News release

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Staying ahead of the curve: PwC lists three scenarios of change for central banking in 2020

As central banks are trying to keep pace with the complexity of the rapidly evolving financial services market, they are scanning a new and uncertain landscape. In their new paper *Central banking 2020: Ahead of the curve* PwC's Central Bank Group explores how central banks can keep up with the rapid transformation in societies, economies and communications and the systemic risks this generates.

Given the regulatory reform that is still sweeping through the banking sector, it is tempting to see regulation as the key determinant of the industry's future shape. However, there are much more fundamental forces at work than regulation, ranging from the significant shifts in technology, change in public expectations, and the migration of 'banking' activities beyond the traditional banking sector.

In PwC's view, it is these wider shifts that will ultimately dictate both how the banking sector as a whole will reform, and also what the role and shape of banking regulation will need to be. Building on this observation, PwC's Central Bank Group has formulated three hypotheses and the implications for central banks.

1. **Banking services will increasingly be delivered outside of regulated banking industry**

   PwC expects that the barriers to entry for non-banks to provide formerly 'core' banking services will continue to decline, and the links between the traditional and shadow banking institutions will increase. For central banks there is the challenge of overseeing ever-extending industry boundaries in areas such as marketplace lending, new digital currencies, shadow banking and business models using blockchain technology. These developments are creating real-time, decentralised networks and potentially redefining payments transactions and trading.

Jeremy Foster, Central Bank Group Leader at PwC UK, says:

"It's clear that central banks need new skills and systems to stay ahead of the curve. This means for instance that large investments will need to be made in predictive data analytics tools, to be able to identify where risks are building up in the financial system. A central bank that is maximising the possibilities presented by big data, including through the development of a data strategy and opening up its data to a wider audience to stimulate intellectual inquire and ideation, will be firmly on the front foot."

2. **Banks need to invest heavily and rediscover and reassert their core in society**

   Banks still have advantages but to be part of the future they need to invest heavily, rediscover and reassert their core in society, and secure the ongoing support of policymakers. Although tarnished by the financial crisis, banks' brands and reputations remain hugely recognisable and potentially powerful, shored up by familiarity, experience and regulation. To reassert their position, it will be important for banks re rebuild trust and meet public expectations by changing the culture and behaviours of their organisations. They need to demonstrate security, integrity, dependability and quality of their service offerings.

   Jeremy Foster adds:

   "We believe central banks have an important role to play in facilitating the public debate over what society wants from the banking system. The result of this debate will also determine the central bank's role in the management of the desired financial system and wider economy."

3. **Regulators and regulation need a radical re-orientation and realigning from policing to protecting**

   If banking services are becoming more dispersed and diffuse, it would be logical for regulation and public policy to shift its focus from institutions more to markets and services. PwC believes conduct regulation should become the primary firm-level regulation, with a much more limited form of micro and macro-prudential regulation increasingly focused on system-wide issues rather than on firms themselves.

   Jeremy Foster:

   "Central banks and regulators are understandably focused on making sure banks are not too big to fail. But the resulting regulations can at times appear siloed and fragmented. To mitigate this, regulators and central banks need to draw the regulatory strands back together and make regulation manageable for the firms they oversee."

Notes to editor:

1. The report “Central banking 2020: Ahead of the curve” can be downloaded here: www.pwc.com/cb2020
2. The report also continues PwC’s series of publications examining the future of financial services, including:
   - FS Technology 2020 and Beyond: Embracing disruption
   - Retail Banking 2020: Evolution or Revolution
   - Capital Markets 2020: Will it Change for Good
   - Asset Management 2020: A Brave New World
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