Konrad-Adenauer-Stiftung e.V.

EUROPEAN OFFICE BRUSSELS
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"The Future is Now – A Changing Banking Sector"

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"We have to stop thinking in products and categories that we already know and that we are familiar with. We have to start thinking of new services that are closer to the customers' daily needs", stated Ulrich Coenen (Managing Director of Small and Business Clients, Commerzbank) during the opening event of the Finance Forum 2018. Under the heading "The Future is Now – A Changing Banking Sector" the European Office of the Konrad-Adenauer-Stiftung (KAS) and the Association of German Banks (BdB) jointly organised a panel discussion between Paulina Dejmek-Hack (Member of the Cabinet of Jean-Claude Juncker, European Commission), Gunnar Hökmark (MEP), Matthias Schäfer (Head of Team Financial Policy and Labour Market Policy, KAS) and Ulrich Coenen on the challenges the banking sector is facing today.

In his opening note, **Ulrich Coenen** illustrated the substantial change currently going on in the industry by a pyramid consisting of three levels: The basis centred around the question how technology could help making the banking business more efficient. The answer to this was what most people called digitalisation but which was actually about automating the companies' processes. This digitalisation or rather automation process changed not only the business but also the way of interaction with the clients, Coenen explained. This new interaction was described as "Omni-Channel banking" and made up the second level of the pyramid. In existing and emerging financial services, different channels played a crucial role for the customer experience. New digital elements in these channels would, however, not replace the personal relationship with the customers, he emphasized. When the financial institution had integrated technology in the business model and had gained an understanding of customer interaction, it reached the third level where it would need to question the viability of the business model itself. "Once you stop thinking about value generation and your original business model and start thinking about customer needs, then you often come to […] conclusions [which] are difficult to swallow because they often mean that traditional value chains are disrupted", Coenen stated. New players in financial services, such as Amazon, succeeded better in adopting a fully customer-centric view. In order to remain competitive, the traditional banking industry needed to rethink its business model and create new financial services, focussing on the added value for consumers.

During the panel discussion, moderated by **Andreas Krautscheid** (Chief Executive, Association of German Banks), **Paulina Dejmek-Hack** underlined that the European Commission would accompany this transition period by providing the European regulatory framework. The first step was the publication of the "FinTech Action Plan" in March 2018, paving the way towards more integrated European financial markets with a competitive and innovative European financial sector. Nevertheless, it could take some time until the new rules entered into force as they needed to be agreed on by European and national legislators.

Gunnar Hökmark disagreed with Coenen on his statements about automation and digitalisation. According to him, digitalisation became relevant in the financial sector before anywhere else and was the explanation for the existence of global financial markets. For him, the paradox lied in the fact that the financial sector was "extremely global and extremely local at the same time". Regarding the emergence of FinTech

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businesses, Hökmark stated that one should welcome their development as well as the ongoing changes in the banking sector: FinTech did not only force the traditional banks to be more efficient but it also enabled a comparison between financial institutions and diminished the transaction costs for consumers wishing to change their bank.

Matthias Schäfer pointed out that from a competitiveness point of view, the development of platforms as key elements of digital economy business models was critical as they tended to turn into monopolies. He therefore proposed to regulate these networks in the same way as the traditional network industries such as energy, water and waste. It was the regulator's obligation to guarantee the consumers' access to these services. If one would, however, rather consider the development coming from the consumer side, as put forward by Coenen, the regulator should focus on giving the sovereignty to the consumer to decide on his own. The new technological opportunities could thus accord consumers more freedom.

Representing the banking perspective, **Ulrich Coenen** admitted that the initial perceived threat did not materialized and that the expected hard disruption has not occurred. According to him, this was due to two reasons: Firstly, one of the key elements of business models in financial services was trust. For financial service providers, it was difficult to get to the point where a substantial target group with considerable assets had built trust in them. Secondly, many FinTechs had realized that it was easier to generate value if they oriented their business models towards assisting financial institutions in their transformation process: FinTech start-ups offered technologies to banks that they were not able to develop on their own. As a result, many B2C-FinTechs had turned into B2B-FinTechs. Although this concept was quite successful, many FinTechs envisaged going back to B2C business models and, ultimately, competing traditional banks. For this reason, Coenen warned against misinterpreting the current developments: The expected disruption of the sector was rarely to occur in the short-term. Developments might be postponed and emerge in the long-term so that one should not underestimate the challenge for the banking sector.

Paulina Dejmek-Hack added that the examples of E-Books and E-Mails had shown that things were changing but not always in the way we predicted. In both cases, the expected hard disruption did not materialize. She also underlined that in the European Union, companies needed a banking licence under the Capital Requirements Directive (CRD) and that the same rules applied to all financial institutions, regardless their nature.