A combination of demographic upheaval, globalization, and technological disruption is transforming competition in the financial services sector. Banks that are unprepared—or unable to change—will risk extinction.
That all companies, banks included, operate in complex and turbulent environments has become a cliché. But it is nonetheless true. The average life span of a company listed in the S&P 500 index of leading US companies has decreased by more than 50 years in the last century, from 67 years in the 1920s to just 15 years today.\(^1\) Banks are hardly immune to these pressures.

However, many banks aren’t handling them as well as they could. One problem is the tendency to respond to the symptoms of the market shifts, and not the root causes—for example, by fixating on short-term, operational imperatives (largely driven by regulatory requirements) and missing the seismic, structural shifts in the environment that could bring opportunities.

We explore three such seismic shifts here—demographic upheaval, the promise and perils of globalization, and technological disruption. We believe that these volatile, uncertain, complex, and ambiguous (VUCA) forces will shape the global banking industry in the coming years, determining winners, losers, and mere survivors. And we examine some recent attempts by financial institutions to come to grips with these forces, focusing on the lessons that other players may draw from them in order to help them prepare for whatever the future holds—and win the long game.

1. Changing places, changing faces

According to UN demographic models, 7.3 billion people inhabit the planet today; by 2030, that number will grow to 8.5 billion, and by 2050, it will reach 9.7 billion.\(^2\) More than half of the global population growth by 2050 is expected to occur in Africa. India’s population will grow at a faster rate than China’s, making India the most populous country by 2030. By contrast, Europe’s population will shrink, setting off a demographic time bomb as dependency ratios collapse, dropping from 4:1 today to 2:1 by 2050. Meanwhile, urbanization will continue to be a major

---

driver of economic growth and prosperity, with 70% of the world’s people living in cities by midcentury.

The full implications of these developments remain unclear. By 2025, another billion people will enter the consuming class, injecting up to $30 trillion into the global economy. On the one hand, this means that investment in infrastructure and housing will increase. Aspirational lifestyles will need to be funded. Economic activity will intensify. On the other hand, failure to provide jobs, housing, and food for rapidly growing young populations could dangerously destabilize societies in many parts of the world. Population pressures will also challenge water security, degrade ecosystems, and increase the risk of unpredictable climate events. Expensive welfare systems may constrain spending and investment. Aging populations will need to save more for retirement, potentially squeezing the supply of risk capital. Taxation will rise to meet increasing and often unfunded liability gaps, denting consumers’ spending power. The longer-term implications on the global financial system remain highly uncertain.

**Outside-in questions and the lessons of mobile money**

An initial effort to address these emerging demographic trends may be seen in the story of mobile money, launched in places such as Africa and India with explosive population growth, high mobile-phone penetration, and legions of unbanked or underbanked consumers. Among the dozens of mobile-money systems introduced to date, M-Pesa has been the most successful. While the story of M-Pesa as an innovative business model is well known, its larger lessons for how banks might profit from changing demographics remain to be learned.

Launched in 2007 and originally designed as a system to allow repayments of microfinance loans, M-Pesa was broadened to become a general money-transfer scheme allowing cash to be sent by mobile phone quickly, safely, and easily. It is now used by more than two-thirds of the adult population in Kenya, where about 25% of the country’s gross national product flows through it.³

However, when M-Pesa was launched in India, Nigeria, and South Africa, it had far less impact than in Kenya, even though those countries had high mobile-phone penetration and millions of people who lacked banking services. Why the difference?

First, M-Pesa not only enjoyed first-mover advantage in Kenya, but it did so in an environment in which it was subject to little regulation. As a result, the system developed rapidly. By contrast, in India, Nigeria, and South Africa, financial regulation is much more well established, and banks launching M-Pesa in partnership with mobile-network operators found themselves facing far more stringent rules. Second, Safaricom, the telecom that runs M-Pesa in Kenya, got a leg up on future regulation by bringing Susan Mudhune, the former chair of Kenya Commercial Bank, onto its board to help build bridges to regulators in the financial sector. Third, Safaricom enjoyed a large base of initial users, partly as a result of the post-election uncertainty (and violence) in Kenya in early 2008. That’s when many Kenyans adopted M-Pesa as a safer place to store their money than in the banks, which were entangled in ethnic disputes. Ultimately, this large base of initial users, coupled with a favorable regulatory environment, resulted in positive network effects and tremendous growth.

What’s striking for the purposes of addressing the future is the degree of unpredictability that went into M-Pesa’s success in Kenya. The developers of M-Pesa knew that unbanked mobile phone users in several African countries were already trading airtime minutes as a kind of alternate currency, and they certainly understood what the sheer number

of potential users could mean. And they likely recognized the opportunity offered by the regulatory climate. But they could not have foreseen the effects of post-election violence on their user base or the astonishing network effects that followed. Further, the relative lack of regulation was specific to Kenya, and its importance to M-Pesa’s success there may have initially been overlooked in attempts to replicate the Kenyan experience in other countries.

What can bankers learn from the M-Pesa story about developing strategies for addressing demographic trends? Certainly, while demographic changes are largely predictable, they don’t play out in a vacuum. As stock prospectuses say, past results are no guarantee of future performance, and business models, like M-Pesa’s, may not be completely transferable to differing markets, despite their demographic similarities. Although you can’t predict the future, you can ask better questions about it—questions that begin in the external environment and provide insight on the level of upside and downside potential. Such an outside-in approach can provide a valuable challenge to the underlying assumptions about what is required for success.

Start by proactively examining what it would take to succeed in various contexts and scenarios affected by population growth, urbanization, and the potential emergence of vast new markets. Then, question why (and how) your proposed approach might fail in them. Such exercises help identify specific actions to stop, start, and continue—all of which can help better position your institution for long-term success.

2. The promise and perils of globalization

For more than 40 years, globalization has driven the growth of banking. That form of globalization was very much in the image of the “Washington Consensus”—a market-driven, US-dominated economic model. However, this approach is being challenged economically and politically.

Since the global financial crisis of 2008–09, the world economy has settled into a low-growth equilibrium rather than a slow recovery. The protracted period of low interest rates has spurred a frantic search for yield. This has led to rising leverage and capital flow volatility. The latter has driven policymakers in some countries to pursue their own monetary easing or to impose capital controls in order to prevent damage to growth in the tradable sector.

Meanwhile, according to the International Monetary Fund (IMF), the slowing pace of trade liberalization and a rise in protectionism are holding back the growth of trade. Since 2012, the volume of world trade in goods and services has grown by just over 3% a year, less than half the average rate of expansion during the previous three decades.4

From a political perspective, the advent of Brexit, the election of Donald Trump in the United States, and the rise of Marine Le Pen and the National Front in France and other nationalist parties in Continental Europe collectively indicate the growth of nationalism across the globe. Russia is pushing for a “Eurasian Union”—a euphemism for renewed Russian influence in Eastern Europe—as an alternative to the European Union. And efforts by Germany’s Christian Democratic Union (CDU) to cooperate with the anti-immigrant, populist Alternative for Germany (AfD) would suggest a move to closer relations with Russia. Such developments not only raise the level of uncertainty for banks but also could ultimately threaten the West as an enduring symbol of stability and openness.

A global retreat in banking?

Such events also carry enormous implications for banks. The banking industry has essentially been

built as a leveraged play on globalization, and the nature of this model and the extent to which it persists will be hugely significant. The impact on (and of) regulation has also been profound. How different jurisdictions reregulate and the pace at which they do so will significantly affect the relative competitive position of global, regional, and national players. The difficulties of managing multiple sets of rules will hamper banks if global governance and markets continue to fragment rather than shifting back toward greater harmonization.

Moreover, the trends associated with globalization don’t operate independently from other trends, such as demographics. For example, significant population growth in many parts of the world seems to offer enormous opportunity to truly global banks. Yet increasing protectionism and more parochial regulation could mean a retreat from global operations. Barclays recently announced its intention to reduce its interest in Barclays Africa, citing the challenges of operating there as a “British bank.” Barclays is also shedding its Southern European credit card business, Egyptian and Zimbabwean businesses, and Asian wealth business. “The heart of Barclays’ strategy,” wrote CEO Jes Staley in early 2016 to his staff, “is to build on our strength as a Transatlantic Consumer, Corporate and Investment Bank, anchored in the two financial centres of the world, London and New York.”

Meanwhile, a host of private equity firms such as Bain Capital and Apollo are readying themselves to step into the breach by aggressively pursuing investments in parts of the world where banks are retreating.

Regardless of whether banks choose the path of Barclays or that of the private equity firms, they will need to address their organization’s ability to respond to the changing nature of globalization and be able to pivot should the future take an unforeseen turn. Consider the issue of talent, for example. If regulations continue to fragment country by country rather than move toward global harmonization, banks that operate globally will need to prioritize the hiring of regional talent comfortable with local regulations and culture—a big shift from the current practice of viewing talent as more global and mobile. Nonetheless, banks will still need global talent to oversee the enterprise as a whole. But because the scope of a global career will be constricted by the focus on regions, recruiting top global talent and developing it internally will become more difficult. The winning banks will not necessarily be those that wholly resolve such tensions—they’re often irresolvable—but those organizations that maintain the agility to flex more quickly than their competitors do.

3. Technology, digital, data, and their discontents

It’s hard to overstate the disruption brought to banking in recent years by technology and digitization (see figure), forces that have decisively shifted power to a base of customers who are themselves increasingly fickle and intolerant of what they view as poor customer service. In consumer banking, for example, the most valuable customers (those with investable assets over $1 million) are the least loyal, with the lowest net promoter scores across all the retail financial client segments. The increasing digitization of banking will only make it easier for customers to switch providers and to build portfolios of off-the-shelf products.

Savvy banks know that investing in technology for technology’s sake is a losing proposition. Tech must be woven thoughtfully into the bank’s operations to create an integrated, fully satisfying customer experience. Similarly, traditional banks are now starting to realize that customer data, which has a short shelf life due to its large volume and

---

exponential growth, must be processed, interpreted, and acted on quickly if it is to be used to influence customer behavior in real time.

Fast-growing technology start-ups know these lessons well and are increasingly disrupting the plans of the traditional players. A closer look at how some banks have responded offers useful lessons in meeting the challenges of technology.

**Fending off fintechs**
Few organizations have done as much to understand, and counter, the challenge from financial technology companies, or fintechs, as one large European bank we know. Over the past three years, the bank has invested hundreds of millions of dollars in fintech start-ups, including several digital-only banks. It also launched a venture capital subsidiary that operates independently of the bank in order to appeal to fintechs that are wary of working with a behemoth.

The bank also collaborates with start-ups to help them bring their ideas to market.

Yet while the bank’s efforts have steadily increased the proportion of its business from digital sales, the jury is still out on the effectiveness of the integration of these efforts with the bank’s core business. One of the digital-only banks, for instance, remains independently managed and in the red. In addition, the bank’s digital offerings do not seem dramatically different from those of its competitors, some of which have made far less substantial investments. And analysts have criticized the bank’s investments as too disparate to come together in a clear, unified strategic play.

As this example suggests, the real challenge is not necessarily choosing the right technology but rather the bank’s ability to use technology to help transform the organization—an essential element of responsiveness—to deliver on the promise to

Figure: A power shift in banking

The old banking model has shifted . . .

. . . as a more customer-centric model has taken hold.

The bank also collaborates with start-ups to help them bring their ideas to market.

Yet while the bank’s efforts have steadily increased the proportion of its business from digital sales, the jury is still out on the effectiveness of the integration of these efforts with the bank’s core business. One of the digital-only banks, for instance, remains independently managed and in the red. In addition, the bank’s digital offerings do not seem dramatically different from those of its competitors, some of which have made far less substantial investments. And analysts have criticized the bank’s investments as too disparate to come together in a clear, unified strategic play.

As this example suggests, the real challenge is not necessarily choosing the right technology but rather the bank’s ability to use technology to help transform the organization—an essential element of responsiveness—to deliver on the promise to
customers of new ways of doing business. For large banks with tens of thousands of employees, siloed operations, and multiple divisions, such transformations are a daunting task. Some banks are addressing the challenge by adopting a decentralized approach. Citi, for example, has established an elite and agile fintech group in retail banking focused on rapid prototyping and rollout as an example to the company’s other businesses. Meanwhile, those other businesses are encouraged to make their own strategic decisions about countering fintechs—in effect, letting transformation occur organically in each line of business and hoping that the whole will eventually exceed the sum of its parts. By contrast, Bank of America is taking a more centralized approach, consolidating organization-wide fintech efforts under a single executive.

While there is no one best way to approach new technologies, one thing is clear: in the absence of substantial organizational and operational changes to support them, tech’s promise to customers is likely to remain an empty branding exercise. Recognizing this, the most forward-looking financial services firms are working to change minds and not just redraw org charts. They’re shifting the mind-sets of employees away from siloed ways of working and toward more cross-functional collaboration; from frontline responsibility for serving the customer to collective ownership of serving the customer; from simply reacting to changes to proactively addressing risks and opportunities; and from seeking certainty to embracing uncertainty as an opportunity to learn and continuously improve.

Responsiveness matters

More than 20 years ago, Bill Gates famously declared that, in the future, banking would still be needed but banks would not be. He was half right. It’s not that banks have faded away but that the definition and boundaries of what constitutes a bank have grown fuzzier as new entrants have appeared from unlikely places. The banking that Gates was touting—digital, electronically ubiquitous, and decidedly not brick and mortar—is now being offered by enterprises of many kinds as well as by traditional banks.

Consider potential new entrants such as tech giants Google, Apple, Amazon, and Facebook. While arguments continue about whether they truly want to get into financial services as a business, there is no question that they are nibbling at the edges with payments platforms and other nascent offerings. And in terms of demographics, the size of their networks and continuing growth will position them to take advantage of demographic developments on a scale no one else can match. In addition, by encroaching on the payments business, they deprive banks of one of the chief sources of data for understanding customer behavior—and precious few organizations are better at data analytics than the tech giants. Moreover, though traditional banks may appear to be protected by the high barriers to entry created by regulation, the tech companies have proved to be adept at providing value-added services that get around regulation.

Tesco Bank appears to be an even more unlikely entrant, having its origins in one of the United Kingdom’s most powerful multinational supermarket chains. First formed as part of a 50/50 joint venture with the Royal Bank of Scotland, it is now a wholly owned subsidiary of Tesco and a full-service bank offering credit cards, insurance, loans, mortgages, and current accounts. In 2016, it closed its three physical branches and became an Internet-only operation. Walmart, another retailer that is beginning to break into banking by offering low-fee checking accounts, could pose an even bigger threat with its enormous reach, vast financial resources, and experience in adapting to local business conditions around the world.
Meanwhile, the technology arms race continues to heat up with mobile phone banking, digital currencies, and crowdfunding services that are challenging the incumbent banks by delivering faster, cheaper, more accessible, and more relevant services to customers. Distributed ledger technology (so-called blockchain) has the potential to drive simplicity and efficiency by establishing new financial-services infrastructure and processes. A prime example of companies seeking to better understand where the next big digital opportunity lies can be seen in the recent expansion of the long-standing partnership between PayPal and MasterCard. In July 2016, it became the first network to deliver an omnichannel, all-digital payment service for consumers, issuers, and merchants.

In wholesale banking, shadow banking continues to thrive, offering vital credit and risk intermediation and filling the vacuum left as the Dodd-Frank Act, the Volcker Rule, and Basel III capital ratio requirements curtail regulated banks’ activities. The US Financial Stability Board (FSB) estimates that in 2014 the shadow banking sector represented some $80 trillion in global assets, up from $26 trillion a decade earlier.6

Faced with this motley crowd of competitors, what can banks do to make sure they thrive in a highly uncertain future marked by demographic upheaval, volatile globalization, and continuing technological disruption? First, instead of focusing on short-term operational issues, banks need to ask better “outside-in” questions about the long-term future. Second, to develop more robust responses, they need to answer those questions in terms of “what if” and “so what,” rather than “I know” or “I predict.” Third, the larger determinant of success will not be finding precisely the right response but responsiveness itself—the ability to build and change momentum more quickly than competitors in the face of uncertainty.

Accelerating performance

We refer to the ability to build and change momentum more quickly as acceleration.7 In a recent research project encompassing hundreds of the world’s largest companies across geographies and industries, our firm measured the ability of enterprises to achieve performance outcomes more quickly than others. Among these companies, we identified a small group of 23 that we call “superaccelerators.” These exceptional companies placed in the top 20% for revenue growth in both the previous three and the previous seven years, indicating both current and extended success. They generated no more than 20% of their growth inorganically, indicating that they are winning with customers and not simply buying them through M&A. They received no more than 20% of revenue from their home country government. And their profit margin fell no more than 20% as they grew, indicating that they didn’t sacrifice profits for growth.

What differentiates these superaccelerators from the also-rans is their ability to mobilize, execute, and transform with agility—not simply to do everything faster but to have the capacity to pivot and focus agility only where it is important and adds value. Specifically, they are able to do the following:

- **Mobilize**, by inspiring aligned action based on a compelling purpose and a simple set of strategic priorities
- **Execute**, by fully harnessing and streamlining resources to consistently deliver excellence in the core business

---

• Transform, by experimenting and innovating to create new growth engines and to reinvent existing businesses ahead of the market

• Achieve agility, by spotting opportunities and threats and adapting and pivoting at a faster pace than competitors to create competitive advantage

How might banks put these principles to work? Start by developing the four capabilities that will be particularly critical: the ability to discern and connect disparate events; the ability to match resources to opportunities and to spot, acquire, develop—and, when necessary, dispassionately exit—opportunities; the ability to get divergent interests to reinforce each other rather than compete; and the ability to lead through networking and community rather than hierarchical command and control.

These capabilities offer some toeholds of certainty in a deeply uncertain world. They are precise, demonstrable, and measurable and can be applied across all levels of the business—from strategy and organization to teams and even individual leaders. By consciously adopting and systematically nurturing new capabilities, banks can better position themselves to confront a range of potential demographic, global, and technological futures in which readiness—and reaction time—will make all the difference.

About the authors

Clare Buxton (cbuxton@heidrick.com) is a principal in Heidrick & Struggles’ London office and a member of the Financial Services Practice.

Camelia Ram is an alumna of the London office.

Arjen van den Berg (avandenberg@heidrick.com) is a partner in the London office and a member of the Leadership Consulting Practice.
Financial Services Practice

Heidrick & Struggles’ global Financial Services Practice uses our broad and deep experience to find the leaders today who are equipped to address the critical issues of tomorrow.

Emerging from global crises while adapting to new markets, the global financial services industry needs leaders with the technical skills, creativity, and insight to craft winning strategies in an increasingly data-heavy digital world. With more than 80 consultants in locations around the world, our Financial Services Practice team combines unparalleled search resources with a deeply consultative approach. We have strong expertise across all financial services sectors, including: asset management; consumer and commercial finance; financial services infrastructure; financial technology; global markets; hedge funds; insurance; investment banking; private equity; real estate; venture capital; and wealth management.

Possessing a client roster that includes most of the world’s financial services firms and being a recognized leader in emerging markets, Heidrick & Struggles blends search and consulting services to build long-lasting relationships. We employ functional expertise and access to a global candidate pool to provide our clients with the right leaders for where they are now and where they will be in the future.

Leaders of Heidrick & Struggles’ Financial Services Practice

David Boehmer
Global Practice Managing Partner
dboehmer@heidrick.com

Jenni Hibbert
Practice Leader, UK
jhibbert@heidrick.com

Dan Ryan
Regional Managing Partner, US
dryan@heidrick.com

Frazer Wilson
Regional Managing Partner,
Asia Pacific and Middle East
fwilson@heidrick.com

WE HELP OUR CLIENTS CHANGE THE WORLD, ONE LEADERSHIP TEAM AT A TIME®