

SCRUM DAY INDIA 2020



What's funny about Banking?

- ✓ 50 hrs of research
- ✓ Over a 1000 videos watched on Youtube
- ✓ \$50 paid to Research Assistant
- ✓ 80% of videos are about robberies!!!!

Here is one of my favorites





*Let's
Go
Place*

What we will talk about today

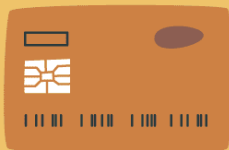
1. Banking basics
2. The 2008 Financial crisis and how it matters
3. Banks and the world before COVID
4. Projected Impact and Regulatory Response
5. The Empire fights back (or is trying to)
6. Q&A



Different Types of Banks

Most Common Types of Banks

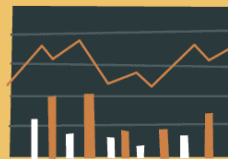
Retail banks



Commercial banks



Investment banks



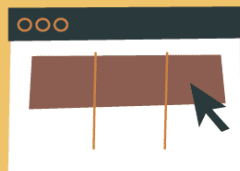
Central banks



Credit unions



Online banks



Mutual banks

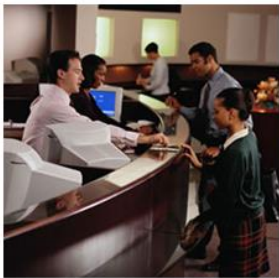


Savings and loans



How banks are supposed to work?

How Do Banks Work?



You place your money in a savings account with your bank



The bank uses that money to lend to other people and businesses



The bank pays you interest for using your money to make the loans and keeps the difference



These people and businesses pay the bank interest for borrowing the money

How do banks make money?

These earn banks money:



#1

Loans (to customers, businesses, other banks)



#2

Credit card interest



#3

Product fees (credit card and transaction account fees)



#4

Other products (insurance, financial planning)

These cost banks money:



#1

The interest they pay on savings accounts



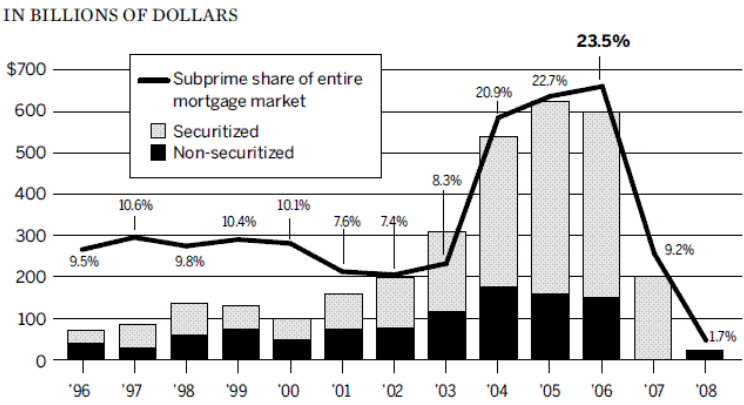
#2

The interest they pay on money they borrow

The roots of the 2008 financial crisis

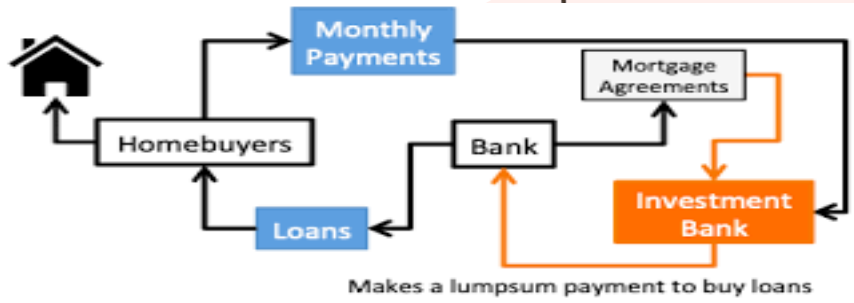
Subprime Mortgage Originations

In 2006, \$600 billion of subprime loans were originated, most of which were securitized. That year, subprime lending accounted for 23.5% of all mortgage originations.



NOTE: Percent securitized is defined as subprime securities issued divided by originations in a given year. In 2007, securities issued exceeded originations.

SOURCE: Inside Mortgage Finance



Richard H. Thaler, PhD
President of the American Economic Association
The Charles R. Walgreen Distinguished Service Professor of Behavioral Science and Economics at the University of Chicago
Director of the Center for Decision Research
Has transformed how Economists understand human behavior
Father of "Behavioral Economics"

Selena Gomez
International Pop Star

The Great Recession by the Numbers



\$30 billion
federal
guarantee
for deal between
Bear Stearns and
JP Morgan Chase

\$150 billion
federal bailout
for AIG

\$140 billion
moved from money markets
to treasury bonds



Treasury Department spent

\$350 billion

buying bank and car stocks

By 2010, banks paid back

\$194 billion

Fannie Mae and Freddie Mac
guarantee **90 percent**
of all mortgages

 the balance

The
Regulators
acted too late
and too
slowly and
said
“Never again”

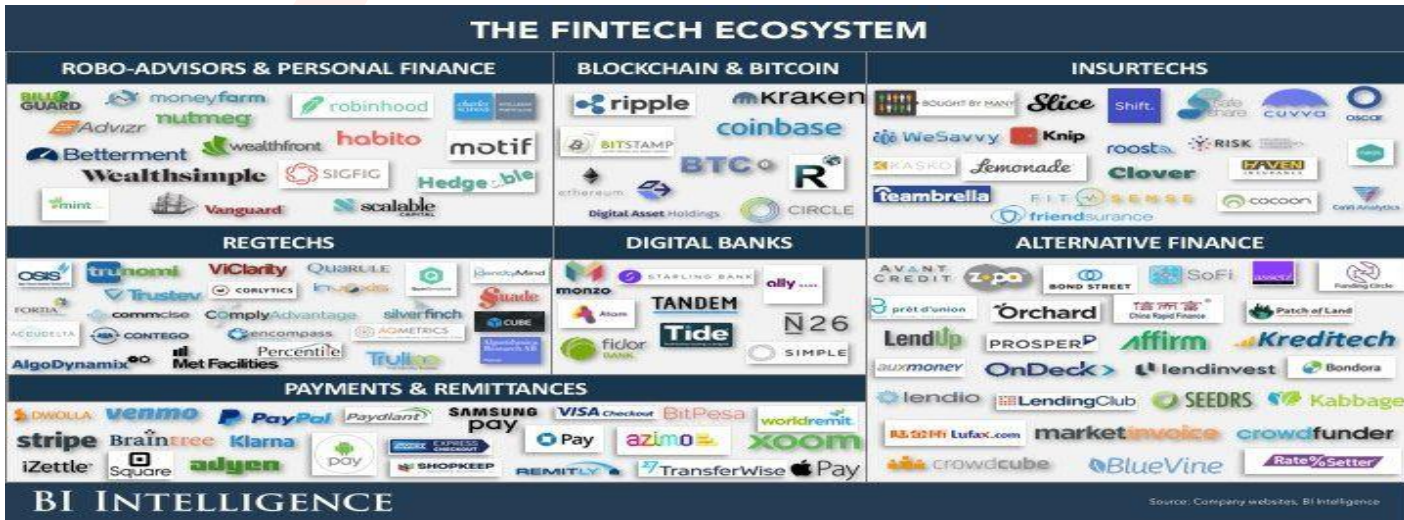
No risky products, focus on basics and lend to who can pay you back

The Rise of Fintechs and Big Tech

Comparison of the top five markets with the highest FinTech adoption for each FinTech category

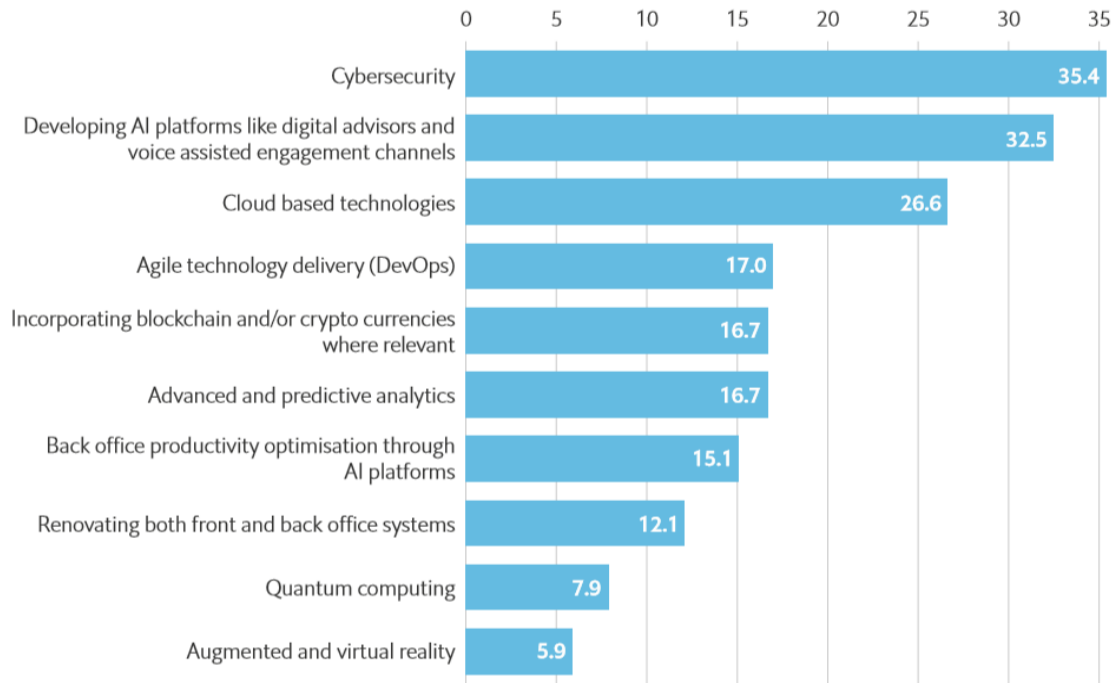
	Money transfer and payments	Financial planning	Savings and Investments	Borrowing	Insurance
1	China 83%	China 22%	China 58%	China 46%	India 47%
2	India 72%	Brazil 21%	India 39%	India 20%	UK 43%
3	Brazil 60%	India 20%	Brazil 29%	Brazil 15%	China 38%
4	Australia 59%	US 15%	US 27%	US 13%	South Africa 32%
5	UK 57%	Hong Kong 13%	Hong Kong 25%	Germany 12%	Germany 31%

More than 20,000 Fintechs with \$750 billion worth of funding

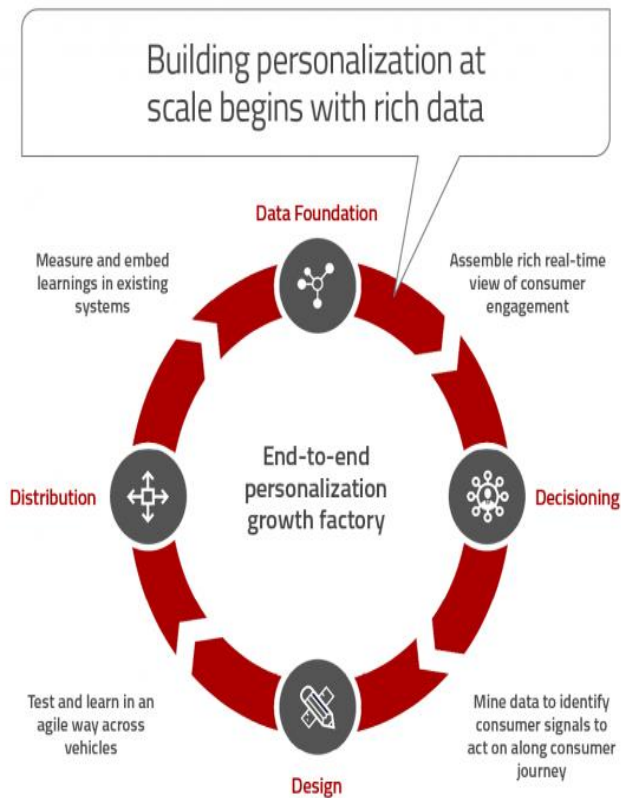


Leader banks have invested heavily in technology

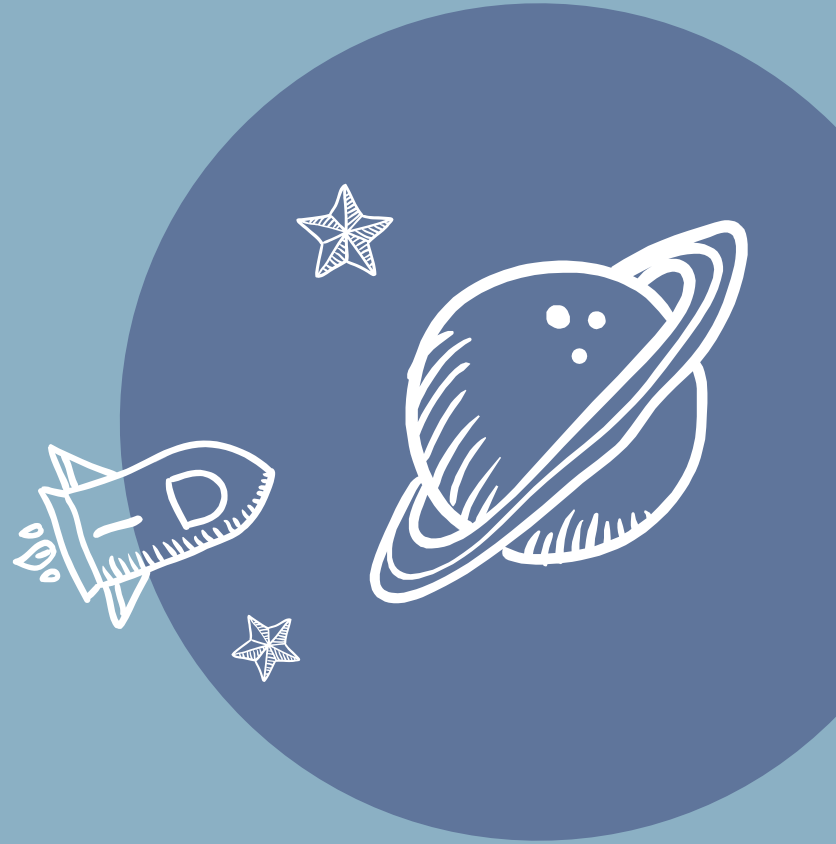
Where is your company focusing its technology investment? Select up to two.
(% of respondents)



Source: The Economist Intelligence Unit.



And then
the COVID
crisis hits!



The economic impact of COVID-19 in India will vary by sector.

Scenario 2 (lockdown continues until mid-May 2020): Potential impact on key sectors

	Output change Q1 FY 2021 vs Q4 FY 2020, ¹ %	GDP share, %	Bank credit FY 2019, % ⁴	Employment FY 2018, millions
Airlines and hotels	-70 to -75	2	1 ⁵	8 ⁷
Auto and advanced industries	-50 to -60	2	1	
Construction and real estate	-50	8	11	54
Textiles	-50	2	3	
Freight and logistics	-40 to -45	8	2 ⁶	22 ⁶
Metals and mining	-35 to -40	7	7	
Oil and gas	-20 to -25		2	
Power	-20 to -25	2	9	3 ⁸
Consumer and retail	-20 to -25	11	11	47
Chemicals	-15 to -20	2	1	
Agriculture	-15 ²	15	18	205
IT services	-10 to -15	5	0	4
Pharmaceuticals	-10 to -15	1	1	
Telecommunications	0 to -5	2	2	1 ⁹
Total		67 ³	69	402 ¹⁰

Manufacturing
56

Impact of
COVID by
Industry
(projected)

Note: GDP share, bank credit, and employment estimates are rounded up.

¹Pre-COVID-19 Q4 FY 2020 estimates used; output compression dynamically revised with new inputs. ²Q1 FY 2021 vs Q1 FY 2020, given seasonality.

³Remaining sector share of GDP mapped to related NAS sectors; separate assumptions made for sectors such as community, social, and personal services.

⁴100% = non-retail bank. ⁵Only hotels, restaurants, and entertainment. ⁶Includes airlines. ⁷Only hotels and restaurants. ⁸Includes power and other utilities.

⁹Includes media and entertainment. ¹⁰Does not include employment in financial services, public administration, other professional services, education, healthcare, and others.

Source: Expert interviews; Indian Ministry of Statistics & Programme Implementation; National Account Statistics; PLFS 2018; RBI; press search; McKinsey survey of >600 senior executives in 100 companies operating across a variety of sectors in India; McKinsey analysis

MONETARY POLICIES

Promotes stable economic growth through control of the money supply

- Policy rate cuts
- Central bank liquidity support
- Central bank swap lines
- Central bank asset purchase schemes

EXTERNAL POLICIES

Mitigates the effects of external economic shocks

- Foreign currency intervention
- Capital flow measures

FINANCIAL POLICIES FOR BANKS

Supports the banking system in times of distress

- Easing of countercyclical capital buffer
- Easing of systemic risk or domestic capital buffer
- Use of capital buffers
- Use of liquidity buffers
- Adjustments to provisioning requirements

FINANCIAL POLICIES FOR BORROWERS

Improves access to capital and provides relief for borrowers

- State loans or credit guarantees
- Restructuring of loan terms/moratorium on payments

EUROPE (EUROZONE)

AUT BEL FRA FIN DEU IRL ITA LUX NLD ESP

DNK NOR SWE CHE GBR CAN USA AUS HKG JPN

EUROPE

NORTH AMERICA

ASIA

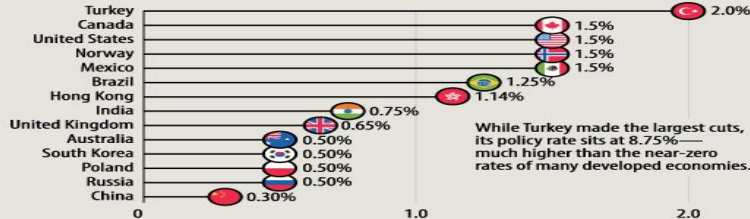
EMERGING MARKETS

A CLOSER LOOK AT RATE CUTS

Central banks can lower interest rates to reduce the cost of borrowing, thus boosting economic activity.

This is achieved by reducing their policy interest rate, which influences other rates such as those for mortgages.

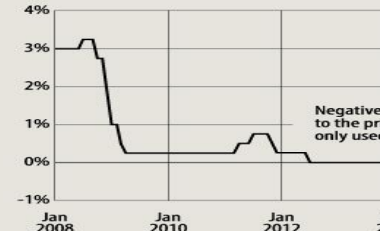
Policy rate cuts in response to COVID-19



While Turkey made the largest cuts, its policy rate sits at 8.75%—much higher than the near-zero rates of many developed economies.

WHY DID EUROZONE COUNTRIES

When interest rates approach zero, further reductions can lose their ability to stimulate the economy.



What regulators took 3 years to do in the 2008 crisis, they have already deployed in 3 months

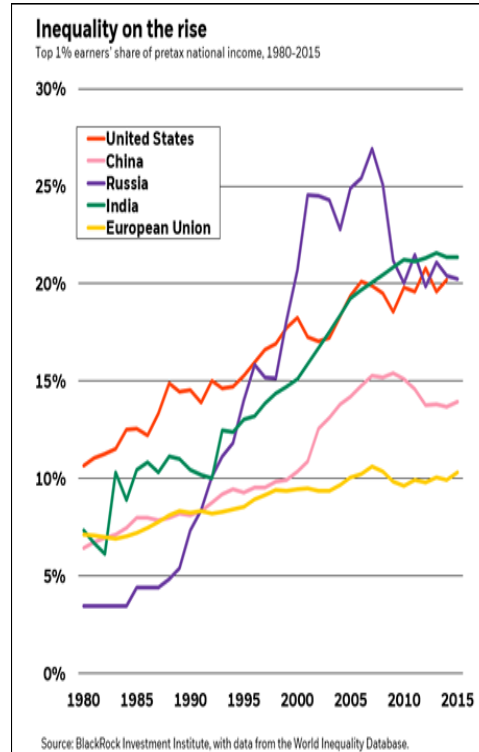
How are banks responding?



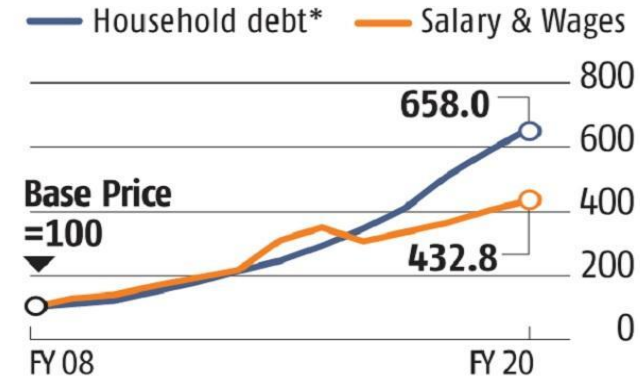
While everyone awaits a vaccine!!!!

Acknowledge that you are a part of Society

1. Provide psychological safety to customers (extend moratoriums)
2. Accept past biases and address inequality systematically (micro-loans without collateral)
3. Understand that your brand is at stake, so empathy and immersion are keys to insight



TREND IN HOUSEHOLD DEBT AND CORPORATE SALARY & WAGES



*Combined personal loans book of commercial banks and listed non-bank retail lenders that are part of BSE500 Index; Source: Capitaline, Reserve Bank of India, BS estimates

2. Are you “Digital” Yet?

Who led the digital transformation of your company?

A) CEO

B) CTO

C) COVID-19



82%

of consumers are concerned about going to their bank

73%

are doing more remote work/errands

63%

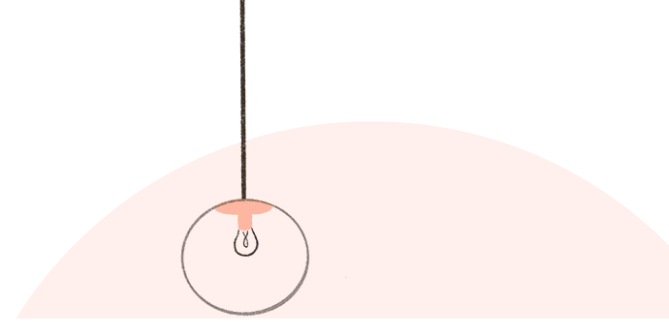
are more inclined to try a digital app

56%

are worried about being able to repay loans

2. Are you “Digital” Yet?

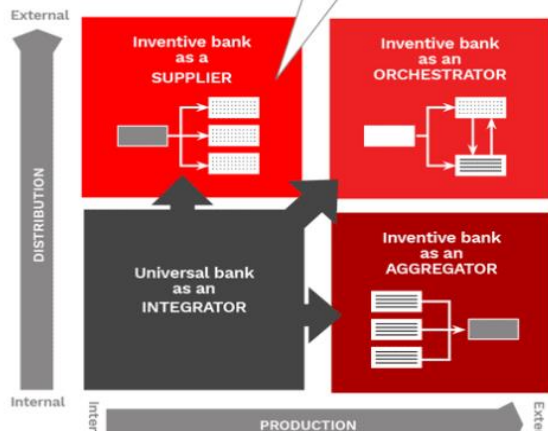
1. Leader Banks investment in technology is paying off heavily
2. Cybersecurity, AI/ML, Cloud are hot skills right now
3. Automation first is the new rule
4. Digital distribution of software is the new norm



3. Collaboration not competition

1. Recent deals (Google/ Deutsche Bank, Allianz/ Microsoft) foretell a trend
2. More welcoming of Open innovation than before

Legacy bank journey from integrator to open banking orchestrator



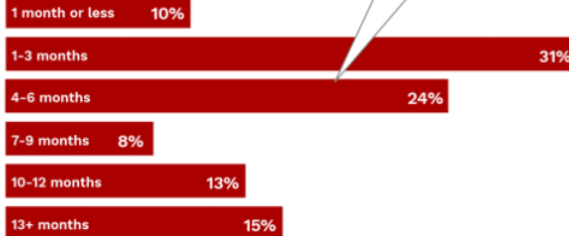
SOURCE: Capgemini Financial Services © April 2020 The Financial Brand



3. Fintechs have flourished but the road ahead is rocky

1. Funding is drying up quickly making viability a challenge
2. This is pushing Fintechs more in the arms of traditional competitors

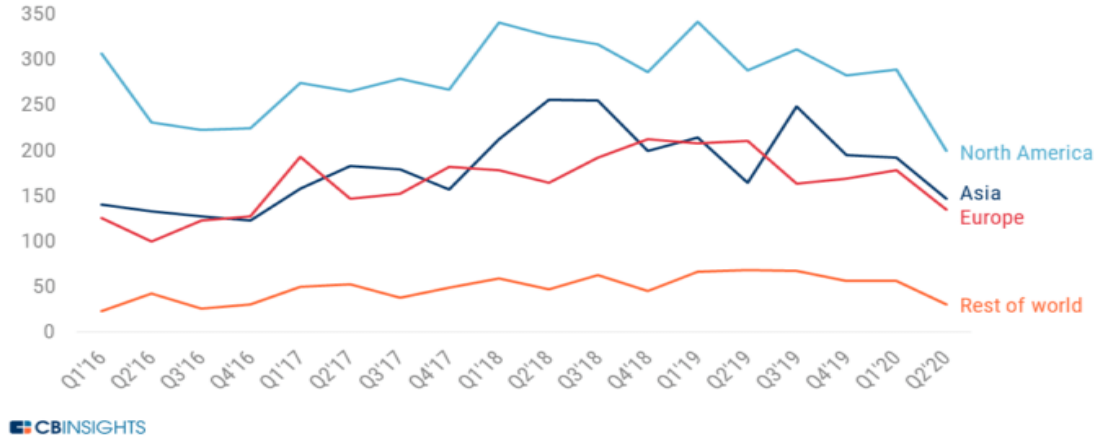
Months-of-runway



SOURCE: BCG © May 2020 The Financial Brand

Fintech deals are falling across geographies

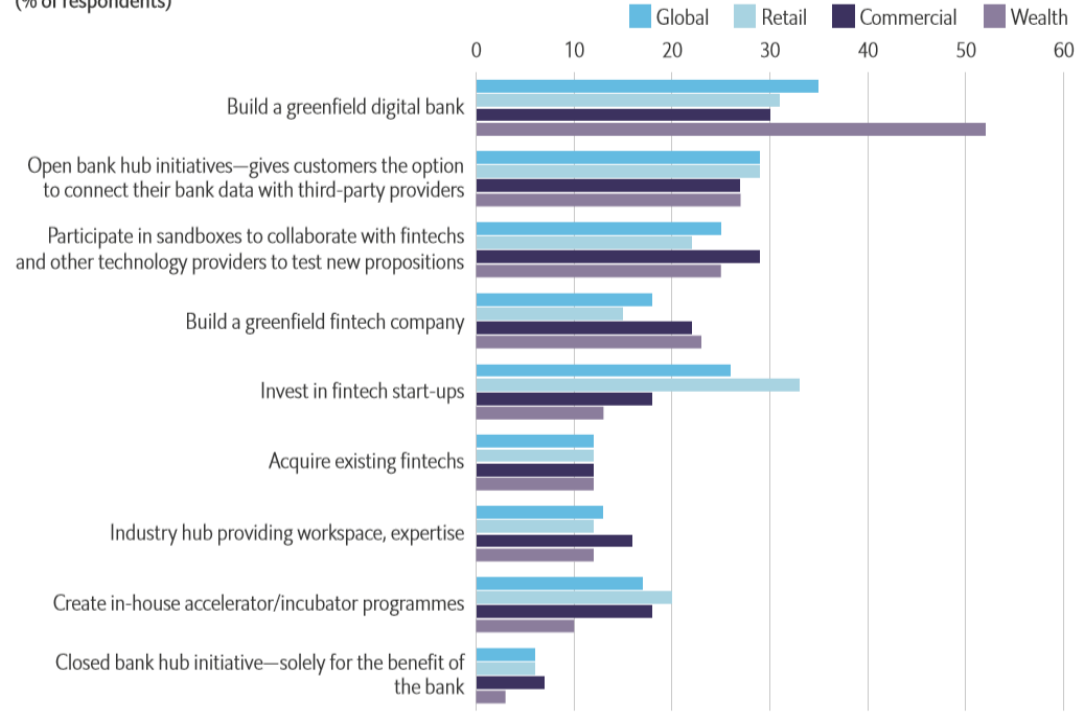
Global deals to fintech companies by geography, Q1'16 – Q2'20



4. Blitz scale and Blitz skill

1. Banks need to identify products that won't survive this crisis intact
2. Banks also need to reskill their employees, particularly front line staff in new products and ways of working
3. Starting an in-house competitor bank is on the minds of many banks

What is your bank's innovation strategy? Select up to two.
(% of respondents)



Source: The Economist Intelligence Unit.

5. Your employees matter now more than ever

1. WFH may work for some but is very challenging for others (lack of space, longer working hours, consistent internet etc.)
2. Your stronger connections are strengthened, and your weaker connections weakened
3. Navigating this over time will be challenging for traditional and new-age leaders



LET'S RECAP



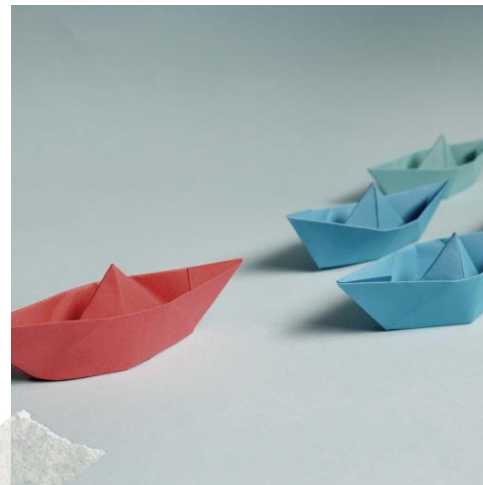
AGILITY REQUIRES STABILITY

Giving employees and
customers a sense of comfort
and stability is key



EXECUTE FOR NOW AND LATER

Focusing both on the immediate
and long-term is how the best
leaders respond



BUILD UP YOUR STAMINA

This is a marathon, not a sprint, so
building up resilience is key

Q&A Time

Any feedback is welcome

You can find me at: [linkedin.com/fazal-ilahi1](https://www.linkedin.com/fazal-ilahi1)

