FINANCIAL TECHNOLOGY, REGULATION AND THE TRANSFORMATION OF BANKING

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TRIPLE PRESSURES

- Technology: FinTech / digitalisation / Big Data / Artificial Intelligence

- Regulation: PSD2 and Open Banking

- Changes in consumer behaviour: access routes / digitalisation / electronic
FEATURES OF OPEN BANKING

• Customer data to be digitally transferable through Application Programme Interfaces (APIs) to Authorised Third Parties (ATPs)
  - unlocked data

• ATPs to initiate payments direct from a customer’s bank account
BANKING TECHNOLOGY IS NOT NEW

• **Efficiency technology**
  - within existing business models

• **Transformational technology**
  - changes business models
BANKS’ TRADITIONAL ADVANTAGES

• Locked information
• Screening
• Risk analysis
• Integrated value chain
• Range of services: bundling
• Relationship banking
• Low switching
• Delivery
• Payments monopoly
• Brand value
IMPACT OF TECHNOLOGY

- Increased supply and lower cost of data and information
- Lower consumer search costs
- Ease of comparisons by consumers
- Lower entry barriers: markets
- Lower entry barriers: banks’ value chain
- Consumer interface
- Vast amounts of data: aggregated /analysed / transferred
  - consumer profiles in digital form
- AI decision-making
- Consumer access options
IMPACT ON BANKING

1. Expansion v. Substitution effects
   - expansionary: via efficiency and financial innovation
   - substitutability: change relative advantages of different players – entry barriers

2. Transformational
   - financial firms and consumers
   - financial system structure

3. Reservations
TRANSFORMATIONAL

- Unlocked data
- Lower entry barriers
- New business models
- De-construction of value chain: less integrated
- Consumer interface
- Consumer access
- Increased switching
- Payments mediums
- Cross subsidies eroded
INDUSTRY STRUCTURE

- Variety of business models
- Enhanced role of platforms
- New entrants
- Nature and form of competition
- Partnerships
A SENSE OF PROPORTION

• Possible v. feasible

• Consumer reaction: supply-side v. demand-side

• Gartner Hype Cycle
CONSUMER RESISTENCE?

- Security
- Privacy
- Cyber attacks
- Trust in use of information
- Past advice
- Faith/trust in technology
- Make much difference?
REGULATION

- Systemic
- Consumer protection