine the new data they collect (26%). Providing the right data to regulators (18%) and keeping banking systems secure (21%) are also challenges.

- **Profits squeezed.** The regulatory squeeze is taking its toll on investment banking, with only 26% of respondents thinking it will be their group's primary source of revenue by 2020 (down from 32% last year). But even more dramatic—and no doubt unintended by regulators—is the expected collapse in retail banking profitability. Some 35% describe it as their primary source of income today. Just 16% think it will be in five years.

## About this report

In December 2014 The Economist Intelligence Unit, on behalf of Temenos, surveyed 208 global banking executives to investigate the views of retail banks on the challenges and changes that they expect to face in the years to 2020, and how they are responding.

Respondents were drawn from across the world, with 55 from Asia Pacific, 72 from Europe, 60 from North America and 21 from the rest of the world. Over half (107) work for banks with assets of less than US\$50bn; 40 have assets of US\$250bn or more. The C-suite is well represented (106). One in five (44) holds the role of chief executive, chief financial officer or chief investment officer.

In addition, in-depth interviews were conducted with 22 senior executives from banks of all sizes, start-ups, venture capitalists and mutual fund managers. Our thanks are due to the following for their time and insight (listed alphabetically).

Jeff Bogan, head of Institutional Group, Lending Club

Martin Blåvarg, Investor Relations & Regulatory Policy, Handelsbanken

Malek Bou-Diab, portfolio manager, Bellevue Asset Management

Carmelina Carluzzo, deputy head of CEE Strategic Analysis, UniCredit Bank

Joan K. Crain, senior director, wealth strategist, BNY Mellon Wealth Management

Iain Evans, global head of distribution, Polar Capital

Ricardo Forcano, head of strategy and planning, BBVA Digital Banking

David Gall, chief risk officer, National Australia Bank

Tim Gardener, global head, Institutional Client Group, AXA Investment Managers

Adrian Gardner, chief financial officer, International Personal Finance

Vicki Harris, group strategy and marketing director, Aldermore

Sue Hannums, co-founder, Savings Champion

Miranda Hill, vice-president, manager for Wells Fargo Digital Innovation Lab

Taavert Hinrikus, co-founder, TransferWise

Geert Indigne, marketing director, Sixdots

Jonathan Larsen, head of consumer banking—Asia Pacific, Global Head of Retail Banking, Citi

Mark Mullen, chief executive, Atom

Michał Panowicz, managing director, Marketing & Business Development, mBank

Paul Pester, chief executive officer, TSB Bank

Yann Ranchere, finance director, Anthemis Group

Iwona Ryniewicz, director, Communication and Marketing Strategy, mBank

Peter Schlebusch, chief executive officer, Standard Bank

Gunter Uytterhoeven, director, Marketing Communication, Campaigns and Channels, BNP Paribas Fortis

Frans van der Horst, chief investment officer, ABN AMRO

The report was written by Paul Burgin and edited by Monica Woodley of The Economist Intelligence Unit.

# Introduction

## All change

Regulation continues to shape how banking works, but customers are now the driving force of the retail revolution. “Digital first” and “mobile first” are reworking the banking system worldwide. The ever-growing use of mobile phones and tablets is replacing counter staff, the local branch manager, the call centre and even the website in Asia.

The “Google generation” expects to find the best deals for themselves, via peer reviews and comparison websites. They do not see the branch as their only—or even main—product source.

Challenger banks would like to topple the old guard. The cash-laden technology sector sees an entire industry ripe for disruption. Both are right, but the future may not look exactly as they imagine. Specialists and tech firms do not have the infrastructure, expertise or the will to provide universal banking services. The terms “bank” and “new” will have to co-exist and co-operate.

Regulators are beginning to respond to shifting client behaviour. They are looking at peer-to-peer (P2P) lending, payment and remittance services,

and shadow banking entities. China has granted banking licences to Alibaba, Baidu and Tencent to better police their expansion from high-rate savings products. Regulators also need to make the banking market more efficient, yet they must keep it safe. Numerous barriers exist; access to interbank payment infrastructure is a particular bugbear.

Data will be the new turf war. The public is already wary about who is spying on what. Numerous hacks and leaks have shown just how easy it is to access personal and account information. Those who seek to challenge the established banking order had better beware. Regulators and bank customers will squeal if they feel their financial data is compromised or abused. Likewise, the establishment needs to rethink and rebuild its data-mining architecture if it hopes to compete.

Implementing change is often hampered by fixed views and antiquated equipment. Yet, as this report shows, even traditional banks can rework their thinking, their networks and their service proposition. They can even profit from it—just like real bankers should.

## 1

## REGULATORY FEARS RECEDE

Can the banking sector ever redeem itself? Judging by the increasingly tough stance of global regulators, the answer would seem not. Market manipulation investigations, misrepresentation settlements and criminal prosecutions are stacking up.

Yet all that has little to do with retail banking, perhaps explaining why the bank executives surveyed for this report feel that regulatory pressure is easing. Other issues bubble below the surface. Over one quarter (27%) of respondents are concerned about non-performing loans, particularly in the Asia Pacific region. Worries about the macroeconomic cycle have abated, although bankers in Latin America are not as convinced (44%), as commodity prices collapse.

Regulatory concerns are strongest in North America (60%) where banks are still digesting the Dodd–Frank Wall Street Reform and Consumer

Protection Act. Globally, those banks with assets of US\$100bn–250bn (58%) and US\$1trn or more (57%) fret the most.

In private banking, tax evasion rules are tightening. The Swiss government is all but undoing the secrecy laws that have shielded the *privatbankiers* since 1934. That could fell swathes of mid-tier Swiss banks, already wounded by client desertions and the removal of the local currency's peg to the euro by the Swiss National Bank (the central bank). Syz, Vontobel, Pictet and Julius Bär could vacuum up weaker rivals, or merely wait for them to go bust.

European retail bankers are more comfortable with the changes pushed upon them. Ring-fencing and reordering corporate structures are perhaps the last parts of the jigsaw. Deutsche Bank and multi-jurisdiction rivals are considering how to meet US and European living-will requirements.

The European Commission and European Parliament still have much to do. Initiatives on money laundering, financial supervision, the financial transaction tax, investor compensation schemes, money market funds and the Payment Services Directive (PSD II) are awaiting final approval. However, the Markets in Financial Instruments Directive (Mifid II) has been reworked to still allow product commission, known as retrocession. European investors are loathe to pay for advice and many banks cannot make the fee model work, as the *honoraranlageberatungsgesetz* debate in Germany and the Retail Distribution Review in the UK have shown.

Chart 1



### Which trends will have the biggest impact on retail banks in your country in the years to 2020?

(% respondents)

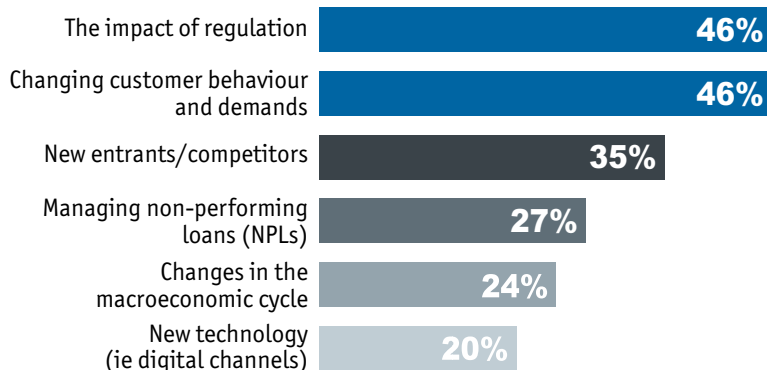


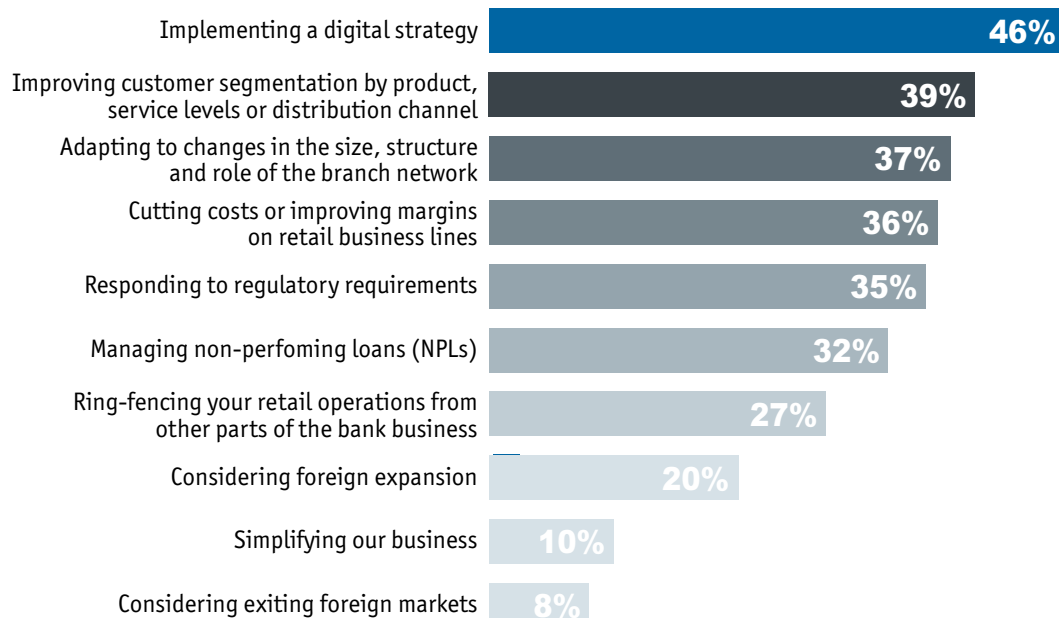
Chart 2



### What are the top priorities for your company in the years to 2020?

Select up to three

(% respondents)



On the retail shop floor, the Swiss Financial Market Supervisory Authority (FINMA), the German Federal Financial Supervisory Authority (BaFin) and Consob of Italy are beginning to take the tougher prescriptive line of the Autorité des Marchés Financiers in France and the UK's Financial Conduct Authority over product sales, advice and disclosure. Nordic regulators are less prescriptive, although steps are being taken to rein in high household debt levels. African regulators are incorporating sections of European and US laws into their statute books.

David Gall, chief risk officer at National Australia Bank, even senses a *rapprochement* between lawmakers and bankers—at least when it comes

to Australia's Murray Report recommendations. "The government is undertaking another round of industry soundings. The difference this time is that the level of socialisation of the recommendations is much greater," he says.

Yet wherever they operate, interviewees point to a lack of joined-up thinking. Global regulators have signed up to Basel III, but the rules are often bent. Danish banks recently won the right to count their covered bonds as top-notch capital, while Spanish bank *cédulas* were not so fortunate. Carve-outs are great for the beneficiaries, but are less useful for harmonisation or even protecting the taxpayer in the long run.

## FATCA: resistance is futile

Boris Johnson, the mayor of London, has fallen victim to the US's Internal Revenue Service. He left New York aged five, but must still settle a capital gains tax bill as a US citizen.

Other "accidental" American citizens are finding how costly the Foreign Account Tax Compliance Act (FATCA) is. Professionals say that documenting sources of income and assets, and classifying clients, costs them US\$5,000 per new US expat client. Clients may be charged an extra US\$2,000 to prepare their tax paperwork. Renouncing your citizenship may not get around America's "worldwide income" provisions. Even the deceased may leave embedded capital gains tax bills.

Swiss, German and other banks are refusing American clients because the costs and risks are

too high. So US wealth-management firms and private banks are cautiously helping out.

"Private bankers now have to wear a policeman's hat," admits Joan Crain of BNY Mellon Wealth Management, which has a growing global presence. Expat enquiries are rising in Germany, Switzerland and elsewhere, but the bank has no intention of being a retail bank of last resort.

Other global citizens face a tighter reporting net. The US has signed dozens of reciprocal Intergovernmental Agreements. As many as 33 countries may follow FATCA once OECD reporting standards apply from 2017.



## 2

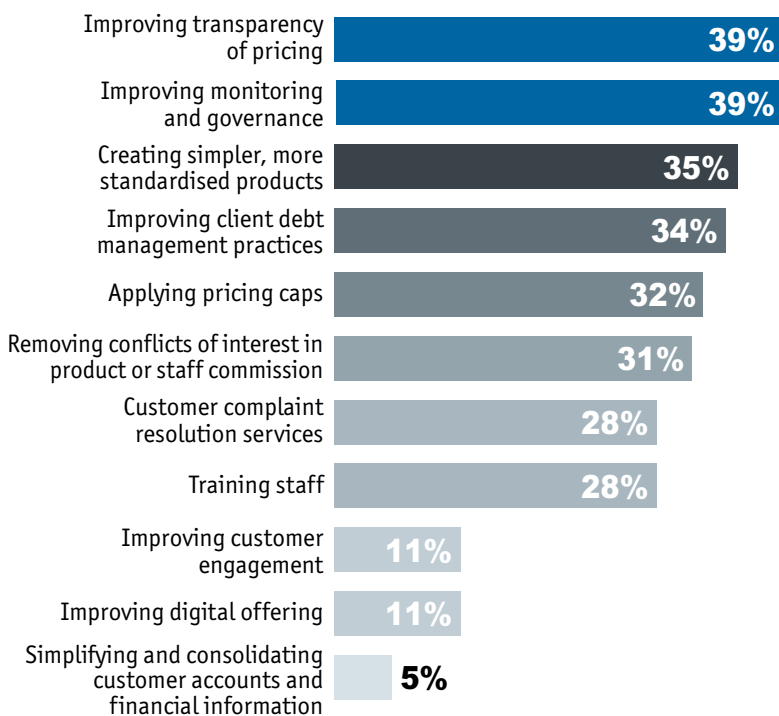
## BANKING GETS A MAKEOVER

Chart 3



### What steps is your company taking to improve the consumer proposition?

(% respondents)



Traditional banks, with traditional physical networks and systems, face an uncertain future. Therefore, strategic priorities are changing as retail and private banks seek a new role.

With responding to regulation taking up less managerial time, other priorities are quickly coming to the fore. Cutting costs and improving margins (according to 36% of respondents) are vital as zero interest rate policies (ZIRPs) affect profitability and compliance adds significantly

to costs, especially in North America (40% compared with an average of 36%).

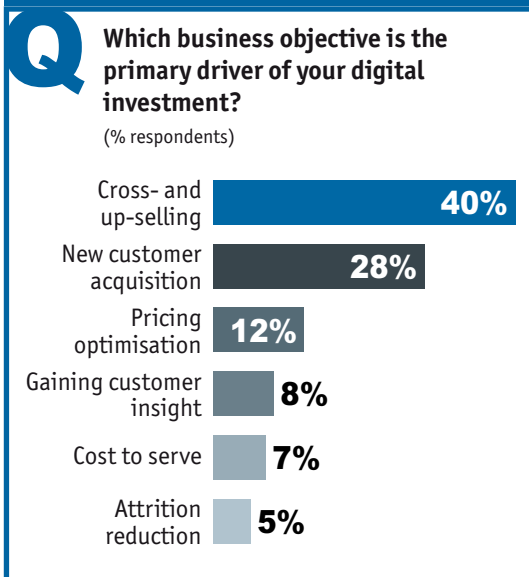
Regulatory concerns have also now been trumped by fast-paced change in customer expectation and behaviour. Implementing a digital strategy is the primary strategic priority (46%), followed by segmenting customers by product and service levels (40%) and adapting the size and role of the branch network (37%).

To cut costs and help customers—as well as please regulators introducing price caps, more robust suitability rules and mortgage loan-to-value caps—banks are creating simpler products (35% of respondents). That ties with improved pricing transparency (40%), which may well aid monitoring and governance (39%). Changes to insurance broker rules in the United Arab Emirates may also explain why Middle Eastern bankers (36%) are more eager to remove conflicts of interest and commission than other executives surveyed.

Oddly enough—and in sharp contrast with the thoughts of our in-depth interviewees—simplifying and consolidating customer accounts gets short shrift (5%), as does improving customer engagement (11%). Improving the digital offering also scores poorly at 11%. We can only assume that early digital adopters are happy with their digital efforts so far.

Digital is only partly about attracting new customers (29%) and has little to do with customer retention (5%). Cutting costs is not the primary driver (7%), even though the do-it-

Chart 4

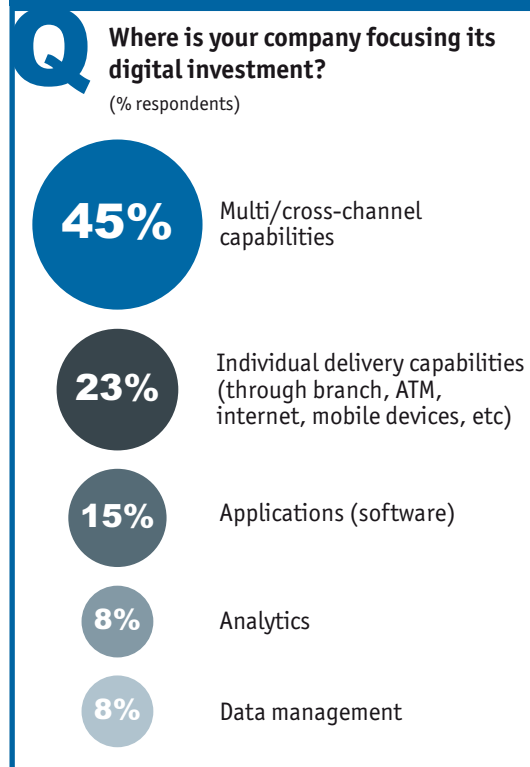


yourself nature of online has clear bottom-line benefits. The digital Holy Grail is about cross- and up-selling (40%), although some banks think that such a strategy is a red herring. Gunter Uytterhoeven of BNP Paribas Fortis says that customers use online search tools to look for savings accounts, complex products and loans. Few will automatically buy direct.

“The hard-sell stopped working after 2008. Sales funnels have to be fluid and easy, showing personalised content,” he says.

This behavioural shift means that customer loyalty is collapsing. Captive asset management and insurance arms can no longer count on bank channels to deliver new customers. The pain is compounded by stricter “know-your-client” and suitability rules, as well as by efforts in the UK, the Netherlands, Germany and the Nordics to undo “free” financial advice that is paid for by commission.

Chart 5



Many mutual fund firms are switching tack, targeting business-to-consumer (B2C) platforms rather than bank distribution agreements. Exchange-traded funds and fund of funds “solutions” are filling the void as Betterment, a US automated investing service, and other similar services replace face-to-face tailored advice and open architecture in banking.

The bankers know that they have to blitz every channel if they are to hit their cross-selling targets (according to 45% of respondents). Many are still grappling with what to do with individual channels (23%), such as branches and ATMs. More work is required on the client and service segmentation side before we will see clear trends.

## mBank: from communism to revolution

BRE Bank was established in communist Poland to facilitate foreign trade. After the cold war ended, it was the first Polish bank to establish a retail Internet arm. The online offspring has now taken over the parent.

By 2012 BRE had three separate businesses: the original commercial bank; mBank for young online clients; and another network for face-to-face retail. Different identities, systems and networks were inefficient. An overhaul was required.

Retail made up less than 50% of profits, but had five times the number of branches and a stronger brand. So the board jettisoned the BRE name altogether in a revolutionary makeover. "The rebrand was not just cosmetic. It came with a new platform and products," says Iwona Ryniewicz, director of marketing strategy at mBank.

It also came with two big challenges. The first was technical: integrating systems and networks to allow any customer to access all channels. Some 86% of product sales are now "digitised". The second was staff: employees of the former BME needed to feel valued, so they were promised no job losses and no branch closures.

Adjacent branches now offer all facilities to everyone. When rents are up for renewal, overlapping branches are merged. Ms Ryniewicz says that footfall is up as Internet customers visit for the first time. Others are happy in cyberspace: 230,000 retail customers joined mBank in 2014.



## 3

## REIMAGINING BANKING

**“We need banking but we do not need banks anymore.”**

**“Banks are dinosaurs, they can be bypassed.”**

Neither of these quotes, attributed to Bill Gates, is particularly new. Yet there is a heightened sense that his words are now coming true. More than one-third (35%) of our respondents think new entrants and competitors will have a major effect in the next five years. That figure rises to over half (52%) of our North American respondents.

Chart 6

**Q Which non-traditional entrant to the retail banking industry will be your company's biggest competition in the years to 2020?**

(% respondents)

36%

Technology & e-commerce  
(ie Amazon, Apple)

21%

Non-financial service firms  
(ie traditional retailers, telecom firms)

13%

New banks (branch, online, telephones, etc)

12%

Payment players  
(ie Paypal, Square)

11%

Capital markets/shadow banks  
(asset managers and private equity)

7%

Peer-to-peer lenders

The retail banking industry has a fairly uniform view of where this competition is coming from, even if it has not quite worked out how to respond.

The biggest threat will not come from payment players (12%), even if they are as established as PayPal, nor from new banks in physical, online or phone formats (13%). They will not emerge from the shadow banking sector (11%) either.

Over one-third of respondents (36%) believe that the biggest threat will come from tech and ecommerce giants such as Amazon and Apple. They are disruptors by nature and bettered by no-one when it comes to exploiting customer data and extracting an additional retail dollar.

Those who think that Silicon Valley will cherry-pick transactional, payment services business with smartphone apps had better think again. Disruptors will grab market share from current accounts (24%), deposits (14%) and savings lines (25%). Electronic wallets (3%) and foreign exchange and remittances (1%) are merely the start.

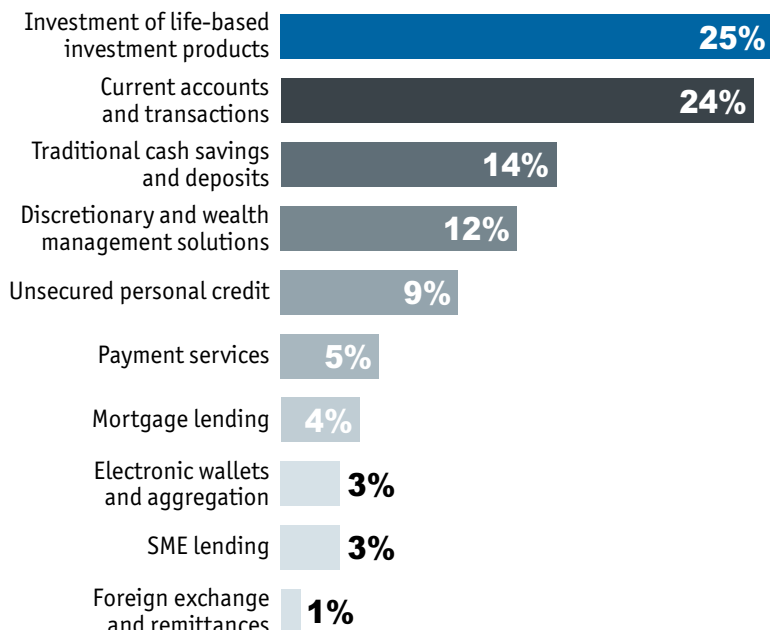
“There are a very large number of banking sub-segments, each with a very large market size. You can get relatively big even with a small market share,” points out Vicki Harris of Aldermore, a recently established UK bank.

Some banks are already adopting a “better the devil you know” approach to the upstarts and their technology. In small business lending, small and medium-sized enterprises (SMEs) turned away by Santander and Royal Bank of Scotland

Chart 7

### Q What is the main area you expect new entrants to make the most gains?

(% respondents)



Titan Bank and Congressional Bank, offer loans sourced from Lending Club, one of America's biggest platforms.

"Marketplace lenders have low operating expenses and technology expertise while banks have the customer relationship and low cost of capital," says Jeff Bogan of Lending Club. Just 7% of respondents see P2P lenders as their own firm's biggest threat. Platforms may join and collaborate with the mainstream, but they will not replace it.

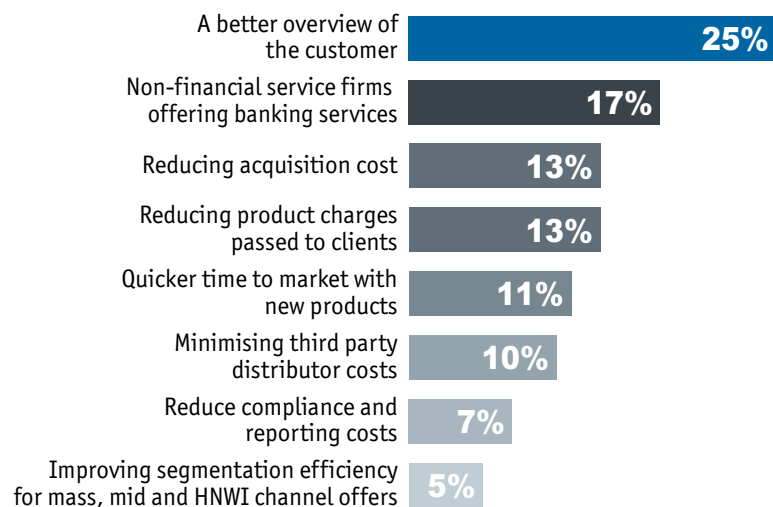
Banks are beginning to see the benefit of working together behind the scenes. The Society for Worldwide Interbank Financial Telecommunication (SWIFT) is set to bring real-time payments to Australia in 2017. BNP Paribas Fortis, KBC, ING and Belfius have set up Belgian Mobile Wallet, operating as Sixdots.

Wells Fargo and Standard Bank are just two companies that have created their own tech labs—spaces to test out new technology and apps.

Chart 8

### Q In which area can technology have the biggest impact in the retail banking space?

(% respondents)



Spanish bank BBVA is taking a "buy not build" approach, acquiring "big data" firm Madiva and the digital bank Simple. Time to market is of the essence, according to Ricardo Forcano of BBVA. "In the digital world, acquiring companies serves as a lever to develop business and obtain new capabilities. Just take a look at the major digital players such as Google, Facebook or Yahoo who continuously buy start-ups," he says.

Respondents see little real competitive threat from new banks. This is not entrenched bravado. Bailouts and mergers have consolidated the hold of traditional market leaders. Germany and Switzerland could be next for a mid-sized clear-out. Newcomers often fail to distinguish their services sufficiently to gain traction. Regulators are making account switching easier, but the public has better things to do.

are referred to peer-to-peer (P2P) platforms. The UK government may make such referrals compulsory. California's Union Bank, along with

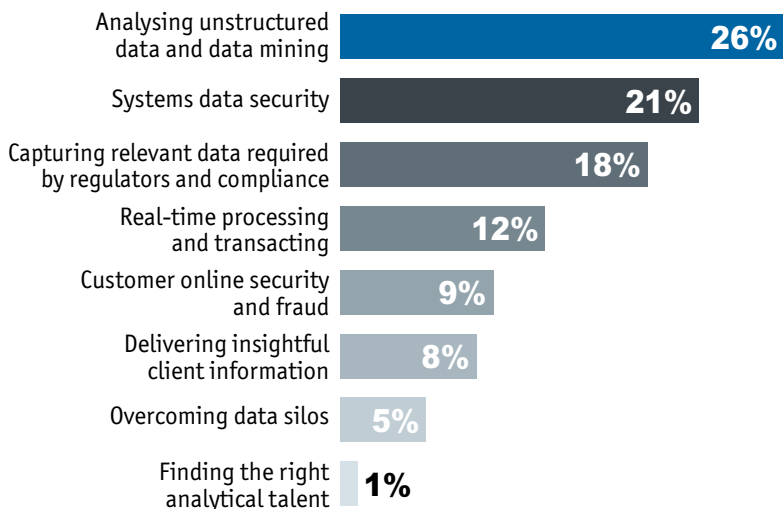
"Why bother moving if you do not believe the destination bank is any better?" asks Mark

Chart 9



### What are the biggest challenges your bank currently faces with regard to data?

(% respondents)



Mullen, chief executive of Atom Bank, which expects to launch later this year.

The question is, can the non-banking upstarts make a better job of convincing an indifferent public? Yes, if you believe data is the answer.

Perhaps foolishly, banks are not looking to lower costs for clients (say 13% of respondents), or even to reduce costs for themselves (7%). Knowing more about customers (25%) is the key to their salvation. Unfortunately for the banks, someone else has already realised the intrinsic value of data.

Although banks have used technology for 50 years or so, they are often uncomfortable with it. Legacy systems abound, with more spent on patching and repairing than exploiting the benefits that IT can bring. Security is a big headache (according to 21% of respondents), with regulatory and compliance requirements

(18%) close behind. Yet the biggest block to IT nirvana is being able to analyse data (26%).

“We cannot compete effectively with legacy systems from last century. Newcomers are a real threat, this is about our sustainability,” says Peter Schlebusch of South Africa’s Standard Bank. Rebuilding its core banking structure comes with a price tag north of US\$2bn.

Even the likes of Santander and its Partenón system may trail Amazon when it comes to real time detail and predicting what the client wants. Yet the e-commerce giants may find it hard to use all their data-mining skills. Clients may not take too kindly to having their financial details accessed and sold to third parties quite as easily as their identity, photos, files, Wi-Fi data and call information can be shared by, for example the video game, Angry Birds.

Although banks struggle to sift data intelligently, their new competitors may never be allowed to. And as Yann Ranchere of venture capital firm Anthemis Group points out, nobody knows everything. “A retailer knows what you bought. A bank only knows what you spent. Retailers are just as wary of sharing their data too,” he says.

It is highly likely that the disruptors may not dictate all the terms of a re-envisioned banking ecosystem. Sub-Saharan Africa and Latin America may be tough as local banks and telecoms firms have captured the non-smartphone payment market.

Upstarts will eventually hit a regulatory brick wall. Joining retail deposit protection and ombudsman schemes will cost. The bankers and regulators are muttering already. A blow-up, hacking attack or widespread financial losses for clients will ensure a draconian response comes sooner rather than later. Data turf wars loom large.

## TransferWise: friend or foe?

Before Skype, phone calls were complex and expensive. Now they are free—with video thrown in—and the 12-year-old company has 40% of the international call market.

Former Skype employee Taavet Hinrikus and friend Kristo Käärmann used the Skype principle of “cheaper, faster, simpler” to develop TransferWise, an online international money transfer service.

“In lots of verticals, there are many specialists doing things better,” Hinrikus says. He expects

the upstarts to own 30-40% of the banking market within ten years and believes that universal banks face extinction.

For now, few banks want to enter into partnership with TransferWise. They would be shooting themselves in the (profitable) foot if they did. However, that time will come as early as this year and banks may end up as mere shop fronts for other providers.

“We will see people who never go to banks in their lives,” warns Hinrikus. ■

## 4

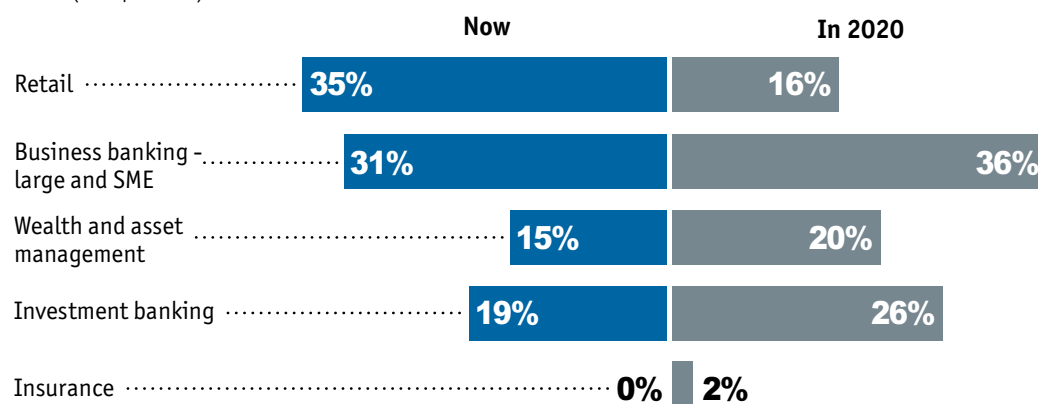
## PROFIT, SERVICE OR BOTH?

Chart 10



**What is your group's current primary source of revenue? and what do you expect it to be in 2020?**

(% respondents)



Challengers and start-ups complain that incumbents think about the profits first, client experience second. Survey respondents recognise that is no longer a survival strategy as retail banking slides rapidly down the profitability scale.

The erosion of lucrative oligopolies will eat into retail banking earnings. Respondents expect retail to fall sharply as their primary source of revenue from 35% today to 16% by 2020. Only the biggest banks expect retail to retain its share of revenue.

Despite the regulatory squeeze, investment banking may be revitalised—but not all will find new vigour. Those banks worth US\$50bn to US\$1bn expect their share to double, but the largest banks expect their revenue share to fall.

Recent merger and acquisition activity suggests that banks are betting that private banking and wealth management margins are more robust than in mass retail; our respondents concur. Wealth and asset management will overtake retail as a primary revenue source within five years. The wealth effect will be more keenly felt in Asia (22% in 2020) than in the US where its overall share will decline (25% now compared with 18% in 2020).

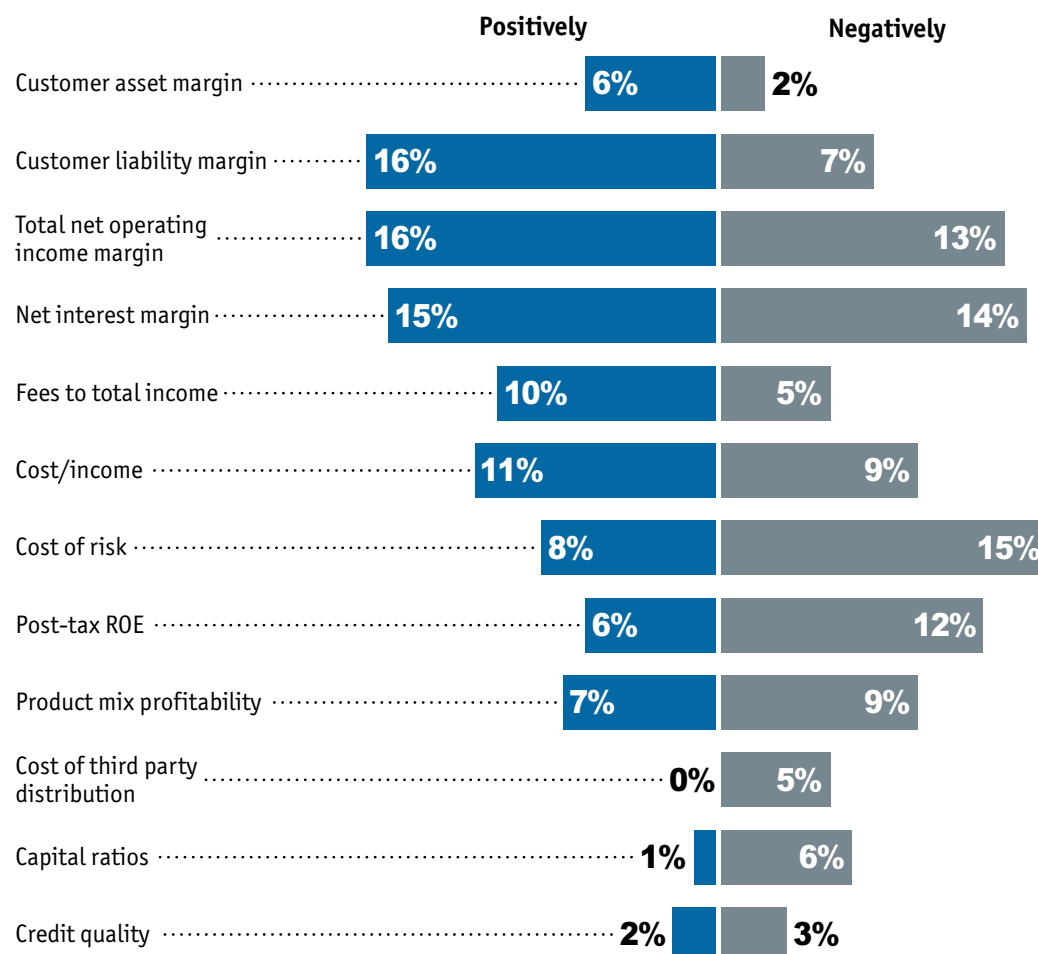
Retail operating margins are being squeezed (13%), with net interest margins (14%) suffering from monetary policy pressure. However it is compliance, governance and the cost of risk (15%) that hurts most. Some progress is being made on bringing down cost/income ratios, but it is a close call (11% positive, 9% negative).

Chart 11



**Which of the following is currently affecting your company the most positively/negatively?**

(% respondents)



Yet overall, our bankers feel marginally more positive than negative about those liabilities, operating and net interest margins. That gives hope for the future. Monetary policy normalisation will eventually see those profits rebound for the industry's survivors.

Even those that looked to be terminal cases a few years ago could surprise. ABN AMRO was rescued by the Dutch government after the infamous takeover by a consortium formed of Royal Bank of Scotland, Santander and Fortis and its subsequent collapse. The bank has dusted itself off and embarked on extensive reform. Branch numbers have been cut, another 1,000 jobs will

disappear. Old accounts have been replaced, branch hours reworked, transparency increased. Retail bank profits jumped by 75% in the third quarter of 2014.

Re-envisioning and rebuilding the bank's IT systems will help deliver more growth, profits and happy customers. ABN AMRO is spending €700m (US\$797m) on rebuilding its IT systems and a further €150m on speeding up digitisation, according to chief investment officer, Frans van der Horst.

Banking sector investors are increasingly optimistic too. The US value equity team at

Neuberger Berman believes that quality franchise names will benefit from the recovering US economy and from improved margins as the Federal Reserve (the US central bank) raises rates.

European banks are being re-assimilated. With the European Central Bank's Asset Quality Review complete, they can get back to the business of

lending. That is good for growth and growth is good for share prices, thinks PineBridge Investments. Country specialists are also good value, says Malek Bou-Diab, manager of the Bellevue Africa Opportunities fund. Francophone and Sub-Saharan banks are used to tough economic conditions, yet can remain highly profitable within a narrow retail field.

# Conclusion

Last year we suggested that the future of banking might be dull, stripped of any glamour by regulation. Transactional services are vital (and boring), but the accelerating shift in customer behaviour will make banking a more exciting place to be. However, incumbents need to lose their entrenched mind sets if they want to survive. As Mr Mullen of challenger bank Atom says, most are “in a perpetual glacial catch-up”.

Challengers may not even have banking licences. Cheaper, smarter rivals will steal markets, not just market share. If iTunes and Spotify can do it to music, then banking also can be broken into cheaper, simpler components that also magically interlink.

Given the pace of change, it is no surprise to see survey respondents increasingly concerned that tech firms might want a bigger slice of wallet. To do so, they must prove their worth. Regulators will want more oversight. Customers will want security, confidence and even a physical point of contact for big decisions and for when things go wrong. It is hard to imagine an app handling complex probate applications with compassion.

Since the financial crisis, customers have fought back against the hard sell and bank sales targets, arguing that service takes priority over profits. Those cross-selling and up-selling ambitions in our survey results need revising.

So traditional banks have two choices: they must fight back, or join forces.

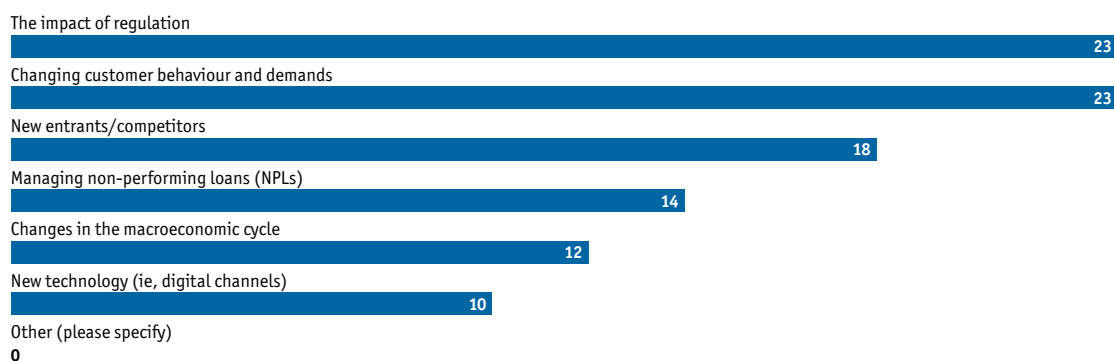
A fight back will be costly and may not work. The route of least resistance may be one of increased co-operation, between banking institutions to ensure universal coverage, and with niche players to supply cheaper, faster services. Even private bankers know that their well-heeled customers are comparing costs and portfolio performance online.

The recommendations of Australia’s recent Financial System Inquiry are worth a read. Australia’s Murray Report wants government and industry to collaborate more on common standards, digital identities and data sharing in a technology-neutral way to make banking more transparent, accessible and frictionless.

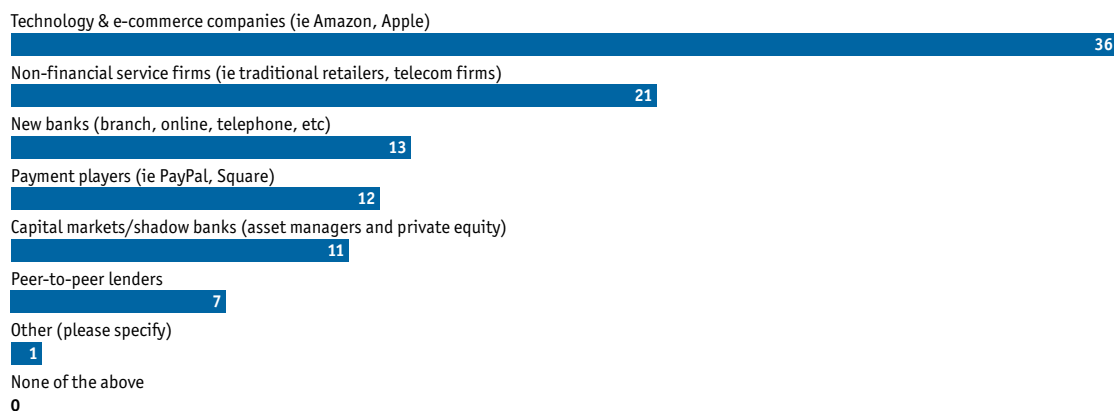
If banks want to retain any customer loyalty, they need to invest. Technology and data are the new battlefields. ABN AMRO is showing that investing in technology is worthwhile. It breaks down silos, allowing a more holistic approach to customer service. Technology may give new purpose to shrinking branch networks too. But capital expenditure will fail if banks do not get better at big data. On that front, tech firms currently have the lead.

## Appendix: Survey results

**Which trends will have the biggest impact on retail banks in your country in the years to 2020...**  
(% respondents)

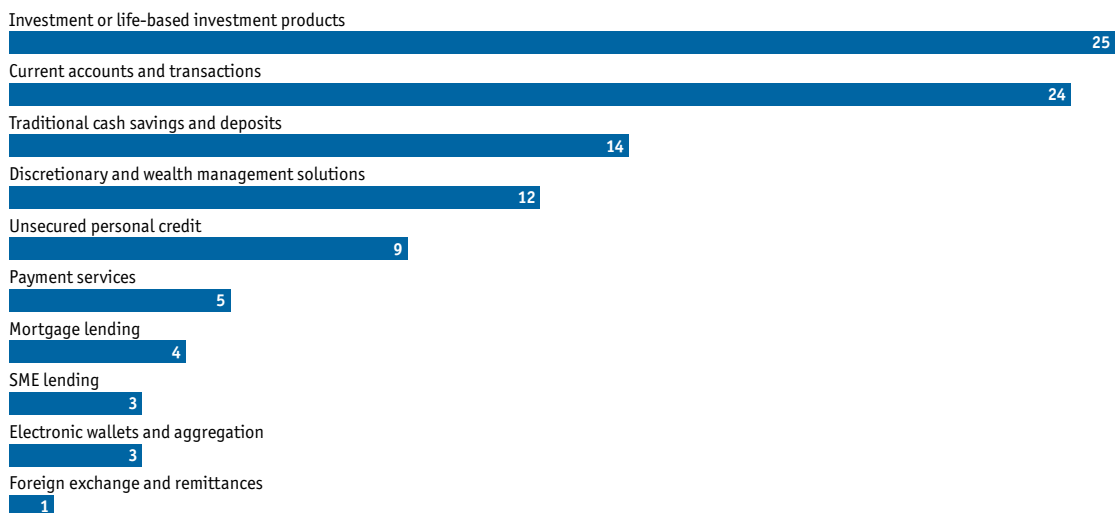


**Which non-traditional entrant to the retail banking industry will be your company's biggest co...**  
(% respondents)

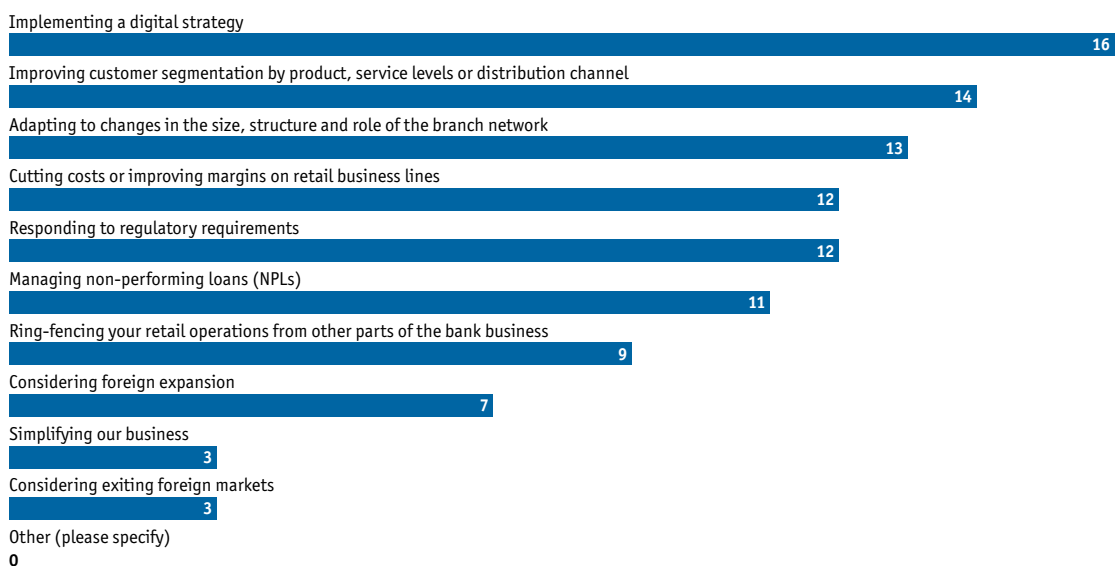


**What is the main area you expect new entrants to make the most gains?**

(% respondents)

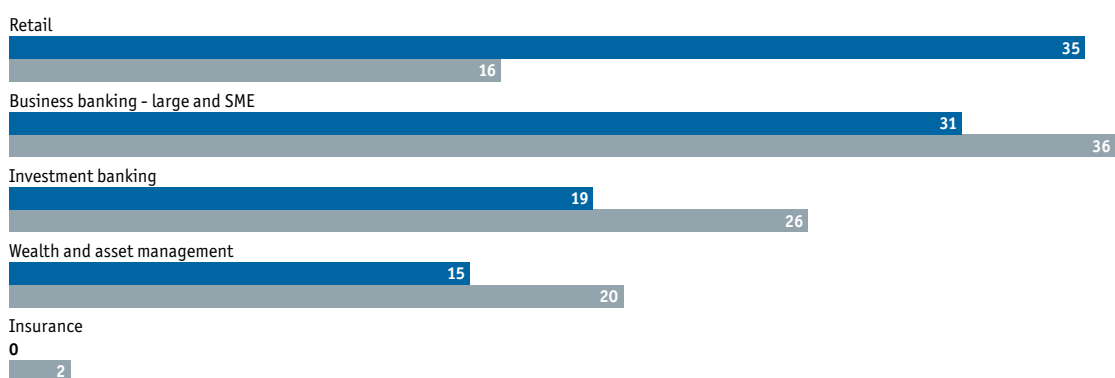
**What are the top priorities for your company in the years to 2020? Select up to three**

(% respondents)

**What is your group's current primary source of revenue now? and what do you expect it to be in 2020?**

(% respondents)

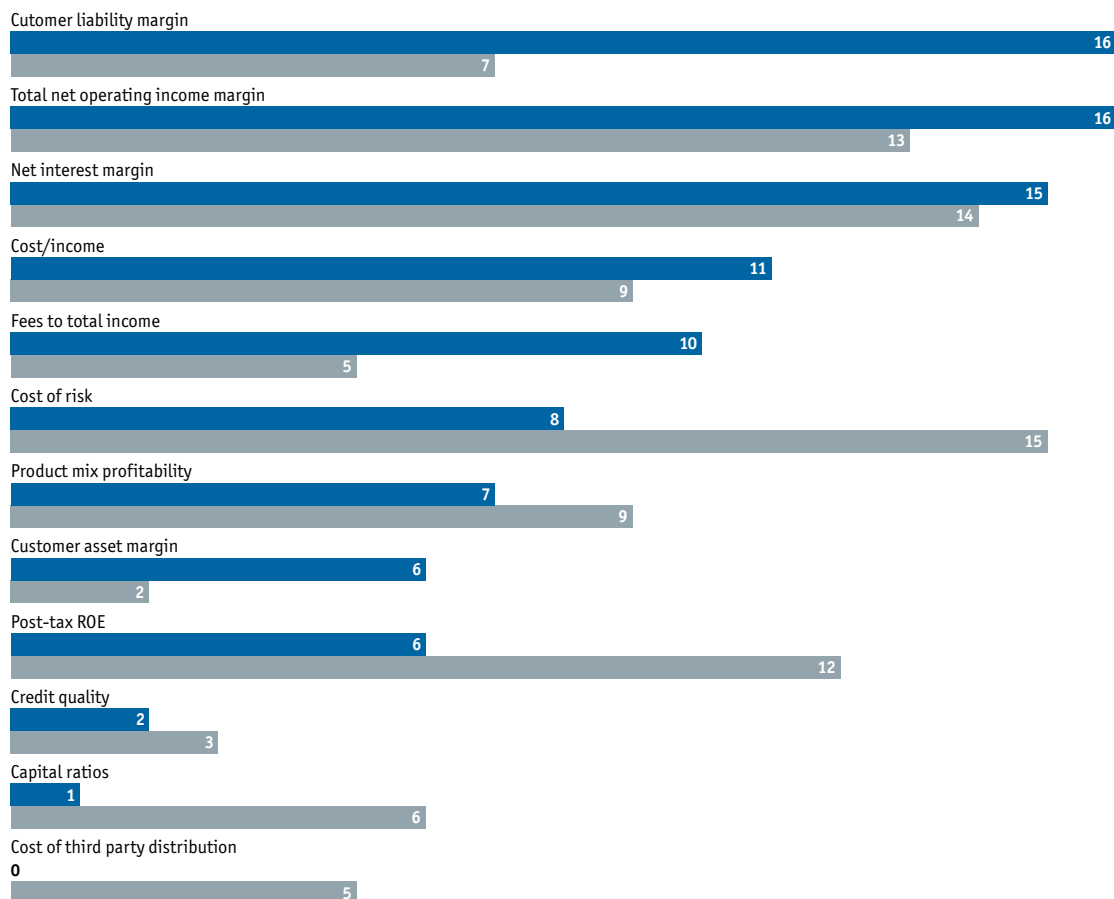
■ Now ■ In 2020



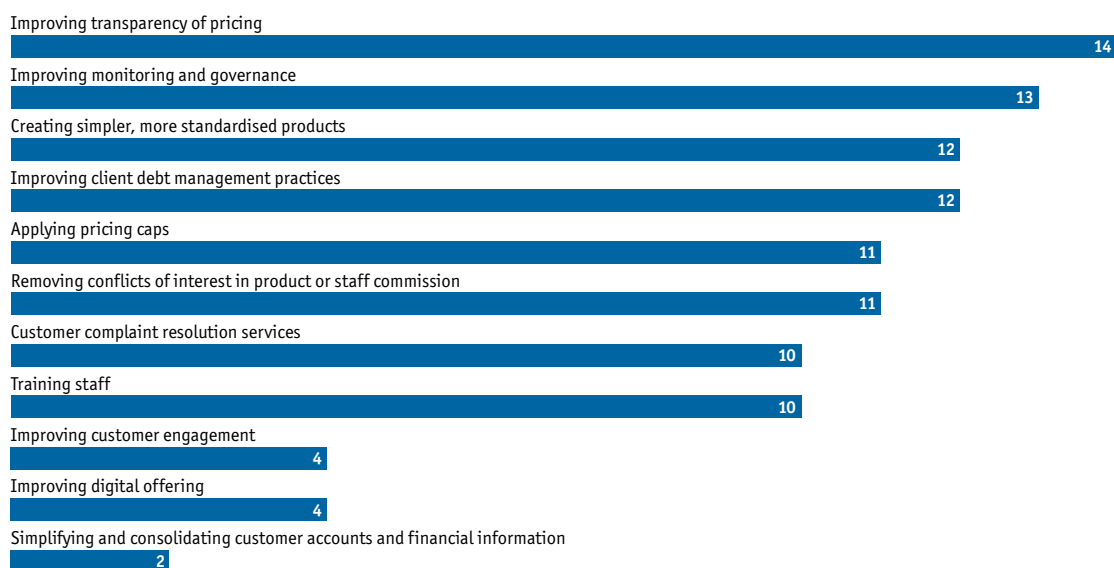
**Which of the following is currently affecting your company the most positively, and which one...**

(% respondents)

■ Positively ■ Negatively

**What steps is your company taking to improve the consumer proposition? Select up to three**

(% respondents)

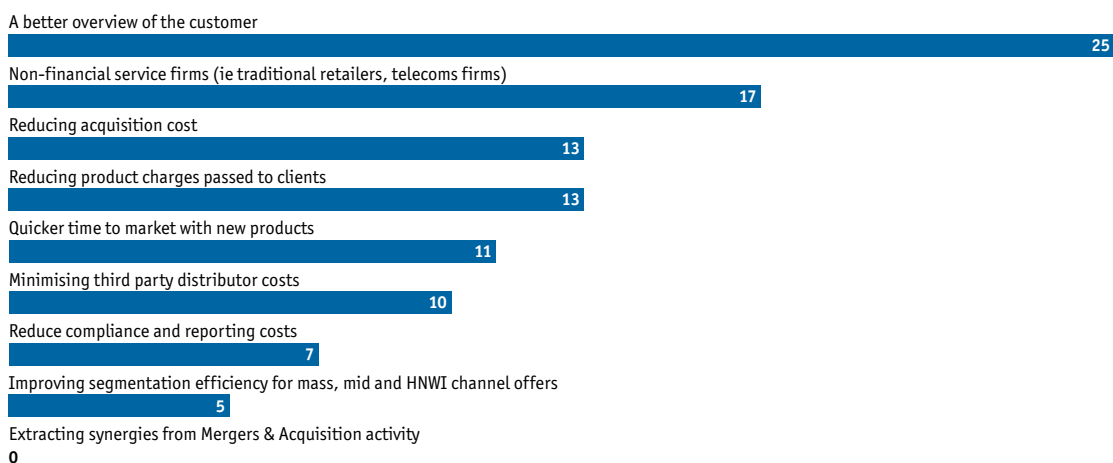


**Which business objective is the primary driver of your digital investment?**

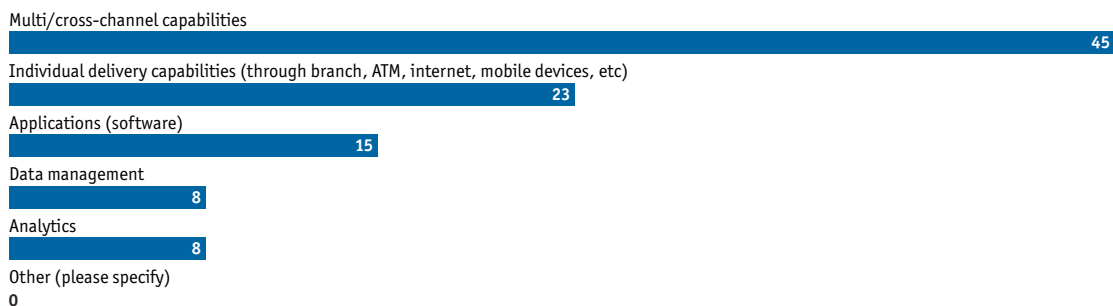
(% respondents)

**In which area can technology have the biggest impact in the retail banking space?**

(% respondents)

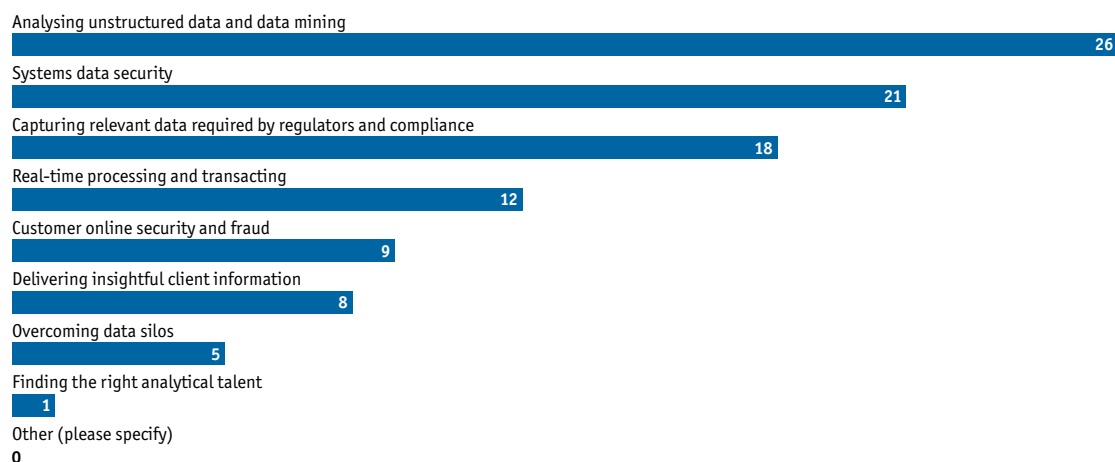
**Where is your company focusing its digital investment?**

(% respondents)

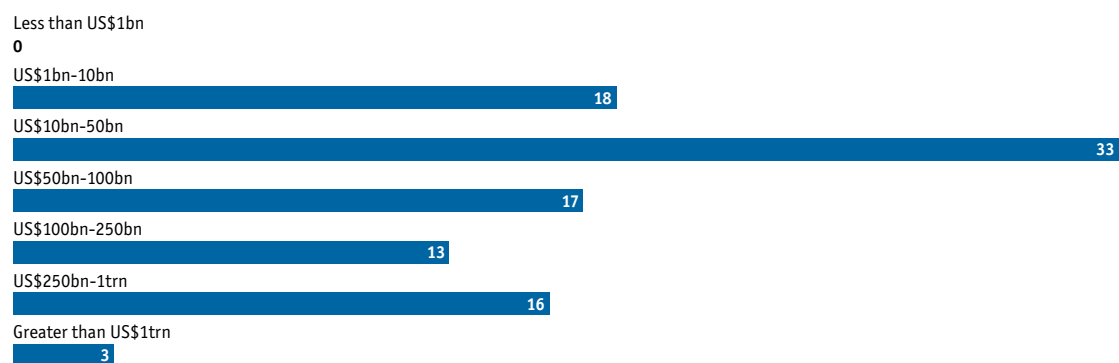


**What are the biggest challenges your bank currently faces with regard to data?**

(% respondents)

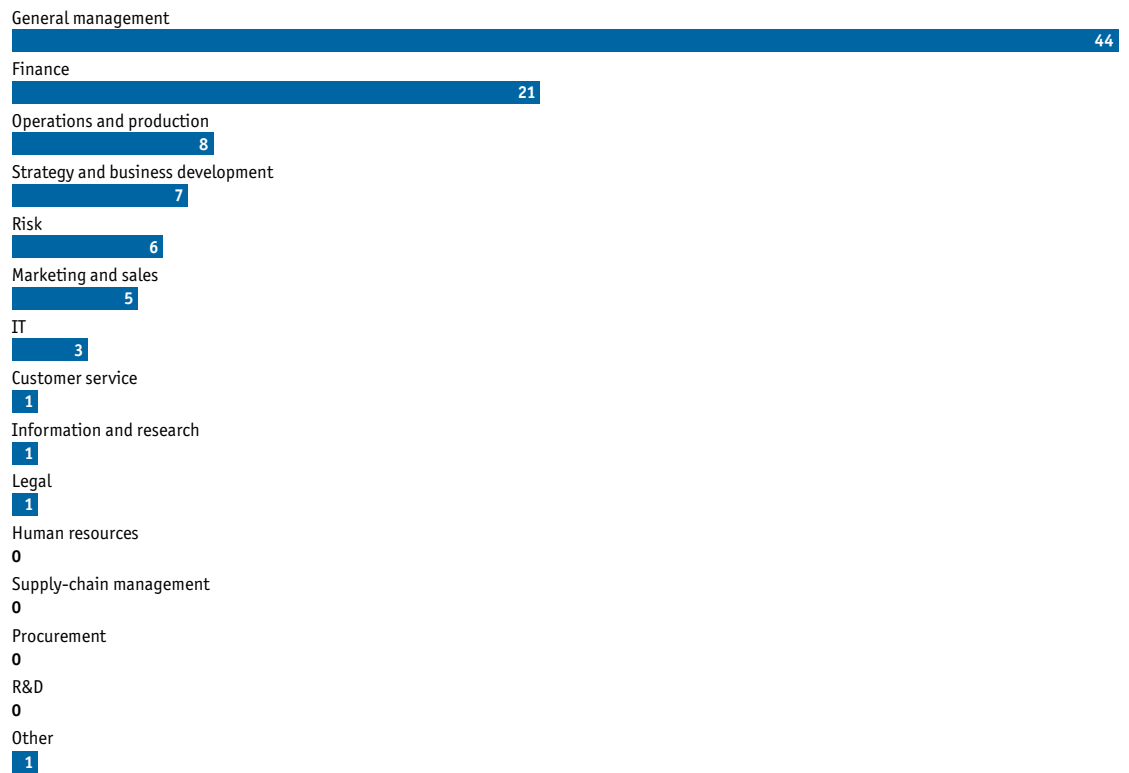
**What are your parent company's total assets in US dollars (most recent)?**

(% respondents)

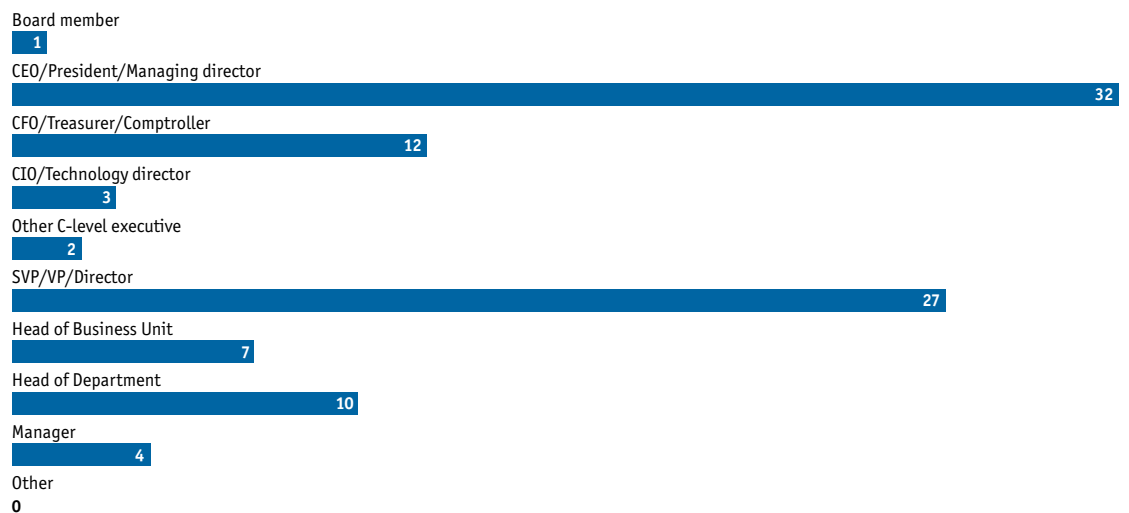


**What is your primary job function?**

(% respondents)

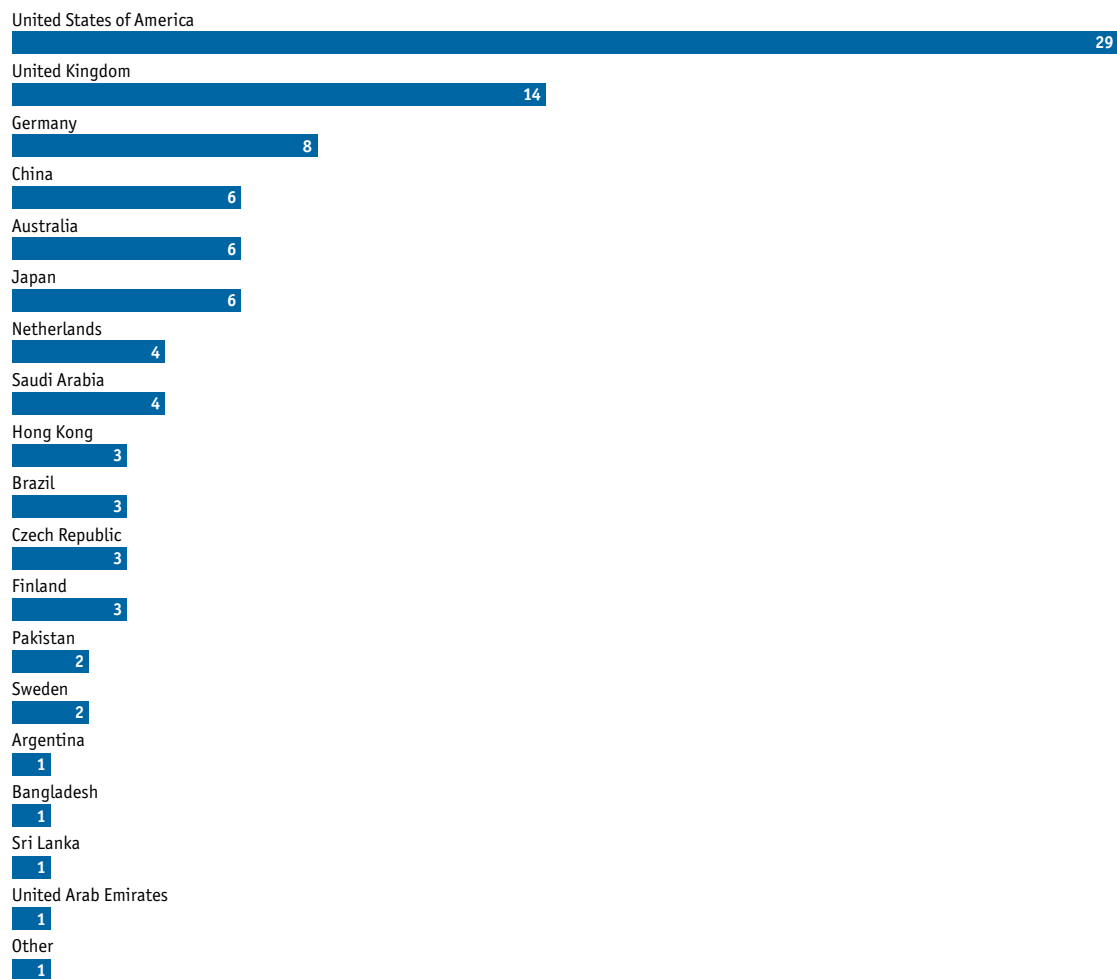
**Which of the following best describes your job title?**

(% respondents)



**Where are you based?**

(% respondents)



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