

The Voice of Savings and Retail Banking



The future for regional banking An international perspective

Norbert Bielefeld
Magdeburg – 25 June 2015

Congratulations on the coming anniversary...



...the next revolution unfurls every day

“The future is already here –
it’s just not very evenly distributed”
William Gibson

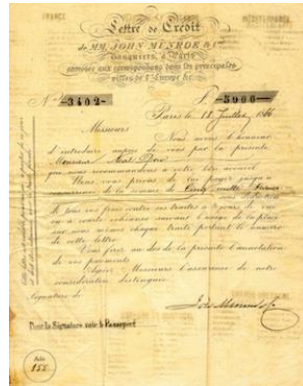


A brief history of money and societal evolution

Phase 1



Phase 2



Phase 3



Still rocking the banking boat:



Everything that can be digital will be digital
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The post-crisis (EU) financial supervision and banking sector regulation framework

- Institutional reform of financial supervision

(2011 European Financial Supervisory System, 2014 European banking union)

- Regulation of the banking sector (Basel III – CRD IV)

(Debt sustainability, global systemically important banks, remuneration system cap, implementation act, 2015 EU bank structure reform)

- Financial market regulation

(2012 EU regulation short selling of credit default swaps, 2014 PRIIPS/Packaged Retail Investment Products, 2014 MiFID II)

- Regulation of credit rating agencies and shadow banking

(2010 EU Regulatory standards for rating agencies, 2014 EU action plan to reduce dependency on ratings by rating agencies, 2011 Alternative Investment Fund Managers Directive, 2013 EU standards for money market funds)

Transaction and relationship banking: a new landscape emerges

- Card Interchange Regulation (from 9/12/2015): capping of debit and credit card interchange fees (max. 0,2/0,3% of transaction value, Member States may set lower caps)
- Payment Accounts Directive (from 18/09/2016): credit institutions to offer free of charge/for a reasonable fee « payment accounts with basic features »: enabling funds to be placed, cash withdrawals within the EU, direct debits, credit transfers, payments including online via payment card to any EU resident (switching allowed, comparison sites to be created)
- The new holy grail: “Instant payments are hence defined as electronic retail payment solutions available 24/7/365 and resulting in the immediate or close to immediate interbank clearing of the transaction and crediting of the payee’s account (within seconds of payment initiation), irrespective of the underlying payment instrument used (credit transfer, direct debit or payment card) and of the underlying clearing and settlement arrangements that made this possible”

A look to the other side of the pond (1/2)

Community banks in the U.S. economy (FRB assessment April 2015)

- Serve smaller markets in which large banks have little interest
- Specialize on relationship-based services
- Generally: held their own against larger banks, earned comparable profits, enjoyed faster growth*, attract new entrants
- But: smallest community banks face continued difficulties, due to lack of scale efficiency and/or location in declining communities
- But: spread of online banking may lead to some reduction in the demand for relationship-based banking services



A look to the other side of the pond (2/2)

- And: more stringent lending rules destroy competitive advantage (know your customer flexibility)

*Yet – according to a Harvard University study

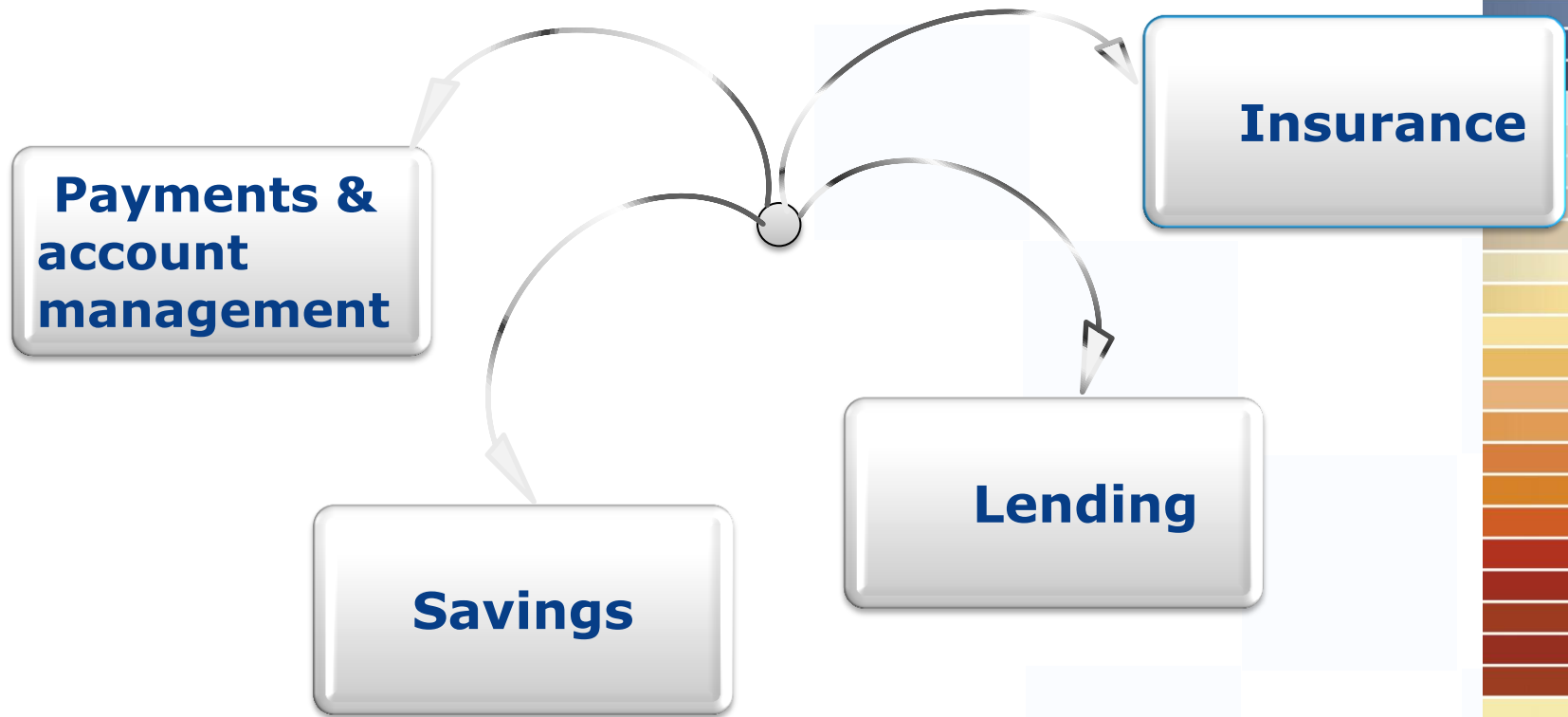
- community banks' share of US banking assets slipped from 20% (2009) to 18% (2014)
- whilst the 5 largest banks' share grew from 32 to 36%



The new normal 1:

- Low interest rates
- Stringent capital requirements, liquidity ratios
- Compliance strain on IT and human resources
- Technological advances strain on the same
- Transformational competitive scene

Open for poachers – one segment at a time:



Towards better responses?

Another lesson from history is that it is not enough just to know about your customers' behaviour and utility at one point in time, or to rest on the laurels of a one-off innovation. Being able to set customer expectations and preferences, and being able to apply technology to build these into the evolving suite of products and services, are the attributes that enable institutions to succeed in volatile environments.

Source: PwC Future Shape of Banking July 2014

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XendPay:



HEAR

Determine who to talk to, how to gather stories, and how to document your observations.



CREATE

Generate opportunities and solutions that are applicable to the whole community.



DELIVER

Take your top solutions, make them better, and move them toward implementation.

The new normal 2:

- By 2020: 7 billion merchants worldwide....
- ...40 billion devices connected to the Internet...
- ...and decentralized ledgers come of age



A few questions to address as a matter of priority

- What positioning for the branch
- What role for which ATM
- Cash: support, or nudge customers away
- Will new entrants share infrastructure costs
- How to create a competitive advantage from customer and transaction data
- Make the bank
« the platform », again!

