

The future of European payments: Strategic choices for banks

November 25, 2020



McKinsey
& Company

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Our hosts for today's session



Wolfgang Ehrmann
Chairman,
EBA

Introduction



Thomas Egner
Secretary General,
EBA

Initial section, focused
on findings from
interviews and Banks
positioning in Payments



Olivier Denecker
Partner, McKinsey &
Company

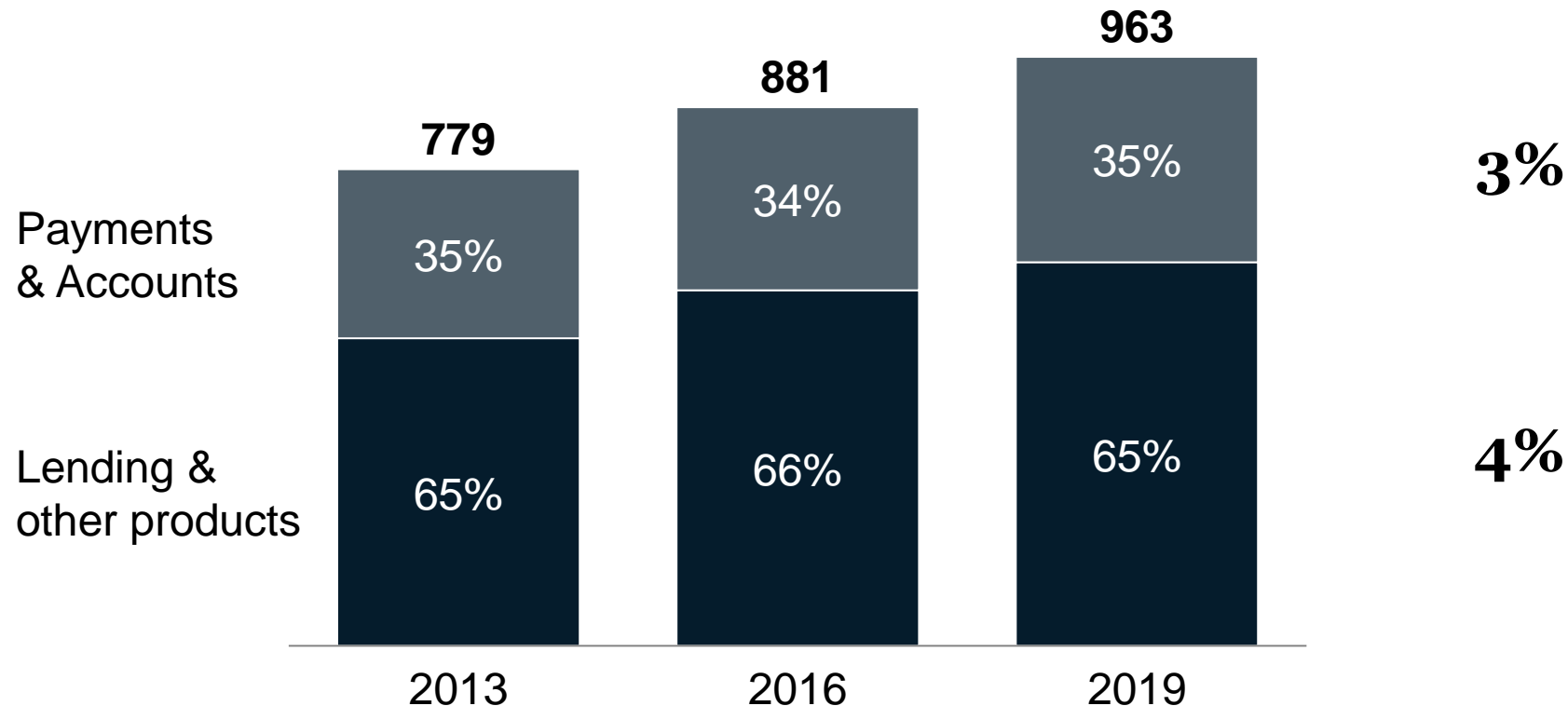
Second section, focused
on path going forward for
Banks

**Q&A section
open to entire
audience, with
questions to be
submitted via
chat and
moderated**

Payments are a very relevant business for banks, representing ~35% of their revenues

EUR billion

European banking sector revenues (total, before cost of risk)



COVID-19 pandemic leads to temporary fall of European revenues of ~ 6 %

Accelerated rebound as restart more digital and more dynamic payments

Payments specialists recorded better market performance than banks in 2020

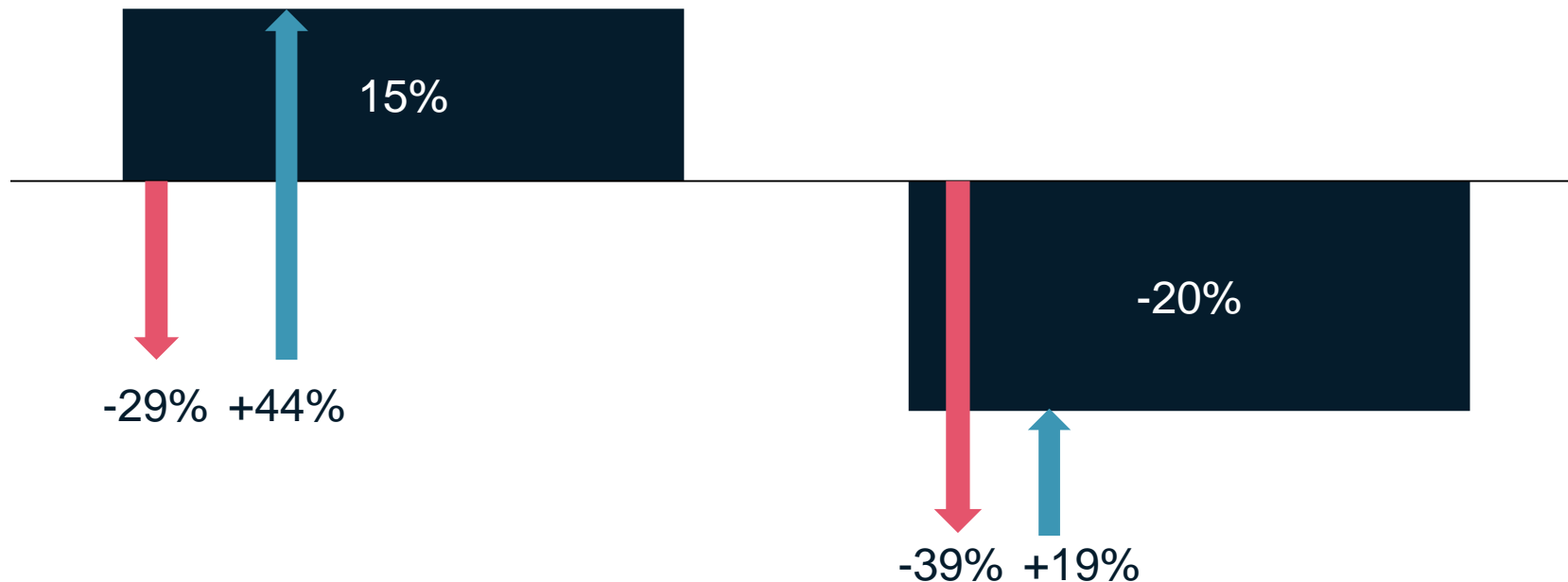
Weighted average total shareholder returns, 1 January to 20 November 2020

Jan 1st – Mar 23rd (market bottom) ↓

Mar 23rd – Nov 20th ↑

Payments specialists operating in Europe

European banks



Call to action for Banks

Decide on ambition in payments and where to do more / be more focused to remain relevant

Q1 How relevant do you believe Payments to be for Banks?

Go to www.menti.com and use the code 11 90 34 6

- The most relevant product
 - Very relevant
 - As every other product
 - Not very relevant
 - Not relevant at all
-



Q2 How feasible are your company's plans in Payments?

Go to www.menti.com and use the code 11 90 34 6

- Piece of cake
 - Highly achievable
 - Realistic yet not easy
 - Quite hard
 - Totally off scale
-

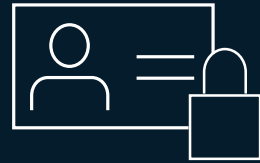


Banks hold important strengths to play in the Payments arena

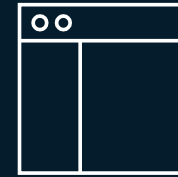
Positive elements highlighted by interviews



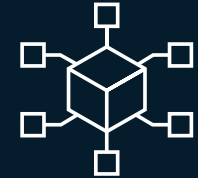
Access to large
customer pools



Control of current
accounts



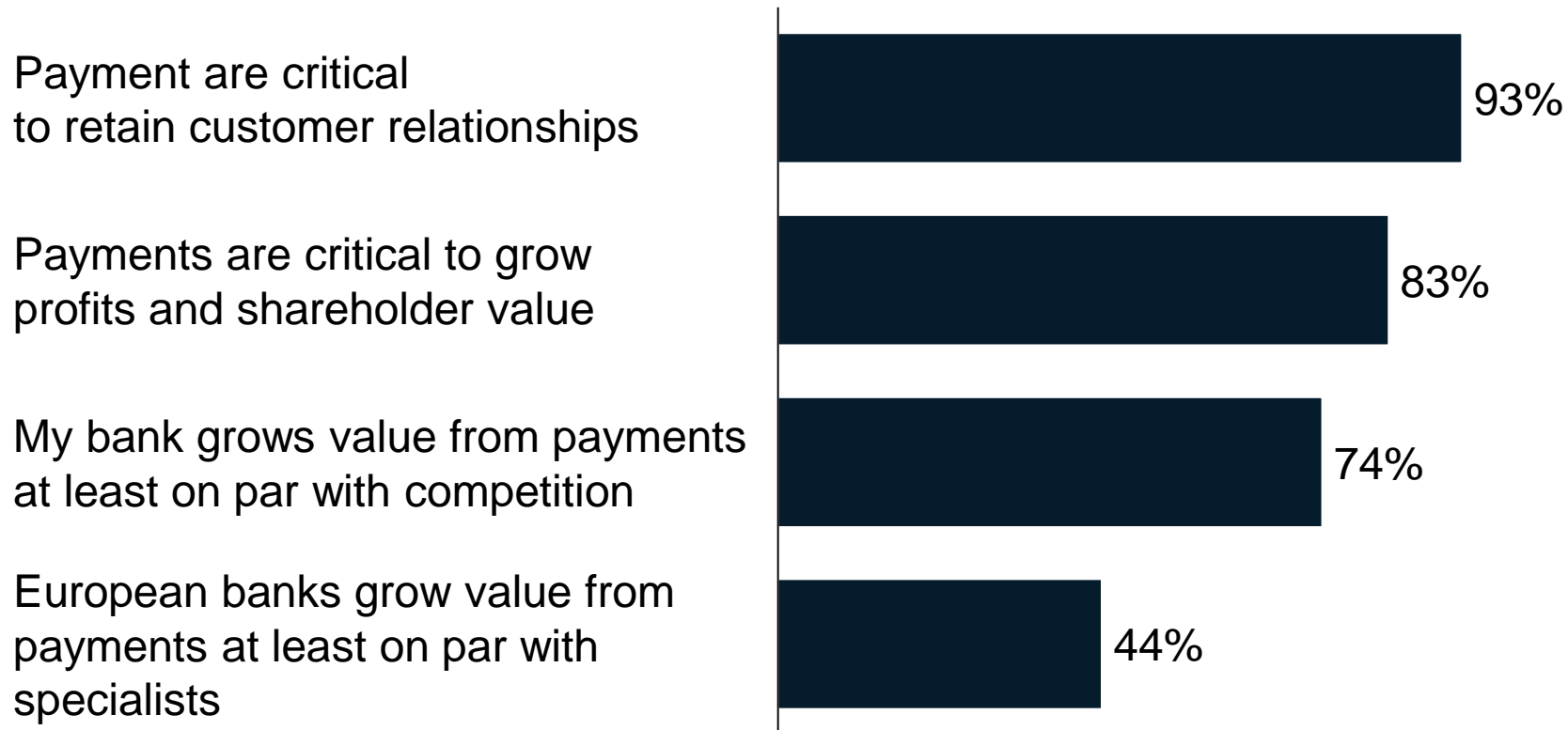
Balance sheet



New business
models/
technologies

Banks continue to see payments as strategically important to their business

Share of respondents who indicated “Completely agree” or “Somewhat agree”



And show appetite towards championing Payments

68%

aim at championing payments with modern/innovative customer solutions

Several challenges represent the highest barrier to Banks' ambition



Competition – especially from tech players



Technology - new (API, PaaS) & legacy



Operating models lacking scale & agility



Constrained revenue environment



Evolving customer expectations



Complex regulatory outlook

Inside view: top obstacle for banks?

67%

Legacy technology and infrastructure

51%

Organizational agility

49%

Market regulations or regulatory attitudes

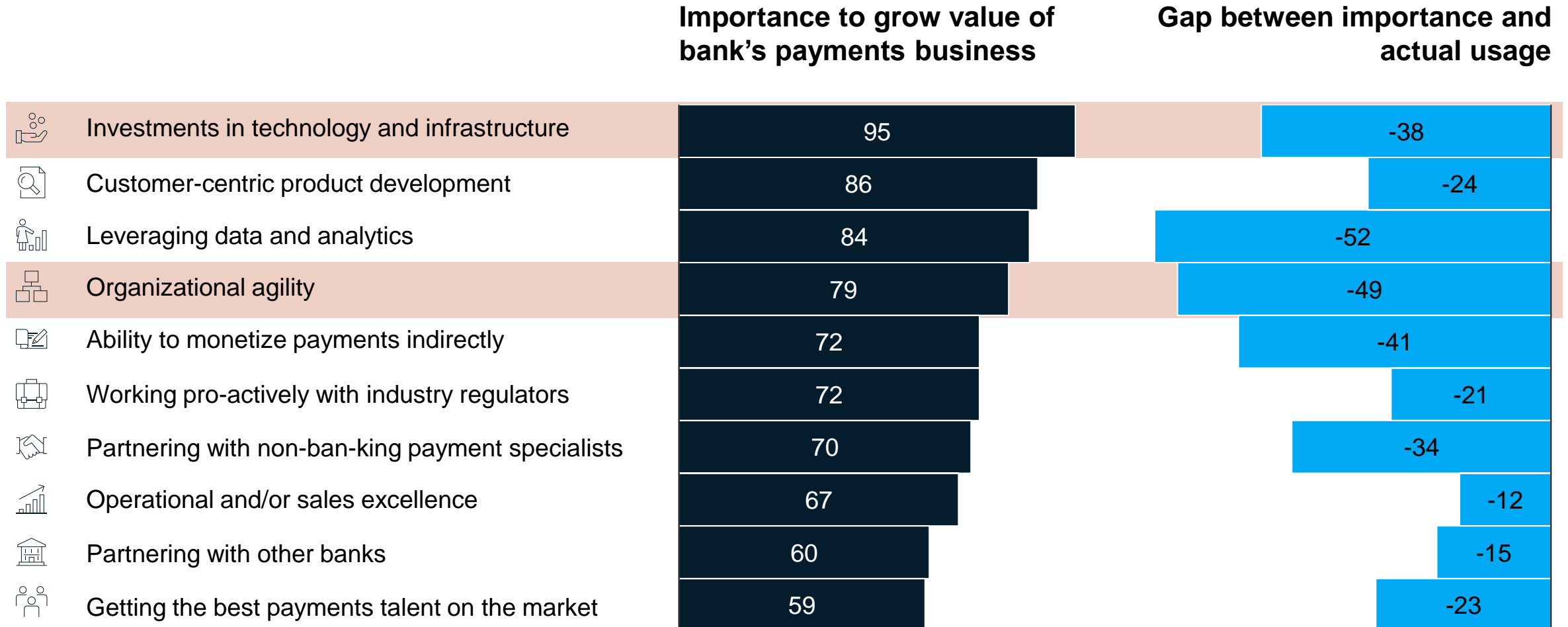
39%

Level of investments to payments area and level of attention by top executives

Banks identified significant gaps in the capabilities and practices needed to grow their payments business

Gaps in using value creation levers for a bank

 Key challenges identified by banks



Q3 Did your executive committee discuss and communicate your ambition in payments?

Go to www.menti.com and use the code 11 90 34 6

- Yes, very clearly and realistic
 - Yes, very clearly but not realistic
 - Yes, but not very clearly
 - Not really, only elements
 - Not at all
-



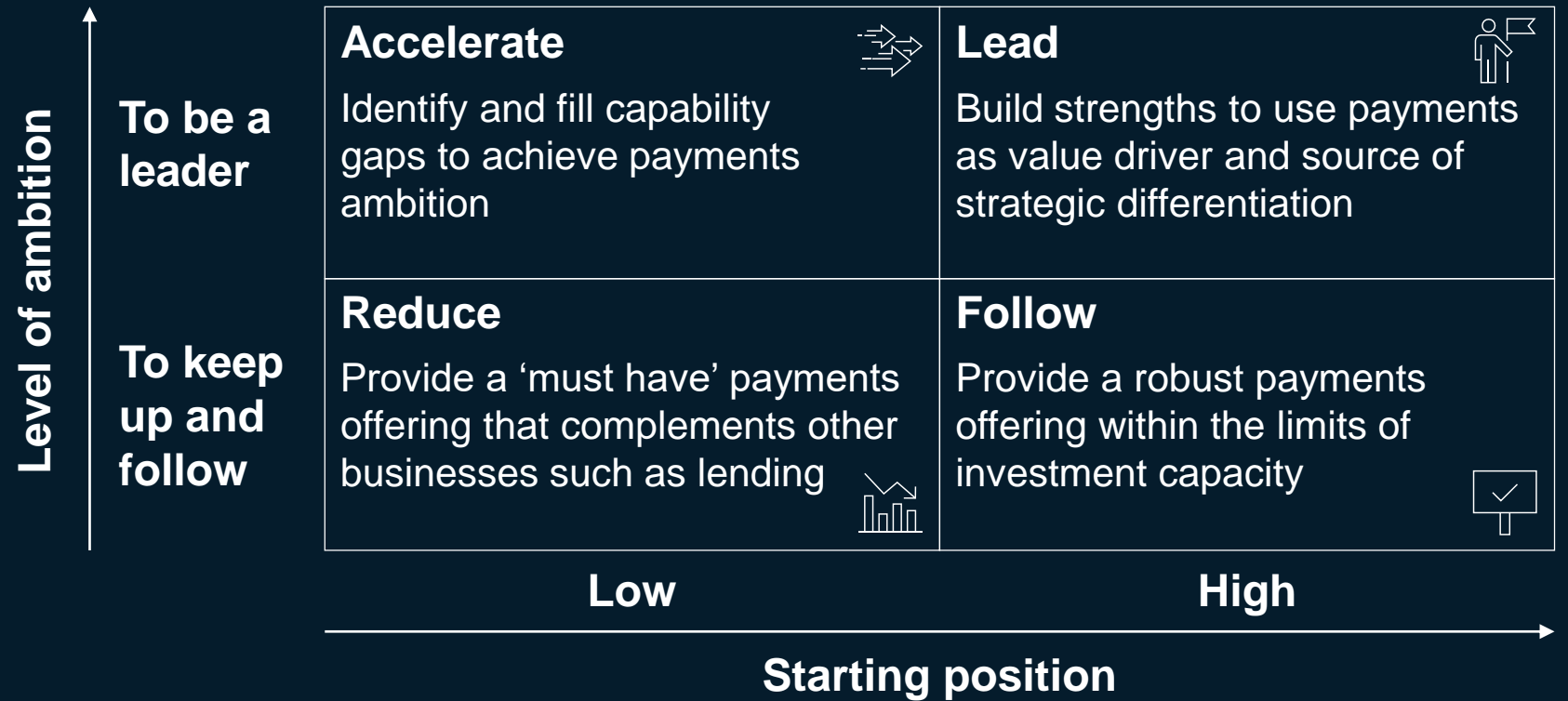
Q4 What effort will be required to address banks' challenges?

Go to www.menti.com and use the code 11 90 34 6

- Very high
 - High
 - Average
 - Low
 - Very Low
-

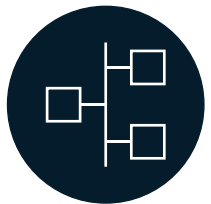


4 strategic choices for bank payments



To lead banks will require a strong strategic belief and bold prioritization to act

Banks urgently need to develop a detailed plan for their future in payments



-
- 1** Definition of **starting point** and realistic statement of **ambition**
 - 2** Distinctive **customer value proposition** in line with digital best practices
 - 3** **Business model** reflecting new products and different monetization
 - 4** **Target operating model** reflecting pressure on cost, investment, talent availability
 - 5** **Path to scale up** payments across multiple investment horizons
-

Cooperation may support a variety of strategies

Possible areas for cooperation



PaaS



New generation utilities



New payment schemes and infrastructures



Full interoperability



Shared value propositions

Conditions for success

Alignment on a clear **value proposition** for each partner

Flexibility in keeping pace with changing market needs

Fair and transparent **governance**

A focus on **entrepreneurship**

Bold leadership

What's next for Banks in Payments



Assess your **starting point** and spell-out **strategic ambition**



Define your **'payment business' strategy** and your key differentiating proposition

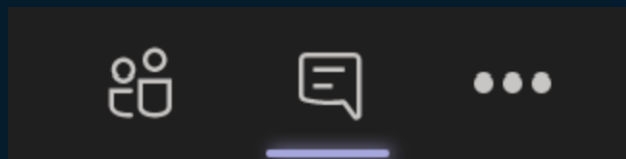


Plan for strict and fast **implementation** of concrete actions

Q & A

To ask a question:

Click on the Chat icon on the top of the Teams window, type in your question and press “Send”



What to do next...

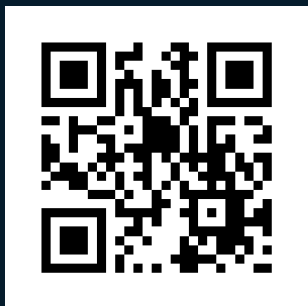
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Download **The future of banks in European payments report** from the EBA website:



<https://www.abe-eba.eu/media/azure/production/2626/the-future-of-european-payments-strategic-choices-for-banks.pdf>

Download **The future of banks in European payments report** from the McKinsey website:



<http://mckinsey.com/industries/financial-services/our-insights/the-future-of-european-payments-strategic-choices-for-banks>

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Reach us for any **questions/queries** at:



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Go **transform and grow** your payment business!!!!



