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Financial services – “Changing Tides”

TG Ramakrishnan
Head, Digital Banking, Standard Chartered Bank, Singapore

Here for good

Something Interesting is Happening.....

Pope Benedict - 2005

Pope Francis - 2013

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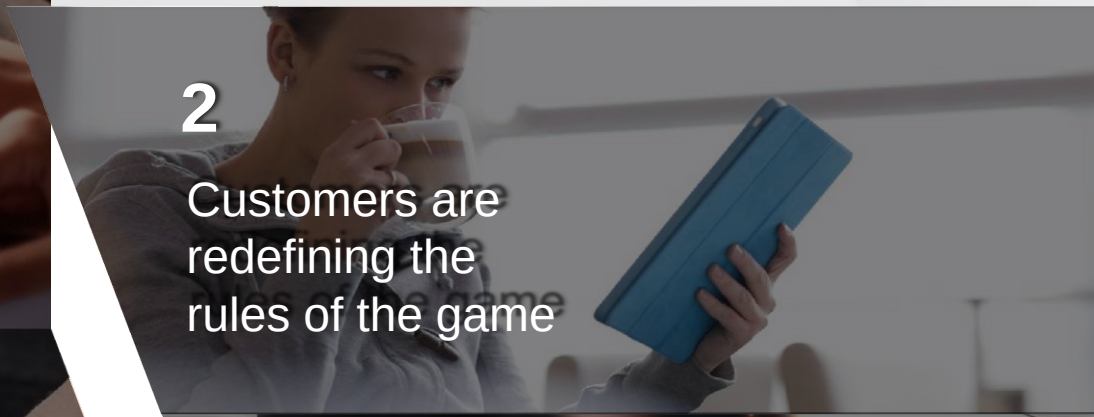
Retail banks are facing disruption across 4 key dimensions

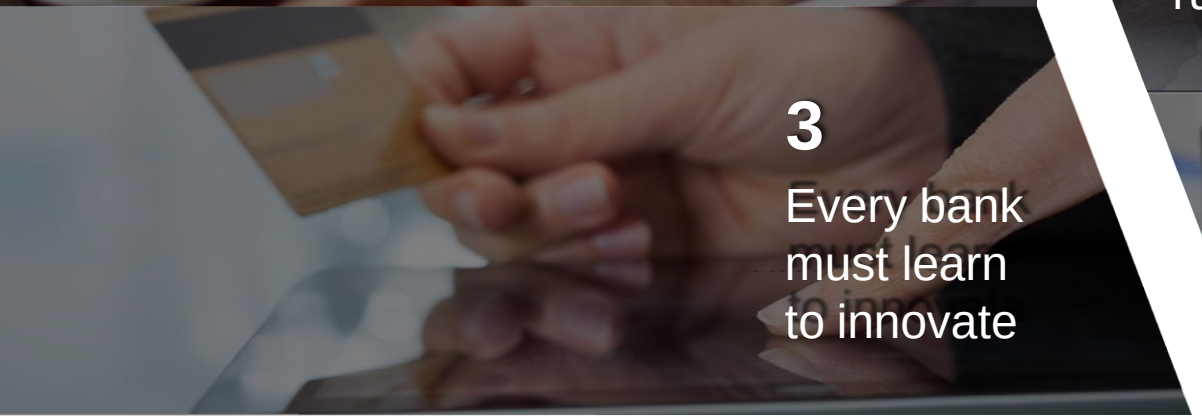
1

Digital is reinventing Banking



2

Customers are redefining the rules of the game



3

Every bank must learn to innovate

4

Macro-economic changes demand agility

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5 key technology trends:
Key digital trends are reinventing the way we bank

Always connected
(Mobile Broadband)

No Cash, No Cards
(Mobile Wallets)

Everything is online
(Internet of Things)

Segment of One
(Big Data)

Digital currencies
(Bitcoin)

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5 key customer trends:
Customers are redefining the rules of the game

- Are more aware
- Have a voice
- Have more choice
- Have higher expectations
- Are more multi-banked & less loyal

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5 key competitor trends:
Banks need to innovate to remain relevant

Rise of non-bank competitors

New niche players

Payments Disintermediation

Crowd Sourcing

Peer-to-peer lending

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5 key macro-economic trends:
Banks need to be agile and responsive to ongoing changes

- Rise of middle class affluence
- Technology adoption
- Slowing GDP
- Growing consumer protectionism
- Banking commoditisation

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What would a Future Bank look like?

Agile Business Model

1. Digital Channels
2. Partnership Ecosystem
3. Data-Driven Talent Management

Seamless Customer Experience

1. Customer-Centric Design
2. Social-Media Engagement
3. Integrated Payments

Next Generation Technology

1. Block Chain
2. Big Data
3. Cloud-Based

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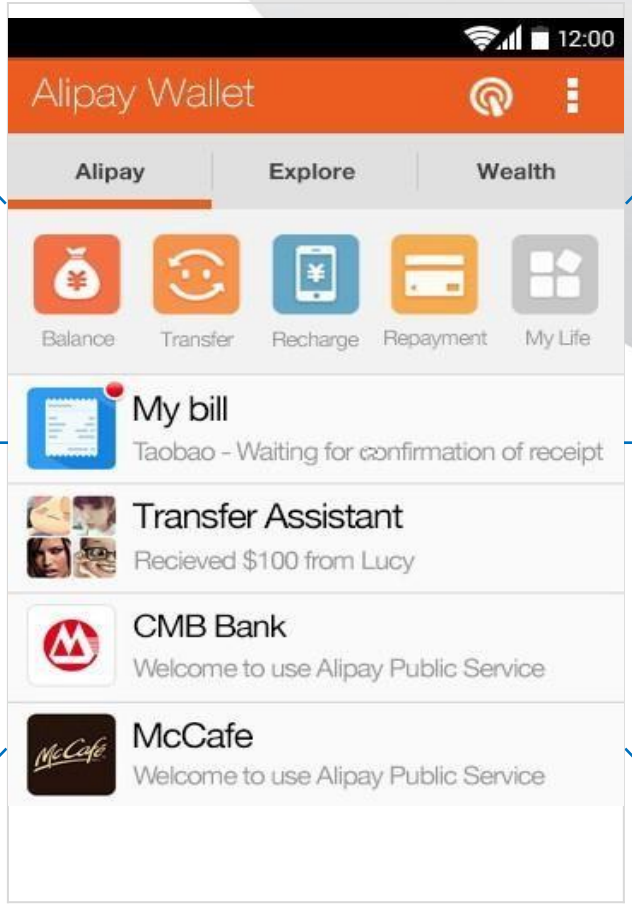
Digital Channels...

支付宝™
Alipay.com

China's most popular online payment service and **world's largest mobile payment processor.**

Users can: Make **online payments Pay rent and utilities**
Keep savings in **a money market account** (technically not a bank deposit)

Launched in June 2013, Yu'e Bao is an **online money-market account with instant deposits and withdrawals**



Alipay handles an average of **175m transactions a day**

As of Oct 2016, **Alipay has over 400 million registered users**

Yu'E Bao's assets under management exceeded **US$94 billion – 4th largest money market fund in the world**

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Digital Channels...

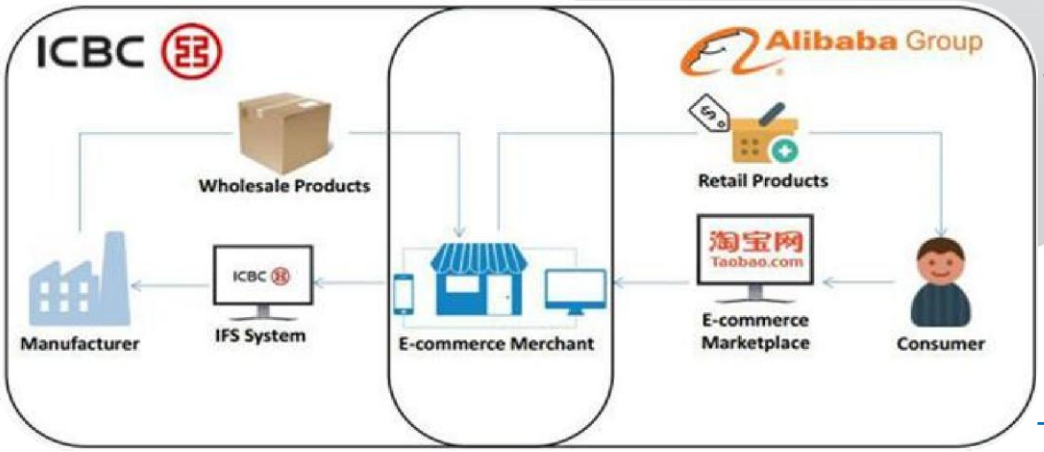
ICBC 中国工商银行 INDUSTRIAL AND COMMERCIAL BANK OF CHINA

ICBC – World's largest public company according to Forbes

Over 17,000 branches

Strategy of "one centre and three platforms:

- Messaging app **"eConnect" for information flows**
- E-commerce platform **"eBuy" for goods**
- An online banking platform **"ICBC Direct Banking Platform" for capital flows**
- An overarching **"Internet Financing Centre"** above the 3 platforms
- Each **platform to have more than 100 million users**



Internet Financing Centre has issued **over RMB 450bn in loans, out of RMB 11 trn in total lending**

"eConnect" integrates existing channels for transactions, financial product purchases and security verifications

Will have **over 200m users**

"eBuy" offers major consumer goods including homes, cars and investment products – **3rd largest eCommerce site in China**

One real estate partner China Vanke, has sold more than RMB 10bn worth of homes through this partnership.

Expected to reach RMB 1 trillion in sales by the end of 2016

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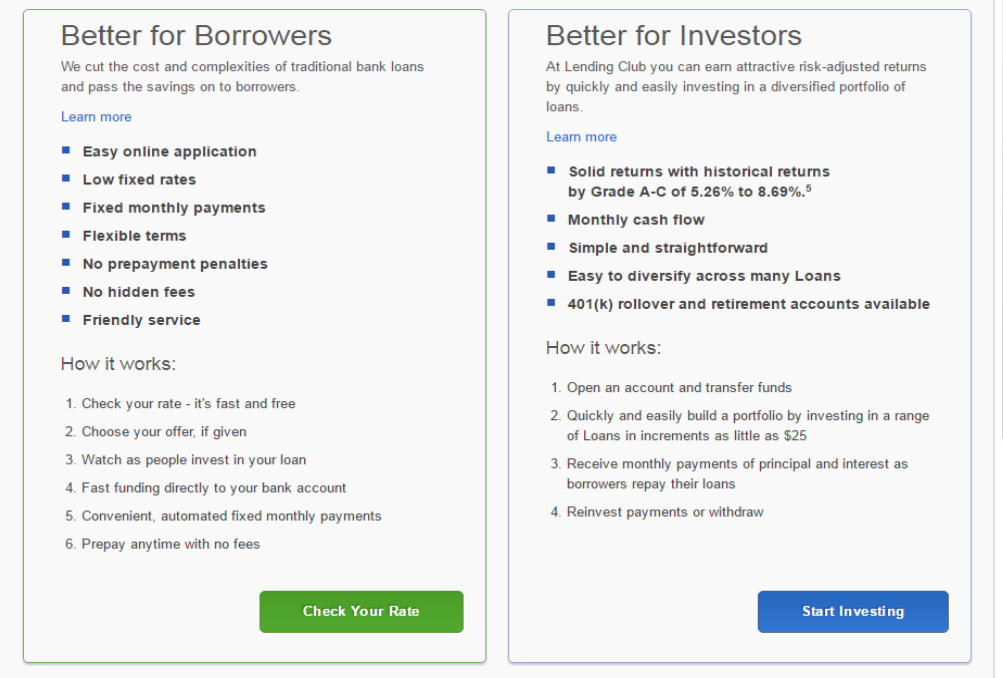
Partnership Ecosystem...

LendingClub

Lending Club was one of the first platforms to match unsecured borrowers and lenders in the US – **Initially launched as a Facebook application and now a stand-alone platform**



Originated $US16bn in loans up to year end 2015

Software underwrites and prices each loan and detects fraud – 90% of borrowers are rejected

A third of all loan applications are only examined by humans to look for fraud

2014 **IPO raised $900m**; Day 1 saw **56% growth and valuation of US$8.5bn**

Average loan of **$14,500**
Average interest rate of **14.1 %**
Average default rate of **3.4%**
Average net annualised return of **8.9%**

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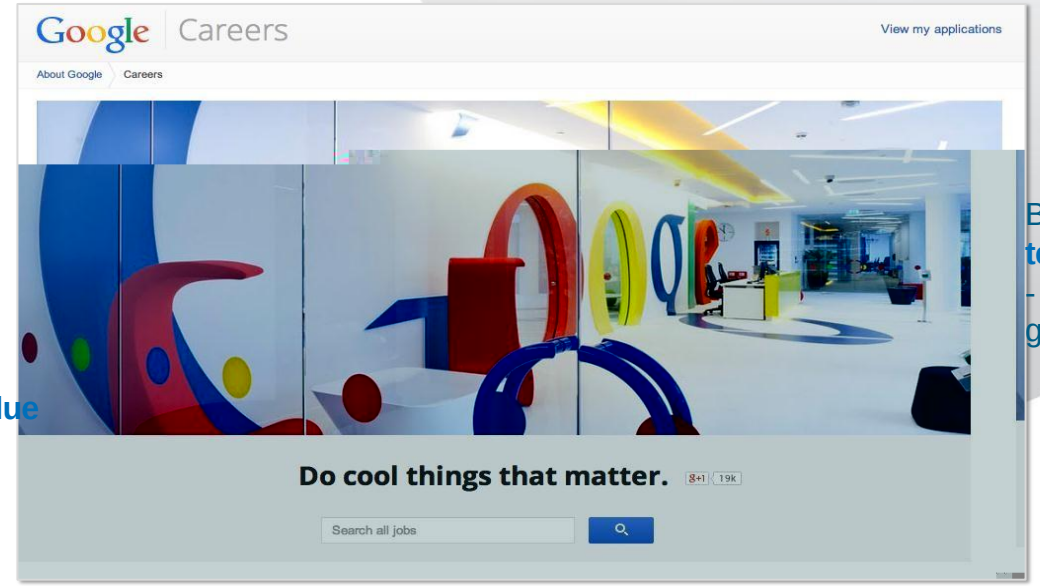
Data Driven Talent Management...

As of 2014, CEO Larry Page still reviewed every employment offer

Hiring algorithm determined **little value added beyond 4 interviews**



Believe **university results and test scores don't matter** - only requested for fresh graduates

Has a **retention algorithm that proactively and successfully predicts which employees are likely to leave.**

Google's Project Oxygen spent years data-mining performance appraisals, employee surveys, award nominations and other sources to identify **8 traits of great leaders - managers are rated twice a year against these factors**.

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What Customer Experience would a Future Bank have?

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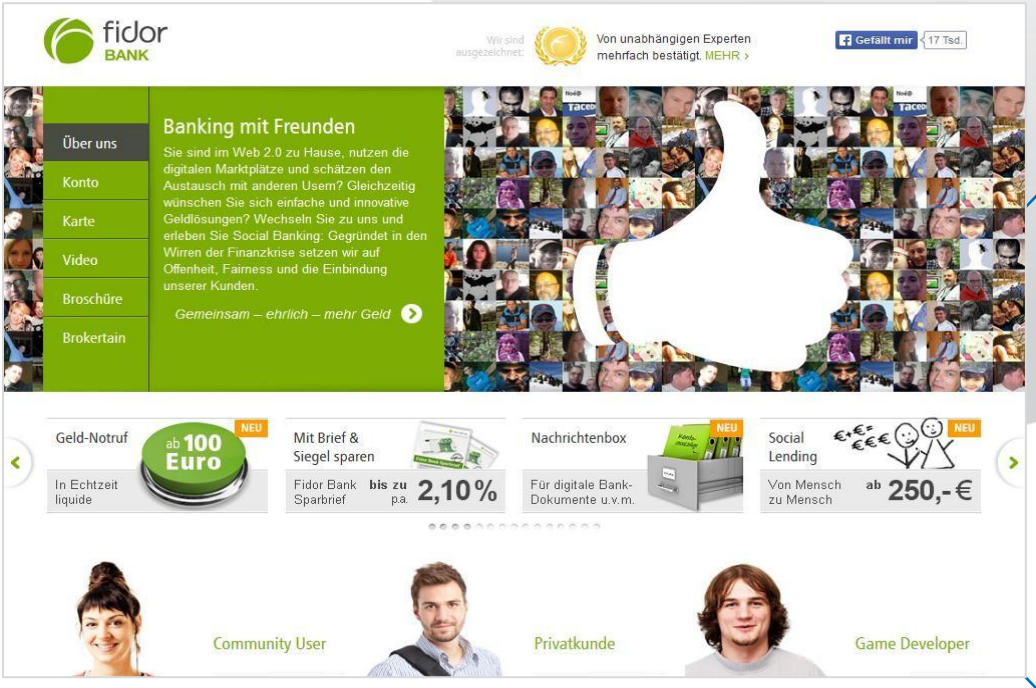
Social Media Engagement...

fidor BANK

Online only bank -
No branches, no contact centre

Low cost-to-income
ration with less than 50 employees



No sales team, only an **active online customer community that provides peer-to-peer advice** on savings, investment and everyday financial problems.

In one campaign, it **cut the lending rate by 0.1% for every 2,000 Facebook 'likes'**

Customers are **rewarded for community activity**

Users get **10 cents for asking a question and 25 cents for offering advice to other users**

Accepted user product suggestions are rewarded with up to €1,000

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Integrated Payments...

- Starbucks's mobile wallet:
  - Is a **stored-value card**
  - manages **reward points**
  - Pays for purchases by generating a **bar code for in-store scanning**

16m active users now pay with the app - accounts for **22% of transactions**

Starbucks received **90% of the $1.6 billion spent via smartphone** in U.S. stores in 2013[1]

Starbucks has started using **purchase data to send personalized offers**, e.g. food to complement a drink

Starbucks aims to turn its stored-value cards into a **broader currency usable at other retailers**

Planned new features in 2015 include enabling customers to:

- **Order and pay in advance**
- Schedule **regular office deliveries** of drinks and food

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1) Starbucks CEO Howard Schultz, Investor call for Q4 2013 results

What technology would a Future Bank use?

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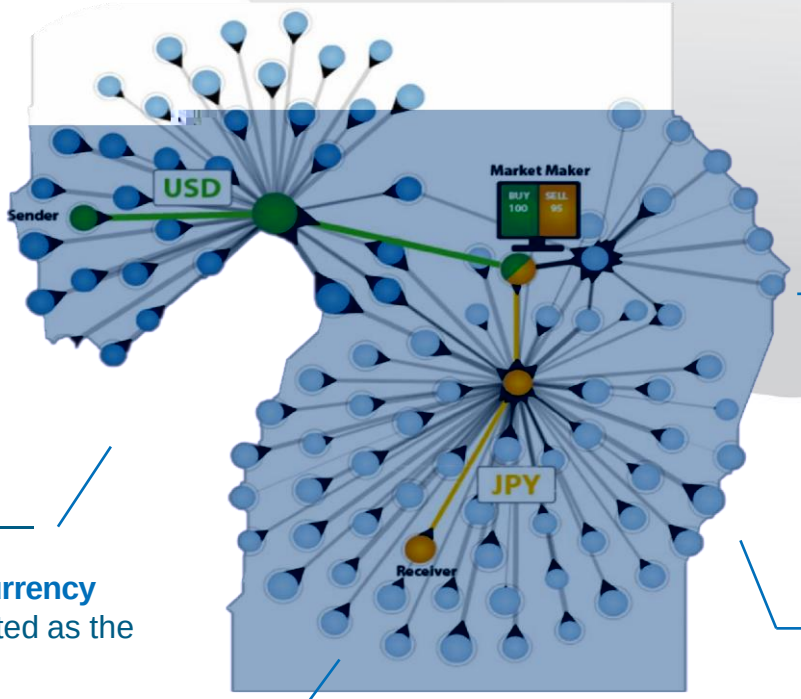
Block Chain...

Block Chain is a virtual ledger, implemented as a network of servers

Servers add a transaction or 'block' to the ledger (block chain) by including a record of the previous block and digitally signing their new block

By digitally signing their block, participants can verify the author of new blocks and know that only that author can change that block

By including the previous block record, any change in the middle of the block chain would require all subsequent blocks to be also changed, preventing unauthorised or secret modifications



Over 30 financial institutions are experimenting with Ripple – Including **Western Union, Commonwealth Bank of Australia, Royal Bank of Canada, Standard Chartered and Development Bank of Singapore (DBS)**

Can provide a **secure custody chain of any digital asset**, including **crypto-currencies, real-estate titles, and KYC profiles**

Ripple is the 3rd largest crypto-currency after Bitcoin and Ethereum – mooted as the **blockchain equivalent of PayPal**

Potential alternative to expensive centralised systems like SWIFT and Visa

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In North America,

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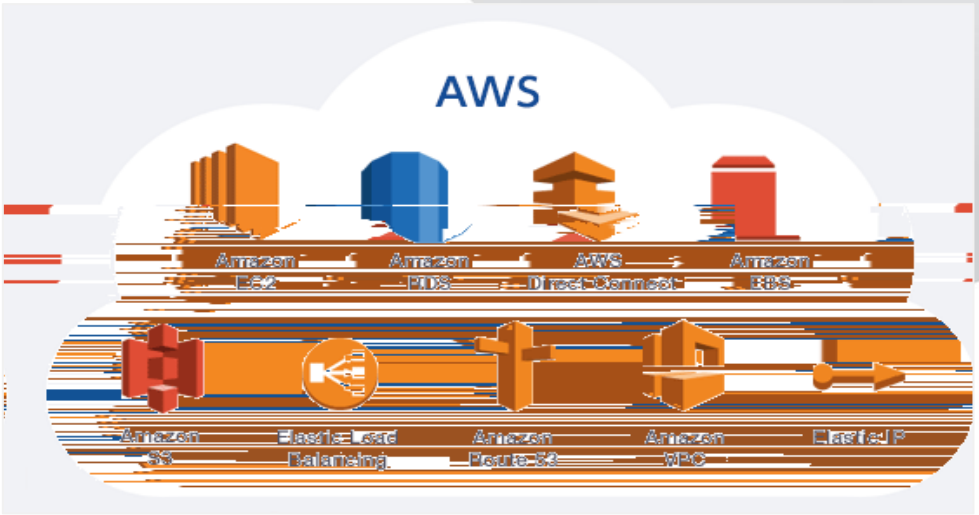
Cloud Based...

amazon

Most valuable retailer by market capitalisation of $279bn – **more valuable than Walmart's $190bn with its 11,500 stores**



AWS produced **8% of Amazon revenues but 40% of Amazon operating profits in 2015,** up from 23% the year before

Customers include: **Netflix, Expedia, Airbnb, Pinterest, Capital One and the CIA**

Amazon Web Services (AWS) is a collection of **on-demand, cloud computing services** to over 1m customers globally; services **including computing, storage, databases, content delivery, and analytics**

Has an estimated **3 - 6m servers worldwide**

AWS offers **10x as much computing capacity as the next 14 players** in the market combined.

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Future Banks must look to best-practice outside of Banking

Agile Business Model

1. Digital Channels
   - Alipay.com
   - ICBC
2. Partnership Ecosystem
   - LendingClub
3. Data-Driven Talent Management
   - Google

Seamless Customer Experience

1. Customer-Centric Design
   - SIMPLE
2. Social-Media Engagement
   - fidor BANK
3. Integrated Payments
   - Starbucks Coffee

Next Generation Technology

1. Block Chain
   - ripple
2. Big Data
   - NETFLIX
3. Cloud-Based
   - amazon

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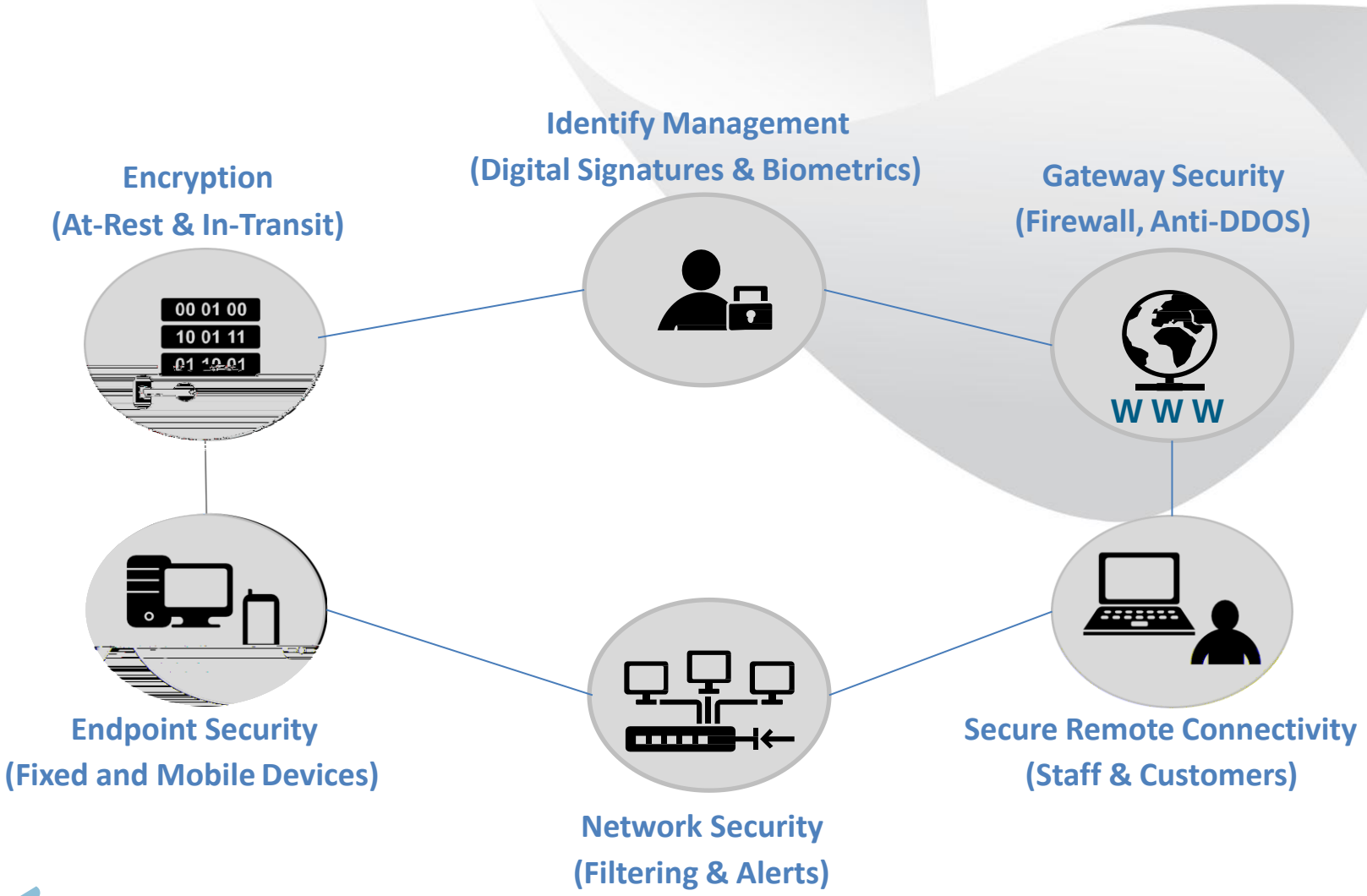
Cyber Security is critical for all Future Banks



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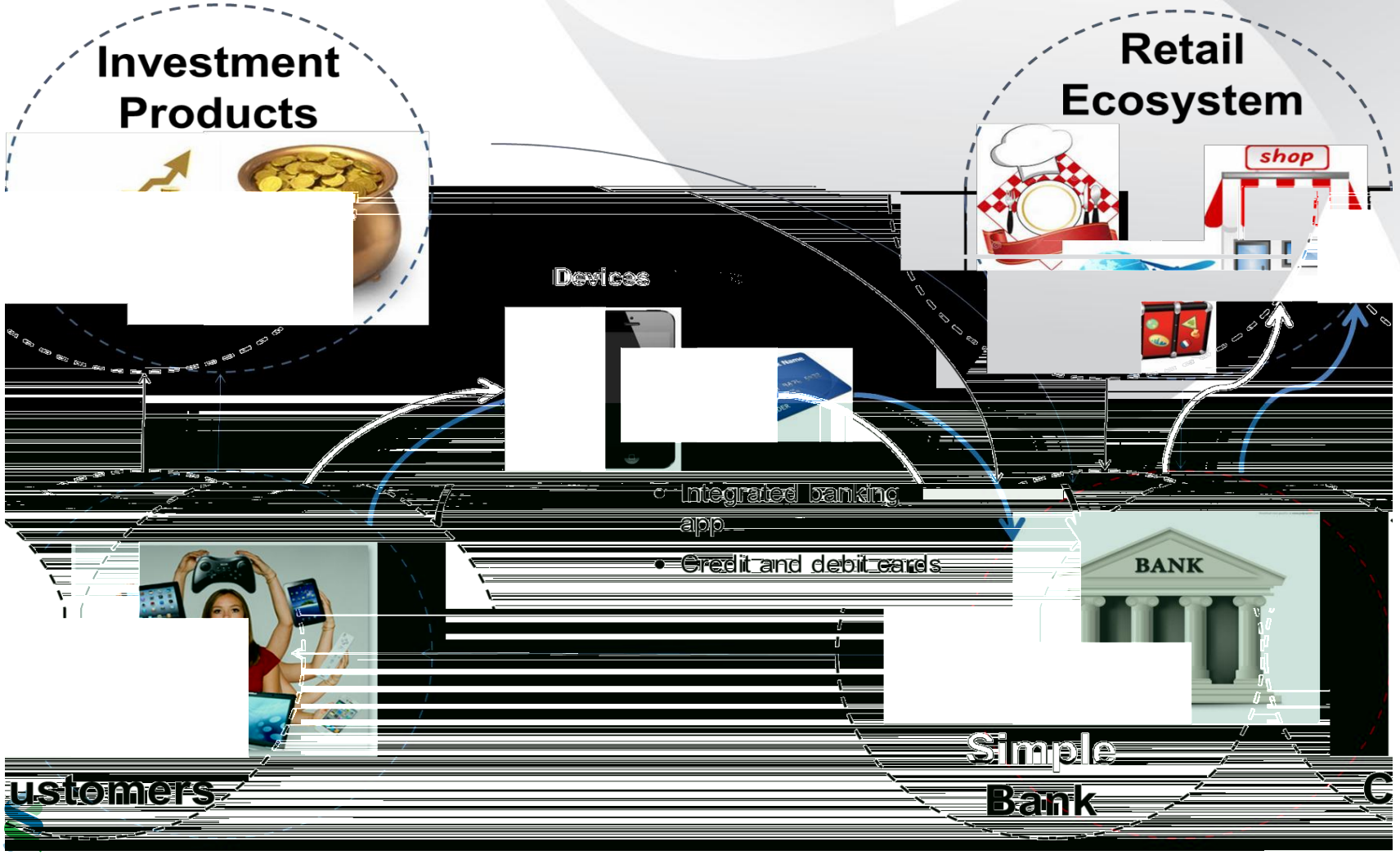
The Winning Banks will engage with digital customers … beyond boundaries



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The rise of Neo Banks illustrates the disruptive potential

What is a Neo Bank?

SIMPLE Moven firlor 支付宝 Alipay.com

Digital Front-End only

Provides a mobile app as a front end to its partner white-label bank

Typically offers a transaction and a savings account, with a prepaid or debit card

Digital Sales and Service

Online account opening

Key channels are internet, mobile, chat/in-app messaging

Includes mobile deposits, mobile budgeting tools, P2P payments, and real-time digital receipts

No legacy infrastructure

No banking licence

No branch network

No core banking platform

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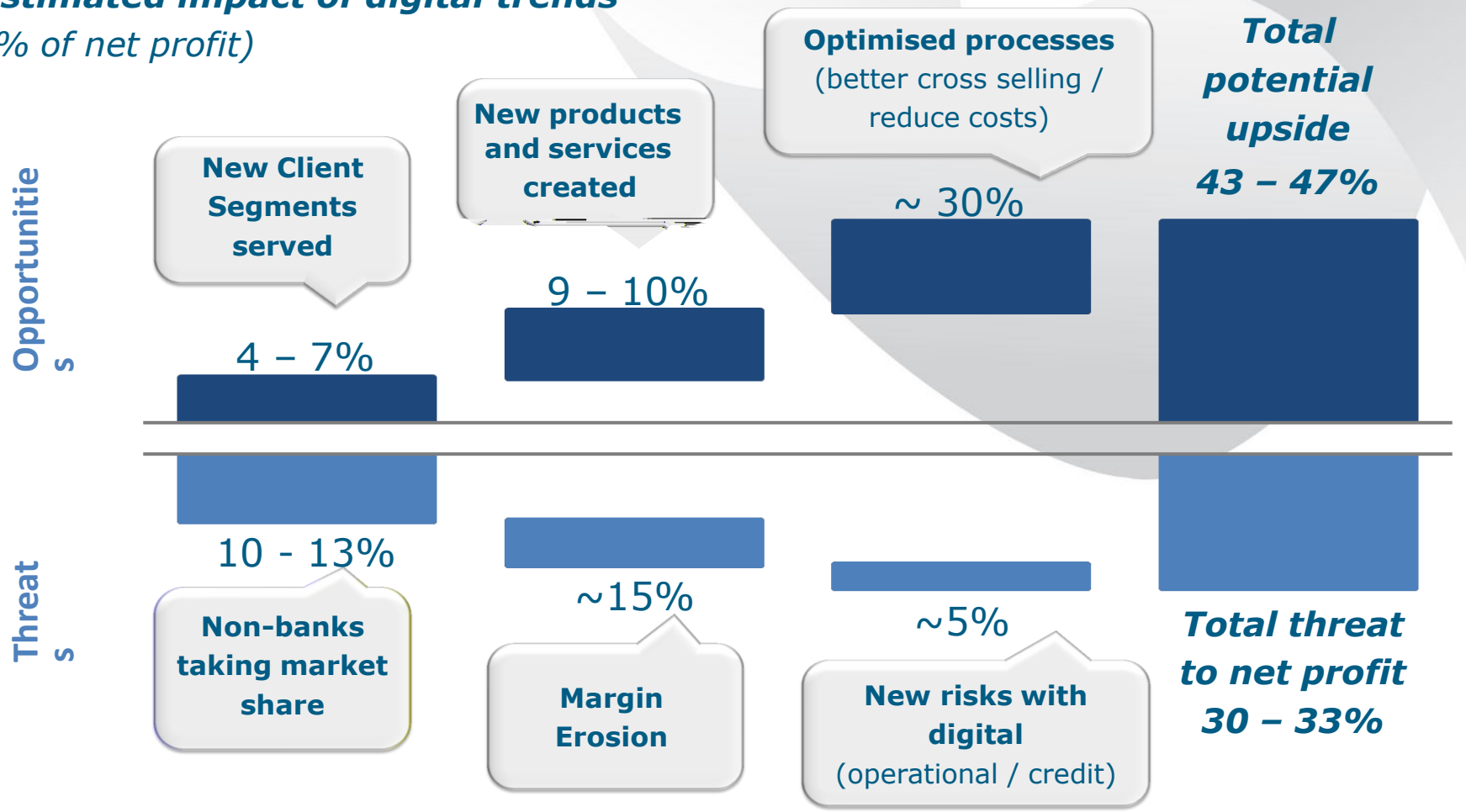
Banks who embrace digital can expect to boost net profits by over 40%

Estimated impact of digital trends

(% of net profit)



Source: McKinsey, "How to prepare for Asia's digital-banking boom", Aug 2014

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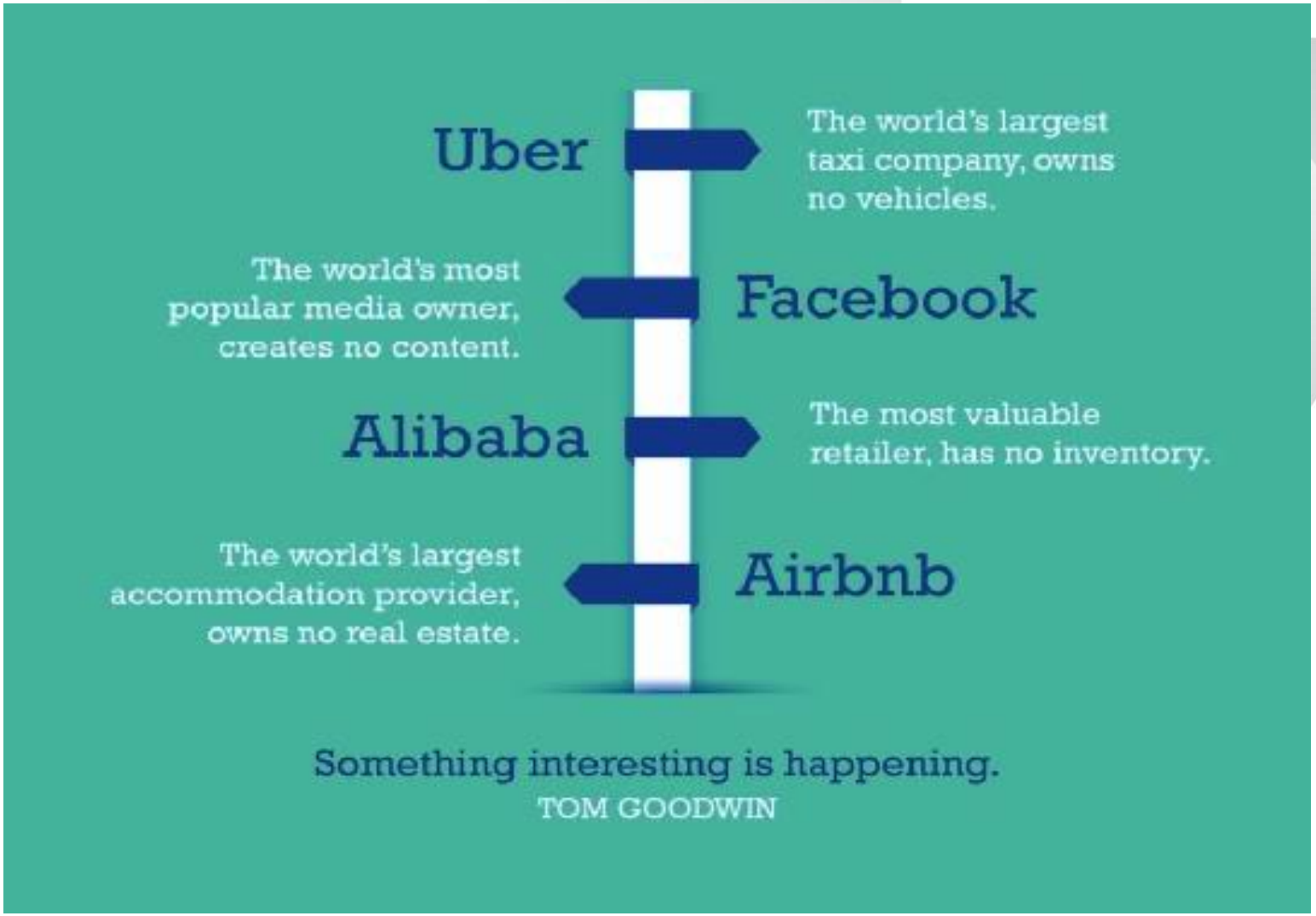

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Thank You!

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