

# *Future of Finance*



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## Disruptions



## Impact on Financial Institutions



## Future of Finance

# There are 5 factors driving change in the financial industry

## Technology Disruptors



Technology companies are entering the financial services market with new propositions that combines ease of use, low cost and other non-financial services propositions

## Disruptive Technology



Technology development in the crypto industry has shown the possibility of constructing new stock and flow infrastructure that are run mostly on code and by distributed players

## Customer Needs



Customer needs are changing and they now demand easy access services via digital channels and are comfortable using non banks to access financial services

## Regulator's Innovation Agenda



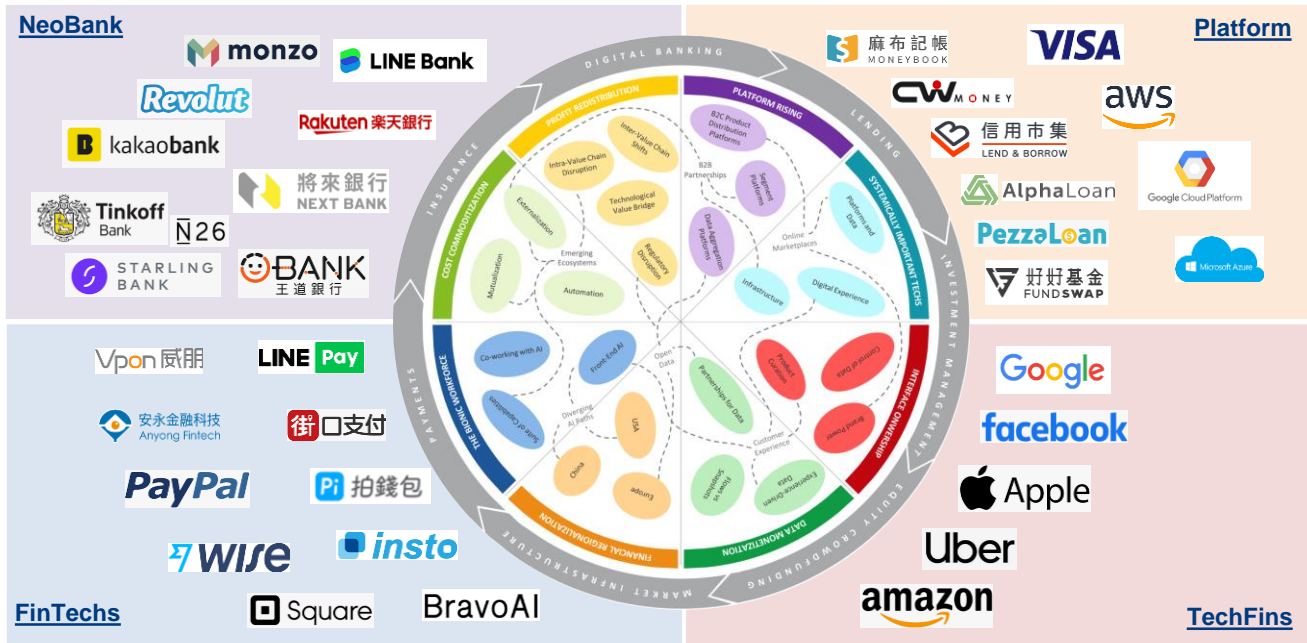
Regulators across Asia are pushing an innovation agenda, making the industry more competitive, and driving new digital infrastructures

## Covid's Permanent Impact



The pandemic has changed where and how clients work and consume services

# Tech disruptors are entering financial services with a variety of financial services propositions

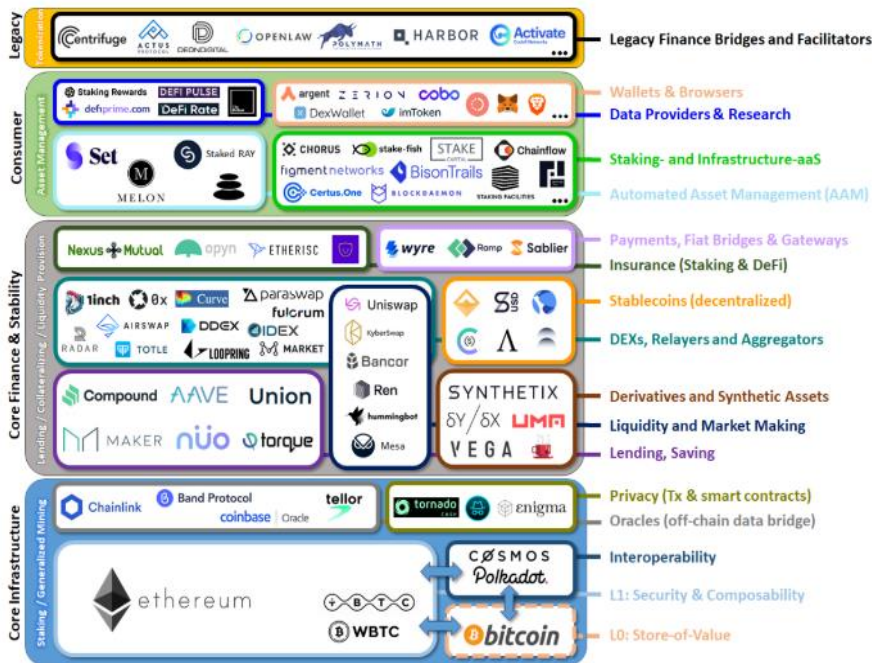


Source: WEF

# Disruptive technology such as DLT has created new markets and re-imagined how finance can be built and operated

Technology deployed in crypto markets have created a composable financial services stack covering stock and flow

Value captured in these infrastructure has grown significantly



Total Value Locked (USD) in DeFi



Some are being brought into traditional regulated markets

**SWARM MARKETS**

- World's first regulated DeFi protocol
- Licensed in Germany

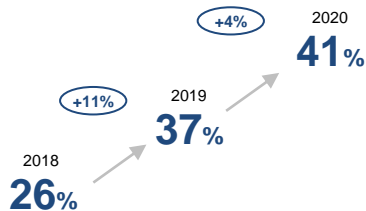
*"The Berlin-based trading platform has managed to shoehorn DeFi into existing regulatory infrastructure and has some \$15 million pledged from over 250 customers" (Jul 2021)*

Source: zipmex, coindesk

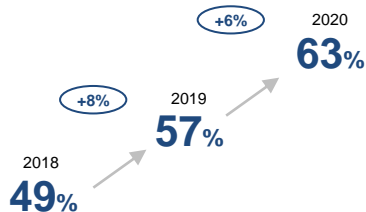
# Customer are using more digital channels and are comfortable using non banks although banks are still the most trusted

Consumers are increasingly using digital channels...

## ING's active client base using mobile channels to interact

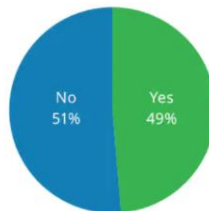


## Share of BBVA's financial sales through digital channels

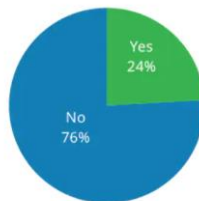


...and are open to using non-banks for financial services...

Would you use consumer banking services provided by Amazon if they were available (such as banking accounts or personal loan)?

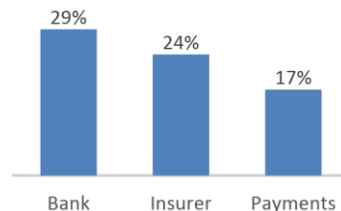


Would you use consumer banking services provided by Facebook if they were available (such as banking accounts or personal loan)?

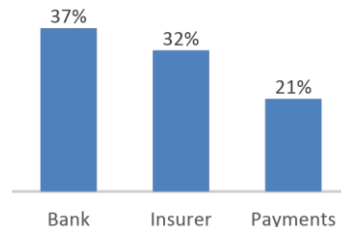


...however, banks are still the most trusted institutions

## Trust in businesses to look after long-term financial well-being



## Trust in businesses to look after your data



Source: Accenture, Deloitte

# Regulators are encouraging and driving innovation

Regulators are issuing virtual bank licenses in Asia. However, tech applicants dominate.

Central Banks are increasingly investigating CBDC. The role of commercial banks may change.

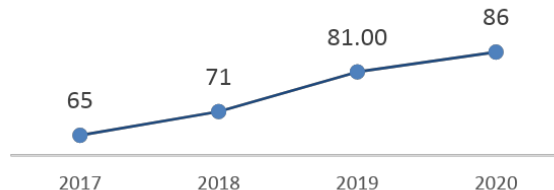
## Countries and territories issuing VB licenses in Asia



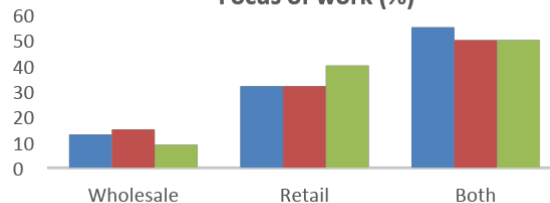
## Applicant archetypes in Asia Pacific

Type	SG	HK	TW
Tech + FI	✓	✓	✓
Tech + FI + Offline	✓	✓	
Tech + Offline	✓		
Tech + FI + Telco		✓	✓
Tech + Telco	✓		
Telco + FI + Offline			✓
Solo	✓		

## Central Banks engaged in CBDC work (%)



## Focus of work (%)



The public and NBFIs (pension funds, traders, etc.) will have direct access to digital risk-free money – altering the current monetary landscape

Source: Deloitte, BIS



# COVID has created lasting change on how people live, work, commute and consume services.

## Physical presence no longer as important among FIs

## Consumer behaviours are changing – demanding delivery, digital channels and easy e-payments

# 53%

of surveyed FIs did not allow employees to work from home before the pandemic

# +48%

Food Delivery (+7% from 30% to 37%)  
Fresh food marital delivery (+5% from 11% to 16%)

Covid pushes ~48% of consumers to try new online shopping types  
21<sup>st</sup> March vs. 21<sup>st</sup> June

# 2.7 X

The digital channel for purchasing financial products is 2.7 times higher than the branch channel

The digital channel for purchasing financial products vs. Branch  
21<sup>st</sup> Jan vs. 21<sup>st</sup> April

# 23%

of surveyed FIs expect to reduce their occupation of physical spaces within the next year

# +65%

from 7.55 MM to 12.5MM

e-payments user

20<sup>th</sup>Q1 vs. 21<sup>st</sup>Q1

# +89%

from 9,801MM to 18,592MM

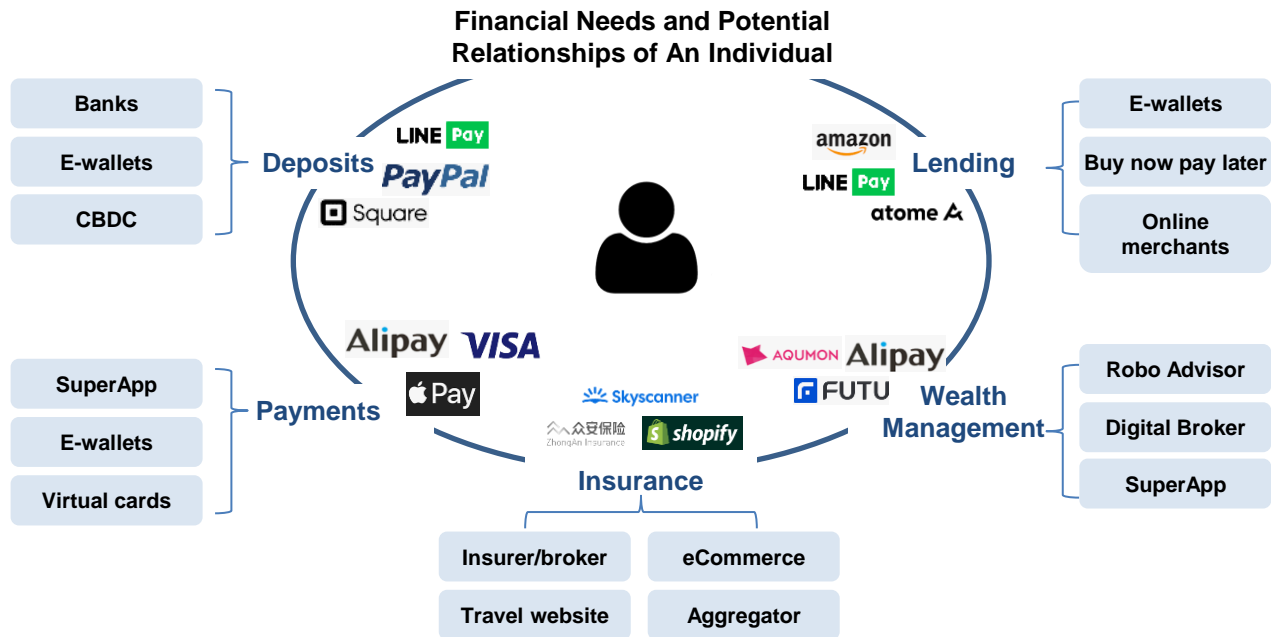
e-payments transaction volume

20<sup>th</sup>Q1 vs. 21<sup>st</sup>Q1

Source: KPMG, Google



# These changes will alter the relationship of financial institutions and their clients...



**Financial services propositions need to be embedded into daily life.  
Financial relationships are no longer monopolized by banks**

# ... and traditional FIs will need to respond to the competitive threats by these new disruptive business models ...

## Traditional Banking Model

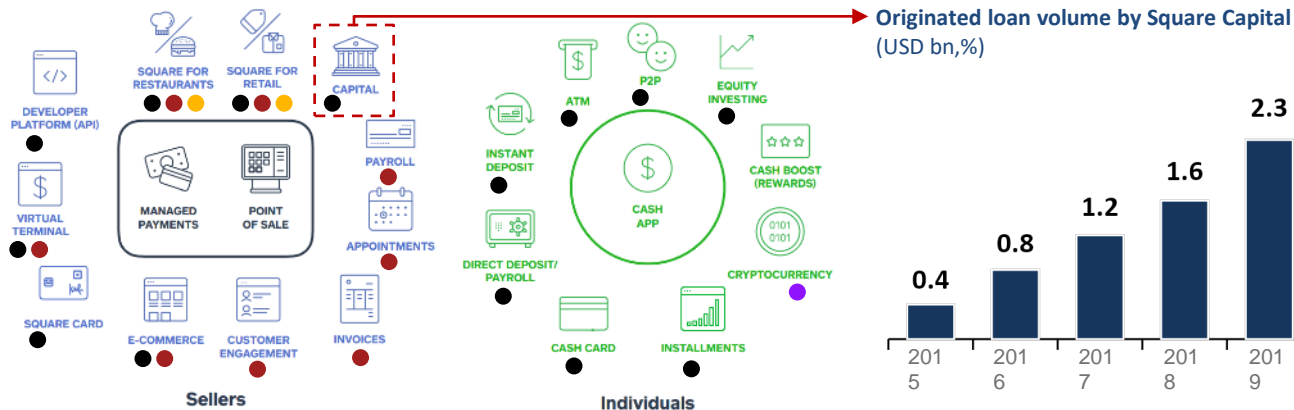
<b>Channel</b>	Build channels that can acquire customers
<b>Servicing</b>	Own capabilities to service clients
<b>Products</b>	Offer financial products with optimised risk adjusted returns
<b>Markets</b>	Access funding and shift risks to market

## Insights Monetization Model

<b>Attention</b>	Attract customer attention and maximise time and interaction on platform
<b>Services &amp; Contents</b>	Free / low cost services (e.g. free micro-loans) and on-demand contents (e.g. people-like-you)
<b>Data</b>	User data collected through usage
<b>Personalized Insights</b>	Analytics delivers actionable insights to user or to technology platform
<b>Monetization Model</b>	Monetise insights through variety of models including ads, channel fees, product sale, service fee from third-party data usage, etc.

# ... and other 'bank like' players that do not operate with the legacy cost and compliance structures of financial institutions

## Example: Square's Ecosystem of Products and Services



Revenue Category	Gross Profit Contribution	Description
1 Transaction-based revenue	60.3%	Fees a seller/individual pays related to payments
2 Subscription & services	42.0%	Provision of software (e.g. CMYR, Payroll) and others products/services (e.g. hosting)
3 Hardware	-2.7%	<b>Loss leader.</b> Drives growth of payments
4 Bitcoin revenue	0.4%	Spread earned from selling Bitcoin to purchasers

Source: Square

Square has been offering 'bank-like' financial products since 2013, with much more diversified sources of income than banks.

# This will negatively impact Financial institution's traditional profit pools

## Potential Impacts on Fee and Margin in Revolutionary Digitization Scenario

	US	UK	China	Eurozone	MEA	Emerging Asia
<b>Retail</b>						
Consumer finance	High	High	Medium	Medium	Medium	High
Mortgage	Low	Medium	Low	Medium	Low	Low
Checking deposits	Low	Low	Low	Low	Low	Low
Term deposits	Medium	Medium	Medium	Medium	Low	Medium
<b>Corporate</b>						
Cash management	Low	Low	Low	Low	Low	Low
Corporate lending	Medium	Medium	Medium	Medium	Low	Medium
<b>Payments</b>						
Payments	High	High	High	High	Medium	High
<b>Wealth management</b>						
Asset/wealth management	High	High	Medium	High	Low	Medium

**Fee-based businesses are likely to experience the largest margin reductions**

Source: Mckinsey

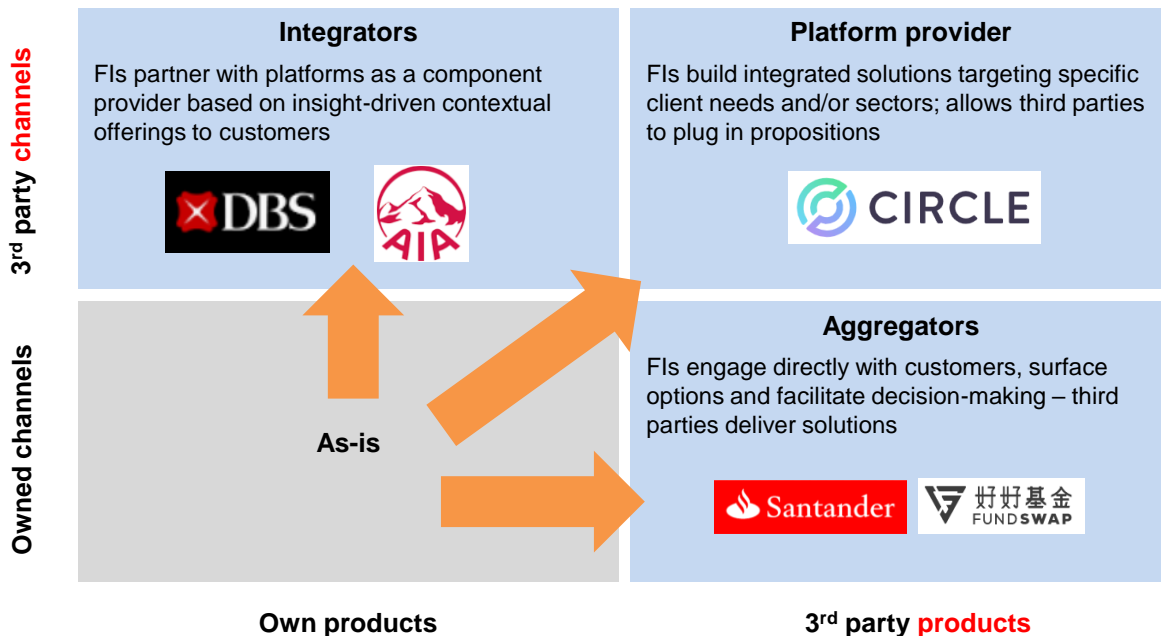
## But there are also opportunities for traditional FIs to move into new sources of revenue...

	Description	Estimated EBT Margin in 2025
Advisory	FIs are <b>trusted advisors of clients and providing business and financial advice</b> to can be a future revenue stream	10-15%
Data and Provenance	FIs have institutional trust and hold high amount of data. As digital processes become more prevalent, <b>banks can play the roles of validators and verifiers</b> of identity and other sensitive data.	20-25%
Services and Technology	FIs can <b>provide technology solutions to corporates and SMEs</b> and play a central role in digitizing and automating processes and providing visibility to financial and operations data	20-25%
Extending Core Financial Services	FIs can provide a <b>full stack of services, from licensing to sales and product servicing to other players</b> , therefore capturing deposits and client funds through multiple channels and partners	10-15%

Source: Bain

# ...and take on different models to build and distribute products

## Business Model Evolution for Financial Institutions



# Financial services will need to evolve and the speed of evolution will increase

	1970s	1990s	2010s	2020s	2025+
	<b>Bank as an institution</b>	<b>Product Push</b>	<b>Customer Centric</b>	<b>Digital Bank</b>	<b>Banking as part of an Ecosystem</b>
<b>Proposition</b>	Take it or leave it	Point Solutions	Relationship Management	Always Available	Banking as a Service
<b>Centricity</b>	Physical Branch	Physical Branch	Telephones and RMs	App	Intergated in services and devices
<b>Value</b>	Number of Customers	Asset size	Customer segments	Insights and Data	Platform and license

Source: Finmirai KK

# FIs will need to consider 7Ps to address these challenges and seize the opportunities that will present itself

**Premises**



What will branches look like in the future and what are the services offered in it?

**People**



How can we manage a distributed workforce securely and efficiently?

**Processes**



Where do we deploy automation and how do we mitigate the risks associated with it?

**Propositions**



How can we evolve our propositions beyond financial services and still be relevant?

**Product**



How can we make our products more discrete and customised without adding complexity?

**Prosperity**



How can we work with regulators to improve access to responsible financial services?

**Pivoting**



How can we pivot our model and diversify beyond interest and fee income?

Source: Digital Nomade Consulting