What banks need to do to stay relevant

By Mark Arnold

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The financial services landscape is in a state of flux. The challenge, therefore, is to stay relevant against a tide of reporting and regulation, digitisation higher capital charges, a fixed cost base, and inflexible and layered technology.

The changes and evolution that we have seen to date is just the beginning of a constantly developing ecosystem. There are important trends that banks need to be aware of. This includes but is not limited to:

- Decreased customer profitability and increased competition
- Volume driven profitability and not margin-driven profitability
- Financial engineering requirements
- The introduction of new digital currencies to clear and settle trades

The result is a likely shift in the way banks conduct their business. Focus will swing to data optimisation through accuracy, timelines and financial reporting requirements as outlined in the Basel Committee on Banking Supervision 239 and Pillar 3. The cost of compliance continues to rise with higher capital requirements resulting in the review of existing business models in terms of geography and client segments.

Banks are already fully engaged in meeting the International Financial Reporting Standard 9 requirements. The changes are resulting in significant pressure to reduce their cost base as regulation bites. Industry experts predict only five to six investment banks will be successful as “transformational” cost initiatives fail to deliver results on the back of complex infrastructure and governance hurdles.

Fintech plays a pivotal role in the evolution of the banking industry. Banks will soon be hiring more technologists over traders. Mark Carney, governor of the Bank of England says, “Fintech heralds the dawn of narrow banking and portfolio optimisation. It will change the nature of money, shake the foundations of central banking and deliver nothing less than a democratic revolution for all who use financial services.”

Banks are now required to use their customer knowledge to not only retain but to also grow their customer returns through more effective cross selling. This is increasingly important if a company wants to remain competitive by providing the best banking services to all its customers.

The demand for fintech can clearly be seen in the annual growth figures. Global investment in the FinTech industry has increased at a compounded annual growth rate of 45% in the past five years. There’s no doubt that the emergence of new FinTech companies is creating a disruptive marketplace.

The African market is expected to be one of the most receptive in the global fintech markets. This opens the door to disruption across the end-to-end investment banking value. Innovations such as blockchain, which is the technology that supports bitcoin and other digital currencies, is increasingly seen to be changing the face of cross-border lending activity and this will be a catalyst for banks to discard outdated and inflexible infrastructure which restricts movement and growth in the digital age.

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