

Bank Innovation in an Era of Digital Disruption



Bank Innovation in an Era of Digital Disruption

PCBS | JP Nicols



JP Nicols has been internationally recognized as a leading voice for innovation, strategy and leadership, and his work has been featured in leading conferences and publications.

He is Managing Director of the FinTech Forge, and was founder of the Bank Innovators Council, now a part of Next Money.

He is also an instructor at the Pacific Coast Banking School at the University of Washington, and a regular guest host of the global fintech podcast Breaking Banks.



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Before we get started:


- Be here now.
- My Objectives:
 - Focus on principles
 - Not about tech budget
 - Test and learn
- Test: Key concepts and models
- Your Objectives
- Introductions

**NEXT
MONEY**



**BREAKING
BANKS**

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- 1) Thriving in a World of Digital Disruption
 - 2) Leading Through Change
 - 3) Innovation 101
 - 4) Becoming Truly Customer-Centric
 - 5) Finding competitive white space
- 
- A hand holding a white marker is shown on the right side of the chalkboard, appearing to have just finished writing the fifth item of the list. The hand is wearing a light blue and white striped shirt cuff.



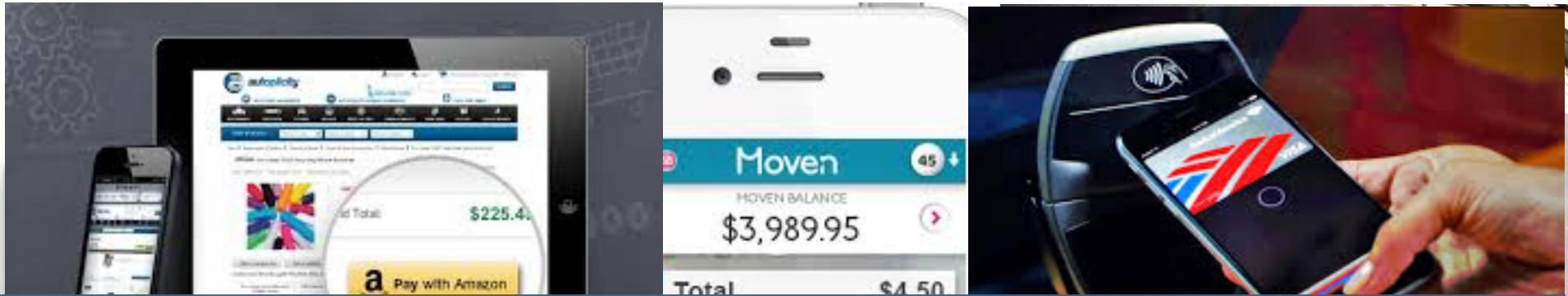
What happens if our Maps don't match the Landscape?



Innovation | Strategy | Leadership

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New Landscape



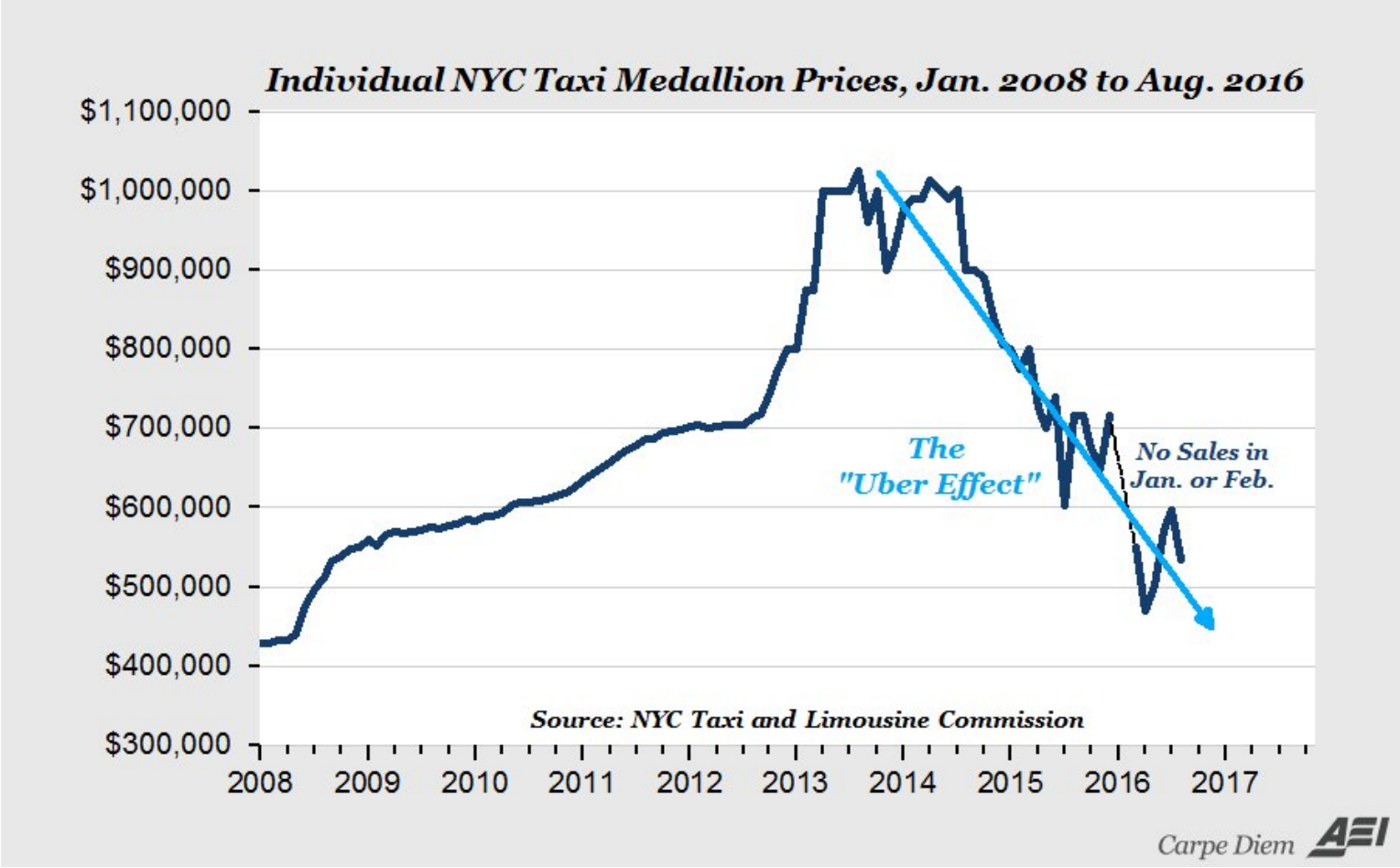


Disintermediated



Yellow Cab to file for bankruptcy





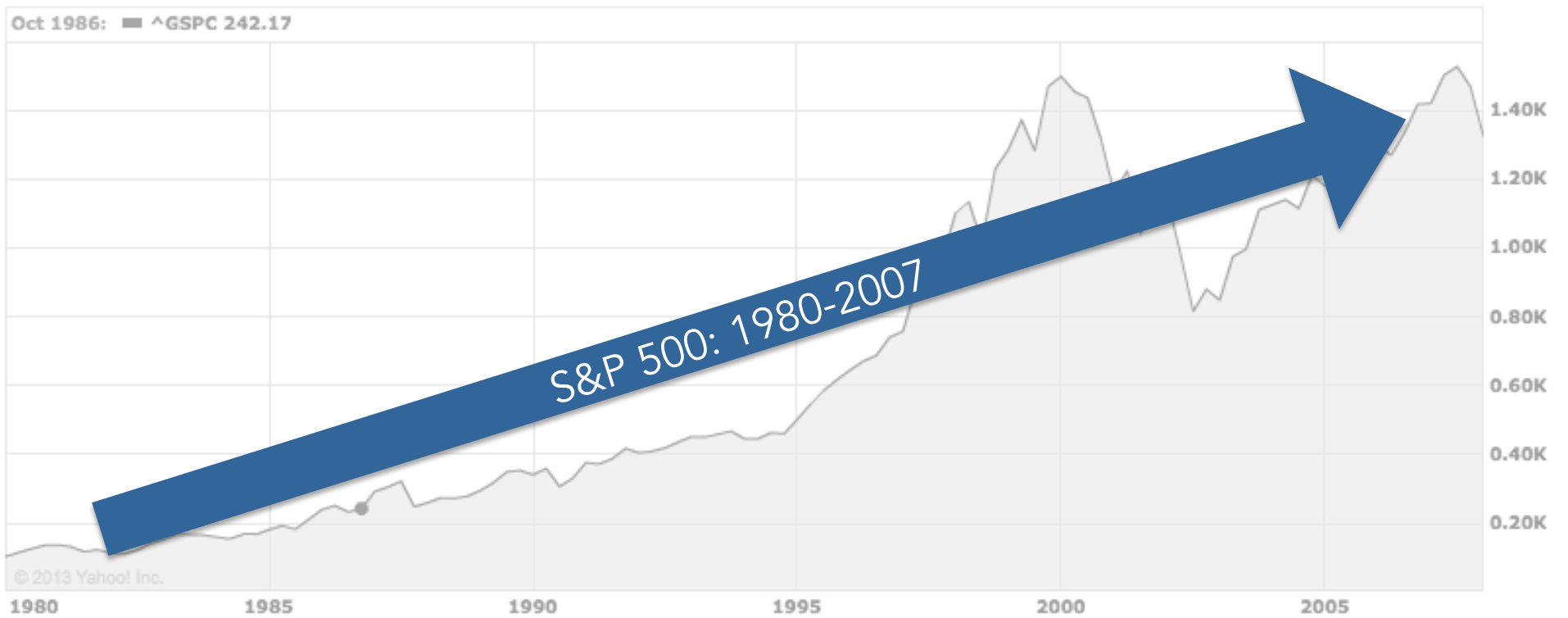


A silhouette of a person standing on a mountain peak with arms raised in triumph, set against a sunset sky. The person is positioned centrally, with their arms spread wide. The background shows a gradient from blue at the top to orange and yellow near the horizon, with a sun partially visible on the right side. The overall scene conveys a sense of achievement and accomplishment.

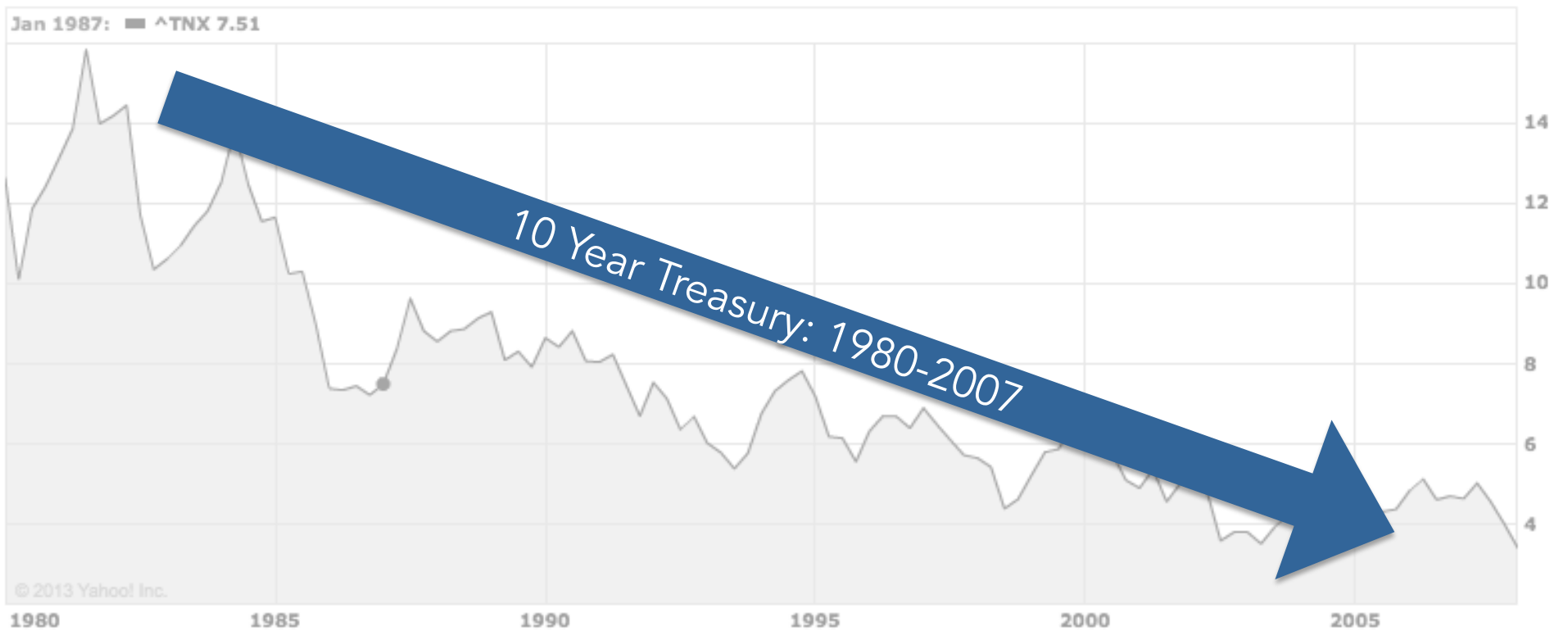
Success

Is a Poor Teacher

Rising Asset Prices



Falling Interest Rates



In an Era of Deregulation

- 1980
 - Depository Deregulation and Monetary Control Act
 - Authorizes new thrifts and phase out deposit rate limits
- 1982
 - Garn-St. Germain Depository Institutions Act
 - Deregulates S&Ls and allows ARMs
- 1994
 - Riegle-Neal Interstate Banking and Branching Efficiency Act
 - Eliminates interstate banking and branching
- 1999
 - Gramm-Leach-Bliley
 - Repeals part of Glass-Steagall
- 2000
 - Commodity Futures Modernization Act
 - Prevents CFTC from regulating most OTC derivatives and swaps
- 2004
 - SEC proposes Voluntary Regulation
 - Allowing investment banks to hold less capital

Source: Center for Economic and Policy Research

Global Financial Crisis

Broadband Blockchain Mobility
Smartphones
Apps Social Networks
Cloud Big Data

Porter's Five Forces

Threat of
New Entry



Supplier
Power

Competitive Rivalry

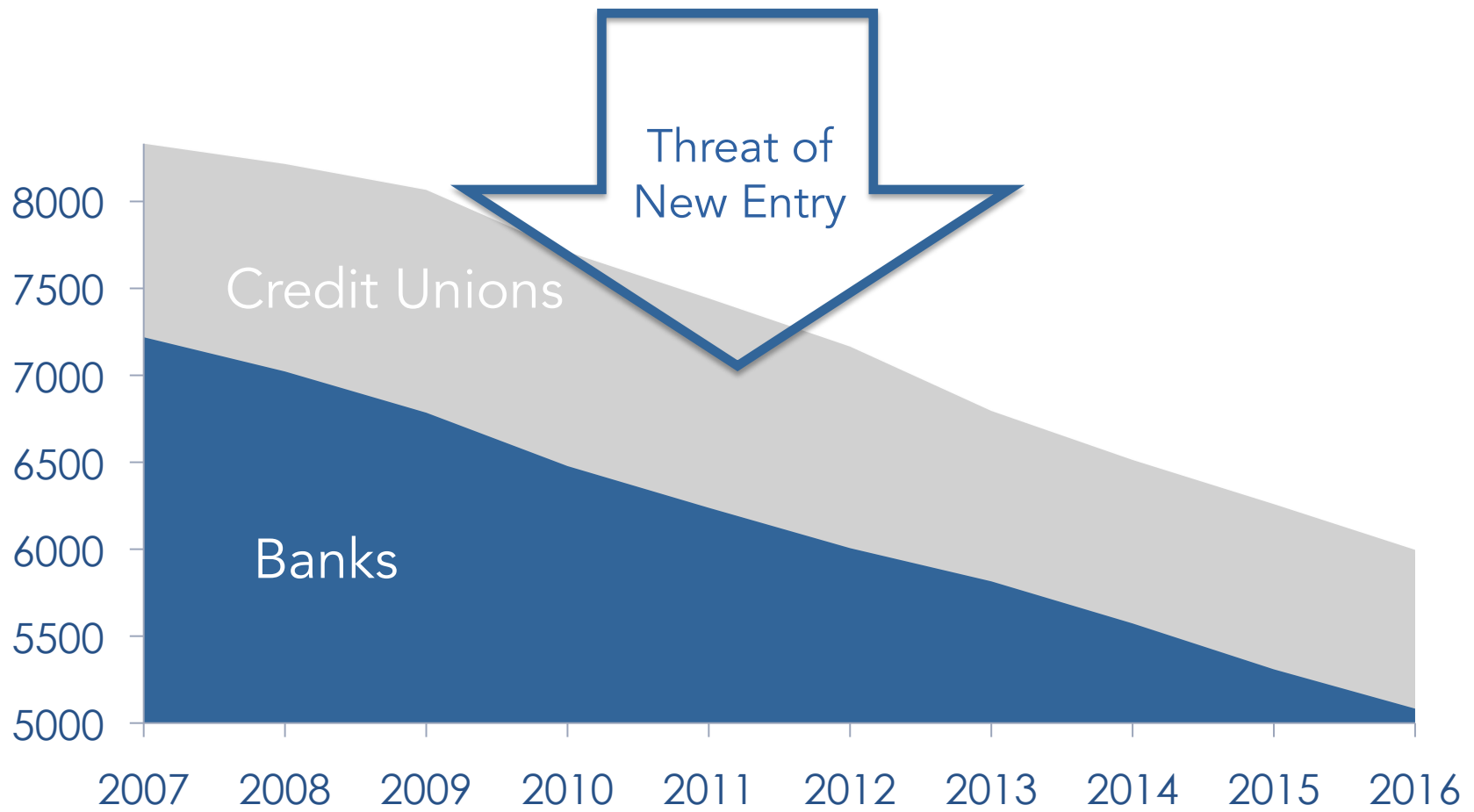
Buyer
Power

Threat of
Substitution

Dodd-Frank Rulemaking Progress

As of July 19, 2016







Bank Innovation in an Era of Digital Disruption



Porter's Five Forces










Threat of
New Entry



Unbundling of a Bank



Awareness of start-ups by executives at banks

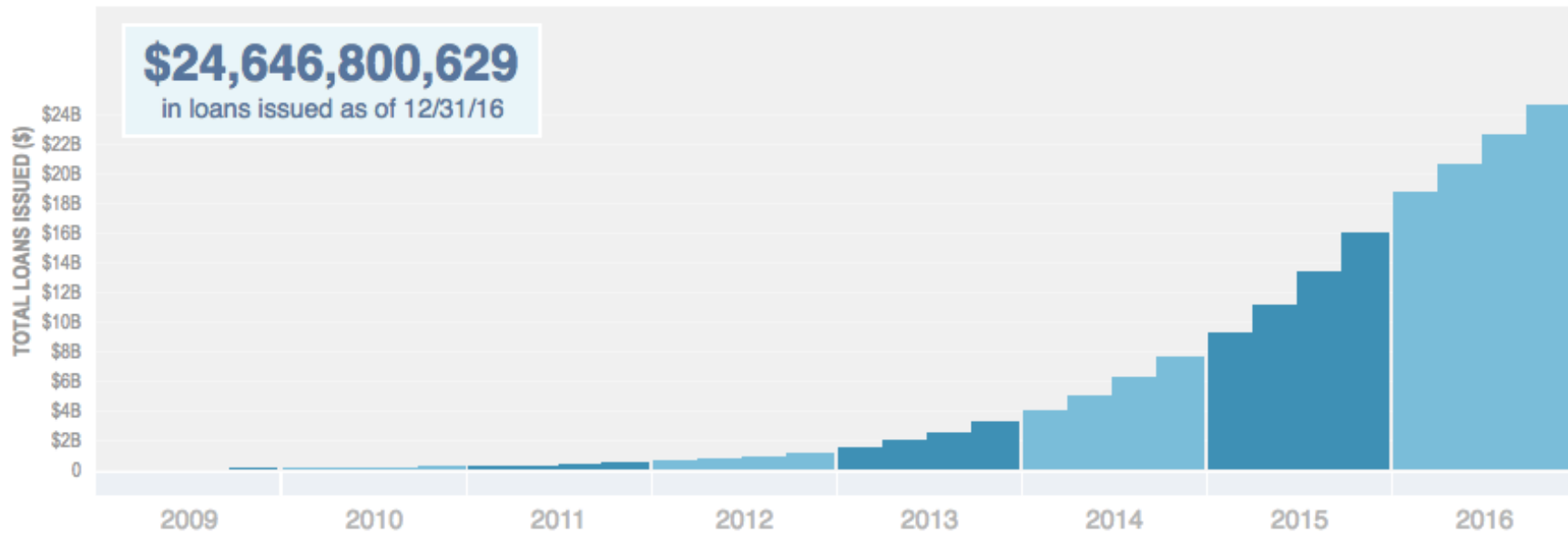
Entrants	I'm aware of the company and what they do.	I'm aware of them but don't know what they do.	I've never heard of them.
 nutmeg	23%	35%	43%
 Betterment	8%	19%	73%
 Square	15%	27%	57%
 venmo	6%	15%	78%
 azimo	6%	26%	67%
 TransferWise	15%	35%	51%
 LendingClub	18%	36%	45%
 Rate%Setter	17%	26%	56%
 PayPal	92%	8%	0%

* 110 senior execs ranging from director to C-suite were asked about the startups they were aware of.

Source: Bye Bye Banks? © July 2015 The Financial Brand



TOTAL LOAN ISSUANCE



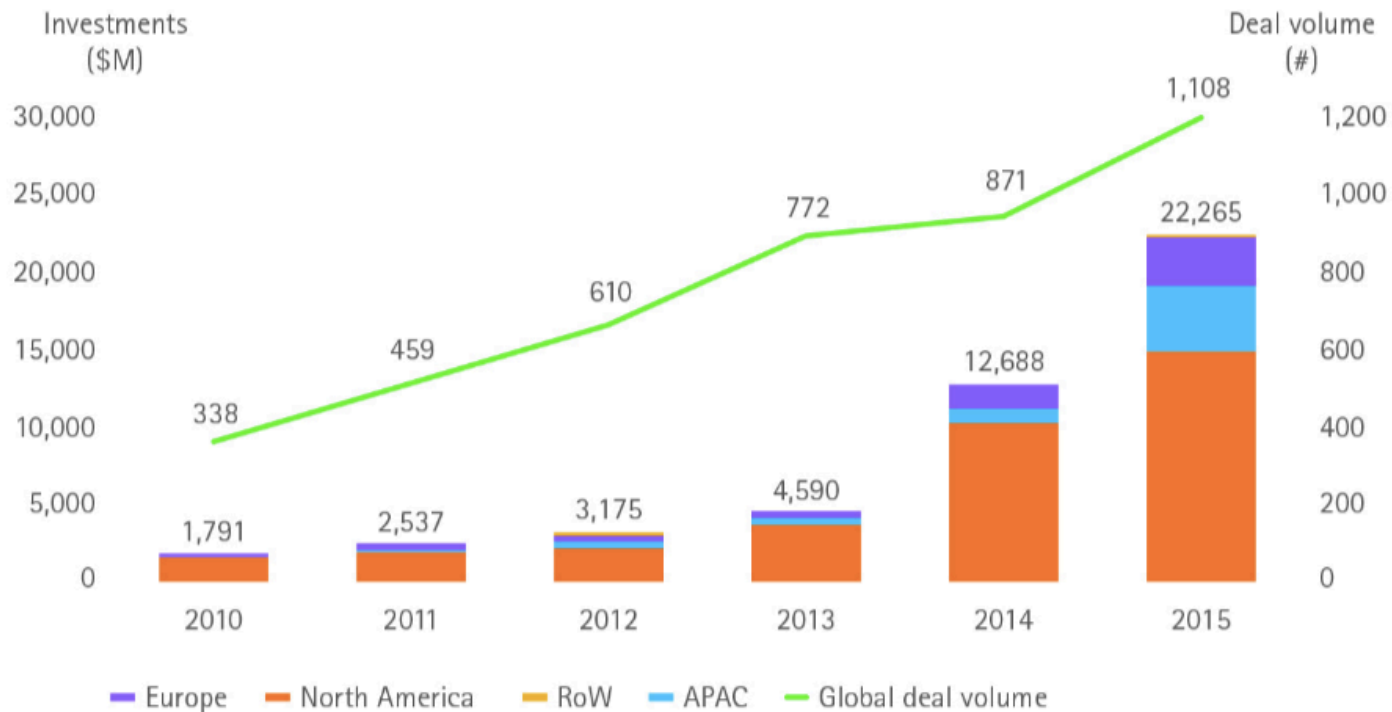
Short-term	 Square market invoice
Cash	 Dealstruck
Receivables	 FUNDBOX  BlueVine
Inventory	 taulia  Funding Circle
Long-term	 Kabbage
	 OnDeck
Vehicles	 CAN CAPITAL  REALTYSHARES
Equipment	 REALTY MOGUL
Real Estate	 FUNDRISE



- Reduced Friction
- Customer Experience

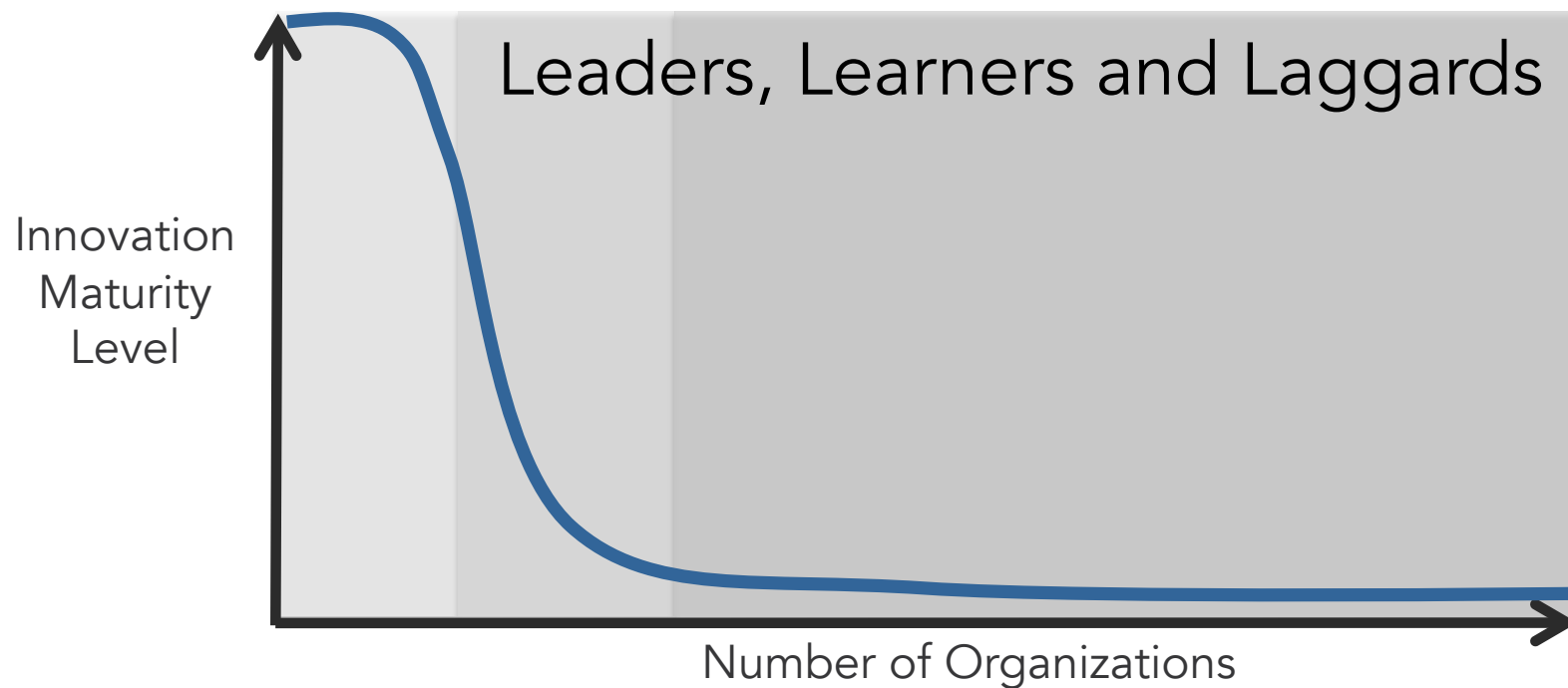
Equity/Other	
 INDIEGOGO	 KICKSTARTER
 SEEDRS	 crowdcube
 OurCrowd	 EquityNet

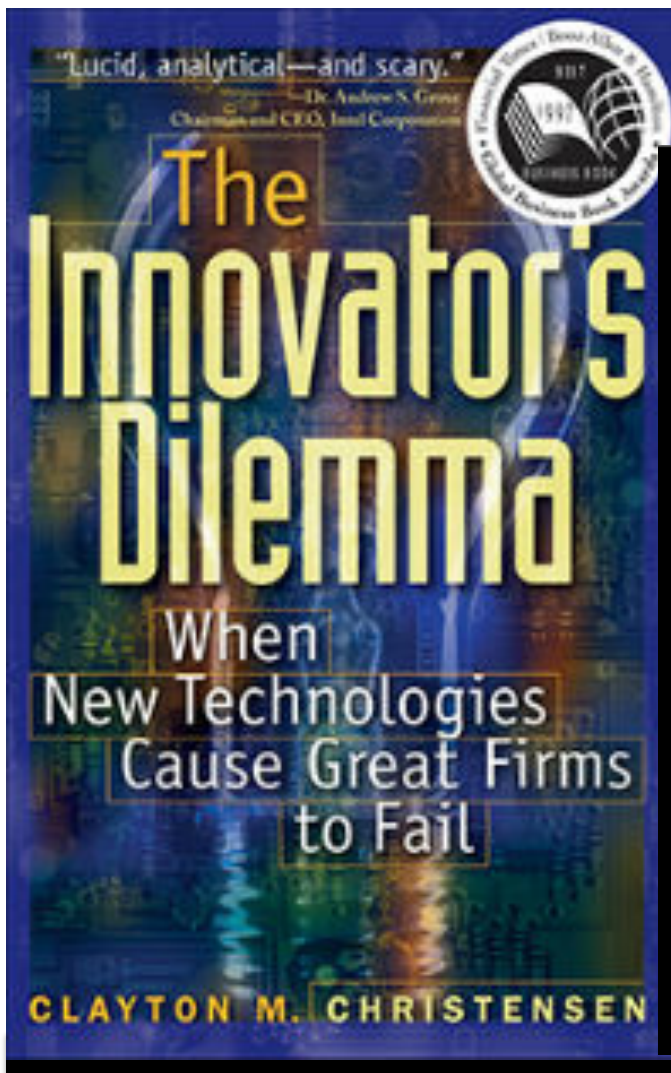
Fintech is Hot



Source: Accenture analysis on CB Insights data

The Industry is Not





AMERICAN BANKER | **BANKTHINK** INFORMED OPINION

Friday, April 5, 2013 | as of 5:23 PM ET

Today's Paper | Magazine | iPad | Video Women in Banking | FinTech 10

MERGERS & ACQUISITIONS | REGULATION & REFORM | COMMUNITY BANKING | CONSUMER FINANCE | BANK TECHNOLOGY | BANKTHINK | SPECIAL REPORT

Banks Face the Innovator's Dilemma

JP Nicols
JAN 21, 2013 9:00am ET

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(5) Comments

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Sometimes the simplest lessons are the hardest ones to learn.

Anyone who has taken even the most basic business course in the past fifty years is undoubtedly familiar

Editor's Choice



Banks Face the Innovator's Dilemma

Death of Innovation? A Banking Startup's Swift Demise

Can Banks Resharpener Their Innovative Edge?

The Cult of 'Innovation' Can Be Hazardous to





Rebar Stage



Blockbuster's Head of Digital Strategy, 2010



"We're strategically positioned better than just about anybody out there. Never in my wildest dreams would I have aimed this high."

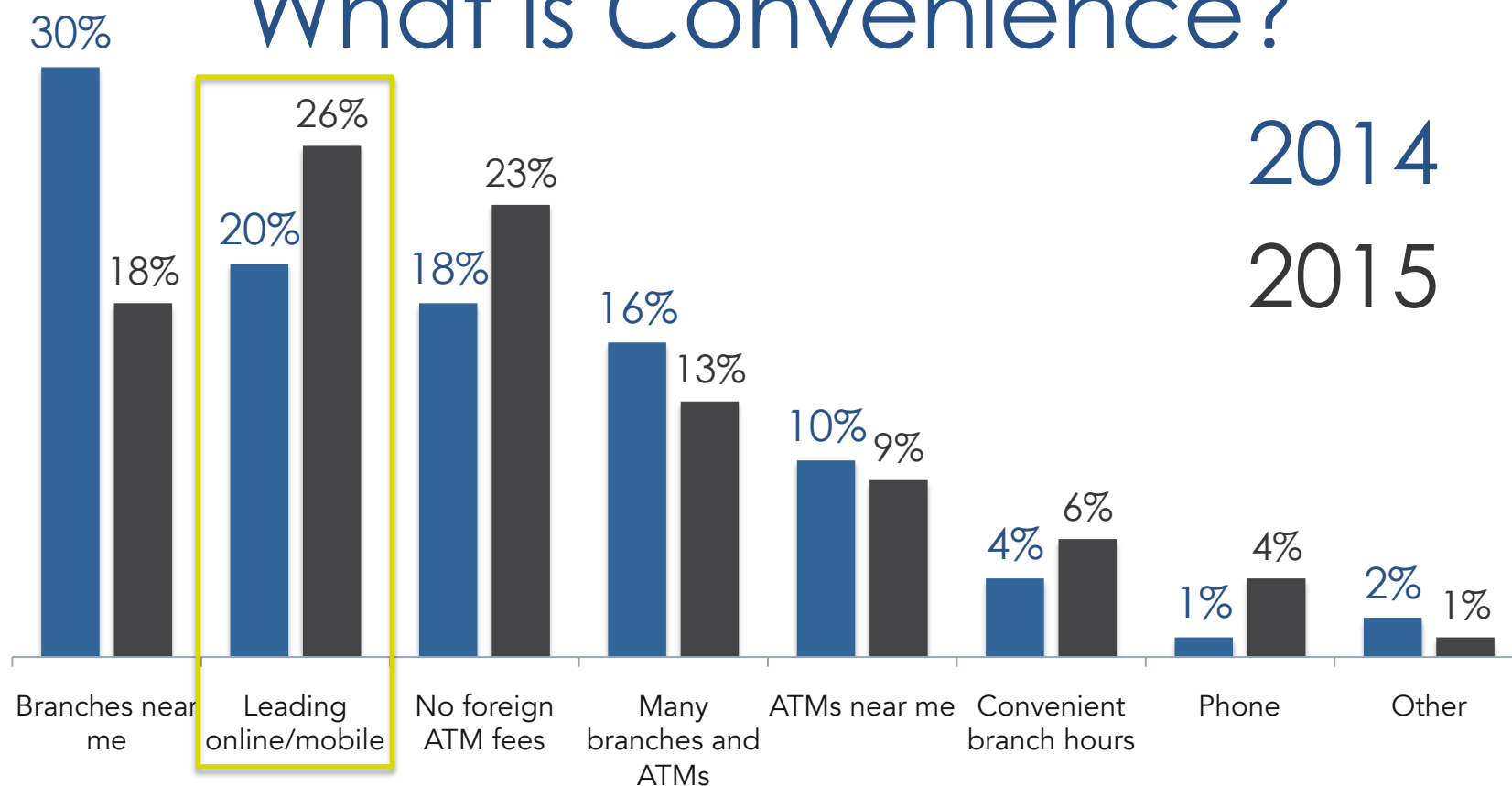


Jim Keyes,
Blockbuster CEO
2008

*“Neither RedBox
nor Netflix are
even on the radar
screen in terms of
competition.”*



What is Convenience?



2014

2015

Source: Novantas © 2016 The Financial Brand

BRETT KING

BANK 3.0

WHY BANKING IS NO LONGER
SOMEWHERE YOU GO, BUT
SOMETHING YOU DO



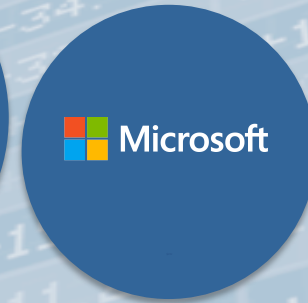
2Q17



- Revenue +7%
- Margin 21%



- Revenue +21%
- Margin 24%



- Revenue +13%
- Margin 24%



- Revenue +25%
- Margin 0.5%



- Revenue +45%
- Margin 39%





"By 2025, the largest financial institution in the world won't be a bank for a leading developed economy.

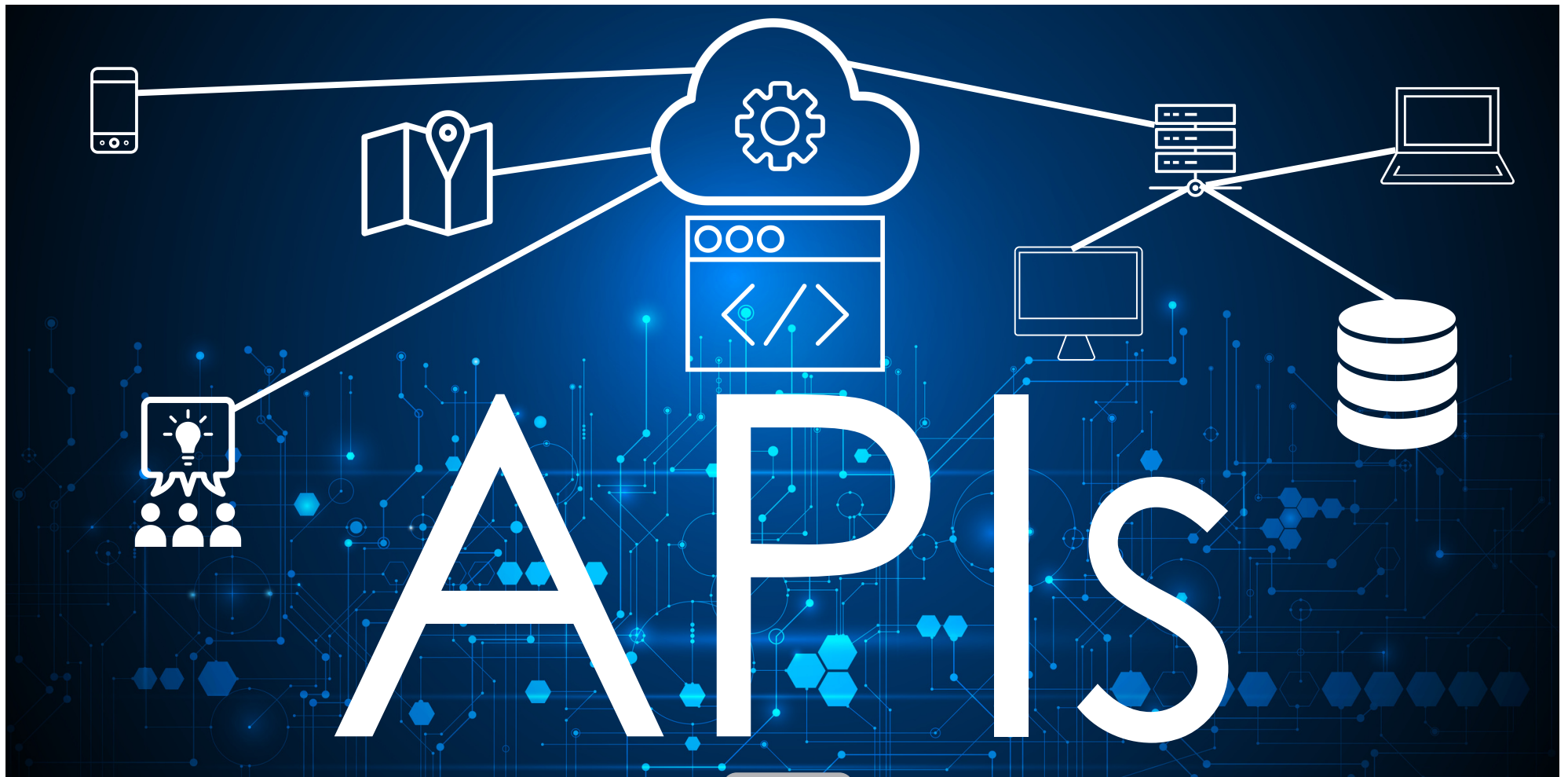
It will be a technology company working in emerging economies.

They won't sell bank products, they'll surface bank utility through every day experiences."

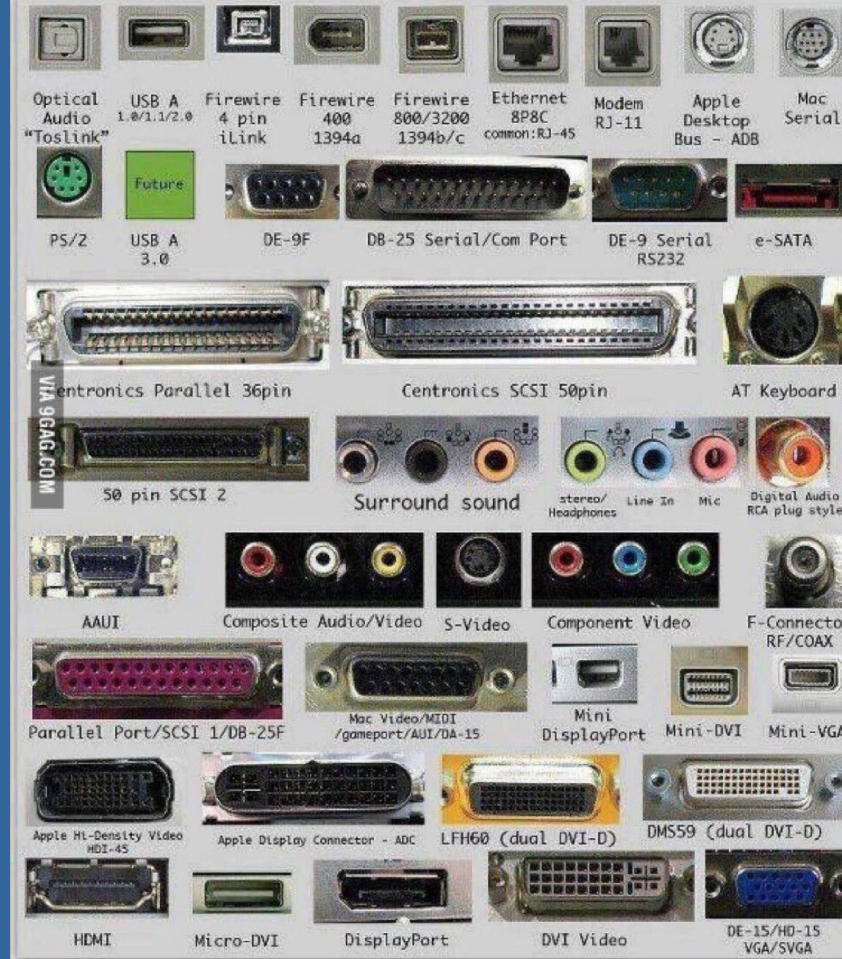
-Brett King



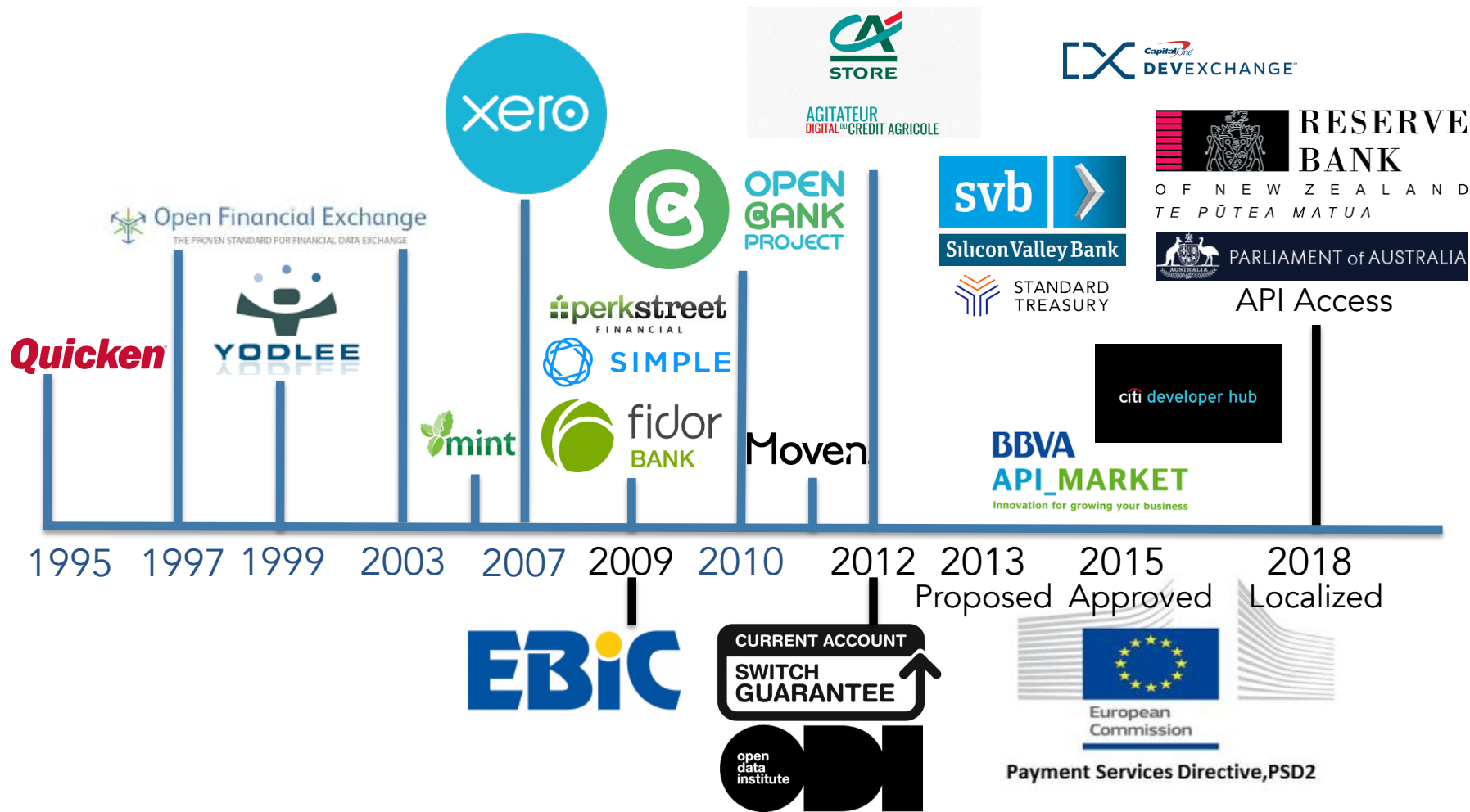
Pipes to Platforms



Ports











Gatekeepers to Platform Managers

An aerial, high-angle photograph of a city street. The street is flanked by tall, multi-story buildings with many windows. The buildings are partially covered in green ivy or vines. The street itself is dark and appears to be a two-lane road. There are some trees and bushes visible between the buildings. The overall tone is somewhat dark and moody.

Disruption Is already here

It's just not widely distributed yet



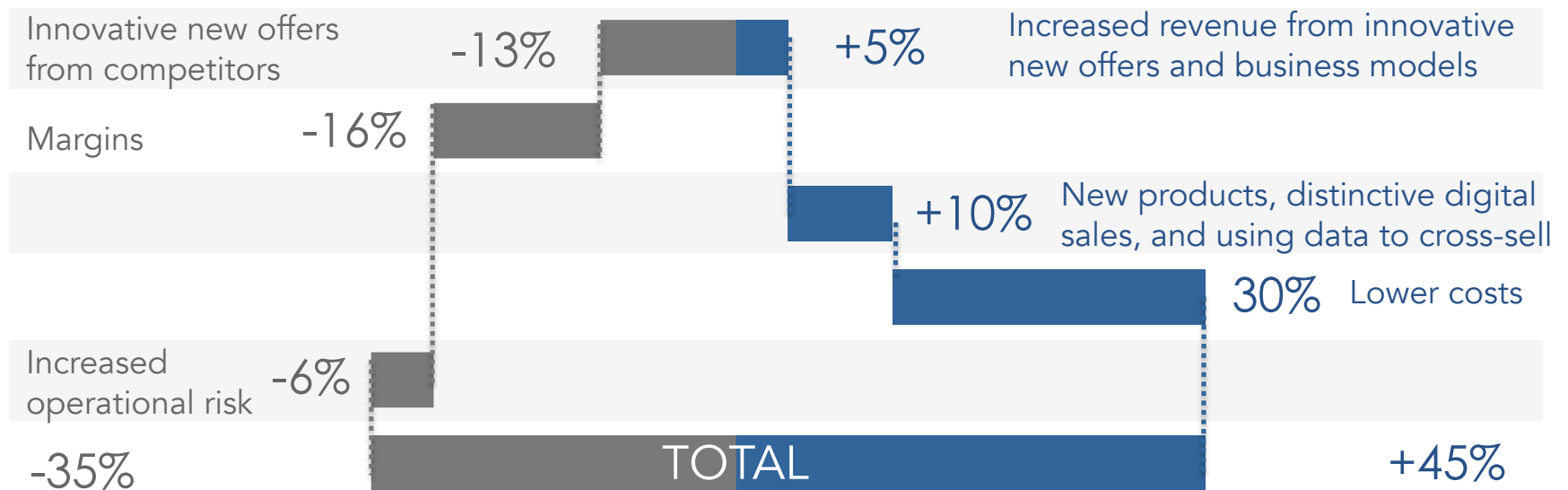
Experience Level

Tactical Level

Strategic Level

Digital Threat... and Opportunity

Impact of Digital - % Net Profit for Retail Bank



McKinsey Analysis, 2015

\$4.7
Trillion

Goldman Sachs, 2015



Banking Will Survive

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But Will You?

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Your Own Kodak Moment?

How Can We Avoid Our Own

Kodak

Moment?

4 Keys

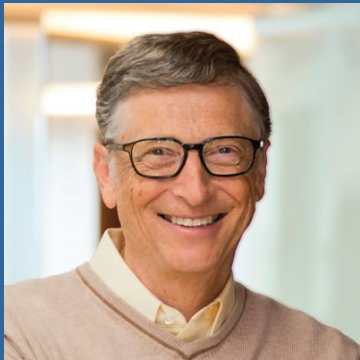
To Thriving in an Era
Of Digital Disruption

1

Look Beyond the Next Few Quarters



We always overestimate the change that will occur in the next two years...



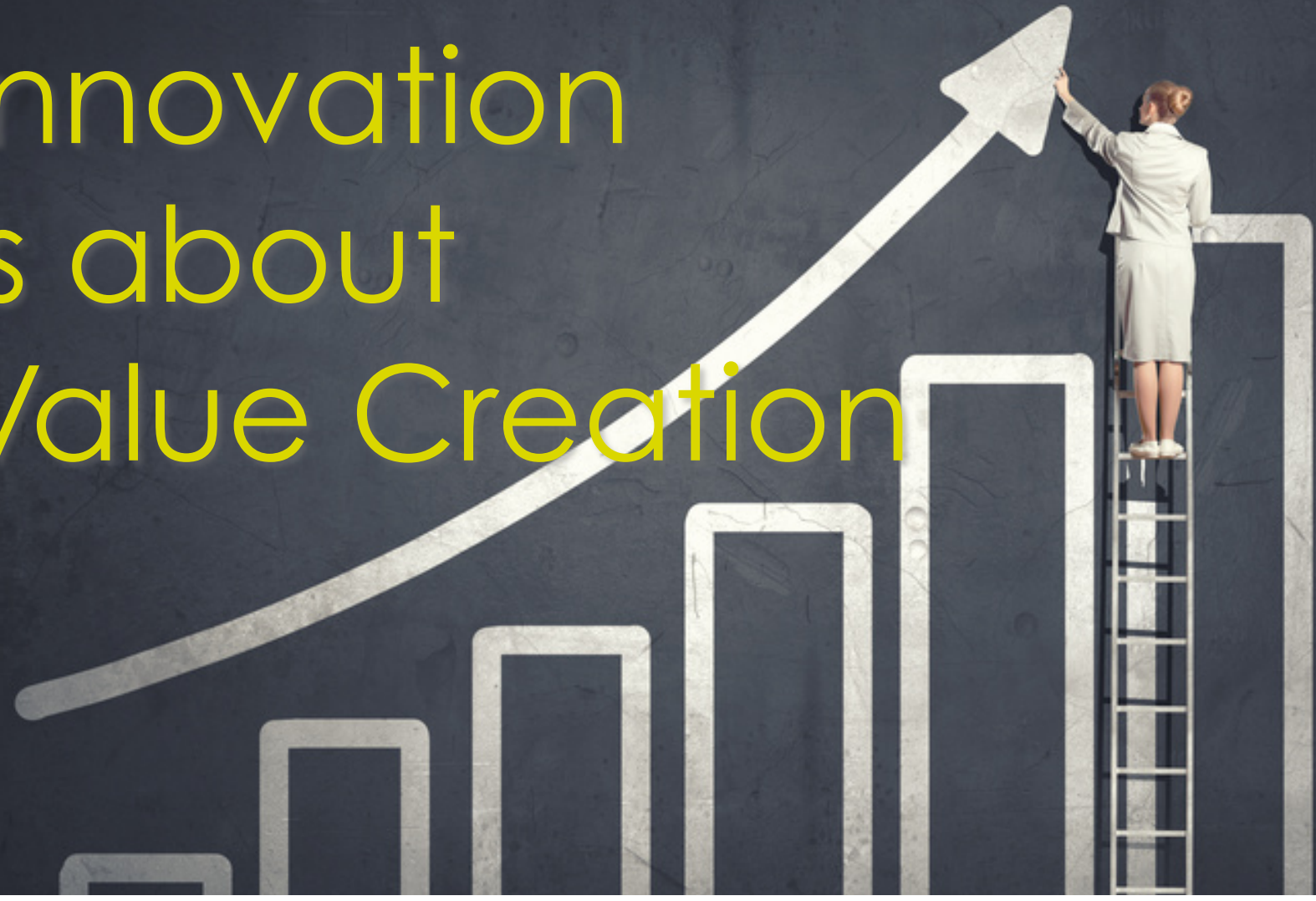
...and underestimate the change that will occur in the next ten.

Don't let yourself be lulled into inaction.

- *Bill Gates*

Innovation
is about
Value Creation

2



An iceberg floating in the ocean, with the tip above the water and a much larger mass submerged below. The background is a blue sky with light clouds and a calm sea.

\$60B invested in fintech companies in last 4 years

Encroachment from adjacent players:

- Walmart
- Amazon
- Facebook
- Others

New strategies, acquisitions and acquihires by incumbents:

- Citi
- Capital One
- BBVA
- Others

Build, Buy Or Partner?

Capital One

BBVA Compass

JPMORGAN CHASE & CO.

ally

Goldman Sachs

Acquisitions

Capital One

citi

WELLS FARGO

Bank of America

FIFTH THIRD BANK

KeyBank

HSBC

Santander

Investing

citi

WELLS FARGO

BARCLAYS

Eastern Bank

STATE STREET

Rabobank

DCU

LLOYDS BANKING GROUP

BBVA Compass

MasterCard

Incubators

usbank.

JPMORGAN CHASE & CO.

Bank of America

citi

WELLS FARGO

FIFTH THIRD BANK

Mercantile Bank of Michigan

SUNTRUST

Scotiabank

KeyBank

Bect

Partnering

USAA®

JPMORGAN CHASE & CO.

citi

Bank of America

FIFTH THIRD BANK

SUNTRUST

BNP PARIBAS

SOCIETE GENERALE

UBS

Building Own

3

Be Willing
to Partner



"They (fintech startups) are very good at reducing the 'pain points' in that they can make loans in minutes, which might take banks weeks. We are going to work hard to make our services as seamless and competitive as theirs."

"And we also are completely comfortable with partnering where it makes sense."



– JP Morgan Chase CEO Jamie Dimon

4

INNOVATION



is an Act of Leadership



General Eric Shinsecki

“If you don’t like change, you’re going to like irrelevance even less.”

Look Beyond
The Next Few
Quarters



1

Innovation
Is about
Value
Creation



2

Be Willing
To Partner



3

Innovation
Is an Act of Leadership



4

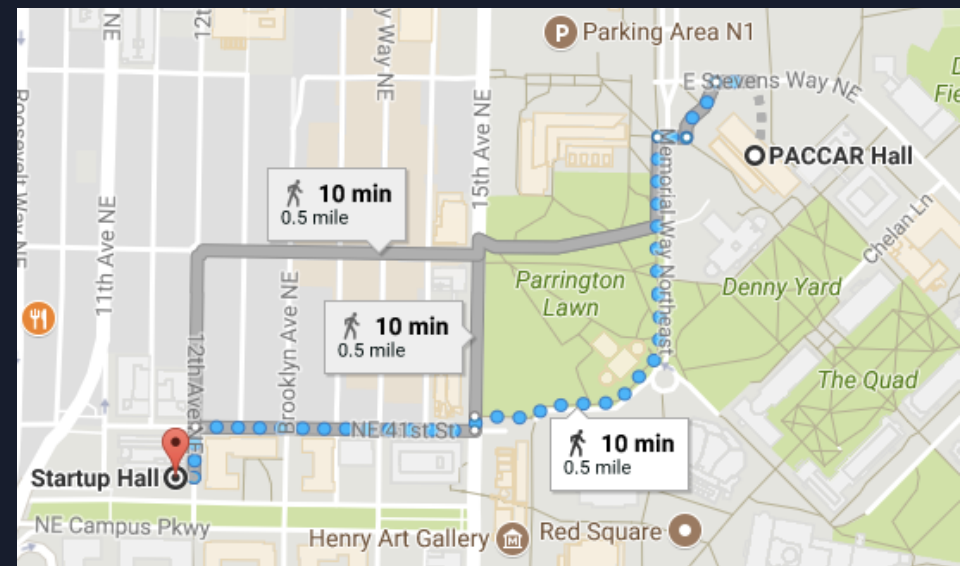


The best way to
predict the future
is to create it.

NEXT MONEY SEA

Meetup: Emerging Opportunities in Fintech

Tuesday Aug 22 | 6:00PM





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