

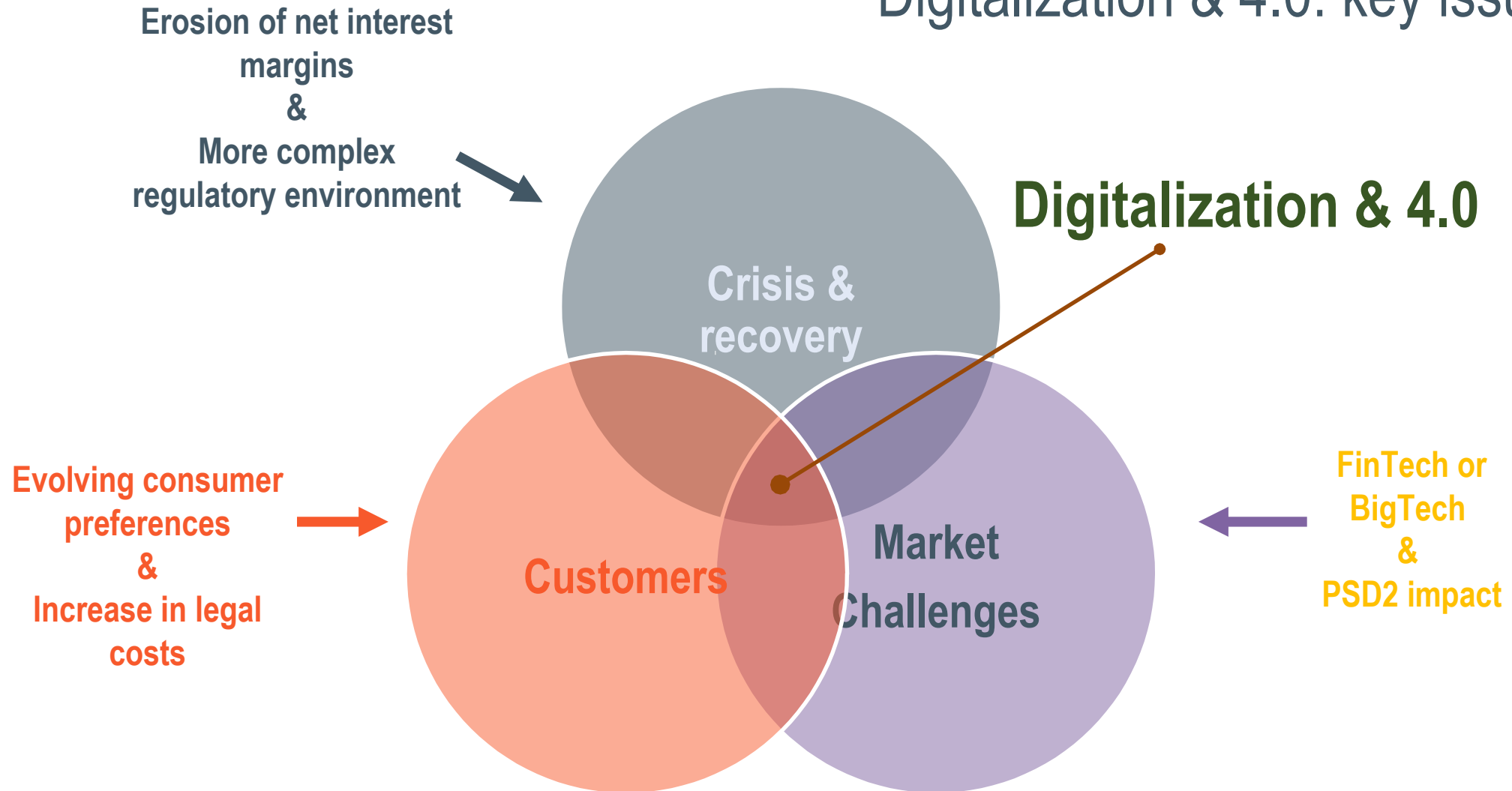
# 4.0 Banking in Europe

Beograd, Republika Srbija 06/19/2019

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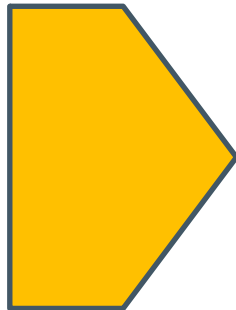
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# Digitalization & 4.0: key issues



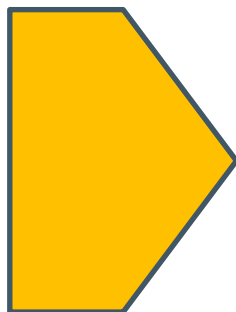
# Summary

1



**EU Banking Sector recovery: the «Less4More» strategy**

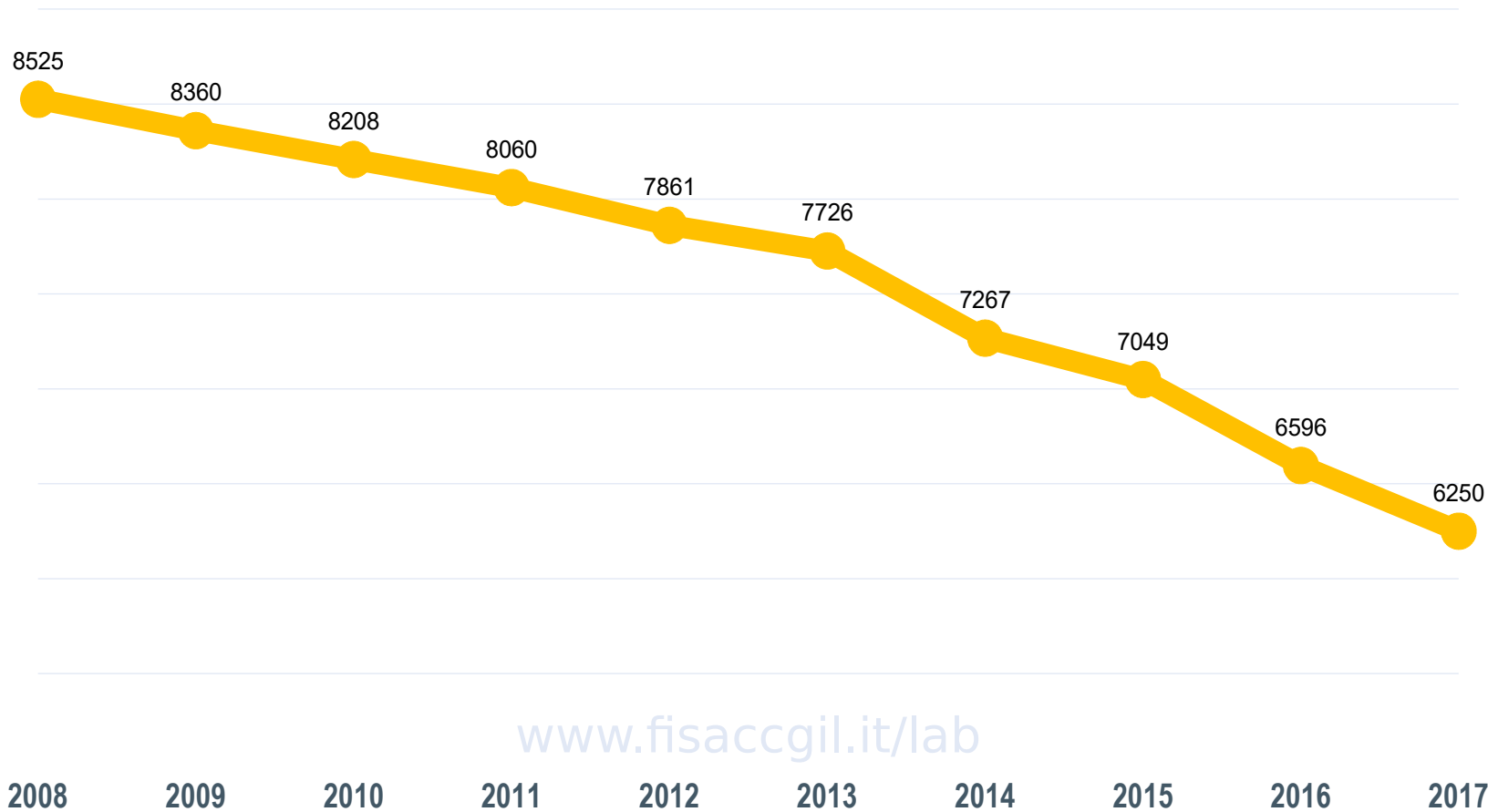
2



**The role of digitalization & 4.0**

# Number of Banks – EU 28

Source: EBF



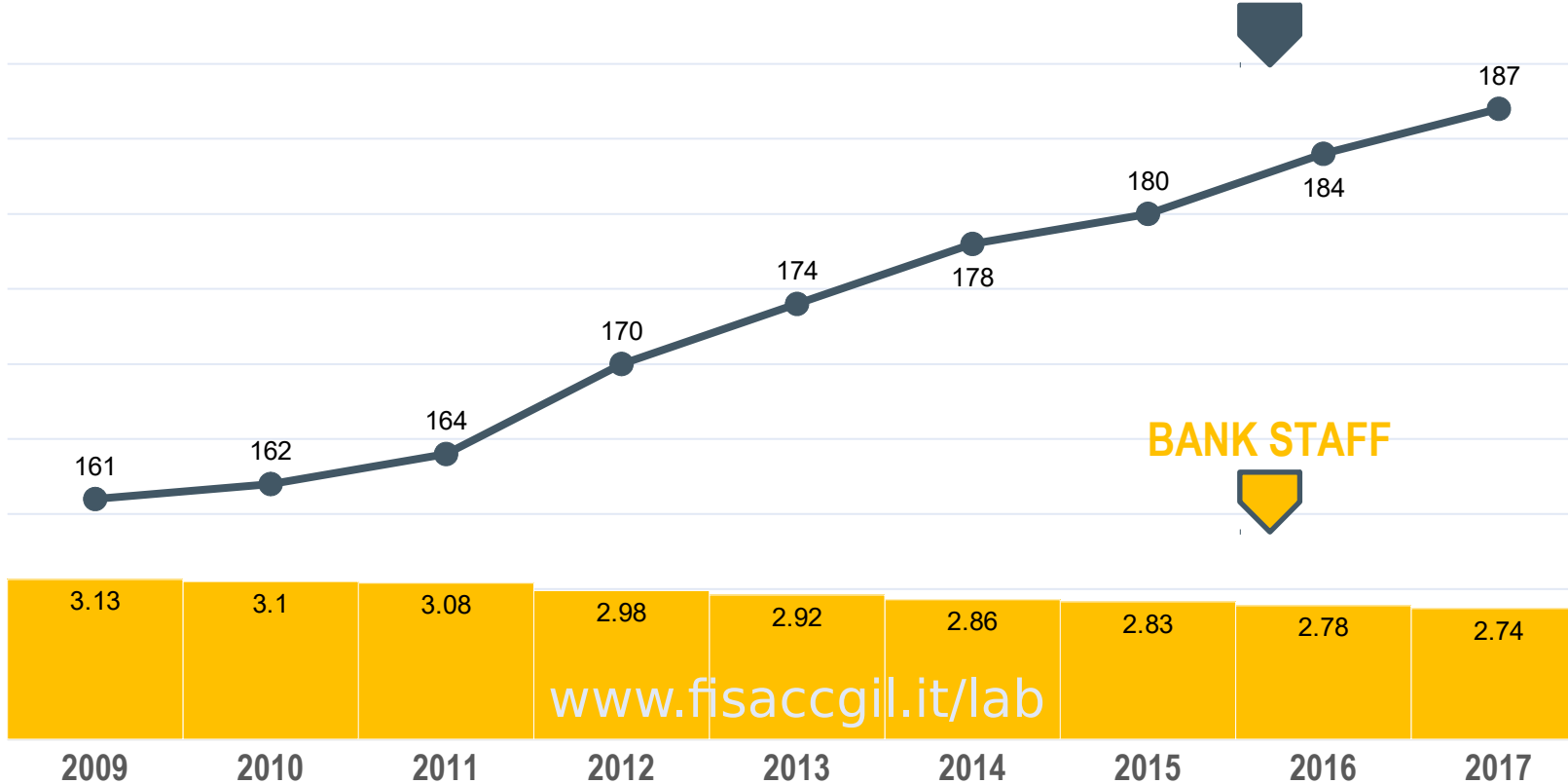
- 2.275 banks in 10 years
- -27%

[www.fisaccgil.it/lab](http://www.fisaccgil.it/lab)

# Bank Staff – EU 28

Source: EBF, millions of unit

INHABITANTS PER BANK STAFF

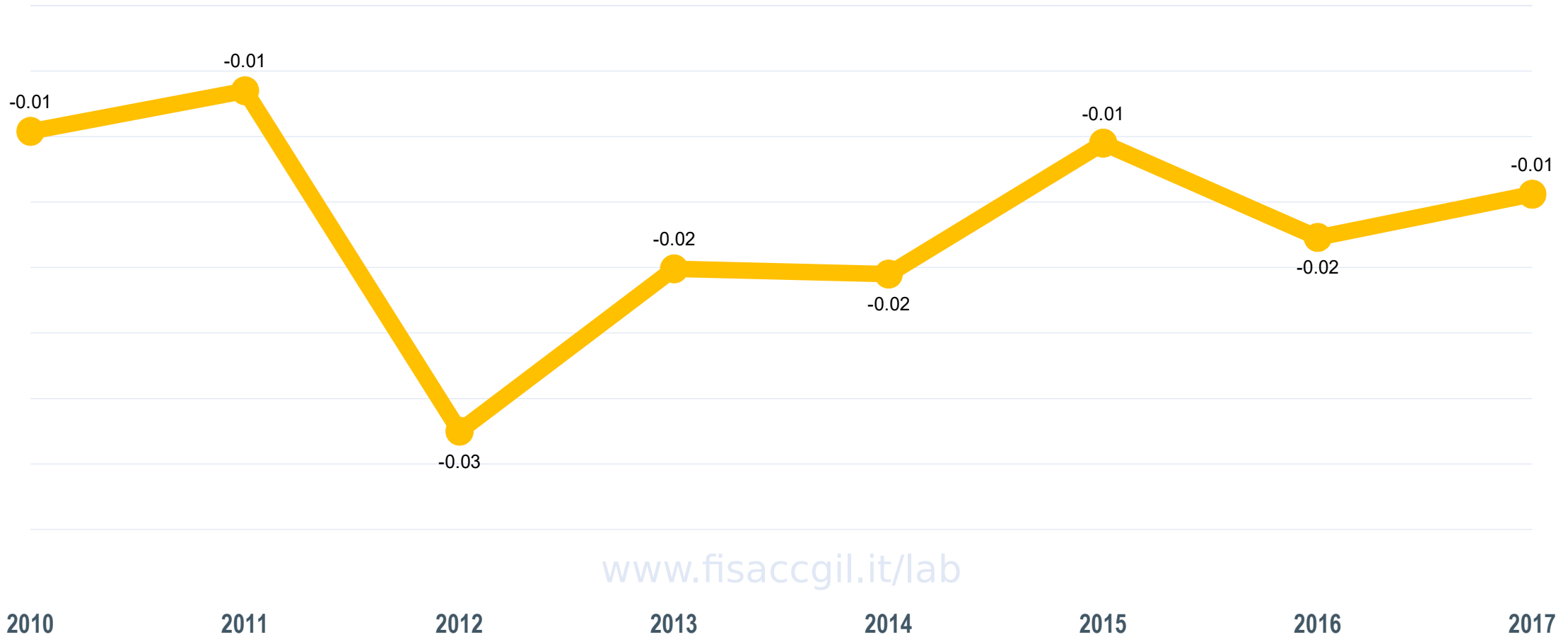


[www.fisaccgil.it/lab](http://www.fisaccgil.it/lab)

- - 12,5% overall
- Including EFTA countries, the number of staff employed in the banking sector at the end of 2017 was about 2,9 million

# Bank Staff: YtoY Changes – EU 28

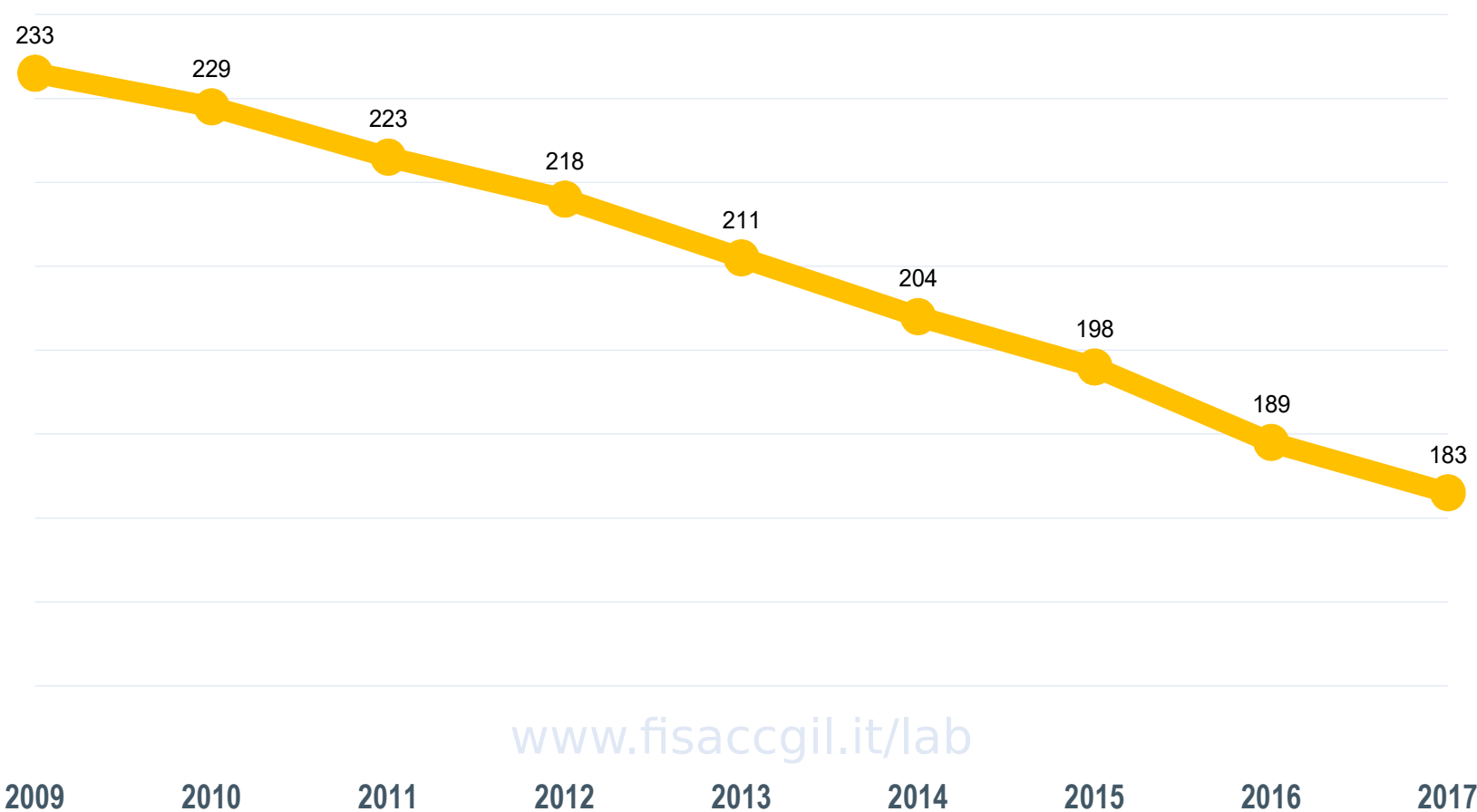
Source: ISRF LAB calculation



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# Number of domestic bank branches – EU 28

Source: EBF, thousands of unit

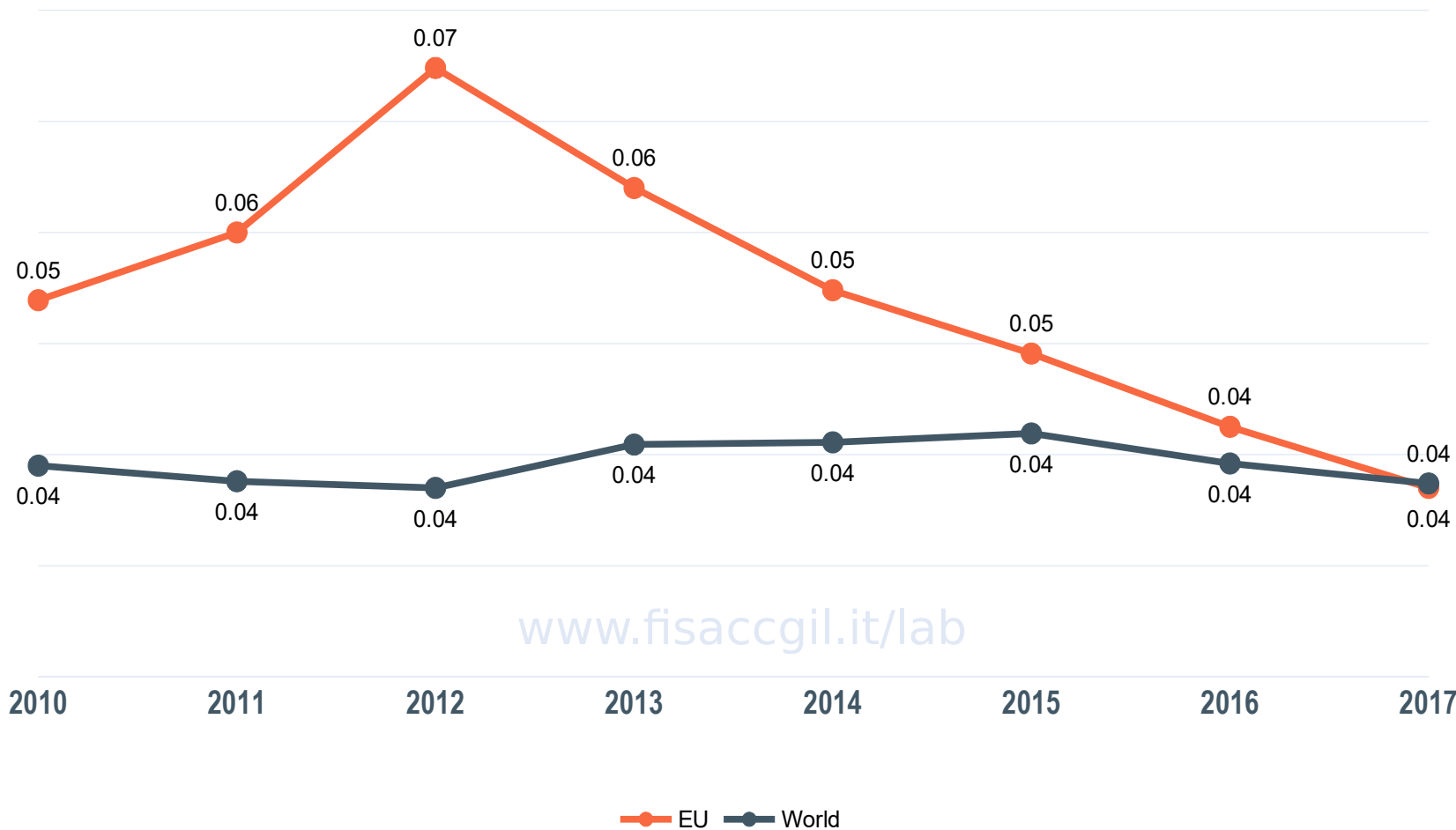


The number of branches has fallen by 21% since 2009. At the end of 2017, there are 50.000 less branches than in 2009

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# NPLs to gross loans Ratio

Sources: EBF and ECB



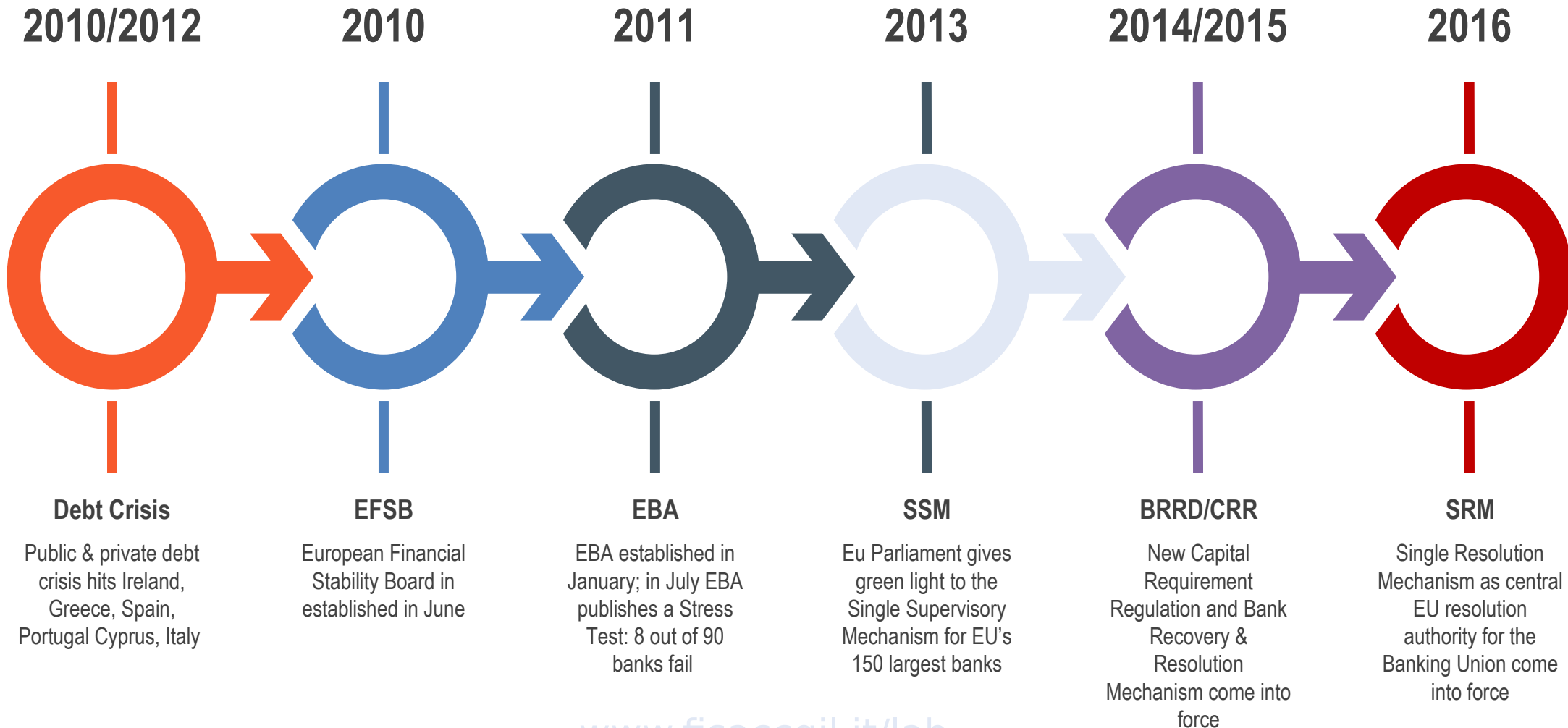
[www.fisaccgil.it/lab](http://www.fisaccgil.it/lab)

■ NPL stocks have decreased considerably in recent years

■ 2014: 1,17 trn  
■ 2018q3: 714,3 bn



# A new Regulation framework



## The recovery strategy: «Less4More»

Source: EBA and EBF

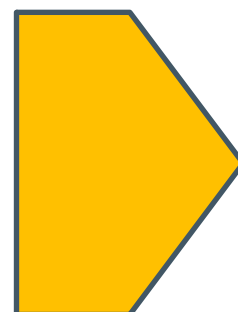
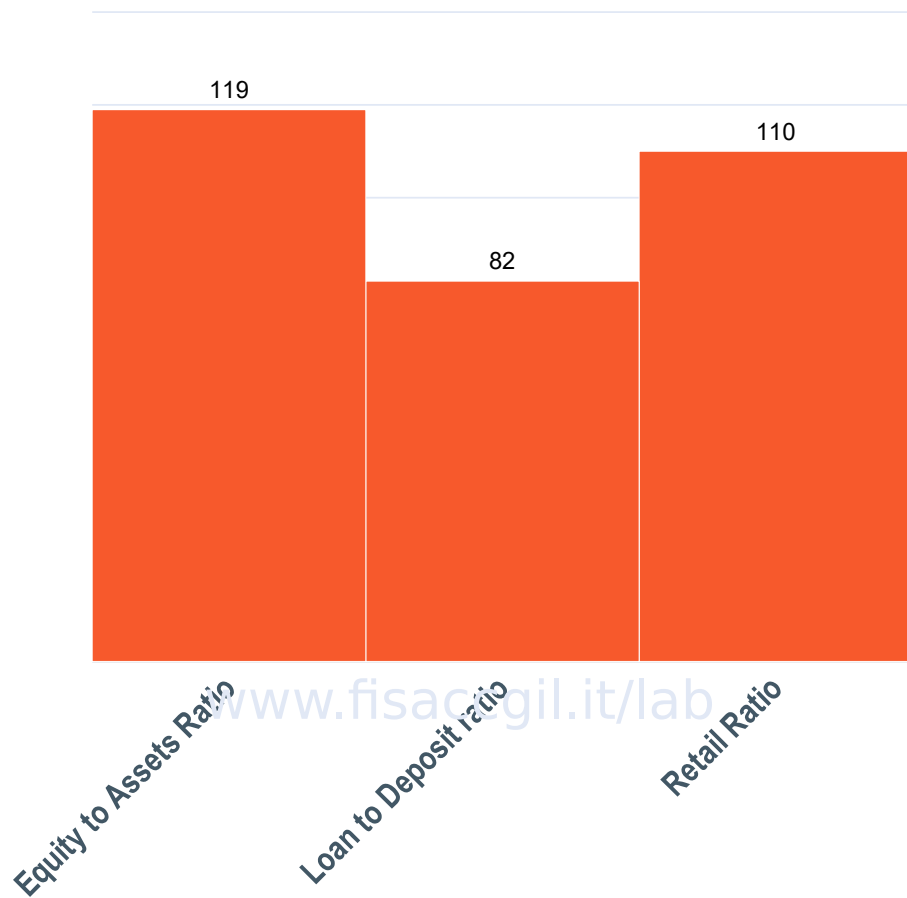
	Jun 2011	Jun 2017
Core Equity Tier 1 Capital	5,3%	13,8%
Tier 1 Shortfall (Eur. Bn)	411	0
Liquidity Coverage ratio	71%	143%

**In 2017, for the first time, all EU-28 banks met the liquidity coverage ratio above the minimum**

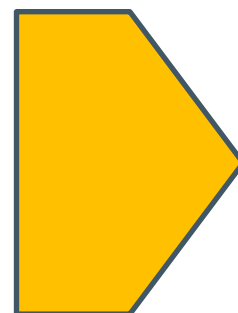
# The recovery strategy: A new paradigm

Source: ECB

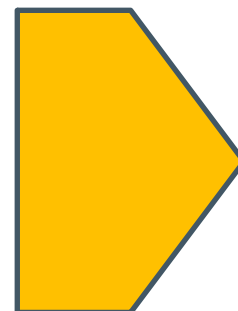
2007= 100



**Lower Leverage**

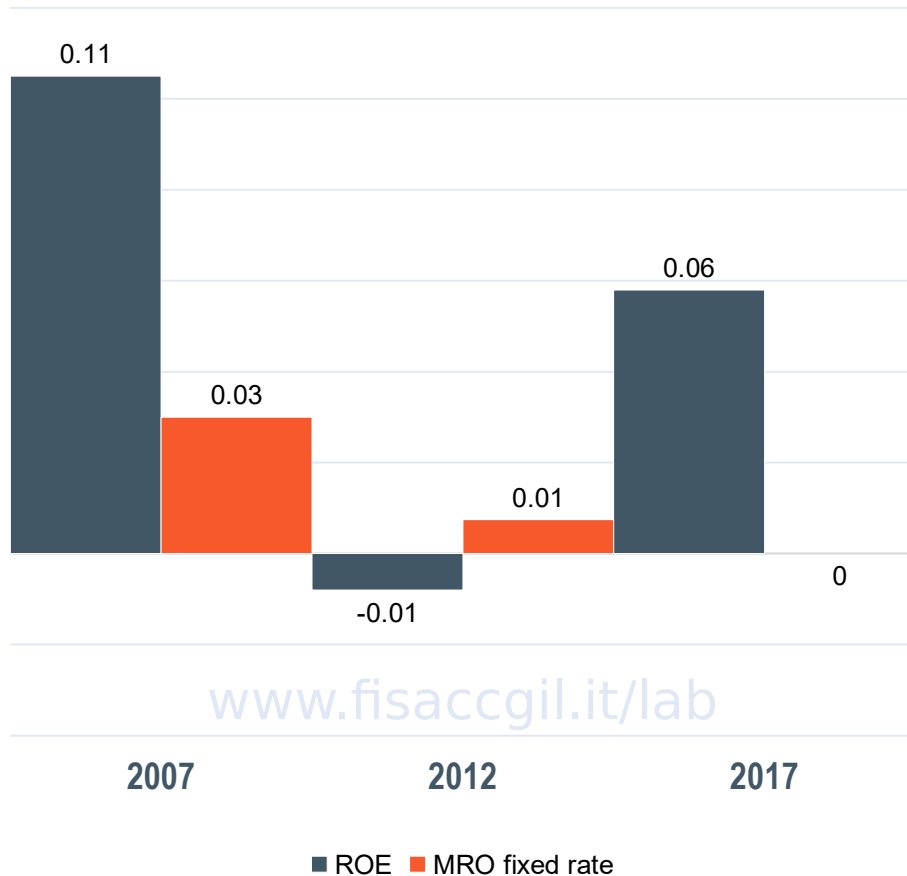


**Reduced reliance on wholesale funding**



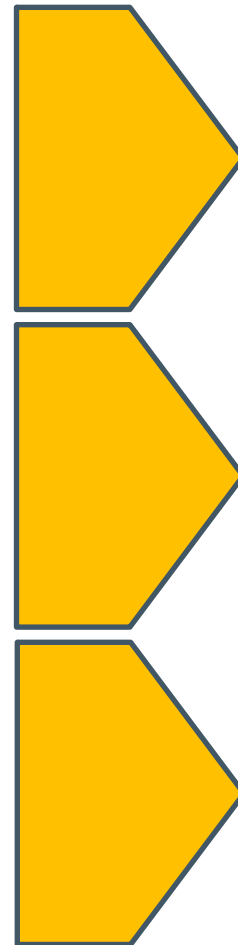
**Higher reliance on retail activities**

## Return on Equity & ECB's MRO



## The recovery strategy: ROE

Source: EBA and EBF data



2007: 10,50%

2011/2012: Banking crisis in particular in Spain & Greece affects balance sheets of EU banks

2017: A significant increase in profitability despite the negative impact of net interest income

## «Less4More»: digitalization & 4.0

Less...

**Less banks (M&A), less branches, less employees**



**4**

**Digitalization & 4.0**

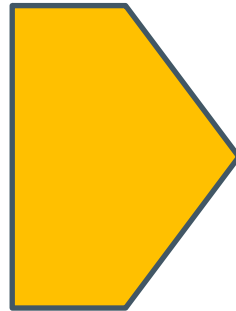


...More

**Profits with a Zero/Negative interest rates**

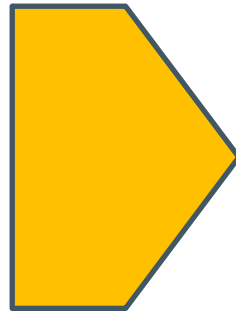
## Digitalization & 4.0: key issues

Banking crisis & recovery



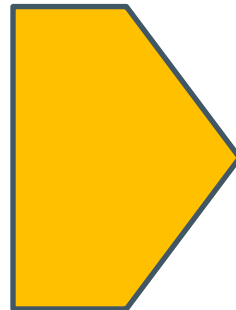
- The digitalization process was the necessary complement to a cost-cutting strategy...

Customers expectations



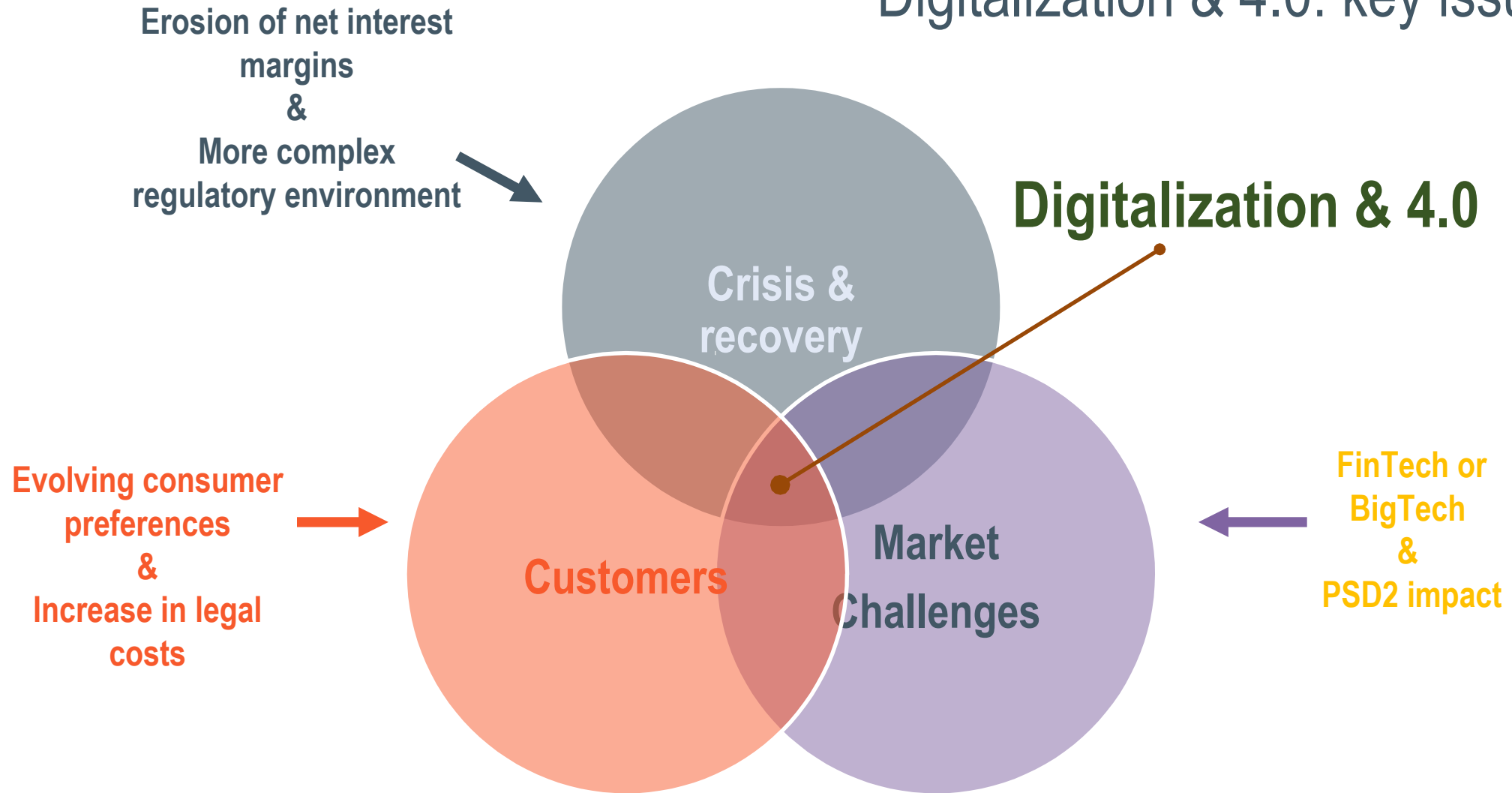
- ...and a fundamental element to meet a new consumer demand

Market challenges



- The «great transformation» of banking industry is the only possible answer to the challenge of FinTech/BigTech world

# Digitalization & 4.0: key issues



## Digitalization & 4.0: a cost-cutting strategy

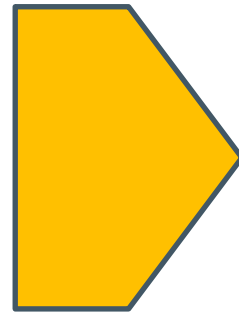
«Promising opportunities seem to arise in commercial banking. This is possibly due to the potential benefits of the new technology-based propositions such as aggregator models, use of robo-advice and application of better data analytics. This can be also seen as possible explanation of banks' growing appetite to address costs trough increasing automation and digitalization»

**EBA REPORT ON THE IMPACT OF FINTECH ON INCUMBENT CREDIT INSTITUTIONS' BUSINESS MODELS, 2017, page 12**



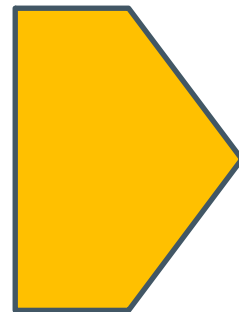
## Digitalization & 4.0: a capital intensive commitment

### Investments in IT



- The global IT spending of the financial sector will grow from the expected \$ 440 billion in 2018 to almost \$ 500 billion in 2021 (Worldwide)

### Average Growth rate

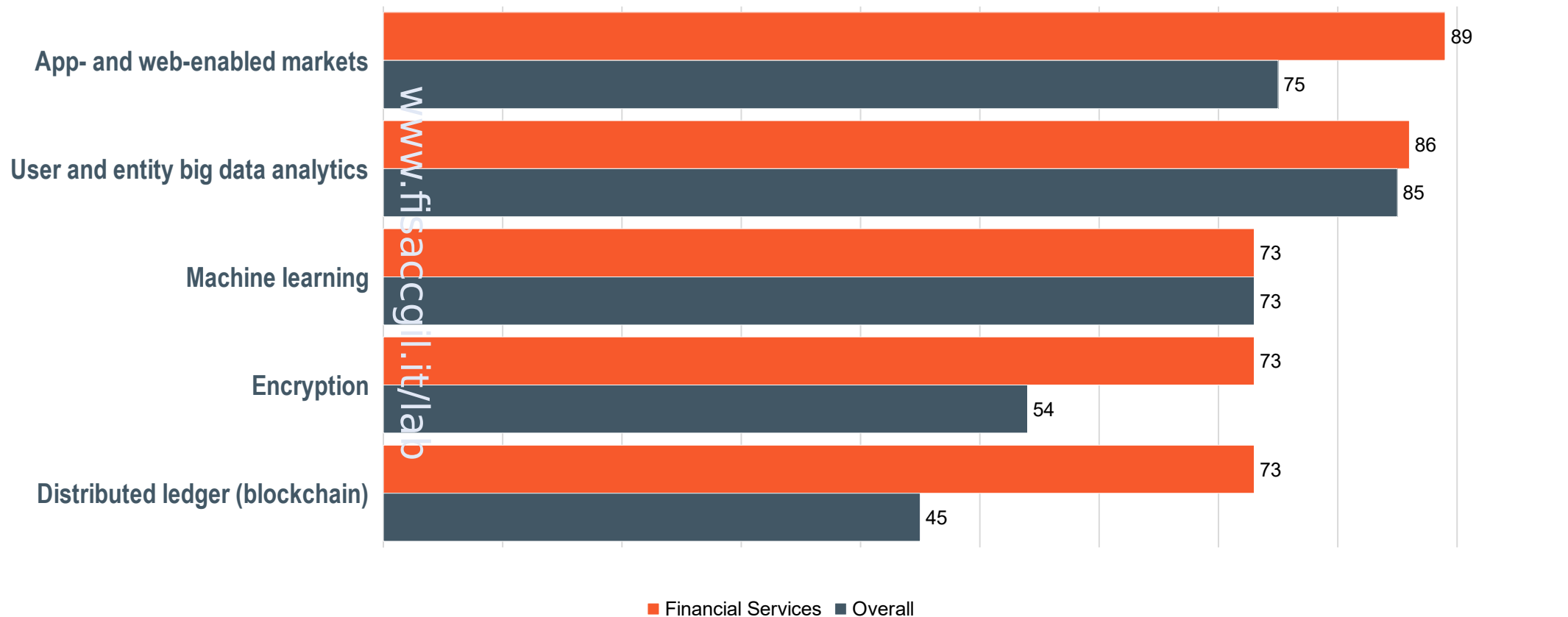


- + 5,1% for banks
- + 4,3% for insurance

# Digitalization & 4.0: which kind of technology?

Source: WEF «the Future of Jobs Report», 2018

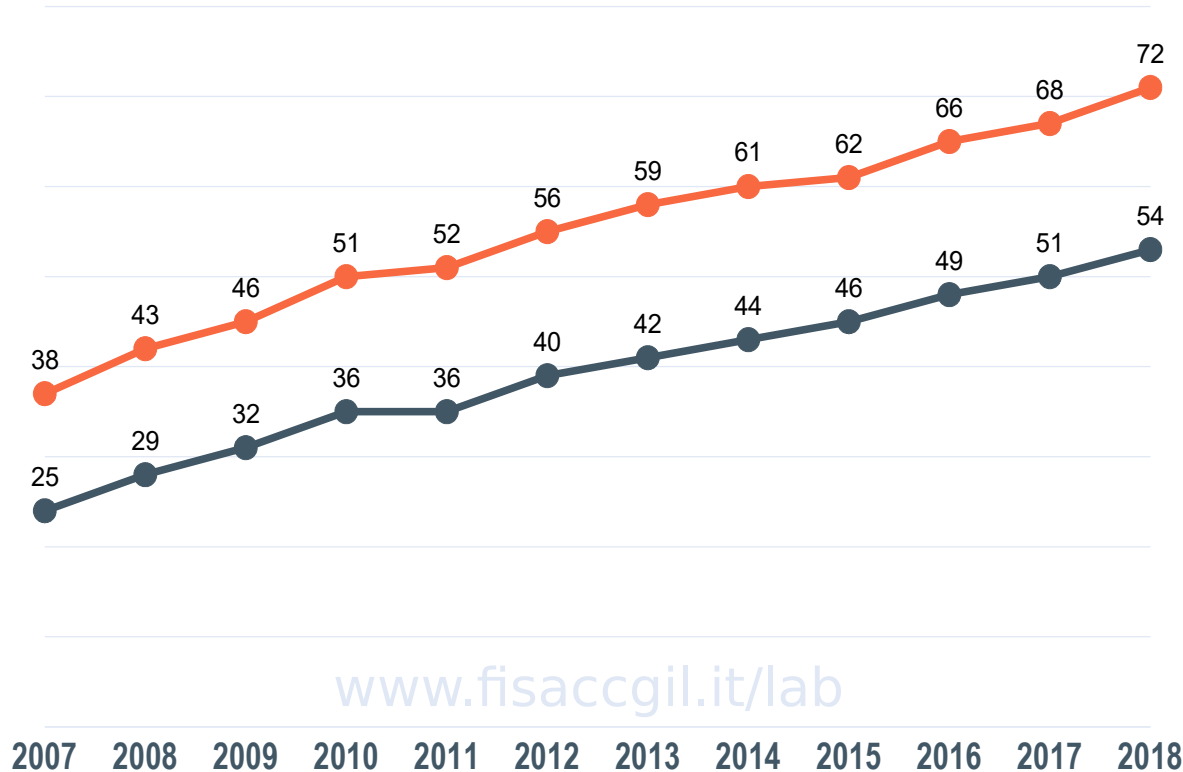
Technology adoption by industry and share of companies surveyed, 2018–2022 (%), Top five for Financial Services



# Digitalization: consumer preferences

Source: EBF and Eurostat

**% of individual using Internet Banking in EU-28, total and 25/34 yo range**

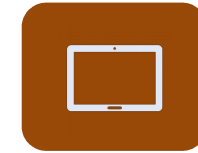


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**54%**

Of individuals in EU-28 use Internet Banking (25% in 2007)



**3 billions**

bank customers in the World will be able to access retail banking services through their electronic devices by 2021



**72%**

Of individuals from 25 to 34 yo in Eu-28 use Internet Banking (38% in 2007)

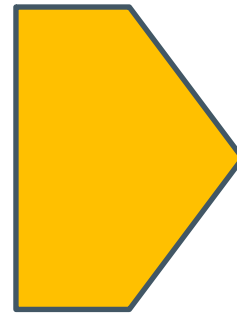


**1.9 Billions**

bank customers in the World will use biometrics and e-id to access financial services by the end of 2020

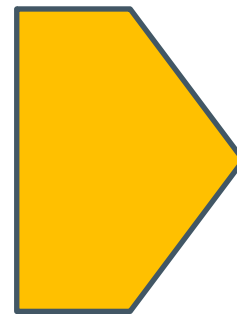
## Digitalization & 4.0: FinTech?

**Before Financial Crisis**



- **“RACE FOR INNOVATION” VS SMALL NEWCOMERS (FINTECH)**

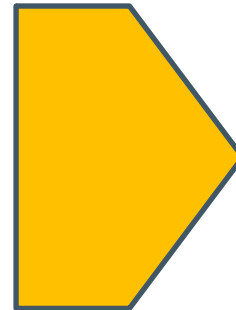
**After Financial Crisis**



- **Banks can “buy” innovation quickly than FinTech can acquire new customers**

## Digitalization & 4.0: or BigTech?

### The BigTech challenge



- **BigTech's competitive impact on financial institutions may be greater than that of FinTech.**
- **This should not be surprising given that BigTech "usually have large, established customer networks and enjoy name recognition and trust.**

They don't want become a bank in traditional terms, but integrate financial services in their core business

# BigTech: examples

Source: Forbes

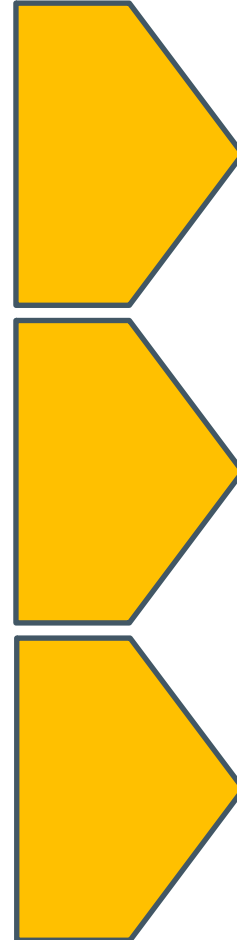
	Alibaba	Tencent	Baidu	Google	Amazon	Facebook	Apple	Samsung	Microsoft	Vodafone	Mercado Libre
<b>Payments</b>	AliPay (largest mobile payments platform in China)	Tenpay (#2 mobile payments platform in China)	Baidu Wallet – cooperation with PayPal	Google Pay – layers over existing card network	Amazon Pay – layers over existing card network	Messenger Pay – layers over existing card network	Apple Pay – layers over existing card network	Samsung Pay – layers over existing card network	Microsoft Pay – layers over existing card network	M-Pesa (32 million active users in East Africa and India)	Mercado Pago (offered in 8 markets in Latin America)
<b>Lending and short-term credit</b>	MYBank (SME lending for rural areas and online merchants)	WeBank (Personal micro-loans)	Baixin Bank (financial products and small loans)	Collaboration with Lending Club	Temporary financing in Amazon Lending; direct lending to merchants	Pilot in collaboration with Clearbanc	n/a	n/a	n/a	Offered through M-Shwari mobile banking service	Mercado Crédito (small loans to retail and SME clients)
<b>Current accounts</b>	Offered through MYBank	Offered through WeBank	Offered through Baixin Bank	n/a	Reports of talks with banks	n/a	n/a	n/a	n/a	Offered through M-Shwari	n/a
<b>Asset management</b>	Yu'e Bao (world's largest MMF)	License to offer mutual funds	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	Pilots ongoing in 2018
<b>Insurance</b>	60% stake in Cathay Insurance China, founding stake in Zhong An Insurance	Online insurance service in life and property insurance	Joint venture with Allianz, and Hillhouse Capital announced	Insurance on Google Compare (discontinued)	Partnership with JPMorgan Chase and Berkshire Hathaway on health insurance	n/a	Cooperation with Allianz or cyber insurance discounts	n/a	n/a	n/a	Pilots ongoing in 2018

# BigTech & PSD2: a possible «market disruption»?

## What is PSD 2

### Article 29 - Access to Accounts

### The end of Banking monopoly on payment service



- PSD2 is a wide-ranging directive, covering 117 Articles including mandatory encryption and strict controls on merchant charges for transactions
- This opens up consumers' account information to third parties. These third parties can offer payment services but they won't have to be banks.
- At the end of December 2018, Amazon obtained a banking license from the monetary authority of Luxembourg. A few days later Facebook did the same thing in Ireland and Google in Lithuania

# 4.0 Banking in Europe

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## Beograd, 06/19/2019

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