The Nation

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TRADITIONAL banks may go out of business in a decade unless they adapt to a technological revolution and transform to meet changing customer behaviour and regulations, a PwC report says.

As barriers to entry continue to decline for non-banks to provide formerly core banking services, the business models of today's banks will be challenged, according to "The Future Shape of Banking".

While banks in Thailand and across the globe remain profitable, the industry needs to consider how long this strong performance can go on given changes to technology, customers and regulations, according to Boonlert Kamolchanokkul, a partner and risk, quality and banking leader at PwC Thailand.

"With new non-bank entrants and the rise of electronic banking and online platforms combined with technological advances, existing banks' infrastructures and systems could be jeopardised by as soon as 2025 to 2030," he said.

Non-banks such as Google, Alibaba and mobile operators are providing more core banking services. In emerging markets like Africa, payment systems and lending activities have emerged outside traditional banking structures led by the mobile phone operator Vodafone.

In developed markets, the rapid up-take of mobile banking in the UK and the US, together with the roll-out of wireless and broadband infrastructures, is also posing challenges to the branch-based model of traditional banks, the report showed.

"Banking services will increasingly move away from physical, tangible storefronts into technology-based channels," Boonlert said. "The biggest question for banks will be how to maintain proper focus and investment while keeping an eye on customer transactions to other players in the value chain."

Kwannet Rattanaprug, first senior vice president at Kasikornbank, said that traditional banks would act as the financial advisory and provide transactions to new-to-bank customers.

In Thailand, Kwannet said digital banking helped strengthen branch network transactions.

Digital banking

In the first six months, PwC said new customers making transactions via digital banking grew 51 per cent year on year to over 330 million transactions, creating cash flows of Bt1.25 trillion – a 28-per-cent growth year on year.

It said money transfers were the top transaction via digital banking, with a proportion of 75 per cent.

The game changer was the speed of technological change, which could alter the cost structure of entire industries to the point where what was once a barrier to new entrants became a handicap for incumbents.

"Physical distribution channels such as bank branches and ATMs are now being replaced by smartphones," PwC said. "Technology is also making it cheaper for customers to move between banks and other service providers."

Low switching costs and reduced barriers to entry had brought in new entrants – peer-to-peer lenders and payment solution providers, Boonlert said.

Yet the report notes that brands and trust will determine how and with whom customers choose to bank.

"Brands and reputation will become central to bank value, especially banks that build brands representing trust and security to customers," Boonlert said.

He said banking regulators worldwide appeared to be focused on tactical responses, and their strategic objectives for the future of banks and banking were clouded by political expediency and the too-big-to-fail debate.

The theory was that some financial organisations and banking institutions were so large and interconnected that their failure would be too disastrous to the economy of a country. The government or central bank must take measures to prevent them from failing.

He said that regulators needed to adapt and regulations needed to be adapted to deal with the changing banking landscape.

"There is a need for greater certainty for the regulatory agenda, and for policies to focus on the role of banking as a positive contributor to economic growth. Regulators should care more about this," he said.