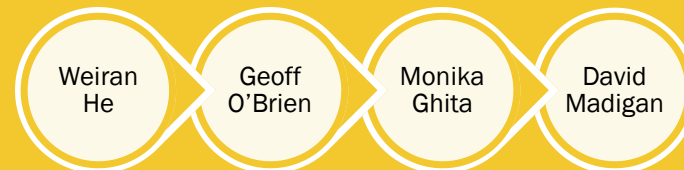


RETAIL BANKING

How to defend against the digital
disruptors?

Presented to European Banking Conference

Smurfit Consulting



Situation

Geoff O'Brien

Reaction

Monika Ghita

Action

David Madigan



SITUATION

Geoff O'Brien



Retail banking industry in Europe

Incumbents

- Bank of Ireland
- Royal Bank of Scotland
- Lloyds
- ING
- BBVA

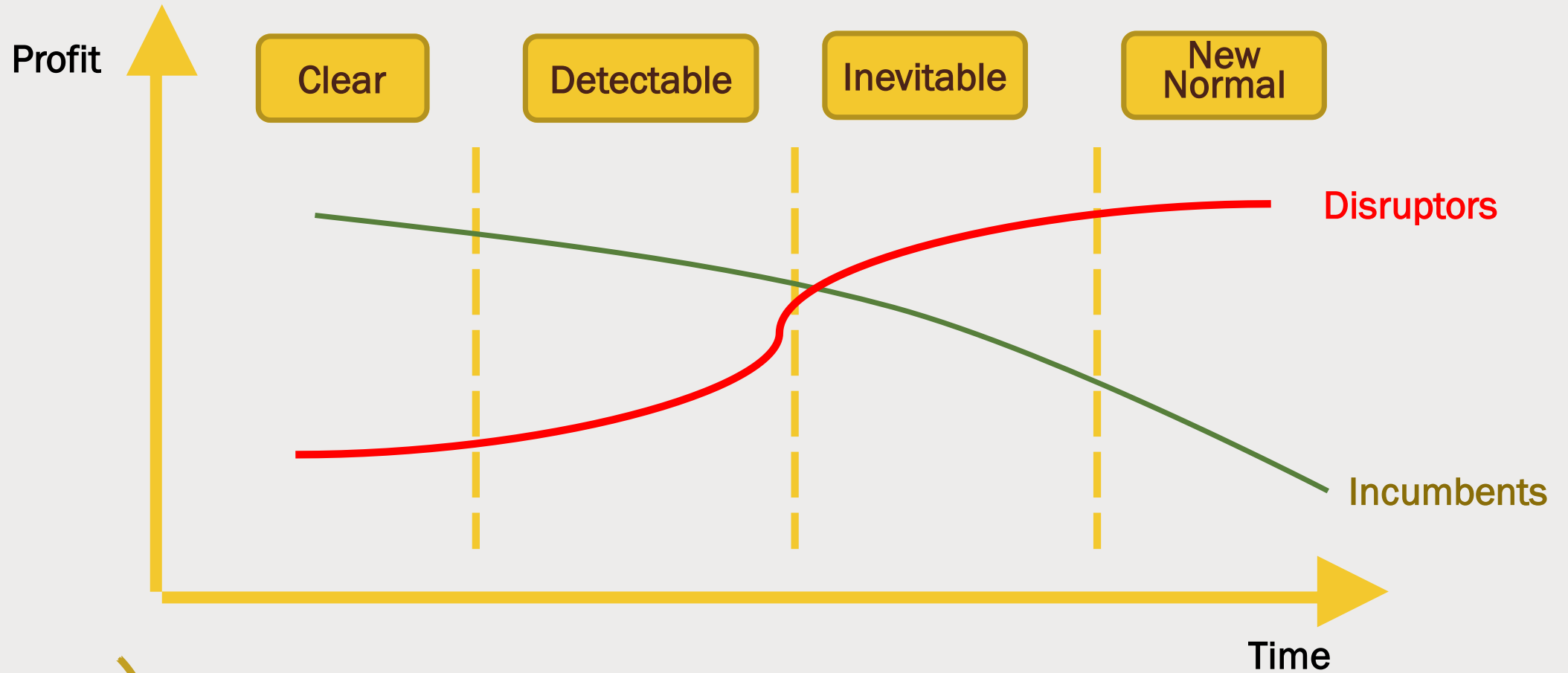
Disruptors

- Revolut
- Monzo
- Starling
- N26
- ATOM



European Neobank Disruptors raised 1 billion Euro

“McKinsey Disruptive Trends”



Neobank Disruptors are in the “Detectable” stage

Factors of disruption in the retail banking industry

	Incumbents	Disruptors
IT systems	<ul style="list-style-type: none">➤ 1,400 legacy systems that don't communicate with each other➤ 250m euros/annum	<ul style="list-style-type: none">➤ Agile, cloud-based API system➤ Applying Artificial Intelligence➤ 25m euros/annum
Personnel	<ul style="list-style-type: none">➤ Bank employees lack IT skills, data analytics, data science, with no single view of customer	<ul style="list-style-type: none">➤ Data analytics, data science, with single view of customer
Regulation	<ul style="list-style-type: none">➤ Headwind due to new regulations (PSD2, MIFID2, Basel IV, GDPR, etc.)	<ul style="list-style-type: none">➤ Regulators encouraging competition and innovation



Revolut have 10% of retail customers in Ireland



REACTION

Monika Ghita



Reaction (from incumbents)

1. Core banking system replacement

Extremely complex

TSB:

- 160k customer complaints
- 6 weeks down time
- compromised security

Extremely costly

Bank of Ireland:

- 1.8 billion euros over 4 years

60% failure

Standard Bank in Africa



Core banking system replacement is difficult and costly

Reaction (from incumbents)

2. Buy/partner with disruptors

RBS partnered
with Starling
(white label)

BBVA bought
ATOM (UK) and
Compass (US)



Initial signals are positive, but not conclusive

Reaction (from incumbents)

3. Create own digital banks

DANSKE Bank created Simple Bank in 2018

- ✓ Created autonomous digital banking unit
- ✓ 50% Danske Bank staff
- ✓ 50% new hires:
 - Customer-centric roles
 - Coders
 - Data scientists



Customer capture illustrates Proof of Concept



ACTION



Critique of the Reactions

Bank	Description	View
Bank of Ireland	<ul style="list-style-type: none">• Core Banking Platform (CBP) is over budget with the cost growing from E1.2bn to E1.8bn• CBP is also over time with execution by 2 years• Risk of IT migration illustrated by TSB problems• No front-end digital capability development	✗
RBS & BBVA (Partner & M&A)	<ul style="list-style-type: none">• BBVA recognized threat of digital neobanks early before cost of acquisition became too expensive (Recent Revolut valuation of E1.2bn)• RBS recognized threat later and don't have time or capability to develop own digital bank.	✓
Danske (Internal Development)	<ul style="list-style-type: none">• Developed digital bank in an autonomous business unit which was in line with Christensen recommendations (Harvard Business school)• Separate culture and reporting line to CEO ensured other divisions could not influence	✓



Partnerships, M&A and Internal Digital Development are the best strategies

Capability Comparison

	Low Cost Fx	Touch ID	Freeze Card	Apple/Android Pay	Digital Budgeting	Digital Analytics
Revolut	✓	✓	✓	✓	✓	✗
N26	✓	✓	✓	✓	✓	✓
Bank of Ireland	✗	✗	✗	✗	✗	✗



Bank of Ireland has a key capability disadvantage

Recommendation

Partner with the following digital providers to provide a white labelled digital banking marketplace:

- N26 digital bank
- Degiro for online investments
- Nutmeg for Robo-advisory



Digital Marketplace will attract millennial customers

Recommendation - KPIs

Current

Cost income ratio

Net interest Margin

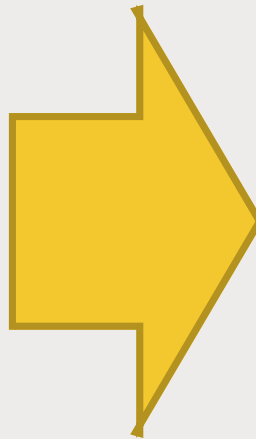
Return on Tangible Equity

Recommendation

of new digital banking customers

Cost to serve current account customers

Digital banking capability comparison score



New KPIs will reorient focus

CONCLUSION

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