2025: THE FUTURE OF WHOLESALE BANKING – AND WHAT IT MEANS FOR AUSTRALIA

FINANCIAL REVIEW
BUSINESSINTELLIGENCE

A LONGER-TERM OUTLOOK FOR INSTITUTIONAL BANKS AND THEIR CORPORATE CLIENTS

BNP PARIBAS

The bank
for a changing
world

TABLE OF CONTENTS

2025: HOW WILL THE FINANCIAL INDUSTRY CHANGE OVER THE NEXT DECADE?

HOW WILL TODAY'S MARKETS AND BUSINESS ENVIRONMENT HAVE TRANSFORMED BY 2025? WHAT WILL IT MEAN FOR YOU?

What's next? Just 10 years ago iPads and iPhones were years away from launching and USB drives were a novelty, while Facebook was restricted to Ivy League students and markets were riding the wave of an economic boom that was on borrowed time.

Some popular beliefs about the future of financial markets proved to be well off the mark. Quantitative easing (QE) did not prompt rampant inflation, or cause gold to soar, nor prompt a sell-off in bonds. Deflation in Japan hasn't proven unique to that nation, while the value of technology companies in the United States has returned to the lofty levels seen prior to the 2000-1 tech boom.

Economies, markets and organisations will continue to adapt to change. How will your organisation; how will you?

BNP Paribas, Australia's oldest major foreign bank, and *Financial Review* Business Intelligence asked 115 senior and experienced bankers and corporate executives to identify what they see as the key longer-term issues confronting them. We asked where they expect the industry and wider business sector to be in 2025 and how to best to overcome challenges and maximise opportunities. Their responses covered the outlook for markets and potential developments as well as their views about disruptive technologies that could revolutionise the financial industry.

THE SURVEY REVEALED SOME KEY TRENDS:

- While steady or low growth is predicted in domestic and global markets, more economic shocks are widely anticipated
- New technology and emerging players are likely to transform how financial markets and the industry operates
- Regulation is reality, transparency and reporting will be even more pivotal
- Growth and investments to provide sustainable returns is the new focus
- Better harnessing technology will be key to future productivity
- Financial institutions need to offer customised advice and service to increasingly sophisticated corporate clients
- Corporate treasurers are increasingly becoming the bankers of their organisations.

Despite the known, and unknown, challenges ahead, the financial services sector is mostly positive in its outlook for the next decade and how it will rise to meet them.

We hope you find this outlook helpful in this respect.

James Gibson
Head of Australia & New Zealand
BNP Paribas

Beverley Uther
Research Manager
***Financial Review* Business Intelligence**

This outlook provides general information only and is intended for wholesale financial institutions and corporate clients.
Please refer to the "Important information" at the end of this document.

EXECUTIVE OUTLOOK

Leaders across both the finance and broader business sectors see a volatile time ahead – from economic shocks to technology upheaval, increasing focus on environment, social and governance (ESG) issues along with yet more regulation.

But there's also plenty of upside for smart operators with an eye on the customisation revolution and the ingenuity to deliver extra value.

You can't see around corners but our results make it clear – prepare for a range of challenges including some that barely register on the current agenda. Here's a quick look at the most important findings:

MARKET MOVES

Another economic shock is considered a sure thing and a key concern for over half of respondents. In a decade, global economic growth is likely to be stable or slightly lower than today, according to most leaders of our financial institutions. Corporates are less optimistic and forecasting growth well below historical trends in 2025.

TECHNOLOGY

Technology looms as a major concern, as well as an opportunity, for many in the finance industry. The rise of mobile payments is already emerging as a disruptor. The sector needs to harness technology for product delivery and distribution, as well as use data better. Another major worry is the impact of rising competition from IT players expanding into the financial sector.

RENEWED FOCUS ON GROWTH

Both corporates and financial institutions will not meet the challenges of tomorrow by continuing to cut costs alone. There is an need to grow, to provide sustainable returns, increase productivity, harness technology and attract skilled workers within a highly competitive marketplace.

REGULATION

The sector remains concerned about increasing regulation and can't see any let up in moves by government and regulators, locally and globally. That means no let-up in the focus, resources and costs of improving transparency, accuracy, reporting, operations and compliance.

ESG

Over half of our corporate leaders expect ESG to be the top concern for their business in a decade, while over a third of finance sector leaders rated it as significantly increasing in importance. Financial institutions and their corporates clients alike will have to better consider ESG elements, not just to meet the market, but also because it is good business risk management. The social and governance aspects of a business can have as dire, if not more so, impacts as environmental ones.

MEETING CLIENT NEEDS – INDIVIDUALLY

There's no appetite for off-the-shelf solutions these days. Corporates are looking for more personalised and sophisticated service and solutions. How financial institutions come to the party and deliver this will be make or break them by 2025. The same goes for investment focus for growth and divestment. Management doesn't have a choice but to plan for these changes, and the curve balls, if they are to survive.

Overall, there are a lot of challenges that the finance sector faces in the next decade if it is to successfully meet the changing needs of corporate Australia.

Research findings from our survey are highlighted in purple text.

KEY CONCERNS

Our research found that while there are a wide variety of issues that concern the finance and corporate sectors, they have several concerns in common – now and in the future.

For our corporate leaders, current low economic growth concerns almost two-thirds (62%) of them, while economic shocks worry another 42%. A lack of skilled workers and stressed infrastructure are also expected to be major issues between now and 2025.

Concern about the economy is expected to reduce over the next 10 years, with almost half of corporate leaders expecting environment, social and governance (ESG) issues to become the major concern in 2025, as shown below. This is coupled with keeping pace with technological developments.

It is almost the reverse for the leaders of financial institutions. They are already most concerned about ESG issues, but expect to be more concerned about economic shocks and nation's economy towards 2025.

If there is growth, this level of growth is unlikely to be consistent around the globe. It is expected to increasingly diverge between some regions; before converging again towards the end of the decade. The US should lead growth in the developed nations for many years, as it is at present. Growth is also expected to be stronger in the United Kingdom, compared to other parts of Europe. The Eurozone and Japan are forecast to remain comparatively stagnant for several more years, then likely grow, albeit it at a slow rate.

CORPORATE SECTOR CONCERNS

The five biggest changes predicted between now and 2025:

1. National economic growth
2. Environmental, social and corporate governance issues / climate change
3. Skilled workers
4. Stressed infrastructure
5. Complacency
   - Economic shocks in domestic or global markets
   - Government, and
   - Keeping pace with technical developments.

The top five issues for the corporate sector in 2025:

1. Environmental, social and corporate governance issues / including climate change – 52%
2. Keeping pace with tech developments – 48%
3. Stressed infrastructure – 46%
4. Government – 40%
5. Delivering sustainable returns to shareholders and business owners – 37%

FINANCE SECTOR CONCERNS

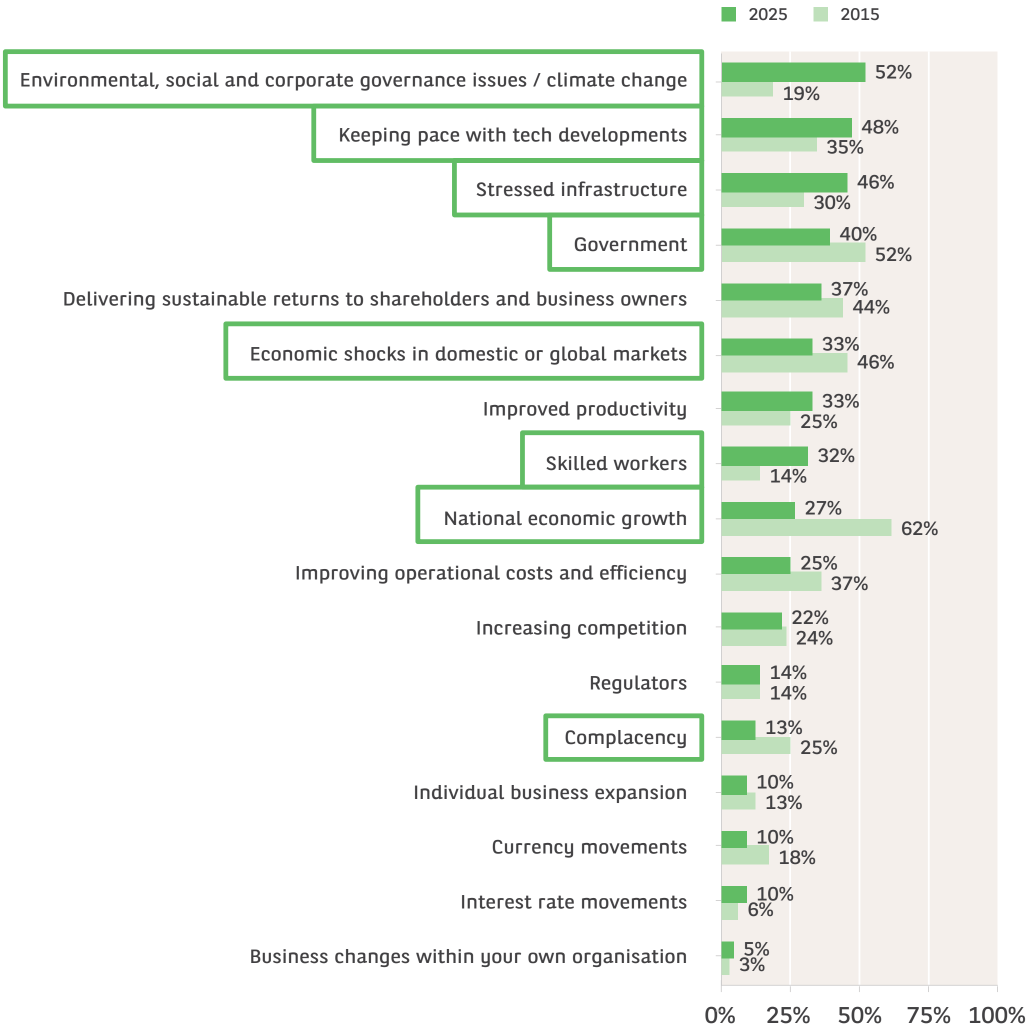
The biggest changes predicted between now and 2025 for the finance Industry:

1. Environmental, social and corporate governance issues / climate change
2. Complacency
3. Currency movements
   - Government
4. Stressed infrastructure
5. Skilled workers
   - Improving operational costs and efficiency, and
   - Regulators

The top five issues in 2025 for the finance Industry:

1. Economic shocks in domestic or global markets – 55%
2. Delivering sustainable returns to shareholders and business owners – 49%
3. National economic growth – 47%
4. Keeping pace with tech developments – 39%
5. Regulators – 35%, and
   – Environmental, social and corporate governance issues / climate change – 35%

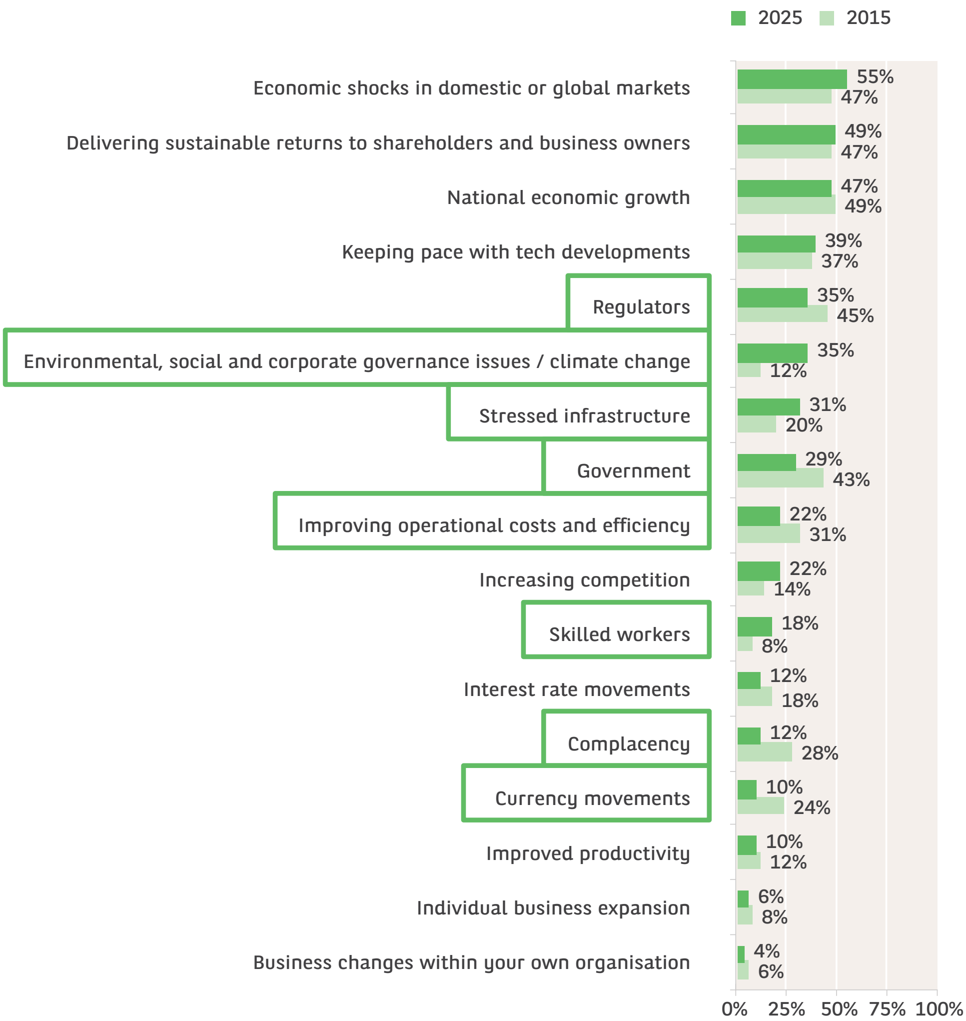
What do you think are the most concerning issues facing Australian businesses (ex-finance) now – and in 2025?



Green boxes around topics on the left indicate those that are expected to change the most between 2015 to 2025. Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

The finance sector, not surprisingly, remains focused on global and national economies and markets, along with delivering sustainable returns to shareholders, as shown below.

What will be the most concerning issues facing Australia's finance sector now – and in 2025? (Responses from Finance Sector)



Green boxes around topics on the left indicate those that those in the finance industry expect to change the most between 2015 to 2025. Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

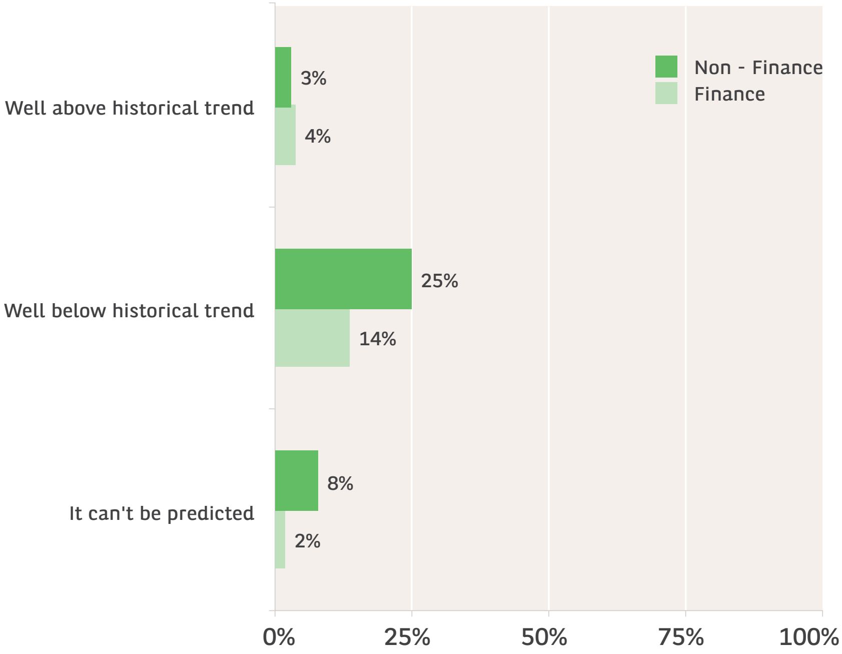
THE GLOBAL ECONOMY BY 2025 – HALF EMPTY OR HALF FULL?

Australia was the only major economy to grow continuously throughout the global financial crisis, famously avoiding recession. The strength of our financial services sector was a major contributor.

The majority of Australian financial institutions expect the global economy to maintain current levels, with 80% prepared for a period of comparatively low growth.

Corporate leaders are less optimistic. A quarter (25%) expect global economic growth to be well below historical trend at decade's end. Only 3% expect it to be well above trend. Overall, almost two thirds expect little change from current levels.

How will the global economy grow between now and 2025?



Responses from those who believed that the growth trend will be unchanged from current levels are not shown. Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015.

There are many outlooks on how the global and Australian economies and financial markets may be performing in a decade. The International Monetary Fund, for example, forecasts that the world will enter a five year period of low growth until 2020. The OECD expects global growth will slow from an average of 3.6% in 2010-2020 to 2.4% in 2050-2060.

Closer to home, the Australian economy is expected to build momentum from late this year, providing some of its best growth since 2011. This may then ease in 2017-8 as interest rates rise, according to BIS Shrapnel which expects domestic growth of around 3.5% in 2018-9 and further strengthening through 2020[1]. The longer-term outlook is more uncertain and dependent on global events.

Some of the greatest global growth ahead is expected to continue to come from Asia, with China's GDP tipped to continue to grow between 6.5–7% a year for much of the decade. Economic growth is expected to be inconsistent elsewhere. The US is forecast to continue to lead a return to growth in the developed nations along with the United Kingdom, while the Eurozone and Japan are forecast to remain comparatively slow for a little longer. This will result in a divergence of monetary policy over the next few years, with the European Central Bank and the Bank of Japan both expected to extend their accommodative monetary policies.

If these forecasts are correct and the global and domestic economies improve over the decade the global and local banking industries should also improve as more people, businesses and other organisations borrow more and require more of the industry's services.

ECONOMIC SHOCKS AHEAD?

That said, heads of both corporates and financial institutions are concerned that there could be future economic shocks ahead.

More than half (56%) the leadership of our financial institutions believe this is 'very likely' by 2025.

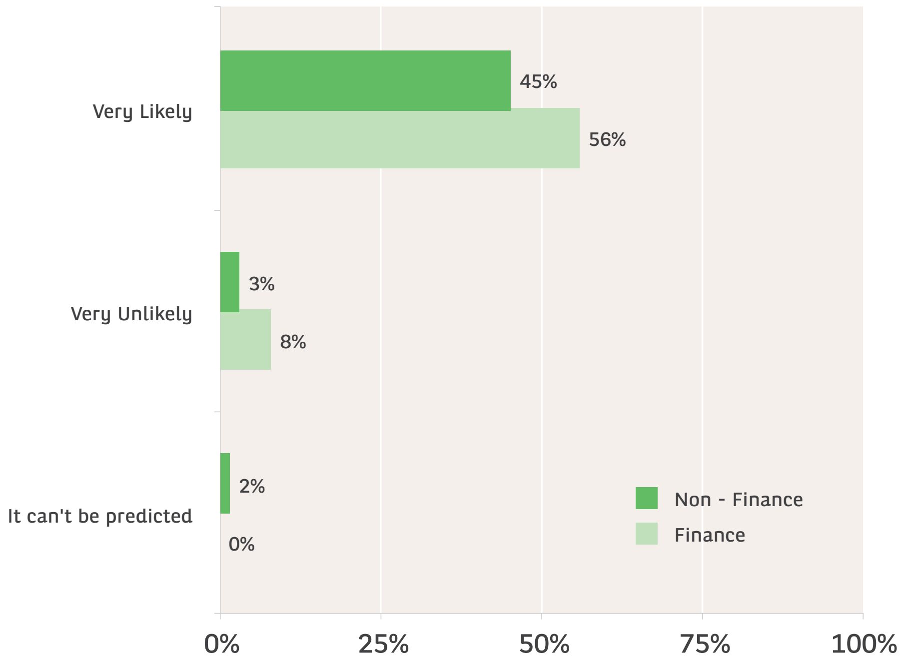
Corporate leaders are slightly more positive, with a slightly lesser 45% of them expecting another economic downturn in the next 10 years.

Half of non-finance respondents and almost a third of finance respondents expect no significant change.

[1] http://www.bis.com.au/reports/ltf_r.html

Other research backs their concerns. The World Competitiveness Centre notes that the global economy is afflicted by a crisis of varying degrees every six years. On average, this involves some 58 months of steady economic growth followed by an average of 11 months of economic and market free fall.

Will there be another major market downturn within the next decade?



Responses from those who believed that the growth trend will be unchanged from current levels are not shown. Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015.

What might trigger another shock, another downturn? The majority of published economic outlooks assume that the end of Quantitative Easing (QE) and today's low interest rate environment will not lead to another unforeseen issue that recreates another bout of market-wide volatility. We do not expect rates to rebound and rise too far. The US held interest rates low from the 1930s into the late 1950s. Will this be repeated?

We expect debt and deleveraging will be major issues towards the end of the decade, especially as interest rates rise and pressure increases for organisations to pay down their debt, both corporates and governments.

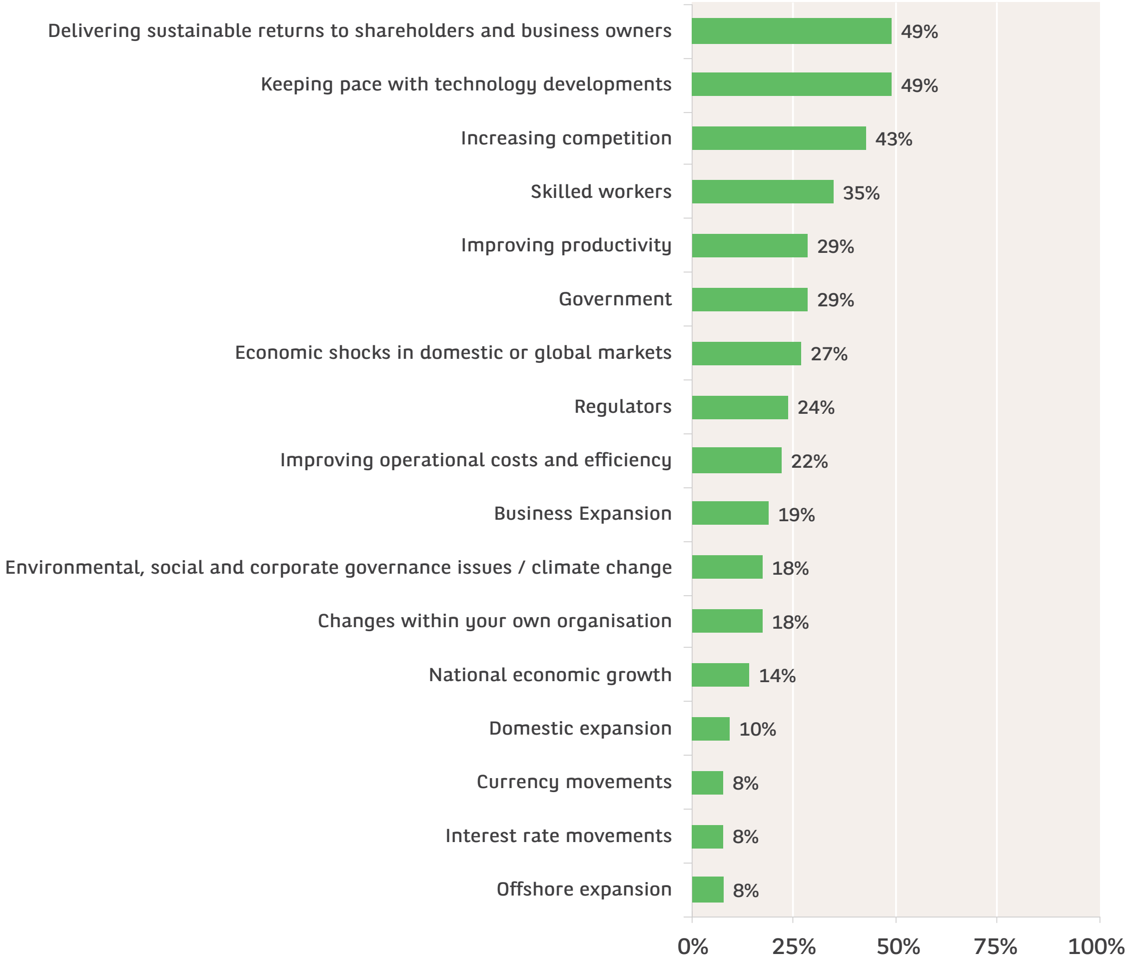
RENEWED FOCUS ON GROWTH

After years of focusing on cutting costs, respondents expect a shift to a renewed focus on growth – from governments, institutions and corporates – to grow their way out of current sluggishness.

The nation's corporate leaders cite delivering sustainable returns to their shareholders and business owners (almost half 49%) along with keeping up with technology developments and increasing competition as the likely main issues in 2025.

These are followed by increasing need for skilled workers and improving productivity along with government and regulatory influences.

What will be the key challenges for your own business in 2025?



Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

Interestingly, the current focus on interest rates and currency movements is expected to subside; with corporate leaders expecting both to be less concerning to them in 2025.

More concerning is an expected reduction in domestic and international expansion by corporates by 2025.

Does this indicate that most corporates will have reached their goals in this respect or is it a signal that they will have plateaued in terms of expansionary aspirations?

As for their plans today, we asked leaders if they would use current low interest rates to grow their business. Just under a third (30%) expect to use low rates to do so.

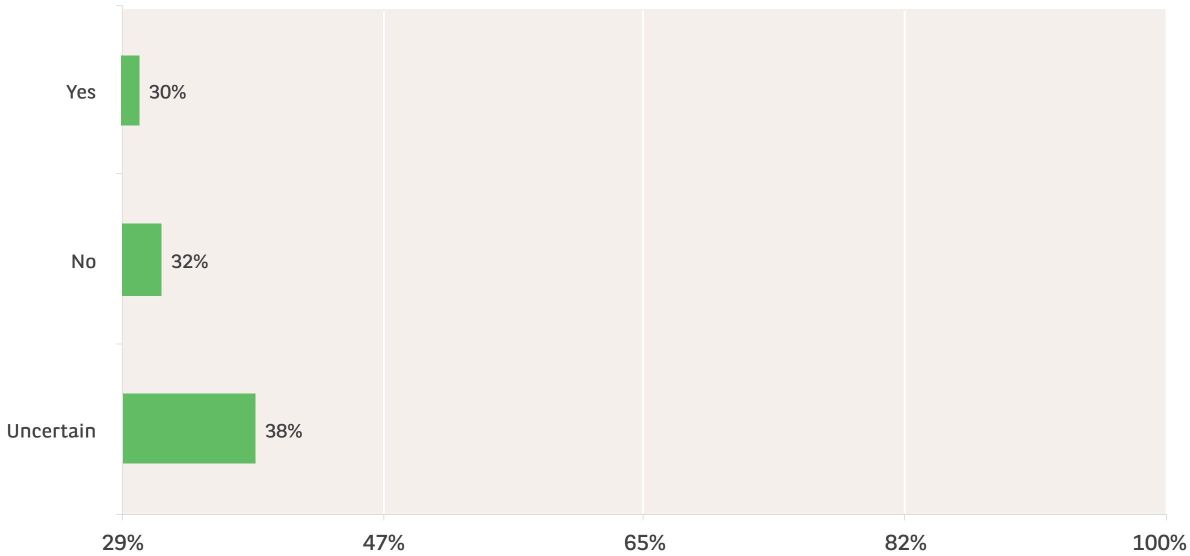
Another third (32%) do not expect to take advantage of such low rates, putting paid to the Federal Government and Treasurer Joe Hockey's call to "get out there and have a go" and grow.

As one respondent says,

> It is only worth borrowing at low rates if you can see opportunities. It is pointless borrowing money simply because it is cheap.

Accordingly, if the finance sector wants to increase lending it will have to help corporate clients and prospects identify opportunities that can provide a good return on acquisitions and investments. This used to be a focus of 'investment banking' in decades past and it looks like this may resurface as a core business service offering in terms of providing customised services and solutions.

Will companies (ex-finance) take advantage of today's low interest rates to grow their business over the next decade?



Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

As for those corporates who are slow to refocus on identifying ways to grow, they might not have much choice, as within the decade we expect many more companies will realise they can't continually cut costs as a means to report 'profits' and will have to grow their business through new approaches. Media report show an increasing number of corporates are already starting to report expansionary rather than cost reduction and valuation-driven goals. Similarly, governments around the world are increasingly committing to a more comprehensive growth agenda, as signalled at the 2014 G20 meeting in Brisbane. There is increasing recognition that 'free' money and low interest rates alone do not solve economic problems.

THE TECHNOLOGY WILD CARD

Information technology (IT) has many of our finance and corporate leaders worried.

In fact, keeping pace with technical developments is expected to be the greatest challenge for corporates in the future, worrying almost half of them (49%).

Respondents note:

> There is high likelihood that technology companies will bypass banks and financial services regulators; just like Uber has bypassed the taxi industry and its regulators.

> There will be more use of digital online solutions for raising equity and debt finance. A majority of our services will be delivered on-line.

> Technology will be used to deliver disruptive business models that replace the incumbents who are too complacent / lazy / set in their ways to adapt to change themselves.

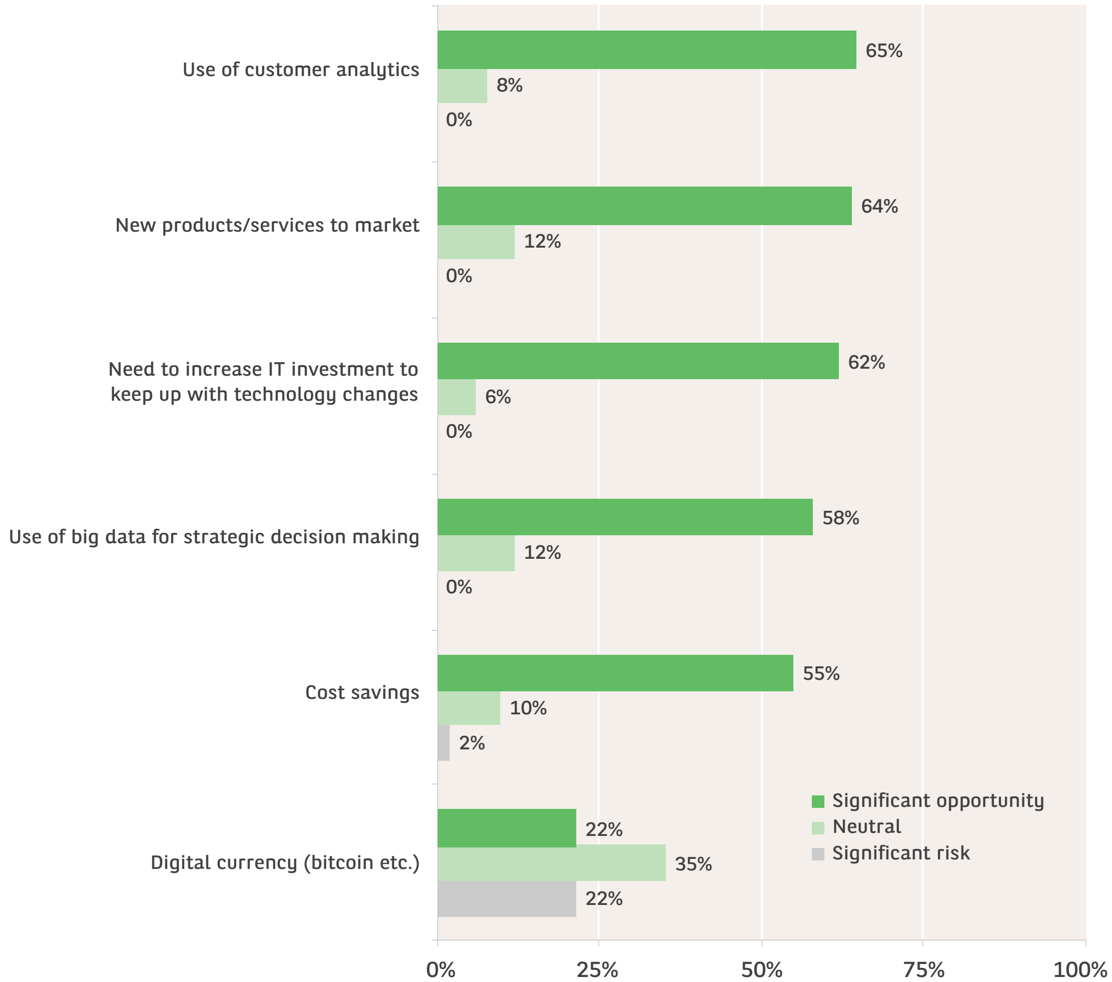
> Expect IT-generated solution for the mass markets (ie robotic solutions).

> The finance industry will move to eliminate the mundane, eg. spot FX will be automated below $5 million in transfers. It will differentiate between transactional and relationship. 'Transaction' will be about providing the 'highway' for people to manage things themselves via the internet and other mediums some of which are yet to be seen. 'Relationship' finance will be domain of the larger end of the market.

With challenges also come opportunities. Technology is expected to provide improved customer service, such as increased personalisation, as well as new products and further automation – among unforeseen changes.

With IT disruption widely expected, leaders and management will play a key role in planning for this new landscape over the next decade. Participants will need to plan and move towards what the future may holds, rather than play catch-up.

What opportunities and risks will technology create for the financial sector in 2025?



Finance industry respondents only. Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

[2] IBM 2013

While the focus has been on 'digital disruption' from technology, we expect this will shift towards another key element, that of improving engagement (where existing and new technology is simply the enabler). Expect improving engagement to become even more important than technology at decade's end.

It is about creating a desirable image that can be adopted by users as being a partner, being their own.

For example, Hello bank! was launched by BNP Paribas into parts of Europe as "a new way of banking." The intention was to set up a purely mobile bank and, rather than being a disruptive play, this quickly became a way to increase customer engagement. Among its strategies is to engage through education, through partnerships such as sponsoring music festivals, equipping trams and buses with free Wi-Fi and more.

As consultants Trendwolves says, "Young people don't want to talk to a brand; they want to talk to other young people about a brand."

Elsewhere, Boards and management are expected to require more comprehensive views of their finances, their income, payments and everything in-between on a single real-time easy-to-view platform. Given this outlook it seems likely there will be more bespoke financial solutions and reporting delivered using common online tools.

What else may be developed technically? We expect finger-print recognition on a range of payment methods could be commonplace by the decade's end, along with new electronic trading platforms, especially for private assets.

With the increased use of technology also expect increased use of big data. Some 90% of all data stored in the world today was made in the past two years[2]. But quality not quantity is also key and this will see a shift in focus from the technology and collection of data, to using it to provide extra value.

For the finance sector, by decades' end, many financial institutions will no longer just provide a service, but know how much it costs and what it is worth to the organisation. And if there is not enough margin they will automate its provision. A further technology challenge is how to deal with legacy IT platforms which has been an issue for many financial institutions.

On the competitive horizon is the prospect of technology giants such as Amazon, Apple and Google breaking into the financial space. Other disruptive developments could include mobile technology, especially mobile phone data and money transfer abilities. These changes compound challenges for institutions, corporate clients and for regulators as they try to cover a largely unregulated virtual environment. (More on this on page 18)

REGULATORS TO BECOME MORE REGULAR

The finance industry, locally and internationally, has been substantially reshaped by the global financial crisis and the impact of regulatory and compliance changes. These changes have been swift and sharp, as regulators increasingly legislate consumer protection.

Government action (or inaction) remains a relatively consistent concern for some half of corporates (52% now and 40% in the future) our survey reveals.

The regulatory changes are not over. The Basel Committee, for example, is still finalising work on capital requirements governing trading books, operational risk and credit risk. Even before Basel 3 is fully implemented, 'Basel 4' is being touted as being next as some regulators prepare to make further changes to capital requirements over the next few years. These changes are expected to include raising the risk-based capital ratio, revising risk weightings and moving away from model-based assessments as part of revised capital requirements for operational, market and credit risk. As a result, a shift away from risk-based capital rules toward hard-line capital ratios as well as leverage, liquidity coverage and other ratios is also expected.

Some countries are already beginning to impose requirements that go beyond Basel 3. The US and Europe are requiring banks to meet minimum capital ratios. The US, UK and Switzerland have set a minimum leverage ratio above 3%. Australia and the UK insist that 'Pillar 2' capital add-ons are met through highest quality capital. While regulators in the US and UK are also pushing for tougher liquidity standards. Elsewhere, the Financial Stability Board has said it will issue a plan for total loss-absorbing capacity of financial institutions.

WHAT DO CLIENTS WANT FROM FINANCIAL INSTITUTIONS – OTHER THAN MONEY?

Corporate and institutional clients are increasingly looking for personalised solutions and service when selecting a financial institution. They also seek better customer service and advice, as shown below.

What can financial institutions do to better help you as a client grow over the next decade?

Personalised/tailored financing, flexible business partnering	18%
Better customer service and advice	14%
Lower fees and charges	7%

Source: BNP Paribas and Financial Review Business Intelligence as at April 2015

The demand for more tailored service was reflected in a range of comments from respondents:

> Financial institutions can be better by truly partnering and hyper personalising their products, customised to individual businesses.

> Banks need to become more sophisticated in the way that they lend money to small and medium businesses. At the moment they're very 'cookie cutter' in their approach and are unwilling to differentiate between businesses despite extremely wide variation in management skill and experience in some businesses versus others. Banks which can get this right will start to displace the 'big four' as the only game in town.

> Institutions need to take more risk in the SME area and provide more flexible banking products.

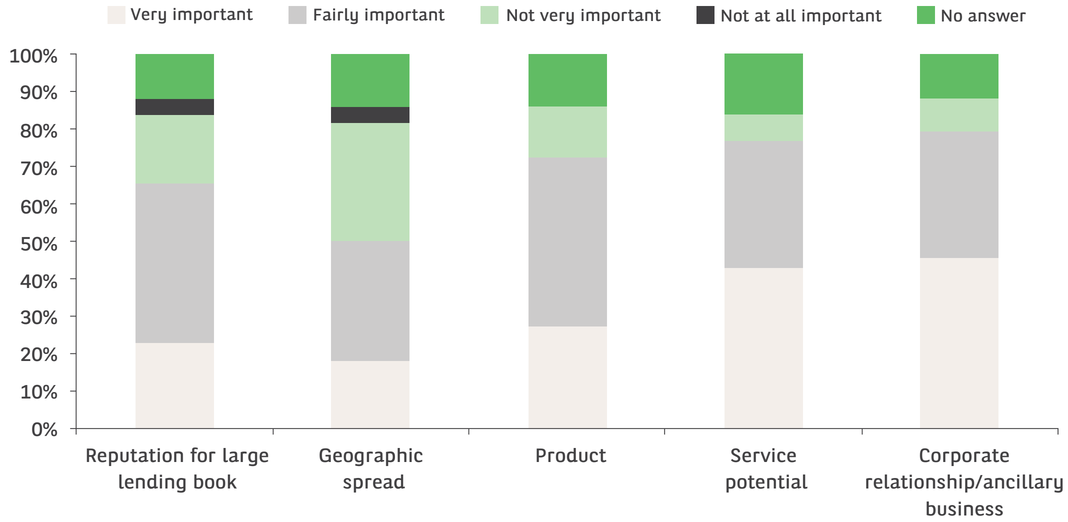
> Develop a standardised business case model to more easily present a case for obtaining funding.

> We currently don't get anything of substance from Aussie banks – our growth had to remain organic as access to debt capital is shockingly difficult in Australia.

> Address carbon risks in the 'asset' register of major businesses.

The demand for more personalised services was also revealed in the latest BNP Paribas *Corporate Borrowers' Intentions* (late 2014), which found the corporate relationship and supporting services were very important for almost half (45%) of respondents, and fairly important for a further third (34%). Service potential ranked almost as highly. The defining factor for corporates in choosing investment banks is their detailed industry knowledge and ability to work as a partner that adds value – rather than providing products for a fee. Geographic spread was the least important consideration for corporate clients. (So marketers should stop saying their institution is 'global' or 'regional' and focus on other points of differentiation. Merely being big is not a 'selling' point.)

If you were to look to increase the size of your lending bank group, how important would the following factors be in selecting new lenders?

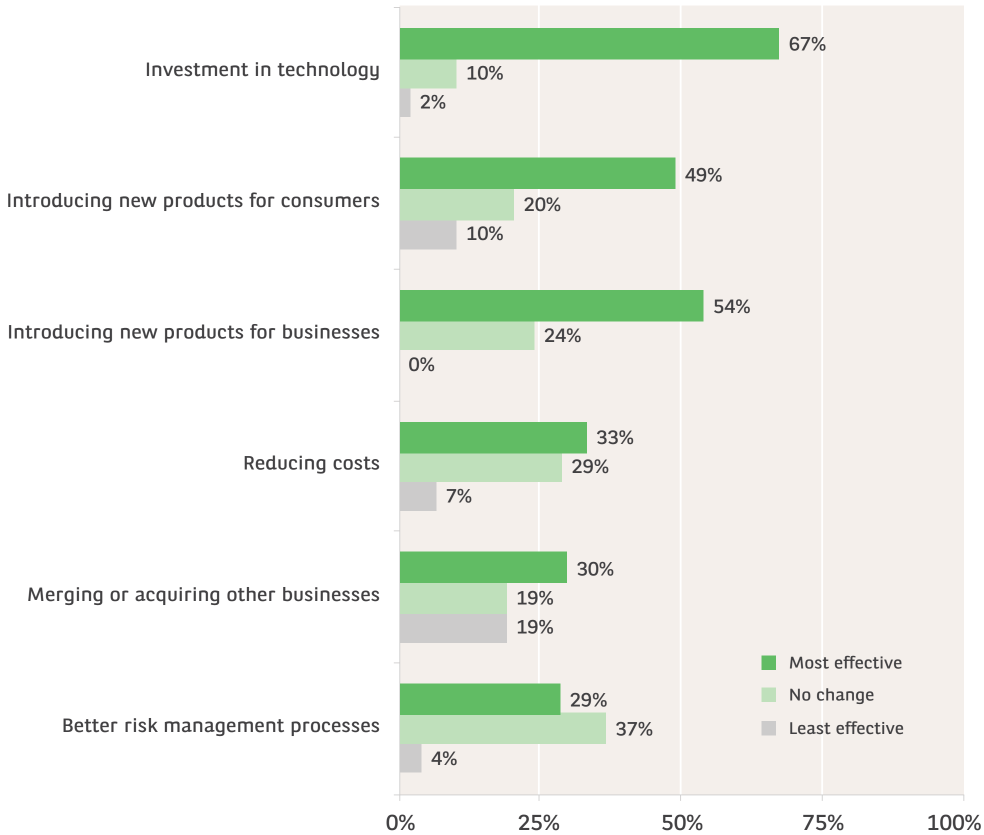


Source: BNP Paribas and *Kanga News* as at October 2014

It seems the majority of clients expect the finance industry to become more customer-centric.

In contrast, financial institutions expect technology to be key to improve their performance – rather than customer service. Accordingly, new technical applications will need to focus on improving customer experience.

What do financial institutions expect to be the most effective strategies for improving performance in the next 10 years?



Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

NEW PRODUCTS AND SERVICES: NEW CHALLENGES AND OPPORTUNITIES

Our research revealed the main product focus for financial institutions, is currently on the development of income streams for retirees, with 86% of institutional respondents expecting it to be a growth area for their organisation.

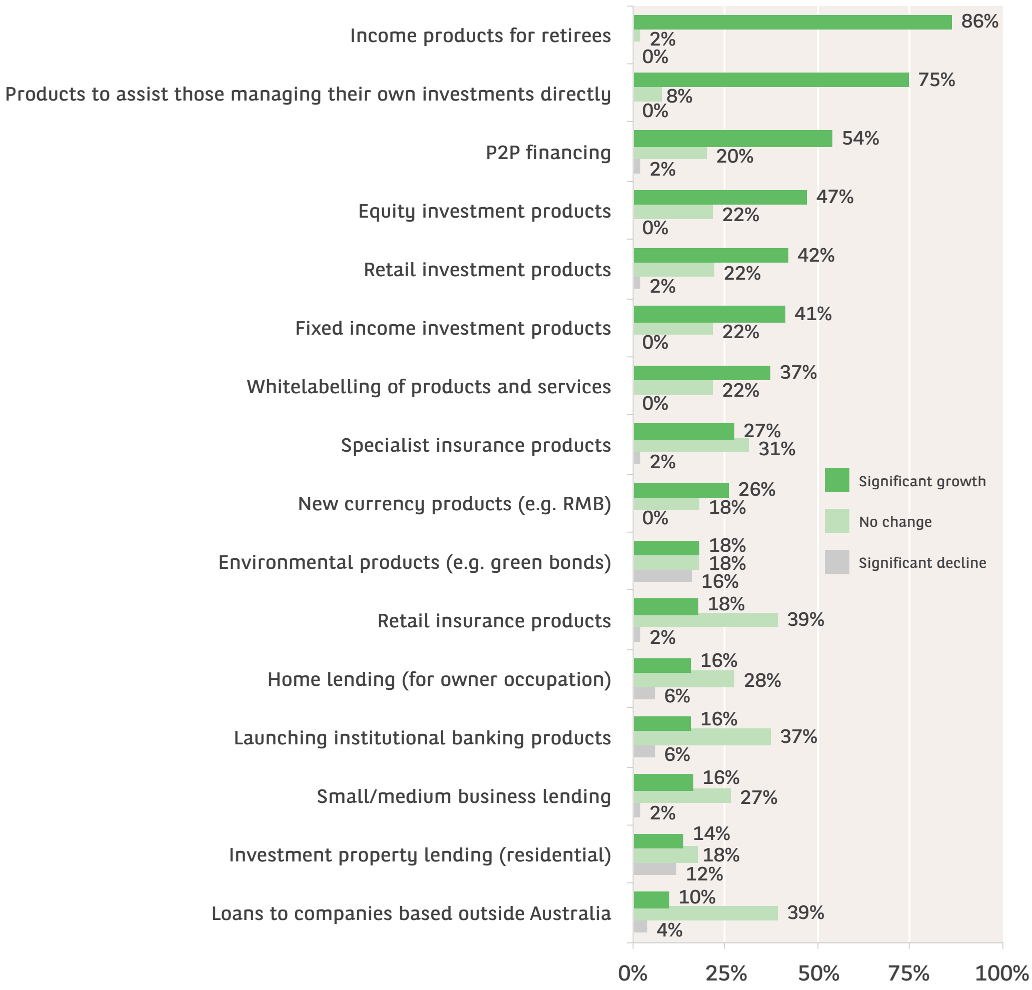
This reflects the demographics of an ageing population. As an increasing number of Australians near retirement their income stream will become a priority for them and more retirees are expected to consider their assets at retirement as an investment pool that can generate ongoing income (on its own or as a supplement to any government-funded pension).

The focus on retirement income streams was followed by a focus on products and services that can assist self-managed investors and SMSFs (self-managed super funds).

Interestingly, equity and retail products are expected to have less focus in the future.

Residential investment property lending and small business lending was also towards the bottom of the ranking of where financial institutions expect growth to come from in 2025.

What level of growth (or decline) do financial institutions expect to see for products and services in the next decade?



Responses are only from those in financial institutions. Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

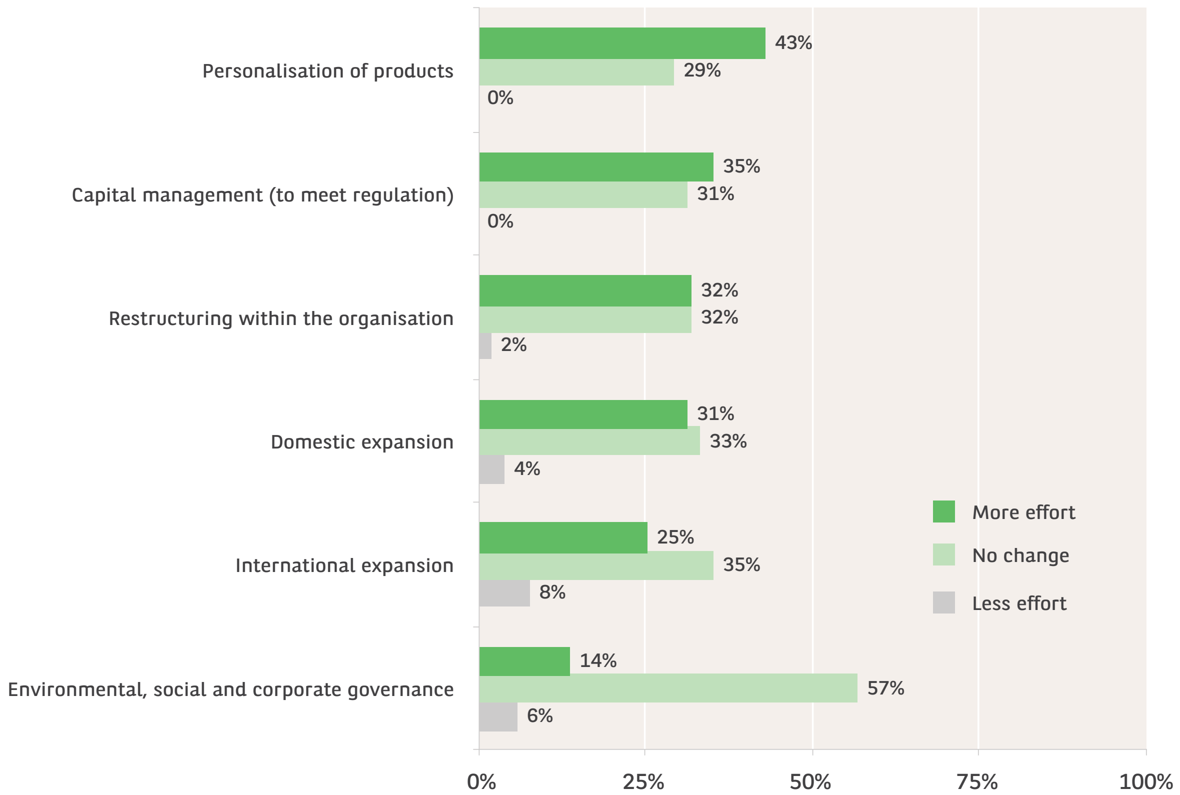
Besides new products and services, new providers are expected to enter the market, such as Google and Amazon and their e-distribution platforms, and create challenges for incumbent financial institutions. These technology-based companies are not financial institutions, but 'distributors' and represent a threat in terms of margin erosion. This would arise from a fast-moving established financial institutions partnering with them to improve distribution to what would be predominantly the retail channel[3]. Some of these organisations could simplify the movement of money from the 'source' to consumers – and some banks could gain from such partnerships. This is why Forrester research expects that the future of Google's financial services lies in the leveraging of its other products to create other customer value propositions. *"For a firm that uses information to solve problems, a logical next step is to use product, consumer and transaction data to deliver financial advice and tailored product recommendations.*

IT is also currently enabling peer-to-peer lending connecting borrowers and private investors directly, cutting out banks. These include SocietyOne and MoneyPlace in Australia; Harmoney in NZ; RateSetter and ThinCats in the UK, and Lending Club in the US which is partnering with Google to provide loans to small business[4]. Here in Australia, Apple is also already in talks with the country's big banks to launch Apple Pay, which is now the world's fastest growing payment system. Amazon, Apple and Google are disruptive because they more effectively use digital technologies to better meet or develop entire new ways of meeting customer needs – something financial institutions should be doing already. Banks that do not replicate, or plug into, these services will be forced to play catch-up. That said, these new types of lenders have not yet been through a 'full' economic cycle and we do not expect them all to succeed.

Besides 'unpredictable changes', financial institutions here are preparing for some significant changes in the local market.

The majority (43%) are working on increasing personalisation of products and services followed by capital management to meet regulations, restructuring their own organisation and domestic expansion. Fewer plan international expansion.

Do you anticipate your institution will allocate more (or less) effort in the following?



Responses are only from those in financial institutions. Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

3 As mentioned, this study focuses on investment and institutional banking and does address retail banking per se.

4 *Australian Financial Review* January 2015

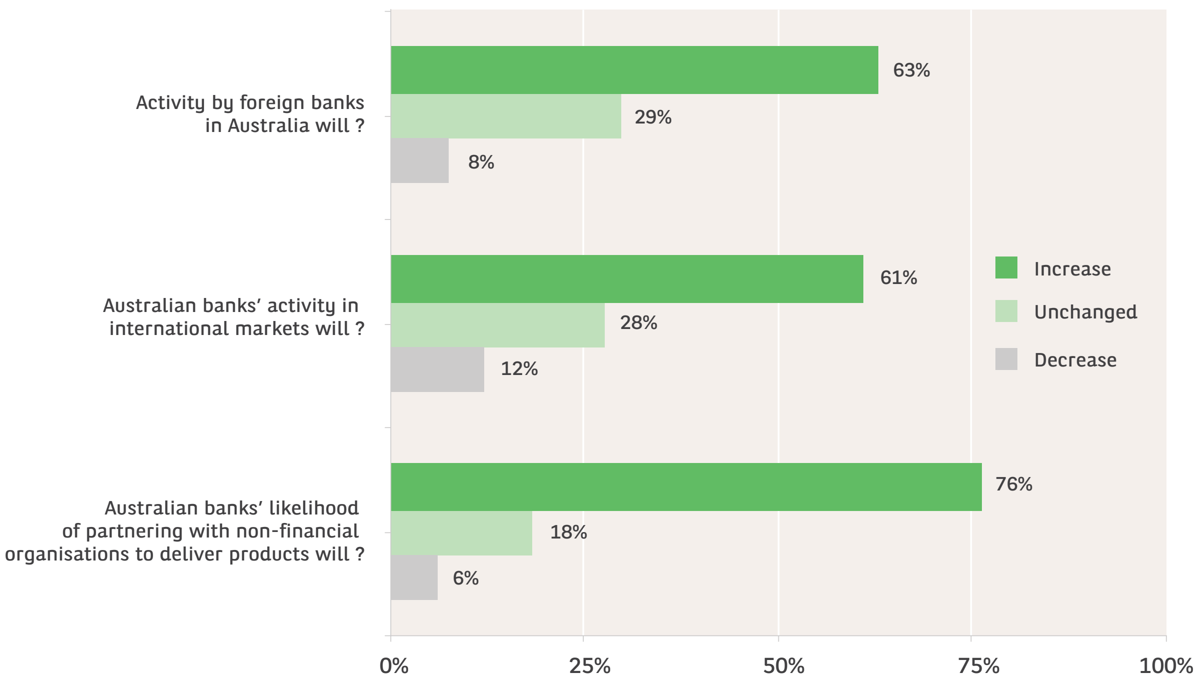
INDUSTRY RATIONALISATION

The combined impact of these influences, challenges and changes will undoubtedly lead to some industry restructuring.

The majority of respondents to our survey expect activity by global and foreign banks to increase here and Australian banks' to increase their activities in international markets.

But the most likely outcome is that local institutions will increasingly partner with non-financial organisations, according to those leaders we polled.

What market changes do financial institutions expect?



Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

Financial institution respondents cited a range of risks to their industry:

> Competition lead by new technology makes it difficult for a full service company to compete when consumers simply want the cheapest.

> Remaining competitive in an increasingly regulated business environment within the global village.

> Undue focus on expenses, failure to adequately focus and resource client initiatives so failing to be rewarded.

> Lack of competition in the banking sector because of the absence of foreign banks involved in the SME market" and a "significant decrease in world and/or local economic growth.

We expect the majority of financial institutions will continue reallocation of their cash and resources away from lower yielding activities. Industry consultants Roland Berger suggest institutions need to more astutely reassess their operations according to[5]:

- Does the activity operate in a profitable way? Can it be improved?
- Does the activity match the needs of their core client segment? Is it required to generate profitable revenues?
- Does it offer a unique service to clients and thereby capture more flows or have expertise that enable to charge a price premium?
- Does the activity match the target risk market and profile?

Too many financial institutions do not do this rigorously and regularly. (Interestingly, financial institutions could help their clients also assess these elements of their operations as part of the holistic move to providing proactive client growth solutions).

Cost reduction and efficiency drives will continue. This may require some harder decisions for financial institutions, such as how to free-up physical assets like real estate, and reallocate capital for higher yielding returns. Overall, Roland Berger forecasts a 10+% return-on-equity (ROE) for the industry over the near-term[6].

Some banks will move and/or innovate quicker than others. Again, some will partner with Amazon or Google or other 'disruptors' to better deliver retail products and are already investigating such partnerships. Some may be able to identify ways to extend this into the institutional space, or at least the business banking segment. Those that do will clearly develop a competitive advantage.

VIVE LA DIFFÉRENCE, LA SPÉCIALISATION

To thrive in the next decade, financial institutions will need to better determine where they can add true value and relevance. A 'me too' approach simply trying to capture a slice of the markets is unlikely to be enough.

Management teams will need to improve their organisation's positioning, including more clearly articulating what segments they are 'leaders' in and making it easier for clients to understand what they offer and stand for.

5 *Corporate & Investment Banking Outlook* April 2014 Roland Berger & Nomura

6 *Corporate & Investment Banking Outlook* April 2014 Roland Berger & Nomura
www.google.com.au/url?sa=t&rct=j&q=&esrc=s&frm=1&source=web&cd=1&cad=rja&uact=8&ved=0CB0QFjAA&url=http%3A%2F%2Fwww.rolandberger.ru%2Fmedia%2Fpdf%2FRoland_Berger_TAB_Corporate_and_Investment_Banking_Outlook_20140522.pdf&ei=Z8jBVPT-IISE8gWayYJA&usg=AFQjCNHJR3O0wx0Jvs_Ea9ZVrzPPWS97vg&bvm=bv.84349003,d.dGc
The average ROE of US banks has varied between almost -4% and +13% over the 1-0 years to 2013, according to the Federal Deposit Insurance Corp

FUTURE GAZING – THE INDUSTRY CRYSTAL BALL

When it comes to forecasts for the next decade respondents gave a wide range of thoughtful suggestions with some core themes.

The corporate sector expects increased digital delivery	19%
Rationalisation due to new and disruptive providers	16%
Consolidation and increasing domination by global players	10%
Increased focus on ESG issues	5%

The range of responses from financial institutions, were as varied as they were innovative.

Several commented on the impact that new technology will have, particularly on distribution:

> Most of the traditional banking activities will be done online and things will happen much quicker.

> Product manufacturers will not be able to own the distribution.

> There will be two markets – high touch personalised service and indirect self-service.

Structural change and an increase in new niche competitors in the sector along with different regulatory responses were also predicted:

> Regulation will have eased in order to free up capital; peer to peer lending and crowd funding has grown substantially, forcing the larger institutions to respond.

> New retail banks – smaller, simpler and "holistic" cash managers.

> Far more disintermediated, product commoditisation and reduced influence of major institutions.

> We will find tighter controls and regulations have limited growth and we will have started to unwind some of these regulations by 2025.

> Largest super funds will be more important financial institutions than banks.

A number of comments concerned the professional scope, skills and standards of the workforce and leadership in the sector:

> Greater emphasis on the determination of credit-rating and morality of individual executives and directors in business operations.

> Niche boutiques more professional and targeted to need both lending and investment changed demands.

> Much more professional than today, with better qualifications.

Corporate responses reflected some of these themes, with several respondents predicting upheaval and a new level of competition in the sector:

> Increased international competition. Australia's high cost base and low efficiency is not competitive internationally. Correction is due.

> A completely new set of players that don't even exist today.

> Lots of mergers, more consolidations, less income tax agents, more electronic processing. Banks will become major players in income tax prep and submission cutting out the smaller players. Compliance becomes more of an electronic transaction than humanoid intervention.

> More small players and many current larger entities will fail to adapt to change fast enough.

Others were hopeful of a new focus within institutions:

> Smaller margins, more competition direct from overseas, a need to keep researching niche products and markets, where service becomes the bigger catalyst for winning the business.

> Far greater concentration on sustainability in every respect.

> I hope we will have more open, transparent and frictionless investment markets.

> Significant growth in deployment of low emission technologies towards the end of the period and heralding the beginning of a golden age.

CONCLUSION

We do not expect the pace of change to slow; if anything it could increase noticeably.

One of the major changes we see for financial institutions and their clients is that there will be two major markets and methods of servicing them:

- high touch personalised service (including for institutional clients), and
- indirect self-service for the mass market,

with the latter enabled by technology – both existing and as yet developed.

It is also the latter where digital disruption will have the greatest reverberation, with new entrants such as Apple Pay and China's UnionPay already rolling out here and others soon to follow. We also expect some superannuation funds to enter this space, offering credit cards and home loans to their members, enabled for by new technology and 'fin techs'. As asset owners and managers try to better engage with their members and investors they will increasingly seek and adopt news methods of engagement.

But we caution that it is not so much technology that is the ultimate disruptor; as the technology in use for this (such as mobile applications) has already been around for some time. Rather it is the engagement and relevance models that new providers offer that differentiates them from traditional financial institutions. As such, engagement will be key to the provision of high touch personalised service for corporate clients and high net worth individuals. It will also be a key to indirect self-service. Financial institutions and corporates alike need to be relevant to their markets, their clients and provide what they want – or someone else will.

Another area of impactful change identified by the study is the increasing importance of ESG. We note that the environment is a key concern of investors, particularly those overseas in markets like Europe, and will increasingly be so. In fact, 52% of corporate leaders expect ESG to be the top concern for their business in a decade, while over a third of finance sector leaders rated it as significantly increasing in importance.

Accordingly, local financial institutions and their corporates clients alike will have to better consider ESG elements, not just to meet the market, but also because it is good business risk management. The social and governance aspects of a business can have as dire, if not more so, impacts as environmental ones.

That said, the best solution to future-proofing a business or a financial institution appears to be having both a leadership and workforce that are aware of possible changes, flexible enough to meet those that occur and able to develop strong customer relationships through much better engagement with clients of all types using the latest technology enablers.

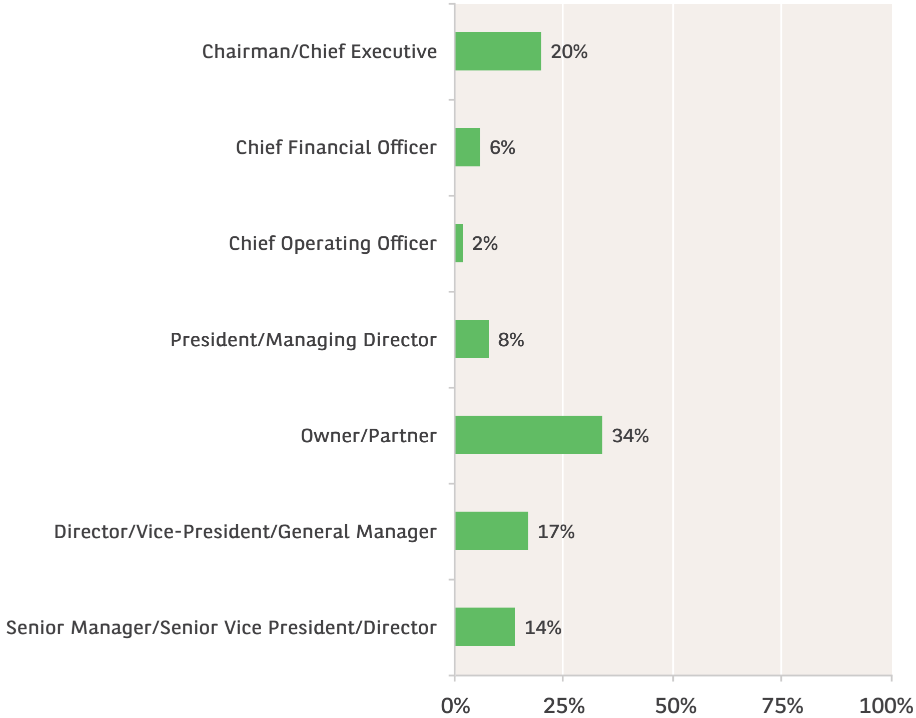
The pace of adapting to this future and remaining relevant will be critical. Some, large and small, entities will fail to adapt to these changes fast enough.

> Investment bankers are a bright and resourceful lot. Some of the best minds of this generation are in search of the next big innovation in credit markets or risk management that will bring back the heady days before the financial crisis. But the industry's voyage back to profitability will probably be slow, and not all banks will make it.
>
> The Economist magazine May 2013

ABOUT THIS OUTLOOK

The qualitative research forming the basis of this outlook was undertaken by Financial Review Business Intelligence on behalf of BNP Paribas through a survey of 115 C-Suite executives in April 2015. Respondents were from the financial services sector plus a broad spectrum of other industries. Financial Review Business Intelligence at Fairfax Media specialises in research in the business sector and especially among business owners and senior decision makers. All responses were provided anonymously.

Job title of respondents



Source: BNP Paribas and *Financial Review* Business Intelligence as at April 2015

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