Traditional banks may not exist by 2025: PwC

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Bangkok--22 Sep--PricewaterhouseCoopers ABAS
Technology, customers, and regulation are key determinants of the industry's future. Banks and regulators worldwide need to adapt to a changing financial market.
Traditional banks may go out of business in a decade unless they adapt to a technological revolution and transform to meet changing customer behaviours 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 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," he said.

Move to technology channels

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.

"Physical distribution channels such as bank branches and ATMs are now being replaced 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 has brought 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.

Regulators and regulations need to adapt

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

The theory is that some financial organisations and banking institutions are 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.

Boonlert concluded that regulators and regulations need to adapt 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."