PLATFORMIZATION IN BANKING

A unique opportunity for banks to get a share of customer’s lives not just wallets

Brussels, 28 February 2018
The bit about me – Banking and Security specialist and Digital Enthusiast

Business & IT Strategy Consultant, Digital Banking Lead DACH, Innovation Incubator

With 14 years of project management and consulting expertise in the industry, Alex has seen the “Good, The Bad & The Ugly” in financial services. His mission is to help established financial services players to provide a fertile environment for innovation and growth. He advises clients on digital strategy and co-creates awesome customer experiences while adhering to rules & regulations and keeping cost reasonable.

PROFESSIONAL BACKGROUND

▪ :projective (since 2017)
▪ Gartner (3 years)
▪ Deloitte (4 years)
▪ Capco (2 years)
▪ Deutsche Bank (4 years)

CORE SKILLS

▪ Domain Expertise: Corporate and Retail Banking, Private & Wealth Management, Insurance, Capital Markets
▪ Financial products: Payments, OTC Derivatives
▪ Languages: English, German

SELECTED CLIENTS FROM PREVIOUS ENGAGEMENTS

▪ Deutscher Sparkassen- und Giroverband (DSGV)
▪ Finanzinformatik
▪ BayernLB, HSH Nordbank
▪ Deutsche Bank, Commerzbank, DZ Bank
▪ ING, Rabobank
▪ Deutsche Börse / Eurex
▪ Raiffeisen Schweiz, Pictet
▪ Unicredit
▪ DNB, Norges Bank
▪ Santander, BBVA
▪ Allianz, Swiss Life

SELECTED PROJECTS

▪ KYC 2.0 for corporate clients
▪ Open Banking Strategy
▪ Bimodal Governance
▪ Target Operating Models for DevOps, SecOps & Agile
▪ Security Benchmarks
▪ BCBS 239 Compliance
▪ Service Catalogue relaunch
▪ Operational Risk Assessment
▪ OTC CCP Launch concept
▪ Vendor selection and RfP support

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The bit about us - ::projective and the B-Hive Ecosystem

::projective is part of an ecosystem combining deep domain and change expertise, technology execution, Tech4Fin/FinTech innovation, collaboration and incubation for the financial industry and adjacent spaces.

**OUR ECOSYSTEM**

- **::projective**
  - Delivering advice, innovation & change for financial institutions

- **B·HIVE**
  - Ecosystem for financial industries to collaborate and exchange with Fintechs

- **THE GLUE**
  - Enable and accelerate digital strategy and business model execution

- **SmartFin Capital**
  - PE & VC Fund Investing into smart technologies

- **THE BRIDGE**
  - Provide corporate innovation and incubation services, build bridges to new technologies (member of B-Hive)

**DIEBOLD NIXDORF**

Principal investor and strategic global partnership to provide delivery excellence and digital & innovation

**McKinsey & Company**

Exclusive European consulting & delivery partnership for the financial industry (e.g. complex transformation)
Change wave provides many opportunities – but you must ride it!

A wave fuelled by changes in technology, regulation, customer demand and macro economics is continuously building up and breaking onto the financial services industry driving innovation at its core.

- Technology democratization, Open source, Open API, Machine learning, AI & race to technological singularity, Distributed ledgers, …
- Changing customer demand, Corporate sophistication, Hyper individualization, Shareconomy, Crowd-X, …
- Macro economics, Margin compression, New entrants, Utilities, Near/Offshoring, …
- Regulation tsunami, KYC/Compliance cost and fines, Regulatory asymmetry, …

Lip position on top… riding the opportunity wave

Wash zone… unknown where to end up
Digital Platforms gradually evolve to ecosystems by combining technology and partners with different business models to create digital moments for customers.

Is BigTech going to “eat” banking?

- Tencent (WeChat), Ant Financial (Alipay), Google, Apple & Co. are entering the European banking market slowly but surely.
- So far, they are pursuing opportunistic strategies (limited investments, partnerships with local partners & limited focus, e.g. millennials, tourists).
- BigTech companies are only competing where a one-size-fits-all approach is practical and feasible, they will avoid business model complexity and regulatory scrutiny.

The Ecosystem for Banks

- In order to play an essential role in any type of ecosystems, banks need to bring scale, data intelligence, security and risk appetite to the table.
- Risk appetite comes in new forms and implies that banks are open to experiment, pivot and scale rapidly in an open environment of co-creation.
- Savings banks have an unique advantage due to their intimacy with the customer (compared to larger banks) and the partner network through existing local, regional and world-wide business relationships.

Sources: Gartner, :projective
Open Banking Platforms are defined by remaining unspecific about the “Endgame” - Start with viable offerings but continuously evolve to go beyond banking

**Player landscape** – actively looking into new opportunities in light of PSD2

- Banks
- Government authorities
- Price portals
- FMCG Retailers
- Card issuers
- Insurances

**New business opportunities/services** – new products/services being discussed/evaluated – many in adjacent spaces of players’ core business

- Delegated Cash
- KYC
- Financial Health
- P2P
- Dynamic loans
- PayMe Connect
- Liqui-check
- Poor man’s Cash Mgmt
- PayMe „instant“
- Human ATM
- Best Price seeker
- AML/Tax Evasion
- DVP Instant
- Social Benchmarking
- Personal loyalty
- Loyalty exchange
- BYO POS
- IoT “PayMe inside”
- Rental deposit
- Corporate Expense
- TPP Appstore
- Sky Receipt
- Mobile Payments
- Conditional Payments

**Other Driver(s)**

- Instant Payments
- GDPR
- Open API
- BaaS
- Digital Identity
- Economics
- IoT

Source: ::projective
SEPA account based P2P - payment function could easily be implemented extending existing app for immediate payments

Use case
- Provide ability to transfer low value amounts (e.g. up to 1,000 EUR per day) using XYZ network between persons

Flows
- Customer A sends B (or Customer B requests from A) an amount in defined currency through PayPal’s P2P service
- Through XYZ’s TPP a PI (Payment initiation) is being executed on Customer’s A account to XYZ P2P overlay account (residing at XYZ’s domestic transaction bank)
- With positive confirmation through Bank’s A XS2A API the send/requested amount is being credited to Customer’s B PayPal account and can be directly used by Customer B
- Single steps within flow usually happen within 2-3 seconds depending on Bank A and B XS2A API behaviour (still to be defined through PSD2 RTS)

Prerequisites
- Customer A has setup his SEPA account in XYZ App with PSD2 consent to execute a PI on behalf of XYZ

Source: ::projective
DvP „INSTANT“ provides instant payment capability to clients for making high value transactions – instantly and irrevocable

**Use case**

- Provide customers ability to pay high value transaction with instant value credited on merchant account (e.g. airline ticket, vacation, buying car without need of risky cash, etc.)
- Cross-selling opportunity: unsecured loan on partial/full transaction amount (based on PSD1)

**Flows**

- Customer initiates high value payment with defined amount to merchant’s XYZ address
- Through XYZ’s TPP a PI (Payment initiation) is being executed on Customer’s bank account to XYZ P2P overlay account (residing at XYZ’s domestic transaction bank)
- With positive confirmation through customers bank’s XS2A API sent/requested amount is credited instantly to merchant’s XYZ account. Optionally merchant can redirect amount to his bank account on SEPA D+1 basis (free) or SEPA INST (surcharge)

**Prerequisites**

- Customer & merchant must have confirmed XYZ account with verified SEPA acc. attached

**Comment**

Source: ::projective

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AML Tax evasion - Public services may become interested in PSD2 enabled opportunities to reduce tax evasion & money laundering

Comment

Use case
- Governmental authorities collect and store all account information centrally (e.g. movements, balances, holdings, remittance data, etc.) on a repetitive basis by a designated data collection and processing entity.
- All accounts, similar to the German "Kontenabruf" model - backed by law will be handled by this technology entity.
- All data flows are being put into context to identify more complex patterns beyond rules-based approach.
- Artificial intelligence (AI) will provide deep data analysis across broader time series.
- Data protection will be ensured by data "black boxing", holding all data and enclosing it so only the entity's own algorithms have access.
- Raised flags are being followed up by human analysts.
- This is the ultimate solution to effectively fight off money laundering and tax evasion
- Cultural heritage & political opposition will be roadblocks in many countries

Source: ::projective
Everybody’s on API and Open Banking these days...

- Nordea readiness for PSD2 with Open Banking API site
  01 March 2017 | News
  Nordea has set up a site for developers to experiment with the bank’s Open Banking APIs in a quest to become the “go-to hub” for banking APIs in the Nordics.

- Standard Chartered launches Banking API Portal
  PYMNTS.com - 13.02.2017
  The bank announced late last week that it is rolling out the Open Banking API Developer Portal that will enable developers to play around with banking...

- TrueLayer unveils API platform to connect banks and developers
  14 February 2017 | News
  Promising to bridge the divide between financial institutions and developers, UK startup TrueLayer has launched the private beta of its API platform for accessing bank data.

- BBVA commercialises Open Banking APIs ahead of PSD2
  Spanish bank BBVA says it is open for business with its Open Banking programme and is making eight of its APIs commercially available for the first time ahead of the new PSD2 regulation.

- HSBC embraces open banking with PSD2 approaching
  Source: ::projective
... but what’s the Endgame going to look like, bank of today or an orchestrated API concert?

- Focused on enriched personal data from the individual, owned by the individual
- Access into 3rd party data sources and products
- Integrated with the bank core systems (legacy or not)
- Suite of intelligent services focused on digital moments and customer interests/needs
- Easy registration, frictionless & device independent user experience
- Personalized services for tons of users through smart technology
- Data Protection & security need to be done right but smartly
There are many things "on the plate" of banks to get done before and doing things the "traditional" way may not be the best choice going forward

- Reduce time to market for new technology
- Utilizing technologies for transformation
- Reduce the cost of "change"
- Digital enablement of ideation
- Lower technology “run” costs
- Create an open architecture
- Minimize technical constraints
- Implement integration capability
- Remove account driven silos to customer centric model
- Enhancing customer experience and interactions – consistently across all platforms and LOB’s
- Reinvent banking capabilities
- Move from banking to “living”
- Become a part of your customers life, not just their wallets

Source: projective
Low innovation capability may be the reason why banks further loose their dominance within the customer relationship

- Implementation regulatory requirements in order to ensure compliance regarding TPP specifications
  - Account Information Service (AIS)
  - Payment Initiation Service (PIS)
- Majority-owned bank strategy

Passive (The chicken)

- Implementation regulatory requirements and identification of strategic business potentials
- Design holistic banking- API
- Establishment of innovative co-operation models in order to realize innovative value added potentials
- Challenger bank strategy

Active (The sheeps)

- Implementation regulatory requirements and identification of strategic business potentials
  - Product- & service innovations
- New competitor strategy e.g. FinTechs and TPP

Beyond PSD2 (The digital lion)

Source: ::projective
THANK YOU VERY MUCH
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