

## Banking Summit - Leading to a New Era

6 and 7 February 2018

My first words are to thank you for attending this joint APB and SIBS initiative, where we will be thinking about the banking of the future.

My special thanks go to His Excellency the President of Portugal for honouring us with his presence and his words.

His words were highly appreciated for their far-sightedness based on an understanding of the reality and its underlying humanistic orientation and a vision of the needs of our country and its citizens, because the wish is to mobilise and encourage the construction of prosperity and development, point out paths and foster national cohesion.

I would also like to thank our sponsors and speakers and everyone who helped prepare this event.

This summit looks towards the future, though we cannot ignore the past. The last decade has been hard on us.

We were affected by a long, profound recession caused by the global financial crisis and sovereign debt. As we all know, the banking sector's performance depends on that of the economy.

We were overwhelmed by regulatory pressure, which was necessary and will be virtuous though not always balanced. It required huge efforts to meet its demands. And I have to stress that the Portuguese banks were placed at a disadvantage in the new regulatory framework due to the punishing economic situation that we were experiencing.

We lived in an environment of low interest rates, new supervision costs and high resolution costs and sparse demand for loans. In other words it was a truly adverse setting exacerbated by a poor reputation.

But different banks in different situations worked intensely towards regeneration, restructuring and modernisation.

We are much better off today. The sector has grown stronger. Capital ratios have almost doubled and the banks' balance sheets have improved, with special focus on the level of provisions and the ongoing, consistent reduction in NPLs.

Digitisation is an inevitable priority in the banking of the future and is surging ahead.

On a par with increasing globalisation, we are entering a new age, the fourth industrial, or the digital, revolution, which is having rapid, highly disruptive effects.

It is a new age bringing other fundamental changes in terms of values and cultures, politics, political models, governability and geopolitics.

We are witnessing huge changes in the economy and a growing number of sectors, driven by innovation. At a social level, we see major changes in people's conduct and attitudes and in social models.

In contrast to the uncertainty, complexity and volatility of our times, which can generate apprehension, we find high hopes of progress and a better life.

The digital world means:

- identifying people's needs and preferences and putting ideas to good use
- conducting a full analysis involving appreciation of data, creation of solutions and economic feasibility

- finding or developing advanced technology and appropriate processes for offering the products or services that customers want
- defining a business model that sustains investment

The main disruptions are basically in terms of customers and technology. It is from the combination of customers' ideas and wishes and technological innovation that progress is born. A user wants something, technology makes it possible and the market makes it happen.

The changes that we have been witnessing have also occurred in the banking sector and have had a decisive influence on banks' strategies, governance and business models.

This has happened not only in the use of cutting-edge technologies in payments, appealing, innovative products and services and apps that meet customers' needs. They are also important in institutions' operational management and structure and in achieving gains in efficiency and productivity.

The digital world is changing the way we live and the way we bank.

The banks do not underestimate the extent of these changes.

Innovation is part of a bank's DNA. Past investments in IT and the modernisation of Portuguese banks' distribution channels, in which SIBS was a competent, creative partner, clearly demonstrate this. The digitisation of our banks began a number of years ago, especially in terms of distribution channels.

Today, our banks are well positioned in digital banking, as shown by the international awards won by some of them, although the path they need to travel in order to be among the frontrunners requires ongoing work and investment.

The main digitisation issues that the banking system has to face are competition, regulation, business models and capacity building among bank employees.

The present incumbents, which are banks that are also fintech businesses, are competing with new players, i.e. fintech start-ups and major technological platforms. Competition between the incumbents and the others is healthy for the market and should be encouraged. But this ecosystem ought to be ruled by a spirit of cooperation, partnerships between incumbents and new players like the fintech start-ups, thereby creating win-win solutions that ultimately benefit customers.

The same regulatory framework should apply to all the players in this competitive ecosystem. There should be a level playing field for all competitors so that customers are not exposed to risks, and financial stability is preserved. Same activities-same risks-same rules-same supervision - this principle is essential.

The banks' business models will have to be able to use technological tools effectively and serve digital and traditional customers at the same time. Many customers will continue to prefer contact with branches and face-to-face human interaction and advice. Others will use both.

The art of banking begins (as always) with relationships, i.e. meeting customers' needs, offering suitable products and services and being there when a physical presence is justified.

It means establishing relationships of trust, security and effective service with them. It also entails helping to improve people's standard of living and fostering prosperity, comfort and wellbeing.

As always, banking is founded on social responsibility, as we can see in the essential missions of financing the economy and the people and offering a safe, efficient payment system, and on fiduciary responsibility, especially in terms of depositors.

Trust and social and fiduciary responsibility are two of the three pillars on which banking rests.

It is this acquired capital that clearly distinguishes banks from the new financial service providers.

The art of banking also entails reducing the risk of the banking business by following best practices and using internal control mechanisms. And, of course, it means achieving maximum efficiency with the available resources.

When we talk about resources, it is essential to talk about human resources.

Digital banking needs talent. It needs to attract and mobilise it.

Building employees' capacity for digital banking requires a considerable investment in training. This is the best way to meet challenges and open up prospects for professional fulfilment.

New specialisms and ways of keeping talents are necessary.

In the job destroyed/job created ratio resulting from profound changes, empiric experience has shown that a balance will be reached over time.

I repeat: customer engagement, the ability to analyse and process data, the choice of technologies and technological partners, optimisation of operations and the building of employees capacities for new functions and specialisms are an integral part of the banking of the future.

Digital and mobile technology has changed the way in which customers interact with financial service providers. But it requires high standards of security and data protection. The issue of security in the use of digital platforms is one of the sector's main concerns, along with that of digital literacy. This is most certainly the main issue today and it affects society as a whole. We must welcome initiatives like the government's digital inclusion programme, Portugal INCoDe.2030, which is designed to develop and reinforce people's skills in Portugal, and the MUDA (Movement for Active Digital Use) project, which unites private enterprise and the state. It enjoys the high patronage of the President of Portugal and aims to contribute to a more digital Portugal.

In conclusion, the Portuguese banking sector changed a long time ago to cater to market conditions, post-crisis regulation and the digital advance.

There were substantial changes in governance, the structure of institutions, risk practices and internal control mechanisms.

In the new paradigm, we have adjustments in institutions' culture, employees' qualifications and financial, operational and relational technological innovation.

In addition to these challenges, we have short- and medium-term priorities, such as recovering profitability, complying with the regulatory and supervisory framework, reducing NPLs and minimising resolution costs. We feel that there is an important need for a pause in legislation and regulation to give us time to absorb the mountain that has already been produced, gauge its effectiveness, make changes to improve it and allow us to focus on business.

Over the medium and long term, the welcome developments in the European plan for a single capital market, along with as-yet unfinished banking union, are highly important.

I hope that this summit will strengthen our ambition, confidence and will to be in the front line of a banking sector for the new age, with the sense of purpose that has always guided us.

**Fernando Faria de Oliveira**

**06/02/2018**