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FOCUS ON THE MARKETS

THE BANKING REVOLUTION

In order to continue evolving, banking institutions must confront the technological challenge by organising more and more investments

BY **ALESSANDRO CHIATTO** AND **ALESSANDRO PIU**

What will the bank of the future look like? Will it be a process of gradual transformation, which is already in place, for that matter, or will new entities emerge to replace traditional institutions? No one can predict the future, but what is certain is that technological progress will force the banking sector to evolve. Nowadays, the market features both exclusively digital institutions that rely on traditional branches for the few transactions that cannot be made via the Internet (almost exclusively cash and cheque deposits) and the on-line versions of traditional banks.

The evolution, therefore, is already under way, as also shown by increased investments in technology. According to Guy de Blonay from Jupiter, traditional banks must invest "at least 10%" of their revenues in order to compete in the sector's new scenario, defend their market share and open new business channels". Basically, the future belongs to those who invest. Perhaps not everyone has grasped this, since traditional banks, says Maarten Geerdink of NN IP, "often tend to invest less in technology than they should and underestimate the expense of keeping up with the times. They also have the disadvantage of a costly branch network. The more technological operators, on the other hand, can start without these costs".

Francesco Castelli of Banor Capital makes his opinion clear. "I believe that, in ten years, there will be no more traditional banks". This does not, however, mean automatically awarding victory to fintech companies. "The competition will play out in the middle," continues Castelli. "Fintech companies will quickly understand that the pure digital offer only covers one part of the services, often with little added value, and that they must equip themselves with human skills". In the banking world, the direct relationship between supplier and client has always been considered essential, and this will not change. In any case, technology and its development will guide banks in the future.

But in the end, who will win? Vasco Moreno of BlackRock sees two categories of winners. "The first is younger companies driven by technology, with lower personnel costs than traditional banks. The second category includes large and very diversified banks with a large amount of cash available for investments in technology". So there are many aspects at play. What is certain is that the future of banks depends on technology and the new business scenarios this can create. It constitutes opportunity, then, not merely a challenge. **WSI**

JUPITER

Technology will determine the winner

GUY DE BLONAY
JUPITER FINANCIAL INNOVATION ASSET MANAGER

"At least 10%". According to Guy de Blonay from Jupiter, this is the amount of revenue that "traditional" banks must invest in maintaining their Information Technology infrastructure and in innovation to "compete in the sector's new scenario, defend their market share and open new business channels". Some have already caught on, including US banking giants J.P. Morgan and Citigroup, "which are tackling all the challenges that digital transformation throws at them, in particular in terms of data analysis and security. Both are building an ecosystem that will offer their customers cutting-edge and wide-ranging financial services".

The Jupiter Financial Innovation fund looks at this type of bank as well as new entirely digital players. "Our focus is on companies that provide customers with efficient and low-cost services, be these traditional companies that prioritise IT spending or disruptive innovators who make digitalisation possible". These innovators should also be carefully selected. As a matter of fact, not all will successfully carve out enough space in the future banking sector. As de Blonay explains, "Financial technology companies can now offer services up to 50% cheaper than traditional banks, but considering a scenario with low interest rates and high inflation expectations, fintech companies will continue to perform even if the cost of capital remains low".

NN IP

Banks, the bigger and more digital the better

MAARTEN GEERDINK
HEAD OF EUROPEAN EQUITIES

In recent years the stability of the banking sector has been put to the test by increasingly stringent new laws, reduced margins, growing competition and new technological players. A transformation process has been triggered from which only some banks will emerge victorious.
For Maarten Geerdink of NN IP, these victors will be those "who have invested in technology and hold sufficient market shares, allowing them to benefit from economies of scale". Nevertheless, a bank's size and, therefore, complexity is what makes its transformation difficult. "Traditional banks often tend to invest less in technology than they should and underestimate the expense of keeping up with the times. They also have the disadvantage of a costly branch network. The more technological operators, on the other hand, can start without these costs. Before starting, however, they must overcome entry barriers. The launch of a banking institution and its management requires dialogue with regulatory authorities, establishing compliance processes, fulfilling communication obligations, etc. The economic balance also heavily impacts this sector". In this scenario, a careful selection of which institutions to invest in becomes even more important. For Geerdink, "Banks with a solid capital position, a good business model with digital platforms and significant market share can offer interesting investment opportunities".

BLACKROCK

Two categories of winners

VASCO MORENO
PORTFOLIO MANAGER

Technology will drive the growth of future banks, with no shadow of a doubt. Vasco Moreno, Portfolio Manager at the BGF World Financials Fund and the BGF FinTech Fund of BlackRock also confirms this. "We see two distinct categories of winners. The first is younger companies driven by technology, with lower personnel costs than traditional banks, with a large and diversified customer network capable of offering the customer a better experience thanks to an excellent platform. We see a significant growth in this type of bank, not only in developed countries, but also in areas such as Brazil, for example.
The second category includes large and very diversified banks that have a large amount of cash available for investments in technology. Many of these have the capital necessary to build the platform that customers are asking for". Technological evolution also impacts types of funds. "Within the BGF World Financials fund", he continues, "there are companies involved in business areas such as digital payments, financial software and hardware, banking, insurance and consumer finance. They can offer customers a better experience at a lower cost. For example, the fund has invested in digital banks without branches. This makes it possible for the banks to reduce costs and provide a better experience to younger customers who prefer using on-line services".

BANOR CAPITAL

The future belongs to those who invest

FRANCESCO CASTELLI
FIXED INCOME MANAGER

Is it possible to compare the performance of new banks and traditional financial companies? We asked Francesco Castelli, Fixed Income Manager at Banor Capital, who, however, poses the question from another interesting point of view: "If you look at the reality of the securities listed on the stock exchange, at the moment, fintech companies are rather limited in number. We assess them with interest, but they still constitute a marginal percentage of the portfolio. What we analyse more deeply, on the other hand, is the digitalisation of traditional companies. Banks and insurance companies are some of the biggest investors in fintech, and we believe that their technological position will be a key variable in their future success. Think about a company like Intesa Sanpaolo. In their three-year plan, they announced € 2.8 billion in digitalisation investments alone. A competitive edge that is difficult for smaller competitors to bridge".
In the future, the question is about what type of banks there will be. "I believe that, in ten years, there will be no more traditional banks, but I not believe that fintech companies will necessarily win. The competition will play out in the middle. "Fintech companies will quickly understand that the pure digital offer only covers one part of the services, often with little added value, and that they must equip themselves with human skills. The story of Fineco (a fintech company from twenty years ago) is a good example. It was established as a technological trading platform, but built its success around its consultants' professional expertise.