

JOINT FINANCIAL SERVICES INFRASTRUCTURES KEY TRENDS, CASE STUDIES & OPPORTUNITIES

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We see room for both bank and policy driven initiatives to address banks' high cost base – shared infrastructure is one of the levers & today's focus

Estimated impact of cost saving initiatives (illustrative)

Recap from SFF day presentation (27 November 2014)

	Initiative	Assumed impact on costs	Total impact on pricing
1 Operating costs	Shared infrastructure between banks <small>Focus of today's discussion</small>	Assume 50% of reduction from current levels to regional peer level is achievable	Potential reduction in operational and interest expenses would make a 25% reduction in interest income possible (keeping ROE constant)
	Cost reduction programmes		
2 Cost of funding	IRB migration	Assume 60% of potential risk weight reductions (relative to Nordic peers) is achievable	
	Review capital requirements	Assume average CT1-ratio could be reduced from 24% to 19% resulting in additional reduction of €0.5BN in CT1 capital	
3 Other costs	Review bank levy	Assume current levy rate reduced by 50%	

Today's agenda

1. Global trends?
2. What to outsource?
3. How to outsource (case studies)?
4. Key success factors and next steps

Globally the trend is towards increased appetite for outsourcing in the FS sector driven by cost pressure, regulation, digitalization and globalization

Selected global trends



Cost pressure

- *Margins under pressure*
- *Demand for transparency towards customers*



Regulation

- *Higher demand for documentation / KYC*
- *Increased complexity of regulatory interfaces*



Digitalization

- *Changing customer demands and expectations*
- *Increased competition from new directions*



Globalization

- *New opportunities to offshore / buy global solutions*
- *Increasing customer choice and competition*

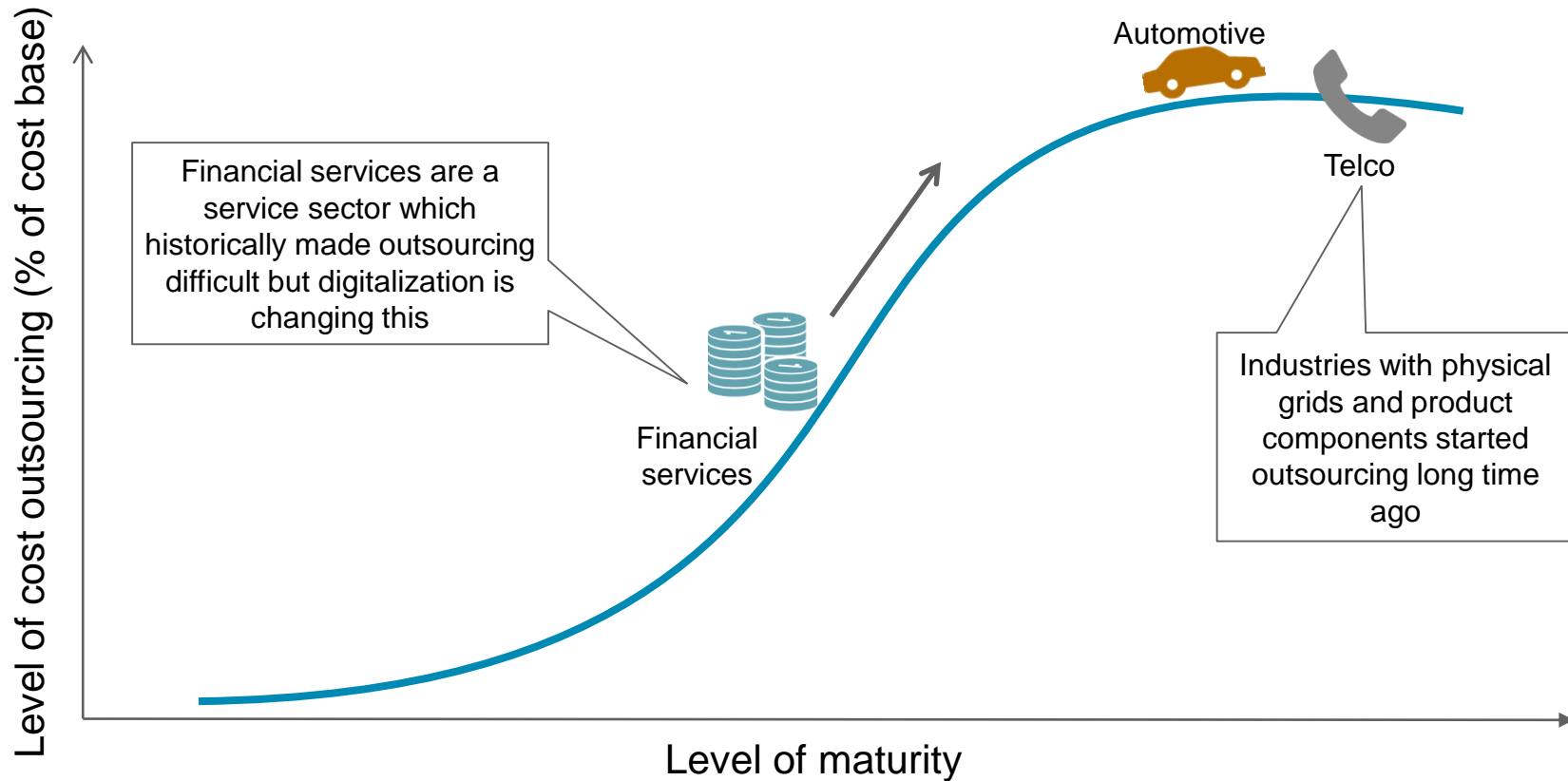


Increased ability and appetite for outsource



As markets mature, companies are increasingly willing to outsource parts of their cost base - the FS sector is currently lagging behind other industries

Industry maturity curve and level of outsourcing / joint infrastructures



Mutually owned Swish uses an organizational model in which tasks and responsibilities are distributed and executed internally by the owning banks

Case study 1 – Swish, real time money transfer application



Owners



SEB
Handelsbanken
Danske Bank
Nordea
Swedbank

Users

3.5 millions
(in less than 3 years)



Key learnings

- Enhanced **customer service** by offering seamless digital solution which **increased competitiveness** of against market disrupters
- **Feasibility study** was conducted by the Swedish Bankers Association
- **Flexible & low cost** organizational structure - teams coordinated across banks, tasks split among banks
- **Clear ground rules** are key to minimize negative impacts from lowered competition, e.g.
 - **Pricing discussions** across banks inside the operational teams are **strictly prohibited**
 - **Open infrastructure at fair pricing** enables smaller Swedish banks (~10 to date) to tap into the network at low cost

Inefficient and costly on-boarding systems and increased regulatory pressure have pushed financial information companies to develop KYC standards

Case study 2 – KYC.com, on-boarding system



Powered by

markit | GENPACT

Users

1,300 buy-side and corporates registered representing more than 20,000 funds and entities, including:

HSBC

Morgan Stanley

Deutsche Bank

The platform delivers

1. **Standardisation** of policies, processes and platforms
2. **Reuse** of golden data records and documents
3. **Reduction of client touchpoints** through integration of related functions
4. **Cost effective** use of human capital
5. **Complete and accurate** data capture at source

Key learnings

- Initiated in **response to stringent regulation** for KYC and AML processes
- **Onboarding process** increasingly inefficient and time consuming
- Solution in powered by **3rd party providers**
- Gaining scale is a key success factor – already have large banks and over 20,000 funds and entities covered
- **Mitigate fraudulent behavior** while **streamline onboarding processes** and removing duplicate work
- Could **indirectly increase competition** as ‘shopping around’ becomes cheaper for prospect customers

Source: Celent, Markit Genpact

Joint systems have been established in Sweden and Norway to prevent insurance frauds, estimated savings of up to 5% of gross premiums

Case study 3 – Joint claim database



FOSS

(Forsikringssselskapenes sentrale skaderegister)

Operated by



*With permission from Data Protection Authority, as competitive and sensitive customer data is collected

Users

~35 P&C insurance companies that are members of Finans Norge

“Through FOSS we are able to detect all attempts of getting reimbursed twice for a claim”

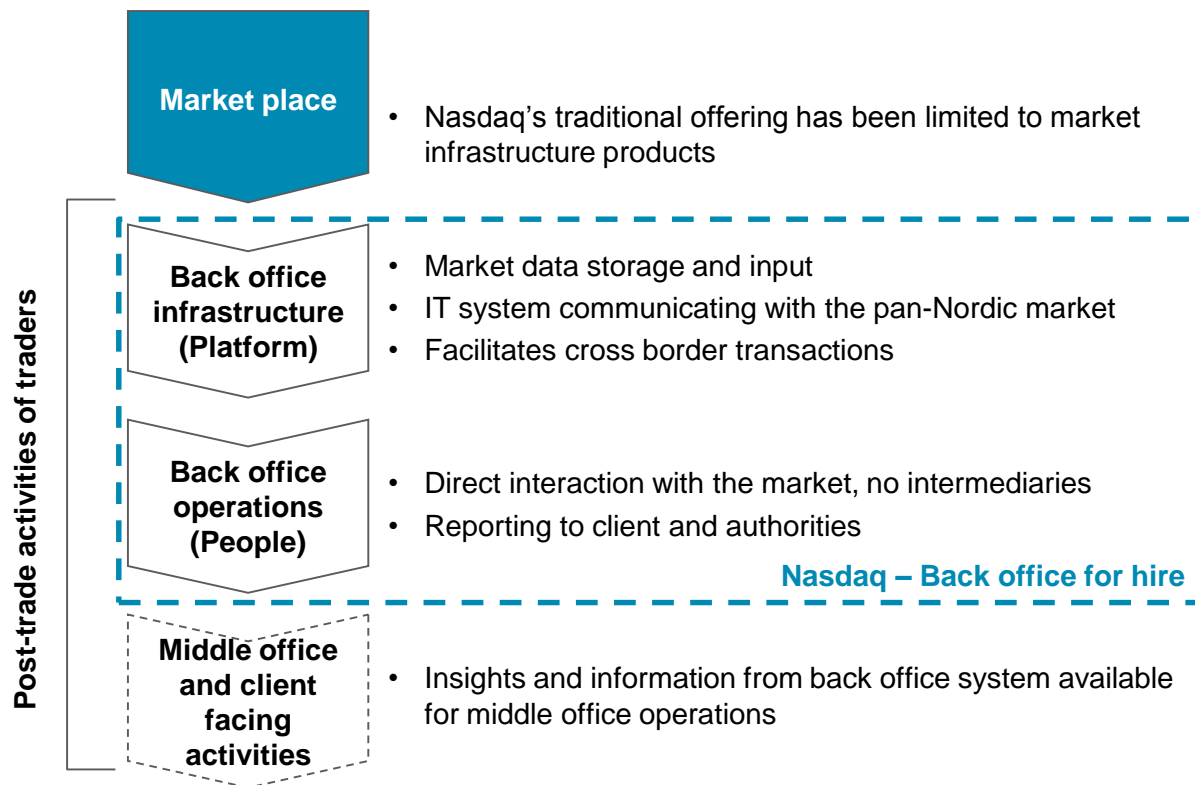
- Stein Hakkonsen, CIO Norges Forsikringsforbund

Key learnings

- Increased **fraud detection and prevention**
- Less fraud allows more accurate **policy pricing, increasing customer fairness**
- Lowered claims handling costs as **fraud investigations are more efficient**
- Require exceptions from **customer data protection** since could enables misuse of system for sales purposes
- Similar system in Sweden (GSR), however system rejected in Denmark due to the Danish personal data law despite **estimated savings of 3-5% of gross premium**

Nasdaq has started to integrate forward in the post-trade space by offering outsourcing of the entire back office functionality, leveraging its size for scale

Case study 4 – Nasdaq back office solution



Benefits & key learnings

- Market infrastructure players are building increasing capabilities to service **larger share of the value chain**
- The offering **can cover both IT platform and back office staff**
- Target customers are typically relatively small players where outsourcing back office functionality gives **cost savings on 25–50%**
- Might be attractive to larger FS institutions at right price

Source: Website and interviews with Nasdaq

Conclusions

Key success factors



Before outsourcing it is important to have the 'house-in-order'



The whole picture needs to be assessed holistically & forward looking



Standardization saves cost and leaves less room for 'special solutions'



The 'solution space' shouldn't be limited to domestic solutions only



- In addition, there are a range of non-financial factors which require consideration (e.g. competition perspectives & execution risk)
- In our opinion cross-industry/public sector cooperation would be beneficial



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