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





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

Data portability

Retail/SME Customers will be able to authorize third parties to access transactions history from their banks



Payment initiation

Third parties can initiate electronic payments to another party through APIs linked to the payer's bank accounts



Banks /other payments providers serving large corporates do not have to comply but may be forced by customer demand to move towards open API

Access to customers payments services and account information

Merchants might try to offer this service directly avoids credit card fees etc.

This open API technology creates major strategic choices for banks

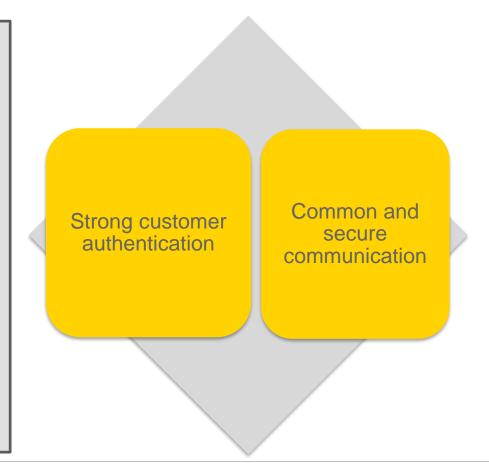
- Providing products and services of other banks i.e. distribution channel
- Keeping a traditional relationship with customers and generating own products
- A platform offering own products and products of others mixed product provider and distribution channel



Challenges – regulatory

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

Delay creates uncertainty around strategy and planning



EU General data Protection Regulation

GDPR already approved – covering protection for personal data

Consent to enable data portability sourced on unambiguous informed basis

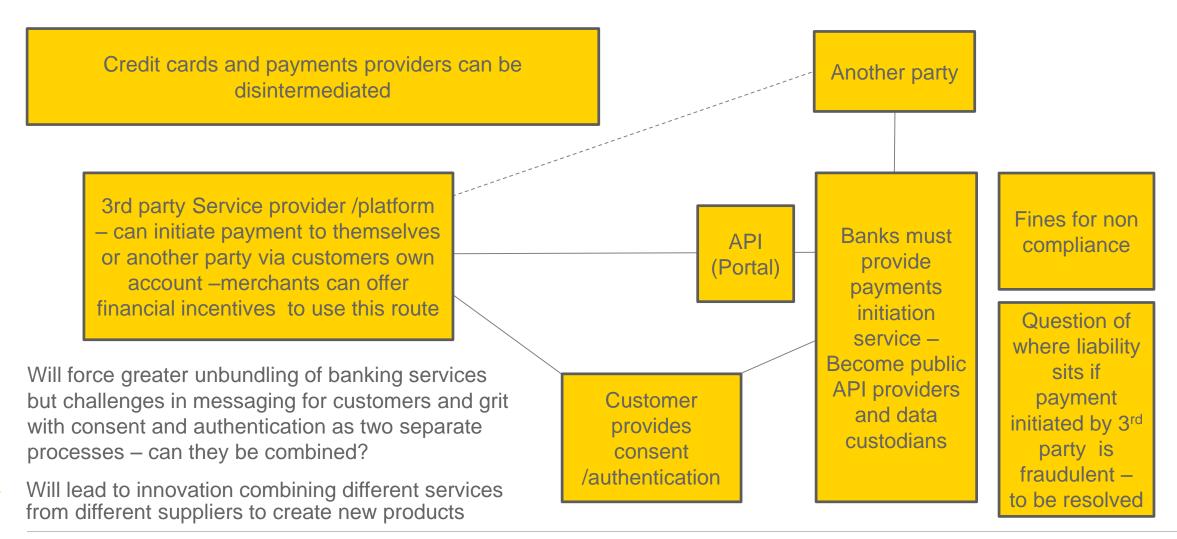
Personal data must be processed in a lawful transparent manner

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

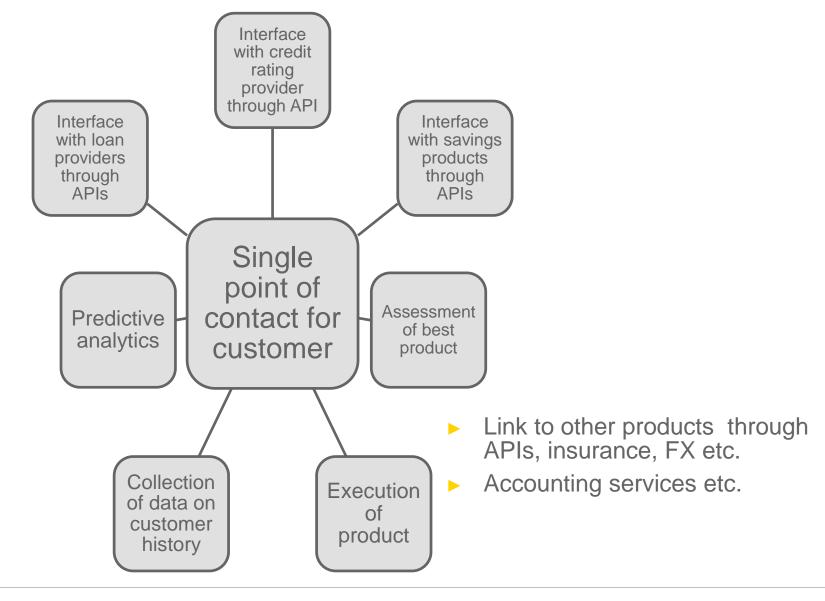
Greater information allied with artificial intelligence will enable more precise customisation of products to customers

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





Effect on the competitive banking landscape

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

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

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

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

Some will bolt on new services but not fundamentally change

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

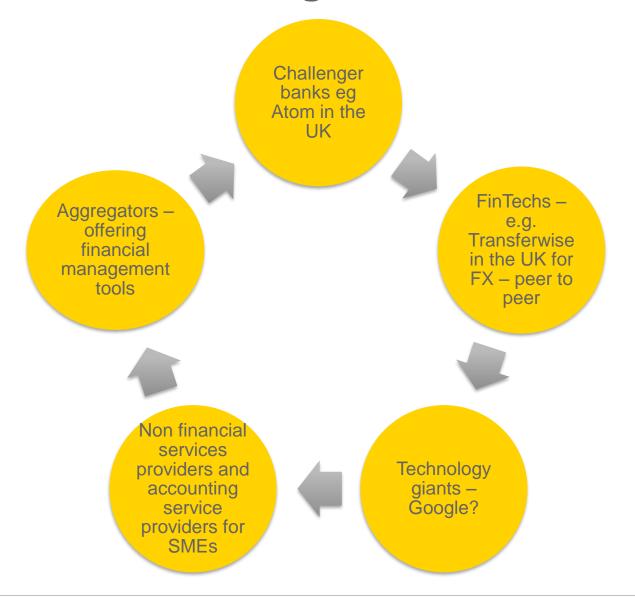
Traditional banks will be more protected in highly regulated markets such as France

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

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
disintemediation?

Willingness to adopt by customers and security are key

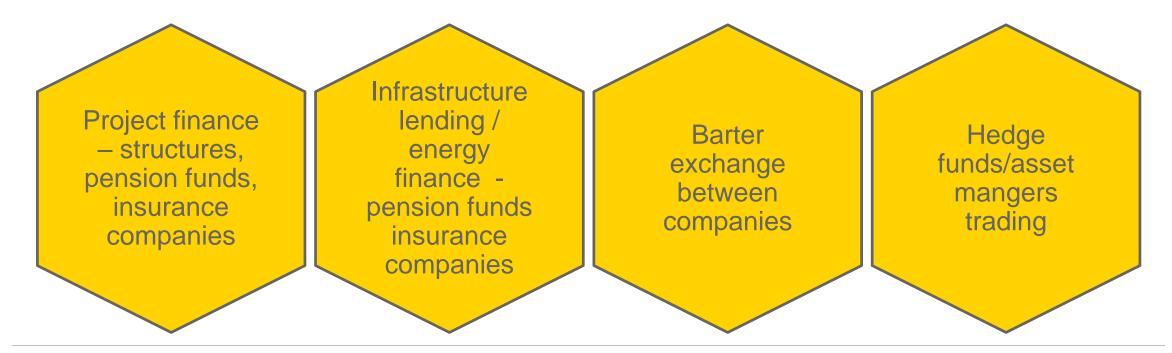
Airline industry
has already
adopted open API
technology



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

