Impact of Fintech & digitalisation on Belgian Banks

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Banque Nationale Bank
DE BELGIQUE VAN BELGIË
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1. Introduction & Approach

The second NBB 2020 Fintech questionnaire was sent mid July 2020 to 17 credit institutions.

Sectoral analysis: identifying main trends & observations

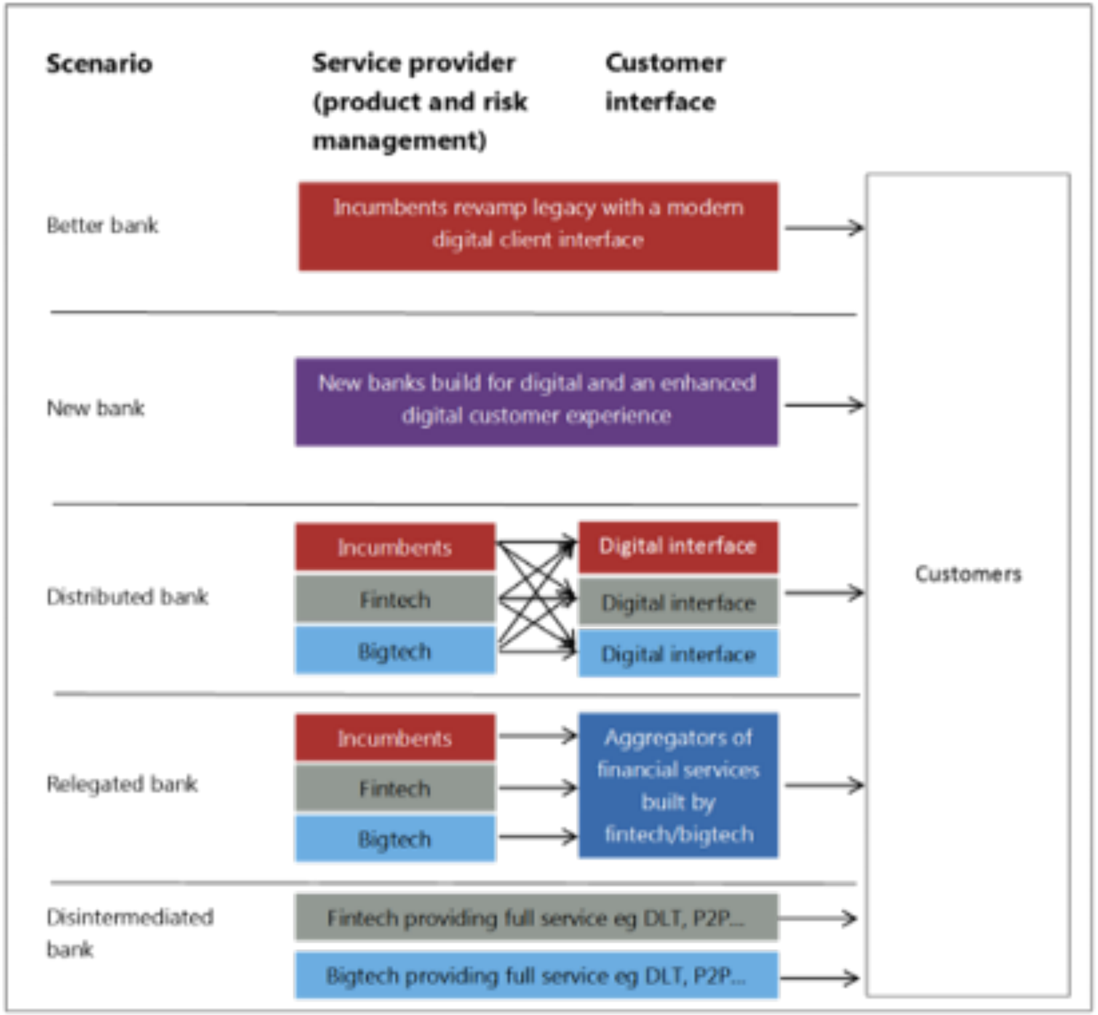
Institution specific analysis:

- Scorecard on the institutions' approach and a scorecard on the new business model/new technology initiatives
- Discussions with the JST/supervisory teams
- Horizontal analysis to ensure consistency

Dedicated meetings/calls with some participating banks

Conclusions shared with stakeholders in June (bankers session) and July 2021

2. Sectoral analysis - scenarios relating to Fintech/digitalisation

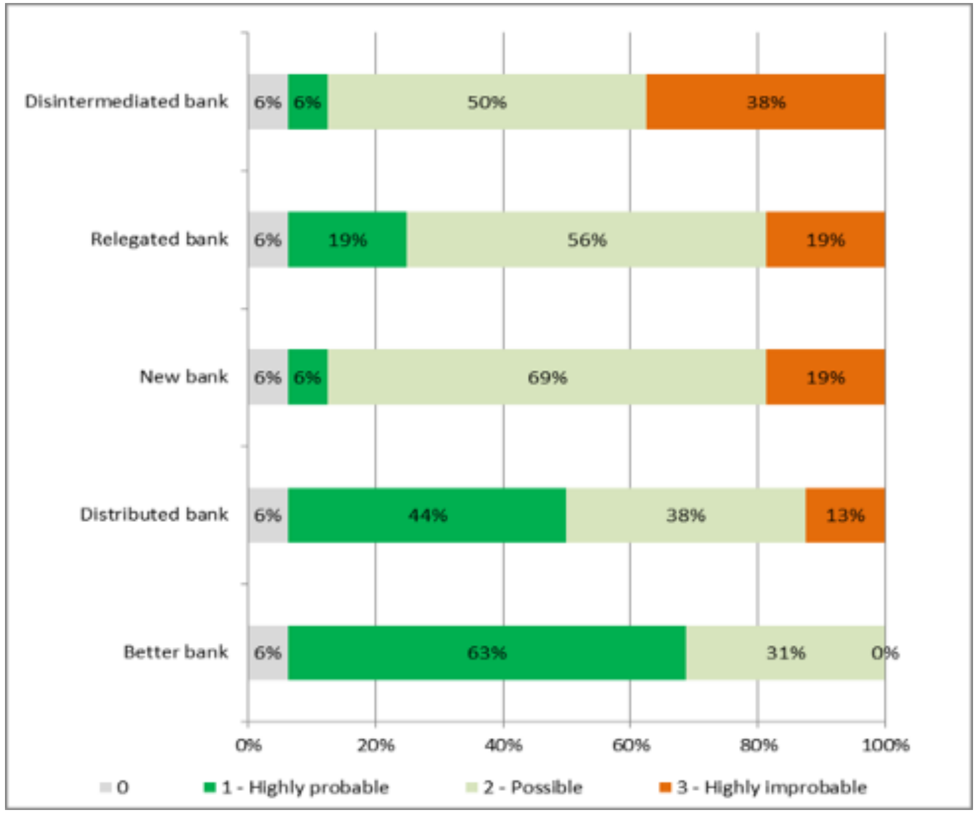


Globally, the perception of the sector regarding the materialisation of the BCBS scenario has not changed since 2017

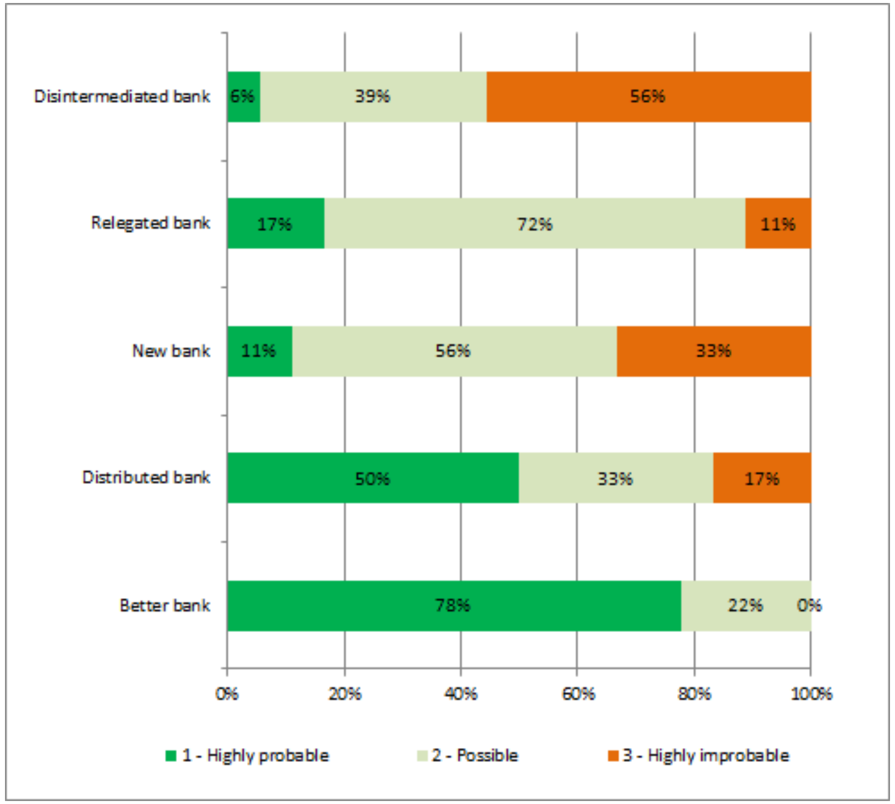
… Somewhat contradicting SWOT analysis as Big tech threat is viewed as major threat

2. Sectoral analysis – scenarios relating to fintech development

2017



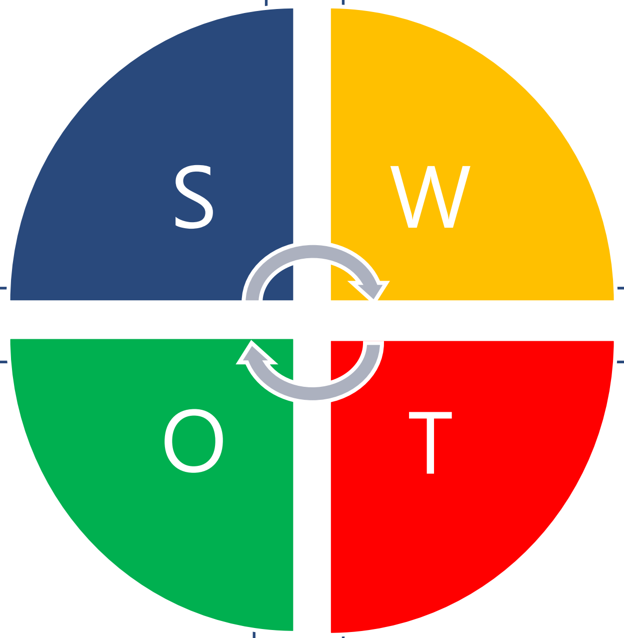
2020



In payments we see the Distributed bank scenario with e.g. Apple pay, Klarna, Adyen whereas in other domains it is clear that banks are focussing a lot on trying to improve the UX the offer to their customers, pointing towards the Better bank scenario

2. Sectoral analysis - SWOT

- Large, established clients base & deep knowledge on customers
- Financial resources and innovation capacity (for bigger banks)
- Experience with regulation (authorisation as credit institution, risk management, AML & KYC)
- Trusted by clients



- Legacy IT & digitalisation
- Lack of in-house skills
- Difficulties linked to partnerships: dependance on third party, non clarity of revenue model of partnership
- For smaller bank: budget constraints and bargaining power

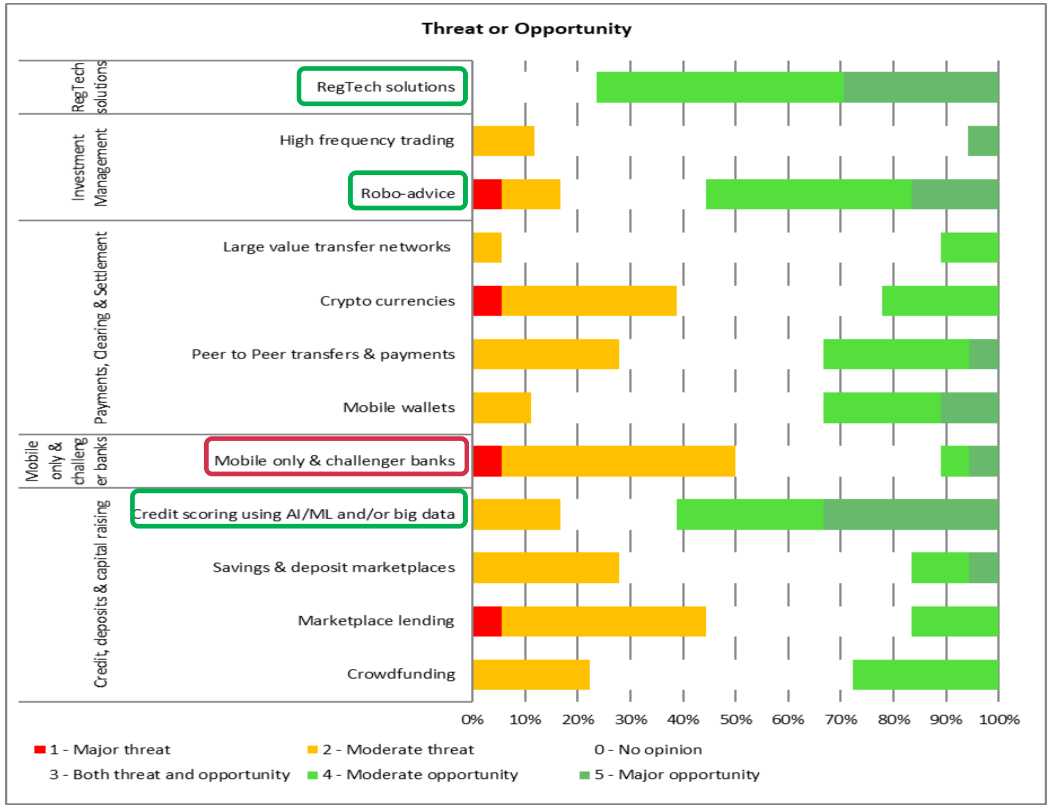
- Increased quality of products and services
- Optimisation of internal processes
- Increased in insight in customer behavior and preferences
- Open (cooperation) and beyond banking (offer of new services)

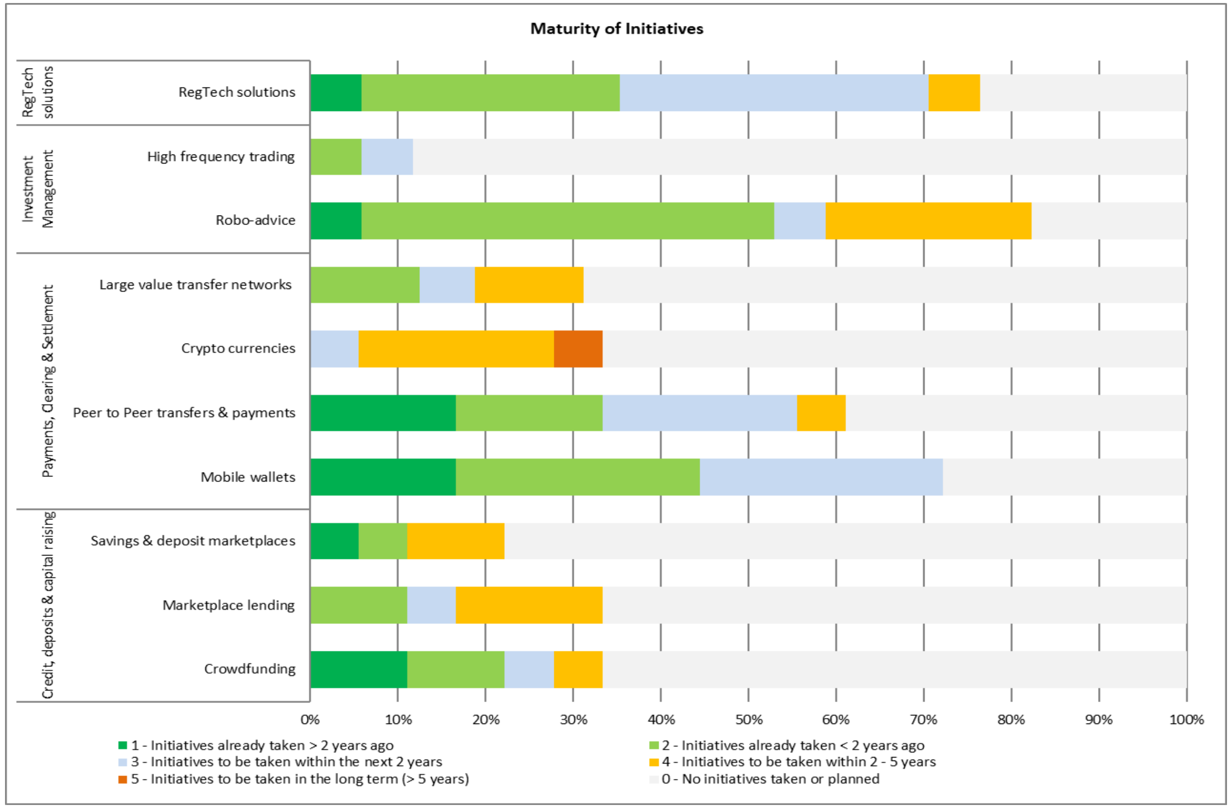
- Loss of physical contact and customer relationship - disintermediation
- Bigtechs competitive advantages
- Strategic/business model risk
- Battle for talents
- CBDC/stablecoins

2. Sectoral analysis - Potential of new business models and new technologies threat & banks response

Mobile & challenger banks considered a threat whilst opportunities lie with regtech, credit scoring using AI/ML/big data and robo advice

… resulting in recent initiatives in regtech around KYC/AML (and still many regtech initiatives to come) and regulatory reporting and many (smaller) initiatives around robo advice often in combination with human advice





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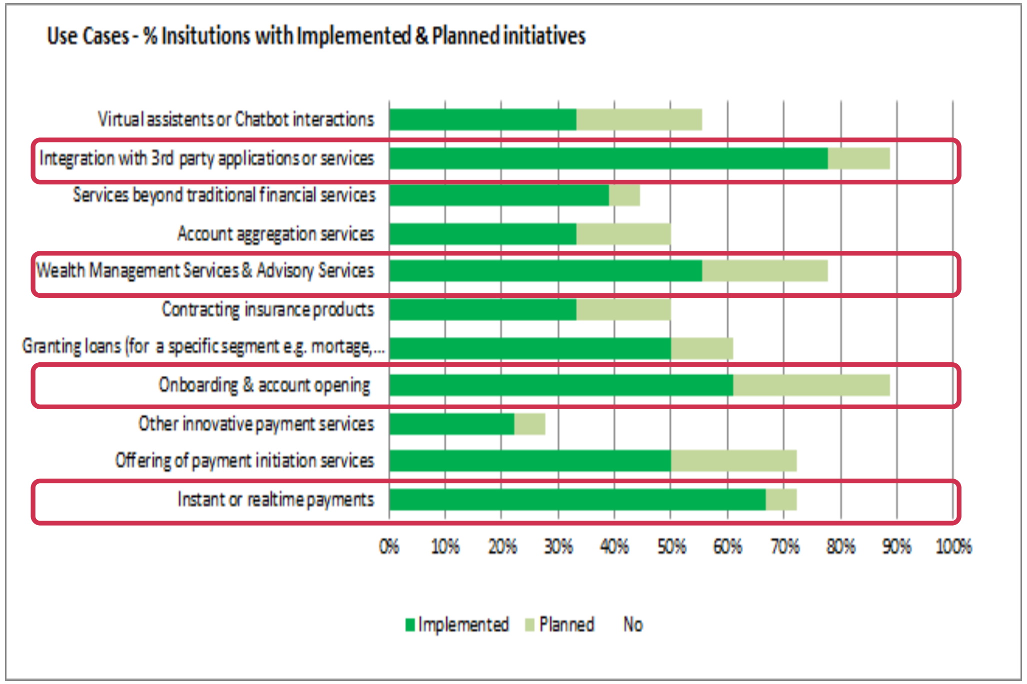
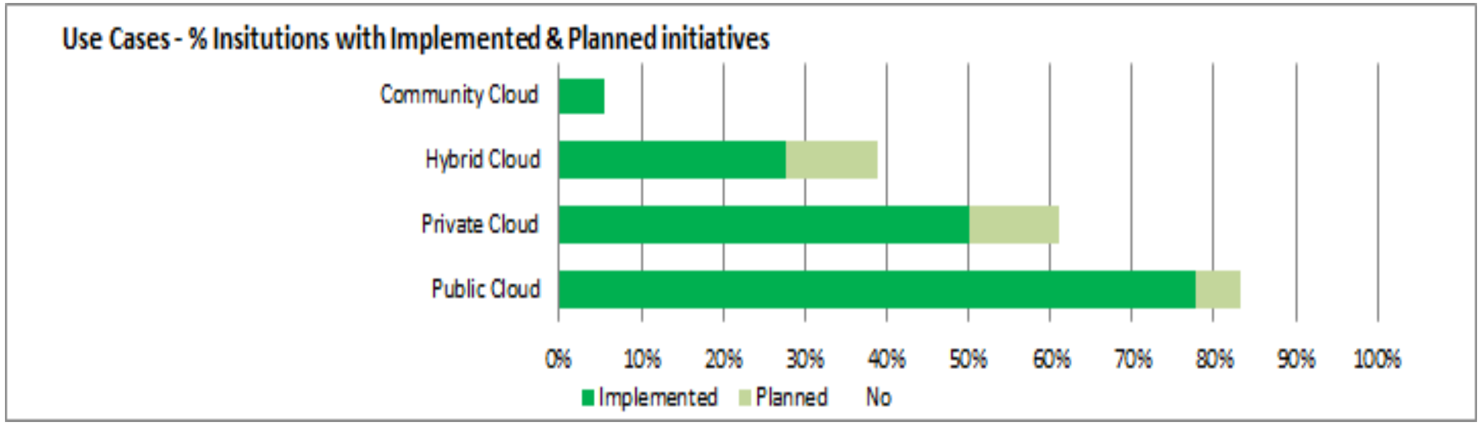
2. Sectoral analysis: Zoom on some digital focus areas

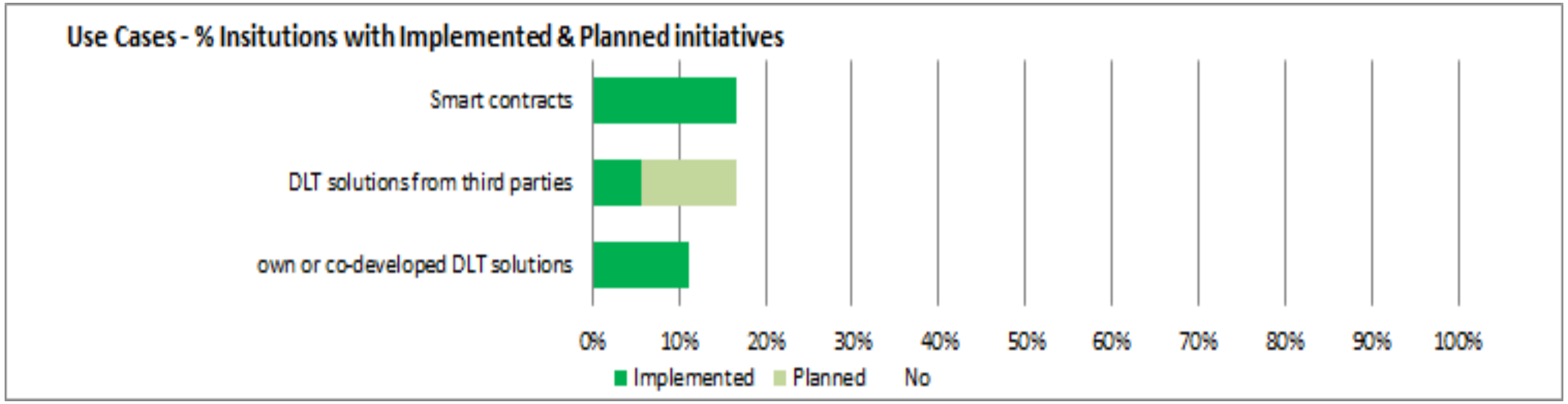
… and focus on further developing mobile banking features whilst setting the foundations for the development of data analytics use cases



2. Sectoral analysis: Zoom on some supporting technologies

In terms of supporting technologies public cloud initiatives are present in many CIs although mostly for smaller use cases whilst DLT and smart contracts are still in their infancy





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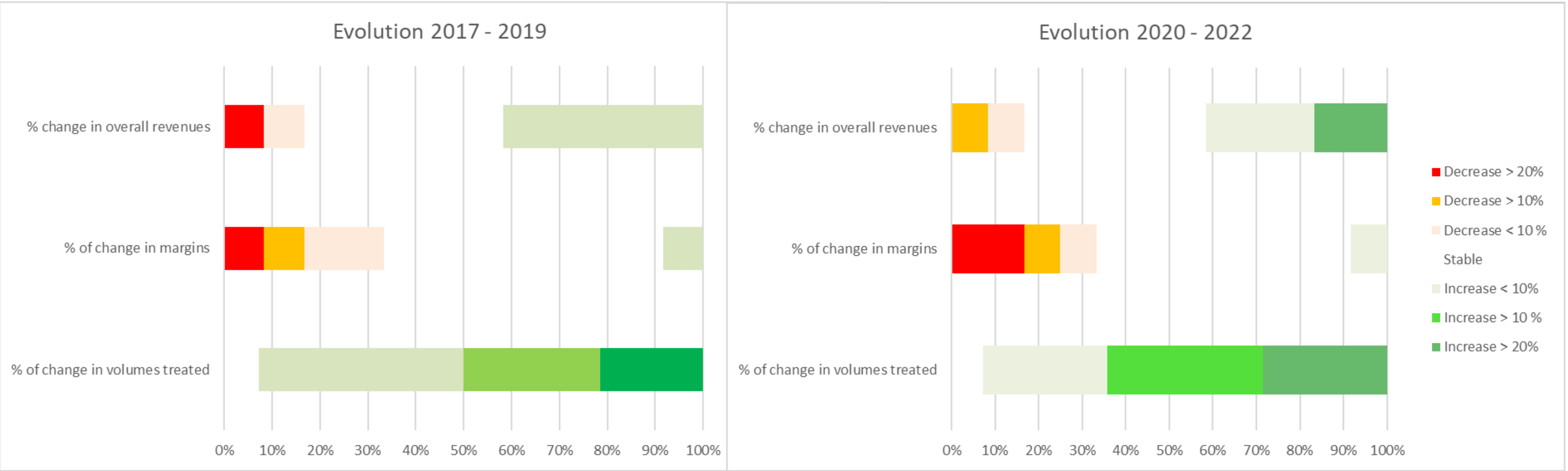
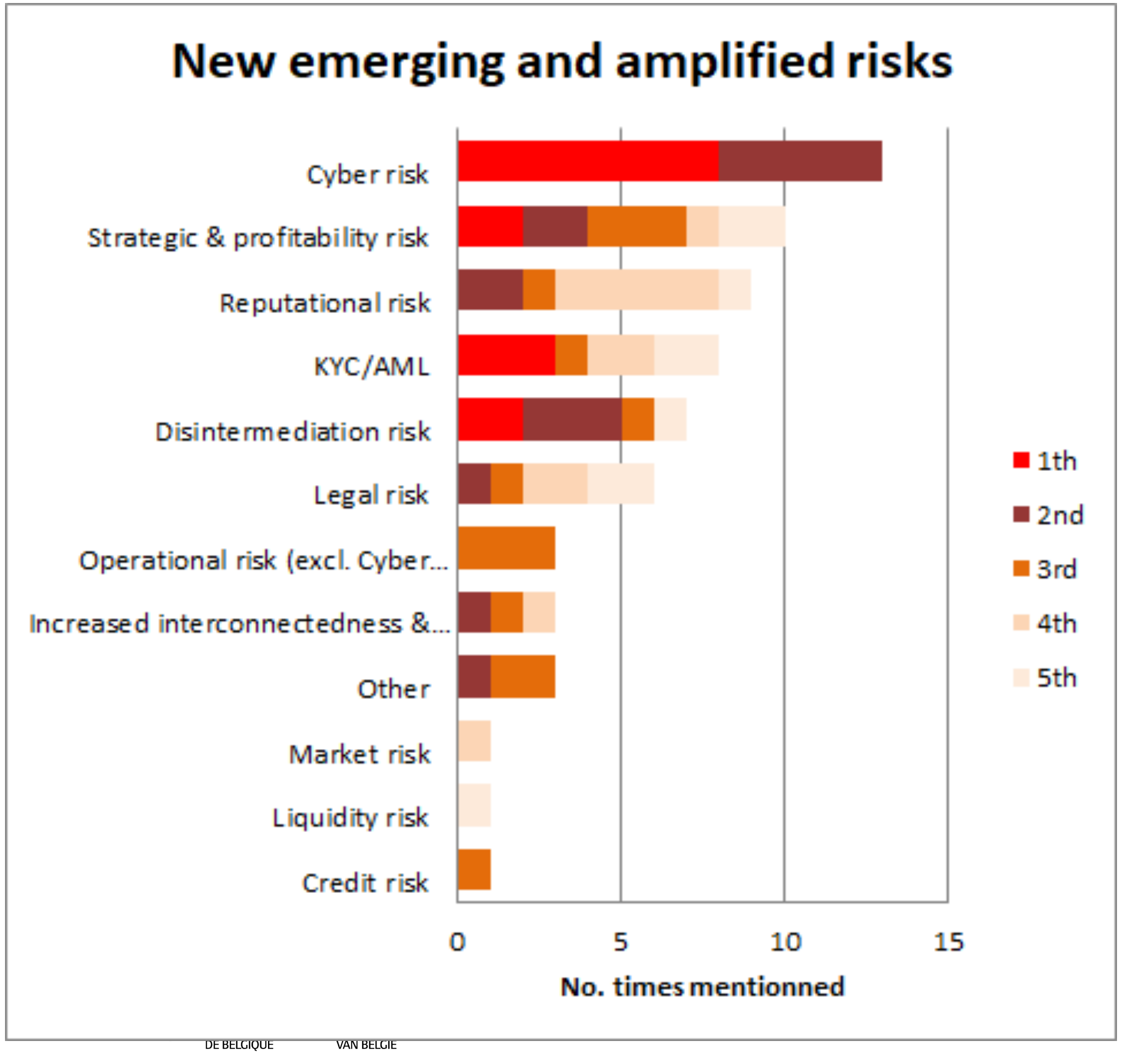
2. Sectoral analysis: Zoom on expected evolutions in payments

No clear cut conclusions on revenues from payments over the past 3 years. As expected volumes increase but most CIs experienced margins that remained stable and also expect stable revenues.



2. Sectoral analysis - risks linked to fintech



- CIs identify cyber- and strategic and profitability risk as most important risks both from their own perspective (//2017) but also from the perspective of fintech actors
- Other risks identified relate to increases in model risk, outsourcing risks and GDPR compliance.

3. Scoring of banks - Methodology

⇨ Overal score based on organisation, strategy & experience

- 0 Not applicable for business model
- 1 Poor (substandard practices, no practices)
- 2 Medium - low (practices are present but not up to sectoral standards)
- 3 Medium - high (good practices, in line with sectoral standards)
- 4 Good (above sectorall standards)*

*Scorings based on a benchmarking exercise (relative value)

⇨ Initiatives score*

- 0 Not applicable for business model
- 1 No interest
- 2 Interest but no concrete initiative
- 3 Project scheduled in the medium to long term (> 2 year)
- 4 Project scheduled in the short term (< 2 year)
- 5 Single running project
- 6 Multiple running projects

*Scores converted to a 1- 4 in the context of the global scoring

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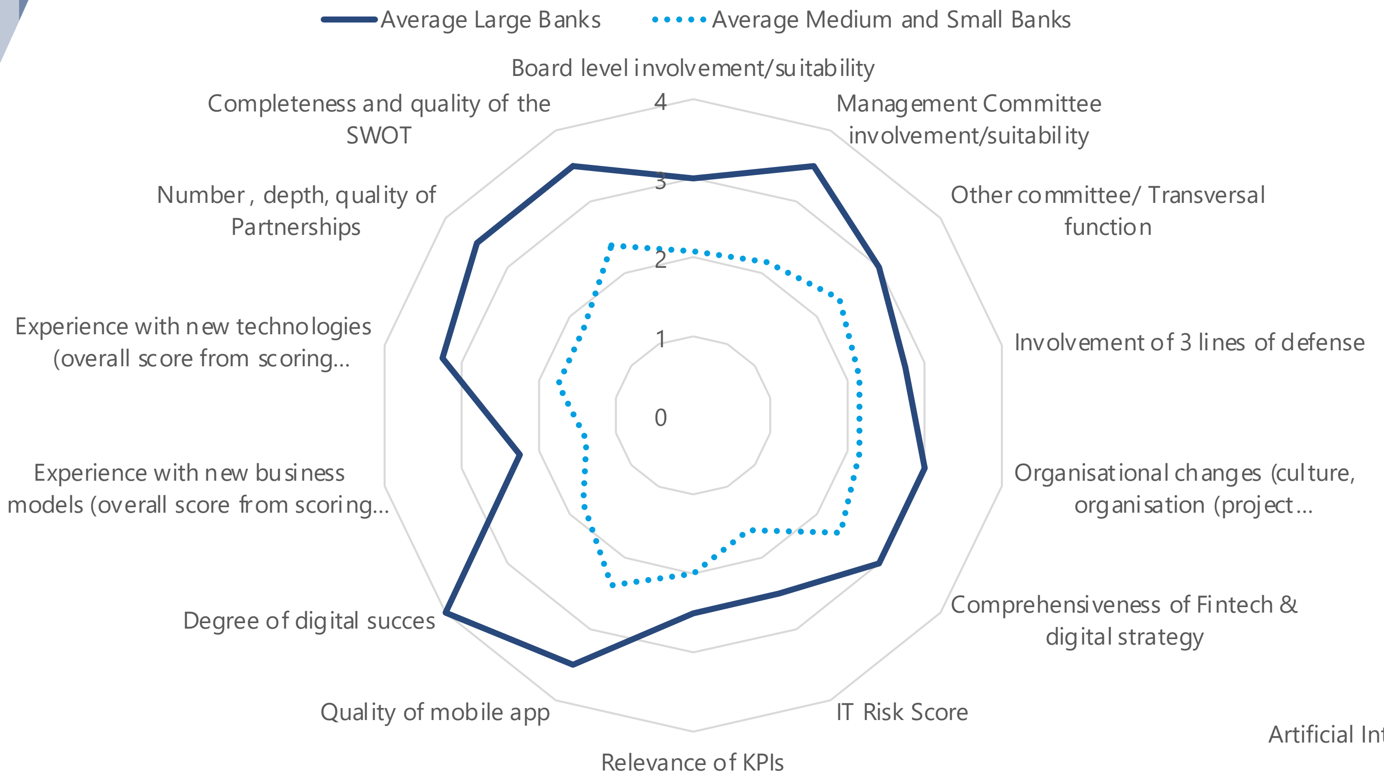
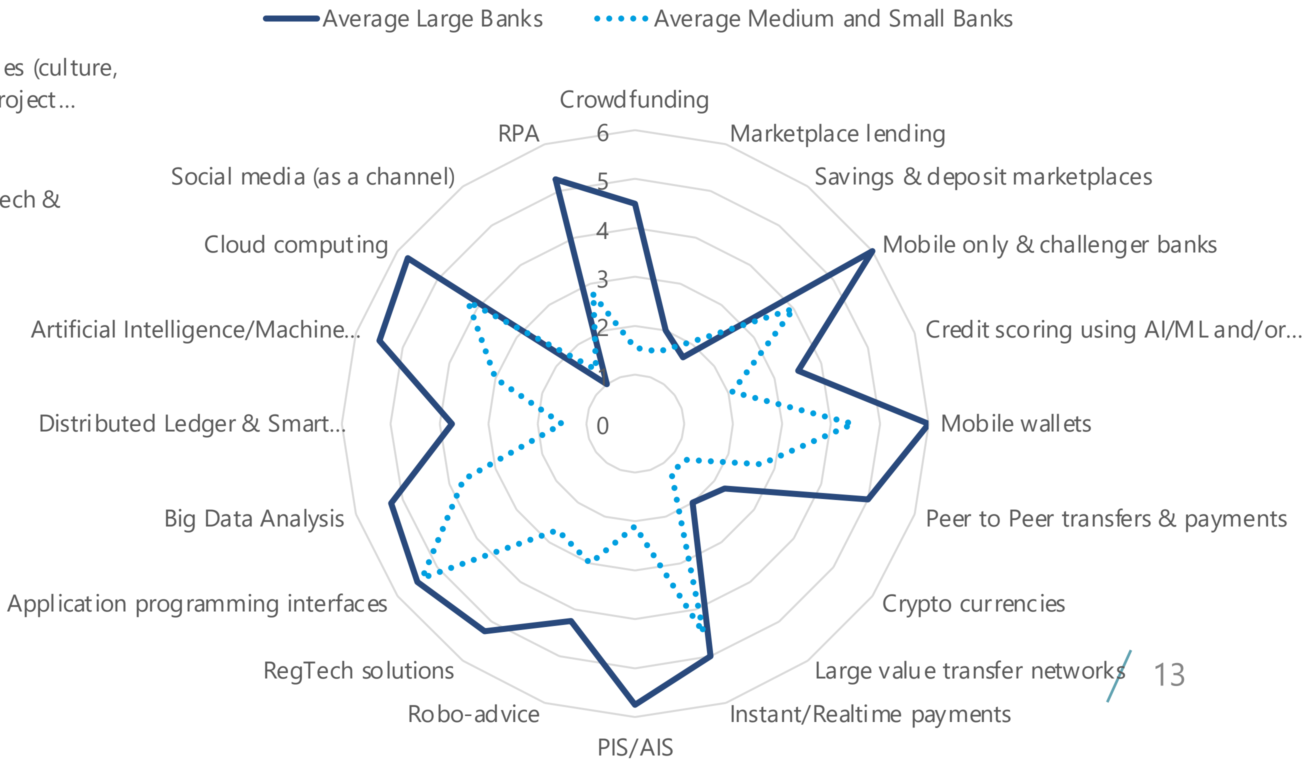
3. Scoring of banks



On average the large banks are far ahead of the smaller banks but some smaller banks manage to keep the pace with their larger competitors.



Conclusions - Banks

Acceleration of digitalisation since 2017 at different speeds. Concentration of the market is expected.

Organisation/governance

•BoD/ManCo:

\+ Collective suitability (IT/digital profiles) + (CIO/digital leader)

+- Group dimension on BoD decision-making power

•Control functions:

\+ Involvement increases

+- Regtech initiatives

+- New Product Approval

•Organisational changes:

+- Diverse innovation culture

+- Diverse flavours of agile way of working

\- Challenges to attract talents

Strategy

•Comprehensiveness:

\+ Better definition of strategy

\- + Vision? (Larger vs others/small CIs/ niche CIs)

•KPIs: - Often missing

•IT Legacy: -

•Budget/revenues:

\- Unclear (global project, causal link, defence of a market position)

Experience

•Digital success:

\- Disparate picture

\+ UX focus & additional features mobile app

•Partnerships:

\+ Increase (open/beyond banking + interbank/external)

\- Finding right partner, bargaining power, barriers to entry, costs/revenues models

•Initiatives:

\+ Multiplication & new expected (crypto/regtech)

\- Small data analytics initiatives (yet to be developed).

Thank you!

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