



The cumulative impact of regulation, taxes, low interest rates and digitisation

An impact analysis on the Belgian banking sector

March, 2017





Meet your future workforce

<https://www.youtube.com/watch?v=CqN9Jds9l0k>

Two sides of the same coin

- Regulation
- Tax
- Low interest rate environment
- Digital



Two sides of the same coin: regulation

Banking sector



People & Politics



Two sides of the same coin: taxes

Banking sector

'Banktaksen zetten tewerkstelling onder druk'



KBC-CEO Johan Thijs © Photo News

Dat de Wetstraat opnieuw een extra heffing op banken overweegt, zit KBC-CEO Johan Thijs hoog. 'Niet vergeten dat de kostprijs van de taks in België voorzichtig geraamd het equivalent van 1.250 banen is'.

People & Politics

Groen licht voor hogere bankentaks



Minister van Financiën Johan Van Overtveldt © BELGA

De ministerraad heeft vrijdag de nieuwe bankentaks goedgekeurd. De Belgische banken moeten dit jaar 805 miljoen euro ophoesten, 55 miljoen meer dan vorig jaar.

Two sides of the same coin: low interest rates

Banking sector



People & Politics



Two sides of the same coin: digital

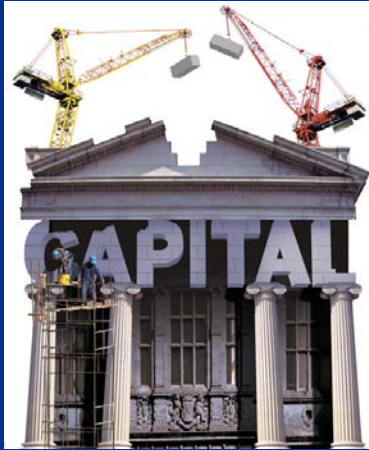
Banking sector



People & Politics

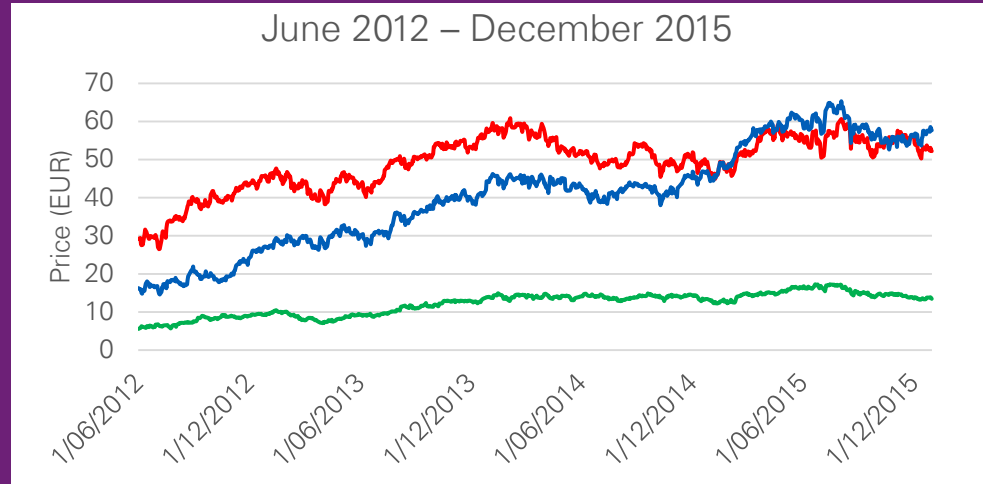


The facts in 2015



CET1 ratio
15%

Leverage ratio
5.2%



LCR
136.3%

NSFR
117.1%



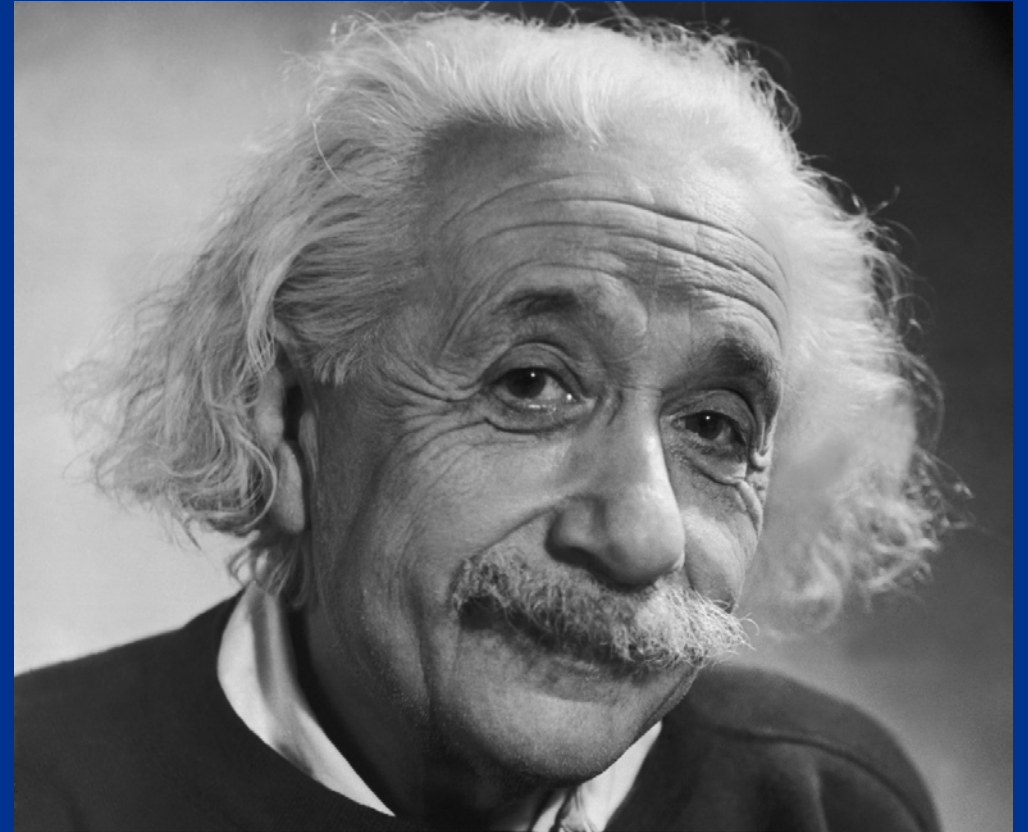
ROE
10%

C/I ratio
59%

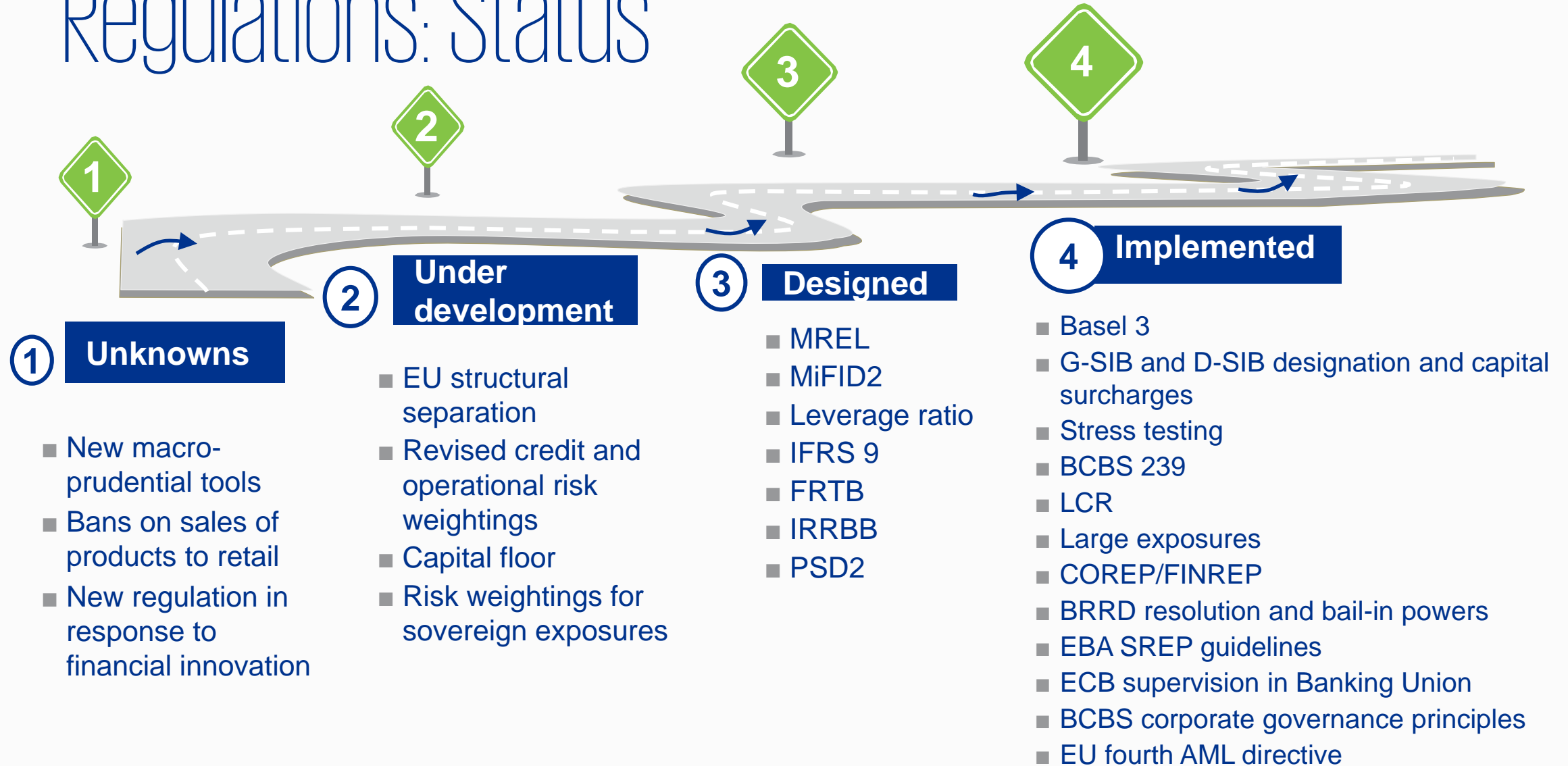
What will bring the future?

“The future is unknown, but a somewhat predictable unknown. To look to the future we must first look back upon the past. That is where the seeds of the future were planted.”

Albert Einstein



Regulations: Status



The ECB & SRB: strong influence over Balance Sheet composition

Assets	Liabilities
<ul style="list-style-type: none">— SSM requirements for management of NPLs— RWA density impacted by TRIM— Liquidity requirements through new ILAAP— ECB Collateral eligibility rules (for TLTRO, ELA), impact treasury choices	<ul style="list-style-type: none">— Capital requirements (CET1, AT1, Tier 2)— Leverage ratio— New requirements for bail-in capable liabilities (MREL)
<hr/>	
Resolution regime	
<ul style="list-style-type: none">— Recovery and Resolution planning (ECB and SRB) drive choices on Group structures (resolution ‘Point of Entry’).	

Regulations: Impact

Capital

(Basel 3 – SREP 2.0 – MREL)

Target Total Capital 2019: 21.4%

RWA revisions

CET1 ratio (2019): - 2.7%

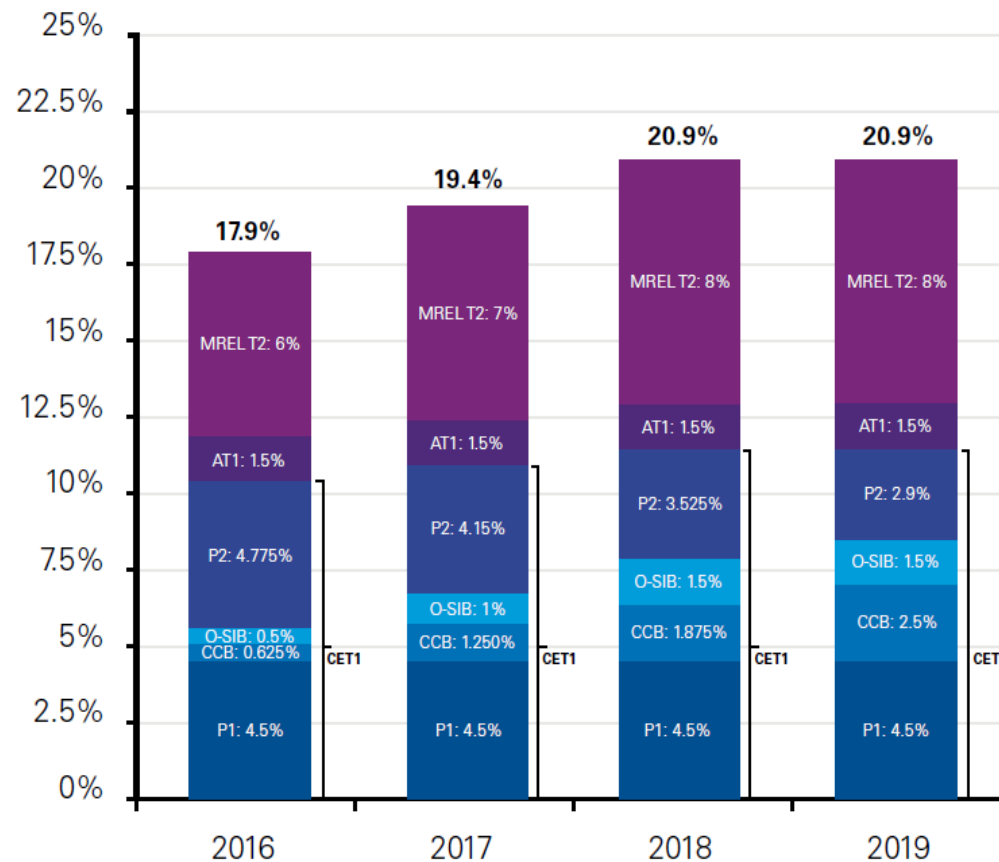
IFRS 9

LLP (2019): + € 1.2 bio

Supervision & Implementation

+ € 0.4 bio in the next 4 years

Capital requirements (incl. SSM & SRM)



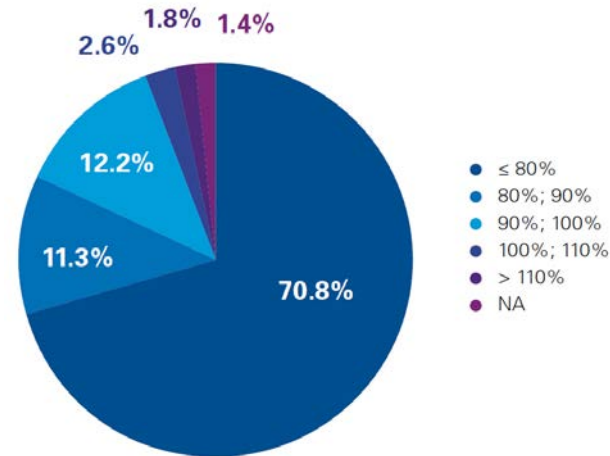
KPMG uses soft assumptions for capital buffers:

- Countercyclical capital buffer (CET1): 0%
- Systemic risk buffer (CET1): 0%
- MREL P1: 14% & MREL P2 : 0%

	2016	2017	2018	2019
KPMG assumptions of target total CET1 ratio	11.4%	11.9%	12.4%	12.4%
KPMG assumptions of target total capital ratio	18.4%	19.9%	21.4%	21.4%

Revisions to the standardised approach for credit risk

- Use of indexed LTV ratios
- Limited to the real estate (RE) portfolio



Source: NBB

LTV ratios (indexed) in Belgium expressed in % of total loan stock, at the end of 2015.

Standardised Approach portfolio:

- The average risk weight goes from ~ 35% to ~ 47%
- The credit risk RWAs relatively increase by ~ 36%

Internal Ratings-Based Approach portfolio:

- A floor of 70% on the RWAs obtained by using the revised SA is applied
- The average risk weight goes from ~13% to ~ 33%
- The credit risk RWAs relatively increase by ~163%

Implementation in the model:

Current CR RWAs for the SA
RE exposures multiplied by 1.36

Implementation in the model:

Current CR RWAs for the IRBA RE exposures
multiplied by 2.63

Tax: past

2015

2011

Tax: past



2012 : New Annual Tax 70 mio
New FSC 178 mio

2014 : Increase rate Annual
taxes 200 mio

2015 : Limitation tax
deductions 100 mio
Introduction ESRF
250 mio



Tax: present

2016
taxes again
increased
with **55**
mio €



Tax: future



Tax: facing Challenges



Interest rate environment

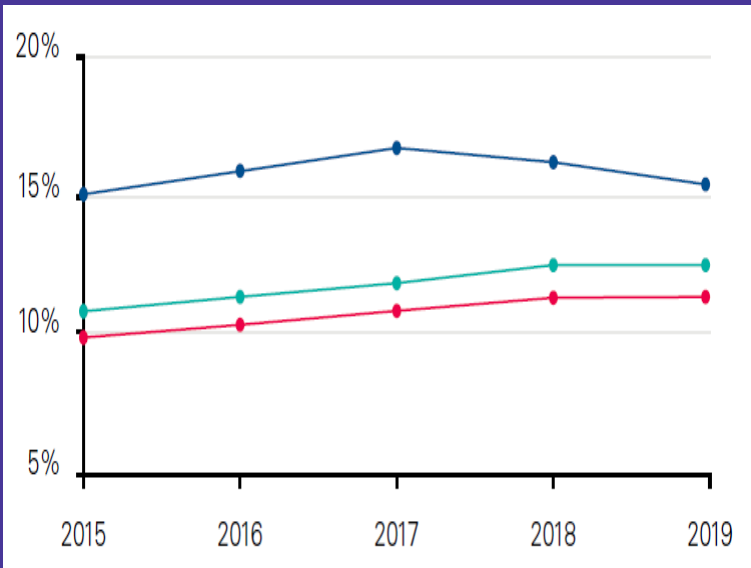


**NET
INTEREST
INCOME**

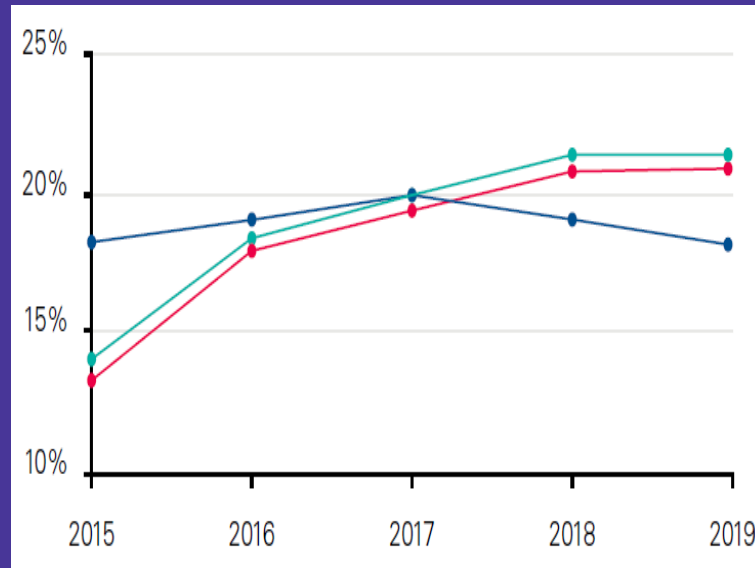
-4.5% yoy

Evolution of solvency ratios - basis scenario

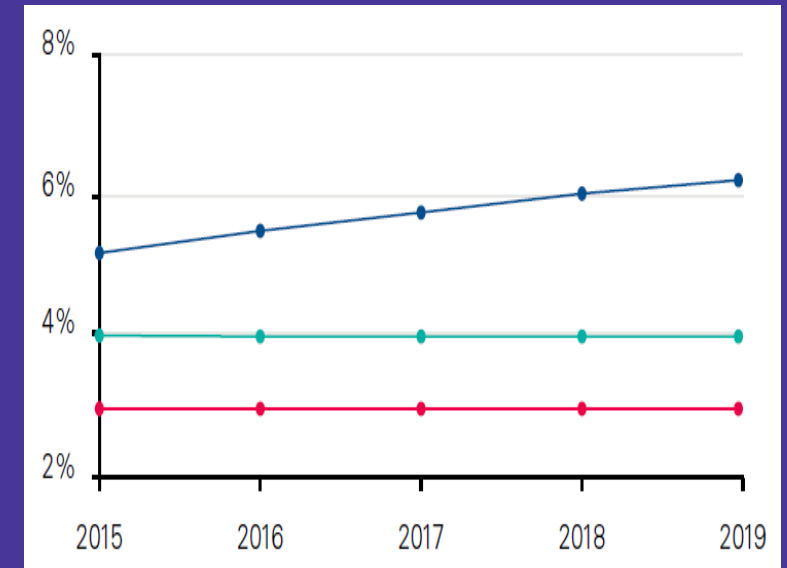
CET1 ratio



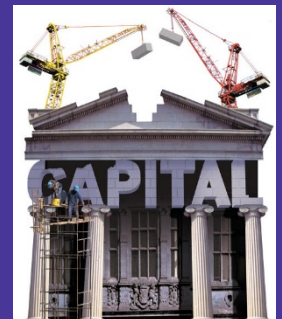
Total capital ratio



Leverage ratio

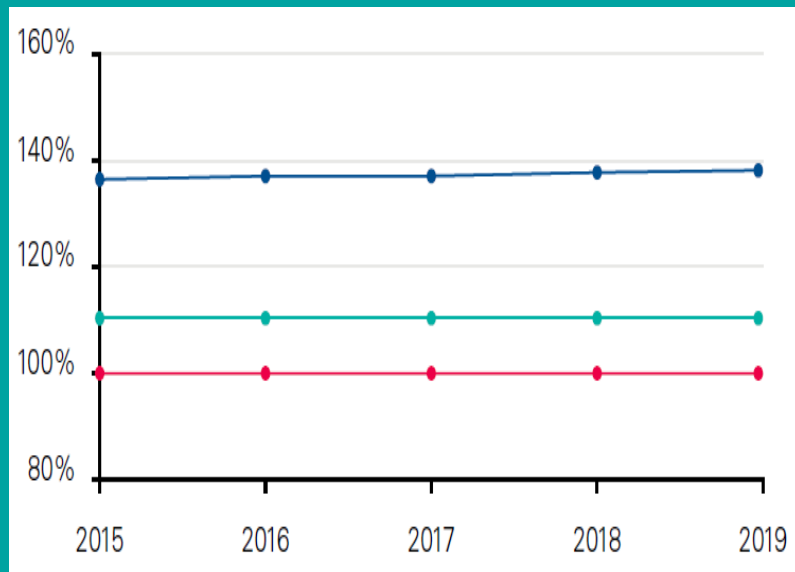


Minimum Target Forecasted ratio after impact of regulations and taxes

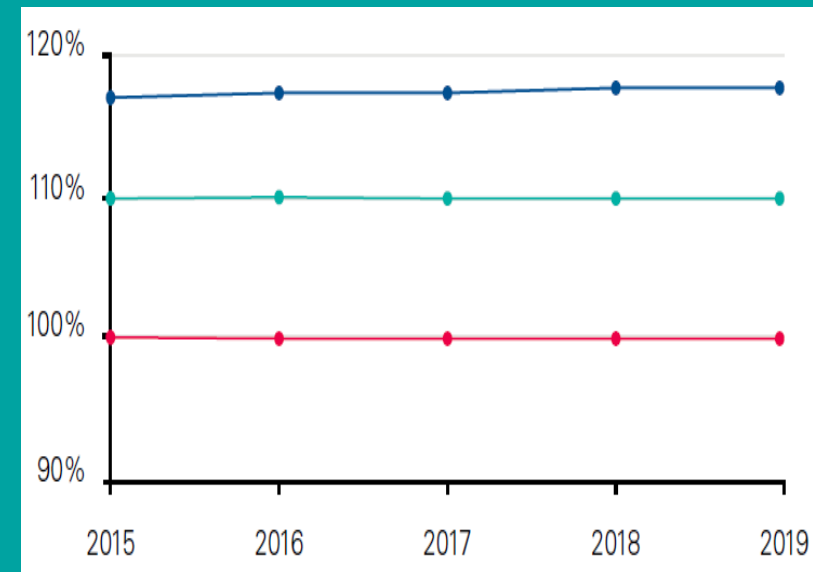


Evolution of liquidity ratios — basis scenario

LCR



NSFR

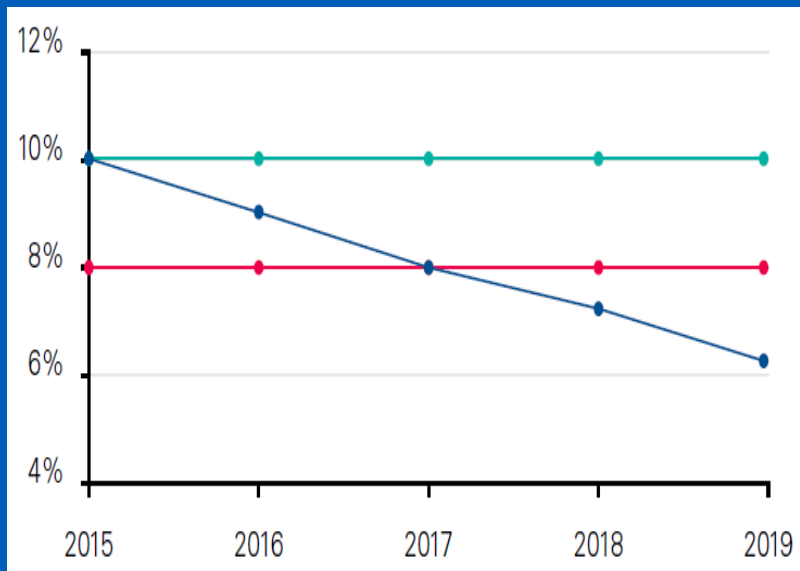


Minimum
Target

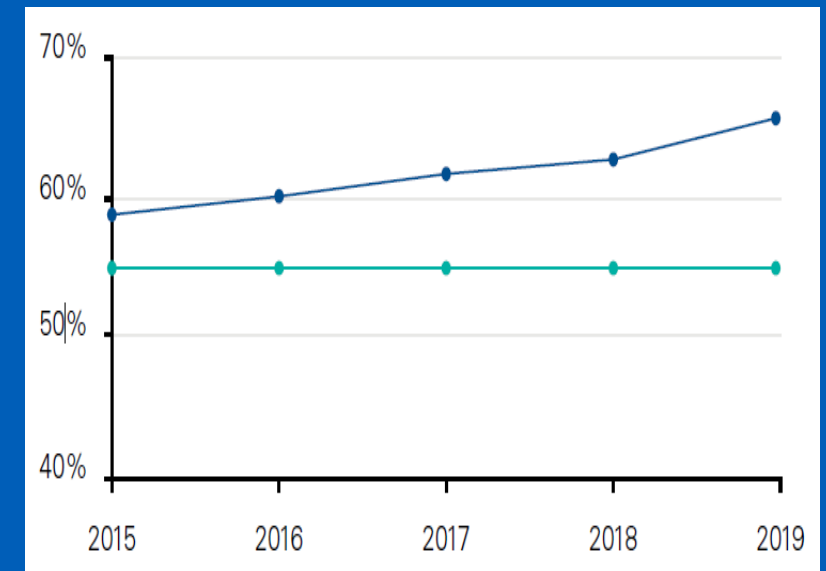
Forecasted ratio after impact of regulations and taxes

Evolution of profitability — basis scenario

ROE 



C/I
ratio 



Minimum ● Forecasted ratio after impact of regulations and taxes
Target ●



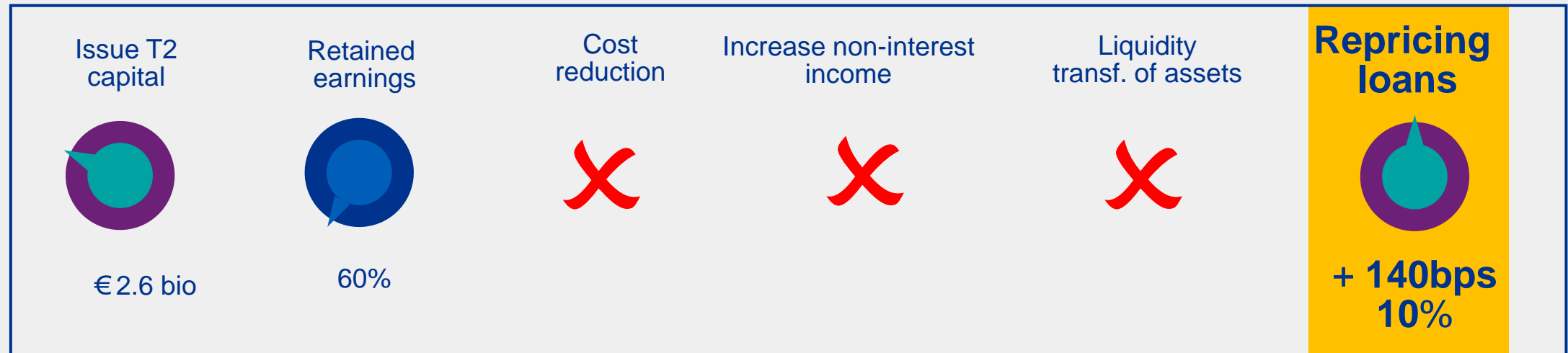
Cost of new regulations and taxes within a low interest rate environment

Options for intervention and their impacts

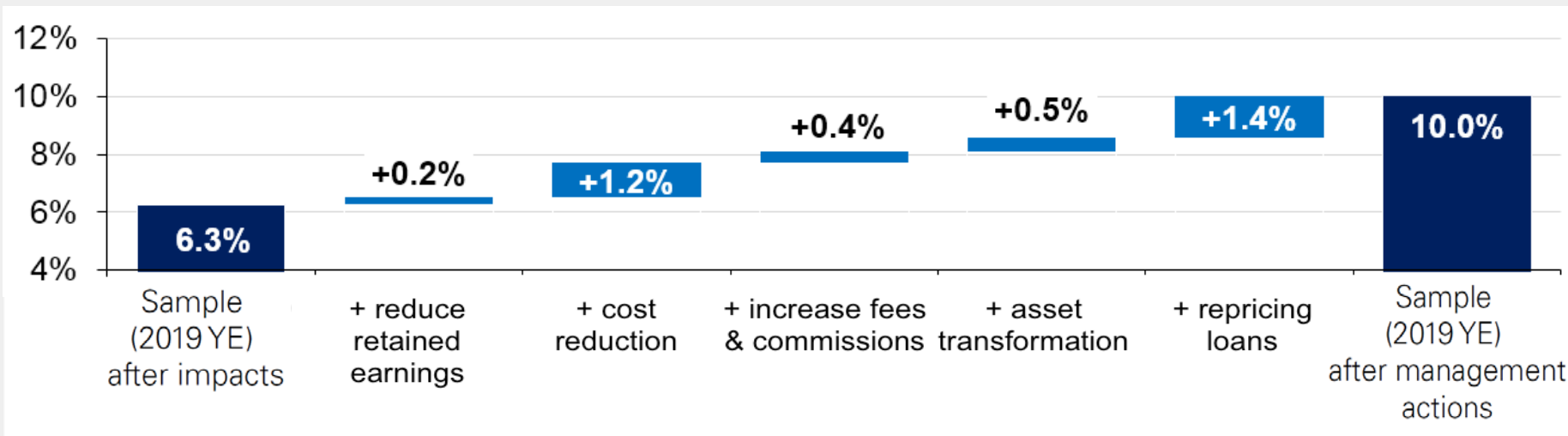
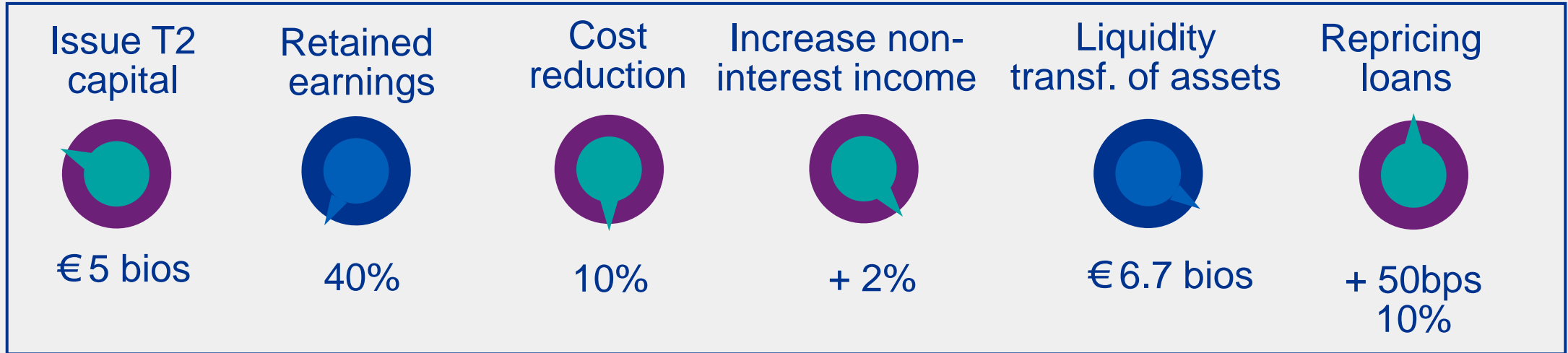
- Cost savings
- Repricing loans
- Generate extra non-interest income
- Liquidity transformation of assets
- Issue CET1/T2 capital
- Reduce distribution of dividends



What if only 1 management action?



Management actions to reach 10% ROE



ROE





The Interplay of Strategy, Regulation and Digitisation

Regulation: Volatile to say the least ...

Context: a lot to digest



FinTech: the Trees and the Forest



FinTech

1,042 Companies
\$15.1B Funding

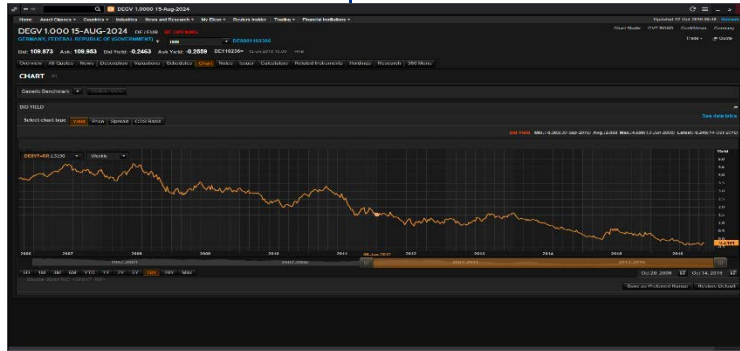
Contact
info@venturescanner.com
to see more

Venture Scanner

Regulation & FinTech: the bigger picture & MiFID

Context: What are banks' problems?

: What are banks answers?



Alternative Revenues (but MiFID?)

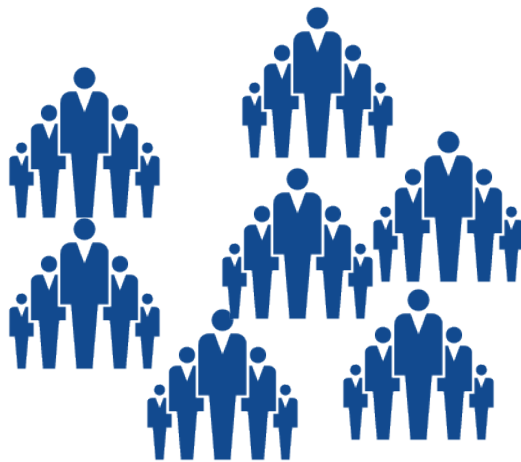


Digital Strategy

- Cost efficiency (Online advice; Robo Advice)
- Customer intimacy
- Direct Marketing



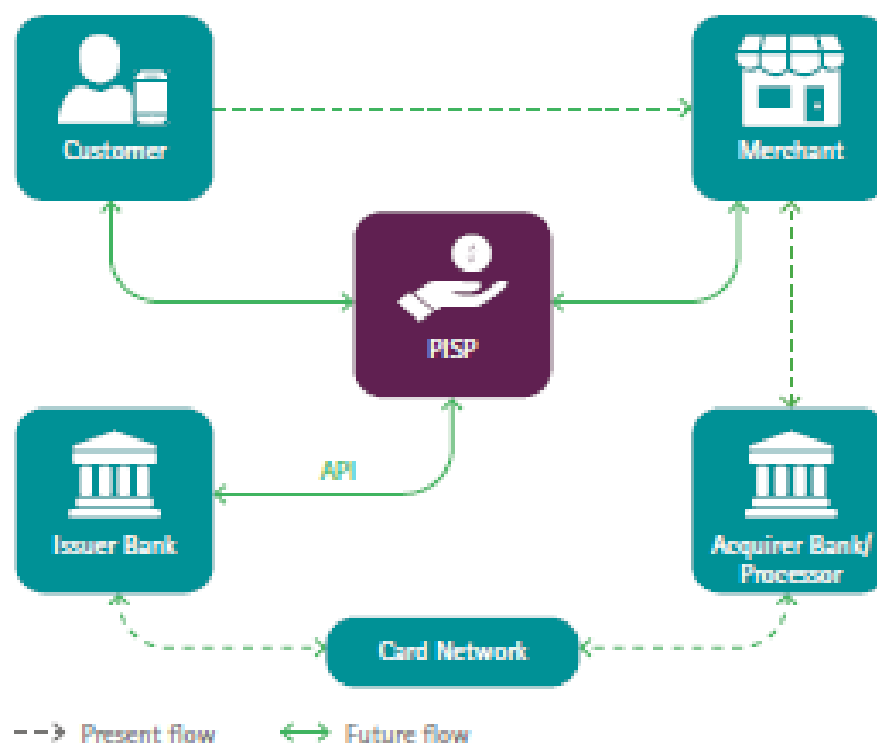
Data Analytics (Improved Segmentation)



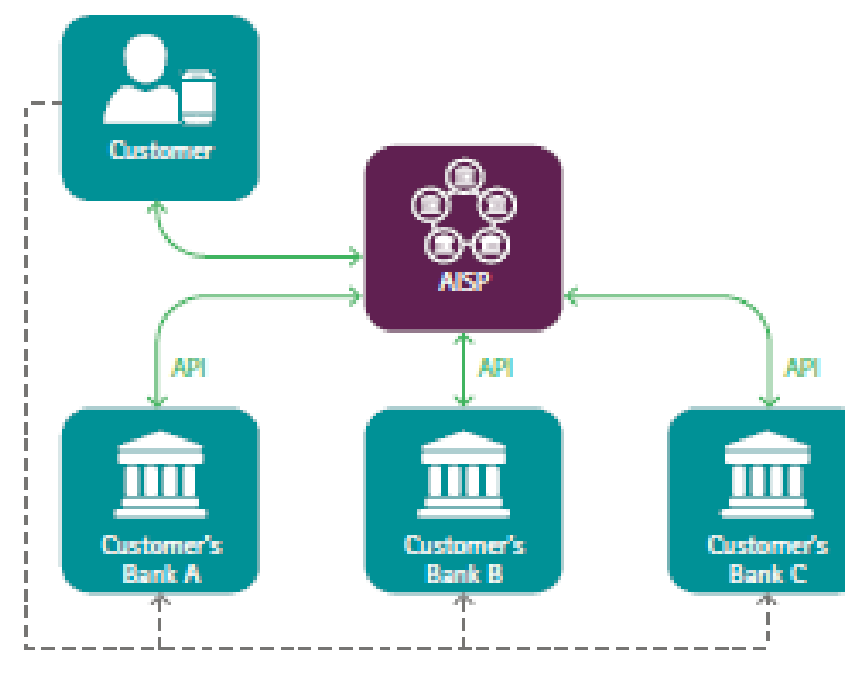
PSD2: katalyst to Open Banking – the API ecosystem

Illustration: PSD2 => boost to financial technology innovation & major Risk & Opportunity

AN UPDATED PAYMENT MODEL INCLUDING A PAYMENT INITIATION SERVICE PROVIDER (PISP)

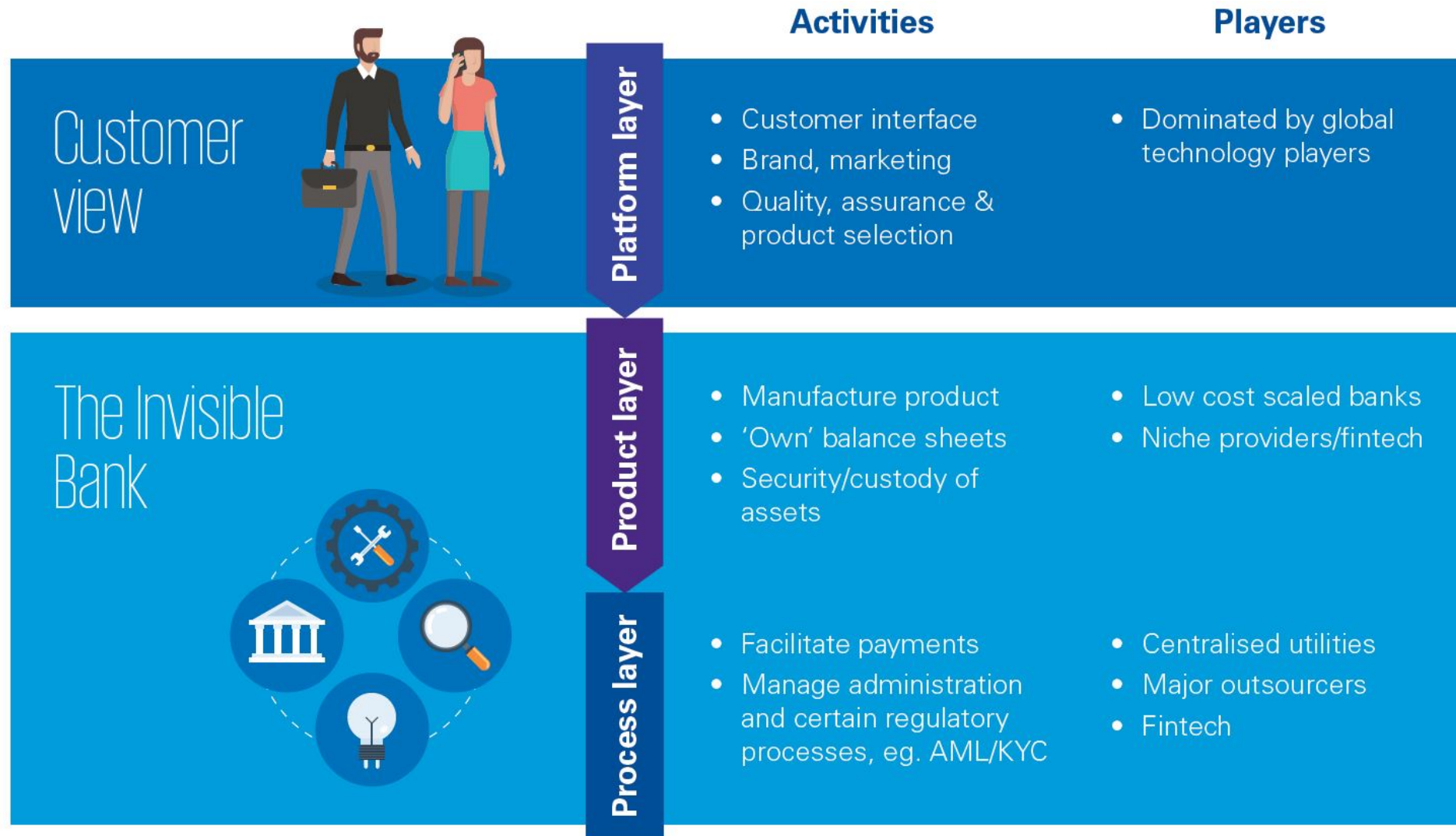


AN UPDATED INTERACTION MODEL INCLUDING AN ACCOUNT INFORMATION SERVICE PROVIDER (AISP)

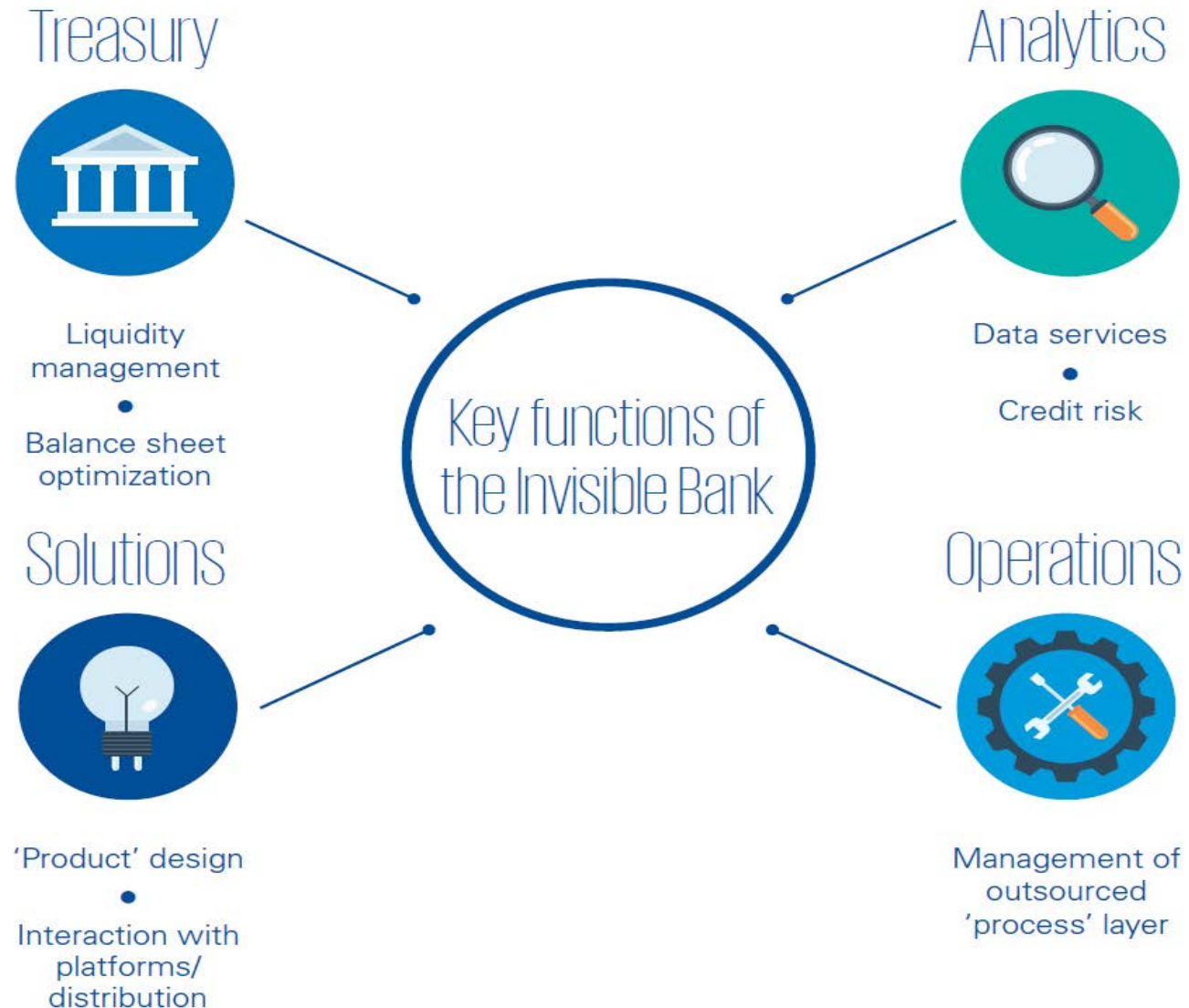


* PISP : Payment Initiation Service Providers
AISP : Account Information Service Providers

The invisible bank: Bank as a Platform



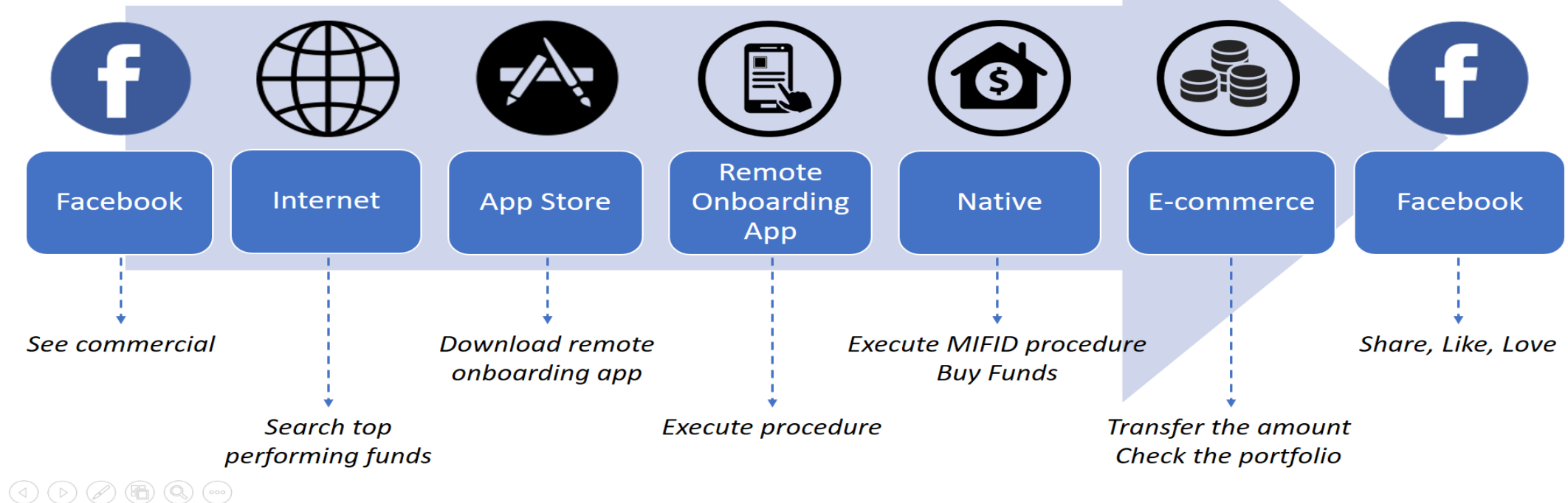
The invisible Bank: what this might mean for banks



A digital sales process

Customer Journey

Entirely assisted by the chatbot





Meet Eva

<https://home.kpmg.com/uk/en/home/insights/2016/10/meet-eva.html>

What just happened?

Hello John	Automatic voice and geo authentication (and an alarm call)
Get the train!	Payments data, calendar, useful information
Dad's birthday	Calendar, payments data, social media info
Portfolio rebalance	External market data and robo-advisory
Message from HR	Integration with employer systems and wealth

The key enabling technologies are here today

APIs



-RBS is opening up their APIs to 3rd parties to explore new features/services on top of their existing retail and business banking capabilities



-Monzo will integrate with TfL, Uber and Nutmeg

Voice Authentication



-HSBC uses voice authentication for its call centre to reduce customer authentication



-Monzo has integrated with Siri on Apple's iOS to offer payments by voice

AI



-RBS have launched an AI chatbot called Luvo for their SME customers



-Digital Genius offers AI technology to corporates including KLM, BMW and a London-based global bank

Big Data



-Starling bank analyse the data to forecast bank balances and warn prior to overdraft



-Hello Soda analyses 1000s of data points to provide real-time profiling/risk scoring

IoT



-Amazon echo and Google Home are already integrated with services such as Uber, with more features constantly being added

Conclusion



Thank you



Contact



Koen De Loose, Partner
Risk Consulting
KPMG Advisory
Avenue du Bourget 40
B-1130 Brussels
Tel +32.2.708.43.17
Mobile +32.496.70.65.33
kdeloose@kpmg.com



Filip Weynants, Director
Risk Consulting
KPMG Advisory
Avenue du Bourget 40
B-1130 Brussels
Tel +32.
Mobile +32.476.80.85.68
fweynants@kpmg.com



kpmg.com/socialmedia



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