News release

Date	**21 July 2016**
Contact	David Jetuah, Media Relations, PwC Tel: 020 7212 1812 Mobile: 07531 439437 e-mail: david.jetuah@uk.pwc.com
Pages	3

Europe's banking market in need of a "Fintervention"– and now has a major opportunity to transform itself

European banks must initiate an overhaul in order to fend off new and varied challengers as the spectre of Brexit looms over the sector.

This is a key finding of a new report by PwC which predicts the banking industry is set to emerge from the recent crisis into a radically different regulatory, technological and economic environment that will shape its profile and structure for the next decade and more.

According to the report, a new 'ecosystem' will emerge, comprising a network of amalgamations, alliances and business-to-business relationships, as firms seek to improve their performance by re-focusing on their customer, market and operational niches.

The PwC report argues that this development will enable the industry to better support customers and society and return to a growth agenda. But there are risks to this, and there will be bumps along the way.

While Brexit and its aftershocks - together with other disruptions - pose a threat, they also represent an opportunity for all firms – incumbents and challengers – to harness the disruption in a positive way.

The PwC report, ***"The future shape of banking in Europe - how disruptive forces will drive the evolution of a new banking ecosystem?",*** sets out three possible scenarios for a future banking system in Europe over the next decade:

- Incumbent banks gradually consolidate and adapt to new conditions but not fast enough to prevent challenger organisations of various forms from taking a sizeable - perhaps 20% - and permanent share of the market.

- This trend quickens, and a tipping point is reached beyond which the challengers become the new incumbents and the present incumbents either fade away or are reduced to playing a utility role. In this scenario, it is possible that a new banking crisis, and a new round of public intervention, could precipitate the transition.

- The third more optimistic scenario sees the banking industry – together with other financial services and technology sectors – move on from vying for who gets what share of the payments, deposits, loans and securities market. Instead, it addresses itself collectively to customer service innovation and solving contemporary societal challenges.

The third scenario is the most likely outcome, says PwC, partly because the market is already evolving in that direction, naturally rather than by design. The parallel is drawn with the emergence of the so-called 'sharing economy' which has come into being through developments in the socio-economic environment, rather than being institutionally driven.

Colin Brereton, EMEA Financial Services Risk and regulation partner at PwC, said:

"Our report notes that Europe is operationally 'overbanked', with one large bank per €118bn of GDP, compared to one large bank per €302bn in the US, €214bn in Canada and €144bn in Australia.

"While banks may have strengthened their balance sheets, less has been done to address their core business fundamentals, and investors are getting impatient.

"Incumbent banks are struggling to perform under the weight of their legacy; a still packed regulatory change agenda; and weak and increasingly volatile economic conditions – now exacerbated by the Brexit vote."

Miles Kennedy, financial services partner at Strategy& and the report's co-author, said:

"Right now there is an issue with the underperformance of Europe's banks and, in a challenging economic and interest rate environment, the focus naturally turns to cost. Industry consolidation to create operating scale is one way forward, but there are policy obstacles to this. The alternative to consolidation, is to allow technology and commercial collaboration between specialist firms to deliver cost efficiency, rather than relying on outright scale to achieve this.

"In our third scenario, the present day incumbents and challengers increasingly recognise that they have a mutual commercial interest in working together and, as they do so, the terms 'incumbent' and 'challenger' cease to have meaning."

The report finds that this evolution is already happening: a recent PwC global survey on fintech, found that, of the 68% of incumbent firms that engage in fintech in some way, only 11% report some form of in-house development ('D.I.Y. fintech') or straight acquisition of FinTech companies (9%); the rest involves collaboration with third parties.

"It stands to reason that challengers would willingly go along with this, rather than try to go it alone to capitalise on incumbent banks' relative demise", according to Colin Brereton, the report's co-author.

"They see rival challengers as their true competitors, not established banks, so by collaborating with the latter they see a way to accelerate the commercialisation of their innovations without getting themselves embroiled in operational and regulatory complexity and cost."

Banking is a dispersed industry, and financial innovation is an even more dispersed activity, the report concludes. Policy makers need to recognise and embrace this - the last thing that is needed, in Europe or anywhere else, is for innovation hubs from Silicon Valley to New York, London, across Europe, the Middle East, Africa and Asia to become disconnected from each other, from the sources of finance that feed them, and from the markets and people they serve.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 157 countries with more than 208,000 people who are committed to delivering quality in assurance, advisory and tax services. Find out more and tell us what matters to you by visiting us at www.pwc.com.