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FUTURE FACTORS

How regulation, client expectations and technology are transforming retail banking

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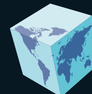

TEMENOS
The Banking Software Company

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Executive summary

Regulation will be at the forefront of the minds of many executives at global retail banks in the years to 2020. Banks must implement key structural changes, such as ring-fencing retail and business deposit-taking from other, riskier parts of their businesses, particularly investment banking.

At the same time, they face seismic shifts in customer demands and expectations. Modern, post-crisis retail banking customers are more aware of financial products and choice, and more dubious that their own banks always work in their best interests. That requires greater attention to detail and changes to sales practices—simpler, more transparent products and a less conflicted sales channel.

The digital age is turning banking on its head. Investors want to apply for savings, investment and loan products online or via smartphones and tablets, at a time that suits them, not just during working hours. They also expect transactional processes—cheque clearing, direct debits and standing orders, as well as online payments to electronic retailers—to be easy, real-time and low-cost or free of charge.

Getting there will require innovation and significant investment in architecture and systems, something that many banks can ill afford right now as they rebuild their capital bases. However, those that do not keep up with "new" banking may lose out to new competitors, both banks and non-traditional players.

In this environment, The Economist Intelligence Unit surveyed 242 senior executives at retail banks around the world to learn how they are adapting to regulatory, customer and technology changes. The key findings of the research are as follows.

- **Regulation is the priority.** About half of survey respondents (51%) say regulation will have the biggest impact on their industry in the years to 2020. That feeling is more acute in Europe, but less so in North America—despite the complexity of new US rules.

- **Clients and technology converge.** Customers' expectations are rising, particularly in Europe. Banks are having to adapt to enhance customer engagement. But unlike Google, Amazon or Facebook, which have built global businesses on data-mining their users, banks are using digital channels and technology for different purposes. Digital investment is about attracting new customers (31%), with customer insight far less important (11%). Attrition reduction (not losing customers) is the trailing priority (8%) for technology.

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- **Operational changes are underway.** According to two-thirds of respondents, banks are implementing significant operational changes solely in response to new regulation. Contrary to many perceptions, the need to change is being felt more heavily by bigger banks (those with revenue over US$500m, 70%) than by their smaller competitors (those with revenue under US$500m, 63%). C-suite executives seem less aware of the need for change than their non-C-suite employees (C-suite, 62%; non-C-suite, 70%).

- **A new plan is needed for branch networks.** Management priorities are changing. Improving customer segmentation and considering its impact on product design and distribution are cited as most important by 41% of respondents. Banks need to rethink what all those expensive branch networks are for, even though 38% say they have increased the size of their networks of late. Just 18% of respondents think that simplifying their businesses might help in the years ahead.

- **Retail revenue remains squeezed.** Retail and small and medium-sized enterprise (SME) banking, the bread-and-butter activities that regulators and politicians want to protect, will still be the biggest source of revenue in 2020, but on a reduced scale, falling to 45% as primary source from 61% today. Regulators may think that new rules will lead to smaller corporate and institutional banking units; however, about one-third (32%) of retail bankers expect it to be their primary source of revenue by 2020, up from 23% today. Wealth and asset management shows promise as well, with 17% of respondents citing this as the future primary revenue source (from currently 14%).

- **Unexpected competition?** Regulators and governments are keen to foster competition. Yet rare is the banking start-up that has taken on and beaten the incumbents. Competition is more likely to come from non-financials (46%), such as retailers and telecommunications companies, than from shiny new banks (28%). And despite their disruptive potential, "payment players", such as PayPal, are seen as a lesser source of future competitive pressure (22%).

- **Banking is not charity.** Almost half (45%) of respondents say their return on equity (RoE) has not recovered to pre-financial crisis levels; only 21% say it is higher. Around 4% of respondents say their current RoE is zero or below, with a similar number reporting RoE above 20%. The top way to improve returns is to improve customer service to boost revenue or to cut costs, selected by 70% and 69% of respondents respectively. All that operational change should be worth it, however. Most respondents expect their RoE to rise.

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About this report

In December 2013 and January 2014 The Economist Intelligence Unit, on behalf of Temenos, surveyed 242 global banking executives to investigate the views of retail banks on the challenges and changes they face in the years to 2020 and how they are responding.

Respondents were drawn from across the world, with 76 from Asia-Pacific, 91 from Europe, 66 from North America and nine from the rest of the world. Of these, 95 are from banks with annual revenue of less than US$500m; 45 from banks with US$500m-1bn; 44 from banks with US$1bn-5bn; and 50 from banks with revenue of US$5bn and more. All are senior, with 100 at C-suite or board level and the remainder senior executives.

In addition, in-depth interviews were conducted with 13 senior executives from banks, some global, some regional, some small and tightly focused. Our thanks are due to the following for their time and insight (listed alphabetically).

- Ed Clark, group president and chief executive officer, TD Bank
- John Flint, chief executive officer, retail banking and wealth management, HSBC
- Domenic Fuda, deputy group head of consumer banking group and wealth management, DBS
- Ricardo Guerra, channel director, Itaú Unibanco
- Pierre Janin, chief executive, AXA Banque
- Matthias Kröner, chief executive officer, Fidor Bank
- Eli Leenaars, chief executive, retail banking direct and international, ING
- Philip Monks, chief executive officer, Aldermore
- Wayne Preston, head of banking services, Investec Bank
- Josh Reich, chief executive officer and founder, Simple
- Ulf Riese, chief financial officer, Handelsbanken
- Miguel Sard, head of mortgages, Santander
- Sindy Schmiegel Werner, head of public relations, Swiss Bankers Association

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

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Introduction

Banking regulators are finalising ambitious plans to boost bank capital and legislate away risk-taking by "casino-like" investment banks. Their goal is to protect the little guys—the retail customer and the taxpayer—from the cost of future blow-ups. In order to do this, ring-fencing retail savings and lending operations is the main method, and many banks are already responding, even if rules are not completely finalised.

Regulation is coming from all sides. Many countries are gold-plating global and regional standards, leaving domestic players complaining that cross-border competitors have an unfair advantage. Other banks carp about over-reach by some regulators. For example, the Swiss banking model is at risk from US efforts to track and tax the wealth of its citizens. So strategic decisions are needed. Can banks afford to stay in particular markets? Many small and medium-sized Swiss banks are already saying no.

Then there are efforts to contain banks deemed "too big to fail" and to increase competition. Forced mergers and nationalisations have magnified the problem. In the US, the UK and Spain the ungainly offspring of the crisis, such as Bank of America Merrill Lynch, Wells Fargo, Lloyds Banking Group, Bankia and others, are bigger than before.

Critics say big banks stifle innovation for savings, investments and loans, making it harder for newcomers to bloom. Regulators must find ways to nurture the upstarts, without setting themselves up for another round of failures.

Not all regulation is crisis-related, nor is regulation the only issue in play. Customers want more, at lower cost, with less hassle—often on their smartphone or tablet. This digital age is both an opportunity and a threat. Physical branch networks are expensive and losing their hold on customers. Opinion differs on where their future lies.

Ageing back-office systems cannot cope with the demands of the digital age. Even if they could, the debate about "big data" and how companies use it is only just beginning.

Other challenges are emerging. The arrival of systems and platforms that skirt current rules must be held in check. Electronic "wallets" from Google and others, the virtual currency Bitcoin and forex platforms such as OANDA are growing faster than regulators can keep up with issues they may create. Regulators and customers will not want to see new risks emerging in "the cloud".

This lies at the heart of the dilemma: what is a retail bank really for? Is it merely a utility or a value-add, using know-your-customer (KYC) rules and procedures to help customers reach their financial goals? And if so, how?

Banks must adapt to survive, but will the cost and pain of change be worth it? Yes, according to the banks surveyed and interviewed for this report.

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1 Regulation looms large

At the recent World Economic Forum in Davos regulators were keen to highlight the progress made so far to make banking safer; however, they also admitted that there is much more to do.

The scale of regulatory change weighs heavily on the minds of the world's retail banking community. About half (51%) of banking executives cite regulation as the factor having the biggest impact on retail banks in their country in the years to 2020. They are far more concerned about regulation than they are about profitability-related issues, such as increasing numbers of non-performing loans (28%) or the macroeconomic cycle (22%).

Source: The Economist Intelligence Unit.

The complexity of regulation and its multiple sources are most keenly felt in Europe. It is less of a concern, but still the top priority, for bankers in North America, where the banking clean-up is more advanced.

This should come as no surprise. While all banks must comply with Basel III capital requirements, European bankers face something of a regulatory overload. The European Central Bank (ECB) is stress-testing big banks this year, even though agreement on dealing with those that fail has yet to be reached.

Meanwhile, European politicians push on with bonus caps, the transaction tax and ring-fencing retail banking activities (or "subsidiarisation" in EU-speak) for big banks with big market-making, derivatives and securitisation businesses. Individual country regulators are gold-plating common standards or introducing rules specific to their own industry. For example, the UK, the Netherlands, Belgium and Germany are tightening sales procedures and KYC rules.

The net result may be more regulatory fragmentation across borders, not less. However, banks must adapt, no matter what. Two-thirds of retail bankers say their industry is implementing significant retail change to deal with regulation whatever its source.

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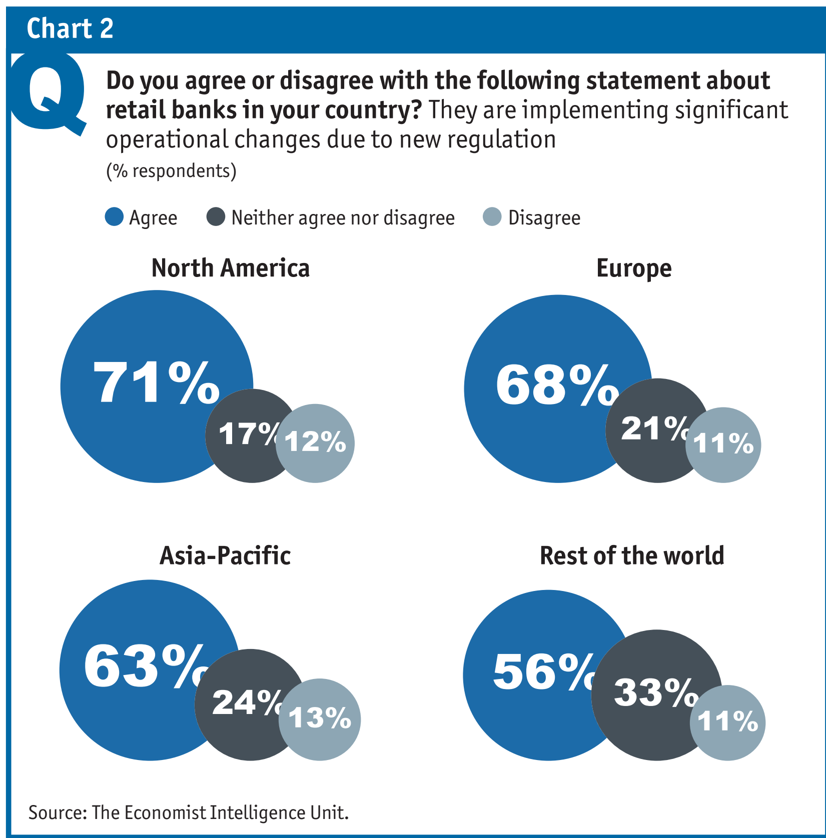
As disruptive as new regulation can be, it also has its advantages. Laws such as the Check 21 Act in the US, which allows banks and customers to exchange digital images of cheques rather than physical paper, should make transferring money faster and cheaper for both banks and their clients.

The Act was a consequence of the 9/11 terrorist attacks and closure of US airspace. Millions of cheques went uncleared as banks trucked them around the country. Within days the "check float" of the Federal Reserve (Fed, the US central bank)—a measure of the value of cheques deposited but not yet credited—soared from around US$1bn to US$47bn or so. In effect, the Fed was forced to inject liquidity into the system to cover the clearing mismatch.



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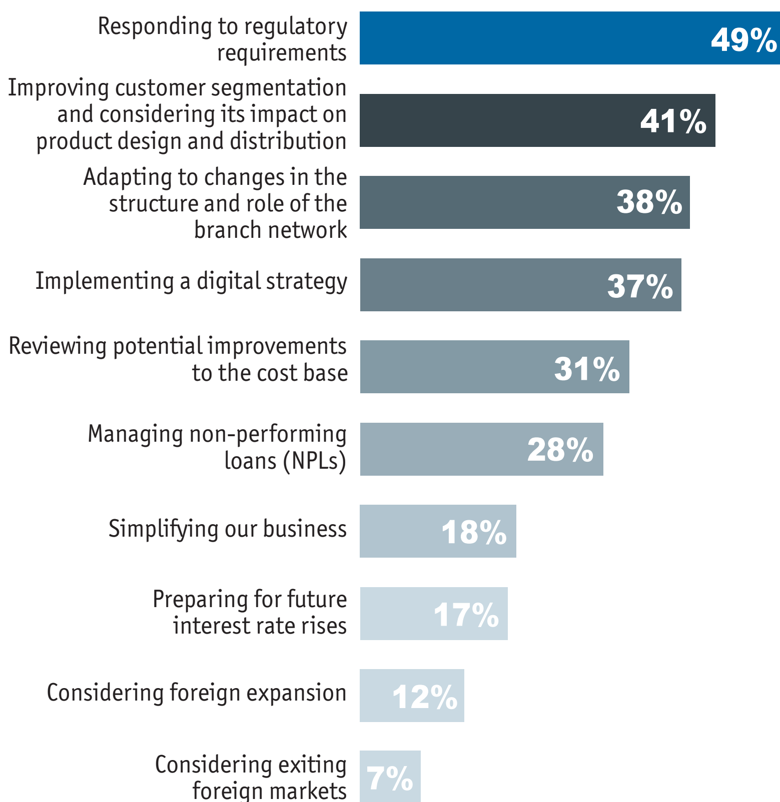
2 Response to regulatory change

Banks are already changing their business structures and the way in which they operate. Nearly half (49%) say responding to new regulation is the top priority for their businesses in the years to 2020. For a few, that may mean the ultimate sacrifice, scaling back their businesses and exiting certain markets.



Those strategic market decisions are keenly felt in Switzerland, where the country's bankers are struggling with the US Foreign Account Tax Compliance Act (FATCA). Other countries are not immune to FATCA's reach, but Swiss private banks face special circumstances. How do they comply with the Act and US Department of Justice actions without breaking their own national secrecy laws? The threat of fines is forcing small and medium-sized banks to ditch some of their clients who are US citizens.

Europe's plans to update the Markets in Financial Instruments Directive (Mifid) could also spell trouble if they restrict access by Swiss banks to EU markets. Sindy Schmiegel Werner, the head of public relations of the Swiss Bankers Association, hopes that bilateral deals with individual countries will provide the answer. However, many Swiss bankers are redoubling their efforts to build market share in Asia and the Middle East, just in case.

In terms of structural reorganisation globally, separation of retail businesses from riskier investment banking activities is a priority. Almost one-third have ring-fenced their retail banking from other business units, one-quarter are selling them off. More banks in Asia have taken such steps (a combined 65%) than in Europe (48%) or North America (55%).

Even segregated retail units remain complex businesses, so efforts to integrate functions such as compliance and risk management (42%) are the most widespread changes to date.

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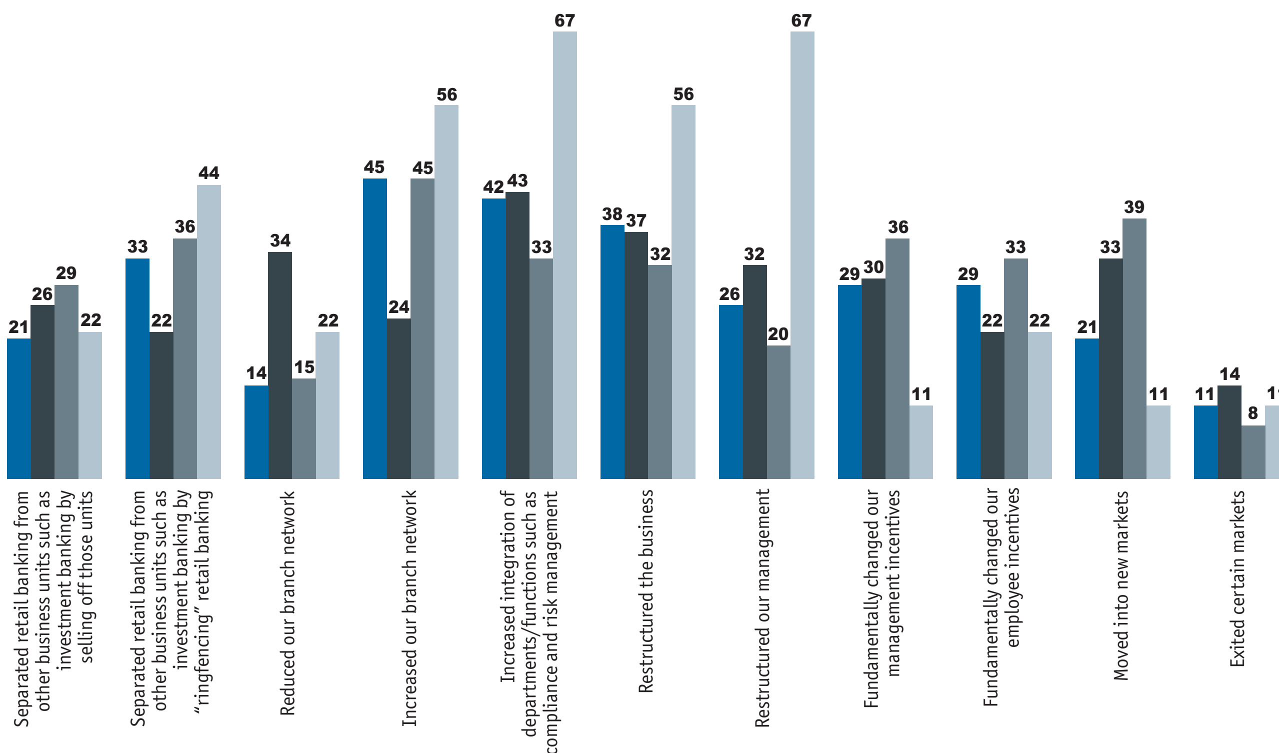
Chart 4

Q What structural or operational changes has your company instituted in reaction to the new regulatory, competitive and market environments?

(% respondents)

North America | Europe | Asia-Pacific | Rest of the world



Source: The Economist Intelligence Unit.

The way bankers are paid is also changing. Almost one-third say their banks have changed management incentive structures, more so in Asia. Over one-quarter have also changed their employee incentives. Among them is HSBC, where global sales staff incentives were reworked in 2013 in its wealth management division. Retail followed on 1st January 2014, even in territories where commission is not a regulatory issue.

"The first lever we wanted to pull was the incentive lever because we felt that it was important to remove all product sales incentives for our staff, so there could never be a potential conflict between the best interests of customers and the interests of staff," says John Flint, chief executive officer of retail banking and wealth management at HSBC.

He admits that some staff were unhappy and left. However, new staff have joined in their place, and incentive structures still remain. Today's HSBC relationship manager is measured on quality, even if the best course of action is to sell no product at all.

Crédit Mutuel of France trumpets its "no-commission" stance too. But do clients care? Mr Flint admits it is early days. Customers may notice the sales process has changed even if they do not know why, particularly in emerging markets, where incentives are a "non-issue".

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Handelsbanken: The bank that does more by saying "no"

Handelsbanken, a Swedish bank, says no to product sales targets, no to layers of middle management, no to customer segmentation, and no to centralised credit decisions.

It also says no to any threats from regulation. The business is already compliant with tougher capital requirements.

For the last 42 years Handelsbanken has run a decentralised model that increases customer and staff loyalty, lowers costs and keeps a lid on loans turning bad, according to its chief financial officer, Ulf Riese.

"Directly for us, new regulation has no impact. Our culture is that we are very prudent and we have very high capitalisation," he says.

At Handelsbanken, the branch manager is king, responsible for every loan decision. The branch is also the profit centre, ensuring strict controls even within a decentralised model.

Low numbers of non-performing loans mean lower funding costs and more profits. Cost savings are passed on to clients in the form of free basic services and lower-than-average charges. Staff are the bank's largest shareholders, so a portion of that higher return on equity goes into their pension pots.

And saying no does not impede expansion. Handelsbanken opened a couple more branches in Sweden last year, plus five in the Netherlands and 28 in the UK.

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3 For the good of the client?

Regulation is also forcing banks to treat their customers differently. KYC and suitability rules are tightening. Creating simpler, more standardised products is a priority for over half of retail bankers.

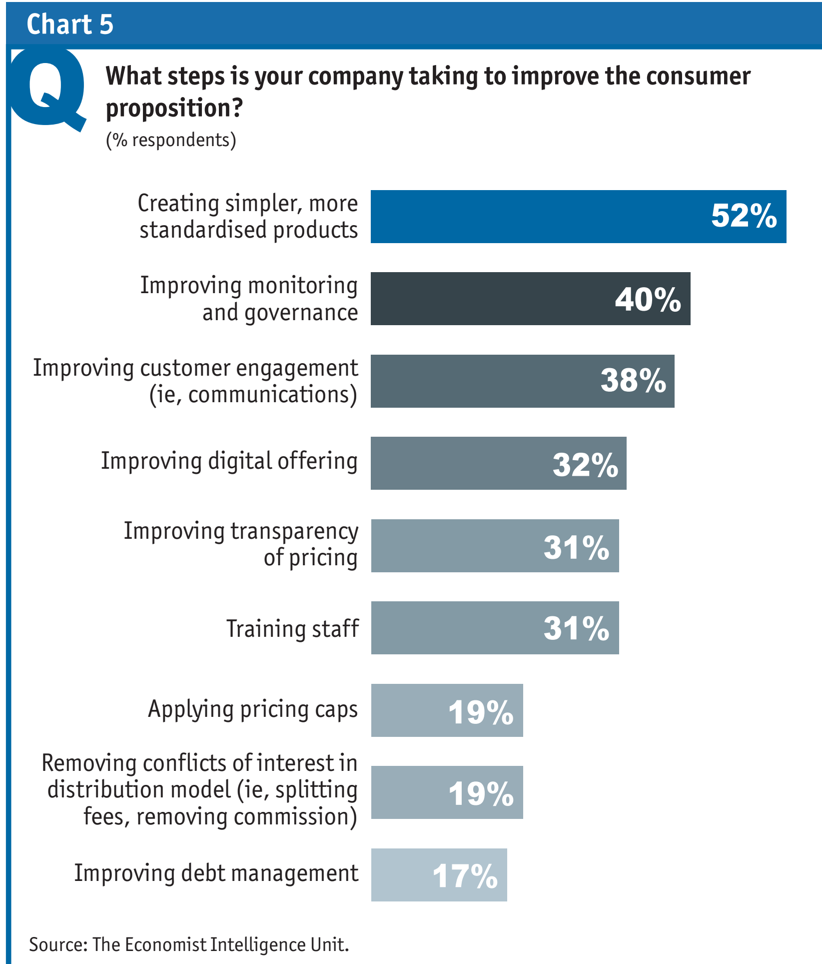
With that come the checks and balances: improving monitoring and governance; improving customer engagement and communications; pricing transparency; and staff training.

Imposing price caps is less of an issue at a global level. Many regulators and bankers fear such caps are arbitrary and clumsy at best. Yet credit card and mortgage fee rules are tightening in the US. Hence 30% of North American bankers say they are applying caps, more than the overall average.

For some, US legislation sets a dangerous precedent. Ed Clark, group president and chief executive officer of TD Bank, compares the Canadian principles-based approach and the increasingly prescriptive US model. "In the US, you can follow every single one of 1,000 rules, but you can still be reckless. It is not the spirit of the law that counts, it's the compliance," he says.

In Mr Clark's view, mere compliance makes bankers ditch their common sense. Customers are not counter-parties, he says. Bankers should ask whether they should sell a product to a particular customer, not just whether they can. If they did, sub-prime lending and risky structured products might never have happened.

Asian retail investors learned this first-hand, when they were hit early in the financial crisis by



the collapse of Lehman Brothers and its packaged mini-bonds distributed by local banks. With no regional regulator, each country responded differently to the angry demands of savings clients.

"In Hong Kong, China and across Asia, regulation is similar but not always aligned, which poses challenges when it comes to implementation," admits Domenic Fuda, deputy group head of consumer banking group and wealth

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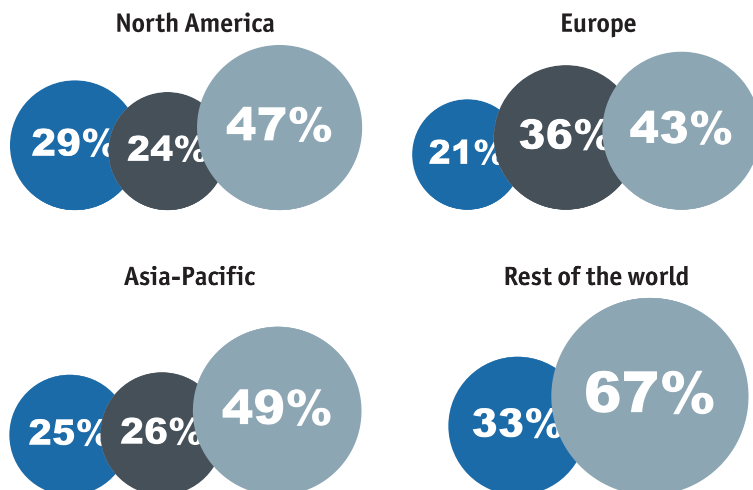
Chart 6



Source: The Economist Intelligence Unit.

management at DBS Bank, a Singaporean financial services group.

Even so, the direction of travel is clear. Information must be customer-friendly and offered early in the sales process. Sales must be forward-looking too. Regulators in Singapore and the UK are forcing banks to consider not only whether borrowers can afford their loans at current interest rates, but also whether they could if rates were to rise.

The UK's forthcoming Mortgage Market Review is all about responsibility on both sides, says Miguel Sard, head of mortgages at Santander. "Lenders and customers need to prove they have both learnt the lessons of the 2008 crash, which resulted in the current regulatory changes. The 'proof' needs to be transformational, based on grown-up relationship management, responsible lending and responsible borrowing—responsible outcomes," he says.

Less clear is the global regulatory position on conflicts of interest and commission-driven sales. The UK's Retail Distribution Review and similar efforts in the Netherlands may point the way—but not yet.

In nations where fee-based advice is weak and the universal banking model remains strong, politicians are unsure whether bans on commission would work. Clients may not be able to pay upfront fees, particularly on regular contribution products. A ban may even stifle access to truly independent advice for the mass market—an undesirable consequence. That may explain why removing conflicts of interest in the distribution model sits at the lower end of steps being taken to improve the customer proposition (19%).

Regulation is not the only challenge. Changing customer behaviour and demands will alter the way banks do business. Executives clearly think they are adapting, if efforts to retain clients are a measure. Asian and European bankers are twice as likely to agree than disagree that retail banks in their countries are working hard enough to keep customers happy.

There is, of course, always room for improvement, according to Eli Leenaars, chief executive for retail banking direct and international at ING. He says the driver of change is information.

"In the past banks were paternalistic, and that was accepted because there was no better way to do it. Banks controlled the distribution of financial information," he says. Banks no longer hold that monopoly, thanks to the Internet. Mr Leenaars compares the scale of disruption to that felt by the travel industry. Travel agents have lost their power as savvy travellers source flights and hotels online, building their own package holidays.

Wayne Preston, head of banking services at Investec Bank, agrees. "The biggest change in the market has been the erosion of trust. Customers are more discerning and sceptical. They are hands-on and seeking alternative advice. What has changed is that inertia is breaking down," he

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says. His bank may cater for wealthier, private banking clients, but the same trend applies to the mass market. Expectations are rising, and all banks must be more transparent and multi-channel. Mr Leenaars adds: "The bank doesn't know best anymore. Clients would be upset with that approach. The way we have to act is to empower clients to make their own decisions." Boosting transparency and reducing small print are part of the demystification process. He admits that simplification is tough and many banks are not doing enough.

Customer behaviour and technology are increasingly intertwined as banking moves online. These two drivers lead to a fundamental discussion about what traditional, costly branch networks are for. As Mr Fuda of DBS asks: "People need banking, but do they need a [physical] bank?"

Increasingly not, it seems. Banks are keen to push lower-value customers and transactional business online. As many customers seem willing to be pushed, the speed of change is startling.

Ricardo Guerra, channel director at Itaú Unibanco, a Brazilian bank, says Internet and mobile represented 26% of transactions in 2008. By last year they had risen to 51%, outpacing traditional channels. Text message (SMS) usage amongst low-income customers has jumped almost eightfold in three years. And Internet banking has almost doubled in four years, while branch transactions tumble.

So are the banks ready for rapid technological change? The answer to that is less clear-cut. Just over one-third (34%) of retail bankers think their country's banks are ready for technological change, whatever its driver, but more than one-quarter disagree.

Ready is not the same as willing—or able. Even when regulatory and technological change offers benefits to banks as well as customers, resistance can be surprisingly strong. New banks are often frustrated by the industry's unwillingness to innovate. Legacy issues—be they infrastructure or the role of branch networks and staff—are hard to overcome.

"The majority of branch traffic is people depositing cheques. Branches and tellers are expensive, but from a marketing perspective, the branch is worth it. The average eight-minute wait is time enough for you to absorb all the marketing messages. And tellers will look for people who look rich so they can cross-sell," says Josh Reich, chief executive officer and founder of Simple, an Internet-based bank with over 100,000 customers. The bank was recently acquired by BBVA of Spain.

Transacting online or through apps reduces branch traffic and the chance to sell more profitable products to clients, he says. But if any single bank (or country) breaks rank, others are forced to follow. Cheque imaging has already crossed over from the US to Asia and France. The UK may be next, with Barclays keen to get started. Yet allowing digital cheque transfers between customers of different British banks requires new legislation. Pulling pan-European cheque clearing out of the Dark Ages would be even tougher—proof indeed that customer expectations and technology create their own regulatory developments.

But can online solve every complex banking need and add value for clients? Can banks provide a human touch without a branch? New market entrants think they can. They can also neatly sidestep the legacy issues that stop incumbents from innovating.

Philip Monks, chief executive of Aldermore, a new UK bank launched in the midst of the financial crisis, says technology and human interaction can coexist in a branchless environment. He gives the example of a recently granted mortgage to a customer who failed centralised credit scoring at mainstream lenders. The reason? A dispute with a mobile phone company over a malfunctioning Wi-Fi dongle and a county court judgement for less

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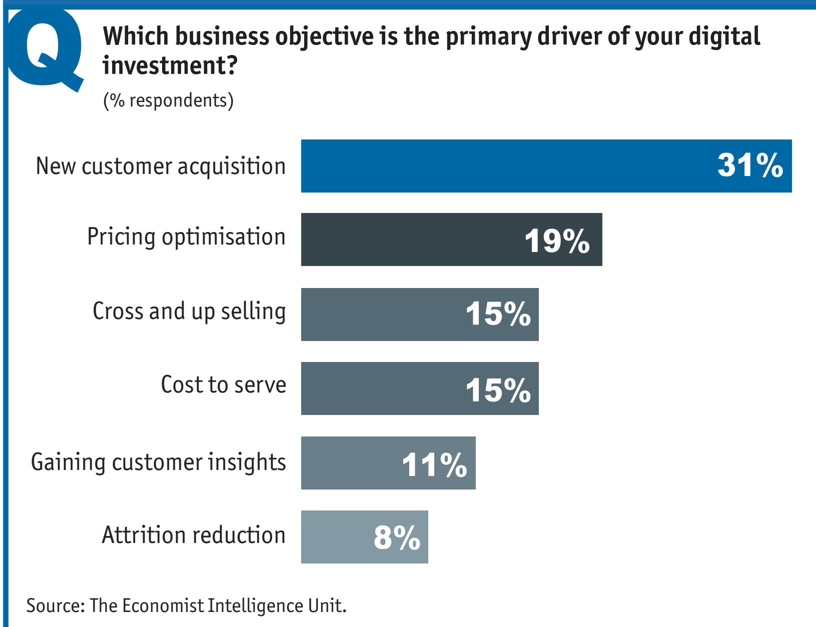
than £20. Aldermore's systems flagged the issue, but a human being realised how unimportant it was—and had the authority to override the technology. "Our system distinguishes between financial stupidity and financial distress," says Mr Monks.

The banking technological push seems to be far less about "share of wallet" and cross- and up-selling than it is about gaining new business, particularly in Asia and the rest of the world. This suggests that the banking industry is employing technology in a very different manner than such Internet data giants as Google, Amazon and Facebook. While the technology firms seek profits from understanding the data that users feed them, banks appear less keen to use new channels to retain and serve customers better through a deeper knowledge of their digital habits.



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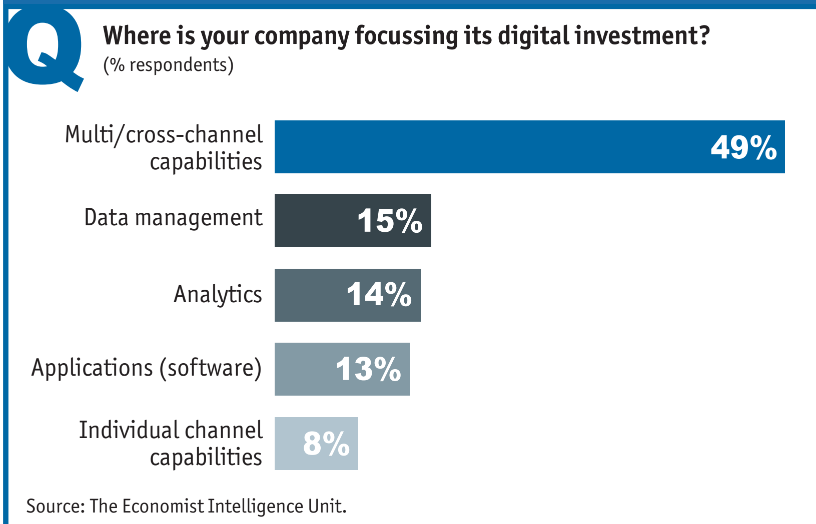

Source: The Economist Intelligence Unit.

Interviewees argue that client acquisition should not be the priority, customer service should. As Mr Leenaars of ING points out, since "informal" branch knowledge has been cut off, digital is the way forward.

However, as these data increase exponentially, banks face a problem. They do not know how to understand them—or how to react to them. As Pierre Janin, chief executive of AXA Banque points out, banks not only lack the systems to analyse data and act on them, they lack the people skills and experience to mesh digital knowledge with customer service (see case study on AXA Banque). That may explain the logic behind BBVA's $117 million acquisition of Simple as part of the larger bank's push into technology-driven change in financial services.

Other issues loom large. "Big data" may be clever and a potential source of profits, but is using it right? The banking industry is not alone in facing issues of privacy, intrusion and data misuse. Regulators have yet to respond in a meaningful way to geolocation and data mining. They will in time, no doubt.

At least retail bankers have learned one important lesson from the technology industry: betting on a single technology is folly. They are hedging their bets, investing in multi-channel and cross-channel platforms.

In many respects, newcomers may be in an easier position than incumbents when it comes to the digital challenge. They can build systems from scratch, not tack them onto what already exists. But where will new competitors come from? In short, there are multiple sources: new banks, Internet players and outsiders.

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Start-up banks would be an obvious threat, staffed as they are by those with industry knowledge and a thirst for innovation. Yet new banks often fail to gain traction and significant market share. More often than not they poach customers from small players, not the dominant institutions in many markets. Thus less than one-quarter (24%) of banks with revenue over US$500m see new banks as a threat.

Internet payment firms such as PayPal and Alipay are often suggested as possible entrants to the retail banking space, but they are not seen as the major source of future competitive pressure by survey respondents. Most likely, creating full-scale banking is a step too far for them. Yet a number of established banks, such as DBS, and newcomers, for example SOON.fr, are partnering with such organisations to develop seamless payment methods.

So where will competition come from? Non-retailers and telecommunications firms appear to be the answer. M-Pesa has already proved a huge hit in Kenya and beyond, allowing mobile-phone users to deposit and withdraw money and pay bills. Other transactional challengers are emerging and may soon venture into full-blown retail banking.

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SOON.fr: AXA's e-xperiment

A year or so ago AXA Banque took a big risk. It opened up its IT system application programming interfaces (APIs) to external developers to see what they would do differently. It offered a €50,000 (about US$68,000) prize for the best ideas. Unimpressed with the results, AXA turned to the social media to see if the twitterati could do better.

The result is SOON.fr, a mobile-only bank and something of an experiment—or e-xperiment.

Lessons learned from innovations such as SOON's "Reste à Dépenser" (Safe-to-Spend balance rather than last night's batch-processed cleared balance) will be adopted by AXA Banque and AXA's independent insurance agent network.

Integrated PayPal transactions and transactions organised by customer preference, not date, could follow within a year if the experiment succeeds. Yet analysing what works in the digital world is an issue for the whole industry, admits Pierre Janin, chief executive of AXA Banque.

"We do not have enough digital natives and people to cope with customer needs and understand the statistics," he says. Most bank structures and computer systems lack the facilities and expertise to deal with changing IT needs and service customers well. In short, a talent shortage looms. IT departments are struggling and under-resourced. Traditional marketing—segmentation, advertising and the like—is increasingly ineffective. Combining and modernising the two elements is key. Mr Janin hopes SOON might provide the solution.

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4 Counting the cost

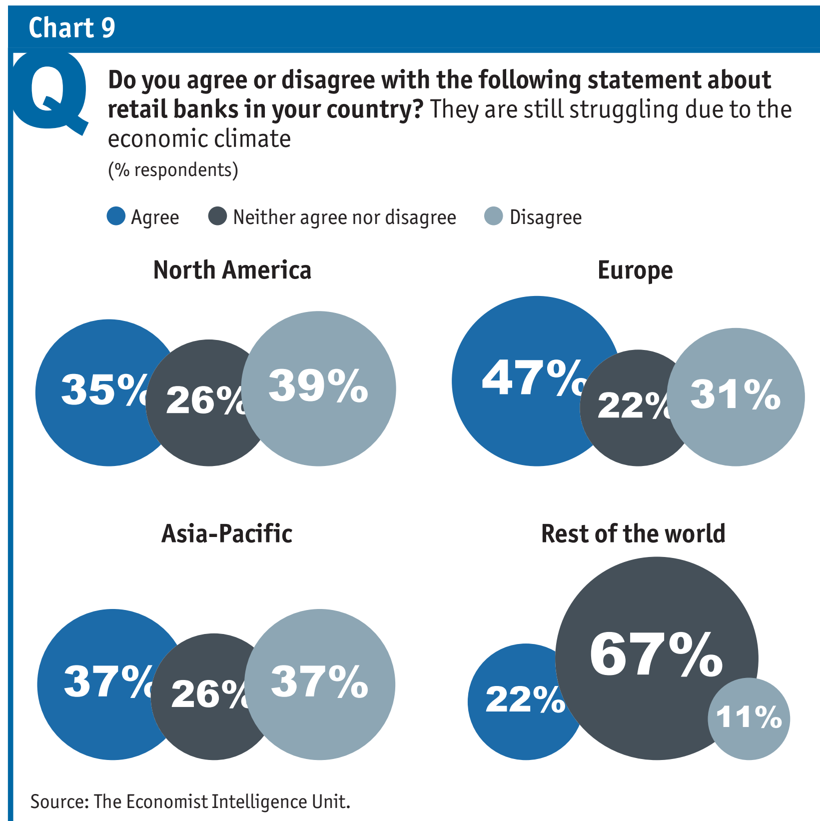
The end result of changes in the regulatory environment and in consumer demand is a seismic shift for many retail banks. Almost two-thirds (63%) of survey respondents say they are instituting significant change across functions in order to remain competitive.

Adapting to change is never cost-free. Doing so in a crisis and recession is even harder. But as economic growth returns, so does hope. There are more North American bankers who think their own country's banks are over the worst of the economic downturn than those who think otherwise, if only by a narrow margin. European bankers are less optimistic, unsurprisingly.

The cost of clearing up the mistakes of the past weighs heavily nonetheless. Almost half of retail banks say their return on equity (RoE) is still lower than before the crisis broke. European banks have been hardest hit, with those in the US not far behind. Smaller banks everywhere feel less profitable too.

To survive, retail bankers need to work their assets harder and boost their RoE levels. Getting there will be no easy task. Improved returns and profitability come from either cutting costs or from boosting revenue through client services.

New banks and Internet-only operations may have the edge on the cost front. They may also have an edge when it comes to offering the new services customers want. Matthias Kröner, chief executive officer of Fidor, a German branchless bank built around social media, offers a blunt warning to the "old guard". No matter how hard they try, traditional banks will struggle. "The



legacy systems of banks will break their necks. They have to reshape them in a radical way," he says.

Those legacy systems are not just about IT and the cost of maintaining antiquated systems. Mr Kröner says the smartphone is the "new remote control" for many people's finances. Branches have already lost important points of contact in customers' lives. They do not visit to take out a loan, they do so online via comparison websites, auto-financing deals or peer-to-peer (P2P) lending. Other in-branch opportunities are disappearing too, as currency and global payment "wallets" take off.

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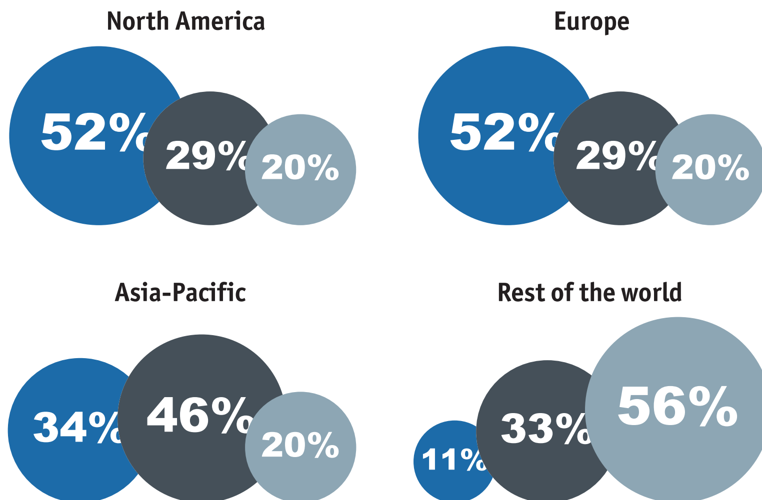
Chart 10

Do you agree or disagree with the following statement?
My company's ROE is still significantly lower than it was before the financial crisis
(% respondents)



Source: The Economist Intelligence Unit.

Mr Kröner's vision of "new" banking incorporates alternative platforms and products, such as social lending and accounts that offer 25 euro cents (about 34 US cents) for every product rating or for assistance given to other users of its social forums. Traditional banking cannot—and will not—offer such features, he says.

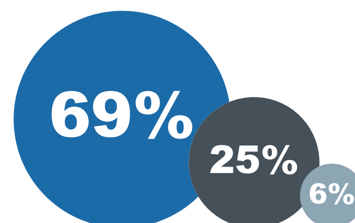
Not all customers will be comfortable with app-only banking—a point in favour of traditional branches and multi-channel options. Regulators will eventually stir too if new, unregulated banking platforms and services take off. They will not want to see the development of a shadow retail banking sector containing unseen risks. ■

Chart 11

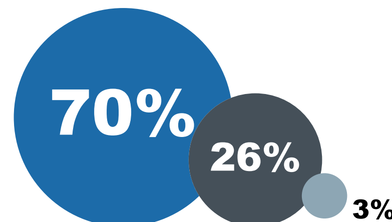
Do you agree or disagree with the following statements?
(% respondents)

Agree | Neither agree nor disagree | Disagree

The best way for my company to improve its return on equity (ROE) is to make the cost base more efficient



The best way for my company to increase revenue is to improve client servicing



Source: The Economist Intelligence Unit.

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Conclusion

According to many interviewees, the future of retail banking will be more boring. The transactional fundamentals and the "plumbing" of banking will be more utilitarian. Survey respondents suggest that banks are now mere platforms, not the pillars of society they once thought they were. After all, a bank is primarily a place to move money from one place or person or business to another.

That shift to utility rather than "guardian" of consumers' personal finances will impact future revenues and investment priorities. Customers want more services for lower costs and without hidden fees. Regulators are keen to cap fees in places such as the US, and banish unfair terms elsewhere.

A twin-track approach is required. Banks must strip out costs where they can, but not to the detriment of service levels and integration across multiple channels. Hard choices are necessary. Within traditional branch networks, technology is already removing much of the mundane transaction tasks of staff. But those staff still need to be useful—and profitable. The trick will be in maintaining that human-touch presence and ensuring staff are empowered to take action when customers need it, either for more complex investment and lending needs, or when they have problems.

If the survey results are right about why banks are investing in digital channels, perhaps a strategic review is necessary. Online and smartphone banking is not just a "me too" service or a way to attract new clients. It is now a "must have" that meshes with other channels. New services, such as e-commerce payments, should reduce transaction costs. Finding a break-even point as transaction volumes rise will be tricky.

As a result of these shifts, the proportion of bankers who say that retail and small and medium-sized enterprise (SME) banking is their primary revenue source will shift from 61% today to 45% by 2020. Down but not out, no matter what regulators come up with next, it seems.

Wealth and asset management will grow—but not by a huge amount. Corporate and institutional banking will become comparatively more important for revenue-generation, rising from 23% today to 32% in 2020.

Other issues will emerge as retail banks aim for these goals. Big data—and its usage—looms large, as does the development of alternative platforms, products and infrastructure. Perhaps banking in 2020 will not be so dull after all.

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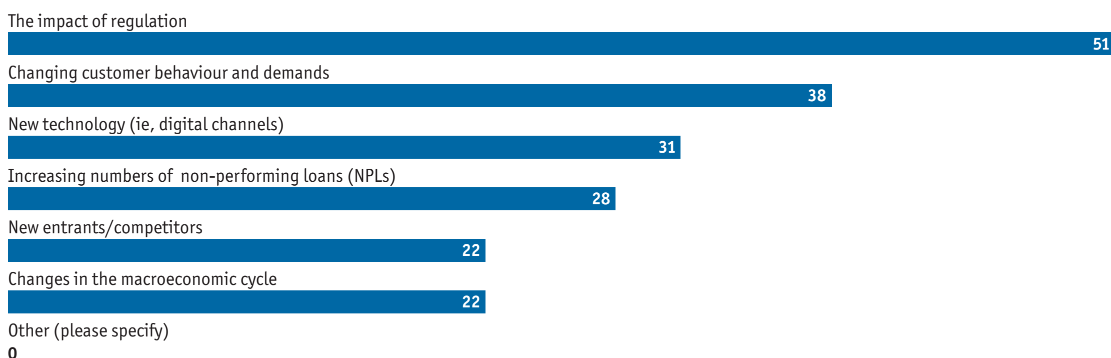
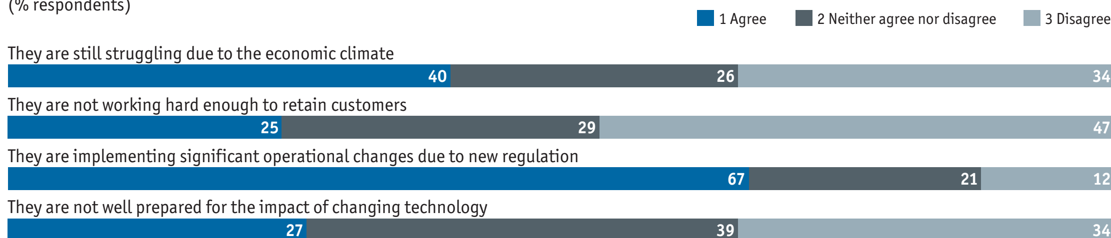
Appendix: Survey results

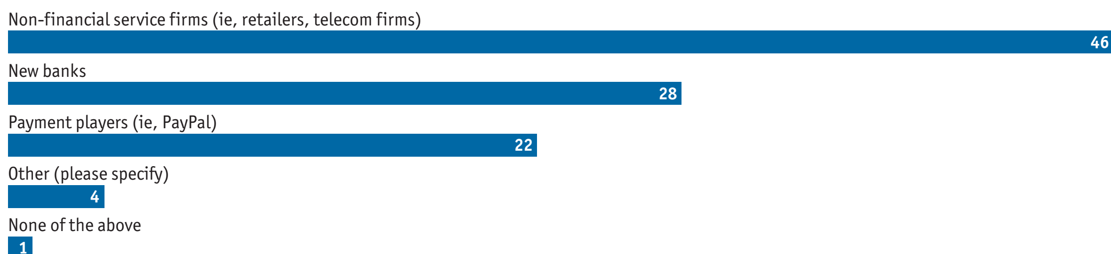
Which trends will have the biggest impact on retail banks in your country in the years to 2020? Select up to two
(% respondents)



Do you agree or disagree with the following statements about retail banks in your country? 1=agree, 2=neither agree nor disagree, 3=disagree
(% respondents)



Which non-traditional entrant to the retail banking industry will be your company's biggest competition in the years to 2020?
(% respondents)



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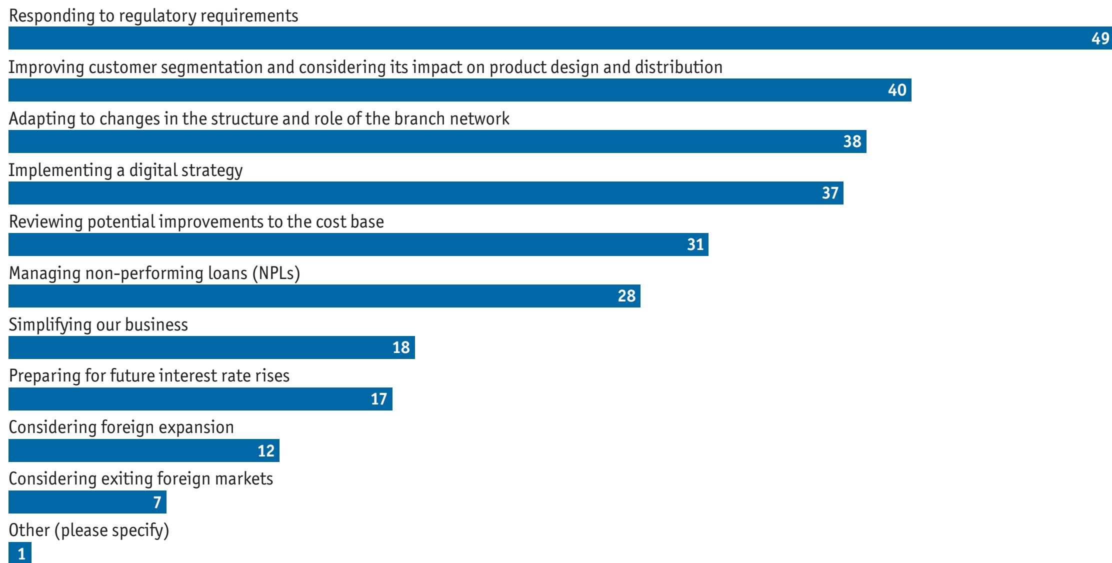
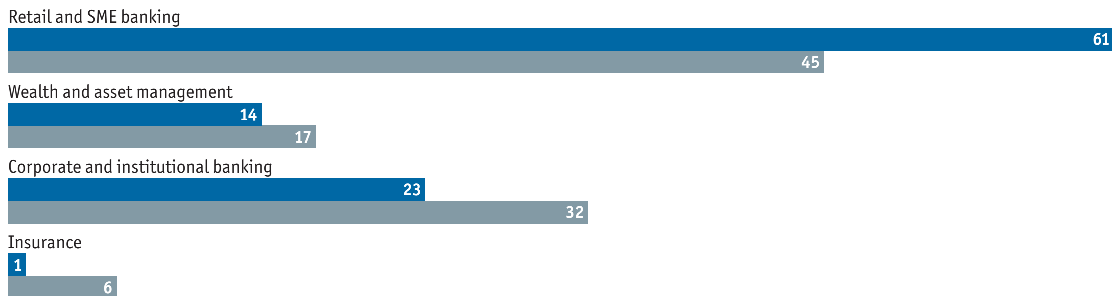
What are the top priorities for your company in the years to 2020? Select up to three
(% respondents)



What is your current primary source of revenue? What do you expect it to be in 2020?
(% respondents)



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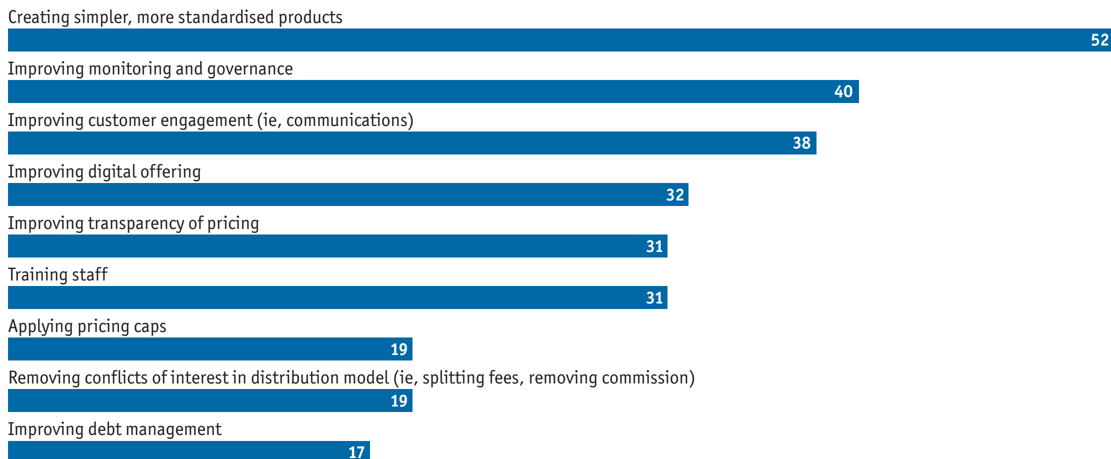
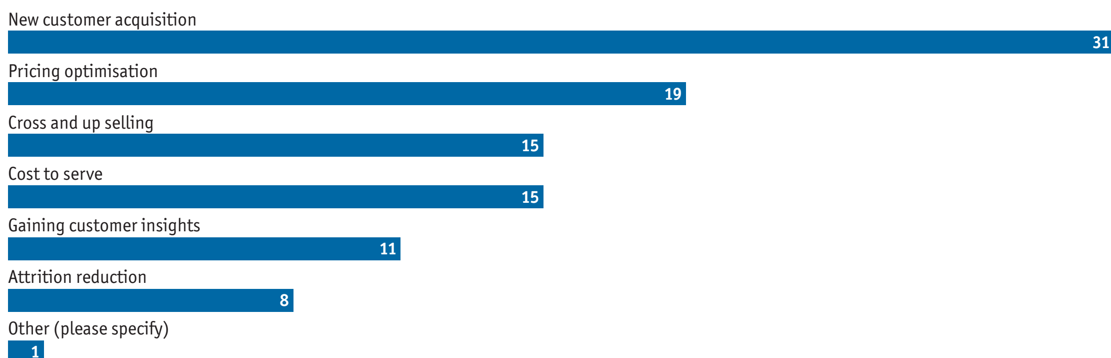
What structural or operational changes has your company instituted in reaction to the new regulatory, competitive and market environments? Select all that apply
(% respondents)

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)



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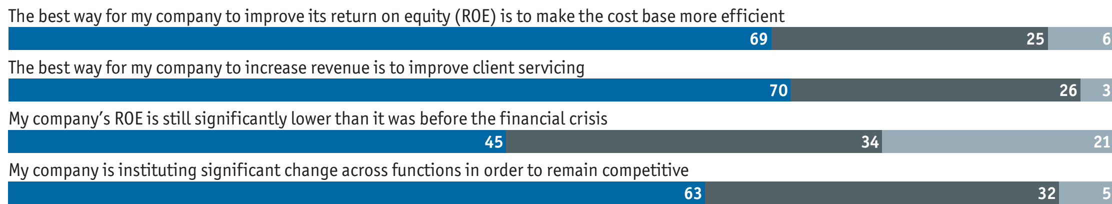

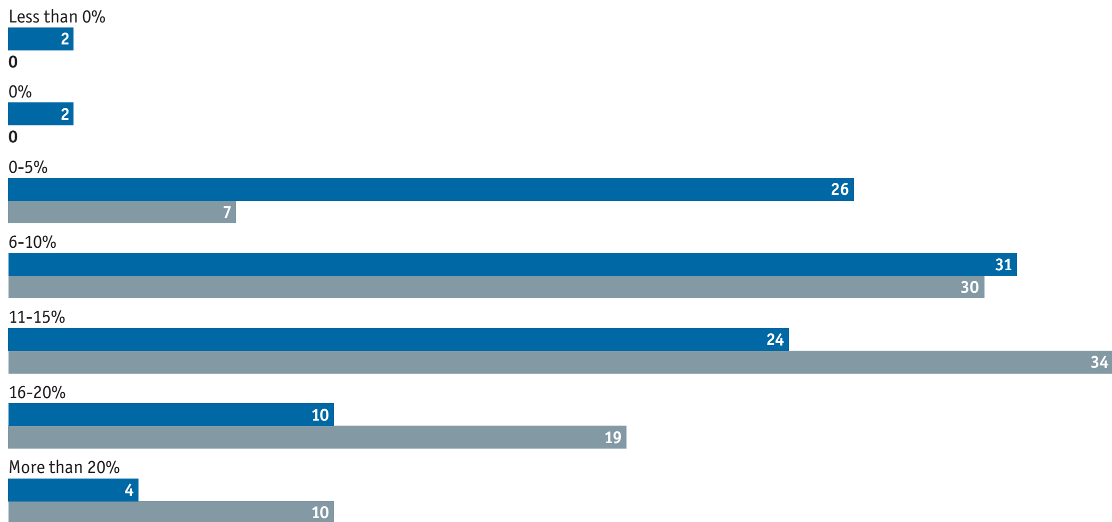

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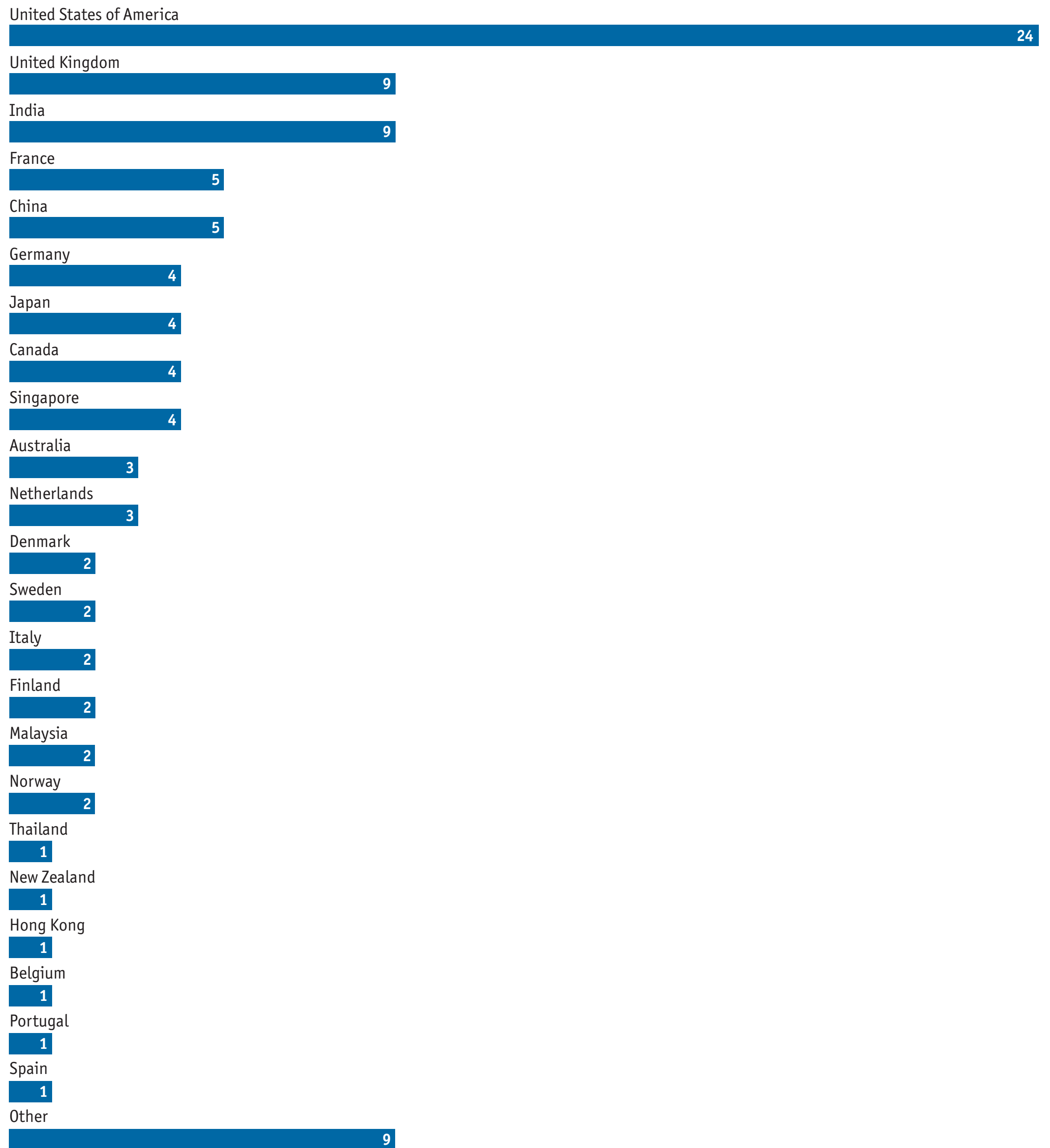

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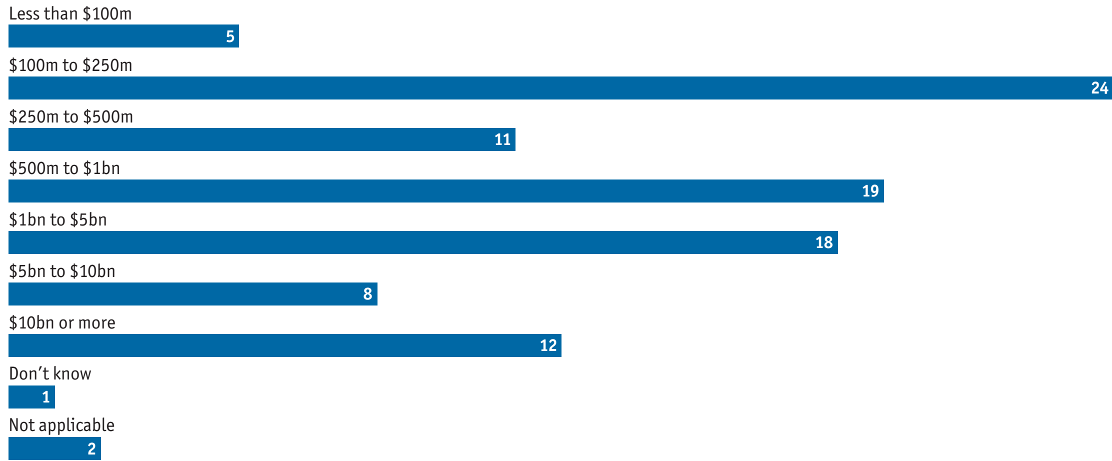
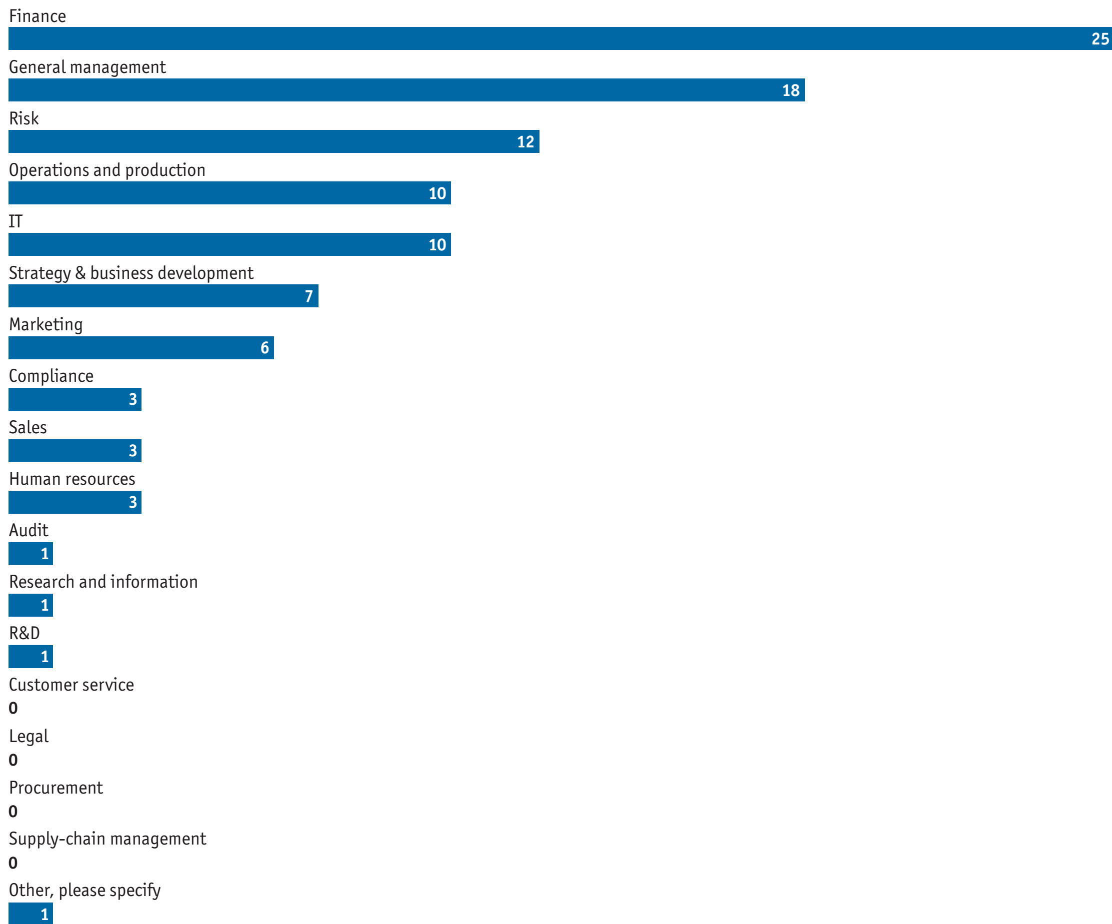
What are your company's global annual revenues in US dollars (most recent)?
(% respondents)



What is your primary job function?
(% respondents)



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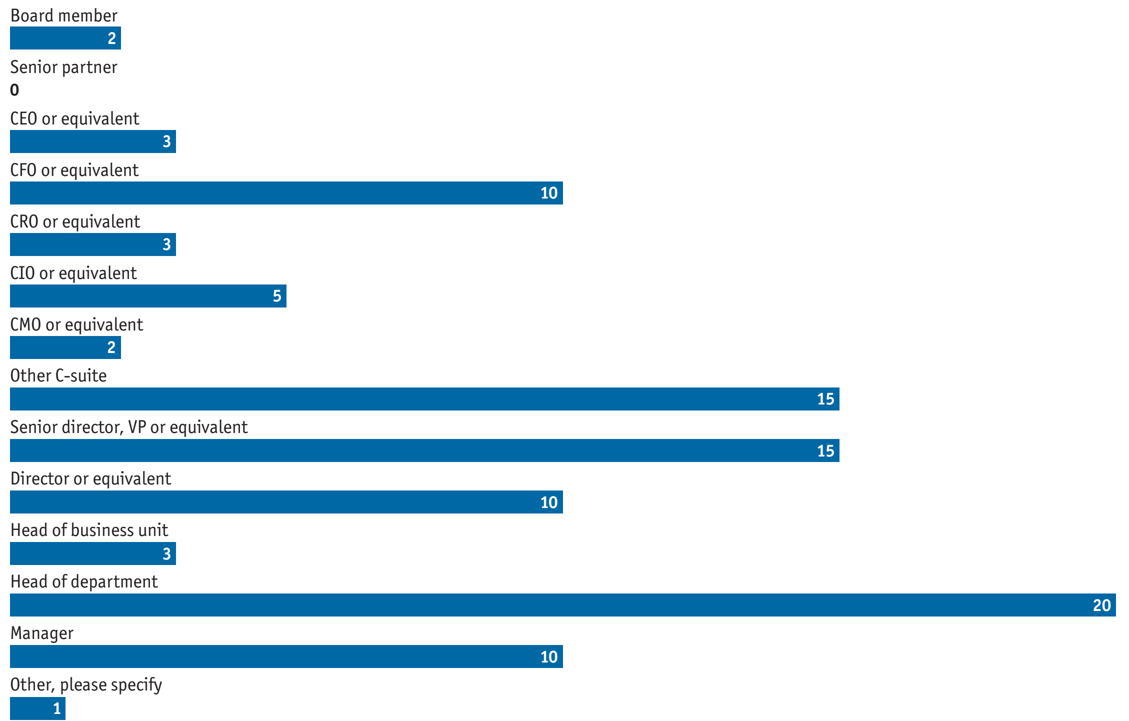

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