Media release

Central banks are facing major challenges:
New Roland Berger study series "New realities in central banking"

- **Traditionally, central banks operated in the background, protecting price stability and keeping the financial system running smoothly.**
- **Today, they are being confronted with major technological innovations and fast-paced developments on international financial markets. Central banks must address these new realities and urgently transform their organizations.**
- **The topic of digital currency should figure highly on the agendas of every central bank today.**
- **Although various different technologies and approaches are under discussion, so far no single draft has prevailed. The establishment of digital currencies alongside physical cash is soon to be expected.**

Zurich/Munich, February 2017: Prior to the financial crisis, central banks worked behind the scenes as highly effective and powerful independent institutions. They ensured price stability and formed the backbone of a well-oiled national financial system. As a consequence of the global financial and sovereign debt crises, central banks around the globe are becoming a focus of growing public interest and must face up to new realities: stricter regulation of financial markets and banks, increasing globalization and more complex organizations, digital innovations and stiffer competition for talented professionals. An exhaustive analysis by Roland Berger experts traces these developments in their new study series "*New realities in central banking*".

Major upheavals in central banks

As Adrian Weber, Senior Partner, Roland Berger in Zurich notes: "The future of central banks will be marked by major transformations. Especially in the more highly developed national economies, public spending constraints, calls for transparency and aggressive low interest rate policies in particular are driving the need for a comprehensive organizational professionalization. Central banks must modernize their organizations if they are to take a hand in shaping the global financial system. Only then will they be equipped for major challenges and opportunities in the future – such as the widely-discussed introduction of a digital currency."

Organizational transformation a must

As historically each central bank is differently organized, there is no universal solution. Successful transformation rests on four pillars: reorganization, effective governance, operational efficiency and a future-oriented HR policy. Creating lean and efficient structures is a fundamental requirement. Management needs to be optimized for efficient decision-making processes, support functions should be centralized as far as possible, while outsourcing of support functions must be examined in detail. An active management of the cost base permits further cost savings, which may then be appropriately reinvested in new strategic priorities.

“Human Resources, employee development and performance management will assume a key role in restructuring the organization for the future. In the age of the "War of Talents", central banks must hold their own against other central banks and the private sector as a potential employer of top talent. New kinds of employee profile – in IT for instance – hitherto not a focus, will become increasingly important in the future. Only then can significant innovations, such as the introduction of a digital currency, be successfully evaluated, actively fostered and implemented within the central bank organization, which traditionally is often hierarchically structured,” adds Weber.

Digital currencies – complementary counterpart to physical cash
Digital currencies are a topic of central bank debate in many national economies. They are the digital equivalent to cash and, similar to physical banknotes and coins, are saved in a digital wallet. A central bank "prints" or issues the digital currency. According to Weber: “It is too early to opt for a specific technology as various approaches are currently in development. While some prefer the decentralized blockchain technology, other suppliers have decided to integrate digital intermediaries. Central banks must judge the respective technologies on their merits and screen the technology developers in each case – based on a clear strategy – to make the right choice in their case. Central banks currently lack the necessary know-how and agility to cope with the rapid pace of technological advance.”

“A digital currency can considerably reduce the cost of printing banknotes, minting coins, cash storage and transportation, speed up the financial integration of emerging markets and reduce the cost of complying with “Know-your-Customer (KYC)” requirements and fighting money laundering.” He adds: “Central banks need effective organizational structures, relevant skills to successfully introduce a digital currency – both in-house and via a network of partnerships – a clear road map – not to mention a flexible approach to deployment. We are confident that digital currencies will play an important role in the future. We expect that their introduction will be promoted as a complement to existing physical cash and we have already spotted initial promising pilots. A massive effort is therefore required on the part of central banks to adopt measures now and actively help in shaping these developments,” sums up Weber.

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