Sibos podcast: Top 10 trends podcast transcript

The SIBOS insider podcasts debate the future of finance, providing insights and analysis of topical industry themes. Each episode will bring you a thought-provoking dissection of the greatest challenges and opportunities facing financial services, from renowned experts direct to the SIBOS community.

The podcasts examine not only the way the industry is achieving its goals, but also how it achieves them, including the focus on the mindset, working practices and wellbeing factors needed to build a successful career in finance.

Given the uncertainty and disruption of the past year, getting the measure of what the industry can expect is no easy task. But the events of 2020 did accelerate change and give us a glimpse into the future of banking.

Today I'm joined by Alan McIntyre, Senior Managing Director at Accenture, to discuss what he sees as the top ten banking trends for 2021. Alan has many years' experience working with retail and commercial banking clients and in his role as head of Accenture's global Banking practice he's responsible for the group's overall vision, strategy and investment priorities, and client offering development. Alan, thank you for joining me today.

Alan – Thank you Pat and thanks for having me as part of this SIBOS podcast series.

Pat – It's our pleasure! So let's begin Alan with your top 10 trends. Every year you look back at the past 12 months and capture the trends that emerged and are likely to impact banking in the immediate future. But of course, the past 12 months were exceptional. How's the pandemic influenced your analysis for this year?

Alan – Let me start by observing that while the public health impact of the COVID pandemic has obviously been terrible, both at the country and individual levels, the banking industry is generally seen to have responded very well over the last 12 months. Unlike in the global Financial Crisis of a decade or more ago, the industry hasn't been held responsible for the disruption and instead has been seen to play a positive role, I think, both in terms of a transmission mechanism for public stimulus and also providing support to both individuals and businesses struggling to deal with the financial challenges created by COVID. As we look into 2021, I think the industry is grappling with two somewhat contradictory forces and the reconciliation of them is one of the key management challenges of the moment.

On one hand there is a perfectly understandable desire to get back to normal, where normal is defined by some point back in the dim and distant days of 2019. The industry has been stretched over the last 12 months, from the scramble in the spring to support government-backed lending schemes, to having to accelerate a whole bunch of digital products and capabilities, all while working remotely.

Many of the executive teams I know are frankly exhausted. They feel that they've been stretched and wanted to let the elastic relax back a little so that everyone can recharge, reconnect with colleagues in person, post-vaccine, and generally look to rebase their business for a post-COVID world.

But there is also a somewhat more contradictory force at work, which is to see COVID as a springboard.

When you stretch a piece of elastic, you build up potential energy. And if you attach that to a catapult or a slingshot, you can release that energy as forward motion. In the last 12 months there's been a huge amount of improvisation and innovation in the banking industry, and the natural reaction is to not let that energy dissipate but rather to use it to accelerate progress.
But smart management teams in the banking industry also recognize that there is such a thing as getting too far ahead and over-interpreting the springboard effect of COVID. It's certainly true that digital engagement with customers is up. But do you really want to accelerate your branch closure program only to find that the branches were the only thing differentiating you from the challenger banks? Or internally, it's tempting to cut operating costs by having everyone continue to work from home, but if the consequence of that is that you can't attract the best young talent because they still want the social work experience, it may end up being a poor trade-off.

So, I think one of the macro issues facing bank management teams at the moment is how much they want to lead versus follow. And for many of them, the challenge now is trying to figure out that sweet spot between letting things relax a little bit back to normal but still making full use of that energy from last year. That springboard effect has really advanced banking quite significantly during the COVID pandemic.

Pat – And you've mentioned that the new normal will see the middle ground for a lot of banks squeezed really hard. If you can't find the differentiation, you'll struggle. So, what do you think the successful banks need to be doing to keep that new business and keep new customers?

Alan – I think many banks desperately want to compete on relationship management, quality and advice – to increase loyalty and cross-sell, expand share of wallet. However, I think one of the things which has clearly happened is that some of the more successful banking products in the last five years have been more category killers – they've been TransferWise or Robinhood. Or they've been 3% cash-back credit cards. And consumers know that these are good deals and have flocked to them. So I think one of the things that is going to be the challenge going forward is, do you go down the path of saying "yes, we're going to have very clear digital product propositions that can win on a standalone basis"? Or are you going to try and go back to having a digital version of the traditional relationship management proposition? Where it's holistic, it's cross-product in nature. And I do think that the trade-off between those two will differ from bank to bank.

One of the most interesting product launches over the last couple of months was Revolut, launching a checking account in the US, which exposes the fact that one of the ways similar challenger banks make money is via debit interchange. Revolut just made that public and said "as you spend more through the Revolut account, your interest rate will go up because we're able to subsidize that interest rate via the debit interchange".

I do think that there is a desire on the part of many of our clients, many banks in the industry, to try and be that digital relationship manager. So that is going to be a congested space.

I believe one of the options for them is to think about product as something which can penetrate through and build a customer base, and can really develop a different type of business. The impact of COVID has taken us into far more of a digital banking world, and I think strategies will need to adjust to deal with that. Either to be really good digital relationship managers, which I think is still a little bit of a struggle for many institutions, or to double down on the products that are going to win in the market.

Pat – OK, so the banks have accelerated their digitalization programs and they're going to have to make big provisions for non-performing loans. But there are there other ways that COVID is shaping the future of the industry.

Alan – I think the biggest impact at the moment is underlying profitability. You know, those banks with big capital market businesses have actually benefited from the volatility. Buoyant financial markets have led to some very impressive profit numbers. If you look under the hood, if you look at the standard retail and commercial banking model, it looks a little bit different. COVID isn't going to be the type of solvency challenge that we saw during the Financial Crisis of a decade ago, but it's clearly going to be profit challenge. I mean, if you look at the totality of 2020, depending on the market that you're in, profitability is down maybe 30 - 70%. Coming back from that is going to be a marathon, not a sprint. In the US, in Asia, we expect you to be back to peak COVID profit levels probably sometime in 2022, but in Europe it's probably 2023.

In that world of compressed profitability, we think we're going to see a number of things happen. One is more domestic M&A and consolidation combined with portfolio rationalization to shed some of the peripheral businesses. The industry was already consolidating pre-COVID. But we think with the profit compression there's going to be the pressure to scale up even more, and we're seeing that in the US with a flurry of middle-market regional banking deals.

I think the other way that COVID is shaping the industry is that it's blurring the boundaries between the traditional banking industry and the challenger banks. The traditional banks have clearly had to up their digital game, and many of them have gone from maybe 30 - 40% digital sales to more than 70% digital sales. In contrast, if we look at challenger banks, their business models were predicated on transaction accounts. You know, cheap cross-border payments. And they have had to pivot as well, more towards credit. So the two propositions are converging on each other. I think one of the things we'll see from COVID is that the best traditional banks will continue to do well, especially those who have upped their digital game, and the best challengers will do well. But the laggards in both categories, I think, might struggle.

The final thing I would say about the impact on the industry is about payments. In most developed markets, cash transactions dropped markedly as a result of COVID as more commerce went online and people were encouraged, even if they were transacting in-person, to use contactless payment. So in the European context, cash transactions dropped by 30 - 40% in many markets. I saw some fascinating data for Q4 that showed Norway's cash transactions were down to only 4% of total transactions by the end of 2020. Putting it ahead of China in the race to become a cashless society. Some of those cash transactions will come back, but I think we'll increasingly see many banks trying to decouple a little bit from cash as a payments mechanism, and that can have financial inclusion consequences.

I think we should expect to see, as well, an accelerated move to digital payments but also more things like we've seen in the UK, an access-to-cash review by the regulators, to make sure that individuals and small businesses who are more cash dependent don't get excluded and discriminated against going forward. So lots of different changes and dynamics happening within the industry.

Pat – That is point number 6 in your top ten trends: that cash is not king. That Norway stat is incredible. Really, to think it's 4%.

Alan – A little counter to that is what happened in some of the developing markets, where in times of financial stress people tend to hoard cash. So if you look at markets like Mexico or India, the actual cash in circulation has gone up markedly during COVID. It's not because people wanted to spend it in transactions, it's because they essentially wanted to put it under the mattress. In a period of financial stress, they want to make sure they have their own financial stability. And in many cases, that means having a large pile of bank notes. It's an interesting dynamic, where the demand for cash was linked to financial stability rather than making in-person transactions.

Pat – Moving on from there, and staying with the competitive landscape, you say in the report that both fintech startups and big online players are likely to increase the pressure on banks to be more transparent in their pricing and cross-subsidization. How do you think they're likely to respond, particularly in light of the fact that consumers' trust in banks seems to have fallen quite considerably over the past two years?

Alan – It's clear that consumers' trust in banks is falling, but I think that's part of a broader decline in institutional trust around the world. Our data shows that banks are still the most trusted institutions to look after your finances – they are more trusted than bigtechs and they are more trusted than commerce players like Walmart. What I think is interesting, when you think about trust, is to separate out two things. Banks are trusted from a transaction basis. So, if you say to a typical customer "do you trust that if I put $100 into the bank, they will look after that money? That they will process the payments and it will be safe?" The level of trust that customers have in a bank to do that type of activity is very, very high. And obviously it's backed by things like deposit insurance, and the idea that the industry is regulated.

But rather than transactional trust, you might think about advisory trust and ask a customer "do you believe that a bank will at all times and in all situations act in your best interests?" Unfortunately, that percentage drops down into the single digits, or low teens in many markets, where there isn't the trust that the bank is always working on behalf of the customer. So I think one of the things that we'll see with the move to digital is increased transparency to show that the deal that you're getting from the bank is actually the best deal possible.

There is obviously a concern on behalf of many customers that they maybe don't understand the technicalities behind the APR interest rate on their credit card or understand the fees associated with investing. I think we will see far more transparency around that. And a move to say yes, you can trust that this is this is a good deal. That is where you look at the success of something like TransferWise. It has completely changed the economics for retail FX because it said you don't have to pay all these fees to the bank. Here's a simple, easier way to do it. And within the space of a few years it's radically changed the economics of that business for every participant.

So, I do think we're going to have to see more transparency, simplicity, and straightforward communication. I think one of the things that the challenger banks have got right is that tone of voice that says "we're on your side of the table, we're here to work with you, and this is a win-win proposition. As your finances improve over time you will be better off, and we as your bank will be better off as well".

I think one of the things I'm looking for is that level of transparency improving, so that customers really understand what they're paying for, and whether they are getting a good deal or not.

Pat – And you mentioned also that straightforward banking apps may have had their heyday. How do you see the launch of, say, Google Plex and maybe Apple Pay, and those kinds of new digital players coming into play?

Alan – I think when you look at what's happened in Asia, internally in China, you see a lot of what we consider to be transaction banking, particularly retail payments, sort of disappear into the broader digital lifestyle apps run by Alibaba and Tencent so that they become native.

And you know, we've got that as a trend already in developed markets. If you call an Uber and take the ride, you don't worry about the payment. Look at the internalization of payments within, say, the Starbucks proprietary app that accounts for almost 40% of all Starbucks transactions. The payment is embedded within the transaction in a way that makes it seamless and makes for a better experience. So we're seeing the extension of that right now. I think part of the success of the Apple credit card is not just that it's a good cash-back credit card, but also the way that the customer experience is embedded into the operating system. It's very easy to use it to scroll through your transactions, so it feels as if it's a great customer experience. I think with Google Plex banking you're seeing the expansion of the GP equivalent into having transaction banking native to the phone as well.

And I think what it can do is push the banks back in the stack. I don't think either Google or Amazon actually has any interest in running a regulated balance sheet. The only interest for them is managing the customer experience and making sure that customers feel as if these types of services are well integrated.

So I do think that the choice facing a lot traditional banks is whether they want to continue to have a strong customer-facing presence, their own banking app, trying to consolidate and get share of wallet for their customers through that experience, versus the attraction of being a provider in someone else's digital banking experience. I think that comes down to competitor strength. It comes down to the economics of those types of business models. But I think we will see far more banking as a service, where the balance sheet is pushed quite far back in the proposition and the customer may not know who they're dealing with.

I think another good example of this happening is in the B2B model. The announcement of Stripe Treasury and of Stripe moving from being a merchant-card accepting organization to providing a broader sweep of banking services backed by traditional banks like Goldman Sachs again gets us into a situation where customers may be buying banking services not directly from the bank, from its own service, but indirectly through some other sort of platform that they're already engaged with. So I do see banking sort of disappearing into the operating systems of their phones and also disappearing into the operating systems of their businesses over time.

Pat – And banks are also now having to compete in different ways for their cut of the credit market. In the report you mentioned credit loans falling dramatically in the US and retail credit now seeming to merge with the "buy now, pay later" flat-fee providers. Do you see these players taking a bigger share of the market now?

Alan – I think they have been, and I think that the data coming out of this sort of holiday shopping season around the world is quite dramatic. The jury is going to be out for a while yet on the credit quality of some of that lending. I do think there is a question mark over how much banks should be looking to the past versus looking to the future in credit. Clearly, we're still waiting for the shoe to drop in terms of credit losses. You saw in the last week, some of the major US banks beginning to write back some of the provisions that they had taken last summer, so boosting their profitability by saying maybe the losses will not be that high.

But the reality is that the public sector support in many markets is still underpinning credit quality, so we've not really seen losses and delinquencies spike the way you would have expected. There's a lot of focus in the banking industry on managing that back bit, making sure that they effectively manage delinquency as the public sector support tapers off. But I think one of the risks is that banks drive by looking only in the rear-view mirror. Part of the consequences of the shift to a more digital world is new credit opportunities. So I think what we've seen from the "buy now, pay later" surge is e-commerce going from roughly 20% to 40% in the US. As you check out through an e-commerce lender, that split into four payments becomes a very easy option to take. So I think for a lot of traditional banks they have to be looking forward as well as backwards, and make sure they don't miss out on the credit opportunities that are going to be in front of them. Again, I think, the digital supply chain in B2B, the way in which trade finance is integrating on a digital basis, those are all creating lending opportunities. And while it's legitimate for many banks to worry about the consequences of the loans they made in previous years, they can't ignore the fact that the pivot to a more digital world is beginning to create new and different types of lending opportunities. However, specifically with "buy now, pay later", I think you will see many traditional banks be cautious until they really understand what the credit quality is of some of that lending.

Pat – You mentioned the US again, there one thing we can't ignore, which has nothing to do with COVID: the success of Joe Biden in the elections. How is this expected to affect banks?

Alan – Well, just to be clear, despite the Scottish accent, I am an American citizen and I live in New York, so I'm quite close to what's going on in the US. And if you look at the US from the outside, you could say that we have a lot to worry about before getting around to considering bank regulations. But I think it's fair to say that there will be changes under the Biden administration. And there is a great deal of uncertainty about how the new administration will look to check the banking industry.

One of the things which I think is highly likely is that the Consumer Financial Protection Bureau will toughen its stance on compliance. The nomination over the last couple of days of Rohit Chopra to be the director of the CFPB is an indication that the compliance regime will toughen up.

In June 2020 we saw a lot of innovations like payment holidays, overdrafts being replaced by short term fixed-fee loans, credit cards being displaced by "buy now, pay later". So I think there will be a focus particularly on overdrafts, because it's an area where a small number of customers generate a fairly high proportion of bank transaction account fees, and often it's the less well-off who carry the burden of those fees. I think another key issue will be the new administration's attitude towards bank M&A, and branch closures as a result of bank M&A. I really hope there's a recognition that we are seeing an acceleration towards a more digital industry, and hence a consolidation of traditional banks who were more reliant on physical networks is probably inevitable.

So I hope the new administration takes an enlightened attitude towards that and understands that you no longer need a bank branch on the corner to get good service. I also believe the administration is going to look at how many new bank startups are appropriate. I think if we look around the world, some of the most innovative markets – take Singapore, Hong Kong as examples – they are stimulating innovation by providing new charters to digital players. It's been a long process for many of the challenger banks in the US to get a new charter.

The other thing that I like to highlight is open banking. Under the last administration we saw the Justice Department effectively block the Plaid Visa deal. I think the new administration will have a question about whether the US wants to go down the path of many other markets and consider some form of open banking and data sharing legislation, or whether it should just let the market decide how data can be shared and by whom?

I do think there are a lot of moving parts in the US regulatory world, and a lot of uncertainty about how that will play out over the next couple of years. And I think the regulatory environment, as always, will shape as the US banking industry evolves. So my hope is that we don't go back to the early forms of bank bashing and instead have a regulatory environment that encourages the right type of innovation, that encourages new capital formation in the industry, while also improving some elements of consumer protection.

Pat – That's a really interesting insight into the regulatory environment. But what's also clearly likely to change within the new administration is the green issues. You mentioned them in your top 10 trends as a green inflection point. Can you tell us how you see that change in the US?

Alan – I think 2021 is going to be a pivotal year. For many years, banks have been making commitments to green their own businesses – you know, to look at their energy consumption and to do the things within their own walls to make a difference. I believe the pivot point we are at now is banks actually using their power to allocate capital to green the broader economy.

The harsh reality is that despite saying a lot of the right things about the environment, the global banking industry has increased lending to the fossil fuel industry every year since the Paris climate accord was signed. There has been some mix shift in there, away from the most damaging sectors like coal to things like natural gas. But the totality of lending has increased every year. I think 2021 is going to see a change in that; a change in regulatory standards. It's going to see changes in reporting to properly monitor the environmental impact of bank lending. Some banks are already getting ahead of that wave. For example, if you look at Europe, NatWest is committed to getting out of fossil fuel lending by the end of 2022 and halving its environmental impact by 2030.

I think one of the catalyst points for a change this year will be the international climate change summit in my home town of Glasgow in Scotland. I believe it's going to put a lot of pressure on banks to make public commitments and announcements. And I think the combination of that, plus the Biden administration pressurizing US banks to take a hard look at the issue, will lead to some change. It's one of these things where, once the dominoes begin to fall, it becomes hard to resist them. So fossil fuel projects will continue to get funded, over the next decade, if there is a business case. But it is clear that the cost of capital for those projects is going to increase. And importantly, the reputational risk for the banks associated with providing that capital will also increase. As in many aspects of ESG reporting and oversight, Europe is far ahead. But this could be the year, particularly under the Biden administration, when US banks really begin to feel the pressure to not only talk the talk around environmental change, but also to walk the talk.

Pat – And with that we've almost covered all of your top ten trends for the year. The exception is cloud computing. What do you see as the outlook of cloud-based systems for this year?

Alan – I think if you went back 12 months ago, maybe to the fall of 2019, cloud was actually beginning to drop down the management agenda of many banks. Many of them felt that they had a plan in place. It was a multi-year transition to move core systems to the cloud, and it didn't have the same urgency that maybe it had previously. I think one of the impacts of COVID was to demonstrate the resilience, the flexibility and all the other advantages of cloud-based systems.

So if you go back to the spring of 2020, you're now having to stand up new government-backed lending schemes, having to really scale up call center activity, having to communicate around things like payments holidays via an app. Those banks that were more in the cloud found that they could do it far better, far quicker and with more flexibility.

I think one of the things we saw in the summer into the fall of last year was, suddenly, cloud coming back onto board and management agendas, to say "maybe we need to accelerate. Maybe the transition plan that we had agreed previously needs to be quicker".

I think we've also seen the major public cloud providers – Microsoft, Google and AWS – realize that the whole idea of accelerating forward, using that elastic band to make significant change happen, can develop nto banking. So you've seen many announcements over last few months of enterprise-level partnerships where the major public cloud providers are willing to invest hundreds of millions of dollars to help banks flatten their investment curve and really get into the cloud.

I think in 2021 we'll see continued acceleration. Even though there's been a lot of talk of public cloud over the last few years, the reality in the banking industry is that maybe only 15 - 18% of technology workloads are currently running on public cloud. We think that's probably going to double over the next few years to 30%. And the workloads which are running in a more private cloud – you know, a more controlled environment – will probably go to 40 - 50%. We think over the next two to three years, many institutions are going to be looking at getting to 60 - 75% of their technology running in the cloud.

When we look at the major initiatives on the technology side of banks, public cloud, private cloud and hybrid cloud migration plans have really taken on a lot of importance again.
But as I said in the report, I'm guilty of what I criticized the industry for, which is talking about categories. The reality is that the difference between public clouds and private clouds is disappearing. We have to think about it more as a set of technology options which can be tuned to individual use cases. Some of those use cases require high-level security, data residence within a particular geography – something that is very safe, secure and highly managed. Some others require just cheap computing capacity, and maybe don't require the same level of tight security because there's no personal data involved.

And that spectrum of options, from the very secure of onsite to the very cheap and truly in the cloud, is becoming a real continuum. So I think one of the trends will be to get away from this idea that cloud is a series of discrete technology options, to the idea that cloud is far more of a continuum of compute, analyze and data storage options that can be componentized and used to build the right solution for the right use cases.

Pat – It seems as if this past year has just pushed things forward at a pace that we're not really used to. I mean, we haven't mentioned central bank digital currencies; they seem to be growing apace. But overall, could you perhaps bring everything to a conclusion for us? Just let us think whether this is an evolution, and the revolution is past. The opportunity to ping that elastic band forward is just taking a little measured step back. Would I be right in thinking that?

Alan – I think you would be right. I think we will look back to this period – not just 2020 but probably into 2021 – as an inflection point in the industry. Future generations, when they look at the charts around things like digital app usage, will see a discontinuity. For these 12 months it clearly has been a step up.

But I do think that the elastic band will relax a little bit. Not everybody who was forced to buy their banking product online will always do that. Some people will want to go back into a face-to-face setting. They will want some of that personal connection. I particularly see it in the commercial banking space, where you've got a lot of complexity. Much of it requires a lengthy sit-down conversation with your banker. So I do think that with the benefit of hindsight, this will be a jump forward. But I also think it will be maybe two or three steps forward and maybe one step back as things normalize.

In general, I believe the industry will have changed markedly as a result of COVID. It's not that the trends weren't apparent before – almost all the trends that we've seen accelerate were there in 2018 - 2019. It's just like many other parts of our life – the impact of the pandemic has been to fast-forward within six months what may otherwise have taken five years to play out. I think that most of that change will stick, and that creates opportunities – but it also creates challenges for the industry.

Pat – Thanks so much for sharing your insights with this today. Could you just mention where listeners could find your reports? Where can they refer back to those top ten trends?

Alan – If you go to accenture.com/banking you will find it is prominently displayed. We try and do this every year. We're trying to take the aggregate view of what clients are dealing with and make some predictions. Obviously, the predictions for 2020 turned out to be a lot wrong; we didn't see the pandemic coming. But hopefully the predictions for 2021 that you can find on accenture.com will help management teams think through what the salient issues are for the industry this year.

Pat – Well, once again, Alan, thanks so much for sharing your insights.

Alan – Thank you for having me!