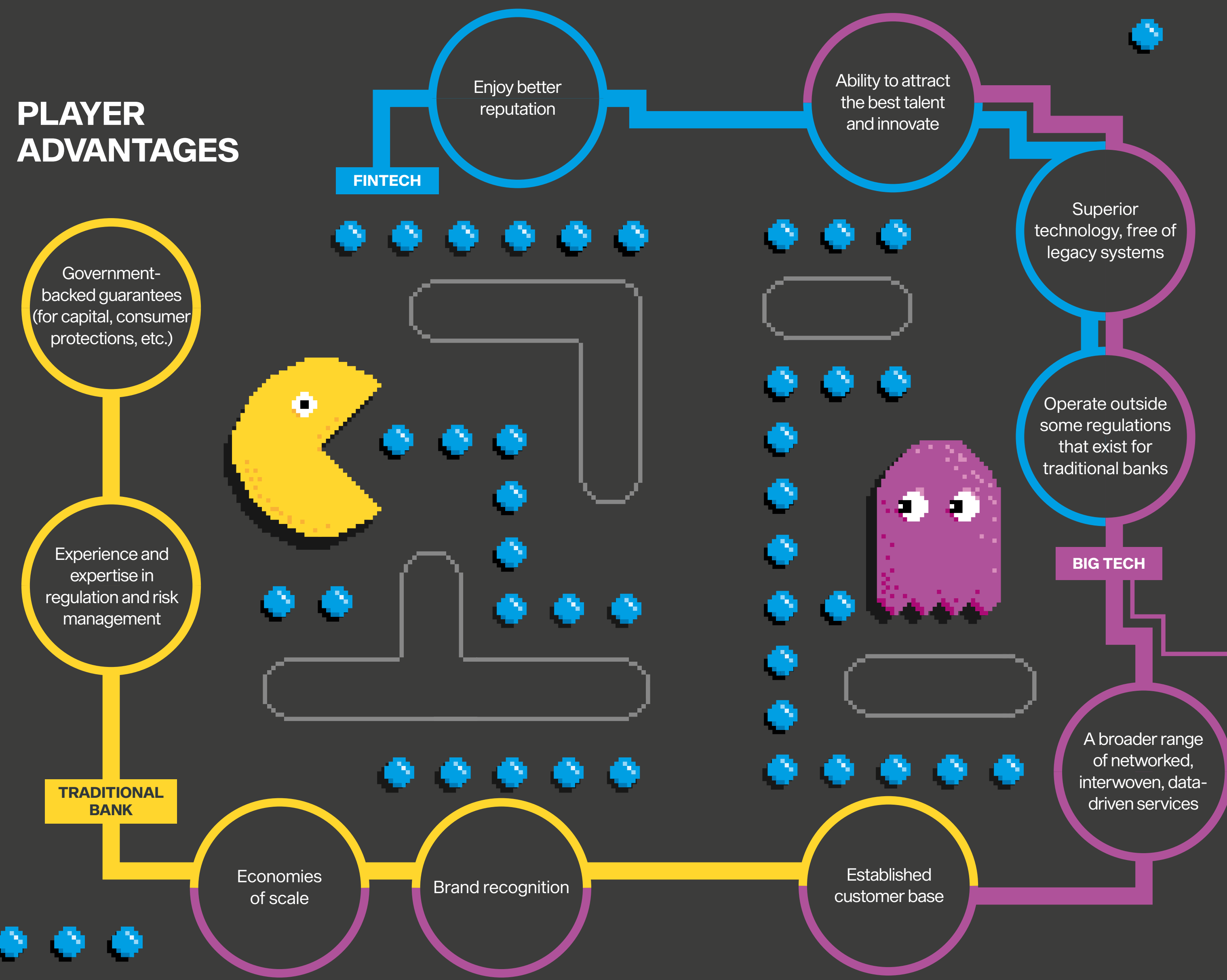
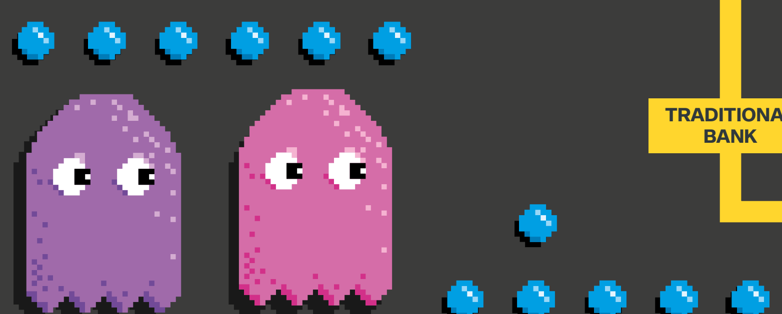
A new perspective

THE BIG PICTURE

What's the future of banking?

Evolving consumer expectations, tech innovations, regulatory changes and new business models are fast reshaping the global banking industry. Fintech and platform-based competitors are eating into the market that used to be dominated by a few major international banks. As the rules of the game change, who will emerge as the winners?





DISRUPTION AHEAD

TODAY
New players, new tech and low benchmark rates are already seeing:

- erosion of incumbents' margins
- increased competitive pressures

1-3 YEARS
Incumbents will have to restructure and consolidate, owing to:

- overcapacity
- low profitability
- need for heavy investment in IT

3-5 YEARS
Whether Big Tech dominates will depend on:

- the regulatory environment and compliance costs
- the capacity of incumbents to monopolize the interface with customers

5+ YEARS
The winners will be those that achieve:

- superior innovation
- a strong reputation
- customer loyalty and trust
- large quantities of customer data that they leverage effectively

A FRAMEWORK THAT WORKS FOR ALL?

The EU Payment Services Directive was updated (PSD2) precisely to account for the new, nonbank providers of payment-and-account services that have entered the market since the financial crisis. New parts of the directive have recently come into effect. Here's what's involved:

Need	What it means in practice	Who's most affected?
Enhanced data privacy and security	At least two of these three authentication methods are required for online payments: (1) customer password or PIN; (2) customer phone or token; (3) customer fingerprint, voice or face recognition.	Primarily banks, as they have to behave more like the platforms that represent their biggest competitive threats.
Data portability to give customers more control over their own data	Customers have the right to request that their personal data be shared with other nonbank entities and third-party payment service providers.	Banks lose exclusivity to their databases – although the requirements of the directive cut both ways, and nonbank, third-party providers have their own compliance challenges in ensuring the security of the said data before banks share it.

GAINING GROUND

Big Tech firms both cooperate and increasingly compete with traditional banks in offering financial services.

Big Tech firms (and regions of operation)	Payments	Savings instruments	Credit
Alibaba/Alipay, Tencent (China)	●	● ○	●
Baidu (China)	●	● ○	○
Vodafone M-Pesa (East Africa, Egypt, India)	●		○
Mercado Libre (Argentina, Brazil, Mexico)	●		●
Line, Rakuten (Japan)	●	●	●
Google (Worldwide)	○		● ○
Amazon, eBay/PayPal (Worldwide)	○		○
Apple, Facebook, Microsoft (Worldwide)	○		

● indicates new operations introduced outside the traditional banking networks

○ indicates services offered on top of or in collaboration with existing financial institutions

SOURCE: "Big tech in finance: opportunities and risks," Bank for International Settlements (2019).

SOURCE: Based on presentations by Jorge Soley, including during the 15th Banking Industry Meeting held at IESE Madrid. Also, "How large is the disruption in banking?" by Xavier Vives, published in IESEconomics, and his paper "Digital Disruption in Banking," published in the *Annual Review of Financial Economics* (2019).