



The challenges in Banking

Marek Ditz



marek.ditz@partners.cz

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Obsah.

- Banks yesterday and today.
- How banks thrive and get by.
- Banks. Challenges. Fintech. Bigtech.
- Future.

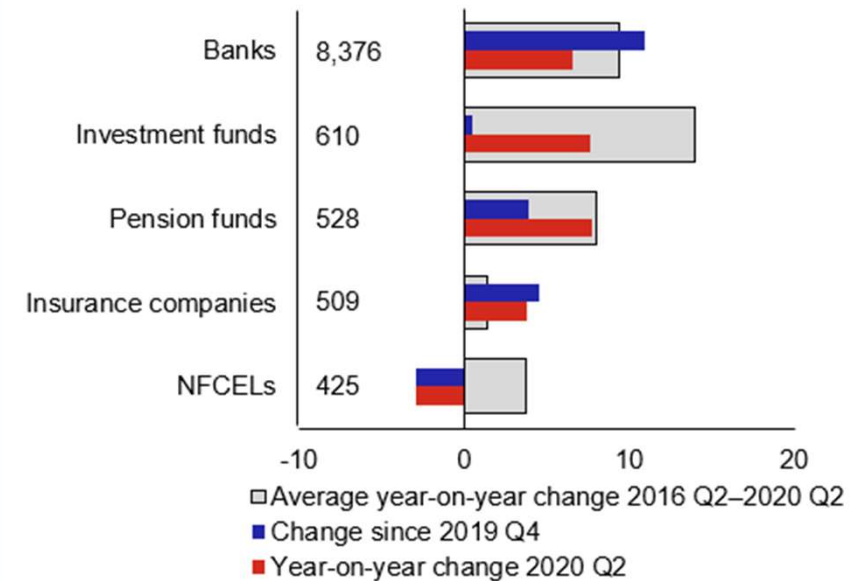
Bank. Yesterday. Today. Tomorrow.



Bank. Yesterday. Today. Role.

- 80% of Czech financial industry
- 8 496 billion CZK
= Assets of CZ banks as of 9/2020
- 150% HDP
= CZ Bank assets as of 9/2020
(123% as of 2014)
- Bank loans grew 5% annually
in the last 5 years

Chart III.1
Rates of growth of segments of the financial sector
(%)



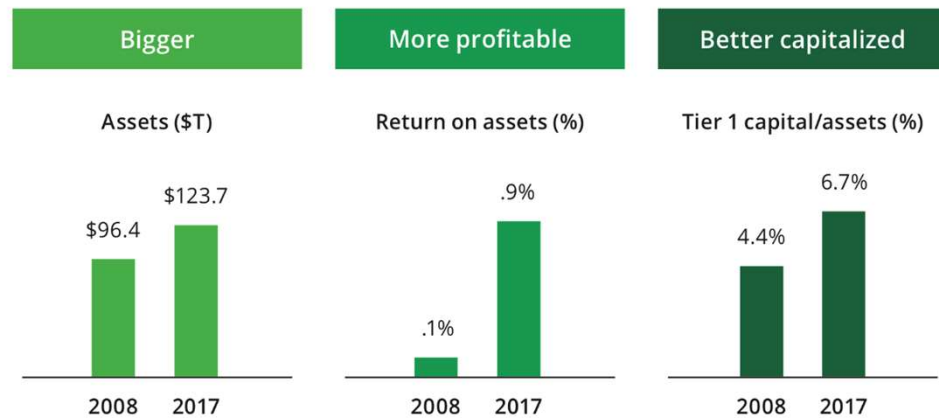
Source: CNB

Note: NFCLEs = non-bank financial corporations engaged in lending. Figures in CZK billions as of mid-2020. The banking sector also includes credit unions.

Bank. Security. Hope. Buffer. Cushion. Resilience.

Figure 1. Growth of the global banking industry

In the last decade, the top 1,000 world banks have grown



Sources: Danielle Myles, "Top 1000 World Banks 2018," *The Banker*, July 2, 2018; Danielle Myles, "Top 1000 World Banks 2017," *The Banker*, July 3, 2017; Charles Piggott, "Top 1000 World Banks 2009," *The Banker*, June 24, 2009.

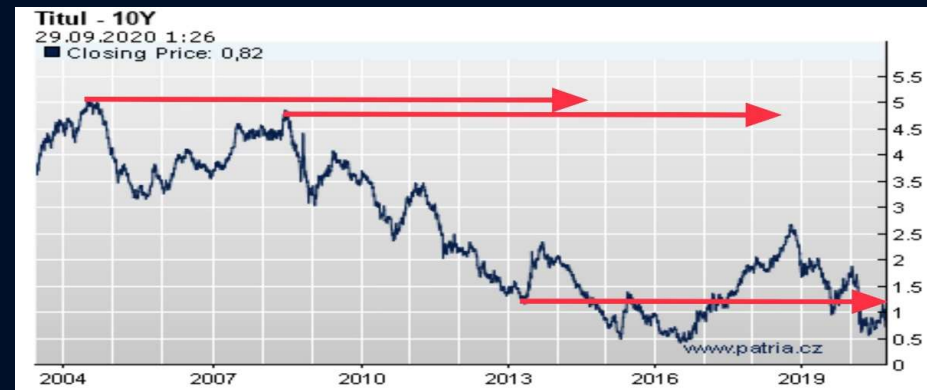
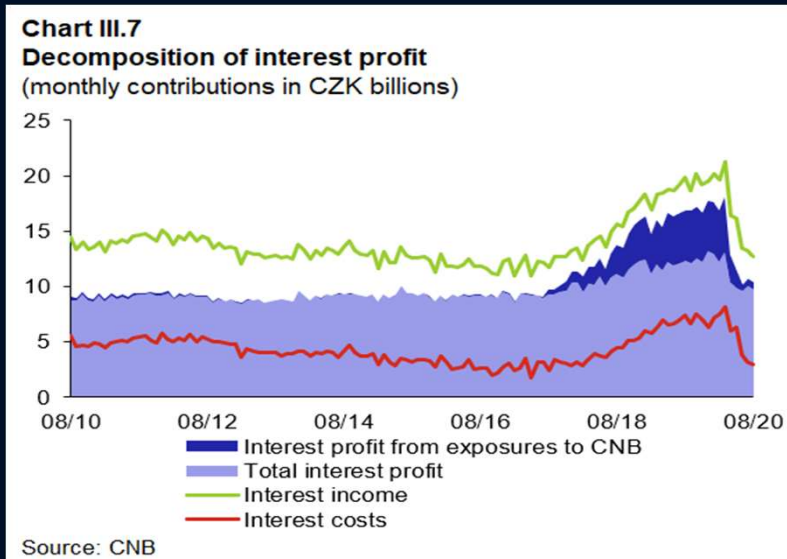
42% of global financial industry

155 trillion USD*
= Global Bank Assets End 2019

Operating with 6-7% of capital

Earning up to 1% on its assets

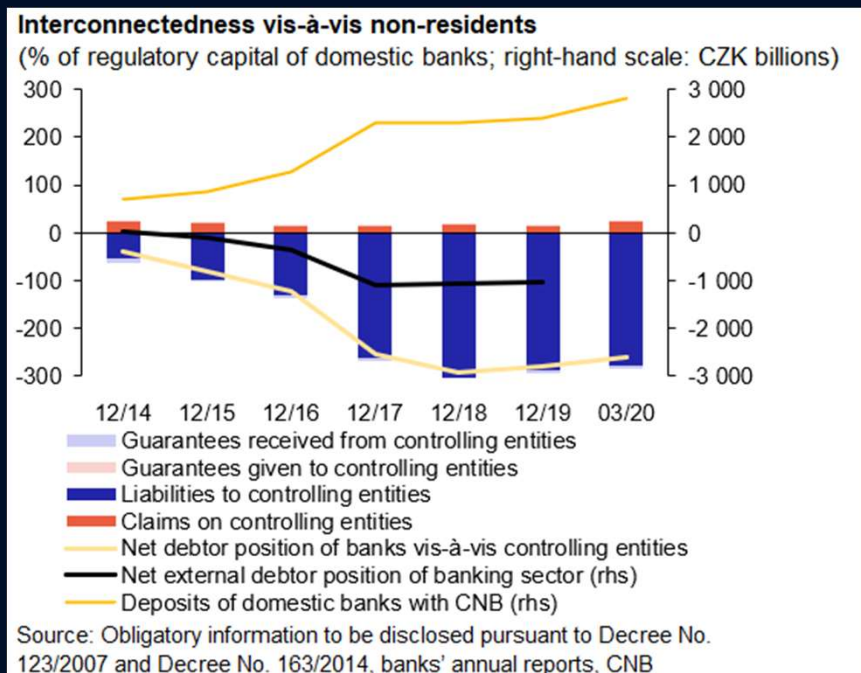
Bank. Interest rate differential. Risk.



Differences among products

Differences in time

Banks. Interest rate differential.



02/2020:

➤ ČNB CZK REPO INTEREST RATE: 2.25%

➤ ECB EUR DEPO FACILITY INTEREST RATE: -0.5%

3.14. NET INTEREST INCOME			3.15. GAINS LESS LOSSES FROM FINANCIAL OPERATIONS		
CZK million	2019	2018	CZK million	2019	2018
Interest income and similar income	24 004	18 783	Foreign exchange gains or losses and foreign exchange spread	-2 443	43 131
Interest on securities	22 276	18 132	Foreign exchange gains/losses	898	42 263
Interest on zero-coupon bonds	65	129	Foreign exchange spread	-3 341	868
Interest on coupon bonds	22 155	18 003	Other	90 155	-29 260
Interest on MBS	56	0	Gains/losses from revaluation and sale of bonds	31 675	-4 504
Other interest income	1 728	651	Gains/losses from revaluation and sale of MBS	-16	0
Interest on inter-bank deposits	1 726	648	Gains/losses from revaluation and sale of shares	59 044	-26 794
Interest on employees loans	2	3	Net gains/(losses) from currency forwards	1 708	2 062
Interest expense and similar expense	61 391	36 805	Net gains/(losses) from interest rate futures	-120	-62
Interest on liabilities to banks	61 313	36 766	Net gains/(losses) from interest rate swaps	-2 640	278
Interest on liabilities to employees and other clients	78	39	Net gains/(losses) from share futures	504	-240
Net interest income	-37 387	-18 022	Gains/losses from financial operations	87 712	13 871

Net interest income represents the difference between interest received and interest paid on securities and deposits.

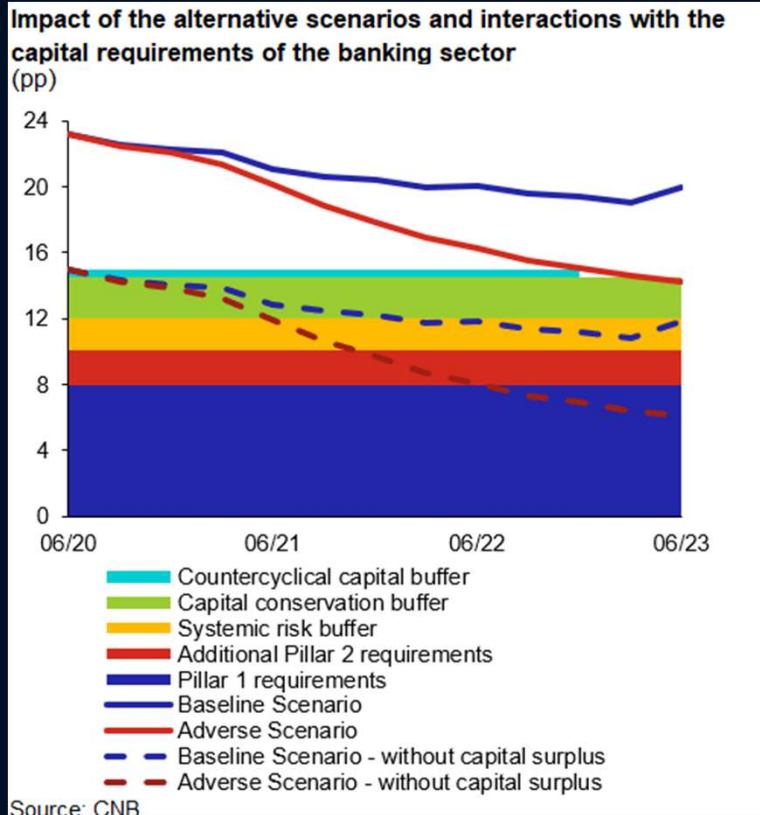
Source: ČNB Annual Report

Czech Klondike. 2018-20.

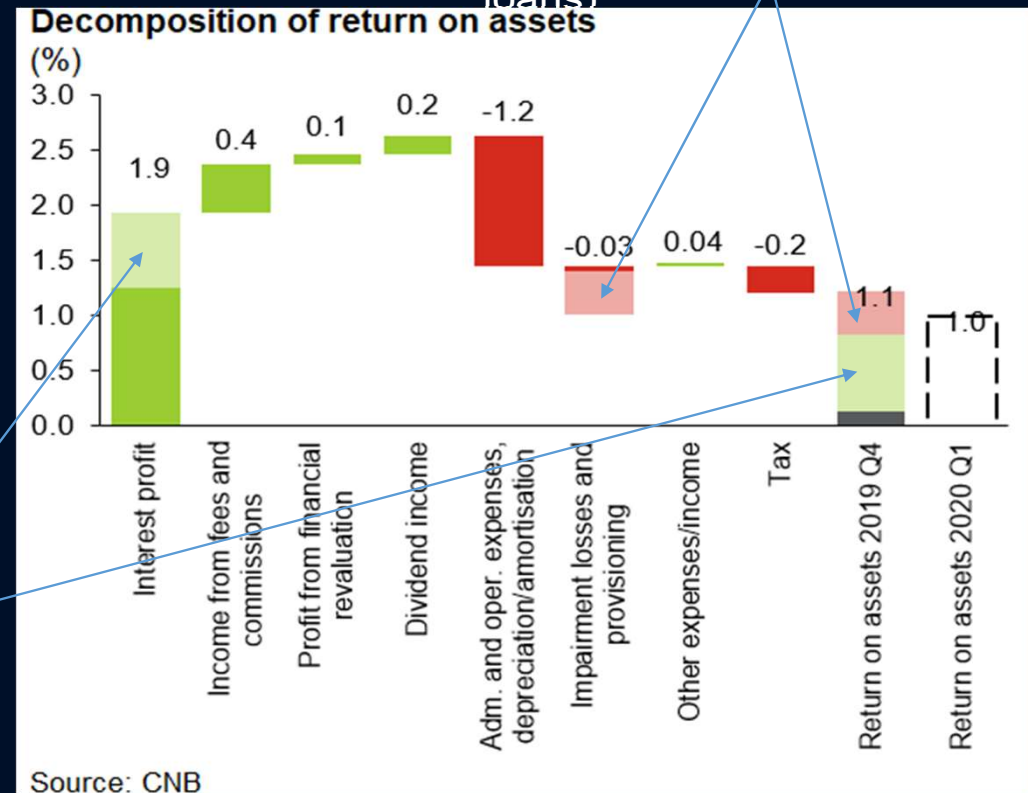
Banks. Today. Survival.

“It is only when the tide goes out that you discover who’s been swimming naked.”

— Warren Buffet



Credit costs (mainly driven by non performing loans)



Banks profits from deposits to ČNB

Banks. Tomorrow. Technology. Open Banking. FinTech. BigTech

*Past success secures
future failure if we
continue to bask in its
glow for too long*

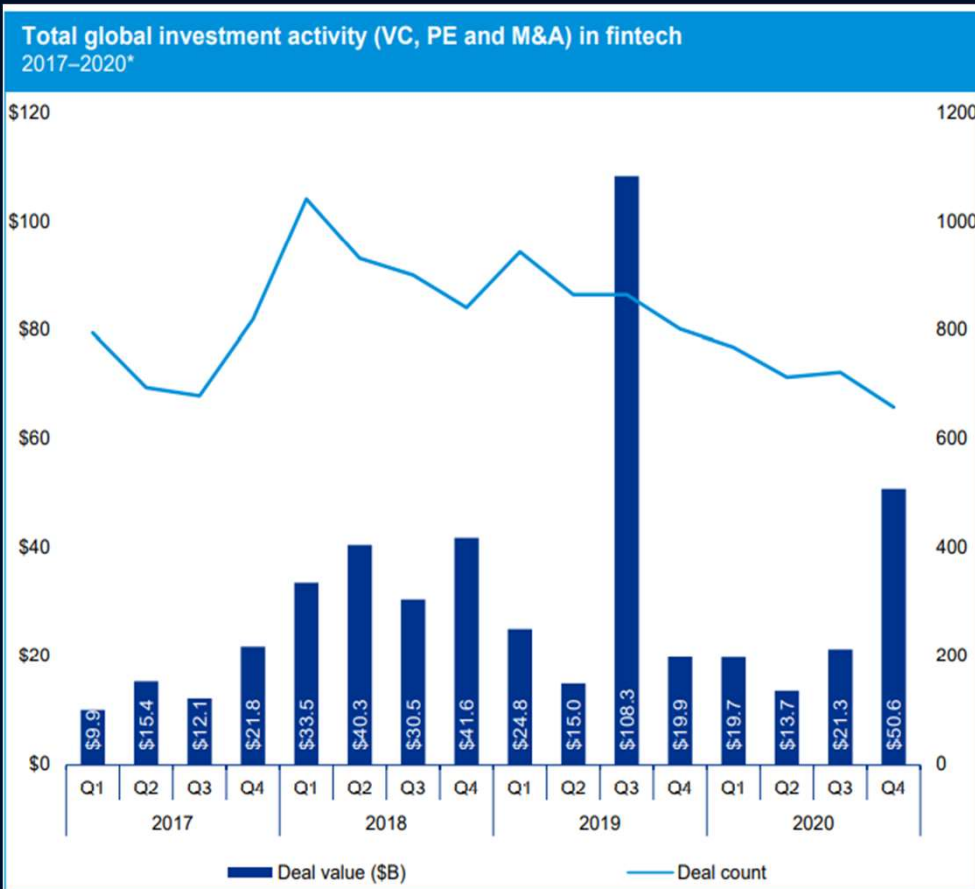
-Faisal Khosa

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REMEMBER THAT
YOUR PAST SUCCESS
MAY LEAD TO YOUR
FUTURE FAILURE.
HOWEVER, IF YOU
LEARN A LESSON
FROM EVERY FAILURE,
THEN YOU MAY
ULTIMATELY SUCCEED.
- JACK MA

- Regulation vs deregulation
(stability of industry vs
consumer protection)
- Technology impact
 - cloud
 - mobility
 - security
 - APIs
- Harmonized rules

Banks. Tomorrow. Fintech.



Source: Pulse of Fintech H2'20, Global Analysis of Investment in Fintech, KPMG International (data provided by PitchBook), *as of 31 December 2020.

- Payments (Paytech) 52%
- Insurance (InsurTech) 9%
- Blockchain/Crypto 3%
- Regulation (RegTech) 2,3%
- Cybersecurity 0,3%
- Investments (WealthTech) 0,2%

Results of 100 startups founded after 2010 in the UK:



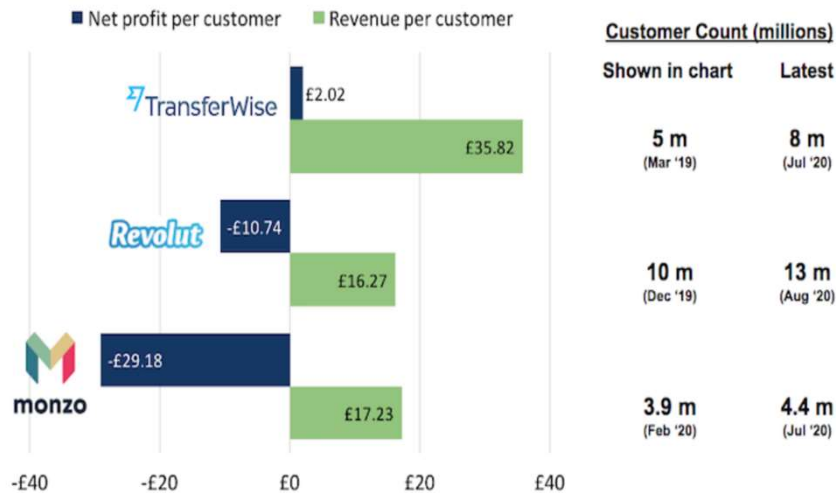
Source: KPMG UK, Fintech Focus, June 2020

*) in last financing round

Banks. Fintech. Digital Banks. Brand. Sustainability.

Digital bank per customer metrics

Monzo and Revolut compared to payment fintech TransferWise

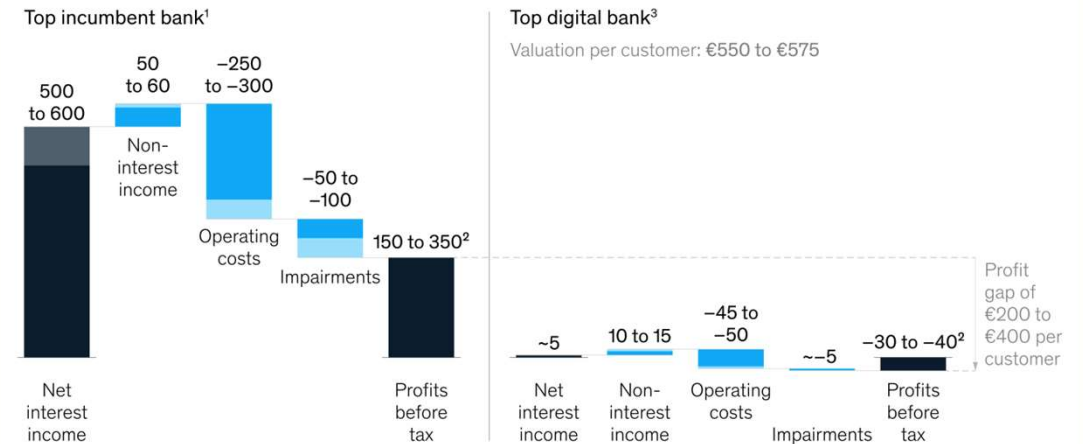


Source: FXC Intelligence Analysis, Company Financials
Data for financial years: TransferWise 31 Mar 2019, Revolut 31 Dec 2019, Monzo 29 Feb 2020.



Pre-COVID-19: European digital banks faced challenges compared to incumbent banks.

Profit per customer, €



¹Based on average economics of top Western European incumbent banks' retail banking segment for FY2019.

²Numbers may not sum due to rounding.

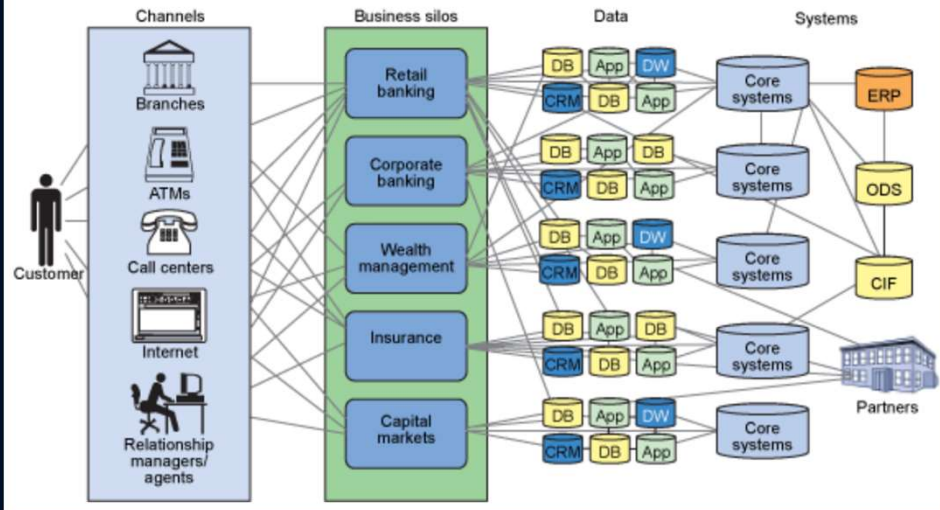
³Based on average economics of top Western European digital banks available pre-COVID-19.

Source: McKinsey research and analysis



Banks. Old and new architecture. Handicap. Advantage.

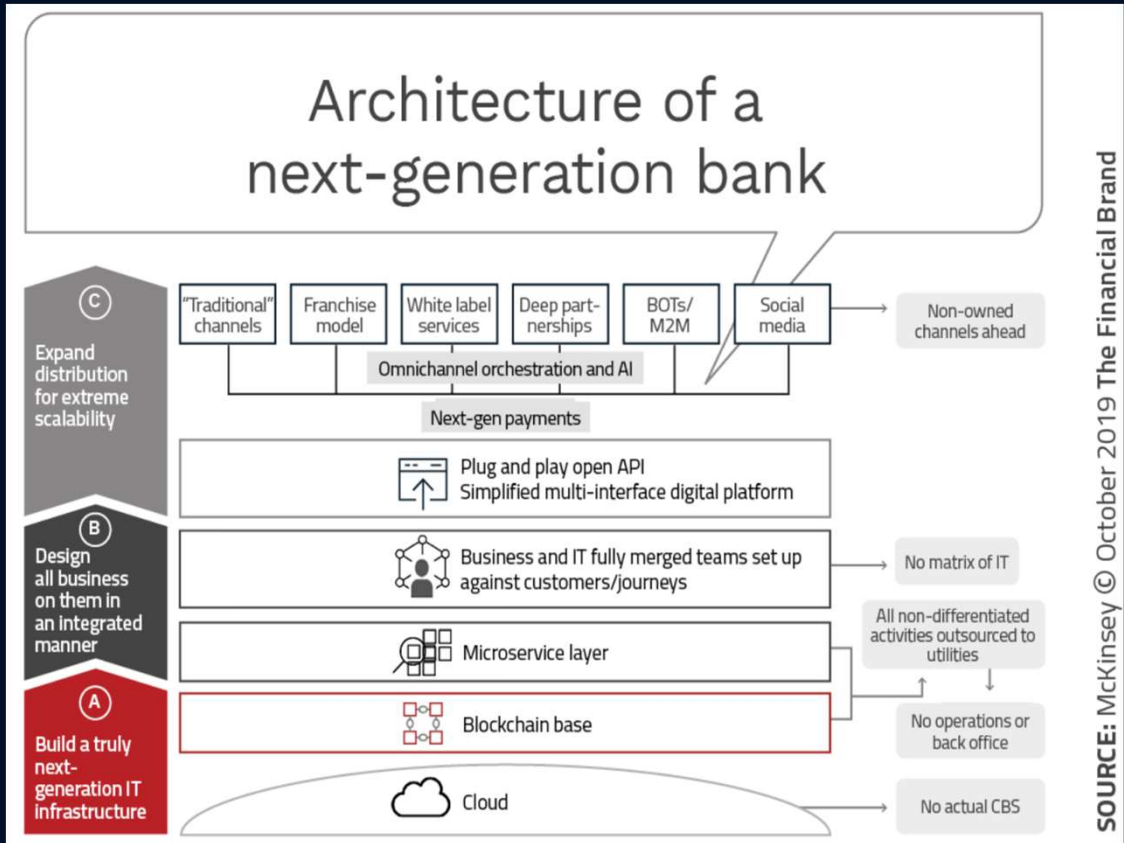
Figure 1. Current core banking systems



Zdroj: IBM, Scott Simmons: Modernising banking core systems, 2008



„Renewing core systems is like renovating the subways“ Chris Skinner, 2018



SOURCE: McKinsey © October 2019 The Financial Brand

Banks. BigTech. Customer focus. LSD.

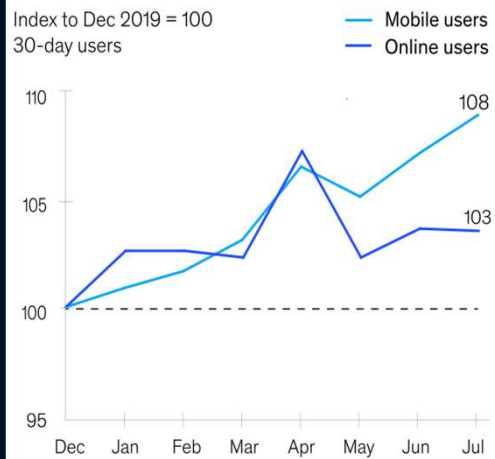


The banks need LSD to thrive:

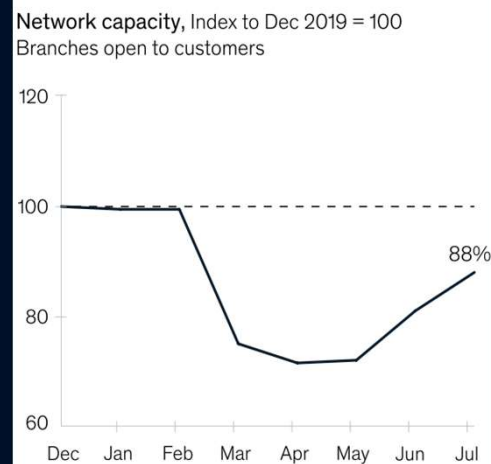
- Ability to underwrite good risks (Lending)
- Provide Security for customers' money and data
- Provide aDvisory to customers to boost their financial health

Banks. Tomorrow. Mobile. Digital. Instant. Open. Embedded.

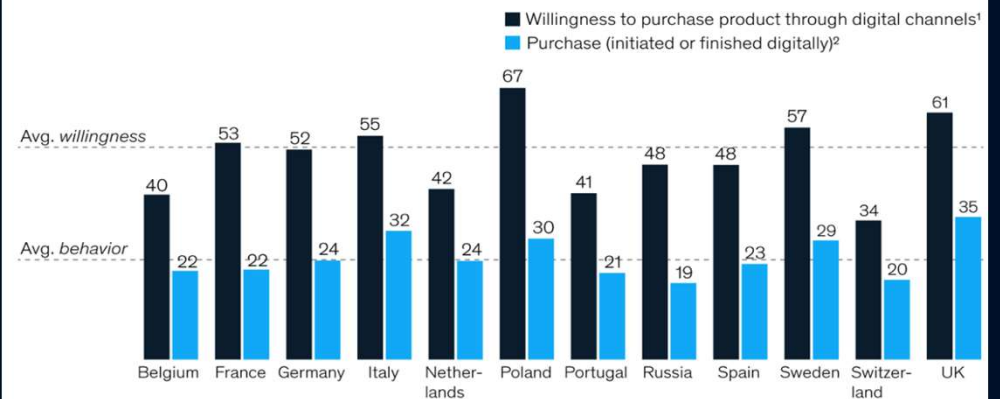
Mobile and online activity continues to increase, with spikes in April



US branch capacity is down roughly 12% since December 2019

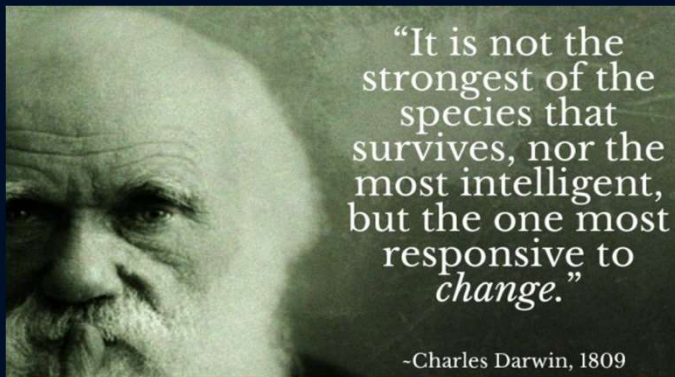


While roughly 50% of European consumers are willing to bank digitally, only about 25% actually do so for mortgages.

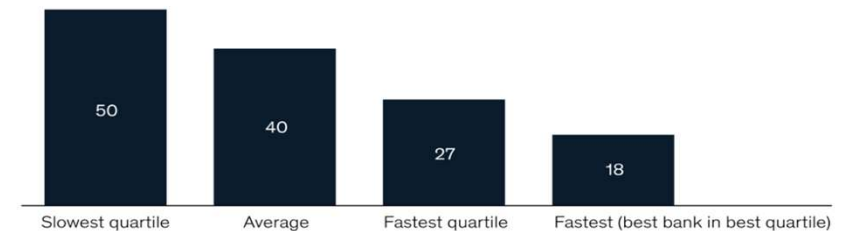


¹Survey question: "Would you be interested in purchasing a mortgage through internet, tablet, or mobile banking?"; % of respondents that selected "Yes" excluding respondents that selected "I'm not interested in this product."
²Survey question: "For mortgages purchased in the last 2 years, please indicate the main channel used to buy the product"; % of respondents having bought a mortgage in the last 2 years that have done it via a digital channel (selected "internet banking," "tablet banking," or "mobile banking").
 Source: McKinsey Retail Banking Consumer Survey 2018. Sample size= ~2,000 respondents per country.

Zdroj: McKinsey, Transforming the US Consumer Bank for the next normal, September 2020



Time to cash, calendar days, Central European banks



Note: Time to cash is defined as the total elapsed time from submission of the initial application form and the receipt of all required documents to the time that the funds are credited to the customer's account.
 Source: Finalta; McKinsey Next-Level Outside-In Customer Journey Benchmarking, n = 750 (Jan-Feb 2017)

Banks. Tomorrow. Cyborgfinance.

Modular. IT company. Platform. Comparator. Invisibly embedded.



"Developing talent is business's most important task—the sine qua non of competition in a knowledge economy."

—Peter Drucker

People. Apps. Robots. Data.
Security.

Summary.

- Banks provide **security for money and data**. That is why they are regulated.
- Banks allow businesses to tap **cheaper resources** than capital.
- **Trust** is key to the functioning of banks. That is why banks are building **brands**.
- Banks live from interest rate (fee) **differentials**. They work with **little capital**.
- To get them banks take **risks** (credit, market, operational, ...).
- Risks tend to **accumulate** (to materialize at the same time).
- Banks are facing Fintech and Bigtech benefitting from **deregulated** parts of the banking business.
- Banking will not disappear, but it will improve **client focus**.
- The bank can survive on **LSD**, "ravioli" IT architecture and **talent**.

Thank you for your attention.