



Interview with Enrique R. O'Reilly, Head of Latin America, Temenos

## Retail banking trends in Latin America

In March – Temenos released an exclusive paper on the Future of Retail Banking, written by The Economist Intelligence Unit (EIU). The EIU, on behalf of Temenos, surveyed 242 global banking executives to investigate the views of retail banks on the challenges and changes they expect to face in the years to 2020 and how they are responding to them.

In addition, The EIU carried out in-depth interviews with 13 of the respondents, taking a cross-section of global, regional, and small and tightly-focused banks. The results were brought together in a thought-provoking paper that captures the issues facing retail banks around the world, from their own unique perspective.

[The full report can be downloaded here.](#)

To complement the report, we have conducted an interview with our Head of Latin America on his views of the future of the retail banking market in the region.

### **How does the LatAm retail banking market differ from the rest of the world, if at all?**

The LatAm retail banking market is actually not that different from the European and US retail banking landscape – in fact it's probably closer to the European model in the sense that you have universal banks that give you everything you want, from current accounts, mortgages, loans, investments and credit cards, like a one-stop shop. Technology trends are also similar – mobile banking being the biggest. Due to competitive pressures, it's now 100% necessary to deliver an omni-channel customer experience that is aesthetically pleasing, easy to use and offers the right service through the right channel quickly and easily. What is different is the growing emergence of Tier 4 or Tier 5 financial institutions designed to address the un-banked sector with basic lending products and the use of "corresponsales bancarios", which are small stores that double as branches.



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### **When it comes to branch strategies – are LatAm banks reducing their number of branches? Is this an area of investment for them?**

Branches are still a very relevant channel across the region – no one wants a bank with no branches. However we are seeing a growing trend for these "corresponsales bancarios" which are agreements with small commercial establishments to provide financial services on behalf of a bank. These provide customers with services such as money transfer, deposits, withdrawals and making payments. This approach gives reach and interaction with customers without the need to open new branches, and saves costs while giving customers the services they need. This is encouraged and supported by the governments as it gives the un-banked sector access to much-needed banking services.

### **You say the governments are supportive of these 'non-banks', which brings us onto the topic of regulation – how are retail banks affected by regulatory issues in the region?**

Regulations are a big factor across the world and that's no different in this region. International trends such as ISRS, FATCA and MIFID are all relevant here. All systems need to be ISRS compliant and local authorities need banks to be transparent, and, of course, any dealings with US money have to comply with FATCA rules as well.

In countries such as Chile and Mexico a local version of MIFID is also coming through, ensuring good selling practices are in place. This is to protect the investor and make sure the banks are aware of the individual's risk profile and his/her understanding of investments products, in order to provide them with good and relevant investment advice. With these increased regulations we are seeing a rise in the cost of compliance. As current systems need to be patched or changed to accommodate new processes, banks are realising that a modern system on a flexible architecture provides the best platform to accommodate all these changes. Most regional banks are now looking to replace their local and legacy solutions with a modern core banking system.

A growing area of interest in governance is social networks and how a bank can monitor what is said about them in social media, plus how they can use social media to interact with their customers, especially the increasingly savvy youth who often have multiple banking providers.

### **The UK is one of the only remaining countries in Europe where banks are not charging customers for holding current accounts – but this may be where they will find ways to increase profits in the future. Do consumers pay for their bank accounts in LatAm?**

This is varied across the region, however, regulation and practice protect the customer

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from charges because the governments are trying to get more people to bank, and therefore reducing fees for banking so that the market opens up to everyone. In Ecuador, it became a problem for some banks when the government made free access for customers obligatory. The banks needed to make changes to survive, and moved their practices into more profitable areas like corporate banking.

***So with the increasing numbers of people using banks and other banking services, how is the user experience evolving? And do customer expectations match those of other areas of the world where customers are increasingly demanding?***

Yes, banking to the masses is being coupled with new channels to communicate with customers. Mobile banking is growing as most adults have a mobile phone; there is also a new wave of internet banking, with better user experiences being required. Many banks are investing heavily in their overall user experience and want to provide customers with a unified experience regardless of where they are coming into contact with the bank – be it an ATM, kiosk, or on a tablet or mobile phone. The challenge is to adopt a multi-channel platform that can easily adapt to different types of devices (different-sized screens, etc.) and browser technology.

***Where is the biggest competitive threat coming from for LatAm retail banks?***

In recent years, there has been a trend for international banks, from the US, Canada and Spain mainly, buying banks in Latin America.

People thought this would destroy local banking, but this has not been the case – local banks are re-emerging and re-acquiring customers. The interesting thing we have seen is that now competition is global, Latin American banks have been fighting back, investing in new technology to achieve a competitive edge.

Some local banks are still struggling to keep up due to their core systems being outdated. Working with systems 10-20 years old, they are not able to innovate and provide new products quickly. But a new trend of replacement is coming. Banks truly need to update their core and are reaching out to the global software leaders. Banesco in Venezuela is a case in point, with the bank recently achieving economies of scale by upgrading its technology to the same modern and flexible platform across its operations in various countries, and now it's buying up banks in Spain.

These banks have aggressive growth plans; they understand they have to purchase the best software to give them the agility and product innovation they need to succeed, especially to compete with the global players.

***Are larger, non-financials, such as retailers Tesco and Amazon, considered a threat in your region?***

Customers are definitely as fickle in Latin America as they are in other regions – and therefore are looking to switch banks if new special offers or better service is available.

Banks need to keep customers happy to retain them, to ensure that their experience is always a positive one. However, given the universal nature of banking in the region, the stickiness is high, since most clients will have several products with their main bank. In Mexico, Walmart launched a banking operation a few years ago, but has not been as disruptive as expected. Another retailer, Grupo Elektra, after almost 50 years of experience in consumer financing, launched Banco Azteca with much success, as it has already expanded to various other countries in Latin America. New payments systems are also not a big threat – payments infrastructure is quite advanced, and you can pay by phone or portal to anyone you like with a unique number, meaning easy electronic payments. No big incumbent can offer that convenience as a differentiator, as customers already have it. 

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