Twelve Forces Reshaping Banking

Idea In Short

Digest sprawling industry reports by bucketing them. Deloitte's banking outlook yields twelve forces of change, from regulation and technology to payments and wealth management, organized on a fishbone diagram. Banks should abandon grand visions of becoming tech companies and simply become better banks.

Good Times, Timid Banks

Deloitte's 2019 Banking and Capital Markets Outlook arrived during a benign stretch: historically low interest rates and moderate growth, with little on the surface to complain about.1 The headline findings reward attention. Return on equity (ROE) for Western banks climbed to 8.6 percent in 2017 from 5.5 percent. The four largest banks in the world are now Chinese, a fact surprising enough to demand corroboration from a second source, which confirms it. Banks, the report argues, have been too timid about change, and change-the-bank initiatives should take center stage and become the new operating models that run the bank. On technology, the advice cuts against fashion: artificial intelligence, blockchain and cloud are everywhere, yet banks should give up grand visions of becoming tech companies and instead become better banks.

Buckets as Storytelling

Consultants earn their keep by thinking logically through problems and putting things into buckets, which organizes information, emphasizes what matters and tells compelling stories. For a 40-page, 13,000-word report, one graphical device does the heavy lifting: the fishbone diagram, also called the Ishikawa diagram.2 The tool arranges causes and effects on a skeleton, big bones for major causes, smaller bones for supporting categories and the fish head holding the effect being explained. It is, in essence, an outline lying on its side. State the effect as banking and capital markets are changing dramatically, and the natural question is how. Rather than listing a hundred bullets, organize the content. Deloitte named ten areas, and a close reading teases out two more, talent and mergers, yielding twelve key causes of change.

An honest caveat belongs up front. The twelve causes are not mutually exclusive, collectively exhaustive (MECE). Four are support functions, regulatory, risk, technology and talent, while four are business lines, corporate, transaction, retail and investment banking, which guarantees overlap. Given a choice, an analyst would want fewer than twelve categories and cleaner separation, and would never present a shotgun spray of words to an executive. An industry report plays by different rules, because its job is to inform rather than persuade. Take the skeleton with a grain of non-MECE salt and enjoy what it organizes.

The First Six Bones

Regulation varies sharply by country, with the global approach to finance visibly fragmenting. Technology is a massive topic that resolves into three big buckets: data, infrastructure and artificial intelligence. Risk splits into two types, legacy risk and emerging risk, the latter driven by the prevalence and complexity of algorithms. Corporate banking enjoys an easy operating environment of low rates and loose regulation, which is precisely the window for modernizing every part of operations before conditions harden. Transaction banking receives lighter treatment in the report, with blockchain flagged as the potential game changer through distributed ledgers tracking asset ownership. Investment banking shows advisory thriving and America winning, with United States market share at 58 percent in 2017, up from 49 percent in 2010, while artificial intelligence spreads through trading, one firm's algorithm already handling 35 percent of its bond trades. The machines are coming to banking too.

The Second Six Bones

Talent needs are shifting toward adaptable, artificial intelligence-conversant generalists who can augment and complement the machines rather than compete with them. Retail banking has become a street fight among incumbents, startups and technology giants, with customer relationships as the prize. Mergers will continue as banks bulk up for economies of scale, helped by the higher systemically important financial institution threshold of 250 billion dollars, which lets banks below that asset level enjoy lighter regulation.3 Payments split into two worlds: the established value chain of processors and card networks in the United States, and the emerging peer-to-peer technologies scaling across China and India. Wealth management talk fixates on robo-advisers while the bigger story is the shift of high-net-worth and ultra-high-net-worth wealth toward Asia, with the quiet rise of private family offices going largely unmentioned. Market infrastructure rounds out the twelve, with exchanges and clearing houses consolidating and the electronification of corporate bond trading, replacing phone calls between desks, looming as a structural shift.

Using the Skeleton in Practice

The fishbone summary earns its keep in three professional settings. Interview candidates can walk the twelve bones aloud, demonstrating industry fluency in ninety seconds that most competitors cannot match. Client teams entering a banking engagement can convert each bone into a hypothesis, asking which of the twelve forces most threatens this specific institution and which it is best positioned to exploit. And analysts covering the sector can refresh the skeleton annually against the newest outlook, since the bones persist while their relative weights shift, with payments and artificial intelligence gaining mass each cycle. A summary that supports interviews, hypotheses and year-over-year tracking has stopped being note-taking and become a working tool, which is the entire point of bucketing.

Slice It Your Own Way

The fishbone is one way to divide the content, not the only way, and that is the deeper lesson for anyone who processes industry reports professionally. For readers new to banking or preparing for interviews, the full report merits the time. For finance practitioners tracking global trends, the better exercise is critique: what is missing, and where would your own point of view extend or contradict the skeleton? A report summarized is knowledge borrowed. A report reorganized, challenged and annotated becomes knowledge owned, which is what separates readers from analysts.

- 1Deloitte
- 2Ishikawa diagram
- 3Systemically important financial institution

Summary

A fishbone skeleton turns 13,000 words of banking trends into twelve causes worth tracking: four support functions, four business lines and four market forces. The categorization is deliberately non-MECE and still informs. Change-the-bank initiatives must become the new run-the-bank operating models.