BANKING

Traditional banks may not exist by 2025: PwC

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New services by non-bank operators like Google, Alibaba, and mobile operators are threatening the existence of traditional banks, and without catchup in terms of technology these banks may not exist by 2025, said PwC.

In its new report titled "The Future Shape of Banking", the consulting firm noted that technology, customers, and regulation are key determinants of the industry's future and banks as well as regulators worldwide need to adapt to a changing financial market.

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.

In developed markets, the rapid up-take of mobile banking in the UK and the US, together with the rollout 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. 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," Boonlert said.

PwC says the game changer is the speed of technological change, which can alter the cost structure of entire industries to the point where what was once a barrier to new entrants becomes a handicap for incumbents.

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

Low switching costs and reduced barriers to entry hasbrought in new entrants: peer-to-peer lenders and payment solution providers, Boonlert explained.

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," he added.

Boonlert concluded that regulators and regulations need to adapt to deal with the changing banking landscape.

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