

Global Banking 2020: Using Scenario Planning to Guide Strategies

Why Should Banks Do Scenario Planning?

Parayre: The idea behind scenario planning is it's an outside-in way of thinking of planning and strategy. None of us has a crystal ball. Many organizations plan for one view of the future. In a world that's very uncertain, that's a very risky posture to have. Scenario planning is all about visualizing alternative futures, in this case, alternative futures on banking in 2020. And then, in light of these alternative futures, basically saying, 'What should our strategy be?'

Sichel: The exercise is valuable for bankers because it allows them to expand the set of assumptions that they have, which, based on history, [otherwise tends to carry] a narrow view about the industry, a very narrow view about how the external environment might change. In the words of Peter Bernstein, you really cannot predict the future. So if you cannot predict the future, what you can do is actually embrace it. And this kind of exercise is a way of embracing the future. Under a high level of uncertainty you can do one of two things, either you panic like a deer in the headlights, or you just go just making decisions with your gut. This is a way that is a little bit more disciplined and structured, to embrace the uncertainty, but to go about it in a way that will allow you to grow in a way that is sustainable and more resilient into the future.

Parayre: None of the scenarios ... is actually going to be the future. But the story is this: If our strategy is resilient across the four scenarios that we painted, reality is probably going to be somewhere in the middle.... If our strategy is resilient to the four corners, we're probably in pretty good shape for anything that happens in the middle. This is better than planning for just one scenario at the middle of the range of possibilities and just hoping that events don't turn out very differently.