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Benefits / challenges of innovation in the financial services sector

Speakers

Ralph Hamers
ING , Chief Executive Officer, Executive Board

David Wright
EUROFI , President

David Wright

I am very pleased to have, on my left, Ralph Hamers who is the Chief Executive Officer of ING. Not too wounded, I hope, and certainly not wounded after our discussion. Ralph has been with ING since 1991, so he is a doyen and a real ING person. We thank ING for its strong support and its sponsorship of Eurofi.

Ralph was telling me that ING is the top bank in terms of size in the Netherlands and the third biggest in terms of market capital in the Eurozone. It has no less than 34 million retail clients and 53,000 employees working in 43 countries. Ralph's views on how banking is developing in Europe, and particularly on the innovation side which is what we are going to talk about, obviously carry significant weight.

Ralph, you have this massively big bank which is being challenged by new types of competition. What are the biggest drivers? What are the things you are investing in to make your consumers have an even better experience with your bank?

Ralph Hamers

From a consumer perspective, we have two kinds of banks at ING. The first type are the banks with a long history which have been around for over a hundred years; the ones that we know as banks with branches. The second type are what we call 'challengers', i.e. the fintechs yesterday that we started 15 years ago like our banks in Germany, Spain, Italy and Australia where basically we are an internet bank and a mobile bank. Clearly, the culture of those internet mobile banks is much more similar to what we call fintechs than the culture in some of those banks with more of the old-fashioned distribution models.

So there are basically two worlds that we are managing: the world of the old-fashioned distribution models, where we are thinking about how to get them digital; and the world that we started 15 years ago, where we are thinking about how to make sure they stay ahead of the competition because the competition is fiercer now that there are more players who know how to work with technology in the financial environment.

David Wright

In terms of the specific technologies, both in terms of the legacy and the challenging, what are the specific technologies that you are investing in?

Ralph Hamers

Every technology that helps to improve the client experience is crucial. I think banks have to make a choice, and an existential choice, given everything that is changing.

Either you become the train track or you become the train

Either you choose to become what I would call the train track or you become the train. If you become the train track, you become a balance sheet and you optimise the balance sheet management and you deal with regulation and you generate assets and deposits and you try to manage that; but if you do not focus on the customer then you lose a grip on that. Alternatively, you focus on being the train, which is being the access in the access versus assets analogy; and that is where we want to be. If you want to be the train and you want to go for access, you have to deliver a differentiated client experience; and all the technology choices that you make and all of the fintechs that you partner up with are the ones that can improve the client experience.

You should not necessarily be looking at delivering a service that necessarily ends up on your balance sheet. That is the difference and those are the two choices that banks have to make: to either become an asset balance sheet manager or to focus on the client experience. Then you have to be very open and transparent about the service that you deliver and it may very well be that the products that you have in-house are not the best products for your client. So it takes it one step further.

David Wright

Are you investing in, for example, robo-advice and that sort of thing? Will that help your consumers get to the right place?

Ralph Hamers

Exactly. We would be looking at fintechs in the payments area because that is the more dynamic area and is the one in which this intermediation happens the fastest by fintechs. But it is also the angle through which you can actually know your client better than ever before. In ING, given the fact that we are a digital bank, 90% of all our client contacts are digital and 70% of our clients only work through digital. The digital experience, and looking at how you understand your client much better, in the payments area is an important one.

Another area is that of aggregation which basically means how you or a client manages their financial services across different banks or providers. Can you aggregate that information so that you come up with full scope advice as to the financial state of affairs for a specific client?

There are then those areas such as robo-advice and what we call instant lending; that is instant lending in the consumer area and instant lending in the SME area, but more on the back of digital data – 'big data' as you call it, i.e. social media information rather than the old-fashioned way of having five people look at 20 pages of a file and concluding after three weeks that we should hesitate on the loan. Rather, it is about scoring and giving a 'yes' or 'no' within 10 minutes and actually generating the money in 10 minutes.

So those are the areas that we are very much focusing on to complete the business model as a digital bank.

David Wright

Do you think we have a level playing field or do you think there are players out there who are not subject to capital requirements or whatever? Do you think the playing field is unfair?

Ralph Hamers

I am not sure it is unfair. It really depends on what kind of activity you do.

Regulations should be based on what you do rather than on what you are

Regulations should be based on what you do rather than on what you are, i.e. what a company does is what should trigger whether it should be regulated one way or the other, rather than whether it is called a bank or not. So I do think that there is a move to be made there from a level playing field perspective.

The other step on the level playing field perspective is that, on the digital front, there is absolutely no common market in Europe. That is why, generally, fintechs can grow to more scale in the US market much quicker than in the European market because in the European market we do have borders and we do have local specificities in terms of how you deal with anti money laundering issues and how you do your CDD and your customer identification. There is no single electronic identity yet so there are things to be done.

David Wright

I am giving you a regulatory wand here. What do you want to do to build this European digital market for your bank? Give me two things that you want to change immediately. What two rules would really help you change?

Ralph Hamers

Two rules? Well, it needs to change in many countries because these are local laws and it is about client identification. That would help. Because then, whether you are a German client and you want to deal with a British or French player in that way, you should be able to on-board and identify yourself as quickly as anybody else. You cannot just take care of that by regulation; the local laws need to change. So that is the on-boarding and all the elements there – and then the identity. Can we come to a single electronic or digital identity per customer? Those are two real barriers at this moment for new players to grow cross-border easily.

David Wright

I have a couple of other questions. Your bank employs 53,000 people. This is a very unfair question but do you think that you are going to be able to maintain that headcount with all these technology developments? Secondly, talking broadly rather than specifically in terms of ING, do you think these technologies destroy jobs?

Ralph Hamers

For sure they do. They already destroy jobs, not by virtue of the technology itself but rather that the customer really wants digital banking. They are used to real-time information and instant satisfaction in their experience with Facebook, Airbnb, Uber and so on. They expect nothing less from their banks. You have no choice but to do so as a bank.

A complete change of jobs

That means that you cannot just take your old products and put them online. You cannot take your old products and put them on a mobile. You have to re-invent the whole experience and the whole process around it and basically digitalise the whole process. With that, regrettably, you have a complete change of jobs. You move away from more operational and semi-intelligent staffing to programmers and big data specialists and IT specialists who know how to do this and who know how to write algorithms in that new world. You need completely different qualities in people and you need fewer people.

Those are the two pressures unless you grow, as we are growing in Spain, Italy and Germany as a digital bank, where clearly we are growing in the number of people. But overall, from a European banking perspective, I think we will have fewer and fewer jobs going forward. This is not limited to the consumer area; I think it is just as forthcoming in the more corporate area. Corporates do not expect anything less in terms of the information that they have from their bank – and from the real time information they want to have and how quickly they can work with their own treasury environment – as compared to what they are used to as a consumer. There is new technology like blockchain that can take a lot of old-fashioned processes and take them really three steps further in terms of speed and cost savings.

Hence, both in the corporate field and in the markets field, there are major changes coming which will destroy certain kinds of jobs and generate other kinds of jobs. The headcount will be lower.

David Wright

There are two other thoughts that we would like to get from you. The first is the view – expressed by Jean Lemierre and Xavier Musca – around concerns about the continuous changes in the Basel capital requirements. Do you and the bank worry about that in terms of risk-weighted assets, leverage ratios, TLAC, and so forth? Secondly, do you think that there is a level playing field globally? Do you worry about US competition here? Is that of concern to you?

Ralph Hamers

I will take them one at a time. Regarding the first point, I think everybody is always concerned when managing through a transition phase and not knowing exactly what the rules or regulations are going to look like or how they will be interpreted. We have seen the example where basically doing a specific capital raise or semi-capital raise could be seen as semi-capital in one regulation but not in another. You then have legacy on your book right away. Certainly at this phase, with a lack of clarity, most banks, including ourselves, are basically only engaging with no regret issues when it comes to capital raising and semi-capital raising or how you do your funding.

The same is true on the assets side because, if you are not sure where some of the risk rates are going on your asset books, then, before you know it, something that was a good piece of business yesterday is a horrible piece of business on your books today. You have to be very careful as to how long you go out in terms of tenor with these assets.

So, yes, I share Jean Lemeirre's concerns in terms of saying 'just tell us how you want it and what you want and how you interpret it so that we can get on with it'. We can stabilise the situation and then we can do what we are supposed to be doing, which is support the economy and support our clients.

David Wright

Do you think negative interest rates help that?

Ralph Hamers

No, I am not a believer in negative interest rates to begin with. I have been quoted as saying that we went a step too far in the ECB and that it is now basically counterproductive. The situation in which we currently find ourselves is driving an environment in which people are probably going to hoard cash rather than spend more money, given the uncertainty that is out there and given the negativity around the rates they get on their savings. They want to be sure that they have a pension and they have savings going forward so they probably will hoard cash or save more and spend less – so I think that was just a step too far.

David Wright

Are you seeing an increase in credit provision?

Ralph Hamers

It does not work that way.

David Wright

That is the idea, is it not?

Ralph Hamers

Yes, but the price of credit is not what drives us to offer a loan. You offer a loan because your client has a credible business case. Clearly, business cases become a little bit more credible with a lower interest rate but, if the economic development and the economic environment is worse, it becomes counterproductive.

I am not a supply thinker in terms of providing credit; I am a demand thinker. If clients have good cases, we have always been open and we have grown our assets by €21 billion. We are open. We have the funding. But it is a lack of demand. It is a lack of confidence in the economy. There is a lack of initiative to invest, and that is what is driving the issue, not the cost of money. That is not the point. 1% will not make a difference for a good case.

David Wright

We reluctantly have to stop there, Ralph. Thank you for being so open with us and thank you for your support and for your interesting remarks. I hope your shoulder is much better the next time we meet.

Ralph Hamers

Thanks a lot.