Banking Matters
Hot topic

Banking 2020: the future of banking in Australia

> *“Simpler, smaller and more deeply connected.*

What does the Australian bank of the future look like? At PwC Strategy&, we think the bank of 2020 and beyond will be simpler – with a less complicated service offering better aligned to customer demands. It will be smaller – with an operational profile, business architecture and balance sheet that's streamlined to optimally deliver that service offering. And it will be more deeply connected to customers (and partners) – solving new kinds of problems in ways banks haven't in the past.

For over 20 years, growth and value creation in Australian banking has been driven by two overwhelming trends: sustained, super-GDP asset growth and leverage, with efficiency gains from technology largely passed on to customers. This is unlikely to continue and at the same time, new technologies and changing customer preferences mean that the Australian banking 'pie', no longer growing as quickly as it once did, is becoming more contested.

Can banks continue to create value in a world like this? We think so, but it will require them to become simpler, smaller, and more deeply connected to their customers. What does this look like in practice?

Simpler
but more accessible and relevant

Simpler banks will have the courage to entertain much more radical rationalisation of their product and service suite than they have in the past, even at the cost of short-term revenue. They will be prepared to align their corporate messaging around a few key, meaningful points of view that resonate with clearly targeted market segments, even if this means appealing to a narrower set of customers. They will embrace a holistic, multi-dimensional approach to social media that engages staff, customers and business partners to convey a clear and focused vision of who they are and what they do.

Smaller
but more focused and better differentiated

Many traditional lines of business are shrinking – either in terms of growth, volume, profitability or, in some cases, all three at the same time. Banks must make disciplined, hard choices about how to allocate financial capital, physical capital, people and, of course, their reputational capital. 'Smaller' may not mean fewer customers, but it does mean more radical 'make or buy' decisions anchored around core capabilities, leveraging third parties for everything else. It also reflects the reality that in an age of digital disruption, banks will do less, but do it better.

More deeply connected
to solve problems that haven't been solved before

Banks that are genuinely more deeply connected to customers will leverage technology and partner relationships to solve customer problems banks traditionally haven't solved. Like tax. Or inventory, supply and invoice management. Or choosing a place to live, or even schools for the kids. To do this, banks will need to segment their customers and understand them with greater detail than they do today, then service them through distribution models and IT platforms that leverage not only bank capabilities but also the capabilities of their many partners.

Of course, all this is easier said than done, as it will require rethinking longstanding norms and practices in areas from IT architecture, procurement, data, product strategy, security, privacy and of course the very capabilities and competencies expected of a 'banker.' These days it's hard to find a senior banker or director not already animated by the prospect of becoming the 'orchestrator' and 'curator' of integrated solutions for customers. However, the industry is just beginning to grasp the full implications of this vision.

Six fundamental priority changes

What are those implications? How can Australian banks continue to generate market-leading shareholder returns while at the same time competing in an increasingly contested, slower-growing market?

We have identified six fundamental priorities for Australian banks over the next few years:

1 Explicitly organise around the customer

'Customer centricity' is hardly new, and most banks are already doing many of the right things, from detailed tracking of satisfaction metrics, spending time with focus groups, investing in market research and inviting customers to spend time with executives and even the Board. But these are all steps in the journey. When an organisation is truly aligned to the customer, it should be visible in the organisational chart, in the financial reports, the analytics hub, and in the IT architecture. Most importantly, it should be visible in the formal and informal norms about who has decision rights (i.e. power), how those decision rights are executed when hard choices need to be made, and how those decision makers are measured and rewarded.

2 Simplify the offer, face and voice

Despite two decades of improvement, customers remain more confused and sceptical of their banks' 'offer' than they need to be, as it still comprises too many variations on a relatively small number of core services - variations which are often unclearly differentiated and poorly explained. Likewise, the different channels and touch points banks present as their 'face' to customers sometimes seem more like separate organisations to be navigated rather than options offering flexibility and choice. Finally, the 'voice', which spans marketing, corporate communications, fit-out of physical premises and social media, still caters to too many different messages and purposes in Australia compared to some of the best-in-class organisations we know around the world.

3 Optimise footprint throughout the value chain

The branch network is possibly the most underutilised asset banks have, something most would-be disruptors underestimate at their peril. However, banks still spend enormous sums maintaining large physical and technological footprints - including branches, IT systems, operations centres and properties - when many of these services could just as easily be outsourced to agile, specialist partners. The key is to streamline the footprint, not the service proposition. This leaves banks better placed to focus on what their customers really want, such as being able to speak to someone at 11 pm on a Saturday, having fast access to credit when they need it, or extracting insights from their data.

4 Focus on specific areas of innovation

No one institution can be the best at everything. This applies to innovation just as it applies to everything else banks do. Therefore, the imperative is to nominate a select number of strategic capability platforms on which to build what we call 'vectors of innovation'. Innovation doesn't happen in a vacuum, and it doesn't arrive totally by chance. It builds on itself, gathering momentum in specific directions as capabilities are developed, lessons are learnt and talent is attracted and nurtured. Its very nature means it's impossible to know where innovation will lead, so banks have to think carefully about where they want to focus their efforts, and place their bets.

5 Proactively embrace regulation

Banks need to rethink their approach to regulation and to their regulators. Most banks strive to have open, honest and collaborative regulatory relationships. But they should do more than this, recognising their role in protecting Australia's reputation for sound finance and fair dealing. It is one of their most important off-balance sheet assets.

Banks need to become more proactive, and be seen as more constructive, participants in the national conversation about our financial system. The quality of our regulatory landscape is a public good. It benefits, amongst others, Australia's banks. Rather than treat regulation as an exogenous business risk to be managed, it should be seen as an asset to be nurtured and cultivated.

6 Put your culture to work

Culture is one of the most important, and talked about, drivers of organisational success. And yet it remains so fundamentally mysterious. Why? Because unlike other success drivers (business strategy, balance sheet, etc.), executives often spend relatively little time honestly describing what it is, much less what they want it to be, below the level of aspirational priorities like 'putting people first' or 'doing the right thing.' Best-in-class organisations have a firm grasp on what makes their culture distinct, how it reinforces their assets and capabilities, and how to ensure it remains aligned with their strategy. Most importantly, they have a clear view of the kinds of behaviours they need to see (and not see) to know that their culture is still what they think it is.

Summary

The Australian banking sector is in a state of flux. Renewed debate about culture and reputation, combined with uncertainty around the pace, scale and breadth of strategic disruption to the industry means the bank of 2020 and beyond will look very different than it does today. By becoming simpler, smaller and more deeply connected to customers, banks can deliver the next era of value creation - for customers, shareholders and the community - that can be as successful as the one just ended.

Contact us

Mark Allaby
Banking & Capital Markets Consulting Leader

mark.allaby@pwc.com

Jim Christodouleas
Director at Strategy&

jim.christodouleas@strategyand.pwc.com