

REMAIN RELEVANT IN CONSUMER PAYMENTS: LA COMPETIZIONE PER IL SISTEMA DEI PAGAMENTI IN UNA CASHLESS ECONOMY

SADIBA43

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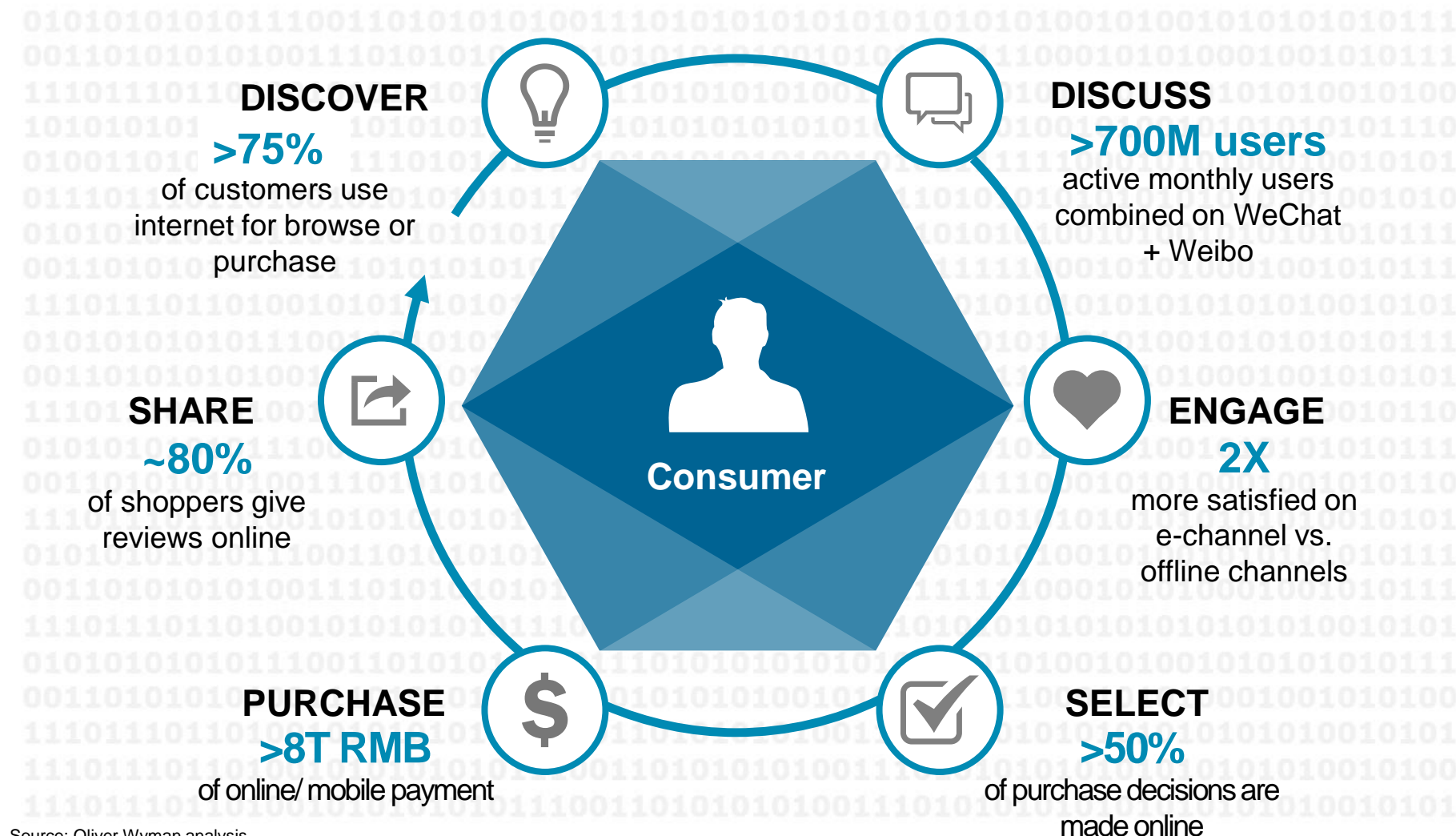
PAYMENTS ARE BECOMING THE COMPETING GROUND OF ALL RETAIL BUSINESSES. BANKS MUST EXTEND AND RETHINK THEIR FRONTIERS

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- The menace to financial institutions is not only bigtechs but rather the diffusion of their model to traditional players, as most retailers try to emulate their strategy and therefore increase competition on payments, as the gateway to client
- In order to protect their core business, banks need to extend the frontiers of their activities to avoid disintermediation and create new value for clients



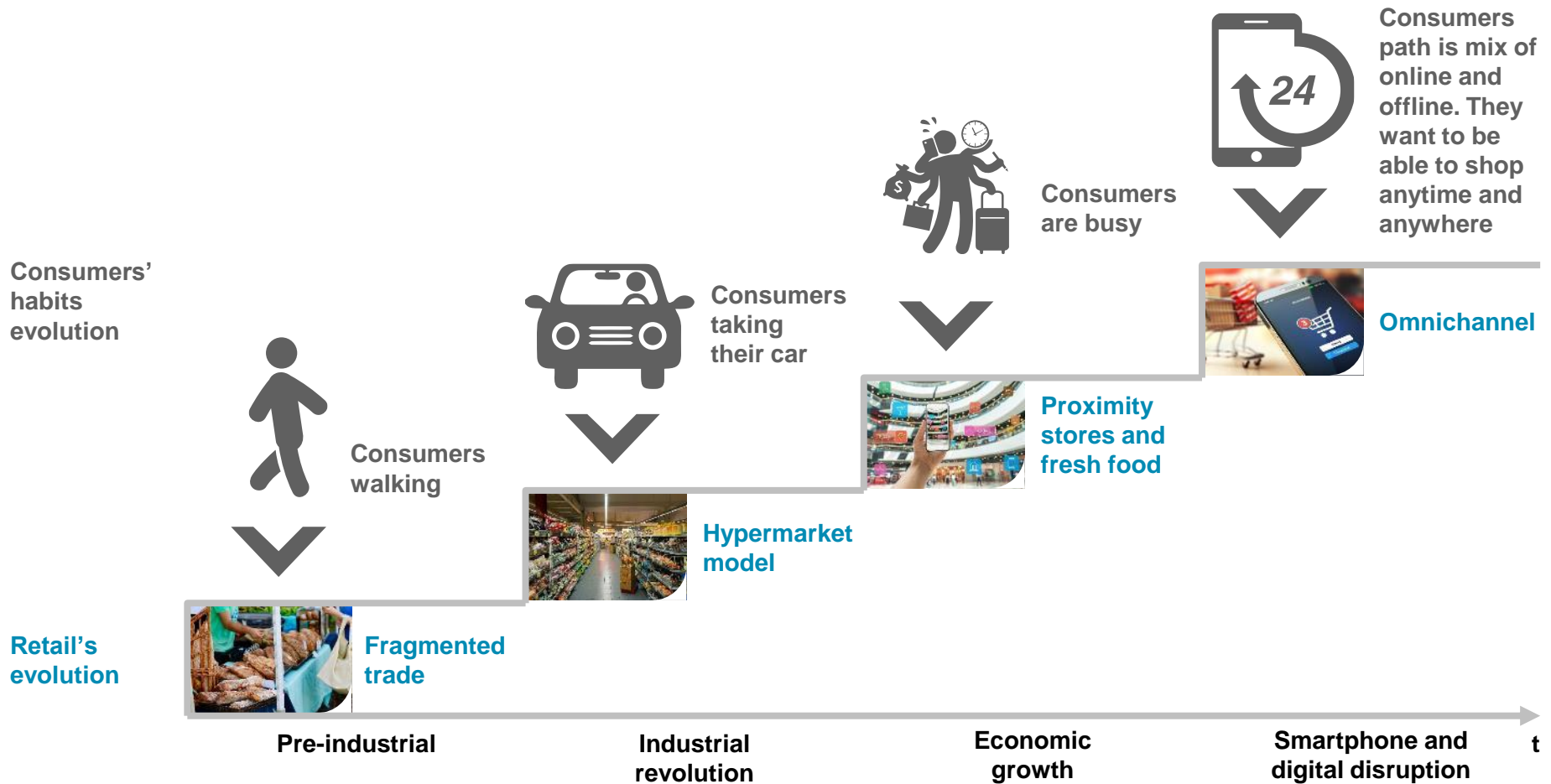
Today we look at China

Consumers in China are rapidly embracing the digital world in their daily life



Source: Oliver Wyman analysis

Western consumer are following the same path to omni-channel



Omni-channel is not just e-commerce

100% Off-line



- Experience
- Layout
- Proximity
- Convenience

Off-line – On-line



- On-line visibility
- Price coherence
- Simplicity

On-line - Off-line



- Rapidity
- Simplicity
- Safety
- Proximity / accessibility
- Assortment
- Quality / selection

100% On-line

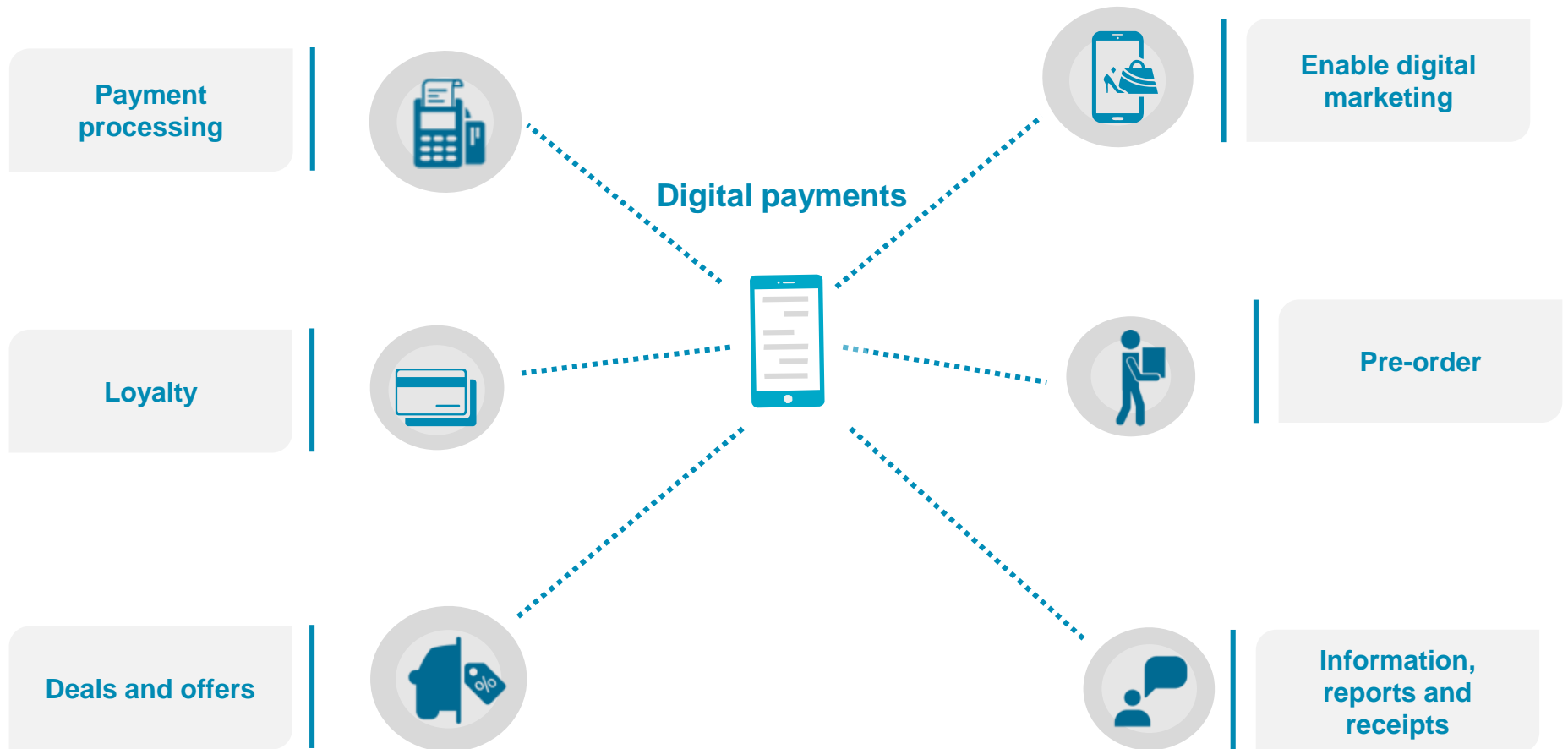


- Rapidity
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Digital payments are becoming invisibly embedded into consumers' increasingly connected lifestyles



Payments allow these players to generate very frequent interactions with their clients and to collect data which provide them with a « proxy of the client's life »

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Examples of new ecosystems – We Chat

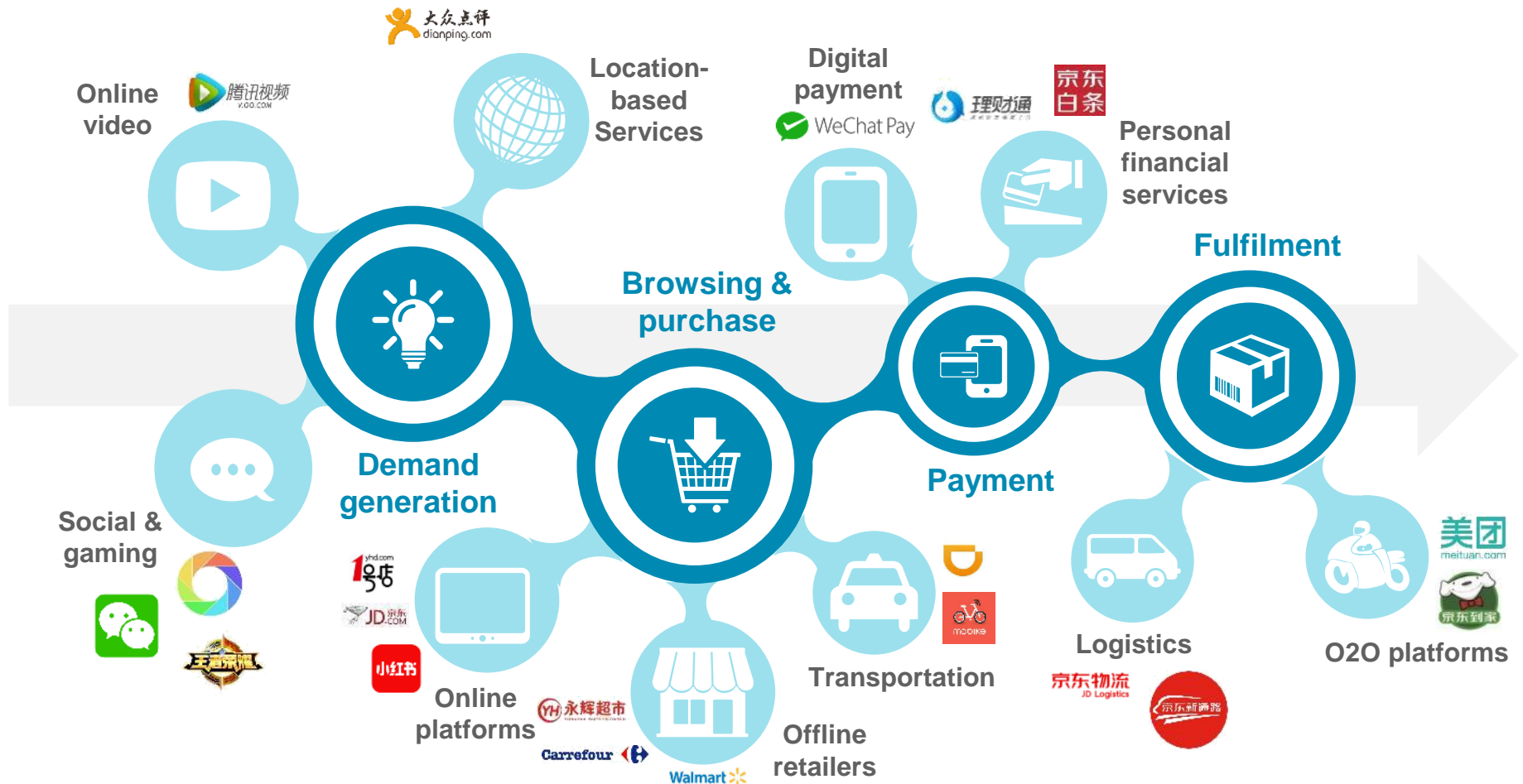
WeChat ecosystem enables a user to spend an entire typical day without leaving the WeChat app and its surrounding ecosystem



Payments for all services and transactions enabled by



Financial services are encapsulated in a broader client journey, which through its fluidity makes it captivating



Source: Desktop research, Oliver Wyman analysis

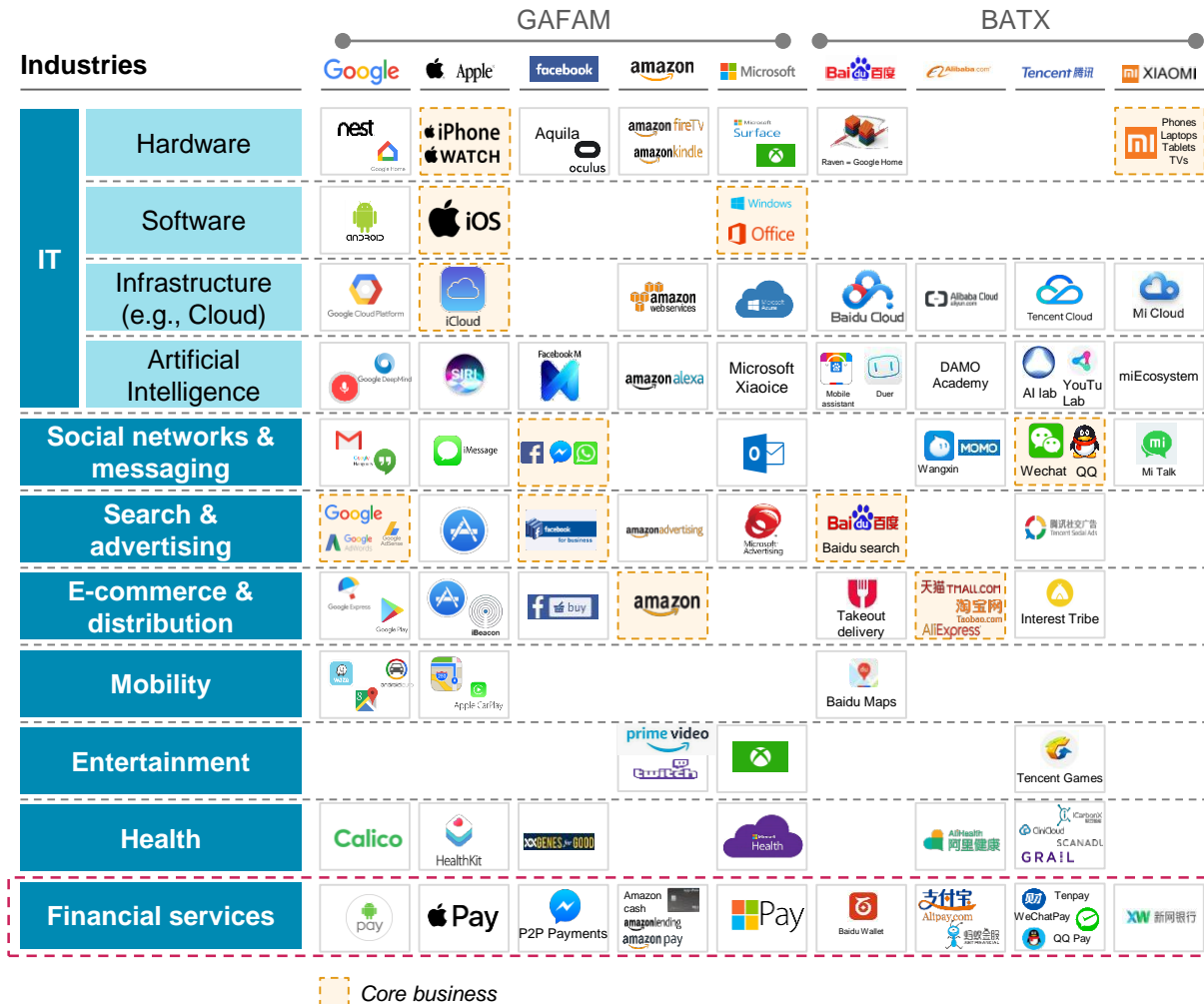
Examples of new ecosystems – Alibaba

Alibaba has built its ecosystem to capture consumer touchpoints - from knowing the customer, they are able to address all of his spend



As for the Chinese leaders, the aim of all GAFAM is to be at the heart of customer interaction in all areas

Mapping of GAFAM/BATX's presence in different industry



These players are now present in all payment use cases: e-com, face-to-face and P2P, by imposing new standards, margin reduction and new business models

Presence of digital players in payments

		GAFAM					BATX					Other players			
		Google	Apple	facebook	amazon	Microsoft	Baidu	Alibaba.com	Tencent 腾讯	XIAOMI	京东 JD.COM	PayPal	Uber	Square	Klarna
Payments	P2P														
	P2P FX														
	VAD / E-com														
	Proximity														

Existing offer

Presence in Europe

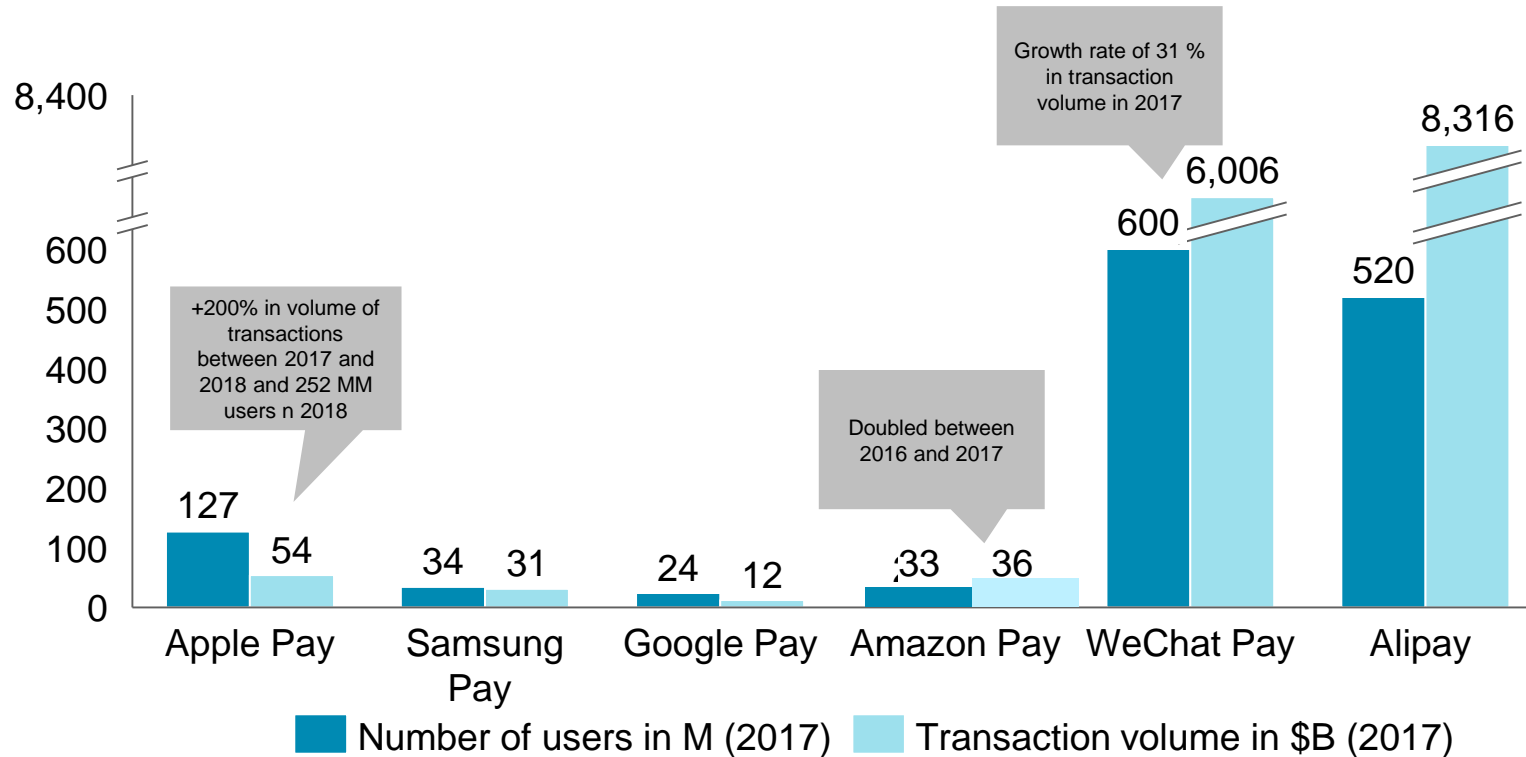
Significant volumes (worldwide)

Failures encountered

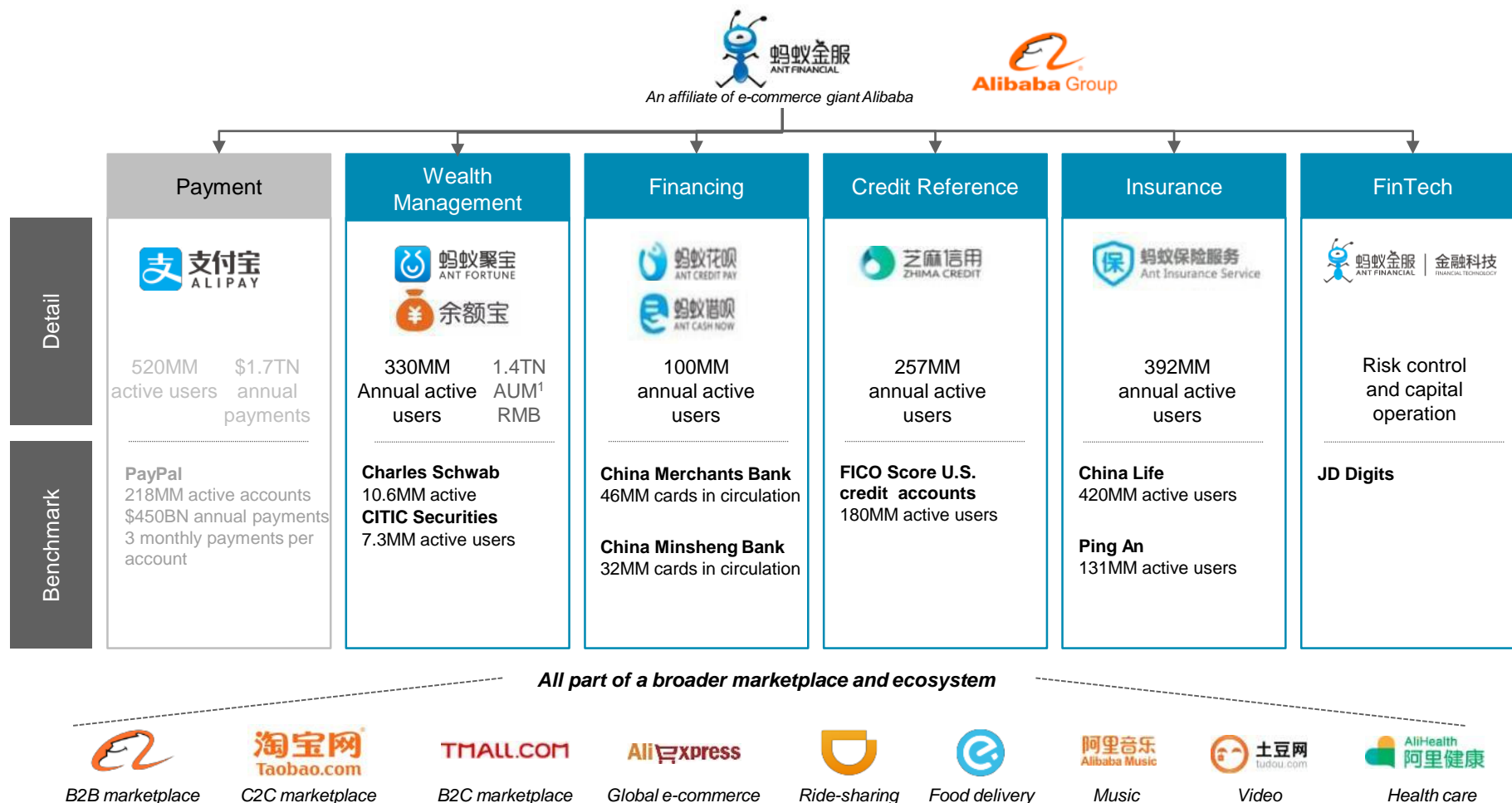
Sources: players' websites, press articles, research articles, Oliver Wyman analysis

They also dominate mobile wallets

Number of global users and global transaction volume of mobile payment solutions in 2017



Ant Financial started from a payment data, but then became a data business supported by many ancillary businesses



1. For Yu'E Bao

Source: Company filings, Bloomberg News: World's Biggest Money-Market Fund Can Grow More, Fitch Says, 8/17/2017

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Sonae MC is the leading multiformat omnichannel retailer in Portugal



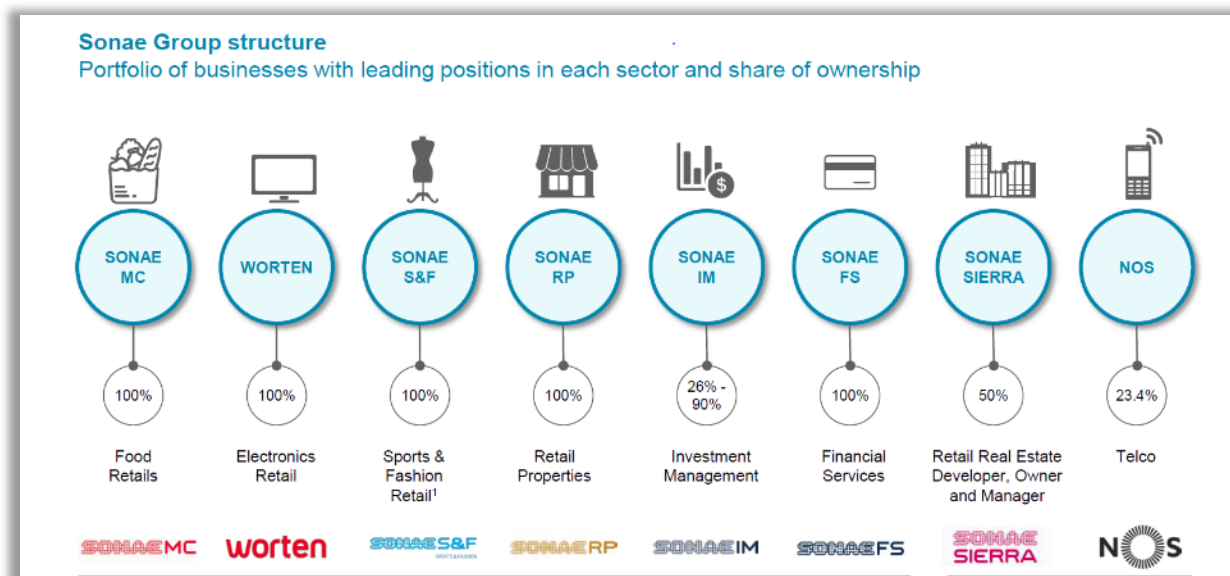
Leading market position

- #1 in Grocery retail
- #1 in Grocery retail e-commerce
- #1 in Healthy nutrition
- #1 in Para-pharmacies



Outstanding results

Group Sales 9M18
€4,236 M (+7,0% vs 9M17)



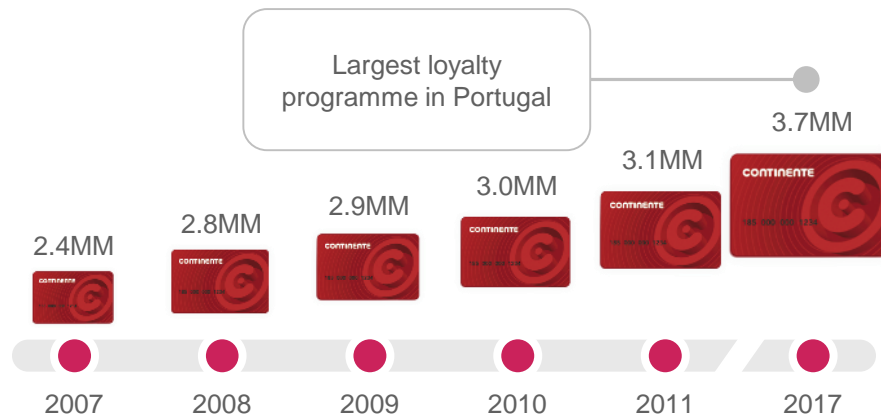
Sonae has built a full ecosystem in a off-line multi-channel world

And has built his own payments platform

A unique loyalty programme with an unrivalled customer database covering 85% of Portuguese household

Active loyalty accounts

With purchases in the last 12 months



Key features

~85% household penetration

~88% of Sonae MC sales performed using Continente loyalty card

SONAE MC



Selected partner brands²

Gas Stations



Media



Air Transport



Fast-food



Banking

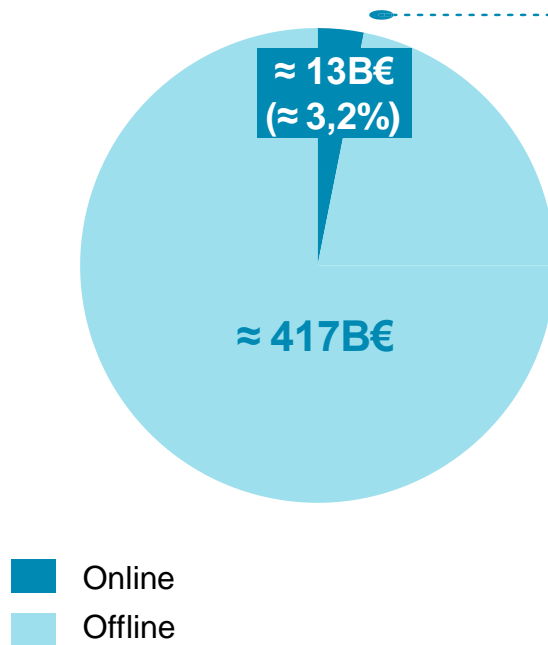


Fast-food

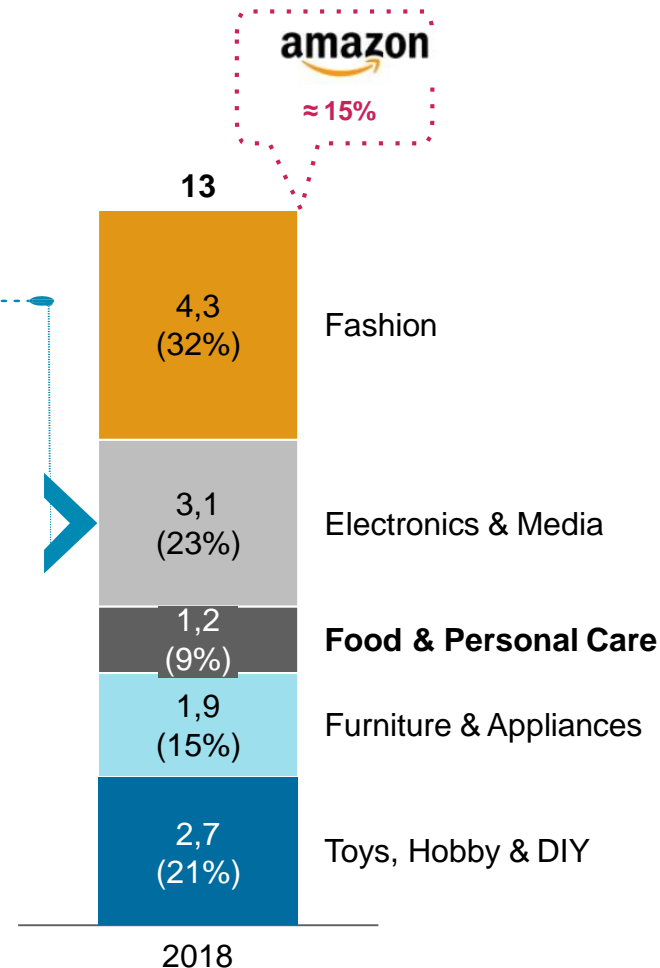


Online in Italy represents today ~ 3,2% of the total Retail market, expected to grow double digit

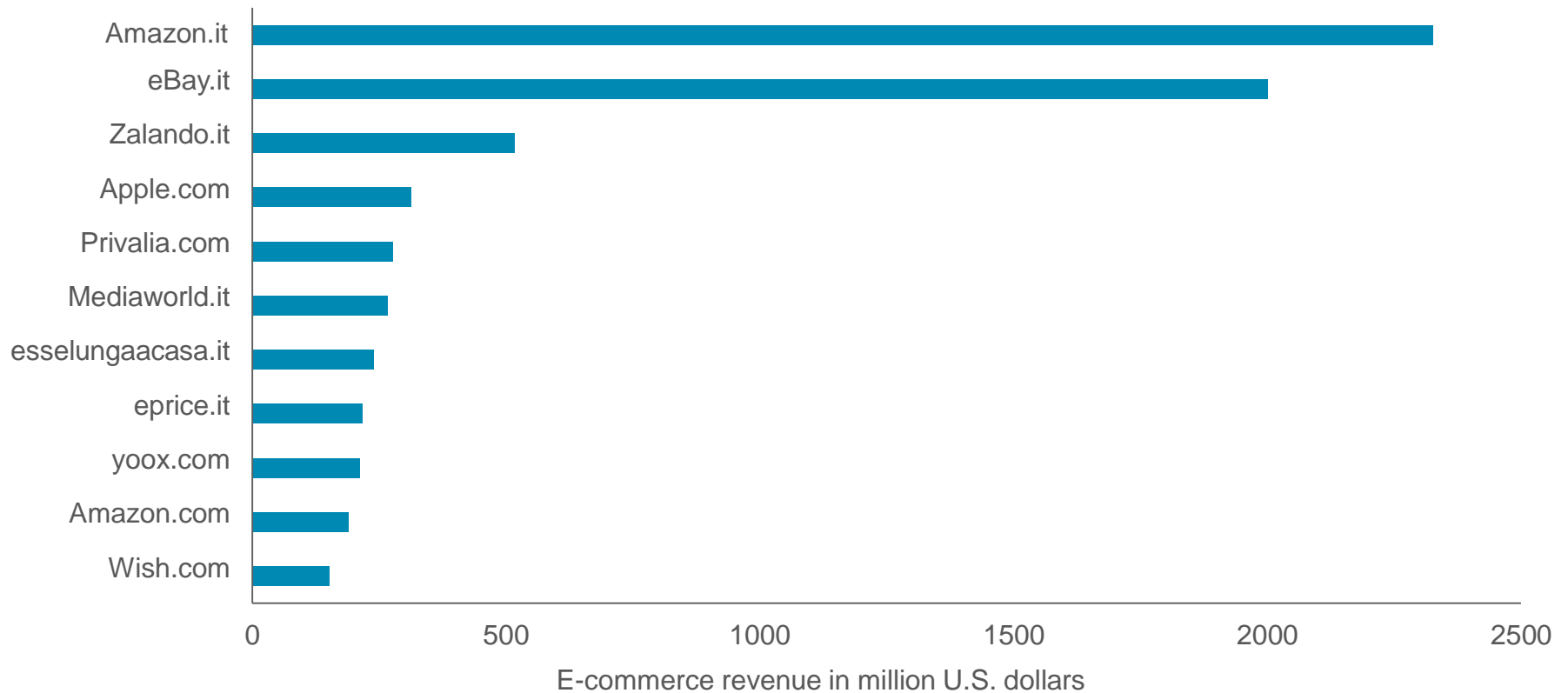
Italian Retail Market
(B€, 2018)



Online breakdown by category



Amazon and eBay dominate the Italian online market



Source: Statista

Note 1: 2018 Avg USD-EUR exchange rate, source: Statista (ECB)

Italian retailer consider payments as one of the key elements of their omni-channel strategy

Il ruolo dei pagamenti



I pagamenti sono l'**enabler** (ormai per definizione) del *retail* moderno

- Come sviluppare ulteriormente l'ambito dei pagamenti?
- Quale valore dei dati da cogliere per massimizzare l'impatto sulle vendite?

Il valore dell'analisi dei dati



Il *retail* moderno si sta spostando dal valore della rete al valore dei dati; e' possibile «possedere» il consumatore «possedendo» i suoi dati/ transazioni di acquisto

- Quale opportunità di costruire un centro di eccellenza nella gestione e analisi dei dati?

La necessità di un sistema IT a supporto



La costruzione di un modello **multicanale** richiederà uno sforzo significativo in termini di sistemi e capacità IT – una vera e propria trasformazione digitale


- Quale opportunità di sviluppare una vera e propria trasformazione digitale?
- Quale impatto e necessità di intervento sui sistemi?
- Quali capacità da sviluppare sulle risorse ad alto potenziale?
-

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Disintermediation is now a real and tangible risk for banks

Importance of the impact

Challenging the existing business model and squeezing margins	Loss of market share in historical business lines	Loss of control on customer relationship	Attack on the stability of the financial system & individual freedom
<p>-30% of revenue per transaction made via Apple Pay in France</p> <p>+280% of yearly growth of Apple Pay's transactions in 2016-2018</p> <p>▼</p> <p>The combination of both: ticking bomb for banks in the near future in payments</p>	<p>6% (\$ 95 bn) market share in consumer financing within 3 years captured by Ant Financial</p> <p>\$ 7.2 bn revenues from insurance in China for Zonghan JV of Tencent and Alibaba</p> <p>▼</p> <p>There is no reason why the same evolution would not happen in Europe</p>	<p>1BN active WeChat users, single front end for all digital activities in China including financial services</p> <p>Apple Pay has become de facto the biggest wallet of the Western world</p> <p>Amazon now offers SMB credits in the US and merchants do not dare to refuse</p> <p>▼</p> <p>Customers seem to adopt the big tech players everywhere</p>	

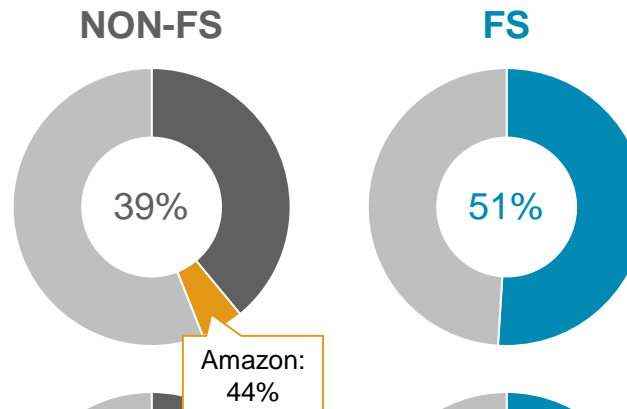
However the financial services industry still has critical assets to both thwart challengers and pursue new sources of value

Trust and security across industries

% of respondents that strongly agree

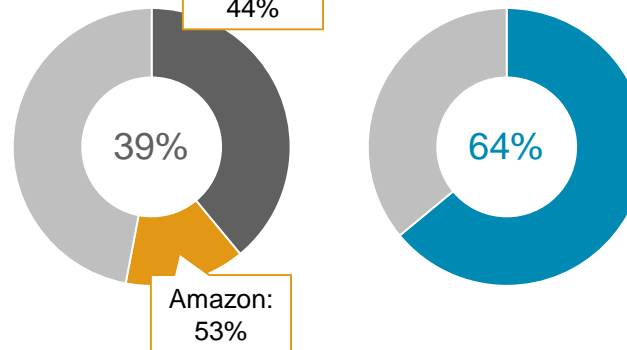
Trust

I trust my provider to act in my best interest



Security

My provider protects my personal information and any other assets in their care



Source: 2017 Oliver Wyman Global Consumer Survey, Oliver Wyman Analysis

In order to protect their core business, banks need to extend the frontiers of their activities, to avoid disintermediation and create new value for clients

To protect the core business as a priority ...

**THE BANK AS THE
CHAMPION FOR CLIENT
INTERACTION AND
PAYMENTS**
«UX & PAYMENT»

*A banking offering which is truly
covering all financial services
digitally while offering a leading
edge UX*

+

*Maintaining the control over 95% of
payments (“all-in” wallet)*

+

*...and to extend into new into real new areas of activities
...in the area of shopping, partnering with merchants*

THE AUGMENTED BANK
« THE SHOPPING PARTNER »

*Services around shopping like earning & burning loyalty, customized
coupons, to increase the purchasing power of consumers and the
business for merchant*

+

...in the area of client data, being a partner for their clients

THE AUGMENTED BANK
« THE DIGITAL PARTNER »

*Services around the management and protection of data, e.g. a
digital vault, eKYC, a “bank connect”, the life coach to secure and
accompany the client in its new digital journeys*

...supported by lobbying & communication

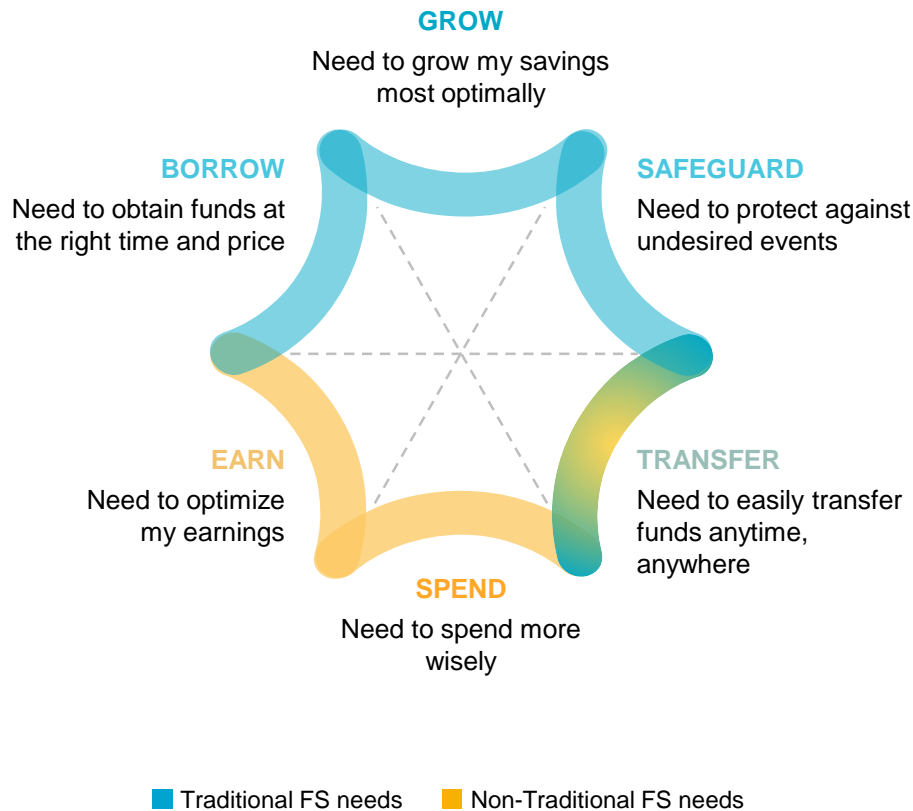
**POSITIVE
LOBBYING**

*Reinforced communication to the public and the regulator regarding the role of banks in providing
economic stability, security and protection of customer data, targeting also consumer associations,
merchants ; including also independent impact studies in order to outline the benefits of banks to the
whole market*

The Shopping partner: to improve financial lives banks should extend their offering to spend optimization

The Oliver Wyman Financial Needs Hexagon

FS firms have focused primarily on only 3 of 6 core needs



% improvement required to generate \$1,000 in income
US Mass Market: traditional products have far less impact

GROW \$30 Earned interest or dividends, and capital gains	3,300%	
BORROW \$6.5 K Interest payments on debt	35%	
SAFEGUARD \$3.5 K Insurance premiums	30%	
SPEND \$25 K Expenditures excluding debt and insurance payments	4%	Small percent improvements can have a sizeable impact
EARN \$33 K Wages after tax	3%	

% = Improvement needed
Category | Base amount (\$)

Source: US Survey of Consumer Finances by The Federal Reserve, US Bureau of Economic Analysis, Oliver Wyman Analysis

The Shopping partner: technological developments create an inclusive universe in which very different areas of daily life are interconnected, which banks could leverage

Schematic representation of the inter-connected areas of today's lives – from a customer perspective

