

# What state will banks be when #Millennial inherit?

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*A tough time for Millennial to get bank banking system to be ahead of the curve?*

Banking is at cross road and at an important stage, had tough times, bumper years and post crisis running with lot of support from various corners.

Banking today has to deal various aspects, from an economy, to technology, to regulatory apart from manage its own legacy challenges. Before we move into the banking challenges, let us look at key challenges world as such is facing at this point

**Divide between rich and poor** – As per latest report published on wealth, 62 people have wealth equal to 50% of worlds population. With growing population and increasing cost of all commodities, the net amount to feed for the per person continues to reduce. With population increasing and set to be 9 billion by 2050, gap between the number who hold good part of wealth to one who will have less will increase and this will bring challenges across various areas of society.

**Political divide** – The gap between 2 blocks and between countries continue to divide, the role of 2 or 3 larger countries are quite dominant compared to rest of the world. These are in similar lines between rich and poor, gap between Rich and Poor countries continue to increase and in days to come, top 2 countries will be having closed 50% of the GDP (with China aiming to achieve 20 Trillion economy and US almost there), the gap is going to increase.

**Migrations** – Due to various political challenges in many parts of the world, many are moving to greener pasture to help have a better life. This has caused imbalance both at home country and also at the country where migrated. In many a case there is brain drain and this is worsening both political and economic situation of the home country.

**Global economic outlook** – GDP growth seems to have stalled, growth in most part of the Western world is less than 1% and in poor countries, growth rate has decreased post 2008 crisis inspite of quantitative easing. Increasing population and political instability is having its impact and thereby increasing un-employment. Couple of decade ago, movement of activity from West to East took place, giving greater better growth, which earlier generation were able to ride on, this is missing for Millennials. One continent which has higher young population is Africa, will millennial move in there and try to expand business?

**Environment** – Carbon Dioxide emission has just got doubled in 20 years, from around 5 Million Ton (MT) to around 10 MT (per earthpolicyorg) . Forest cover has similarly gone down from 5.99 Billion Hectare to 4 Billion Hectare, around 30 % has been lost (per earthpolicyorg). Population at the same time has increased by 40% over (from around 5 billion to 7 billion). These few data shows the kind of impact we are seeing and also we can see around the increase in natural disaster. The impact to the world has been high and with growth slowing , growing population, the environmental impact will increase as the man tries to touch more untouched area and there by further impacting the nature.

Now let us look at Banking or Finance sector and see what Millennials are in the process of inheriting from the earlier generation.

1. **Capital** – Banks post the crisis and fallout of banks, regulators have stepped up to increase the capital requirement and reduce the net availability of funds to banks for their activity. The net capital required today is a composite requirement of various aspects from quality of asset to banks ops and IT risk, this is on the increase with increase in challenge in global economy. This is making banks less lucrative and at times with poor performance of banks, cost of raising capital is on the rise.
2. **Credit growth** is weak and Non-performing Assets increasing trend and again this attributes 2 aspects,
  - a. One, banks in bargain of growth had increased lending, banking assets moved from around \$50 Trillion to around \$140 in a decade (from 2002 to around 2012). Everyone were hoping things will be back soon to past glory days of financial crisis, but with no good tool available either for governments or for regulators, these has started to come back in the form Non Performing Assets. With GDP slowing, NPA is on the increase and this is making banks to increase its provision and decrease its profitability.
  - b. Two, no good opportunity for banks to invest now. Banks have seen great increase in business with world growth in last 3 decades. From 1975 to 2005, there was opportunity to invest with the growth in various industries across mining, manufacturing, IT and services. This also gave opportunity to increase credit in housing and infrastructure, paying the way for banks to expand quickly and diversify the products like Derivatives, Bonds, Proprietary trading. Product innovation, hedging along with technology had made banks move up and with all 3 now dwindling there is bigger challenge for banks to improve its business. What can Millennial do here?
3. **Regulatory framework** needs great improvement, always in a catch up mode as we have seen in some of events of the past like 2008 crisis, LIBOR scam, Sanctions challenges, AML weakness , Panama leak etc. and more to come as day progresses? Regulators have tried to put control around money movement, monetary policy, capital, improving governance etc. Policy like Dodd-Frank Act, BASEL3, FATCA, CRS and many more have come in. However, the overall challenge for the system continues to be high as there is no one complete solution for each of the problem, in many cases it is in pieces. For e.g. take KYC, there is no global identification for a

client, there is physical cash across etc. and there is no control over it. How will banks be able to totally control, apart from increasing its own cost, what will Millennial do here differently to address it?

4. **Fintech** - Per understanding there is no definite data around number of start up around, any guess is that around 8000 to 10000 are around today in the world. The number increasing with every day and also the investment coming in thick and fast, the number would increase. Millions of transactions are now being made, it is increasing with every day passing by and are impacting basic core business of Payments, Supply Chain, FX etc. which were easy money option for banks. Fintech continues to outsmart banks on technology sense, this is further makes banks weaker on the technology terms and also from a customer service perspective. Will Millennial bring in change to help Banks move ahead of Fintech companies?
5. **Banking Systems** – Many an organization find themselves caught between devil and deep sea, many a systems are pretty old, support and maintenance is adding to the cost. On the other hand new technologies are coming, any change will increase the cost and impact the balance sheet. Some banks continue to investment in technology which are not apt from a present generation perspective and this is and will be hurting in days to come. Quick reflexes of Millennial is needed to bring in paradigm shift and banks more competitive.
6. **Human Capital** - Knowledge levels in banks are not at its best. IT, Analytics, Fintech, Health care, starting their own business etc are now the top jobs, this is making many a move into those world as against banks. The quality of job continues to be a challenge, some due to migration of jobs, some moving to other sectors in some place old timers moving out of the system. Also, banks lost some of the staff when crisis happened, making many move and some into competing sectors like Hedge fund, IT companies, Fintech etc. This is hurting banks to compete and be nimble, a challenge which Millennial have to bear with and tide it over.

Millennial are going to have a bit more in their hand as against what Gen X got from their earlier generation. Having lost better part of the good world in the search for growth and competition in last 30 years. Millennial will not only have to move forward but also improve the living condition so that the generation picking up from Millennial will be having a better world at their hand with lesser challenges to deal both at the environment level and also financially better off.

**Time for Millennial to act and re-shape the Banking system for better!**