SwissFinanceCouncil
Fostering International Dialogue

The EU and its Partners

# Banks and Investors in a Digital World

**7 March 2017**
**Concert Noble, Brussels**

**MEMORANDUM**

## Welcome speech

**Alexis Lautenberg**, Chairman, Swiss Finance Council

Mr Lautenberg welcomed delegates and introduced the SFC discussion paper that will serve as reference point for this debate. He said that anyone considering the topic of banks and investors in a digital world cannot fail to be overwhelmed by its depth and all-encompassing nature. Whether it refers to online access to goods and services, effective digital networks or the protection of data and individuals, the quantum leap necessary is challenging the way in which jurisdictions legislate and regulate. However, the internal and external political paradigm is changing, and Mr Lautenberg asked whether the EU and its members can afford to miss this great opportunity, particularly in the financial field. He said that SFC is concerned that the way ahead is uncertain in terms of direction, timing and sequence – all highly relevant issues considering that market players have to pursue the still ongoing traditional business while adapting their products and services to increasingly demanding customers.

## Keynote speech

**Roberto Viola**, Director General, DG CONNECT, European Commission

Mr Viola said that a revolutionary change is affecting how society is behaving and the economy is performing, but some of the signs of the change, in terms of globalisation, are probably just the symptoms of a much more profound change; sometimes called the Fourth Industrial Revolution. This change is affecting all sectors. He said that the European Commission has made the Digital Single Market a flagship policy. This is both a challenge and an opportunity. Unfortunately, in a global context, Europe is lagging behind its key competitors when it comes to digitisation, despite Denmark, Sweden, the Netherlands, Estonia and Switzerland being world leaders. Europe has lost ground in certain areas and is not investing enough in basic technology.

However, in the financial sector, he said that Europe has a strong asset base in terms of credibility, stability, brand reputation and client base. This is clearly shown in the case of eCommerce and eBanking. Here though, the situation is not uniform. It is well accepted in certain countries like Denmark, but much less so in other countries such as Bulgaria and Romania. He said that if European citizens do not trust electronic banking systems then the necessary quantum leap will not occur: “Building a digital Europe means having digital citizens who are ready to embrace this revolution.”

He said that last year a roundtable was organised to hear the concerns and proposals of the financial sector. This was followed by the setting up of a joint task force between DG CONNECT and DG FISMA to analyse the issues one by one and start providing some answers.

One idea was for a EU framework for experimentation. Such sandboxes would allow an innovator to conduct experiments in controlled but real life situations, and will be especially useful for technologies such as Blockchain and Artificial Intelligence.

Regarding cloud and data, the financial sector asked for a level playing field, which can be achieved through open APIs and data portability. He said it is vital that new actors should have the same responsibilities as existing actors.

In terms of cybersecurity, the Commission is presenting a revised cybersecurity package including a new mandate for ENISA, new issues surrounding certification, and greater harmonisation and transparency of reporting cybersecurity incidents.

Regarding blockchain, the Commission is looking at introducing it in other sectors such as personal identification and eHealth services. He would like to see the knowledge of the financial sector on Blockchain fully leveraged.

Mr Viola is greatly concerned that a major challenge for Europe is the lack of digital skills, especially in the middle working class. He said that it is crucial to give youngsters greater access to ICT training and new technologies, and retrain the working population.

He believes that Europe's strongest asset is public e-identification. There is no other place in the world where public services and banking services are so interoperable. Through the changes being introduced to the money laundering directive, the use of EID is being facilitated as a means to identify customers and provide the same level of trust as seeing them face to face.

Finally, Mr Viola said that the fintech sector has a key role to play in changing the digital landscape of Europe, and invited delegates to contribute to the public consultation on fintech on 23 March.

## Banks and Investors in a Digital World

**Veronica Lange**, Head of Innovation, UBS

Ms Lange said that digitisation puts the client at the centre of the business model. The Digital Client will be able to access financial services using new digital tools. At the same time, technological innovations are changing clients' expectations and attitudes. Banks will need to understand customers' preferences and follow an omnichannel approach, while facing competition from fintechs keen to address customers' demands for easier and faster services.

She remarked that digitisation must be perceived as an opportunity to think of the needs of digital clients for wealth assistance, not merely transactions. The abundance of data can help to deploy predictable services, leading to tailored, well priced decisions. She is also aware that clients are increasingly concerned about data safety. As trusted institutions, banks can help clients manage their privacy, and support them with issues pertaining to storing, transferring, using and commercialising data.

Ms Lange believes that clients will pick the best services and assemble the most optimal package of financial services. Digitisation is creating new markets and products; digitized assets include tangible or intangible goods in a digital format, created and traded globally. Ms Lange said that much technology is already available: mobile technology, Internet of Things, automation and AI, Blockchain and smart contracts. To develop a truly digital financial market, clients will require trust in secure services, which means addressing cyber threats and security. Clarity on data protection is essential, as is portability of data across borders and the enablement of digital identities. Finally, she pointed out that banks and regulators need to support financial education and digital literacy.

**Anke Bridge**, Head of Digital Solutions and Delivery, Credit Suisse

Ms Bridge said that banks are in a race to improve their clients' experience while offering their services, and face competition not only from other financial institutions but also from fintechs, IT giants, telecom companies, and consumer sector providers, while facing the continuous challenge of a low interest rate environment.

She briefly described eight clusters of change that have been identified in the paper: Investments, Assets and Wealth Management; Payment and Trading; Personal Financial Management; Cloud Computing; Data & Administration; Security & Privacy; RegTech; and Funding and Lending.

Ms Bridge then described the main obstacles to digital investment from a bank's perspective:
- Modernisation of the existing banking system landscape to allow integration of new technologies and remain flexible and agile.
- Changing the mindset of the incumbent banks to facilitate the transition to new business models – creating a vision.
- Existing banking regulation needs to be reviewed in the light of today's technological possibilities, enabling banks to provide clients with the simple and convenient interaction, using technology to ensure the level of accuracy quality required.
- Establish favourable investment conditions for investors to foster (seed) funding to start-ups on various levels (government, tax, regulations, etc.).

**Judith Hardt**, Managing Director, Swiss Finance Council

Ms Hardt discussed the key policy recommendations that have been identified in the SFC paper:
- Regulation – Update the regulatory framework to reflect today's technological developments and the possibilities of tomorrow.
- Incentives – Create regulatory and tax incentives for technology investments to foster innovation.
- Identification – Support digital identification, and EU-wide e-ID system and appropriate standardisation enabling cross-border transactions and contractual agreements.
- Supervision – Encourage the use of regulatory sandboxes and ensure coordination.
- Education – Support increased financial literacy and IT skills, focus on Europe's excellent international level of education and research.
- Security – Call for enhanced cooperation and improved collaboration on cybersecurity between the industry and regulators, and among regulators, including outside the EU.

## The Digital Client

**Moderator: Wim Mijs,** Chief Executive Officer, European Banking Federation

**Monique Goyens**, Director General, BEUC

Ms Goyens said that innovation and disruption are good for consumers as they bring new products and services and providers, lower prices, and increase convenience, but they have to deliver long-term. She described the key challenges. The financial regulatory framework has to apply to the new service providers. Data protection and privacy is a key issue, and what financial service providers are doing with data. Essential financial services need to remain available in a non-digital form. In regard to cybersecurity, she believes there is an exaggerated optimism that this is being adequately addressed.

Concerning enforcement, there is a huge need to ensure that the regulatory framework is being enforced for the new providers.

**Mark Branson**, Chief Executive Officer, FINMA

Mr Branson believes that the direction of digital finance will be decided by the digital client and the marketplace. The challenge is to ensure that the positive force of innovation is given a chance. In his view, regulatory frameworks are slow to move, have in-built risk aversion, tend to be more influenced by large incumbents than innovative newer players, and can strangle innovation. He said that the banking sector has to be open to doing business in new ways. This should include looking at regulation originally written for an analogue world and rewriting it for a digital world. His final point was that it is necessary to identify and remove those hurdles to innovation which are unnecessary.

**Axel Weber**, Chairman of the Board of Directors, UBS

According to Mr Weber, it's necessary to look at the client holistically, focusing on client experience across the whole spectrum of services. In this respect, product excellence is essential with real-time response to changes. He said that digitalisation is also a cost-saving tool, enabling the efficient rollout of new products and services globally. A key concern is also risk management and ensuring that digital onboarding and digital services are subject to a high level of client protection. In his view, safety and security systems are often too heavily focused on analogue ways of working and this needs to be upgraded.

**Tom de Swaan**, Chairman of the Board, Zurich Insurance

Insurance is based on data, said Mr de Swaan, so is heavily influenced by digitisation in day to day customer relationships. Examples of better pricing and mitigation of risk include wearables and black boxes in cars. He said that new risk pools have to be addressed such as the insurance of cyber risks. Claims handling through AI can be improved and made more acceptable to the customer. Through Blockchain, Zurich Insurance is supporting an initiative in smart contracts.

**Jean-Paul Servais**, Chairman of the FISC (Financial Innovation Standing Committee), ESMA

Mr Servais said that fintechs are high on the agenda of the financial sector supervisors, and a balance has to be sought and found between the development of the industry and the interests and protection of the consumer. Action on fintechs is necessary, although he is aware that the supervision of fintechs is a major challenge, and involves close liaison with fintech promoters and fintech managers.

## Open discussion

In the debate, Ms Goyens took up the topic of data and insurance and expressed concern about big data and a personalised risk approach which could exclude people from an insurance policy. She believes that only relevant data needs to be taken into account, but thinks that many current algorithms are biased. Mr de Swaan agrees on the topic of using only relevant data that can improve the risk profile of the client. Mr Weber made the distinction between B2B and B2C services in that respect. Black boxes in vehicles for example, are well accepted in the B2B environment. He said that regulators are more concerned with the B2C area, and suggested that for a client-centric application, a sandbox approach to rollout an application in a small, controlled environment could be very useful. However, he emphasised that once a product is out of the sandbox, the same rules for newcomers and established banks have to be applied.

On this topic, Mr Branson said that one approach is a regulator-driven selection of projects. This highly interventionist approach however creates doubts as to whether the state will pick the right winners. Another approach, as in Switzerland, is not to be selective but to be open to which business models emerge, with no compromises on anti-money laundering standards but a deliberate departure from regulating innovative non-bank models with traditional prudential techniques. He pointed out that digital models need a different kind of regulation.

Mr Servais wondered whether the switch to a full digital agent matches the needs of the user. He thinks it is a problem for banks making this transition who maybe forget that the same regulatory requirements will still apply to a digital agent as to a traditional branch. He also remarked that in many countries there is still a high proportion of older people who are not connected to the internet or who do not use it.

The Moderator concluded by saying that it is all about the consumer and any solution has to meet the needs of a 98-year-old and a 15-year-old. The challenge is how to get to that point. He believes that banks and insurers are picking up the challenge and fintechs are challenging part of the value chain but will still need the scale and security that banks can offer. He observed that consumers and consumer organisations need to be involved on topics such as the use of data and the provision of cloud services.


## The Digital Bank

**Moderator: John O'Donnell,** Chief Correspondent, Reuters

**Jesper Berg**, Danish FSA

Mr Berg is confident that digitisation can reduce costs and improve customer offering, although he is aware that it can be challenging when new players enter the market. Nevertheless, fintech is on the advance, as is digitisation in banking, but along with the low interest environment, it offers challenges to banks who are trying to keep a grip on their customers.

**Laura Ahto**, Chief Executive Officer, BNY Mellon's European Bank

Ms Ahto pointed out that the client is at the heart of the banking sector and that the focus must always be on excellent client experience. Costs and efficiencies are further focus points. She said that regulatory aspects need to be harmonised as much as possible across the globe, and two particularly crucial topics are cyber and data security.

**Andrea Enria**, Chairman, EBA

Understanding the innovations coming up and their benefits to customers are priorities, said Mr Enria, as is identifying the potential risks, and whether they need mitigating actions; this should happen in a pragmatic, product by product approach. He remarked that there is a tendency to classify new developments into boxes, but the way fintechs interact with banks is highly diverse, and needs to be monitored.

**Urs Rohner**, Chairman of the Board of Directors, Credit Suisse

Mr Rohner said that technology always drives development, and digitisation is having a fundamental impact on the banking industry. In his opinion, front facing applications need to be viewed separately from the back office and control environment. As regards front facing applications, questions to consider are what do clients expect from banks, what ecosystem should be created, and what services will clients pay for. Regarding the back office and control environment, faster, more reliable, more stable and cheaper processes are being designed and could be commoditized.

**Veronica Augustsson**, Chief Executive Officer, Cinnober

Ms Augustsson considers that working to standards is essential to make financial systems easier, better and more efficient. Education is also crucial, for example in real time clearing systems and real time risk management. She also believes that improving the middle and back office can add value to the customer experience.

## Open discussion

In the debate, the Moderator asked panellists to mention their most pressing concerns or questions. For Mr Berg, the key question is what is a regulator's core job? Historically he said it has been to look after the client's money and ensure that various legal rules are observed. However, cyberattacks have the potential of seriously influencing that role. Another concern is around the structure and profitability of banking. He asked whether we will see a defining transformation in the banking model? Will we see a change in profitability, with new players such as aggregators taking over the excess profit because they are closer to the customer? He also asked whether legacy systems are a cost and burden (as in the airline industry) or a strategic advantage (as in the pharma industry)?

On the topic of legacy systems, Mr Rohner said that moving forwards is a long-term process. Very often, it involves integrating new components or software applications rather than starting from scratch, which is what would happen if a new bank was to start today. A clear migration path is necessary. He further noted that many banks spend too much funds on running the bank rather than growing it. Ultimately, he believes that for the back and middle office environment, banks could team up and create commodity-type infrastructures that might facilitate that transition.

The most interesting aspect for Ms Augustsson is not the technology itself but the change in mindset from an exclusive view to an inclusive view involving collaboration with competitors to build a shared infrastructure. This, she believes, is the biggest change that Blockchain could bring. She also pointed out that digitisation is not a project; it's a new way of life.

Ms Ahto believes that trust between banks and clients is extremely important, whether it's B2B or B2C, but trust can be impacted in a lot of different ways. In the area of cybersecurity for example, she thinks that while it is of course vital to put all the systems and controls in place to combat deliberate criminal behaviour, it's also essential to address the people-related aspects that could lead to inadvertent actions threatening security.

Mr Enria discussed the issue of payments, where PSD2 is opening up the sector to new payment initiation providers and account information providers who will be able to directly access the bank accounts of customers to initiate payments and aggregate information.

Trust in these areas is fundamental. He talked about recent work in secure customer authentication and the need to find a balance between the different players and their needs, as well as the balance between ensuring security while enabling competition.

The Moderator asked how the bank of the future will look like, in regard to sharing services with competitors. Mr Rohner said it depends on where the boundaries are defined as to what remains proprietary. He is of the opinion that sharing services will free up a bank's ability to perform tasks that may not currently be possible. For example, a bank could provide additional services because they are not so involved running certain back office tasks. Ms Ahto agreed, and said that instead of focusing on generating enough operating leverage, banks could shift their attention to activities that will benefit clients' markets and shareholders. Looking to the future, Mr Berg would not be surprised to see banks becoming commodity suppliers.

The Moderator asked about the role of the human being in this transition. Mr Rohner can imagine areas where for certain clusters of clients, interaction with human beings on a regular basis will be fairly scarce, or maybe no longer exist. On the other hand, be believes that in some areas the human interaction will become even more important, but this will require different skills and even specialists able to address sometimes extremely complex problems of clients to arrive at the optimal solution.


## Closing speech

**Olivier Guersent**, Director General, DG FISMA, European Commission

Mr Guersent said that the financial services sector is one of the key pillars of the European single market, and the key source of funding for all European businesses as well as consumers. The sector has changed significantly and is still changing significantly and quickly, with new consumer expectations, technology innovations and new competition, all of which are having a major impact on the financial sector. To achieve a globally competitive financial sector, it's crucial that the European regulatory framework supports and encourages firms to harness the opportunities for innovation. It is also important to ensure market safety and soundness for consumers and investors.

He pointed out that mobile and digital technologies have completely changed the way consumers are reacting with their financial services provider. These changes are bringing huge benefits to consumers, such as increased transparency, greater convenience, and cheaper services. They also bring new risks. Consumer data protection rules are essential and new ways of using data should be looked at carefully. A consideration is that not all consumers want to enter the digital world: some will prefer bank branches, human interaction and human advice. These clients must not be excluded.

Mr Guersent said that the Commission is not blind to the challenges facing banks: the low interest environment, new competition, revamped regulatory and prudential requirements, increased speed of technological change, and the struggle to maintain legacy IT systems. The key is to develop robust and secure ways of collaboration and interoperability between traditional providers and new entrants. He is aware that banks are calling for a level playing field, and believes that the EU Financial Services Regulation recognises this.

He described the Commission's current stance on technology in financial services as based around neutrality, proportionality and soundness. Innovation has been encouraged in the field of payments; PSD2 opens the market to a variety of new businesses such as online payment solutions. He is aware that obstacles have to be overcome in the retail financial services market; firms need to be able to identify consumers from a distance, in full compliance with anti money laundering rules. He said that investment advice is regulated by MiFID regardless of the type of interaction with the client: face-to-face and online advisors are subject to the same standards of conduct. On the topic of robo advisors, he said that these are required to carry out suitability tests and from January 2018 will have to provide retail finance with suitability reports.

He also pointed out that MiFID2 clarifies that the responsibility to undertake suitability assessment lies with the investment firm providing the service, and cannot be reduced by the use of an electronic system.

Mr Guersent said that crowdfunding is still small in Europe but is growing fast. If appropriately regulated he believes it has the potential to become a major source of financing for SMEs. The EU and Member States have begun to put in place national frameworks to support the growth of this sector and to ensure investors are protected.

As fintech developments are cross-sectoral, a fintech taskforce has been created, including all relevant Commission sectors. It is assessing new business models to determine whether existing rules and policies are fit for purpose or whether new licencing and passporting regimes are needed. It is looking at how financial firms and new technology firms cooperate, for instance by outsourcing more activities to other providers. The taskforce will assess whether the existing outsourcing requirements in the financial services legislation are still adequate.
It is also looking beyond regulation to the

impact of supervisory practices, which can limit the ability to innovate and implement cross border services within the internal markets.

Moreover, the taskforce is looking at different practices and closely monitoring the path that global fintech hubs are taking, and analysing whether there is a role for the Commission in the area of innovation sandboxes and how best to facilitate such activities. The taskforce is also investigating cutting edge developments such as distributed ledger technology, as well as essential issues related to cybersecurity. Mr Guersent announced a conference on fintech on 23 March in Brussels.

Finally, Mr Guersent said that regulators have a role to play in ensuring that the regulatory framework is fit for the new digital reality. However, developing a framework and working methods that are fit for an innovative digital world requires commitment, cooperation and effort from all stakeholders. He called on everyone to engage, commit, be creative and build a true technology that will enable a strong European market for financial services.

**Axel Weber**, Chairman of UBS

Mr Weber said that digitisation poses a sizeable challenge for banks, but also opens up big opportunities. From a macro-economic perspective, digitalisation is likely to improve overall welfare, spur economic growth and well-being, if managed well, particularly in the areas of cybersecurity and data protection. He highlighted that regulators play a key role and need to coordinate across jurisdictions, incl. Switzerland, Hong Kong and Singapore.

Banks ask for level playing field. He acknowledged that regulators are taking various approaches to this aim which need to be coordinated in the EU and worldwide, in order to reap the scale benefits. With reference to the CMU, Mr Weber noted that the EU cannot grow and raise capital for growth simply by eliminating EU internal barriers; it has to open up to global capital to move forward. This is true even more in the digital world.

In his view, digitisation is a genuine chance to enhance forward-looking collaboration between the private and public sectors. The banking sector supports level playing field and regulatory sandboxes. Mr Weber stressed that legal certainty is of crucial importance: banks need to know how to use Big Data, how to handle online access, etc. This gives rise to the need for global standards in the digital world and more dialogue on digital issues at global level.

At the same time, Mr Weber stressed that digitalisation is not a panacea, and it takes more to move to a new world.  Further, Mr Weber expressed his belief that key elements of society also need to change and that there has to be a global digital ecosystem in order to reap the full benefits of this transformation. Educational systems and syllabuses need to be transformed to make "digital" part of teaching from very early on Digital capabilities need to be continuously developed, also in later stages of the education system, including through vocational training and actual work experience, in order to get better prepared for constant life time learning. But also, digital infrastructures such as comprehensive and cross-border broadband access is crucial. In this respect, Mr Weber commended the previous work undertaken by Commissioner Oettinger. National barriers need to be torn down and networks need to be integrated.

Finally, he remarked that digitisation is here to stay and no institution can afford to ignore it. Disruption in the banking sector’s business model happens daily, so it is necessary to collaborate with many of the disruptors. This is not a point-in-time event, but a continuous process. To be successful, understanding tomorrow’s clients and what they expect from the industry is key for banks, as is close collaboration with the industry and regulators at large.

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