



IRISH 2022 OUTLOOK FOR

BANKING AND CAPITAL MARKETS

- An evolving ecosystem -



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2022 promises to be another busy year in the Irish banking sector, shaped in the main by macro events, regulatory focus, evolving business models and customer demands. These trends are not new but their impacts on the ecosystem are likely to become more pronounced and embedded over the course of the year.

The most obvious changes are occurring in the retail sector with the perfect storm caused by the exit of two key players, COVID-19, Brexit, new fintech and non-bank entrants, and pressures on business models creating a strong impetus for change. The net result is likely to be leaner and more cost-conscious banks, fewer branches and a greater focus on digital channels, more diversification of business models with banks acting as a one-stop shop for all your banking, investment, and insurance needs, and a greater appreciation for purpose and the environment.

Less obvious but equally significant are the changes in the international banking sphere post-Brexit. Growth in the balance sheets of these banks means that our international banks are now some of the largest banks in Ireland and many of them act as the EU headquarters for their organisations. This change in status is also reflected in their business models, with many moving from pure corporate lenders and treasury providers to include markets business and payment offerings. A very different set of challenges face the international banks compared to the retail banks, including a greater focus on governance, simplification of the business model, outsourcing, regulatory divergence, and digitisation.

Last but not least are the scaling fintechs and neo-banks with a clear focus on disrupting incumbents and embedding themselves in areas that had traditionally been very profitable, such as payments, for example. Many of these firms have struggled to overcome the barriers to entry including obtaining necessary licences – and those that have obtained licences have struggled to scale appropriately given risk management, resourcing, operational resilience, and other requirements. The future face of the Irish banking ecosystem will depend on their ability to overcome these challenges, with the recent launch of Revolut Bank showing that it can be done.

This report was drafted before the invasion of Ukraine. However, the trends outlined in the following pages still hold true. To understand the potential impact of the invasion on Financial Services specifically, please refer to the foreword at the beginning of our magazine.



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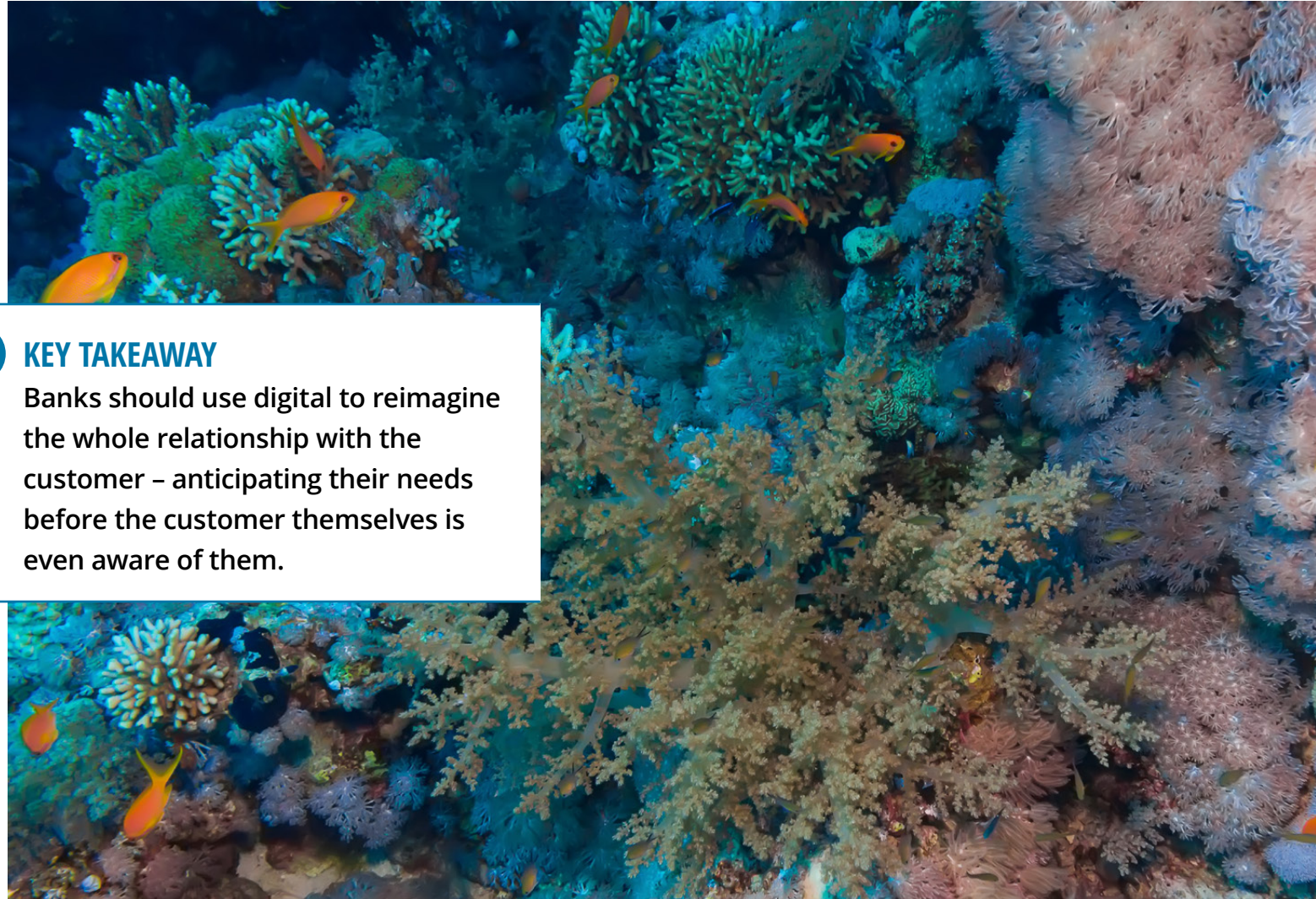
Digital strategy

Each of the banking sub-sectors have identified digitisation as being core to their overall strategy. Some see it as table stakes whereas others see it as an opportunity to create competitive advantage. While traditionally digital has been focused on the mass market consumer segment and in particular self-service, we are seeing more and more focus on the SME and corporate sectors and how it can be used in more relationship-intensive scenarios.

In digital terms, what was acceptable even a year ago has since progressed significantly. Customer patience with processes that are convoluted or non-user-friendly has reduced because the apps they use every day for ordering online or streaming content have set the benchmark for ease of use. The challenge for banks is how to maintain their regulatory requirements and protect client information while providing the slick digital experience that consumers have come to expect. This has led to significant innovation

and the use of new technologies such as AI, blockchain, digital identity and algorithms for everything from identifying the customer for AML purposes, analysing and credit scoring customers, to predicting future services and product needs to name a few.

The successful digital adopters have shown other banks that they need to put the customer foremost in their thinking. Digital has the potential to change the interaction, so banks need to think strategically. Customer experience needs to be at the heart of their digital efforts – not just because it's more cost-effective for the bank. Don't just take the old process and make it digital; now is the time to reimagine the whole relationship with the customer. Instead of interacting during a product sale, or to solve a customer issue, banks should look to develop a much more holistic relationship that uses technology to anticipate needs before the customer themselves is even aware of them.



KEY TAKEAWAY

Banks should use digital to reimagine the whole relationship with the customer – anticipating their needs before the customer themselves is even aware of them.

The data from Deloitte's global banking outlook shows the correlation between customers who are likely to switch their primary banks, and the technologies most likely to deliver new business. Irish banks should use this to guide their thinking on upcoming technology investments, focusing on areas such as customer data analytics, customer service, new alternative data or upgrading their mobile apps. A word of caution, however: the outlook also uncovers where banks have met challenges in implementing technologies such as artificial intelligence, cloud, or analytics. Banks' strategies should take account of these risks and put in place a strategy to mitigate them.

The technology is important, but firms may also need to consider other areas like culture, accountability and conduct for these programmes to be truly successful. The good news for banks is, no-one has won out in this space yet; it's still all to play for.

Enhancements banks plan to make to improve retail and institutional customers' banking experience

Customer data analytics



Customer service



New alternative data



Upgrading mobile apps



Chatbots



In-branch technology

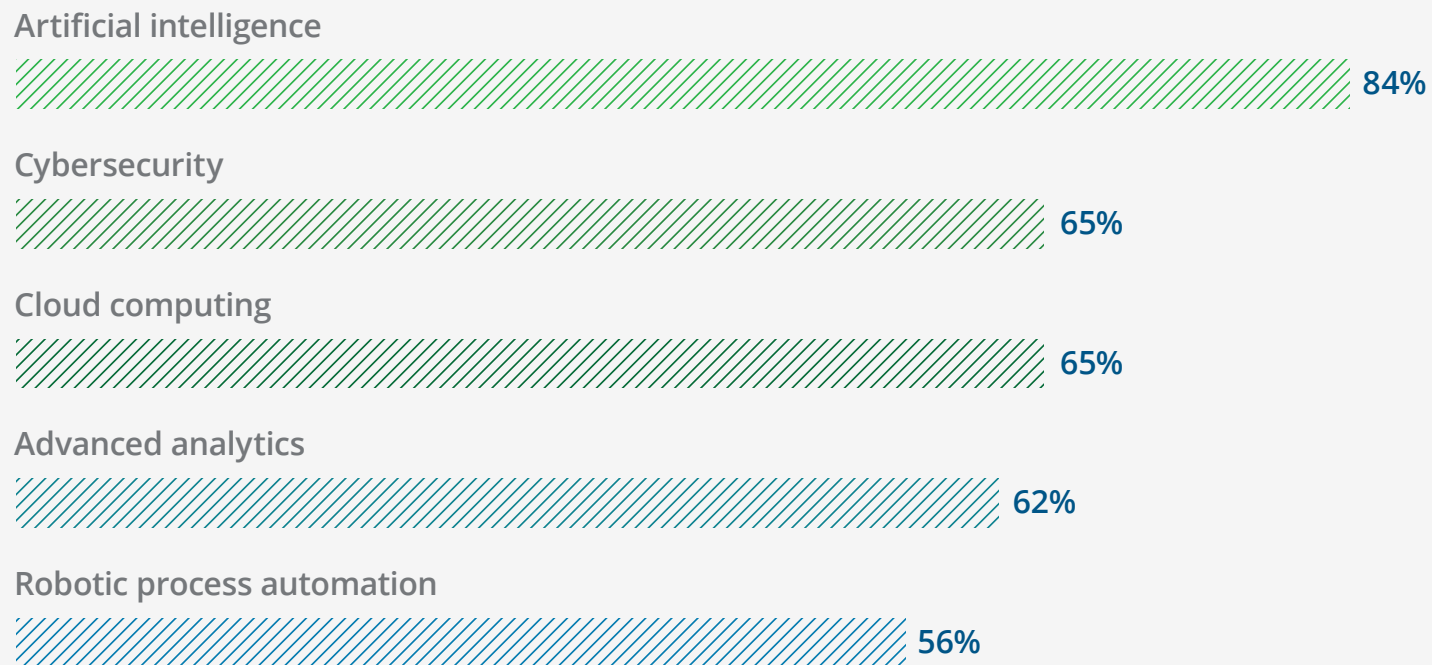


Note: Percentages represent respondents who are "very likely", "likely" or "somewhat likely" to switch their primary banks.

Sources: Deloitte's 2021 Digital Banking Survey; The Deloitte Center for Financial Services Global Outlook Survey 2021.

Banks need new approaches to realise the full potential of their technology investments

Percentage of respondents whose firms faced challenges adopting these technologies



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Altered retail landscape

It is hard to gauge the exact impact of the changed retail banking landscape but ultimately, we expect to see a concentration of mortgage customers in the remaining three banks giving them a healthier Net Interest Margin and Cost to Income Ratio. Fintech players, neo-banks and non-bank lenders will look to compete in the payments, personal loans, credit card and current account space.

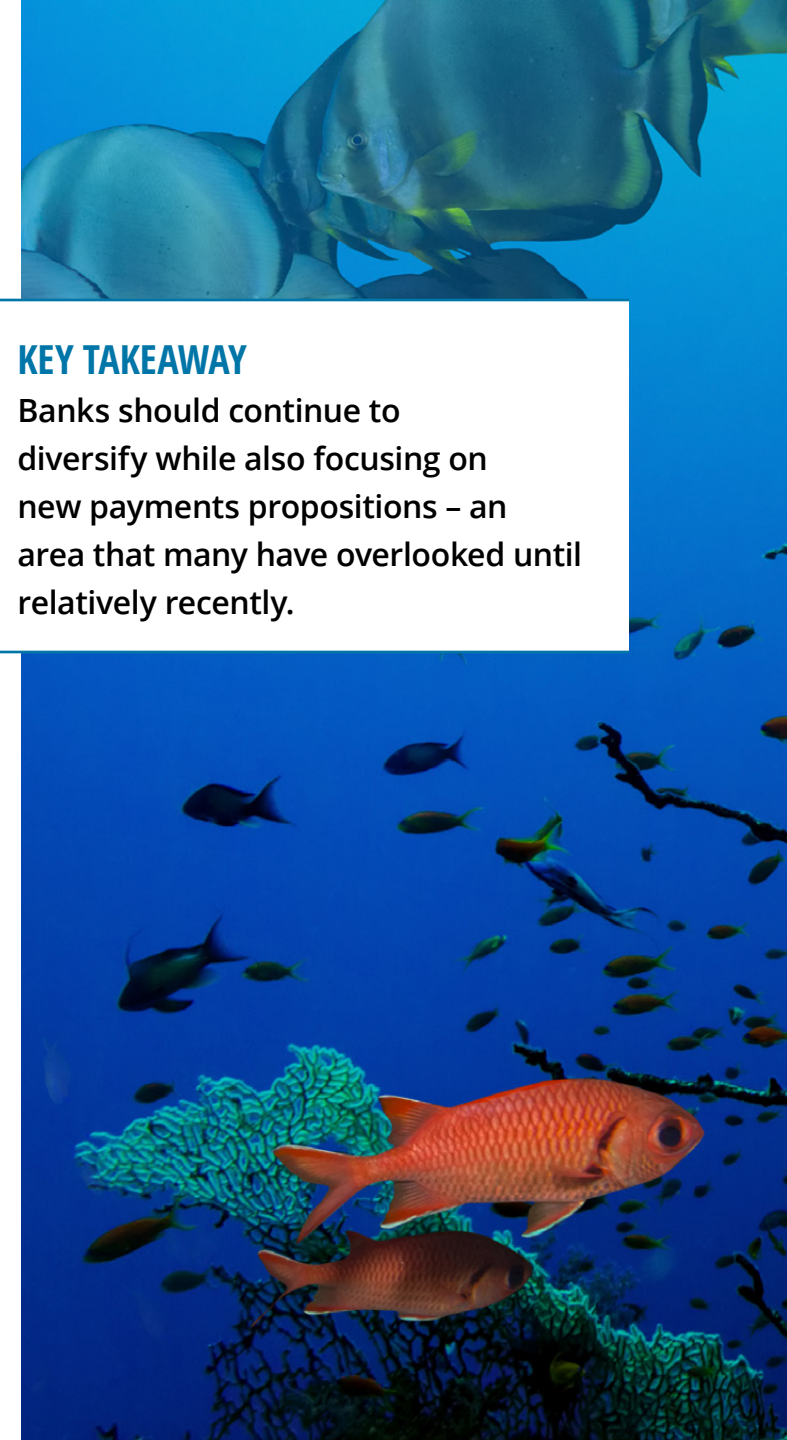
Depending on the success of these offerings, we could see greater disaggregation of the market which could make some of the cross-selling strategies of the larger banks more difficult to execute. A lot will also depend on what API and account aggregation services are offered. At this point, it is hard to see a fourth traditional player entering the market in the near future and without doubt there will continue to be competitiveness discussions on this point.

The retail banks have made great strides to diversify in terms of buying wealth management firms and entering into partnerships with insurers to make their business models more viable. Banks should continue this diversification approach, while also focusing on new payments propositions – an area that many have overlooked until relatively recently. The Irish banks are working on a way to make it possible to transfer money between accounts using mobiles but there continues to be untapped opportunities in payment capability that can have impacts on analyst confidence and share price. Banks continue to battle with the cost-cutting and growth agendas.



KEY TAKEAWAY

Banks should continue to diversify while also focusing on new payments propositions – an area that many have overlooked until relatively recently.





International banks in Ireland

A recent [BPMI and FIBI paper](#) provided some significant statistics and data on the important role that the international banks play in the Irish banking ecosystem. Ireland is home to a large number of international banks and their respective EU headquarters. Many of these banks have focused on establishing themselves in the EU over the last number of years, and this has now moved to development and execution of their EU strategies. In 2022, we expect to see further growth of their EU branch strategies with greater levels of markets business moving into these entities.

Payments capability will be a large focus, with some entities also looking to grow their private banking offerings. As these banks grow in scale and complexity, we are likely to see greater levels of focus from regulators on governance, booking model, outsourcing, capability, and resourcing.

The business model may need further explanation or demystifying in certain circumstances or may require significant alteration to allow continued growth. Innovation will continue to be key, and we expect more will happen to bring the international banks and fintechs together.



KEY TAKEAWAY

Banks should consider how their business model is impacting growth – and identify changes where necessary.

The talent question

We expect that the international banks will be required to have more staff in Ireland as they grow. This will be across new and existing products and services with new products such as markets and payments presenting the largest talent gap. While some of this gap will be filled from Group, it opens up a new opportunity for people who want to work in these areas. Banks should intensify their work with universities and executive education organisations to deliver courses in these new areas and provide the pipeline of people to enable further growth in these fields.

While we are on the subject of talent, the retail banks are likely to see significant change over 2022. Some of this will be caused by the exit of the two banks and some of it will be caused by branch closures. More fundamentally, we expect that as banks come to rely on technology even more, their recruitment needs have and will adjust accordingly.

They will potentially need to hire more engineers than business graduates going forward. That's going to be a challenge on two fronts. As our global data shows (see graph), banks are challenged with identifying skilled candidates for niche technical areas. The second part of the challenge is that the mix of backgrounds potentially presents a clash of cultures and perspectives between software engineers with the technology mindset of 'move fast and break things', and those from a financial environment who are accustomed to working in a regulated industry. This, coupled with the return to the office, will mean banks' HR teams will need to focus on their recruitment to get the right balance.

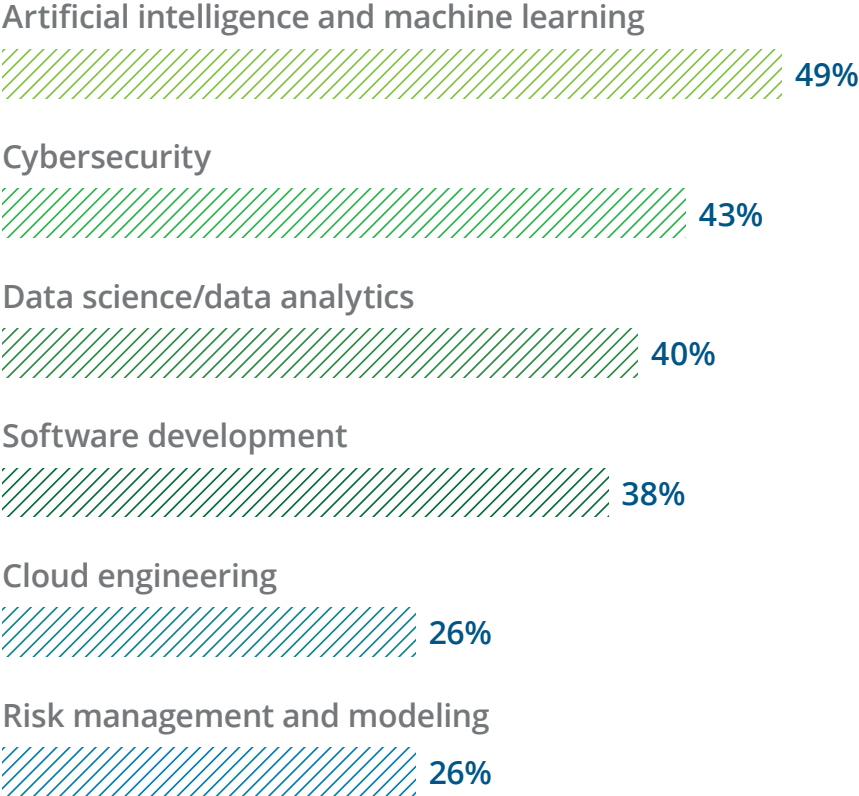


KEY TAKEAWAY

Banks should focus on securing the right balance of talent – from technological to regulatory – through strategic recruitment and partnerships with the education sector.

Finding skilled candidates in niche technical areas is a challenge for many banks

Most difficult capabilities to acquire



Source: The Deloitte Center for Financial Services Outlook Survey 2021.



2022 promises to be a significant year for the Irish banking system with fundamental changes happening across the retail and international banking sectors. Cost, innovation, regulation, talent, and the customer will all have material impacts on how the year develops and the final outcome. The table to the right sets out five challenges facing the banking sector; and for each one, there is a corresponding opportunity, giving banks the chance to refine or target their strategies further in the year ahead.



For our Global perspective, read our [2022 Global Banking and Capital Markets Outlook](#).

Key challenges and opportunities for the Irish banking sector in 2022



Challenge



Opportunity

Retail banking



Balancing cost-cutting pressures with growth agendas

Diversify to provide a one-stop shop for customers

International banking



Handling greater levels of scrutiny from regulators on governance, booking model, outsourcing, and capability

Evolve from pure corporate lenders to providing payments capability

Neo-banking



Overcoming the barriers to entry and scaling appropriately in new areas of profitability

Disrupt incumbents in lucrative markets like payments

Digitisation



Maintaining regulatory requirements and protecting customer information

Reimagine the relationship with the customer to create competitive advantage

Talent acquisition



Managing the potential clash of cultures and perspectives resulting from the need to hire more engineers than financiers

Develop the right technological capability in-house to drive innovation and growth