

LANDSCAPE AFTER THE BATTLE

The book *A New Era in Banking: The Landscape After the Battle* examines the key factors driving dramatic changes in the post-crisis world of financial services. Here, two of the authors, Juan Pedro Moreno and Mauro F. Guillén, talk about the brave new world banks face today.

Q WHAT DOES THE 'LANDSCAPE AFTER THE BATTLE' MEAN FOR BANKS?

Moreno: The financial crisis that began in 2007 triggered a break with banking practices of the past. In the last few years, the industry was reeling from the crisis – the focus has been on regulation and restoring profitability.

However, the industry now needs to react not just to the crisis, but to the changes in the landscape defining the role of banks in the future. If banks today fail to grasp these fundamental changes and build business strategies around them, they risk being replaced by a completely new set of players.

For banks to survive in the 'new normal', they must be agile, adaptable to change, embrace the new meaning of loyalty and trust and operate as flexible, technology-enabled information businesses using digital to reinvent their relationships with today's customers.

The leaders of banks today have a unique opportunity to remake their institutions for the future. There will be winners and losers. The journey starts with a clear appraisal of the new landscape.

Q WHAT ARE THE KEY EXTERNAL CHALLENGES FOR TODAY'S BANKING INDUSTRY?

Moreno: In our view there are three main drivers of challenges in the next few years. The first comprises the new regulations after the crisis, trying to address instability in the system and ensuring that banks are sustainable in the future, as well as restoring the reputation of the industry. Responding to capital requirements, reinforced risk controls (especially liquidity), customer protection and rewards, conduct and governance regulation will be still a heavy topic on banks' agenda.

Secondly, global demographic changes – the growth of emerging markets and wealth shifting into Asia Pacific, combined with an ageing population and the rise of women – require banks to redefine their products, services and strategies.

Finally, digital technology is bringing a new disruption to banking, making services accessible to new segments of the population and transferring power to the consumer. New demands from digital customers require new behaviours and services from banks.

Q ARE NEW REGULATIONS CHANGING THE COMPETITIVE LANDSCAPE FOR BANKS?

Moreno: Of course they are. The intensified regulatory oversight has increased compliance costs and restricted certain activities. But regulatory reform should not be seen as a hindrance, as it may well create opportunities for banks to differentiate and rebuild their reputation.

On one hand, regulations can be seen as a disintermediation risk for banks. For instance, the UK government is looking at improving access to finance for small businesses by facilitating alternative financing. This will allow new entrants, such as online peer-to-peer (P2P) lenders, to grow market share at the detriment of banks. The same disintermediation is happening in the payments space, where immediate payments or P2P transfers are disrupting the market and forcing banks to react.

But on the other hand, regulations are a barrier to entry, as any company that accepts deposits, makes loans or handles payments has to be regulated. If new entrants become big enough, they will eventually become regulated. This is already happening: PayPal is regulated as a bank in Europe and many countries are developing regulation for P2P lending and crowdfunding.

ABOUT



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Also, protecting taxpayers from the impact of a new financial crisis is clearly one of the regulators' priorities. Consumer protection regulations should be seen as an opportunity for banks to rebuild customer trust and engagement, which is critical to succeed in the new competitive landscape.

Q HOW CAN BANKS REBUILD TRUST WITH TODAY'S CONSUMERS?

Guillén: It's not only through regulations that trust can be rebuilt. Banks have lost a lot of credibility, so need to rebuild this consumer trust and loyalty if they want to succeed in the new competitive landscape with new entrants. We believe it's important for banks not to approach this issue from a public relations perspective.

What they need to do is to embed this confidence into their culture, processes and technology, using digital innovation: customer experience, tailored customer-centric relationships and big data for better behavioural advice, replicating other industries' experiences. They also need to be much more transparent, and of course they need to build on whatever loyalty remains on the part of customers – without that, banks are going to find it very difficult to compete over the next five or ten years.

Q FINALLY, IS THERE A NEED FOR A NEW PROFESSIONAL ETHICS IN THE BANKING SECTOR?

Moreno: I don't think we need a new professional ethics as such – the vast majority of the banking sector is ethical. However, as we all know, some very specific but impactful cases during the financial crisis showed the need to rethink some key elements of the

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financial services model and culture: for instance, incentives and rewards for executives should be based on business behaviours and the ability to deliver innovations.

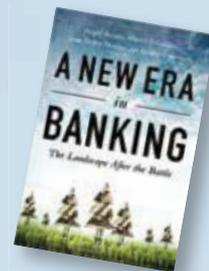
Guillén: Professional ethics are fundamental to the banking sector. Banks cannot possibly operate without trust and confidence in what they do. Ethics play a very important role in generating trust. Unfortunately, the corporate scandals of the early 2000s and the crisis have undermined trust in banks, largely because of the perception of unethical behaviour.

Banks must react to this problem by incorporating ethical standards into everything they do. And the CEO needs to be personally engaged in promoting ethical behaviour. Without this kind of approach, banks will continue to lose ground to non-bank intermediaries. 

THE BOOK

A New Era in Banking: The Landscape After the Battle by Juan Pedro Moreno, Mauro F. Guillén, Angel Berges and Emilio Ontiveros (Bibliomotion, September 2014) is

available in hardback, e-book and audiobook. For more information and to order, go to www.accenture.com/us-en/Pages/insight-new-era-in-banking-book-infographic.aspx



Join the authors in London on Monday 16 March for an evening talk hosted jointly by the Institute and Accenture. Fellows and Members only, further details at www.charteredbanker.com/events

