

Banks or platforms

The digital future

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Digital opportunities and threats for retail / SME banks

Threats

New players

- Digital challenger banks
- Adjacent industries
- Other FinTechs

Data

Access by third parties to their customer data

Service Unbundling

E.g. Lower cost FX (peer to peer)


Opportunities

Increased efficiency internally


- Block chain enabling real time, fully automated banking transactions – early days but being used for live banking activities
- Smart data analytics
- Automation of processes via robotics and machine learning

New ways of interfacing with customers


The backdrop is pressure on conventional banks



Challenger banks with lower cost income ratios



Other players searching for yield and entering traditional banking areas



Difficulty remunerating higher post - Basel III capital



High cost income ratios – European country averages range from 55% to 77%



Investor pressures re ROE



High regulatory costs

Open banking

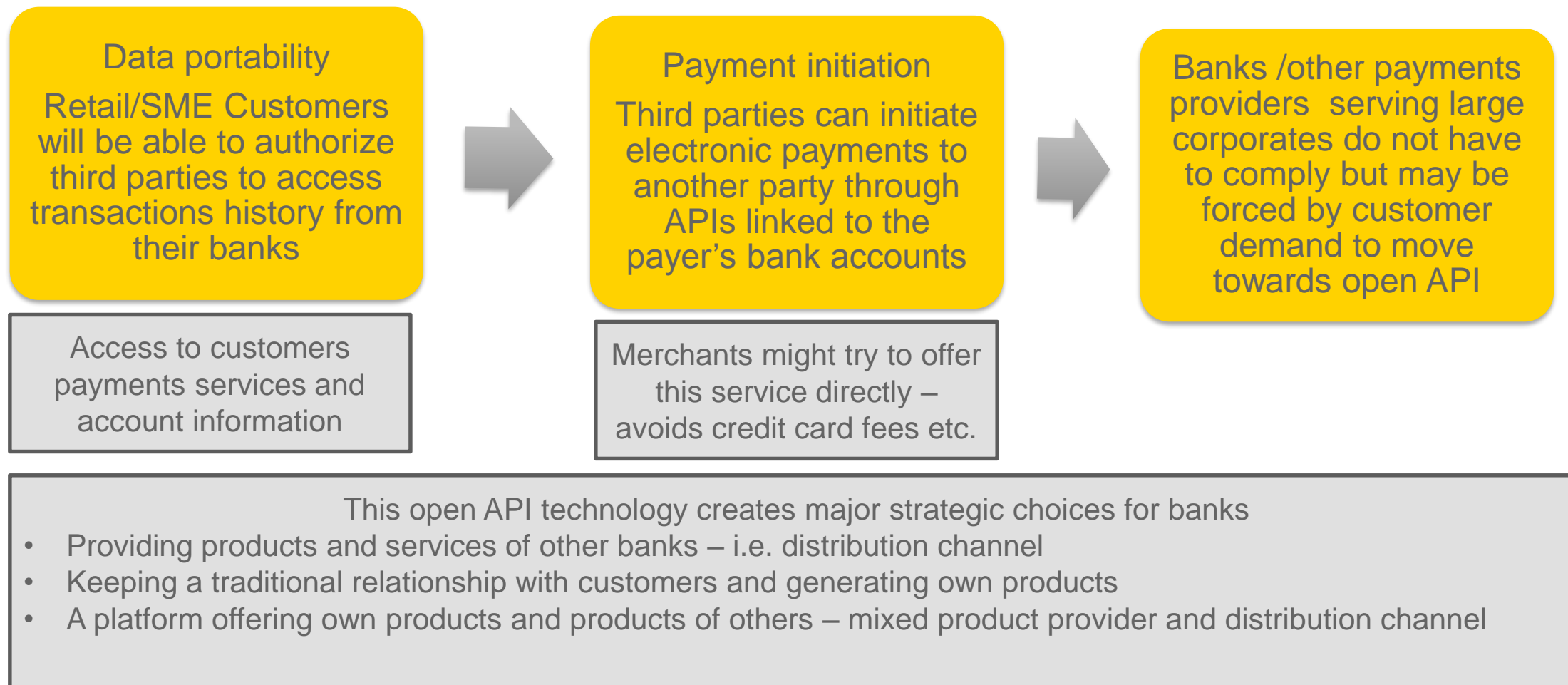
Regulation is leading compliance in Europe

Against a rich backdrop of innovation

FS is lagging other industries in sharing technical standards so that products and services can be transferred efficiently

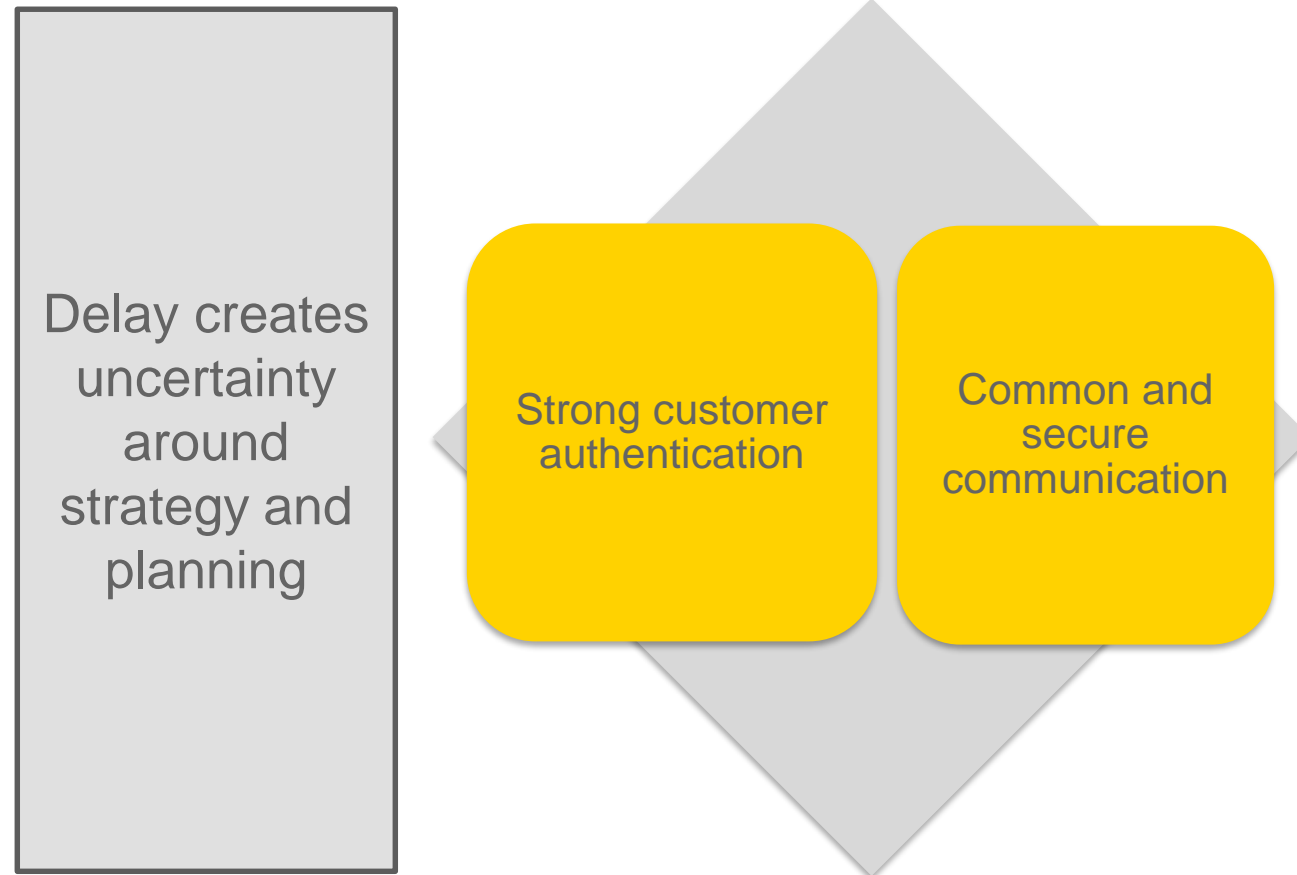
PSD2 in Europe (implementation 2018/9) will change the landscape

- ▶ Regulators are monitoring developments in retail and SME- and may apply more widely



Challenges – regulatory

EBA is setting the regulatory technical standards, RTS, before Jan 2018. But two key areas will lag 18 months



EU General data Protection Regulation

GDPR already approved – covering protection for personal data

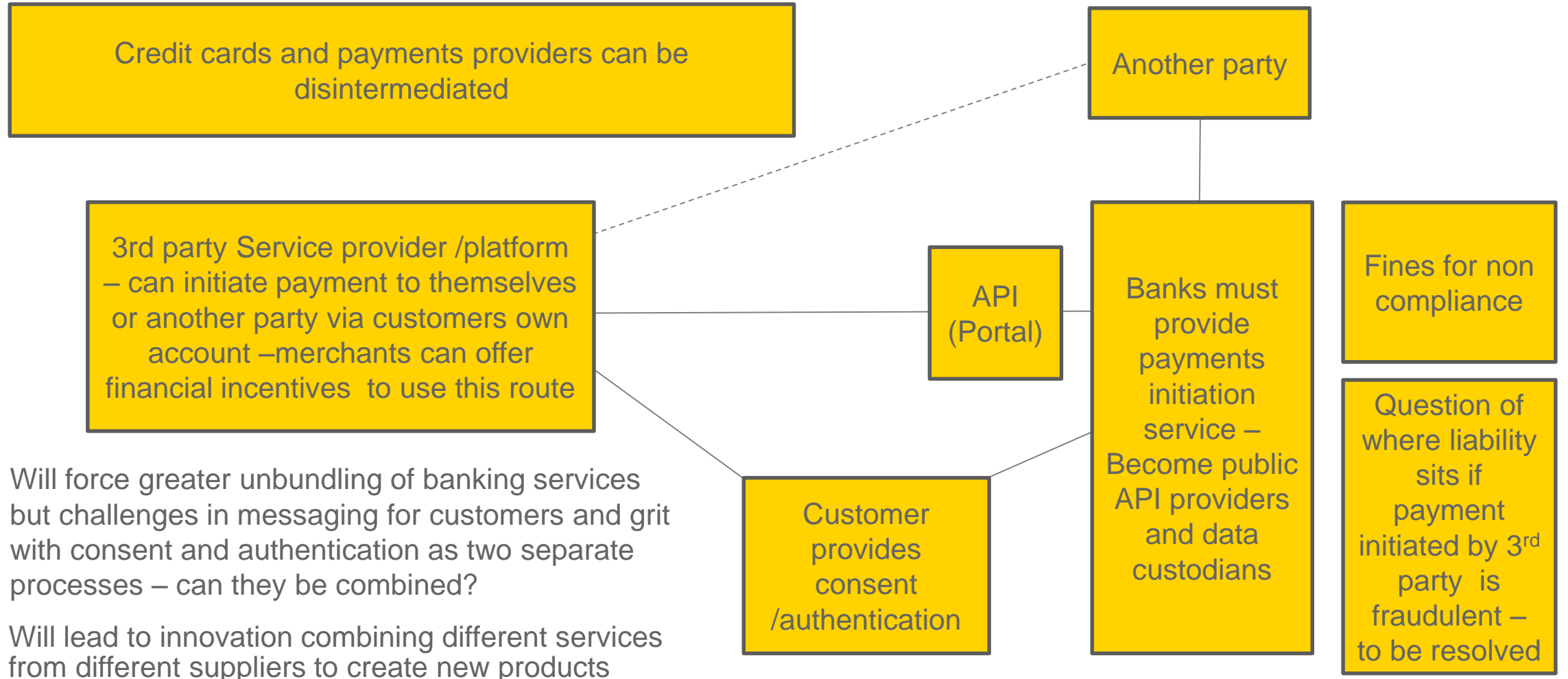
Consent to enable data portability sourced on unambiguous informed basis

Personal data must be processed in a lawful transparent manner

Personal data must be adequately protected

Go live May 2018

How PSD2 directive works – leading to potential fragmentation of the payments value chain for traditional payments for goods and services



An information revolution – the most important part?

Erodes barriers to entry

Access to customer past transactions data in retail banks across Europe

Will facilitate new aggregator services

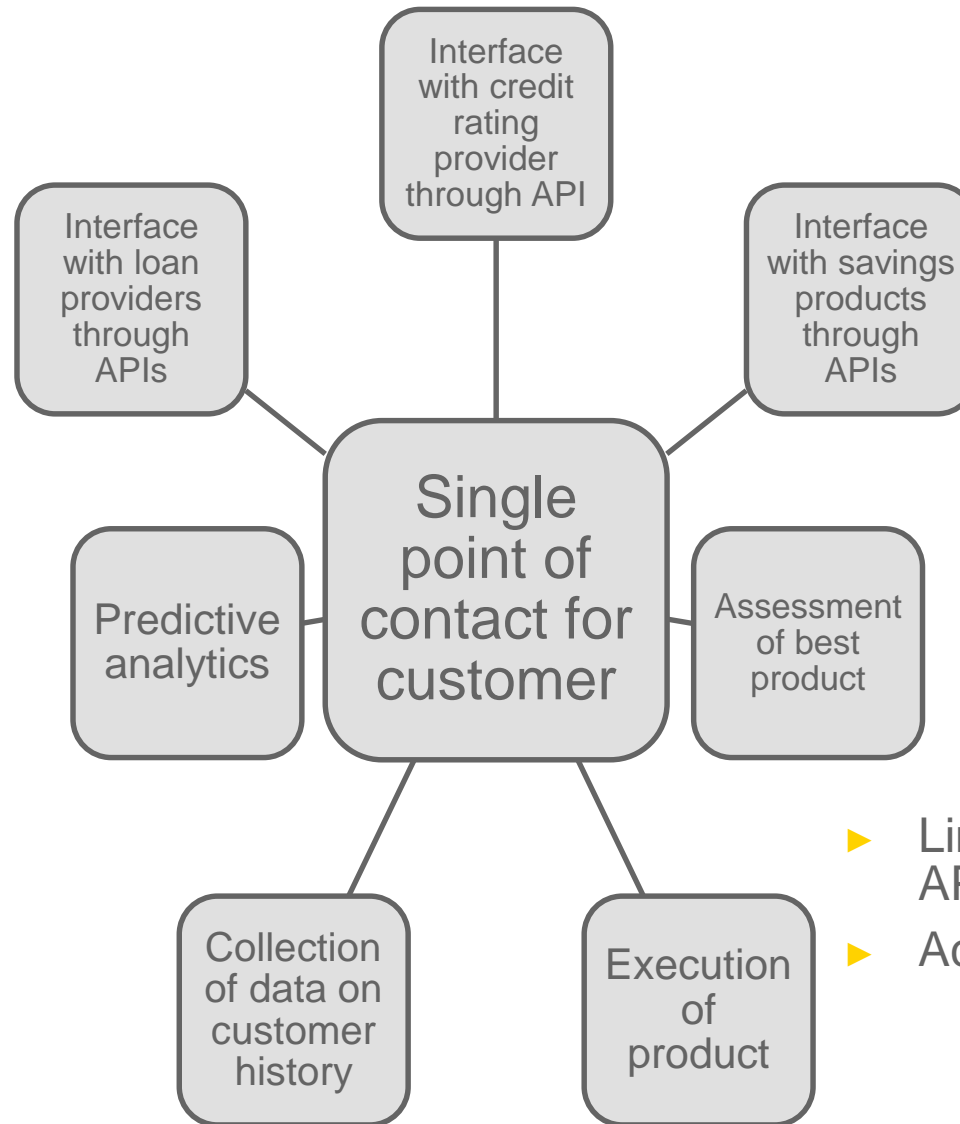
- ▶ Aggregating customer current account and savings data across a variety of accounts with different banks
- ▶ Provide greater insight to customers on what they are spending money on, their overall financial position
- ▶ Currently can be achieved by scraping – aggregator ‘impersonating’ the customer to access data using their login and passwords –open API much more efficient

Greater information allied with artificial intelligence will enable more precise customisation of products to customers

Price comparison websites for loans and savings could gain customer financial history data to offer even more customized price comparison

Money managers could for a fee churn an individual’s savings across the most advantageous products for their circumstances and in current conditions

The ultimate goal – e.g. loans and investments for SME



- ▶ Link to other products through APIs, insurance, FX etc.
- ▶ Accounting services etc.

Effect on the competitive banking landscape

High cost income ratios of traditional banks with branches and old technology will make it harder to compete

Traditional banks may see erosion of market share as platforms become the norm – business moving to other intermediaries and new entrants

Traditional banks will be more protected in highly regulated markets such as France

Question is in this platform environment where will value accrue – is it in aggregators, price comparison websites?

Some will bolt on new services but not fundamentally change

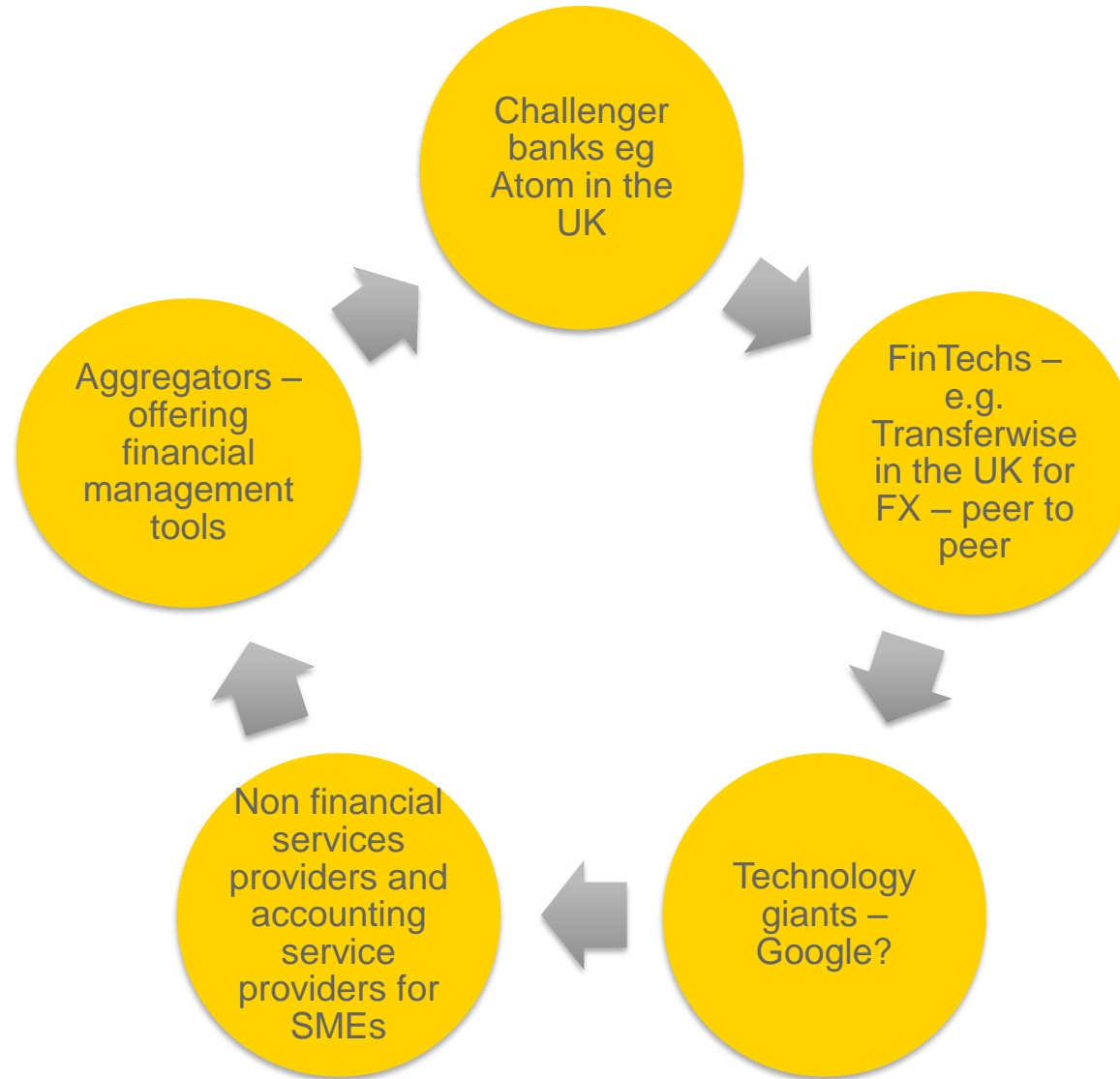
Banks as platforms of services some their own some they are distributing for others

- ▶ Banks will also disintermediate other players – e.g. in business banking

Some will change more fundamentally working alone or through strategic partnerships and new challenger institutions will build the business model in a different way

Non banks will be able to offer many of the services offered currently by banks and new banks can benefit from data on customers' in traditional banks – peer to peer websites will gain

A brave new world facilitating new entrants



Data access drives change – opens the Pandoras box of disintermediation?

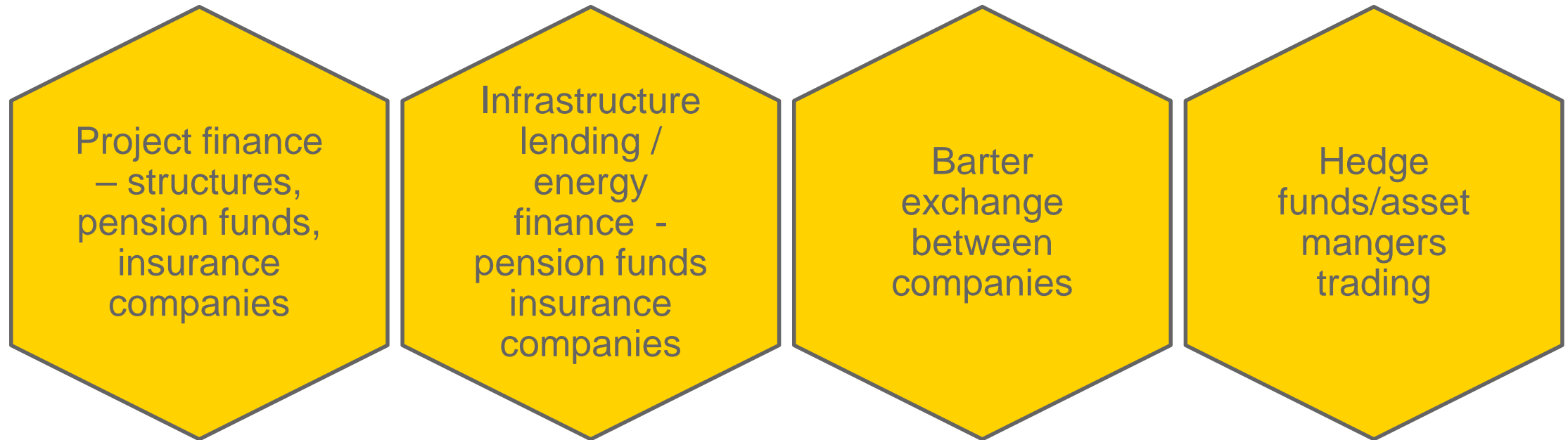
Willingness to adopt by customers and security are key

Airline industry has already adopted open API technology

What about wholesale banks

Average ROE of top 14 global investment banks in 2015 6.3%

- ▶ Disintermediation already underway
- ▶ Driven by costs, high capital requirements, search for yield by other players



Collaboration between investment banks and fintech?

- ▶ Process and service externalisation
- ▶ Managed or outsourced services
- ▶ Industry utilities – e.g. AML
- ▶ Collaboration with competitors – interoperability to gain geographic reach
- ▶ API led transformation to facilitate innovation- IP and data being made available to external parties to support development of new products
- ▶ Goldman packaging what they do to support 3rd party risk management and redesigning round APIs – amassing data, analysing it and putting it in the hands of customers

Highlights issue of safeguards round use of 3rd parties /suppliers, vendors – in US commission external reports on cyber, controls etc., which can be made available to customers, not the case in Europe.

Digital and investment banking

Customer centric
digital interaction

Channels to interact
with other market
participants

Internal tools,
systems and
processes

To reduce cost income ratios radical change is needed in terms of core infrastructure

- ▶ Spend to date has been on front office straight through processes
- ▶ Much less focus on middle and back office and control functions
- ▶ Digital must be the way forward – distributed ledgers i.e. block chain
- ▶ Digitising client on boarding – with industry utilities emerging
- ▶ Enhancing collateral management / custody and asset servicing
- ▶ Robotic process automation
- ▶ Improving efficiency of reconciliations etc.

Block chain could also enable the creation of new products / financial instruments

Digital supporting enhanced data

- ▶ Enhanced data
- ▶ Allied to artificial intelligence
- ▶ Supporting advanced analytics
 - ▶ Identifying patterns and trends
 - ▶ Identifying best customers for future
 - ▶ Improving understanding attributes of highest performing clients
 - ▶ Predictive analytics – to focus time of relationship managers
 - ▶ Behaviour based pricing
 - ▶ Pre trade analytics
 - ▶ Real time analytics of trades
 - ▶ Post trade analytics

Conclusion

Some banks will gain, some will lose

And the landscape will undoubtedly change