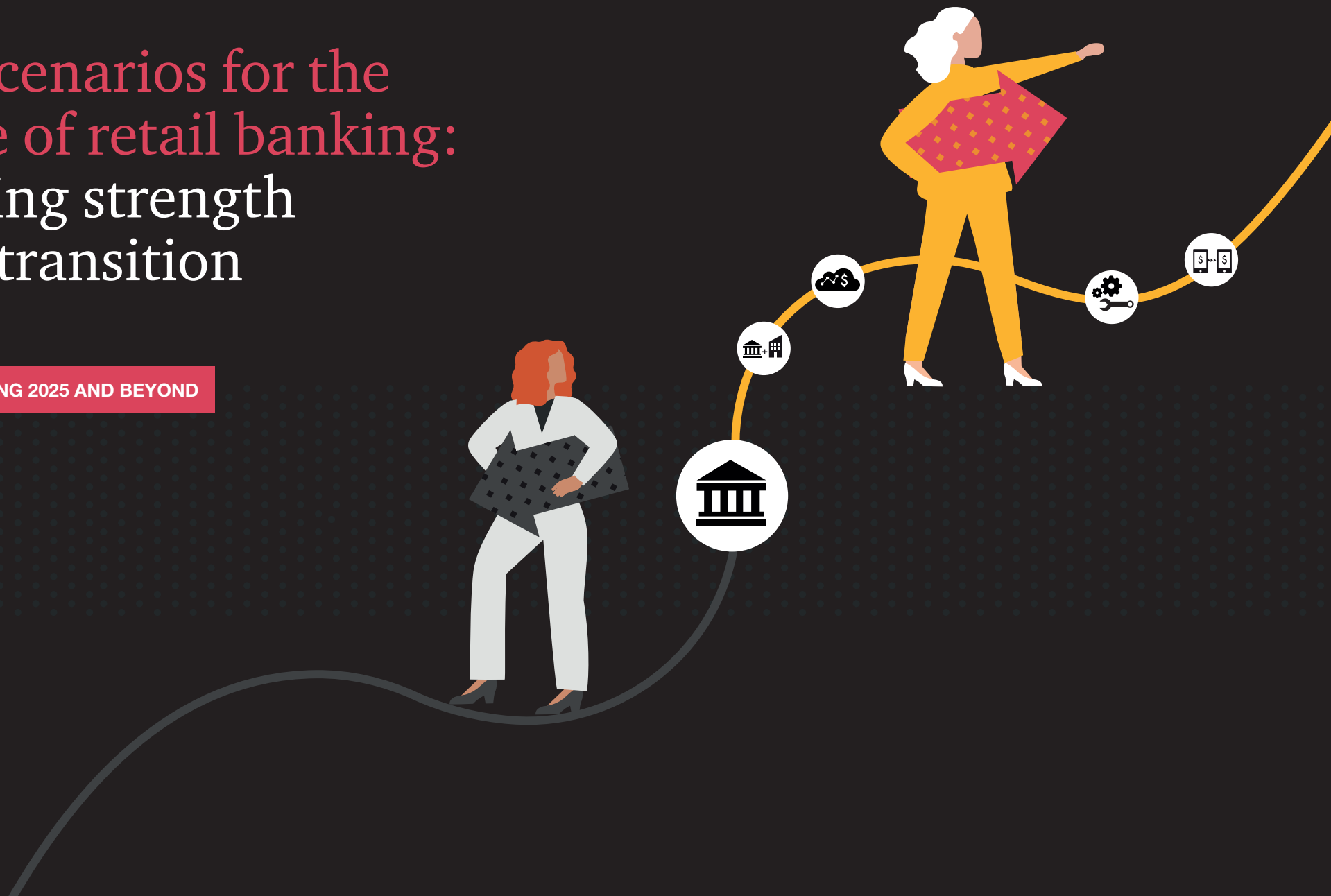




# Five scenarios for the future of retail banking: Building strength amid transition

RETAIL BANKING 2025 AND BEYOND



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# Foreword

Dear reader,

A few decades ago, retail banking was a straightforward business. Customers made basic transactions at the branch office, stored their valuables in a safe deposit box and turned to their local bank manager for advice. Today, none of this is true. Many customers don't want to set foot in a branch, their valuables are digital, and they turn to friends and social media for financial advice. It's no exaggeration to say that ten years from now, retail banking as we have known it could be irrelevant.

Our goal in authoring this report is to highlight the massive scope of change that is underway in retail banking and to explore how these changes could unfold in the coming decade. To do this, we developed five hypothetical scenarios for the future of the sector. These scenarios, which are grounded in trends that have already begun playing out, point to three priority areas where banks should take proactive steps immediately to adapt before the changes that are in motion overtake them.

The industry's future is perilous for those who aren't prepared but exciting for those who are. We hope these insights help you to ensure that your organisation remains safely and strongly in the second group.

Sincerely,

Eugénie Krijnsen, Roberto Hernandez and Kurtis Babczenko



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# Introduction

Banking that takes place entirely in mobile apps and crypto wallets. Financial services dominated by a handful of mega banks or even by non-traditional banking players. Transactions conducted largely through digital currencies and tokens. Business models that migrate from product- and fee-based revenue to subscriptions. Retail banks with huge networks of physical locations dismissed as dinosaurs.

These situations may sound exaggerated—but if so, it's not by much. They represent some of the potential outcomes we see when we extrapolate current trends in retail banking.

For leadership teams at incumbent banks, now is the time to consider radical future-facing scenarios, particularly given that the retail banking industry is at a critical inflection point. Technology and innovation, increasing competition, regulatory complexity, embedded finance, consolidation and evolving customer expectations are placing immense pressure on traditional business models. This complex and evolving web of trends influences whom consumers trust and how they prefer to conduct their financial lives. It also forces banks to address the fundamental question of what a financial institution is—and what value it provides.

To help incumbent retail banks prepare for a rapidly changing environment, we developed five scenarios for how the future of the sector could play out over the next decade. These hypothetical scenarios are not mutually exclusive—the future may resemble a combination of the possibilities we describe. In this report, we take them to their extreme for effect, and to serve as an urgent call to action for retail banks.


A theme that runs through all five scenarios is the need for greater clarity about where and how to compete to remain relevant. Banks can sharpen their positioning through data-led innovation in their digital enablement efforts and trust-building with their core customers, by committing to environmental, social and governance (ESG) initiatives, and by showing their target customers that they can provide value that goes beyond just offering financial products and services.

Evaluating the core technology platforms and necessary periphery applications and clearly identifying their target customers are important first steps. But because a growing number of banking services are white-labelled through embedded finance offerings (see 'Today's trends, tomorrow's realities,' page 6) and, as a result, their direct interactions with customers are reduced, banks must also take a realistic look at their place in the evolving value chain and consider whether to double down on their ability to play in the customer-facing segment of the retail market.


Our five scenarios are a critical thought exercise for incumbent retail banks that want to build the capabilities and resilience necessary to thrive in tomorrow's far more dynamic environment.

## Future shock: Five retail banking scenarios for the next decade

- Technology, media and entertainment players aggressively capture the customer-facing part of the value chain, without the hurdle of a banking licence, by partnering with licenced banks.
- Regulators uphold market-structure regulation and support opportunities for new entrants.
- Deteriorating trust and social segregation incite doubt about institutions with global scale.
- The supervisory regime favours smaller and local banks, and sentiment gravitates towards nationalistic protectionism.
- The rollout of central bank digital currencies cascades across the value chain together with the development of decentralised finance and cryptocurrencies.
- Incumbent banks lose the basic bank account to central banks, leading to eroding margins and the loss of ownership of customer data.



**Front-end revolution**  
See page 14




**Scattered landscape**  
See page 17




**The rise of central bank digital currencies**  
See page 19

**Winner takes all**  
See page 16



**Resurgent regulators**  
See page 18



- Big Tech and non-traditional banking players (e.g., large retailers) decide to step in, applying for full banking licences and investing in their own banking proposition.
- Only the largest incumbent banks are able to make the technological investments necessary to create a differentiated customer experience.

- Regulators increase barriers to entry for new entrants following public concerns about data and privacy and new rules for cybercrime and antitrust.
- Banks rebuild trust and reclaim their role as the central provider of financial products and services.



Today's trends,

tomorrow's realities

Retail banks around the world are facing a confluence of challenges that could result in one of the most transformational periods in the industry's history. Underpinning our five scenarios for the future of banking are five dominant trends that banking leaders need to understand to plot a course through a changing market landscape.

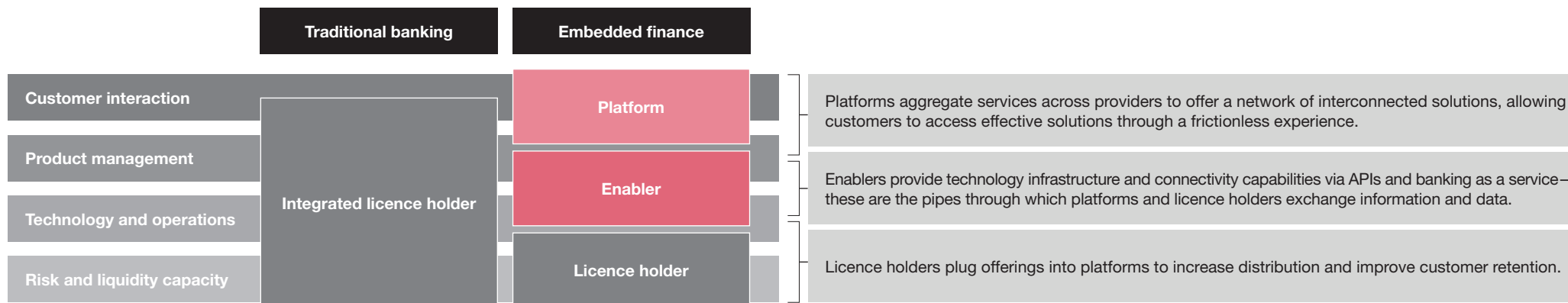
### **Disruptive technology and innovation**

Innovative technology—including Web 3.0, AI and machine learning, and distributed-ledger technology (DTL) such as blockchain—has already caused changes in customer behaviours, enabling new products, services and channels. Now, banks must increase their investment in and adoption of these technologies to maximise their impact. These shifts call for enhanced digital capabilities, hence new talent profiles at banks.

Access to disruptive tech lowers the barriers to entry for new players and is an important driver for the democratisation of technology and the rapid development of embedded finance, whereby financial services are intrinsic to digital customer journeys, and, as a result, an increasing number of them are integrated into the platforms of non-financial institutions. The disruption also brings new legislation (to curb risks and regulate new technology, ecosystems and new tech-market entrants), and new asset classes such as digital currencies and non-fungible tokens (NFTs).

## Pathways in the embedded finance landscape

Embedded finance is changing the way consumers can access financial services, fundamentally breaking down traditional business models.



**Note:** Customer interaction predominantly comprises non-financial services.

**Source:** PwC analysis

### Embedded finance

Embedded finance, whereby non-banking companies offer financial services such as lending, insurance and digital wallets, has been on the rise for many years. Several non-traditional financial services players around the world, such as Big Tech companies, fintechs and retailers, continue to build out innovative digital apps that are rapidly improving and that connect users to API-enabled financial infrastructure. In several parts of the world, banks have facilitated much of this activity through open banking, banking as a service (BaaS), white-labelled back-of-house infrastructure and compliance capabilities. At the same time, there’s a massive rise in fintech start-ups in a market that’s expected to grow to US\$7.2tn by 2030.<sup>1</sup>

Now, the choice for banks is how to play within this rapidly evolving landscape.<sup>2</sup> Focusing on infrastructure (in which banks develop and manage the technical and operational ‘plumbing’ of the future financial services ecosystem) and on customer experience and interaction (in which banks establish a strong brand and control all customer interactions across a wider array of products and services) will become key to creating a distinctive client proposition. The largest players will be able to do both simultaneously, or through some combination of the criteria listed in ‘Pathways in the embedded finance landscape,’ above, reaping the benefits of cross-collaborative innovation and developing new products and services that complement each business line’s strategic agenda.

In PwC’s Financial Services in 2025 global survey, about 65% of bankers acknowledged that Big Tech companies would continue to push into arenas formerly dominated by incumbent financial services firms. Only about 30% said incumbents would be able to fend off these new competitors.<sup>3</sup>

1 Lorenzo Chiavarini, ‘Dealroom talks: The rise of embedded finance,’ Dealroom.co website blog, 10 March 2022, <https://dealroom.co/blog/dealroom-talks-the-rise-of-embedded-finance>.

2 For more on this topic, see Roberto Hernandez’s 12 January 2021 LinkedIn article, ‘The time has come for banks to pick a path’: <https://www.linkedin.com/pulse/time-has-come-banks-pick-path-roberto-hernandez>.

3 PwC, Financial Services in 2025 survey data, 2020, <https://www.pwc.com/gx/en/industries/financial-services/publications/financial-services-in-2025.html>.



## Evolving customer expectations

As more and more retail bank customers want speed and convenience at every interaction, retail banks must create seamless, simple, personalised and intuitive experiences, across both digital and in-person channels.

In addition, customers' standards for how a bank's products and services should meet the needs of a specific community or niche are escalating. For example, one bank in the United States is focusing specifically on environmental sustainability by operating without physical branches and helping customers track their carbon footprint through analysis of their purchase history. Another bank in Europe has introduced a proposition in its banking app that shows carbon-emission calculations alongside customers' bank transactions. Banks that understand the unique needs of a subset of customers and build an offering to meet those needs can better deliver on their brand promise—and thus build stronger customer relationships.

Social expectations are also contributing to an increase in ESG rules, and global reporting standards are creating new areas of compliance for banks. These include EU guidelines on climate-related financial disclosures,<sup>4</sup> the newly launched International Sustainability Standards Board (ISSB),<sup>5</sup> and proposed audit rules by the Securities and Exchange Commission (SEC)<sup>6</sup> for climate risk reporting in the US.

## Eighty-four percent of financial institutions say ESG factors will influence their products and services over the next five years.

**Source:** PwC, Financial Services in 2025 survey data, 2020

<sup>4</sup> The European Commission, 'Corporate disclosure of climate-related information,' accessed in July 2022, [https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information\\_en](https://ec.europa.eu/info/business-economy-euro/banking-and-finance/sustainable-finance/corporate-disclosure-climate-related-information_en).

<sup>5</sup> The International Financial Reporting Standards Foundation, 'About the International Sustainability Standards Board,' accessed in July 2022, <https://www.ifrs.org/groups/international-sustainability-standards-board>.

<sup>6</sup> The US Securities and Exchange Commission, 'SEC response to climate and ESG risks and opportunities,' accessed in July 2022, <https://www.sec.gov/sec-response-climate-and-esg-risks-and-opportunities>.

## The basics of decentralised finance

Decentralised finance (DeFi) is a huge topic of interest across financial services, as core banking activities such as saving, investing and borrowing are offered outside of the traditional banking ecosystem. The differences between DeFi and traditional banking are significant.

The traditional approach to financial services is centralised. Customers' deposits are held by regulated banks, which facilitate the movement of money between parties and charge a fee for their services. Decentralised finance eliminates intermediaries in financial transactions by using emerging technology such as smart contracts and blockchain. Anyone with an internet connection can get access to basic financial products. In that way, DeFi has the potential to cause the disintermediation of banks and transform the entire financial system.

For example, if a consumer wanted a loan in a DeFi environment, she could enter that information into a decentralised finance app. An algorithm would find the right lender, and contract details would

be captured through automated protocols—also known as smart contracts—that operate through a blockchain. All required processes, such as transferring the loan, managing deposits, and paying interest, are triggered automatically and executed without the involvement of intermediaries.

In theory, to avoid volatility in crypto exchanges and increase trust, the DeFi ecosystem uses so-called stablecoins, or cryptocurrencies that are backed by stable fiat currencies such as the US dollar.

Thus far, DeFi is in the very early stages of development. As of January 2022, the total DeFi market was about US\$90bn. Moreover, it's currently unregulated, posing risks in areas such as money laundering and know-your-customer (KYC) requirements. Coding errors, hacks and scams are common. In 2021, half of cryptocurrency crime was related to DeFi, according to blockchain forensics company CipherTrace.



### Consolidation to pursue scale

The pandemic has exacerbated the structural challenges that retail banks face. Though the recent uptick in interest rates may bring some relief, persistent low rates have pressured banks' net interest income, and many banks have been generating returns that fall short of cost-of-equity thresholds. Some banks have managed to reduce costs, but not fast enough.


For banks, the recovery will be linked to generating scale throughout the value chain while optimising technology and operations—and the balance sheet. Consolidation will be an important strategic factor, and deal volumes are likely to remain high. Banks will use deals to gain scale, acquire key digital capabilities and optimise balance-sheet utilisation. Fintech-related transactions will become more pronounced as banks make bets for the future, placing a premium on merger integration capabilities.

### Regulatory complexity

New rules are on the way, as regulators seek to balance the rapid pace of innovation, societal expectations and competitiveness with financial stability. This ambition includes regulation of Big Tech 'gatekeeper' platforms to address the fair use of their market position and customer data. Incumbent banks, for their part, are largely responsible for the regulatory and capital-heavy activities across the banking and embedded finance landscapes—areas of the banking value chain with less attractive returns on equity. Though banks recognise the need to accelerate their compliance function, a shifting regulatory ground increases compliance costs and operational complexity, particularly for global banks that compete across major markets.

The need, therefore, for a level playing field for incumbents and new entrants—same activities, same rules, same supervision—has never been greater. An evolving TechReg space is expected to curb risks of new technology, ecosystems and market entrants, as regulatory entities also plot a clear plan to oversee new developments such as distributed-ledger technology (blockchain is one example), digital assets (cryptocurrencies and NFTs) and other disruptive solutions. At the same time, beefed-up regulation across antitrust, tech, data and AI are expected to determine where financial players—especially those in Big Tech—go next in search of profit.





## New forms of competition

In many countries, the market share of traditional banks is under threat, because they must now contend with a radically different set of competitors—particularly non-traditional players entering the market through embedded finance.

In the US, for example, non-bank players have captured the majority market share in consumer lending (e.g., mortgages, auto loans, personal loans). In addition, a growing number of players around the world have developed or are developing hyper-personalised value

propositions centred around an ecosystem that can offer customers a mesh of interconnected services delivered through a single ‘super app.’ Examples include Curve and Venmo in the US and Revolut and Tinkoff in Europe, and many other companies seeking to emulate the growth of super apps such as WeChat in China (see ‘Companies around the world are trying to replicate the successful Chinese model for super apps,’ page 11). Such apps gather together everyday banking activities, lending, payments and transfers, investments, a marketplace with access to leisure activities and retail, and even gamification features to spur changes in customer behaviours.

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The future will see the *banking in retail banking* melting into the overall customer journey. Banking products will disappear, and the pillars of banking—lend, invest and insure—will be decomposed into functional support blocks for customer needs.

Gustav Vermaas, Managing Executive,  
Financial Services IT, Vodacom

By expanding their business into financial services, new entrants such as fintechs and retailers can diversify their revenue streams, access new sources of data and reduce friction in their core non-financial offerings. The result is that these competitors can offer an ecosystem of interconnected products and services, all designed around an integrated, intuitive interface that is more attractive to users than the value proposition at an established bank (see ‘The DNA loop: Data, network, activities,’ page 12).



Brands such as Booking.com, IKEA, Uber and Starbucks are also entering the financial services space, bent on removing financial friction from their customer interactions by offering credit products and other banking services such as payments. To do this, large retailers and platforms are joining forces with fintech to capture an increasing share of the banking value chain and develop experience-driven ecosystems. At the same time, Big Tech firms such as Amazon, Apple, Meta, and Google and retailers such as IKEA are moving to embed financial services into their core platforms, expanding from their foundation in e-commerce, internet search or social media to build platforms with open infrastructures based on APIs.

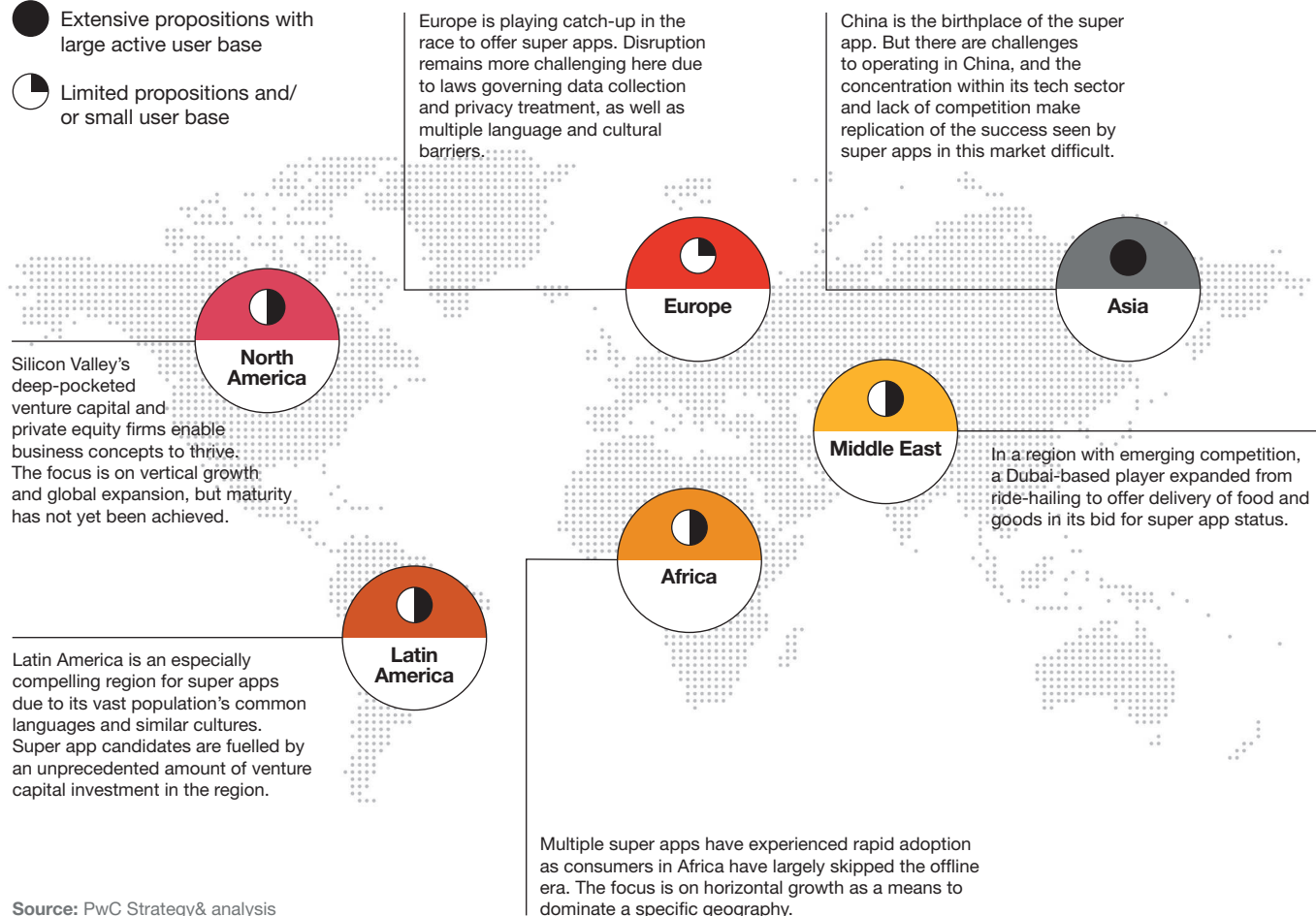
## Companies around the world are trying to replicate the successful Chinese model for super apps

### Global market traction in super apps

#### Legend: Maturity of propositions

The maturity of a market is represented by the extent of shading in its circle icon.

-  Extensive propositions with large active user base
-  Limited propositions and/or small user base

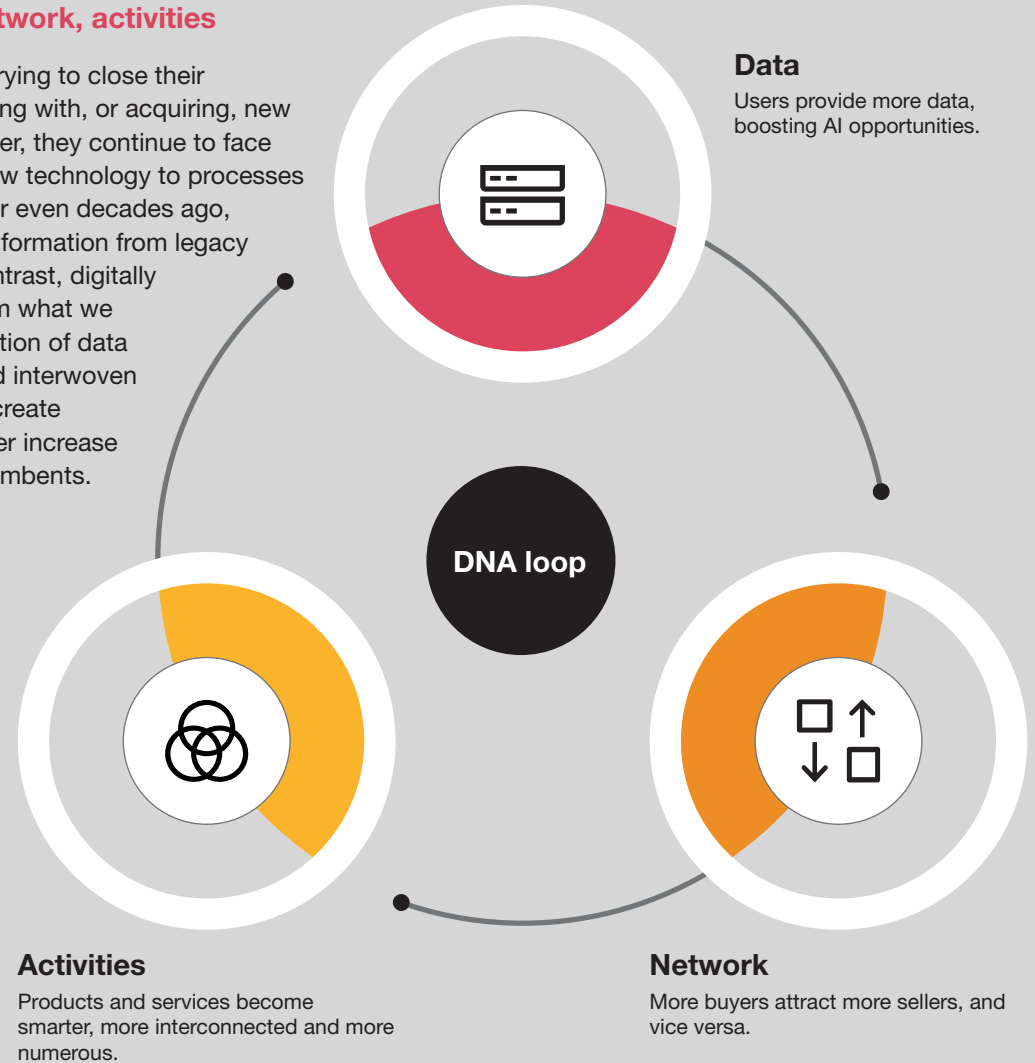


Source: PwC Strategy& analysis



### The DNA loop: Data, network, activities

Banks around the world are trying to close their technological gap by partnering with, or acquiring, new tech-enabled players. However, they continue to face the challenges of applying new technology to processes that were established years or even decades ago, and of effectively migrating information from legacy platforms to new ones. In contrast, digitally native companies benefit from what we call the DNA loop, a combination of data analytics, network effects and interwoven activities, which combine to create reinforcing benefits and further increase the competitive threat to incumbents.



Source: PwC analysis

## Five scenarios for the future of retail banking

The trends we identified are powerful, and they are already starting to affect the retail banking sector. But they're still in the earliest stages, meaning that their major structural ramifications are yet to come. To anticipate how they might unfold, it's necessary to imagine these trends taken to their logical conclusion. Using that approach, we've developed five scenarios for how the retail banking ecosystem of the future would look in the coming decade if these trends are taken to their extreme. In reality, the banking landscape will involve a combination of these scenarios, regional differences, and macroeconomic and geopolitical factors.





## Front-end revolution



In a front-end revolution scenario, embedded finance—front-office banking products and services provided by non-financial services organisations—flourishes, allowing for further disintermediation of the financial services value chains and client data. As a consequence, tech-enabled companies—Big Tech firms and advanced fintech—and well-known brands with no prior involvement in financial services capture client relationships and incorporate financial services into their platforms, while banks take on middle- and back-office operations, risk management and capital markets activities.

Established, cash-rich brands in the technology, media and entertainment sectors aggressively seize more of the customer relationship through an improved user experience and hyper-personalised offerings—without the hurdle of having to obtain a banking licence, by partnering with licenced banks.

Licensed institutions, generally facing higher regulatory burdens and dealing with outdated technology, may then find it difficult to compete in an agile way on the front-end experience. Instead, incumbent banks compete as the infrastructure backbone of the financial system, acting as utility providers that offer licenced services and products.

A decade ago, most financial institutions likely would have dismissed the idea that consumers would someday pay retailers through digital wallets on their mobile phones. Looking ahead, the possibilities for how embedded finance and the use of crypto wallets can evolve to enhance the customer experience are endless—and the result is likely to be a financial services landscape that is nearly unrecognisable in the next five to ten years.

With the potential that all major players without a banking licence, such as large retailers and Big Tech, could build financial services offerings tailored to their core customers, more and more customers in this scenario gravitate towards multi-product ecosystems. Consumers may then fulfil all of their financial services needs with the retailer they favour and, crucially for banks, they may no longer need—or want—to conduct business with a primary licenced financial institution. At the same time, the broader shift to open banking, popular acceptance of embedded finance and the development of financial infrastructure, such as deposit aggregators that connect apps to bank accounts, continues apace.

Strong capital management will become extremely important, as will gaining trust among retailers and technology companies, rather than with individual customers. These companies will want assurance that the financial products and services they are plugged into are secure and stable. They'll also want to ensure that their customers' data and finances are protected.

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The future of financial services will be based on two things: ecosystems and embedded finance. We have the tools and the technology, and we've already seen the rise of super apps in Asia. The question is how we create a connected ecosystem that addresses the real concerns of customers.

Yolande Piazza, Vice President of Financial Services,  
Google Cloud





## Winner takes all

In the winner-takes-all scenario, a wave of consolidation pushes banks to join forces, predominantly with each other, to compete with a handful of fintechs and non-traditional financial services companies that threaten to dominate banking. The result is that a few big incumbents and a few fintech companies rule the banking landscape. These massive, tech-enabled institutions generate a competitive advantage through scale. Customers gravitate towards the largest, most personalised and convenient platforms, and generally have no concerns about data privacy and the ability to choose.

For established banks, profitability then declines, forcing them to consolidate in order to spread rising fixed costs and meet investor demands. Only the largest banks can make the steep, and potentially risky, investments in the technology needed to unify their architecture and create the end-to-end data linkage for a truly differentiated customer experience. Scale becomes more important than ever.

At the same time, Big Tech and other non-traditional banking players, such as large retailers, step in with more efficient technology, rich customer data (and the capabilities to monetise it), and the ability to subsidise financial services with profits from their other business lines. These new entrants apply for full banking licences and develop their own innovative value proposition—services that are low-cost or free, delivered through digital, automated interfaces. These interfaces go beyond providing banking products and services and gain relevance by assisting their target customers with financial education. Smaller fintech players and successful niche banks are absorbed by Big Tech or hyper-scale banks.

Banks continue to seek merger and acquisition (M&A) opportunities to gain scale and increase market penetration, in terms of both breadth and depth. We've observed strong M&A activity in banking over the past few years, and the conditions are right for more—largely

because banks weren't allowed to pay out dividends during the acute phase of the COVID-19 pandemic, but an absence of credit losses allowed them to build large war chests. M&A activity will rise as integration costs go down, and incumbent banks will need an M&A capability that promotes seamless integration with potential targets.

Banks, as well as new tech players active in financial services in this scenario, will need to overcome public distrust and a view that the biggest among them have become too complex to manage. As a result, they simplify their operations and customer value proposition to better control operational risk and persuade the public and lawmakers that bigger banks will benefit society and strengthen the financial system.





## Scattered landscape

In a scattered landscape, deteriorating societal trust and continued social segregation raise customer doubts about institutions with global scale. Supervisors play a role as well, through nationalist protectionism measures that fragment the market. Clients and assets flow from global players to more locally focused banks with smaller balance sheets, deposits and lending facilities, and to specialised micro-niche players. A higher number of licenced institutions exist, fuelled by lower fixed costs for core banking technology and customers' willingness to pay a relatively small premium to bank locally. Fewer institutions operate across borders.

The scattered landscape scenario has implications for small banks, incumbents and tech players. As the value chain breaks up into specialised components, smaller, community-focused institutions develop ecosystems that can offer banking products through a trusted local or regional brand that owns the entire customer relationship.

Winning players will identify a clear target segment and develop a cohesive offering to meet its needs, generating sufficient scale (albeit at a smaller overall size) to make the investments in the technology required for a superlative customer experience. Questions about who bears responsibility for managing risks across these new ecosystems become increasingly relevant as API and low-code or no-code technology allow for the agile development of new digital products.

Large incumbent banks face a choice: they can focus on specific communities by offering a broad portfolio of products and services, or they can gain scale and provide narrower infrastructure and back-office services to other banks via a B2B model. For example, large banks can provide clearing house services or offer consolidated balance-sheet services to distribute risk. But community-based players will own the customer interface.

Tech players provide standardised platforms and open interfaces, serving as aggregators to integrate offerings across multiple institutions or provide cloud-based, bank-in-a-box services for local players at low fixed costs. Most smaller institutions outsource their technology and platform operations, rather than develop and maintain those functions internally, which underscores the importance of third-party risk management.





## Resurgent regulators

In this scenario, regulators take an active approach to a wave of Big Tech and other non-traditional entrants to ensure a safe and strong financial system. Fresh concerns about duty of care, customer and data protection, contained system risk, and a level playing field could lead to new regulation. This would open the door for banks, boosted by political and regulatory protectionism, to rebuild trust and reclaim their role as the central provider of financial products and services. Banks also redouble their efforts to improve performance in terms of ESG, anti-money laundering initiatives, cybersecurity and data privacy.

Regulators would then expand their technology and cyber risk capabilities, and increase their monitoring and surveillance, with the explicit goal of protecting customers. Government antitrust actions push technology players out of the industry and increase barriers to entry; competition comes solely from firms that hold

full financial services licences. The regulatory burden also makes it harder for banks to innovate, leading to increased standardisation of products and services, with fewer opportunities for firms to differentiate. The cost and administrative burden of regulatory compliance and reporting increase.

Tight margins could force firms to become extremely cost-sensitive and consolidate to gain scale. They also focus on home markets for growth and investment, primarily in cybersecurity, cloud services, 5G, AI and data. Firms redesign processes to offer seamless digital interactions, seeking to deliver the client experience that some customers have grown to expect from their short-lived relationship with tech providers. Further developments in the customer experience are expected to develop slowly.





### The rise of central bank digital currencies

If a steady decline in the use of cash continues alongside the rollout of central bank digital currencies (CBDCs), the disruptive consequences would cascade across the value chain together with the development of decentralised finance (see ‘The basics of decentralised finance,’ page 8). First, digital currencies gain wide acceptance in B2B, B2C and C2C segments. Then, to improve transparency, regulatory scrutiny and monitoring increases for previously ungoverned and private cryptocurrency ecosystems, which spills into stricter enforcement of anti-money laundering and terrorism financing statutes. Some ungoverned crypto ecosystems remain, but they are heavily supervised and exist as a niche offering. Others are banned and pushed underground.

Incumbent banks lose the basic bank account (which, like customer data, is an anchor of customer relationships that they have long controlled) to central banks, leading to eroding margins from the loss of net interest income. Freed from costly legacy technology, they must make additional investments to transform technology and operations to handle digital currencies. Though many will outsource, others, particularly big banks and Big Tech firms, will look to acquire leading players from the crypto ecosystem to continue their existing service offerings—under heavy regulatory scrutiny from central banks. Data, security, computational power and algorithms will be the key factors facilitating fragmentation on the customer interaction front.

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**Banks need to think about how they’re going to interact with clients, because the traditional starting point in the relationship—opening a bank account—is gone. If I was the CEO of a traditional bank, that would be a huge concern for me, because it is the best way to start a relationship and have visibility on the money flows of the client. If you lose that view, it also becomes less obvious what you should offer to your clients.**

Pieter van der Does, CEO of payment processing company Adyen



## Adaptive ways to reimagine your business

**The trends and scenarios we've highlighted point to a clear message: banks need to repurpose themselves to remain relevant. What's more, although the scenarios are cautionary, they also suggest valuable lessons upon which banks can draw to frame trade-offs and action plans.**

Regardless of how these scenarios play out, one thing is certain: the result will be a radically different competitive environment than today's. There will be major implications for all players but particularly for incumbent banks, which must double down on priorities that have long been important but that have proved elusive for many. These priorities—tech-powered transformation, data-enabled customer focus and broad-based trust—are becoming increasingly urgent.

**Tech-powered transformation.** In this period of significant disruption, financial institutions that are organised and built for innovation will succeed as new technologies and business models in retail banking emerge. Institutions that haven't invested in modern

core technologies likely need to reconfigure their internal structure and technology to ensure the ability to develop, iterate—and ultimately to scale and create efficiencies—as threats to traditional retail banking mount.

Accelerating digital transformation also requires changes to the operating model, whereby incumbents traditionally focus their efforts on cleaning up legacy systems before scaling their digitisation. Delays in digital rollout could slow time to market and time to compliance. Part of this work includes establishing partnerships with non-bank lenders, technology companies, and fintechs to re-emphasise the relevance of banks in the customer experience and the value chain. Technological and data capabilities will be the key enablers when dealing with



fintech and Big Tech competitors, reducing dependence on legacy systems, boosting operational efficiency and providing regulators with the most accurate information.

**Data-enabled customer focus.** Retail banks must increase the focus on the value they bring to customers. Changing customer preferences and maturing technologies require retail banks to innovate their offerings, looking beyond traditional banking services and towards a broader spectrum of customer needs.

Building data-management and data-analytics capabilities will create value in an ‘instant everything’ world of embedded finance by providing more convenient, client-centric offerings and advice. This can help reduce risk through better insights and reduce time to compliance in tough domains such as anti-money laundering, know-your-customer requirements (KYC) and market conduct.

But effective data capabilities based on a wealth of data can’t be built overnight. Infrastructure alone could take a long time for some players as regulatory requirements

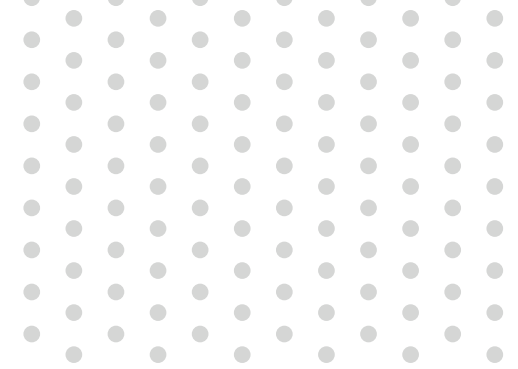
restrict use of the cloud and innovative third-party solutions. Priorities for leaders who seek to accelerate the process include building more effective bank-wide data governance and recruiting stronger data employees, with a view to creating a digitally led, data-driven organisation that combines customer insights, offerings, capabilities, talent and culture in a way that is distinct and adaptable.

**Broad-based trust.** Trust remains the most valued currency for retail banks. At the same time, scrutiny of financial services will likely increase around the world alongside greater adoption of ESG mandates. Banks should build trust by strengthening engagement with business, government and regulators; creatively and sensitively supporting customers; investing in reputation, compliance and risk culture; safeguarding data; and supporting the government in fighting financial crime. They also should develop products and services connected to trust, such as digital identity-protection services and digital safe deposit boxes for crypto holdings and other digital assets.

Reporting obligations, in addition to the more longstanding topics such as regulatory and accounting standards, include a significant increase in supervisory scrutiny, demanding dedicated costs and resources. Banks should also allow for a greater change budget to respond to financial and economic downturns and budget for future costs related to new regulatory standards, such as ESG and cyber and financial crime, which are expected to drive up change and operating costs in the coming decade.

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No one can predict how the future of the industry will look, but one point is certain: the challenges that lie ahead will require banking organisations of all sizes to rethink both the value they provide to customers and the role they want to play in society and the new banking ecosystem. There is no time to lose. The transformation of the industry has begun. Industry leaders have less time than they think to stake their positions and place their bets.



## Get in touch



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