



UNIVERSITY OF
CAMBRIDGE
Judge Business School

Executive Education

FinTech and Regulatory Innovation:
Module 2 Live Session

Unbundling Banking and Innovation Responses

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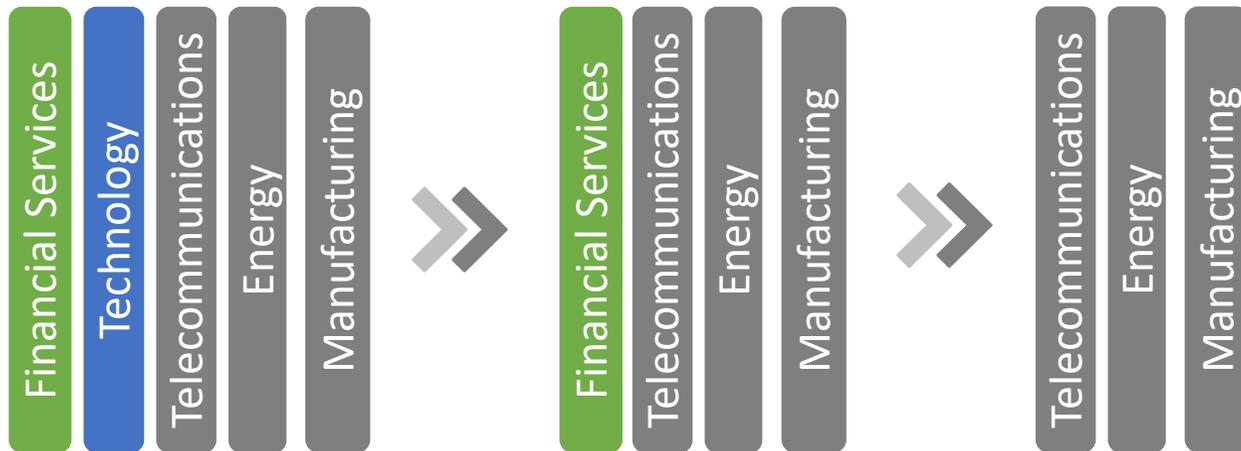
Embracing **disruption** in banking



The banking sector is currently undergoing a “disappearing act”

Embedded Finance

Finance disappears from front of mind



Before the internet, technology was considered a vertical.

Technology

After the internet, technology became foundational, horizontal.

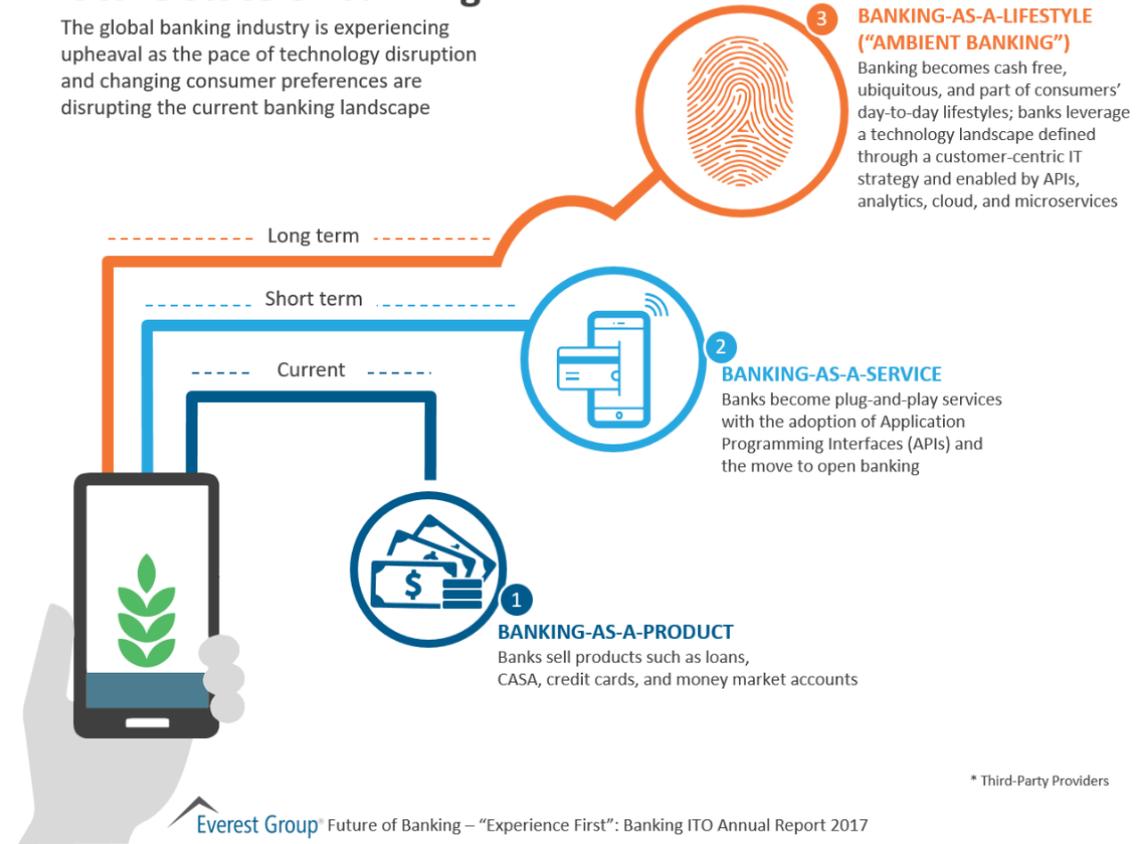
Technology

Financial Services

In the (near) future, financial services will shift from being an industry vertical to becoming an enabling horizontal.

Future state of banking

The global banking industry is experiencing upheaval as the pace of technology disruption and changing consumer preferences are disrupting the current banking landscape



1 BANKING-AS-A-PRODUCT

Banks sell products such as loans, CASA, credit cards, and money market accounts

2 BANKING-AS-A-SERVICE

Banks become plug-and-play services with the adoption of Application Programming Interfaces (APIs) and the move to open banking

3 BANKING-AS-A-LIFESTYLE ("AMBIENT BANKING")

Banking becomes cash free, ubiquitous, and part of consumers' day-to-day lifestyles; banks leverage a technology landscape defined through a customer-centric IT strategy and enabled by APIs, analytics, cloud, and microservices

* Third-Party Providers

Everest Group Future of Banking – “Experience First”: Banking ITO Annual Report 2017

Source: Mariela Atanassova

Underlying factors for financial services disruption and the rise of Fintech

Customer-centricity

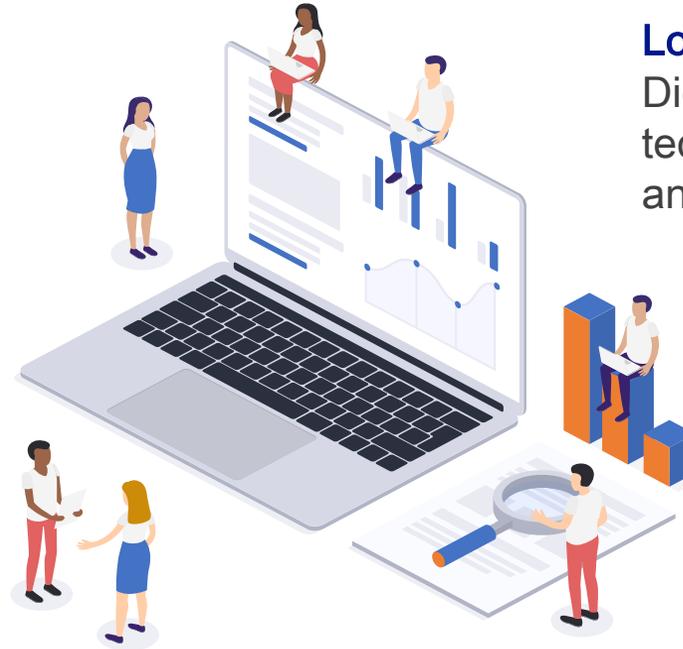
Fintech aims to provide the best consumer experience.

Disintermediation

New business models (P2P, B2B, B2C) are challenging high intermediation fees and regulatory boundaries.

Automation

Automated processes ease platform use.



Low-cost operating model

Digital platforms enabled by on-demand technological services, resulting in cost-efficient and scalable solutions.

Data usage and analytics

Technological and analytical capabilities to process vast amounts of data.

Real-time traceability

Technologies like blockchain allow real-time verification of transactions.

Enabling technologies



Cloud computing



Blockchain DLT



Artificial Intelligence and Machine Learning



Big Data and Analytics

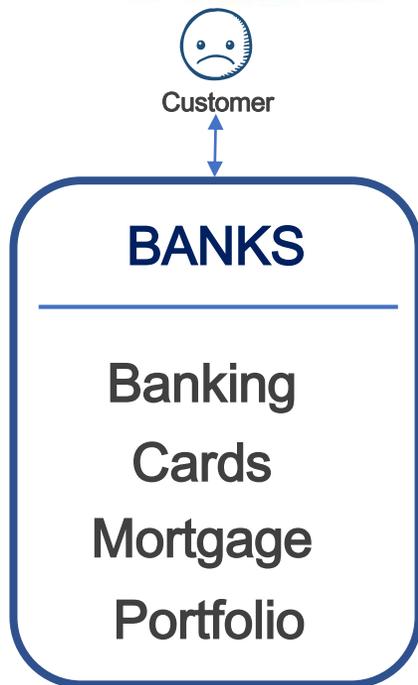


Internet of Things

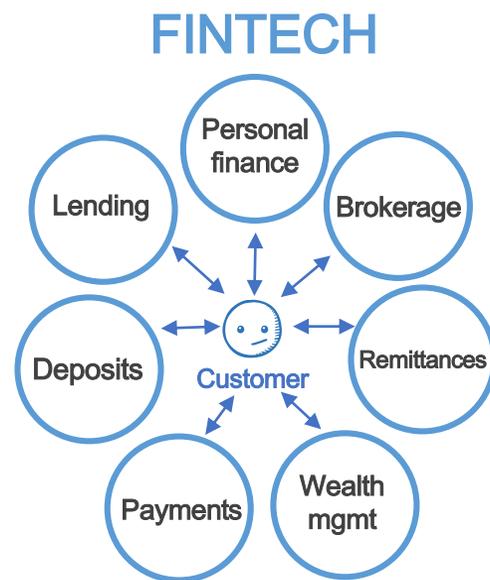
Emerging technologies enable **process automation**, **data intelligence** and **customization of solutions** for their users.

The **banking business model** has shifted to attend customer needs... enabled by technology and driven by regulation

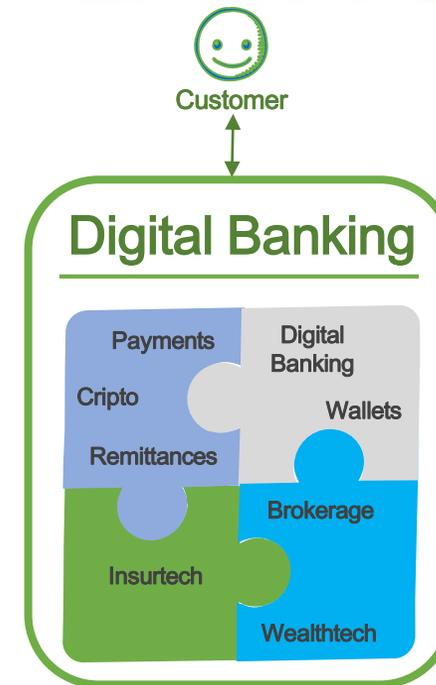
Bundling



Unbundling



Rebundling



Partnership ecosystems (BaaS)

Emergence of non-financial platforms (Marketplace / BaaP)

Drivers

Leveraging existing customers base to decrease Customer Acquisition Cost (CAC)

Enablers

Brand, Consumer desire for trust

Mobile-first customer expectations, CAC dropping dramatically, businesses hyper focus on single experiences/markets

Mobile app stores, open APIs, cloud infrastructure, bank regulation

CAC is high with increased competition, customers desire for simplification and end-to-end best-of-breed products

More APIs, Open Banking, Banking-as-a-service (BaaS), Artificial intelligence

Source: Based on Victoria Cheng, Citibank Venture Investing.

In most countries, the existing regulatory framework enables different business models of digital banking

	Traditional banks 	Challenger banks 	Neo-banks 	BaaS 'Bank as a Service' 
Authorisation (Licence)	✓	✓	X Business partnership with a bank	X Multiple business partnerships with financial institutions
100% digital	X	✓	✓	✓
Property of distribution channels	✓	✓	X 3rd party distributors	X Open platform
Extensive financial services portfolio	✓	✓	X Limited banking (niche segments)	✓
Financial education and personal finance functionalities	X	✓	✓	✓
Lower fees and rates	X	✓	✓	✓
Examples	CHASE  BBVA  BARCLAYS 	N26  Revolut  Atom 	BNXT  SIMPLE  monese 	2gether  solarisBank 

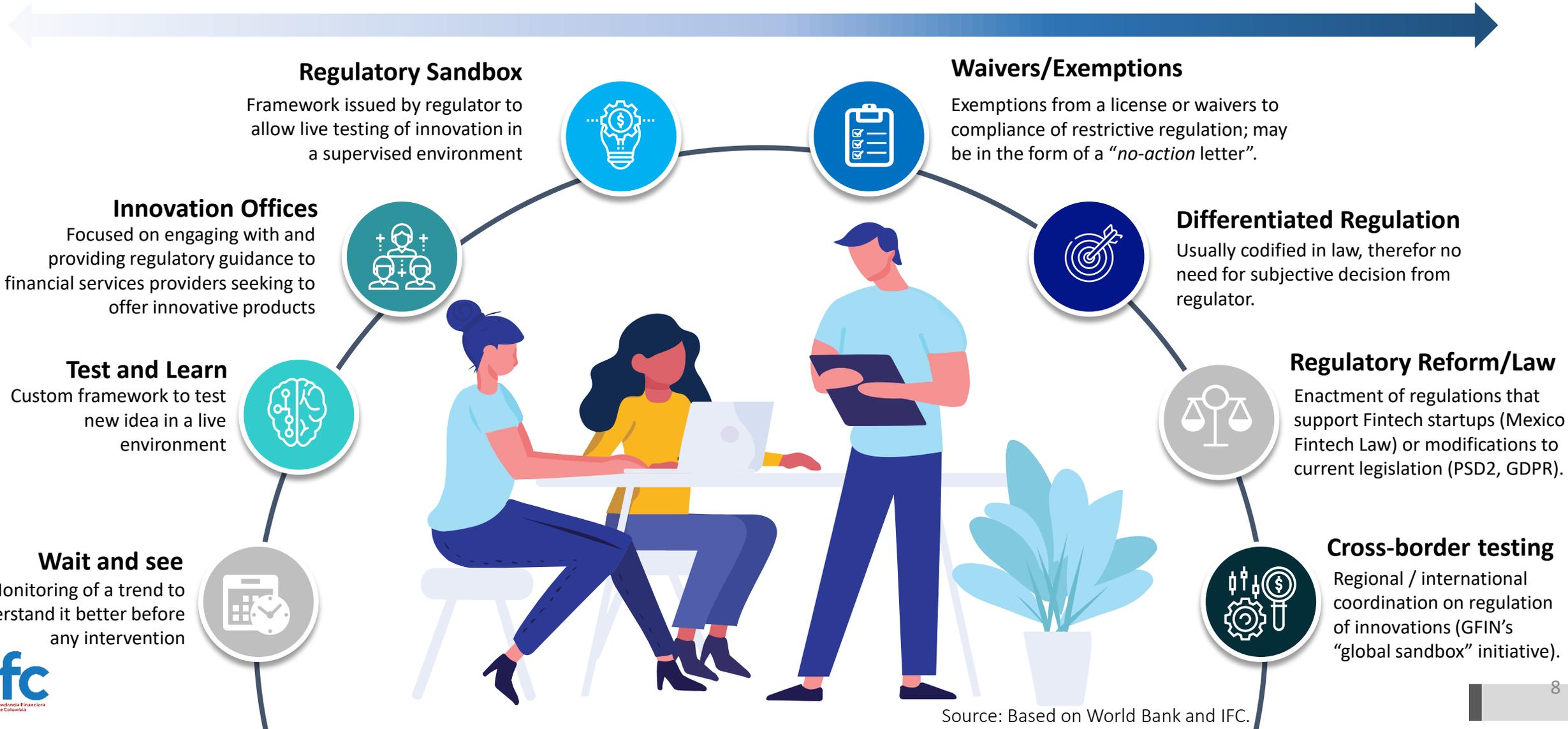
Innovation Responses & Paradigm Shifts



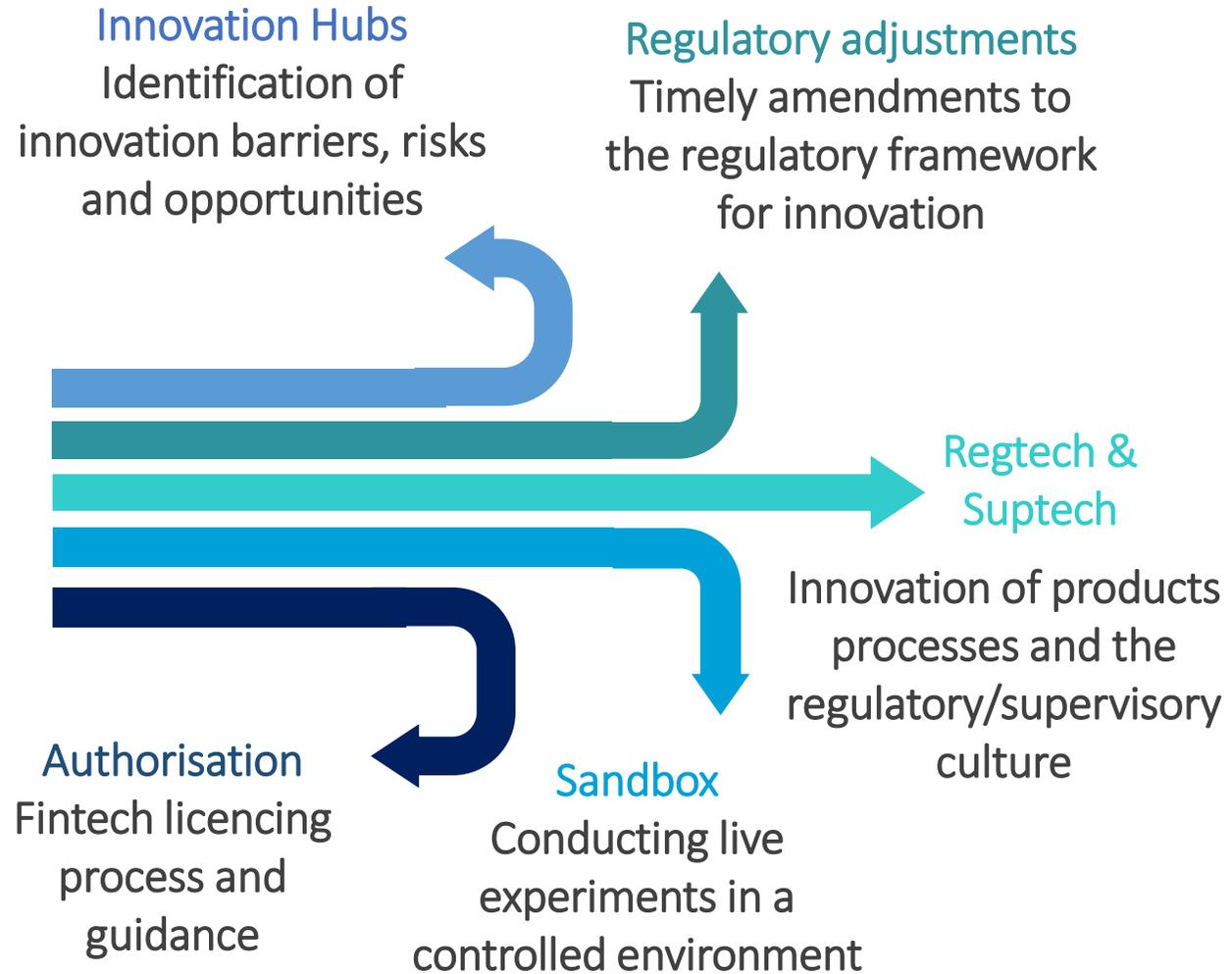
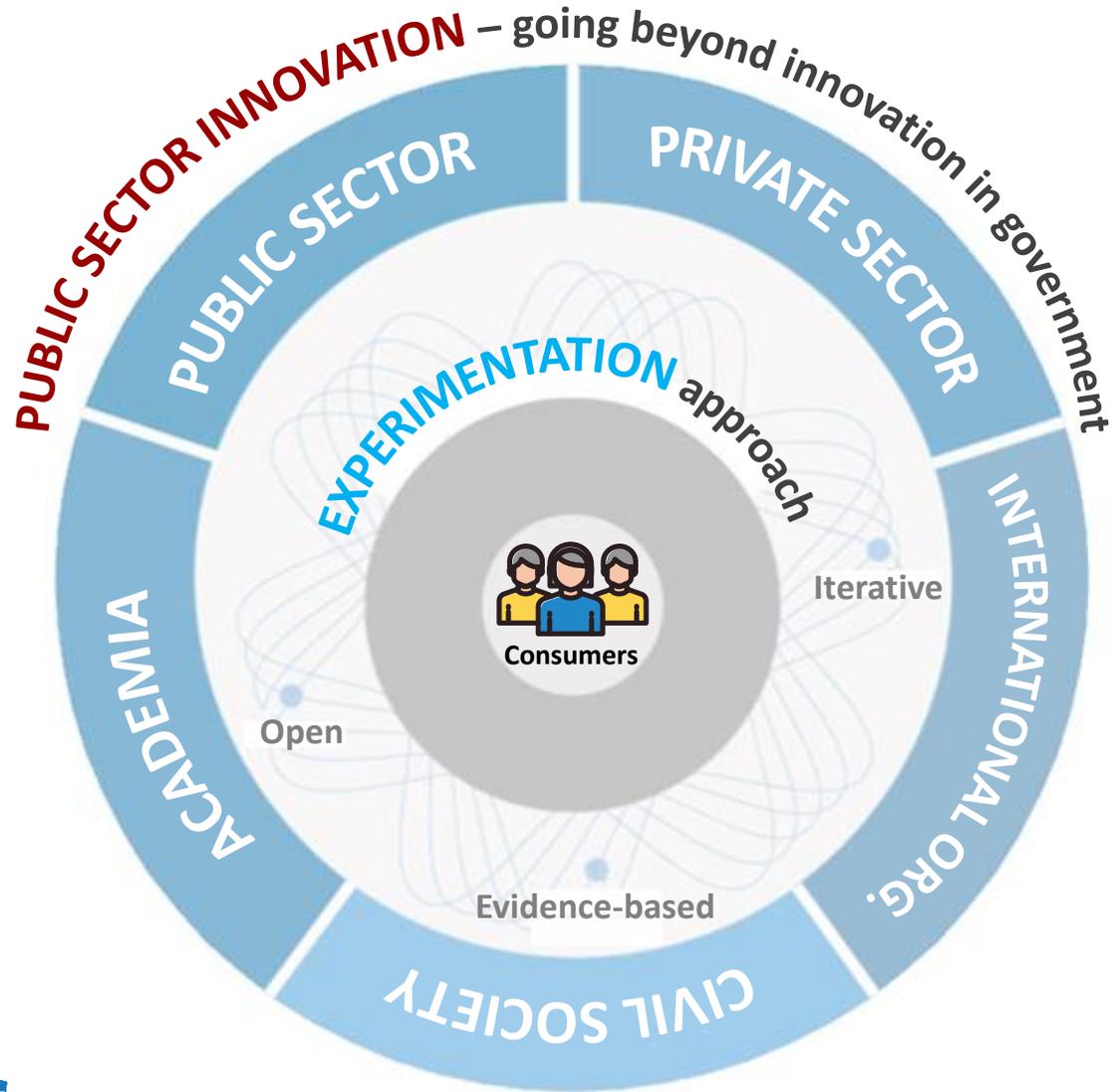
Innovation responses: choosing from an ample “toolkit” for a “tailor-made” approach to innovation

Passive approach – Less resources

Proactive approach – Resource intensive



Regardless of the approach, fostering **sound** and **responsible** innovation should be an integrated effort



Open Innovation becomes a real chance for Fintechs and authorities to “jump in and test the waters”



Our main challenge is to continue **breaking down barriers** to innovation and motivating paradigm shifts

- The existing regulatory framework can be **innovation-enabling**
- **Innovation and supervision** can in fact co-exist and complement each other
- We should go beyond **“suspicion-based supervision”**

