VERDICT WWW.RETAILBANKERINTERNATIONAL.COM ISSUE 746 / FEBRUARY 2018

RETAIL BANKER INTERNATIONAL

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Generally a positive 2017, although Barclays has endured a year to forget

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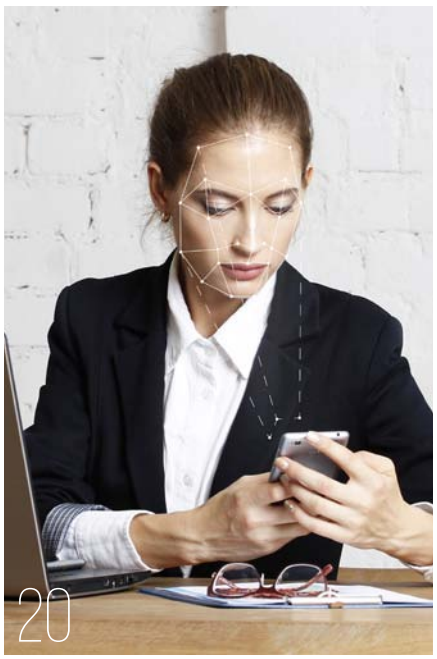

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Financial News Publishing, 2012. Registered in the UK No 6931627. ISSN 0956-5558

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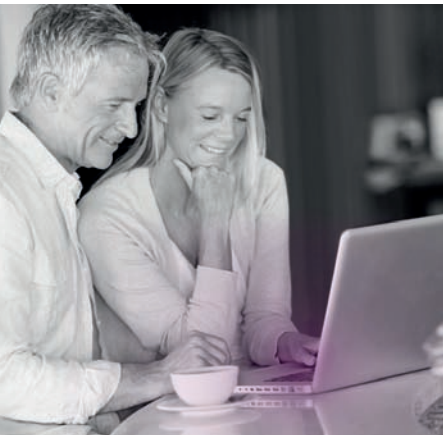

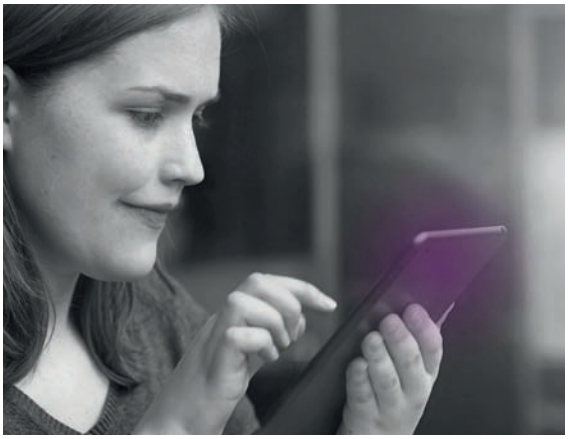

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2017 UK BRANCH CLOSURES REACH 1,100 OUTLETS

Douglas Blakey, Editor

UK branch closures announced for 2017 total almost 1,100, with RBS Group accounting for more than 500 of them.

Of the major UK banking brands, NatWest has been the most aggressive branch closer with 403 outlets slated to close: NatWest ended 2016 with 1.058 outlets in England and Wales. It will enter 2018 with 655 branches saved from the axe.

Sister brand Royal Bank of Scotland ended 2016 with 193 branches in Scotland; the latest closures mean that it will shrink to a mere 89 Scottish branches, a net reduction on the year of 104 units.

Attention will now turn to Lloyds Banking Group (LBG), where total branch closures announced in 2017 total 244 units. In Scotland, its network under the Bank of Scotland brand inched down in 2017 by 35 from 241 to 206, way ahead of RBS's 89 and Clydesdale with 71, a net reduction of 40 on the year.

Main LBG brand Lloyds ended 2016 with 1,140 branches and will end 2017 with 967, a net reduction of 173; subsidiary Halifax has reduced from 657 to 621, a net reduction of 36. Inevitably, there will be speculation that in early 2018 a further wave of LBG brand branch closures will result across all of its three brands.

By brand, Barclays remains the largest bank by branches; it ended 2016 with 1,309, and ended 2017 with a modest net reduction of 72 units to 1,237 outlets – again, further significant closures at Barclays is a safe 2018 forecast.

The only other notable net reduction in numbers is at HSBC, down a net 123 units on the year, reducing from 748 to 625 branches. Santander inched down by 23 from 841 to 818, while Cooperative dropped a further 10 branches from 105 to 95.

TSB has inched down by 29 net units during 2017 to end the year with 559 units; TSB insiders have spoken privately of its network settling down in the medium to long term in the 300-400 branches range.

Speculation is also inevitable that RBS will announce a major round of closures of its RBS-branded branches located in England, and NatWest branches in Scotland. Originally intended to be spun off under the Williams & Glyn brand, the branches totalled 327 units, comprising 321 Royal Bank-branded branches located in England and Wales and six NatWest-branded branches situated in Scotland.

By 2015, the number had shrunk modestly, to 314 branches in total; by 2016 the plan was for W&G to list on the London Stock Exchange with a 307-strong branch network serving about 1.4 million retail customers and more than 200,000 SME customers. That 307-branch figure has, in the interim, shrunk to below 300.

Now that RBS has accelerated plans to rightsize its Royal Bank-branded branches in Scotland and aggressively shrunk its NatWest branded branches in England and Wales, it will turn its attention to the RBS-branded branches in England.

It is difficult to envisage RBS wanting to rebrand almost 300 Royal Bank-branded branches in England and Wales under the NatWest banner. ■

UK BRANCHES BY BRAND 2016-2017

	END 2016	END 2017	NET CLOSURES 2017
Barclays	1,309	1,237	72
Lloyds Bank	1,140	967	173
NatWest (in England and Wales)	1,058	655	403
Santander	841	818	23
HSBC	748	625	123
Nationwide	691	680	11
Halifax	657	621	36
TSB	588	559	29
Bank of Scotland	241	206	35
Handelsbanken	207	207	0
Royal Bank of Scotland (branches in Scotland)	193	89	104
Yorkshire Bank	137	99	38
Clydesdale Bank	111	71	40
Cooperative Bank	105	95	10
Virgin Money	73	73	0
TOTAL NET CLOSURES 2017			1,097

Source: RBI

GET IN TOUCH WITH THE EDITOR AT: **DOUGLAS.BLAKEY@VERDICT.CO.UK**

MARKET CAPITALISATION: A TORRID YEAR FOR BARCLAYS

2017 has generally been a positive year for the world's largest 100 banks by market cap, with share price rises for the year to date at 87 banks. The worst performer of the world's 100 largest banks is Barclays, which has endured a year to forget. *Douglas Blakey* reports

Barclays' shareholders must be a remarkably patient bunch. Just how long do they give CEO Jes Staley and chair John McFarlane to turn things around?

For the year to 7 December, Barclays' share price is the worst performing of the world's largest 100 banks ranked by market cap, down a whopping 14.6%. Market sentiment to Barclays is so negative that the shares are trading at only 0.7 times tangible net asset value.

Staley has ignored calls from a number of analysts to axe the bank's underperforming investment bank division, and has instead ramped up investment in the unit and installed a new leadership team.

Will 2017 mark "the trough for Barclays" as Merrill Lynch argued in a note to clients in November? It is way off a number of targets set by Staley and McFarlane.

Barclays set itself a target of a 10% return on tangible equity, but as leading bank analyst Ian Gordon of Investec tells *RBI:* "Investment banking revenues have been soft all year, and the fourth quarter of 2017 will surely be no different. The outlook for 2018 appears – at best – uncertain."

Gordon adds: "2018 was always billed as Barclays' recovery year, in large part because substantial non-core losses are non-recurring and structural spend should start to trend lower. There are still some 'baked in' cost efficiencies within the investment bank to flow through.

"Taken together, these point to a step-up in reported earnings – and potentially in dividend-paying capacity – but to be clear, returns will remain well below cost of equity."

McFarlane has been in fire-fighting mode since his appointment as chair more than two years ago. One of his first acts as chair was to fire chief executive Antony Jenkins in July 2015.

McFarlane wanted an investment banking specialist to lead the bank – the investment banking arm made the weakest returns of all the bank's units in 2014 – so McFarlane turned to Staley with a brief to reform Barclays' investment bank.

At the time of McFarlane's appointment as chair in April 2015 Barclays' share price was around £2.60 ($3.50). At the time of Jenkins' dismissal, McFarlane was reportedly telling his senior colleagues that he intended to slash costs, restructure the bank and double the share price within three years.

McFarlane became executive chair of Barclays following the axing of Jenkins for the period until Staley assumed the role of CEO in December of 2015.

As soon as he assumed his role, Staley bought more than two million Barclays shares; by then the share price had dipped to £2.30. The shares now trade, as of 7 December, at £1.92 following a series of setbacks during 2017, including Staley's ham-fisted efforts to unmask an internal whistleblower in the first quarter.

The second quarter of 2017 included more negative PR such as the Serious Fraud Office charging four former Barclays' executives with offences after a five-year investigation into Barclays' £11.8bn emergency fundraising in 2008.

Other distractions include charges from the US Department of Justice relating to alleged mis-selling of mortgage bonds a decade ago.

Says Gordon: "On conduct, there is a general assumption that Barclays will ultimately settle with the US DOJ, but terms and timescales are uncertain. This is probably Barclays' largest single unprovided item."

Looking ahead, Gordon describes performance within the bank's UK retail unit as "broadly stable, if not spectacular".

Further significant restructuring costs and cost-saving within Barclays' UK branch network can safely be forecast, albeit on a more modest scale than witnessed in the past two years.

Having sold off its African unit and exited European retail banking operations, headcount at Barclays has reduced by more than 50,000 during Staley's tenure.

As reported by *RBI* in November of this year, Barclays will end 2017 with a UK branch network of 1,237 outlets, down by a net 72 during the year.

2006 MARKET CAPITALISATION

RANK	BANK	MARKET CAP $BN	RANK	BANK	MARKET CAP $BN
1	Citigroup	230.9	51	Bank of New York	26.4
2	HSBC	193.3	52	Capital One	26.3
3	Bank of America	184.2	53	SunTrust	26.1
4	JPMorgan Chase	144.1	54	Riyad Bank	25.6
5	Mistubishi UFJ (MUFG)	143.0	55	Kookmin	25.8
6	Wells Fargo	107.8	56	Commerzbank	23.9
7	RBS	106.4	57	CIBC	23.5
8	UBS	105.6	58	Danske	22.4
9	China Construction Bank	104.9	59	Golden West	21.9
10	Mizuho	93.8	60	BB&T	21.7
11	Santander	91.3	61	Fifth Third	21.5
12	Wachovia	88.4	62	National City	21.4
13	ING	81.4	63	BOC Hong Kong	21.3
14	BNP Paribas	77.7	64	State Street	20.8
15	Sumitomo Mitsui	76.2	65	Allied Irish	20.7
16	Barclays	76.0	66	Banco do Brasil	20.6
17	UniCredit	75.9	67	PNC	19.9
18	HBOS	71.2	68	Capitalia	19.6
19	Merrill Lynch	70.7	69	Isbank Turkey	19.0
20	BBVA	69.1	70	Akbank	18.3
21	American Express	66.8	71	Erste	18.2
22	Morgan Stanley	63.1	72	Bank of Ireland	18.2
23	Goldman Sachs	61.8	73	Handelsbanken	17.4
24	Société Générale	61.4	74	Sumitomo Trust	17.2
25	Credit Suisse	60.1	75	First Rand	17.0
26	Deutsche Bank	57.4	76	National Bank of Greece	16.6
27	US Bank	56.2	77	Banco Popular Spain	16.3
28	Crédit Agricole	54.7	78	DNB	16.2
29	ABN Amro	54.7	79	Woori	16.1
30	Lloyds	54.3	80	Regions	15.9
31	RBC	53.7	81	Arab Bank	15.8
32	NAB	42.9	82	Montei dei Peschi	15.7
33	CBA	42.9	83	Standard Bank	15.4
34	Washington Mutual	42.4	84	Keycorp	15.2
35	Dexia	41.5	85	DBS	15.2
36	Scotiabank	41.5	86	SEB	14.7
37	Toronto Dominion	41.1	87	UOB	14.4
38	Intesa	40.9	88	Itausa	13.9
39	Resona	40.8	89	ForeningsSparbanken Sweden	13.7
40	Bradesco	40.2	90	Unibanco	13.2
41	KBC	37.3	91	OCBC	13.1
42	ANZ	34.9	92	M&T	12.7
43	Standard Chartered	33.9	93	Shinhan	12.6
44	SanPaolo	32.9	94	EFG Eurobank Greece	12.5
45	Westpac	32.8	95	ICICI	12.3
46	Sberbank	30.5	96	Mitsui Trust	12.2
47	Bank of Montreal	30.3	97	North Fork Bancorp	12.2
48	Nordea	29.3	98	Raiffeisen	11.9
49	UBS	28.0	99	St George Bank Australia	11.6
50	Bank of Communications	27.8	100	Northern Trust	11.5

Source: *RBI*

By contrast, more aggressive branch rightsizing has been taking place at Lloyds, which is down by 173 branches to 967 outlets. Rival brand NatWest ends 2017 with 655 down by a net 403 during 2017, while HSBC has closed 123 units to end the year with 625 branches.

Concludes Gordon: "Capital was largely fixed in 2017 – and receives a further small lagging top-up from the Barclays Africa sale – and some costs and non-core losses drop out in 2018, but the revenue outlook still appears challenging. The investment case hangs on the fact that Barclays appears 'cheap' on 0.7 times 2017e tNAV, and has the capacity to become 'less cheap' over time."

Gordon set a target price for Barclays of £2.35 – realistic but hardly exciting and no more than getting back to the share price on Staley's first day in his role.

PRE-CRISIS VERSUS TODAY

At the end of 2006, Citi ranked top by market cap (see table on page 7). Despite a strong performance for the year to date with its share price more than 25%, its market cap has not yet returned to its pre-crisis level.

At HSBC, its market cap has only now recovered to its pre-crisis level of around $193bn. In the intervening years, HSBC has slipped from second to rank eighth by market cap. By contrast, market caps have more than doubled at JPMorgan Chase and Wells Fargo, now ranking first and fourth respectively.

The other obvious change since the end of 2006 is the presence of China's four largest banks in the top 10; pre-crisis, only China Construction Bank featured in the top 10.

Other notable risers include the major lenders in Canada and Australia. Royal Bank of Canada makes the top 10 now for the first time in its history, up from 31st pre-crisis; Toronto Dominion features at number 12 (37th) with Scotiabank 24th (36th).

In Australia, three of the big four banks have risen with CBA now 14th (from 33rd pre-crisis) with Westpac now 22nd (45) and ANZ 30th (42).

Also in Asia-Pacific, DBS has enjoyed a strong 2017 with its share price ahead by almost 40%; it now ranks in the top 50 with a market cap three times its pre-crisis level.

Notable losers include Royal Bank of Scotland (RBS) and Barclays. RBS has slipped from seventh pre-crisis to 54th today while Barclays is now 55th (18th).

At UniCredit, much work remains to be done but a stronger performance in 2017 has resulted in a 21% rise in its share price for the year to date. By market cap, UniCredit now ranks 53rd against 17th pre-crisis.

ING is another notable European lender with its market cap still to recover pre-crisis levels and is down from 13th to 27th.

Similar comments apply to Germany's Deutsche Bank (62nd from 26th) and Commerzbank, although the latter is now firmly in recovery mode. Commerzbank does not now rank in the top 100 banks by market cap, but its share price has risen by 55% for the year to date, and with a market cap of $18bn it should return to the top 100 at some point during 2018.

It is a similar story at Erste; its share price has risen by 26% for the year to date and its market cap of $18bn is back to its pre-crisis mark. By contrast, market cap at Standard Chartered has now returned to its pre-crisis level albeit it now ranks 68th from 43rd.

BOA ROLLERCOASTER

There was a time not so long ago, circa 2009, when Bank of America's share price plummeted below the significant $5 mark, and it paid the price for some unfortunate acquisitions (Countrywide), and expensive buys such as Merrill.

Throw in mega financial, regulatory and legal problems and it has been a long way back. Bank of America's share price now hovers around the $30 mark, and it ranks second by market cap.

Its share price is up by one-third for the year to date, and yet its price to book valuation (around 1.1) remains below that of a number of its peers.

BofA has done a lot of the heavy lifting, with regulatory settlements and branch rightsizing – more than one-quarter of its stores have closed post-crisis.

Accordingly, BofA has been able to return cash to shareholders through dividends and earnings growth; back at Barclays by contrast, dividends have been nominal.

Ian Gordon forecasts Barclays' dividends of 8p in 2018 and 11p in 2019 and a prospective dividend yield of 5.6%.

If that modest goal is not achieved, shareholders' patience really will be tested. ■

2017 SHARE PRICE PERFORMANCE – YEAR TO DATE

RANK	BANK	PRICE CHANGE 2017 TO DATE	MARKET CAP $BN	RANK	BANK	PRICE CHANGE 2017 TO DATE	MARKET CAP $BN
1	JPMorgan Chase	21.6%	366.8	51	Crédit Agricole	16.4	45.6
2	ICBC	32.2%	306.7	52	Mizuho Financial	-3.7	45.4
3	Bank of America	30.1%	301.7	53	UniCredit	21.0	44.7
4	Wells Fargo	6.3%	288.6	54	Royal Bank of Scotland	17.9	43.9
5	China Construction Bank	28.2%	231.1	55	Barclays	-14.6	43.7
6	Bank of China	13.6%	206.9	56	Credit Suisse	18.0	43.0
7	Citigroup	26.9%	202.4	57	China CITIC	0.1	42.3
8	HSBC	9.0%	193.1	58	State Bank of India	30.1	42.1
9	Agricultural Bank of China	20.7%	182.8	59	CIBC	9.4	41.1
10	Royal Bank of Canada	11.5%	115.2	60	Société Générale	-9.3	40.7
11	China Merchants Bank	55.9%	105.4	61	CIMB Group	32.2	40.7
12	Toronto Dominion	9.3%	104.3	62	BB&T	5.1	39.0
13	Santander	7.3%	104.0	63	Deutsche Bank	3.0	38.3
14	C'wealth Bank of Australia	-4.2%	103.8	64	Bank Central Asia Indonesia	32.9	37.8
15	Mitsubishi UFG	7.0%	96.9	65	OCBC	35.9	37.7
16	Morgan Stanley	22.3%	94.0	66	State Street	24.1	35.8
17	Goldman Sachs	2.7%	93.7	67	KBC	17.5	33.7
18	BNP Paribas	0.5%	91.9	68	Standard Chartered	14.8	33.4
19	US Bank	6.3%	90.9	69	Danske Bank	4.7	33.3
20	American Express	30.3%	85.2	70	United Overseas Bank	25.6	32.0
21	Sberbank	22.2%	83.4	71	SunTrust Banks	17.5	30.7
22	Westpac	-3.7%	79.8	72	Bank Rakyat Indonesia	38.5	30.5
23	Itaú Unibanco	20.1%	79.5	73	ICICI	33.4	30.5
24	UBS	5.3%	76.3	74	First Abu Dhabi Bank	0.0	30.1
25	Scotiabank	9.4%	76.0	75	Qatar National Bank	-13.6	29.9
26	HDFC	50.1%	72.3	76	Kotak Mahindra	44.5	29.6
27	ING	11.8%	68.3	77	DNB	19.4	29.3
28	PNC	22.2%	68.3	78	Synchrony	4.1	29.3
29	Charles Schwab	25.7%	67.7	79	Al Rahji Bank Saudi Arabia	1.8	29.1
30	ANZ	-6.4%	62.5	80	National Commercial S Arabia	20.9	27.1
31	Bank of Communications	0.0%	62.2	81	Banco do Brasil	11.6	26.6
32	Lloyds	4.0%	61.7	82	Discover Financial Services	1.5	26.5
33	Bradesco	24.4%	60.2	83	Swedbank	-10.6	26.2
34	National Australia Bank	-4.4%	59.6	84	M&T	8.5	25.5
35	Sumitomo Mitsui	0.9%	57.5	85	Svenska Handelsbanken	-13.3	25.4
36	Shanghai Pudong	3.3%	57.4	86	SEB	2.5	25.3
37	Public Bank	1.5%	57.3	87	Natixis	20.4	25.2
38	Japan Post Bank	-1.0%	57.2	88	Macquarrie	10.1	24.7
39	Bank of New York Mellon	14.1%	55.8	89	Maybank	15.7	24.5
40	BBVA	11.8%	55.6	90	First Rand	5.9	23.8
41	Intesa SanPaolo	14.8%	54.4	91	Caixabank	22.1	23.8
42	Industrial Bank	7.4%	54.4	92	Bank Mandiri	33.8	23.8
43	Postal Savings Bank China	2.3%	54.1	93	KB South Korea	52.1	22.7
44	China Minsheng	-2.2%	53.4	94	Northern Trust	8.5	22.1
45	BOC Hong Kong	34.2%	51.9	95	Fifth Third	13.3	21.6
46	Bank of Montreal	4.3%	50.4	96	Standard Bank South Africa	18.3	21.6
47	Prudential Financial Inc.	10.4%	49.8	97	Keycorp	6.1	20.8
48	DBS	39.7%	46.1	98	Citizens Financial Group	14.8	20.3
49	Nordea	-4.6%	45.7	99	Axis Bank India	20.2	20.0
50	Capital One	7.6%	45.6	100	Regions Bank	17.4	19.6

Source: *RBI*

CAN A NEW ENTRANT SOLVE THE SCOURGE OF OVERDRAFT FEES?

Every banking customer dreads the day they slide, accidentally or otherwise, into an unplanned overdraft. This is where fees and fines can accumulate and cause even more financial misery for a consumer. However, savings app Chip might have a solution. It just needs a banking licence. *Patrick Brusnahan* investigates

In 2016, 2.1 million people used their overdraft every month of the year, according to industry figures.

Half of financial charity StepChange's clients have overdrafts, and owe an average of £1,722 ($2,297) each. There is clearly an issue here, and startup Chip thinks it might have the answer.

Chip was launched in October 2016 and utilises artificial intelligence to monitor spending and help consumers save. However, its ambitions are greater, and it plans to tackle the overdraft.

Speaking to *RBI*, Chip CEO Simon Rabin says: "Our first revenue feature we're launching next year is our overdraft product. It adds onto a current account, analyses when they get overdrawn, and instantly loads money into their current account.

"This prevents them from becoming overdrawn at a lower rate than their bank is charging. In order to do that, we need a deposit licence. We basically take over the function of the overdraft."

Why does Chip want to enter banking? It is a very competitive – and increasingly congested – playing field. In addition, Chip seems to be doing fine on the outside of banking. Having acquired 25,000 users, and claiming to save consumers £1m a month, why make this move?

Rabin adds: "What we've learned over the last year is that we've done really well in terms of onboarding accounts and getting people to sign up to it. However, at the end of the day, we need to be a viable business with a strong commercial model.

"What we realised is that if you are not a bank, then all you can really do is resell existing products that are already out there in the market.

"You can give your customers something they can find elsewhere that is not original, new or different, but there's no value to that. If you want to create something that is genuinely different for the customer and solving problems, then you need the flexibility to manage your own balance sheet. To do that, you need a deposit licence."

> "WE DON'T SEEK TO OWN THE CUSTOMER THROUGH THE CURRENT ACCOUNT

To gain funds, Chip has started a crowdfunding campaign. In pre-registration, 1,700 users spent over £500,000 in 24 hours to support the project. After going public on Crowdcube, the campaign reached £700,000. At time of writing, the total is £815,360 raised: 135% of its goal.

The demand is seemingly there, but with a multitude of new entrants such as Monzo, Starling, Atom and everyone else, is there space for Chip?

Rabin says: "The space is getting very crowded. What I think makes Chip unique is we don't seek to own the customer through the current account.

"All the other banks want to own the customer relationship through their current account. We see Chip as a 'plug-in bank' that would go on top of your existing accounts and optimise your financial life. It fits into this marketplace model that everyone is moving into."

Lloyds Banking Group threw out unauthorised overdraft fees for all of its brands in November 2017, replacing it with a 1p charge per every £7 overdrawn per day. Is this really as good as it sounds?

"Halifax changed the structure from a 12% interest charge plus a £20 fee for using your overdraft and 50p a day," Rabin explains.

"That totalled somewhere around 30% APR. To make it simpler, they are charging 1p per £7 per day. If you work that out, if you are £7 overdrawn for a year, you are being charged 365p on your £7, which is about 50% APR, so they've raised it."

So this is the perfect time to tackle overdrafts? "Absolutely," Rabin insists. "The press are bringing more attention to overdrafts and there's a bit more education around it. FIs are being forced by the FCA to be more transparent about it and their charges, which is a positive."

With the splurge of support and a dedicated user base, is there room to expand and take a decent chunk of the market?

Rabin concludes: "Our goal is to reach 800,000 connected Chip users in three years. We've got the plan to do it, which is part of the reason we're raising this money." ■

BRANCH NETWORKS: EU CLOSURES ACCELERATE

Across the EU, more than 25,000 bank branches have closed since 2013. Compared with 2009, more than one in five branches have closed. If UK or Netherlands branch density levels were to become the norm across Europe, another 100,000 branches will close. *Douglas Blakey* reports on the latest data on branch networks

With more than 1,000 branch closures announced during 2017, the UK kicks off 2018 with a total branch network of around 7,500 outlets to serve a population of 66 million (see page 5).

For the UK, that equates to a branch density of about 11.4 branches per 100,000 inhabitants – the third-lowest in the EU's 28 markets; only the Netherlands and Estonia currently have fewer branches per person.

Branch closures across a number of European markets have been gathering pace in the past three years, with 4,848 outlets closing in Spain in the period 2012-2016, around 15% of all branches. Despite these closures, however, Spain remains the most over-branched European country, ahead of France.

FRANCE PLAYS CATCH-UP

In this particular bank race, France is playing catch-up with its international peers. In late November, Société Générale announced that it would axe 15% of its branch network by 2020; that may sound like a significant rightsizing and for the 900 SocGen employees affected it is worse than significant, but it only works out at 300 branches to be cut from a 2,000 network. Expect further such announcements.

Rival BNP Paribas has been particularly reluctant to shrink its network; a mere 10% of its domestic branches have closed in the past five years, and the bank retains a French network in excess of 2,000 outlets.

Compared to France, branch closures are gathering pace in Italy. Intesa SanPaolo plans to shut at least 600 outlets while UniCredit is aiming to close 944 branches by 2019.

Portugal is often advanced as an example of an over-branched market, but even here one in four bank branches have already closed since 2009.

Elsewhere, almost one-half of branches in Greece have closed since 2009; in another market troubled by the financial crisis, Ireland, a similar percentage have closed in the same period.

If a prize was to be awarded to the market most enthusiastically grasping branchless banking, step forward Denmark: more than one-half of its branches have closed in the past seven years. ■

SHRINKING BRANCH NETWORKS

European Bank Distribution Ranked by Branch Density, 2009-2016

RANK	COUNTRY	2009	2013	2016	PER 100,000 INHABITANTS
1	Spain	44,131	33,713	28,865	61.9
2	France	38,311	37,862	37,300	55.7
3	Cyprus	930	682	646	55.2
4	Bulgaria	5,916	3,770	3,560	49.8
5	Italy	34,030	31,759	29,511	48.7
6	Portugal	6,532	5,987	4,923	47.7
7	Austria	4,167	4,352	3,980	45.4
8	Germany	38,851	36,155	32,116	38.8
9	Luxembourg	226	213	225	38.6
10	Poland	13,292	15,479	11,835	31.2
11	Belgium	4,201	3,738	3,370	29.7
12	Slovenia	706	630	583	28.3
13	Hungary	3,560	3,246	2,696	27.4
14	Romania	6,425	5,492	5,401	27.4
15	Croatia		1,222	1,125	26.9
16	Malta	114	110	106	24.2
17	Slovakia	1,230	1,256	1,272	23.4
18	Greece	4,078	3,109	2,324	21.6
19	Finland	1,538	1,300	1,038	18.9
20	Czech Republic	1,998	2,135	1,990	18.8
21	Lithuania	972	656	504	17.6
22	Denmark	1,996	1,256	948	16.5
23	Sweden	1,950	1,974	1,514	15.3
24	Ireland	1,228	1,064	680	14.2
25	UK	11,869	10,200	8,800	13.7
26	Latvia	624	343	266	13.6
27	Netherlands	3,137	2,165	1,673	9.8
28	Estonia	213	140	99	7.6
Total EU Branches		232,225	213,008	187,550	EU Avg. 36.9

Source: *RBI*

FINTECH: YOUR NEW BEST BUD IN FINANCE

As digital becomes an integral part of banking, it is essential for traditional institutions to collaborate with tech partners ahead of PSD2 in January 2018. *Briony Richter* speaks to Ed Maslaveckas, CEO and co-founder of startup Bud, about fintechs' place in Open Banking

Sharing consumer data among banks, fintechs and other financial institutions will allow consumers to view services offered by several organisations and identify the best financial products for them.

Partnering with expert technology partners will, therefore, undoubtedly play a key role in shaping the digital banking ecosystem.

Bud has built a platform on which banks can build products that use other companies' services. Customers will be able to view financial products and services offered by several third parties, but on one platform, making it both simple and personalised.

Asked what Bud is all about, Maslaveckas tells *RBI:* "What we are doing is trying to create a new relationship between people and their finances.

"With Bud, we are leveraging some new regulation, which means the experience that should start to reflect in your banking app is one where the consumer will be assisted across the entire financial spectrum. A consumer will be able to view and understand all their finances better in that one experience."

The introduction of Open Banking in the UK will shake up the financial industry as we know it. Customers will have the option to share information about how they operate their bank account with third parties that will work to deliver the most efficient, easy-to-use solutions and an enhanced banking experience. It is the hot topic right now, but are we all getting swept away with the hype?

Maslaveckas adds that the change we will see with Open Banking will be more focused on the consumer. "The transformation of banking, I think, will be the smallest part. The transformation in a person's day-to-day life will be massive. Being able to quickly view accounts and conduct banking seamlessly will drastically improve the relationship people have with their financial information.

"Open Banking is a new sort of development to build upon. Banks have the will to progress, but they haven't been able to exploit the way forward.

"If something is better and easier for people then there isn't much that the industry can do to stop it. People will move to what services and products are more convenient for them. Tech providers like us can support banks in that sense.

"We see ourselves as a technology provider with regulation. We don't provide the financial product; we provide the technology to change that whole experience."

There is a real feel of community at Bud. The background of the employees ranges from artists to astrophysicists to data analysts, but more uniquely, there are people working here that have known each other since childhood, including the two founders. And all are firmly focused on getting a more transparent picture of the consumer, so the most relevant products are filtered to them directly.

Maslaveckas highlights: "It's all about looking at data across the industry. The data is crucial. We are taking all of the information we get, anonymising it and then separating it into groups so we can figure out how improve the experience people are having."

Open Banking brings more competition across the whole industry. For Bud, the competition is not banks – quite the opposite, in fact. Banks can be strategic partners, explains Maslaveckas.

Recently, Bud collaborated with HSBC subsidiary first direct to build an app that will search through databases, bringing together data from financial firms to allow people to more easily manage their finances.

For Bud, the potential competition is tech giants like Google and Amazon. "I'd be concerned about the time and attention they could take from the customer," Maslaveckas notes. However, he has an open mind about partnerships. If a company fits Bud's core values, there is always a possibility to work with them."

Looking ahead, Maslaveckas sees Bud becoming an even more innovative technology company that will be serving millions of customers and providing better experiences. He adds: "We want to broker a new deal between people and their finances, but no one will know who that broker is.

"It's a strange ambition for a founder, but essentially the people who need to know what we do will know that we are doing it extremely well – and doing it everywhere we can."

It is essential for banks to work with fintechs like Bud. Fintechs are better equipped to conceptualise and collaborate with incumbents – not only because technology partners provide innovative and progressive solutions, but because their strategy continuously looks to the future.

Together, this will create a thriving financial ecosystem. ■

The Bud team.

10 FINTECHS THAT COULD SHAPE THE FUTURE OF BANKING

The Open Up Challenge is a £5m ($6.7m) prize fund to inspire next-generation services, apps and tools designed for the UK's five million small businesses. *Douglas Blakey* looks at the runners in with a chance of bagging first prize

The finalists have now been selected, and 10 fintechs are through to the final stage of The Open Up Challenge.

Backed by the Competition and Markets Authority (CMA) with funding from eight of the UK's largest banks – Barclays, HSBC, Lloyds, RBS, Santander, Allied Irish, Bank of Ireland and Danske – the Open Up Challenge is run by innovation foundation Nesta.

With unfortunate timing, news of the 10 finalists coincided with confirmation that five of the UK's largest banks, all backers of the Open Up Challenge, would fail to meet the Open Banking deadline.

The CMA said: "Five banks [Barclays, RBS, Santander and Bank of Ireland] told us that they would not be able to release all of these data sets by the specified date. We have therefore issued each of these banks with directions stipulating the timeline for the delivery of the outstanding data sets and the arrangements that each must make for reporting progress to the CMA in the meantime."

Twenty startups participated in Stage 1 of the Open Up Challenge, each receiving a £50,000 development grant and exclusive access to the Open Up Data Sandbox.

The 10 finalists each receive an additional £100,000 for developing products, assessed as most likely to have a positive impact on UK small businesses in 2018 and beyond.

Chris Gorst, challenge prize lead at Nesta said: "The 10 teams awarded a prize in Stage 1 demonstrated to the judging panel that they are using new technologies to solve real small business problems and have the potential to achieve impact at scale in 2018 and beyond.

"Useful innovation has been slow to come in small business banking, imposing real costs on the entrepreneurial economy and hitting small business productivity. But the UK is perfectly placed to make rapid progress, as a global leader in fintech and open data innovation."

"Open Banking could radically reduce barriers for new players and models to emerge," Gorst added.

The 10 finalists battling it out for an additional £2.5m of funding are:

Bud (see page 12)

Bud aggregates financial services so small businesses and consumers can manage their finances in a single place – their bank account.

It provides banks with the software that enables them to integrate third-party services and apps – such as investments, pensions, utilities etc. – into their bank accounts, creating a financial hub for customers.

Capitalise

By providing tools into the accounting ecosystem, Capitalise.com helps UK businesses avoid the trap of being left with limited, last-minute choices, by changing their behaviour to move to a more considered search into its network of over 100 institutional lenders to find their match.

Coconut

Coconut offers a current account for freelancers and the self-employed, designed to manage their tax and track expenses to help them be paid on time. Coconut has launched its beta for sole traders and uses Open Banking to target tax savings for its customers.

Credit Data Research

Active in five European markets, accessing 80% of the Europe's SME segment, CDR is innovating credit scoring for SMEs. Using its Basel-compliant Credit Passport platform, leveraging credit behavioural data through Open Banking, increasing transparency and competition, CDR aims to accelerate the capital flowing to SMEs.

Fluidly

An intelligent cashflow engine, Fluidly plugs into accounting packages and bank accounts to predict and optimise business finances. Fluidly helps SMEs to get paid faster with intelligent credit control, provides automated cashflow forecasting, and spots financial opportunities.

Fractal Labs

Fractal is an automated financial assistant, helping SMEs to manage cash and capital requirements. Fractal uses machine intelligence to predict and surface financial outcomes, and empowers business managers to easily connect with their banks and advisors in simple, natural language

Funding Options

Funding Options gives SMEs the same levels of ease and speed that consumers take for granted when comparing financial services products. Funding Options claims to be the UK's leading online marketplace for business finance, each year raising £100m in SME finance from more than 50 different lenders.

Handle by Bizfitech

Handle is a small business dashboard designed to "supercharge the business bank account". The Handle platform enables SMEs to manage their cash positions, grow top-line sales, compare and save money on key expenses, and always be finance-ready by taking control of their credit scores.

iwoca

Europe's second-largest alternative lender, iwoca offers small businesses fast, flexible and fair finance. Since 2012, iwoca has helped thousands of UK small businesses with loans totalling more than £250m.

Teller

Teller connects customers' bank accounts with next-generation apps, enabling users to choose the level of access they feel comfortable with, covering real production APIs for 11 high street banks. ■

CENTRAL 1: HELPING CANADIAN CREDIT UNIONS TO TARGET SMES

Many Canadian credit unions have struggled to keep up with banks due to the pace of technological innovation. Central 1 is helping Canadian credit unions to compete with the big banks and fintechs in the highly competitive small business banking market. *Robin Arnfield* finds out more

Vancouver-based Central 1 can be described as a credit union-owned co-operative or as a credit union of credit unions, as it is owned by credit unions in the provinces of British Columbia and Ontario.

It provides financial resources such as liquidity, cash management and treasury, as well as payments processing and digital banking technology to its members. In addition, Central 1 provides services to credit unions in other Canadian provinces.

SMALL BUSINESS FOCUS

"Small business banking is a major push for Central 1," senior product manager Randy Johal tells *RBI*. "We want to help our credit union members to become leaders in the small business banking space."

Central 1 surveyed 100 credit unions and 2,000 businesses, and found that the average age of Canadian credit union customers is 53, while the average age of Canadians is 40.

"We also found that two-thirds of business owners over 45 want to exit their business in the next decade," adds Johal.

"Separately, Deloitte did a review of Canadian credit union payments in 2014 and found that 34% of the Canadian credit union system's payments revenues came from 9% of their customers, which is basically small businesses."

Johal says the main source of Central 1's payments revenues has been from processing cheques. "Small businesses are prolific users of cheques, and the problem is that cheque volumes are declining significantly every year, while electronic payments are rising."

NEW SERVICES

Following its research, Central 1 decided not to launch incremental products for the small business market, but to undertake a fundamental review so its members could enhance their service to SMEs.

"Credit unions have 11.5% of the small business market in Canada, which means credit unions really aren't making inroads into the small business market," says Johal.

"Yet the Canadian Federation of Independent Business's (CFIB) annual survey of its members has consistently rated the credit unions number one since 2000 in terms of meeting the banking needs of small businesses."

"We decided to look at small business owners' unmet needs," says Johal. "We found that many young business owners say banks aren't viable for them and that they're using Square for POS along with FreshBooks or QuickBooks for receipt capture, and payroll provider Ceridian for payment services.

"But the problem is that each of these fintech solutions providers offers a platform experience.

"Square isn't just about POS terminals and, once you're using the Square platform, you're disintermediating the credit union. You can do your financials on the Square app and dashboard, so what do you need a credit union account for?"

"Small business owners told us that, if credit unions put valuable features into their online banking to give them an all-in-one vision of their business, they wouldn't need to go elsewhere," Johal continues.

"We also spoke to younger business owners – 25-35-year-olds. Nearly half (47%) of millennial business owners said that, if credit unions added valuable features to online banking, they would move to a credit union.

"Clearly, there's a big opportunity to win millennial customers. We identified several key areas of unmet need for small businesses, for example saving them time and money, providing peace of mind by giving them insights into their firm, and incorporating electronic invoicing and the ability to track invoices into online banking."

2016 SURVEY: SME CUSTOMER SERVICE

Credit unions come top in terms of serving the financial needs of Canadian SMEs, according to the CFIB's 2016 survey

INSTITUTION	SCORE
Credit Union	7.2
ATB Financial	5.5
Scotiabank	4.8
National Bank	4.7
CIBC	4.7
Royal Bank	4.4
Bank of Montreal	4.3
TD Canada Trust	4.3
Desjardins	4.3
HSBC	3.0

Source: Canadian Federation of Independent Business

E-INVOICING

Central 1 launched its e-invoicing service in October 2017.

"Our e-invoicing service is priced well below the market, and is the first in Canada to be integrated with an online banking platform," says Johal.

"The banks switch SME clients to a third-party fintech provider via a plug-in for e-invoicing which is not integrated with online banking.

"With our service, SMEs can log into their credit union online banking account and issue electronic invoices from within the app with their own logo and business information. The credit union will notify them of incoming payments and match these with the appropriate invoices."

Central 1's service allows SMEs to receive invoice payments via Interac e-Transfer, a P2P/B2B payment service provided by Canada's Interac debit card scheme.

"By the end of 2018, we're going to add a feature enabling SMEs to request payment via Interac e-Transfer when they send invoices to clients," Johal says.

"The recipient will be able to click the Request to Pay button on the invoice, and the funds will be transferred direct to the SME's credit union account. This will cost a lot less than accepting a credit card payment via Square, which charges 2.75% per transaction."

PAYROLL

In June 2018, Central 1 will launch a payroll payments service including tax deductions provided by a fintech, which will be integrated with the Central 1 online banking platform MemberDirect, says Johal. He did not name the fintech.

"We will process the payments on behalf of the credit union client to their employees, and send the money via Interac e-Transfer," he explains.

"While traditional payroll services take the funds from the SME five days in advance of the payment due date, we will take the money two-and-a-half days in advance."

Another service Central 1 is developing is an Android-based mPOS system for debit card payments that credit unions can offer their merchant clients.

"POS isn't a big money earner for us when displacing low-value cash payments, but it gives us the option to connect credit union customers and credit union merchant clients together," Johal says.

"Similarly to Starbucks' loyalty system, we can identify credit union customers and merchant clients and offer a discount at the point of sale to consumers for supporting a business that banks with a credit union.

"Our idea is to digitise the customer loyalty experience. In Canada, there are 5.2 million credit union customers, 460,000 credit union business clients and, if the credit unions could bring them together, there would be a lot of opportunities."

> "THERE'S A BIG OPPORTUNITY TO WIN MILLENNIAL CUSTOMERS. WE IDENTIFIED SEVERAL KEY AREAS OF UNMET NEED FOR SMALL BUSINESSES

BORROW ANYWHERE

An example of an innovative service developed by Central 1 is Borrow Anywhere™, an omnichannel end-to-end lending platform that supports loan applications by credit union customers via digital, in-branch and mobile channels.

"Borrow Anywhere is integrated with our MemberDirect platform," says Johal. "It's been rolled out initially in credit union branches so retail or small business customers can come in and apply for loans.

"But it will be integrated with digital banking, particularly to attract millennials since they expect to be able to open accounts and make loan applications digitally."

Johal says Central 1's goal is to enable credit unions to retain the relationship with small business clients by providing them with the insights into their business that they need.

"The moment your partnership with a fintech goes external to your banking relationship, and you let the fintech handle the client relationship externally, you lose the insights into a client's business and its credit needs," he says.

"If your client has a pre-approved debit for $10,000 for 20 payroll payments including tax deductions, and you can integrate this payroll payment with online banking, you can provide the client with historical data plus cashflow forecasts and predictions of what would happen if interest rates go up 1% or they hire an extra employee.

"These insights allow credit unions to make recommendations to SME clients, offer special interest rates, or provide small business online accounting and management tools within online banking. So the client can log into online banking and manage all their financial needs."

TRANSFORMATION

In the third quarter of 2017, Central 1 launched a national digital transformation and payments strategy to enable it to better meet the evolving needs of its credit union members and clients across Canada.

This involves Central 1 working with Backbase, an omnichannel digital banking software vendor, to revamp MemberDirect. "Backbase will provide an open innovation model for credit unions," says Johal.

Central 1 has also created a Transformation Office to build a client-centred, integrated organisation.

In its 2016 annual report, Central 1 noted that "Canada's credit union system is approaching a tipping point. As the small player in the national financial services sector, credit unions are being consistently outpaced by the scale and marketing strength of the major banks.

"The credit union system is struggling to keep up with the digital offerings of banks and of new financial technology entrants.

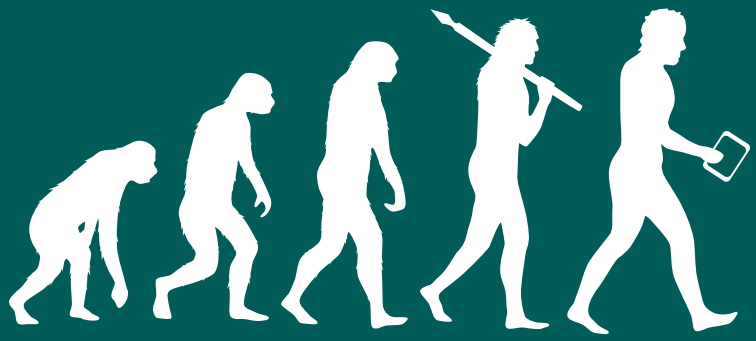
"We have an ageing membership base, and we lag behind the banks in selling secondary services to our members," the report continues.

"We lack the capacity for data analytics that would help us understand and more effectively meet our customers' needs. We face a complex and ever-changing regulatory environment."

"We're developing a National Payments Strategy that will serve the credit union network and our Digital and Payments Services team is working with Backbase to deliver a significantly enhanced MemberDirect platform," Marilyn Mauritz, Central 1's interim president and CEO, said in a statement.

"We will continue to focus on building a competitive portfolio of client-centred solutions through stakeholder engagement, innovation and partnerships." ■

2018 TO BRING MEANINGFUL EVOLUTION



As Andy Williams sang, it is the most wonderful time of the year – and also the time when analysts, commentators and business leaders throw their hats into the ring with predictions for what the new year will bring, writes *Hans Tesselaar,* executive director at BIAN

While it is exciting to hear new buzzwords, fresh terminology and wild forecasts for unexpected partnerships and industry change, I think 2018 will bring a meaningful evolution of many of the trends that came to the fore this year.

APIS AND MICRO-SERVICES

One significant trend we will see will be the continued development and maturity of APIs, and the associated move to micro-services.

We saw the first APIs become available this year, though these have largely been simple versions – for example APIs that can provide an address. As we move into 2018, we expect to see organisations orchestrate much more complex APIs, such as those that allow customers to initiate a loan.

The long-awaited – and now fast-approaching – PSD2 legislation is closely linked to this discussion; in mid-2018, the first open APIs will become available. The industry often focuses on how open APIs will increase competition for traditional banks, as fintech enterprises look to create innovative new services on top of the banks' data.

Understandably, this notion of opening up and sharing data is worrying for a number of banks, which fear that they risk being surpassed by their flexible, tech-savvy challengers. However, there is a major innovation opportunity here for traditional banks, bringing the chance to grow new revenue streams, capture customer ownership and progress toward an extended ecosystem.

To realise these benefits, banks need to leverage API integration and their existing customer relationships to develop a customer value ecosystem centred on their own banking portals. On top of enabling collaboration with fintechs or broader tech organisations, developing and opening APIs will finally allow banks to embrace cloud-based solutions, enabling them to operate leaner tech models.

If the industry can understand and migrate to micro-services, we can expect to see a bank that no longer relies on core systems within two to five years. This way of operating will completely change the way that banks work and how software providers will have to design and package their solutions. A global standard and model for API development will be crucial in taking this innovation forward and allowing banks to realise their full potential.

SLOW MOVEMENT FOR DLT

I anticipate that we will see a slow adoption rate of Distributed Ledger Technologies (DLT). The technologies that are in place for payments are already robust so I do not see an immediate reason for drastic change.

While we may see some closed-group proofs of concept, I do not expect massive leaps forward in this sector.

THE LEGISLATION AGENDA

The finance industry has always faced the challenge of complying with ever-changing regulations. PSD2 and GDPR are currently top of the agenda, and the pressure on IT professionals to be compliant in time is growing with every passing day.

We can expect legislation to remain a hot topic into next year, particularly given the conflict between PSD2 and GDPR. With that in mind, I think we will see a slow start for PSD2, despite pressure from the regulators. The reality is that being compliant with both sets of regulation will be a major challenge.

A SHIFT IN THE MIND-SET

I hope the real shift that we see in 2018 will be one of mind-set, in terms of how banks think about innovation. In short, they should be thinking about customers first, then business, then technology. All updates and change must come from market demand.

APIs sit at the heart of this new 'sharing' culture, and are the key to bank collaboration with fintech players.

By embracing an open platform, banks can simplify the process of adding innovative technology services by piecing together building blocks of flexible technology – outsourced from fintech players, or even other banks specialising in a specific service.

However, before banks even think of opening up their systems to newcomers, they will need to untangle their archaic infrastructure and streamline their core banking processes. Each API should then be designed to sync with the core architecture.

The best move for the whole industry, is for banks and tech experts to work together on this. While PSD2 is an EU directive, this collaboration should be embraced on a global level.

Banks from around the world would benefit from defining a globally standardised core banking structure, with standardised APIs to sit on top. Only then can we simplify and enable the collaboration across the global tech and banking landscape that will enable the emergence of new business models – now that is an exciting prediction. ■

RESEARCH: GOING BEYOND THE DIGITAL OFFERING

A recent study by NCR has revealed that, despite the efforts being made by banks to advance innovative and data-driven services, UK consumers still mistrust banks to safely use their data. *Briony Richter* reports

The NCR study's findings showed that consumer expectations go much deeper than looking to their bank to provide the newest technology.

The survey quizzed more than 1,000 adults across the UK. Consumers want their banks to continue advancing in innovative, digital technologies, but also put more effort into developing personalised services that can be used on a daily basis. However, although consumers expect this, they are far more unwilling to share their data.

Speaking to *RBI,* Joe Gallagher, vice-president and general manager at NCR, states: "As consumers increasingly look beyond traditional banking services, it is important for banks to reassure consumers that their personal data will be protected and safe.

"That consumer data will be used in a way that they are happy with. This is vital, especially as third-party technology increasingly plays a role in banking innovations."

TERMINALS

Gallagher says NCR terminals can now provide more banking services to the consumer without them having to enter the branch.

When a customer enters their card into the ATM, a teller inside the branch is able to view their online profile. They can view whether a customer is eligible for new products or services, allowing a more personalised interaction with the customer.

Discussing the services provided by NCR, Gallagher notes: "We are seeing much greater introduction of technology in terms of assisted service, which means we can bring the tellers out from behind the counter where they can actually offer much greater assistance.

"It's not unlike what you see at supermarkets with the self-service machine. If a customer needs additional assistance then an employee on the floor will be alerted.

"We see a lot of similarities across all industries in terms of the customer experience. NCR operates across numerous industries and in some ways the financial industry is just catching up."

Over half of respondents (51%) stated that they would be comfortable using an ATM for a wider range of banking services in the future. In addition, 54% would feel comfortable using an ATM when making an expensive purchase.

SEAMLESS AND SECURE

The survey found that 94% of respondents with bank accounts believe banking should be seamless and secure across all platforms available. Yet, only 18% strongly agree that their banks are providing that level of service.

Asked whether PSD2 will drastically change the banking industry, Gallagher states: "I suspect not. I think the uptake will be slow. Some of the smaller institutions are keener than the larger ones. Overall, it will have a positive impact on the industry but I think it will have a slow start.

"I think one of the things that banks have difficulty with is legacy environments, and that's where NCR and other technology providers can give support."

The findings come ahead of PSD2, the directive that will force banks to offer open access to customer data, with consent, to vetted third parties. It is designed to encourage competition and offer multiple services in the one platform.

The changes will spark an explosion of data-driven, digital services from banks, fintechs and retailers. Collecting and sharing consumers data through secure APIs is essential for banks to be able to provide the services expected of them.

The survey found that 49% of respondents were interested in banking loyalty schemes in partnership with retailers, requiring third-party data sharing. A further 46% would consider using financial services that keep track of their spending habits to help them save money.

CONSUMER TRUST

Banks must now go beyond just adding digital services, they must consistently deliver positive customer experiences across both digital and traditional channels.

The vast range of emerging technologies offer banks the opportunity to respond correctly to consumer demand. Gallagher points to the rise of biometrics such as voice, fingerprint or facial identification. Eventually, biometric technology will replace magnetic cards in ATMs.

Using the data responsibly will be the most crucial aspect for maintaining customer trust and loyalty. Only 47% of respondents would be comfortable with their banks collecting the bare minimum amount of data available.

NCR will continue to expand on the services they provide for the financial industry. Gallagher concludes: "I think we will continue to see the software side of the industry having a much greater focus.

"Historically speaking, NCR is well known for operating in the physical. The financial industry is being shaped by software services so that's a NCR focus. There are going to be a lot of changes – not just in Europe with PSD2 but globally with branch transformation.

"Integration of the physical channel into the digital is a theme that is consistent around the world. The main focus for NCR is trying to look through the eyes of the consumer. It is not just about new technologies; it's about solving problems for the consumer."

If banks and other financial institutions move too slowly to adapt to the transformed Open Banking landscape, the industry could miss out on the platform-based business models and the strategies they enable.

Getting the balance right between security and making life easier for customers is going to be the key goal for the industry. ■

CANADA'S INTERAC TO LICENSE CONTACTLESS EMV TECH OVERSEAS

Canadian debit scheme Interac Association is offering foreign debit card schemes the chance to license its contact-based and contactless EMV specifications. It has also signed an agreement with tokenisation service provider Sequent Software to give debit schemes access to the US company's tokenisation platform. *Robin Arnfield* reports

Hans Reisgies, Sequent's co-founder and chief technology officer, says his firm's deal with Interac is designed to help remove the need for debit networks to make up-front capital investments to implement tokenisation.

"Tokenisation is a fraud-prevention technology that involves using a proxy value for a payment card that maps to the card's actual number," he explains.

In November 2017 Sequent said it will offer Interac licensees access to the Sequent tokenisation platform as a service, using the white-labelled version of Interac's contact-based and contactless EMV specifications. These include Interac's open application programming interfaces (APIs) for contact-based and contactless EMV debit cards, and its software development kit (SDK) for mobile payments.

Using Sequent's tokenisation technology will make it easier for debit card networks to provision cardholders' payment credentials to mobile devices, Sequent and Interac say.

PIPELINE OF DEALS

"Our initial announcement with Interac is the first of a large number we expect to make over the next six months or so," Reisgies tells *RBI*. "These will all build on the Interac announcement."

"We have a very robust pipeline of international licensing orders for 2018," James Good, head of international business development at Interac, says.

"There are two categories of licensee – existing debit networks and organisations that are looking to start a new debit scheme. We would also be pleased to make our solution available to potential licensees in the US, but there is nothing active in our pipeline on the US front yet."

Sequent acts as a tokenisation trusted service provider (TSP) that puts card data on smartphones, Reisgies says. "Interac has its own TSP platform in the Canadian market, which it has integrated with Canadian mobile payment offerings such as Apple Pay," he says.

"The reason why Interac is working with us, is because it wants to offer its APIs and SDK internationally. In many countries, local debit schemes want an alternative to Visa or Mastercard's contactless technology and their Visa- and Mastercard-branded tokenisation services."

Good notes that a number of countries are witnessing the launch or development of new local debit schemes.

BACKGROUND

In the late 2000s, as Canada migrated to EMV, Interac worked with the international card schemes to ensure its Canadian debit cards used contact-based EMV technology.

However, because Interac is a proprietary debit scheme, Visa and Mastercard did not allow it to access their contactless EMV technology. This forced Interac to develop its own Interac Flash contactless platform, Good explains.

"We launched Interac Flash in Canada in 2010, and subsequently introduced a mobile version of Flash for use in Apple Pay, Samsung Pay and Android Pay and in HCE [host card emulation]-based mobile wallets issued by Canadian banks," he says.

"As I've attended payments industry conferences around the world and talked to national debit schemes, I've discovered that Interac is seen as a success story.

"I'm often asked by debit networks how Interac managed to defend its territory faced with the international card networks. So I realised we could help other debit networks by licensing our technology and providing our expertise and strategic consultancy services."

Good says Interac is flexible and allows licensees to select its services and products on an "à la carte" basis.

"Licensees can take our technology specification and adapt it for their own networks and terminals, or they can use our specification without modifying it, and take advantage of our certification process," he explains.

"We've certified a number of terminal and card vendors for our products, and this means licensees can very quickly deploy these companies' products in their markets using our specification. This will save them the cost of doing their own specification development."

> "WE HAVE A VERY ROBUST PIPELINE OF INTERNATIONAL LICENSING ORDERS


James Good, Interac

BANKAXEPT

In October 2015, Interac was approached by Norwegian debit scheme BankAxept.

"We had several meetings with BankAxept, which resulted in it licensing our contact-based and contactless EMV technology," says Good. "Like Interac, BankAxept hadn't been permitted to deploy the international card schemes' contactless EMV specification, following its rollout of contact-based EMV on its debit platform. So it wanted to use our contactless technology, as its market was moving quickly to contactless and it wanted a roadmap for mobile payments too."

Within six months of signing a contract, BankAxept was able to deploy a contactless EMV card and terminal solution based on Interac's technology in the Norwegian market, Good says. "It used its own tokenisation platform, as this was prior to our deal with Sequent," he notes.

ANALYST COMMENTS

"The deal with Sequent is an excellent opportunity for Interac to gain additional entry into the US market as NFC tap payments via cards and mobile devices grow in the US," says IDC Canada affiliate Robert Smythe. "It will be interesting to see how the relationship between Sequent, a heavily VC-driven fintech organisation, and Interac evolves."

"Payment card credential tokenisation, so that the 'real' account identifier isn't flying around the internet, is a good idea," says Mike Vaselenak, president and lead analyst at Canadian consultancy VCS Technologies. "Enabling tokenisation through an open platform that provides third parties with implementation tools – such as published SDKs and APIs – and shared platform access, or software as a service, is a good idea.

"An even better idea is having key open payments services stakeholders – card schemes, networks and issuers – support an open business model enabling third parties – merchants, processors, mobile platforms and social media – to offer payment credential tokenisation services. Any deals that support the opening up of payments tokenisation are a positive development."

QUALIFIED GOOD NEWS

"Interac's licensing deal with Sequent can be good news for the industry," notes Vaselenak. "But some words of caution are in order. The tokenisation ecosystems – card scheme specifications, APIs, certifications and legal terms – on offer from Visa, Mastercard, Interac and Amex are fairly new and still evolving from technical and business perspectives. Tokenisation isn't a 'cure all' for eliminating the hacking of payments credentials – it moves the storage of sensitive card credentials away from the merchant or related systems to a more controlled, and presumably more secure, environment – the tokenisation service provider 'vault'.

"A combination of Sequent's emphasis on the security of the 'on device' [mobile-stored] token, and back-end account lifecycle management, together with Interac's experience in the deployment of contact and contactless dual-interface EMV can be a powerful tool, if properly architected, for deploying payment tokenisation services," Vaselenak explains.

"Interac has historically been a bank issuer-oriented organisation supporting a national bank debit – issuer peer-to-peer – network enabled via centralised controls. This orientation is reflected in Interac's EMV implementation specifications – such as Interac's approach to offline or 'stand in' payment authorisation – as well as in Interac's tokenisation scheme, and its approach towards a centralised, shared token vault."

"It isn't clear at this time what target markets Sequent will be pursuing. Sequent and Interac's November 2017 news release seems to indicate that national, bank issuer-controlled payment networks are one such target market."

How does this tokenisation platform stack up against the Visa, Mastercard and Amex platforms that support distributed, non-scheme vaults and a hierarchy of certified third parties for tokenisation services on a global scale? This is to be determined.

Vaselenak notes: "Interac is very good at its national debit network platform, and has attempted to leverage this capability internationally, such as its licensing deal with Norway's national debit network, BankAxept.

"It makes sense for Interac to partner with an organisation that can add value, and has the necessary marketing prowess to penetrate target markets. Tokenisation has to work from multiple business stakeholders' perspectives – essentially, who charges whom, and how much, for doing what in tokenisation, for what benefit to whom?"

"The business case for Visa and Mastercard in offering their tokenisation schemes is clear, but the business case is less clear for issuers – even accounting for reductions in credentials fraud – and much less clear for merchants and processors.

Vaselenak concludes: "It will be interesting to see if Sequent's business pitch gains traction in terms of licensing its white-label payments EMV tokenisation platform to avoid 'in-house' implementation costs." ■

FEBRUARY NEWS

Countingup partners with HooYu to optimise account opening

Identity-confirmation provider HooYu is partnering with UK challenger e-money provider Countingup to verify customer identity and "help maximise success rates" in the customer account-opening process.

Countingup aims to launch in February 2018 as a combined banking and accounting proposition, targeting the UK's 4.2 million entrepreneurs. The Countingup app will help owners with accounting, VAT returns, profit and loss reports, invoicing and machine learning book-keeping technology.

Customers will be able to open a current account on their smartphone in less than 10 minutes. The account comes with a UK sort code and account number, and a contactless prepaid MasterCard.

Countingup CEO Tim Fouracre told *RBI:* "Imagine if your business current account was your accounting software? In September we raised £550,000 ($736,000) to get the project off the ground.

"Combining banking and accounting in one place for small businesses on the mobile will be a game-changer for small businesses.

"With the established banks, it can take one month for small businesses to get their bank account up and running – it is far too long."

The Countingup process begins with the creation of the banking app, layering on top the accounting functionality, and thirdly creating a financial market place for small businesses to access overdrafts and loans on a revenue-sharing model.

It will look to benefit from HMRC's Making Tax Digital initiative. HMRC is introducing online quarterly VAT returns from April 2019, and intends that self-assessment income tax and corporation tax will follow.

HooYu was chosen by Countingup to be deployed during the account-opening process to prove that customers are who they say they are, and ensure compliance with money-laundering regulations. Countingup selected HooYu due to the range of HooYu's identity technologies, such as database checks, document validation, facial biometrics, PEPS and sanctions screening, digital footprint analysis and proof-of-address checks.

Fouracre continued: "It was important to us to design the account-opening process to make it as easy as possible to open an account in five minutes.

"HooYu helps us not just to comply with money-laundering regulations and to prevent fraud, but also helps us to curate a great digital journey that makes for easy and convenient account opening."

David Pope, marketing director at HooYu, added: "Countingup is a truly differentiated offering from a challenger bank, in that it is offering more than just a bank account but the tools to help their customers manage and grow their business." ■

FCA MAKES ACCOUNT COMPARISON EASIER

Christopher Woolard, FCA

The Financial Conduct Authority (FCA) has published final rules requiring UK banks to inform customers about the amount of security and operational incidents they have been exposed to.

Under the new requirements, banks will have to publish operational and security information. Customers will now be able to find out how and when services and helplines are available, contact details for help, how long it will take to open a current account, the level of complaints made against the business, and how often that business has had to report major operational and security incidents.

The information that will be made available will allow customers and comparison websites to make more informed decisions when comparing the services offered by different providers.

Christopher Woolard, executive director of strategy and competition at FCA, said: "We want to see current account providers competing hard for their customers' business by offering better service, alongside competition on interest and charges.

"These rules will help people see how their bank compares to others so they can choose an account that suits their needs."

Eric Leenders, MD of personal finance at UK Finance, stated: "Like the FCA, we want to see effective competition so these steps are a welcome development.

"Making it easier for consumers and businesses to compare the quality of service offered by different current account providers is a great way to encourage customers to shop around." ■

CBA partners with Mastercard, Idemia, Samsung to bring Mobeewave SoftPOS to Australia

Commonwealth Bank of Australia (CBA) has agreed a deal with Mastercard, Idemia and Samsung to enable its customers to use Mobeewave's SoftPOS technology.

The partnership will allow Australian small businesses to accept secure payments of less than A$100 ($76) by tapping their phones with a contactless card or mobile wallet. According to research from Mastercard, more than four in five Australian consumers use contactless payments at least once a week, but fewer are making use of mobile contactless payment services.

Through this partnership, Mobeewave will provide a white-label solution to CBA, leveraging Idemia's Digital Enablement platform. CBA customers will be able to accept Mastercard transactions on Samsung flagship devices from the second half of 2018.

Sam Itzcovitz, CBA MD for commerce and platforms, said: "This solution gives Australian small businesses the ability to accept in-person payments quickly and simply using just their phone, so they can get on with running their business. We are proud to be bringing leading brands Samsung and Mastercard together with Idemia and Mobeewave to put this innovative technology into the hands of our customers."

Matt Barr, senior VP, core, digital and new payment flows at Mastercard Australasia, said: "This pilot brings us one step closer to our vision of enabling every device to become an acceptance device. We all use our phones to make payments, why not use them to accept payments as well?

"With its high use of contactless technology, Australia is an ideal environment to roll out this type of 'tap-on-phone' solution. I am proud that together with our partners, we can bring yet another innovation to the market and help merchants to grow their business."

Maxime de Nanclas COO and co-founder of Mobeewave, said: "CBA will be the first financial services institution in Australia to offer the Mobeewave SoftPOS solution.

"The invaluable support of global leaders like Idemia and Mastercard will accelerate the deployment of Mobeewave's patented technology to forward-looking banks around the world."

The solution uses the secure and customisable Samsung KNOX platform, and Idemia's embedded secure element, Pearl. ■

SHINHAN BANK TAPS TRUSTONIC TO OPTIMISE M-BANKING

South Korea's Shinhan Bank has partnered with tech vendors Trustonic and ATsolutions to integrate and secure its one-time password (OTP) service into its mobile banking channel.

The service enhancement removes the need for Shinhan customers to carry separate tokens, while increasing security levels compared to SMS-based second-factor authentication.

Designed to make mobile banking simpler, faster and safer, the solution applies to Shinhan's domestic S-Bank mobile banking app, and its global S-Bank solution for its operation in Vietnam.

"We are known for innovation and want to provide our customers with secure and convenient services," commented Kil-Woo Kim, team manager of the digital channel division at Shinhan Bank.

"For many years, consumers have needed to carry separate tokens to authenticate money transfers. In today's digital world, this impacts the user experience and is expensive for banks to implement.

Kim continued: "With Trustonic and ATsolutions, we have been able to integrate this functionality in a secure way, enabling our customers to manage their money whenever and wherever they need to."

The Trustonic Application Protection (TAP) solution safeguards the app's OTP engines on any smartphone, including its secret cryptographic keys. The OTP is generated by clicking a button in the app when authenticating a transfer.

"This has been a special collaboration, as we have improved the user experience while maintaining security." said Ben Cade, CEO at Trustonic.

"Consumers expect to be able to manage their lives on their smartphones and it is up to us as technologists to make that happen in a secure, scalable and user-friendly way," Cade added.

"TAP's ability to achieve these goals is driving huge demand from financial institutions."

Jong Seo Kim, CEO of ATsolutions, added: "This contract was won because of our joint work with Trustonic. By securing our OTP platform with Trustonic's technology, we delivered a unique solution to market.

"It is this dedication to meeting the needs of our customers that has realised Shinhan Bank's vision of seamless user authentication." ■

GOOGLE TO OPEN AI CENTRE IN CHINA

Google is opening a research lab focused on artificial intelligence (AI) in Beijing.

The tech giant has been rebuilding its presence in China, despite its search engine being blocked in the country.

The Chinese government has made AI research a priority. In July, the government announced plans to develop an industry generating CNY400bn ($60bn) of annual output by 2025, with the goal of becoming a world leader in AI science by 2030.

Fei-Fei Li, chief scientist at Google Cloud AI and Machine Learning, stated: "I believe AI and its benefits have no borders. Whether a breakthrough occurs in Silicon Valley, Beijing or anywhere else, it has the potential to make everyone's life better.

"As an AI-first company, this is an important part of our collective mission. And we want to work with the best AI talent, wherever that talent is, to achieve it."

Google has said it aims to employ local talent for the new facility, which will be run by a small team from Google's office in Beijing. The new venture joins similar facilities in London, Toronto, New York and Zurich. ■

BofA enhances m-banking, refreshes online channel

Bank of America (BofA) is enhancing its digital channels to provide customers with new, interactive ways to use its mobile banking app.

The bank is also updating its online channel, including its Business Advantage and Spanish-language versions, with a new home page, providing customers with what it calls a "personalised and more engaging experience".

"We continue to deliver new solutions based upon our customers' life priorities," said Michelle Moore, head of digital banking at BofA.

"With 24 million mobile customers and growing, we're developing interactive ways customers can use the app and personalise it to help simplify their financial lives."

BofA's Bank by Appointment feature has been updated to enable mobile and online customers to schedule appointments in real time with notaries, relationship bankers and managers, or specialists for everyday banking, investment, retirement, home loan and small business needs.

The new feature also enables greater personalisation, as customers can now choose from an expanded selection of investment topics to discuss with a specialist.

BofA has introduced a new streamlined process for customers to apply for a current account securely within its app. The enhanced, single-page design populates customer information into the app, simplifying the process.

The redesigned online platform features a more modern look and feel, and is optimised for ease of use on all devices.

The BankAmeriDeals rewards programme has become interactive, with the aim of offering customers "fun and engaging ways" to earn cash while shopping. BankAmeriDeals coins are now collected when users redeem available BankAmeriDeals rewards, which provide up to 15% cashback on purchases at selected retailers.

By collecting BankAmeriDeals coins, users can earn more than $100 extra cashback every year on top of what they already earned. The new feature will be introduced in early 2018.

BofA has reported that during the third quarter of 2017, mobile banking customers logged into BofA accounts over a billion times, or approximately 49 times per user. During that period, customers made more than 32 million mobile bill payments.

BofA customers also used mobile devices to deposit more than 330,000 cheques daily, and redeemed over 1.2 million credit card cash and travel rewards.

BofA's mobile channel has recorded a 38% rise in sales in the past year as more customers use the mobile channel to open new accounts.

As of October 2017, 2.5 million active monthly users were making more than five million Zelle transactions per month, totaling $1.5bn in value. ■

VISA TO LAUNCH NEW SENSORY BRANDING FOR 2018

Visa is rolling out a suite of sensory branding that will support the business in the "expanding universe of connected, payment-enabled devices".

The programme will use sound, animation and haptic cues to signify completed transactions in physical and digital retail environments when a customer pays with Visa.

In a recent consumer study conducted by Visa, up to 71% believed a website was secure when the Visa logo was shown.

The trust in the brand is driving Visa to find "new and innovative ways to evoke similar emotions in both the digital and physical worlds".

Visa surveyed consumers in eight countries to analyse the impact of sensory branding. Early results indicate that 83% of respondents said sound or animation cues positively impacted their perception of the Visa brand. Furthermore, 81% stated that sound and animation cues would give them a more positive perception of merchants.

Lynne Biggar, chief marketing and communications officer at Visa, said: "For 60 years, the Visa brand has been a global symbol of innovation, speed, trust and security.

"As payments become increasingly embedded in commerce, the notion of 'Everywhere You Want To Be' takes on even greater meaning for our brand.

"As new payment experiences continue to take shape in the world, this suite of sensory branding elements will give consumers the assurances we know they want every time they use Visa," Biggar added.

The new branding will debut in Visa's global advertising campaign ahead of the Olympic Winter Games in PyeongChang. ■

THOMAS COOK LAUNCHES M-BANKING APP

Thomas Cook Money has launched a mobile banking app for holidaymakers, in collaboration with Finnish fintech Ferratum Group.

The new app, Sumo, is designed to help holidaymakers plan, save and manage spending for overseas travel. Initially launched in Sweden, the app allows the customer to set up a fee-free multi-currency account, and comes with an contactless debit card.

It can automatically identify the local currency and allows users to pay at point of sale, at home and overseas, as well as withdraw cash without incurring transaction charges or additional fees.

Sumo features a range of regular and fixed-term savings accounts to enable users to set up weekly or monthly saving plans. Customers can also send money to friends and family via SMS to cover shared holiday expenses.

The app supports seven currencies and allows users to save money in multiple currencies. Sumo users can make four fee-free ATM withdrawals at home and overseas per month. Ferratum and Thomas Cook Money are expected to add additional services and functionalities to the platform over time.

Thomas Cook Money MD Anth Mooney said: "We know holidays are a big investment, which is why we've designed a service that makes it as easy as possible for our customers to plan and save all year round for their weeks in the sun, and to spend their money on holiday with confidence.

The new app is expected to be available in the UK and other markets from 2018. ■

Santander snaps up Deutsche Bank's Polish retail and private banking arms

Bank Zachodni, the Polish subsidiary of Spanish lender Santander, has agreed to purchase the private banking and retail operations of Deutsche Bank Polska for €305m ($361m).

The deal includes Deutsche Bank's Polish retail and private banking assets, SME business, asset management unit and sales network. It also includes DB Securities (Poland), but excludes Deutsche Bank Polska's foreign currency mortgage portfolio.

The acquisition will add around €4.4bn in assets, €4.3bn in loans and €2.5bn in customer deposits to Santander's books. The combined entity will have nearly €39.8bn in assets, €30.3bn in loans and €28.3bn in customer deposits.

A total of 113 Deutsche Bank Polska branches and 1,500 staff will migrate to Santander as part of the deal.

Following the acquisition, Bank Zachodni will have a Polish customer base of 6.8 million and market share of more than 11.7% in loans and 11% in deposits.

Santander executive chair Ana Botín said: "The Polish economy has been among the strongest in Europe and we see significant potential to grow our business further in the coming years.

"The acquisition enhances our position in important customer segments, such as private banking and SMEs, while also delivering strong returns for our shareholders." ■

CITI LAUNCHES BETA-TESTING COMMUNITY

Citi has launched a beta-testing community that enables customers to co-create products and digital capabilities that promote their financial wellness.

The new platform, Canvas Designed by Citi, allows customers to "shape the creation process" and share feedback.

Citi said its existing co-creation programmes have led to the launch of a series of mobile capabilities and customer experience enhancements. Using this new beta-testing community, customers can register to access and test solutions.

At the outset, tests will focus on helping users classify and visualise spending versus income, and offer advice to help them reach financial goals. Community members who are selected to participate will be notified when new tests are released.

Citi fintech CEO Yolande Piazza said: "This new beta-testing community is a platform for customers to test live solutions in real-world conditions that improve their financial wellness.

"Our goal is to help our customers reach their financial goals by delivering a holistic view of their financial lives right in the palm of their hand." ■

NAB SET TO DOUBLE INNOVATION HUB BUDGET

National Australia Bank (NAB) is to double its investment in the NAB Labs innovation hub.

The investment will be used to support the hub's initiatives in areas such as experimentation, incubation and human centred design. NAB will increase its NAB Labs workforce by 35 to a total of 85.

The new investment is part of the bank's A$4.5bn ($3.4bn) investment to strengthen its technology and digital initiatives over the next three years.

NAB CEO Antony Cahill said the innovation hub continued to play an important role in exploring and creating new and leading customer experiences.

"We are investing in our platforms, services and products to deliver faster, simpler and seamless experiences for our customers," Cahill added.

"We need to continue to attract the best talent and invest in our resources to deliver those new experiences." ■

COMMENT: INNOVATION UNLEASHED

As digital picks up speed, we are seeing major changes in global financial services. Customer experience is top of mind, as consumers increasingly adopt digital products and services, and digital-only banks innovate better and faster, writes Capgemini executive VP *Nilesh Vaidya*

To keep pace, banks are investing aggressively in digital transformation to enable nimbler processes, improve compliance, control costs, and improve profitability.

They are also collaborating with fintechs to learn and acquire innovative approaches and technological capabilities.

The increasing digitisation of financial services processes is increasing cybersecurity risks for banks. To minimise these new risks, financial services firms are continuously seeking new ways to manage the changing threat landscape. Many are exploring advanced biometrics-based solutions to create and maintain a credible identity system. A major global bank recently began allowing mobile bank customers to make direct payments by voice, using Siri on their iPhones.

This intuitive, frictionless process helps make access to services easier, quicker, and more flexible. In 2018, an increasing number of major banks will adopt voice payment access technology, using platforms like Siri or Alexa, integrating these virtual assistants across the customer payments system. Voice verification is simpler and more secure than traditional payment methods, and customer demand for this service is rising – the number of voice payments in the US alone is expected to quadruple over the next five years.

DIGITAL SECURITY

Banks are also exploring new ways to leverage digital identification security beyond authentication. A number of banks are building solutions that go beyond authentication and cover the full transaction value chain, including intermediaries and regulators. These digital identity capabilities not only enhance cybersecurity, but also improve efficiency and help generate new revenue – while empowering customers to self-identify in a digital world.

Bitcoin has been in the headlines recently, as investors drive its value into the stratosphere. However, distributed ledger technology such as blockchain also offers tremendous potential for banks seeking to enhance the customer experience and better meet regulatory and compliance requirements. In the coming year, more blockchain-enabled solutions, currencies and payment methods will become available to consumers.

Cryptocurrencies in particular, and bitcoin especially, will move further into the mainstream – if not complete consumer adoption. Investments by Goldman Sachs, Visa, Capital One, Nasdaq and The New York Stock Exchange in at least one type of cryptocurrency are strengthening its legitimacy and its potential for future consumer and commercial transactions.

In 2018, expect to see traditional banks explore the development of networks that can support global cryptocurrency payments. In particular, banks will test these technologies for uses such as anonymous cross-border payments, to reduce the identity fraud and blackmail scams rampant within current cryptocurrency systems.

Banks are also looking to blockchain technology to support improved fraud detection, efficient and cheaper KYC requirements, and instant payments. For example, Ripple signed up more than 100 clients on its RippleNet blockchain network.

When widely adopted and standardised, blockchain is expected to significantly reduce the efforts required to maintain and reconcile financial records, while minimising errors.

COMPLIANCE STRIKES BACK

Concerns about security and compliance are escalating as cybercriminals become smarter and employ new technologies and methods.

Recent attacks, such as the Equifax breach and the WannaCry ransomware attack, exploited known vulnerabilities in the system, which could have been avoided had firms been more vigilant. Cyberattacks cost the global economy an estimated 1% of annual GDP. They can result in the loss or compromise of personal and commercial data, causing financial institutions both financial and reputational loss.

To help mitigate these risks, regulators are increasingly focusing on data privacy. The UK announced a data-protection bill that gives consumers more control over their data. Regulators across the world are also introducing new cybersecurity regulations and standards that could impose heavy fines, injunctions, audits and even criminal liability on firms for a data breach. Two new sets of regulations – the EU's General Data Protection Regulation and New York Department of Financial Services' regulation on cybersecurity – are already in place, and more regulations from other central authorities are expected.

Many banking and insurance organisations find themselves underprepared for this new legislation, and are scrambling to comply. The cyberinsurance industry grew 35% in 2016 to $1.35bn in terms of direct written premium, as corporations seek to protect themselves from liabilities related to cybersecurity laws.

However, cybersecurity laws vary among different countries, posing a challenge for multinational companies operating across the globe. Financial services providers are concerned that compliance costs could rise sharply, and are seeking innovative and cost-effective solutions.

As digital transformation disrupts traditional processes and introduces new competitive pressures, it is more important than ever for financial services firms to find more effective ways to boost revenue, cut costs, and deliver a better customer experience. By proactively investing in the right technologies and services, they can position themselves to meet tomorrow's challenges with confidence. ■

THE FRAMEWORK FOR DELIVERING GREAT CUSTOMER EXPERIENCE

KAE

Many global financial institutions are realising that customer experience is a key strategic priority and are pushing this up the corporate agenda.

Amidst the rise of fintech players and shifting customer expectations, banks are being challenged to rethink and improve their customer experience activities. But are resources and effort being focused on the right areas to optimise ROI and win in an ever-changing environment?

Sadly in many cases the answer is still "no". And this is despite the link between customer experience, customer acquisition, retention and the bottom line.

According to a recent study by KAE, the strategic marketing and trend consultancy, almost a third of US banking customers' decisions to change their bank was based on perceptions of customer experience. A further fifth can be attributed to their use of contact channels, with the rest of their decision-making process influenced by demographics – older customers are simply just less likely to churn – as well as their product experience and product holdings.

Using its 'KX' model, a machine learning customer experience model, KAE analysed 200 pain-points reported by over 1,000 US banking customers. Through this analysis, KAE found that there is room for a 5.2% uplift in customer satisfaction if these pain-points are addressed; most of this uplift can be achieved by addressing the top 10 pain-points.

And what could this mean for the bottom line? Based on this analysis, and a review of churn statistics among US banks, margin could increase by as much as 6% through either reductions in churn or an increased propensity to take out more products or services.

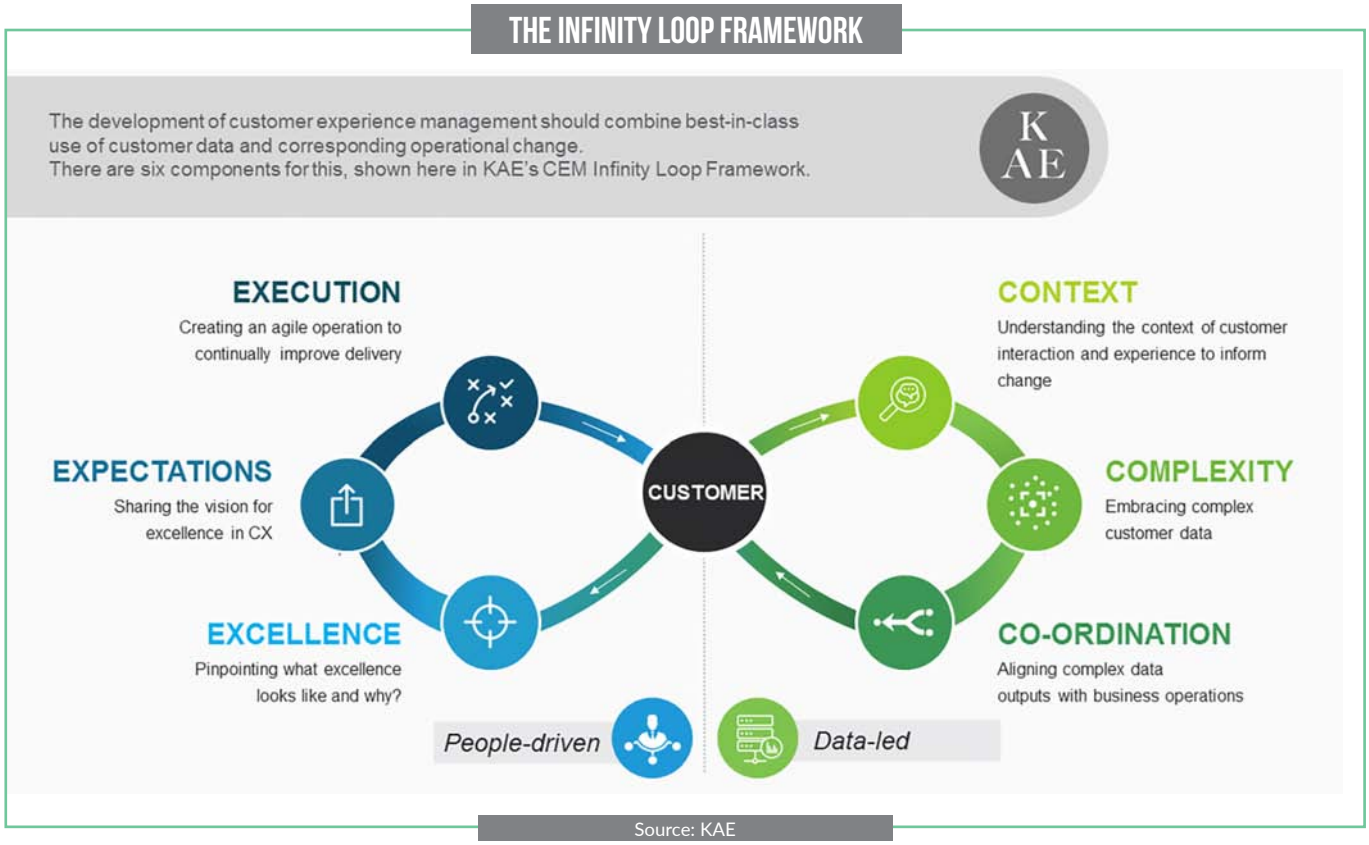
However, banks should beware. There is a strong crosswind that is blowing banks – and other providers across industries – off course from realising these uplifts, and it is gaining momentum by the day. This wind comes in the form of fintechs.

Fintechs remain a double-edged sword, being both a threat and an opportunity. One significant impact that fintechs have had is in reshaping customer expectations, setting newer and higher bars. Fintechs are not constrained by the same legacy and compliance issues as more established providers are, and they have embraced and built upon the customer experience benchmarks set by the large technology firms that customers experience in their day-to-day lives – think Microsoft, Apple, Google, etc.

Fuelled by the rise in connected devices, customers will come to expect their chosen providers to provide a better and frictionless experience, anytime and anywhere. To achieve this, many banks' legacy systems and processes will be stretched to say the least.

"As technology paves the way for new processes and revenue models, businesses have struggled to maintain tight customer relationships, and in some cases, to deliver valuable and meaningful experiences. Banks, as is the case for corporates in general, will need to change their propositions to convince customers why they are the best provider – customer experience will increasingly spearhead this as cost and product become less powerful differentiators," says Richard Lintern, MD at KAE.

"We are entering an era of 'intelligent' FS, be it intelligent banking, lending, payments and treasury management, where technology, data and machine learning are being utilised to help respond to changing situations in real time. Through the deployment of more powerful technology and connected devices, customer experience is becoming more frictionless and issues are being resolved faster," adds Chris Holmes, senior VP at KAE. "With the fintech movement continuing to produce a growing and evolving set of providers where the experience



Source: KAE

is more in vogue with customers' elevated expectations, many will leave behind their previous loyalty to banks and become more promiscuous.

"Making sure the customer experience meets, and ultimately exceeds, customers' ever-demanding expectations, yet is also nimble enough to evolve, are key challenges facing banks today."

Banks are at different stages in the process towards customer success and aligning operational efforts. Due to the size and complexity of banks as organisations and the suite of products and journeys available, refining and improving customer experience management (CEM) can often appear daunting – but this does not need to be the case.

It is also imperative not to treat CEM or design as a one-time or isolated process. To be effective, it must be continuous and embedded across the organisation. KAE has developed the CEM Infinity Loop Framework that details the six core components critical to CEM success.

Context: Understanding the context of customer interactions and experience to inform change

Customers increasingly expect banks to educate, inform and communicate with them in a personalised and contextual way. But to effectively do this, banks need to understand customers' current and latent needs, the impact of life events and the stage of the decision making process customers are in.

Understanding the context of customer interaction and experience will help banks to inform change in their customer experience strategy. For example, 'Customers buy homes, not mortgages' is a well-known expression, but serves as a useful reminder that context should be at the forefront of a bank's journey to understand customers.

Understanding attitudinal and behavioural differences is also imperative. For millennials in particular, demystifying aspects of financial services is a way in which banks can re-engage with and create an informed decision-making process for customers. According to KAE, customer experience across US banks could be improved by up to 7.4% among millennials. To achieve this, banks do not need to boil the ocean. Deeper analysis by KAE shows that resolving just the top nine pain-points for millennials account for more than a third of this possible improvement.

Complexity: Embracing complex customer data

Harnessing complex behavioural and transactional data can provide banks with clear and prioritised pathways to improvement. A wealth of transactional data may have been held across product-centric departments operating in silos up until this point, but there is an opportunity to deliver a step change in CEM through a data-led approach. Existing customer experience KPIs – NPS, CSAT, etc. – can be supplemented with wider data applications such as machine learning, AI and predictive analytics, to help improve customer interactions and personalise relationships.

Predictive analytics and machine learning applied to customers' transactional data (internal) with external or third-party data (scores, social media, etc.) can drive efficiencies across a number of other processes, including customer segmentation, churn, credit risk and risk management, as well as new product development.

This is not new news for fintechs, but for many incumbent banks the cross-fertilisation of relevant internal and external data remains an operational challenge and a black hole.

Bad debt prevention can also be linked to predictive analytics and leveraging customer data to help foresee potential delinquency. Banks that map out transactional data and the routes – including going overdrawn, ATM withdrawals, interest charges etc. – could produce a scorecard to follow. Financial institutions could then take remedial action and communicate with customers before delinquency, to reduce bad debt and deliver better experiences.

"NPS, CSAT and other widely used means of interpreting customer

satisfaction remain as valid as when they were first implemented. What businesses are missing is a detailed understanding of what is actually driving satisfaction scores and what needs to be prioritised – and as our KX model has shown, it is not always pulling the obvious levers that will have the biggest impact," explains Tom Mowat, senior VP at KAE.

Co-ordination: Aligning complex data outputs with business operations

Transactional and historical customer data, combined with analytical techniques driven by emerging technology applications, can drive change in customer satisfaction.

However, disparate experiences across customer journeys still occur within a single bank across different product mixes. KAE observed that these differences still exist and manifest in customer experiences within banks.

For instance, applying for a loan from Bank of America received a 96.4% customer satisfaction score, whereas applying for a checking account received a 75.7% score.

Bridging gaps between product-driven experiences can be facilitated by data analysis as well as AI and machine learning techniques.

Driving sustainable change is better served through a co-ordinated approach that encompasses data analysis and insight generation, rather than a bolt-on approach to legacy methods.

The key to avoiding paralysis by analysis of large data sets is by being smart in what data is used and how it is used, and making big data smart data! Do not be afraid to de-prioritise some data and the value that the data and its outcomes hold for the business should be continuously reviewed.

> "IT IS NOT ALWAYS PULLING THE OBVIOUS LEVERS THAT WILL HAVE THE BIGGEST IMPACT

Excellence: Pinpoint what excellence looks like, and why

This need not be a painstaking exercise. Pinpointing what excellence and best in class looks like helps to translate goals into transformational and strategic change across financial institutions.

By placing this at the heart of CEM, it will provide more impetus than leveraging existing assets and infrastructure alone to drive change. Start by looking at the new kids on the block – the fintechs – as they will be looking to move the goalposts in regards to what will be seen as best in class going forward.

Among the US incumbent banks, KAE found that JPMorgan Chase came out in top spot for their customer satisfaction overall (85.3%). Within this score, the baby-boomer segment is particularly satisfied (88.9%), but there is still room for improvement among millennials, who had a score of 80.9%.

When looking specifically at millennials, Citibank is performing well, receiving a satisfaction score of 86.2% from the segment. Why is this? The acceleration of Citi's strategic efforts, in particular with a mobile-first approach, could certainly have something to do with it.

According to a separate study conducted by KAE that focused on digital banking, less than half of US customers thought their bank offered a good online experience, signalling room for improvement. And it appears Citi acknowledged this, as it made incremental improvements to its digital offering over the past year based on direct feedback and co-creation with its customers.

Expectations: Sharing the vision for CX excellence

There has to be a vision. It has to be shared. This may sound basic but there are too many businesses that fail to recognise this, and if they do recognise it, fail to do it.

The need for a wider cultural change to help steer successful CEM should also not be ignored. Encouragingly, an increasing number of chief customer officers are being appointed to management boards in the financial services sector, and CEM is being given more profile across all organisational levels.

To enhance and optimise CEM, change needs to happen across increasingly multi-faceted organisational structures. A shared vision of what excellence looks like and cultural change initiatives should be a priority.

Execution: Creating an agile operation to continually improve delivery

In response to the threat of fintechs, a wider challenge for banks lies with building an agile operation and breaking down silos in the process – including with any data held within product-centric departments – to delivering a step change.

Customer experience transformation is not without its challenges, but there are examples of financial institutions that are approaching customer experience from an agile development perspective to create opportunities – JPMorgan Chase and Citibank to name a few.

Execution and implementation should be approached with rigour. There is no doubt that emerging technology and applications of AI and machine learning have a role to play in facilitating customer-facing processes, but the people involved have an equally big part to play in translating plans into a CEM strategy with longevity.

Centres of excellence are one way in which a vision can be shared across a multi-faceted organisation and can help to enable continuous refinement and improvement through a shared commitment to driving excellence.

Retraining staff also helps to improve the quality of interaction with more complex enquiries, and frontline staff that deliver on brand promises should also be of increasing focus; KAE identified room for almost a 1% uplift in overall satisfaction by solving people-facing related pain points alone.

Customer expectations are constantly evolving and merging with other interactions in their lives. Beyond transactional data, an understanding of how to continually make incremental but impactful changes will help to future-proof banks' CEM.

Delivering great customer experience must start with understanding customer needs – both current and latent – and requires continuous engagement with the people and data systems that support your customers.

The aspects that should be focused on amid the rising pressure from fintechs and alike are far-reaching and numerous, but given the impact of customer loyalty and switching behaviour on the bottom line, CEM should become an integral part of banks' value propositions. If not, banks run the risk of losing appeal across their customer base, and in some cases, maybe even losing their relevance. ■

For more information, visit www.kae.com or email cx@kae.com

SANTANDER KICKS OFF UEFA CHAMPIONS LEAGUE SPONSORSHIP

Santander has agreed a three-year deal to sponsor Uefa's Champions League from the start of the 2018/19 season – one of the more significant bank-sports sponsorship agreements announced this year. The deal bucks a recent trend, with a number of banks cutting back on major sports sponsorship programmes, reports *Douglas Blakey*

Santander is to strengthen its association with top level football by becoming an official sponsor of the Uefa Champions League, Europe's most prestigious club football competition.

The three-year deal takes effect from the 2018/19 season and gives Santander the rights to pitch-side and television advertising spots, as well as tickets, client hospitality events and other rights.

Santander has sponsored football competitions in Latin America for the last 10 years, and in 2016 agreed a high-profile three-year deal, with the option of an additional season, to sponsor the domestic league competition in Spain, rebranded as LaLiga Santander, replacing rival BBVA.

The Uefa Champions League final is the most viewed annual sporting event, watched live by more than 160 million people. The competition has more than 100 million followers in social media.

According to Santander executive chair Ana Botín: "Santander's partnership with the UEFA Champions League, the world's most global and aspirational sporting competition, builds on our support of Libertadores and, more recently, Racing Santander, the local football team of the Cantabrian city where our bank was founded 160 years ago.

"We love sport – our free-time exercise which we do to challenge ourselves to be better, the weekend match we watch with family and friends, our loyalty to a club, and the excitement of the spectacle."

Guy-Laurent Epstein, Uefa events marketing director, adds: "We're delighted to welcome Santander into the Uefa Champions League sponsor family and are excited to partner with one of the most distinguished and forward-thinking banks globally.

"The bank has a great heritage in sport, and this partnership will allow the Uefa Champions League to further engage with football fans in Latin America and around the world."

News of Santander's Uefa sponsorship coincided with confirmation that Santander is to end its long-running sponsorship of Formula 1 racing team Ferrari, which it has supported for the last eight seasons. Santander is also to conclude its corporate sponsorship agreements with F1, which have helped increase Santander's brand recognition around the world over the last 11 years.

Botín adds: "Ferrari and F1, to whom we are very grateful, have played an important role at Santander over the past 10 years. We will continue our support of sport because it is a valuable way to contribute to the prosperity of the communities where we work."

Banks axing major sports sponsorship deals has become the norm in recent years. Barclays blew the whistle on its sponsorship of the English premier league last year after a 16-season association; towards the end of the deal Barclays was paying £40m ($53.5m) a year to be title sponsor.

At the same time, Barclays ended its title sponsorship of tennis's ATP World Tour Finals. Meantime, Royal Bank of Scotland ended its 15-year title-sponsorship, costing £11m per year, of rugby union's Six Nations tournament, only to perform a mini U-turn with news in November that subsidiary brand NatWest would sponsor the 2018 Six Nations, renamed the NatWest Six Nations.

One of the world sport's biggest events, the Fifa football world cup finals, held in 2018 in Russia, has been slow to sign up sponsors as quickly as the organisers planned, but has attracted local lender Alfa Bank as the first of 20 proposed 'regional supporters'.

Other established financial sector sports sponsorship deals to end post the crisis include Nationwide's sponsorship of the England, Scotland, Northern Ireland and Wales national football teams, while Clydesdale Bank axed its sponsorship of the Scottish Premier Football league.

By contrast, National Australia Bank continues to sponsor the Australian football; ING has been sponsoring the Royal Dutch Football Federation since 1996, while ING Belgium's sports sponsorship focuses primarily on the Royal Belgian Football Association.

In Northern Ireland, Danske Bank continues to sponsor the local league championship, while ABSA has sponsored the South Africa premier division since 2007.

At club level, one of the most lucrative bank deals is Standard Chartered's £30m-a-year sponsorship of Liverpool. The parties first teamed up in 2010, and the latest deal runs until 2019. ■

Santander's three-year deal takes effect from the 2018/19 season

BALANCING SECURITY AND THE CUSTOMER EXPERIENCE

The stage is set for banks to finally eliminate the historical trade-off between security and optimising the customer experience. There is huge scope for financial institutions to establish security as a key competitive differentiator, writes *Andrew Davies,* VP, global market strategy, financial crime risk management at Fiserv

Consumer expectations for speed, ease and convenience are permeating every aspect of their lives, including how they manage their finances.

At the same time, financial criminals are rapidly evolving their methods of attack. This creates a need to strike the right balance between providing a positive experience and keeping financial institution customers safe from criminal threat.

A new landscape created by regulatory requirements, digital developments, and advancements in artificial intelligence and machine learning will set the stage for establishing this balance in 2018.

SERVICE DIGITISATION

Over the last decade, digitising banking services has typically meant delivering traditional banking services through a digital channel – opening an account online or accessing a balance on a mobile device, for example.

As Open Banking standards come into effect, we will not only see an acceleration of the digitisation of financial services, but we will see totally new capabilities emerge.

Driven by consumer expectations and powered by artificial intelligence and machine learning, digital financial services will become a seamless part of everyday life.

When Alexa recommends a better credit card based on your spending habits it will be easy to connect to a customer service representative to apply.

In the same way it will be just as easy to deny a fraudulent transaction when you receive a proactive alert.

KEY DIFFERENTIATOR

Multiple factors are creating an environment in which security will emerge as a more significant differentiator among financial institutions in 2018.

In 2017 the SWIFT global payments innovation (gpi) standard was introduced, enhancing the speed, transparency and end-to-end tracking of cross-border payments.

While both Open Banking and gpi initiatives help improve the overall customer experience by enabling more tailored services for customers and speeding payments, they can also increase the level of fraud risk. The Open Banking standards provide fintechs and third-party providers, which may not have bank-grade security in place, with new levels of access to consumer banking data. And faster transactions compress timeframes to detect and stop fraud from days or hours to minutes or even seconds.

Financial institutions that implement effective fraud solutions that can mitigate risk in real time for the customers they serve will have an opportunity to differentiate themselves from the competition in 2018. This will require educating customers and promoting security – and the related peace of mind – as an asset that financial institutions provide for customers.

> **FRAUD DETECTION AND PREVENTION REQUIRE CONNECTIVITY AND COLLABORATION**

AI AND MACHINE LEARNING

Risk is ever-growing, and so is the sophistication of financial crime detection technology.

Through the use of machine learning, banks can identify patterns of behaviour from large data sources, which is vital for the prevention of financial crime. By analysing and monitoring a number of data sources, financial institutions can better understand consumer behaviour and work out what is normal versus suspicious behaviour, improving fraud detection and reducing false-positive rates, which has a positive impact on the customer experience.

However, there is still room for improvement. The majority of data analysis today is done in silos or 'black boxes', so it is difficult for a financial institution to connect the dots and detect trends or patterns of fraud, or to get to a root analysis of a particular fraudulent transaction.

Effective fraud detection and prevention requires connectivity and collaboration, and we will see more financial institutions moving in that direction in 2018.

In 2018, the regulatory and technology environment will come together in a way that positions financial institutions to stay one step ahead of financial criminals, while continuing to providing a positive customer experience.

This will set the stage for financial institutions to eliminate the historical trade-off between security and experience and establish security as a differentiator in a competitive and rapidly changing market. ■

INSIGHT: THE TRENDS TO TRACK IN 2018

The pace of innovation is transforming the digital banking landscape, with new technology driving the need for continuous evolution of products, regulations and experience, writes Mambu CEO *Eugene Danilkis*

In addition to well-documented competition from nimble new banking and lending entrants, traditional institutions face struggling business models, huge legacy costs, regulatory changes such as open banking and ever evolving consumer demands.

FINTECH SPINOFFS

Prompted by these pressures, a growing number of established financial institutions are looking to launch their own fintech spinoff or digital bank – a flexible and agile speedboat spun off from the robust but slow parent institution or cruise ship.

This concept of launching speedboats combines the best of two worlds: the resources and experience of an established institution with the technology and culture of a fintech. Operating independently, these spinoffs are able deliver significant results in a short period of time, free of the legacy technology and thinking that often anchors their parent organisations.

By harnessing the same technologies as their new competitors, traditional institutions are able to leverage API-enabled ecosystems to access best-in-class technologies and provide a unique digital customer experience.

This is a strategic move that allows institutions to swiftly enter new markets and geographies, test and change products and try new technologies at a fraction of the time and cost of large transformations. Learnings are fed back into the larger organisation, allowing them to gather market insight.

An example of this is New10, ABN Amro's newly launched fintech, which provides fast and fully digital loan loans to Dutch SMEs. New10 went from concept to launch in just 10 months.

This growing trend has emerged over the last year, and we expect it to gather pace in 2018. In an evolving landscape, a spinoff driven by new technology is the best response to market pressures and the need to find new sources of revenue.

It is also a scalable model: we anticipate that once the initial speedboats demonstrate success, which they are able to do very quickly, institutions will launch more, moving an increasing amount of their business to the leaner and more agile model.

MORE THAN MONOLINE

Traditional players are not the only institutions turning to new technologies to help them grow.


Eugene Danilkis, Mambu

Many fintechs that disrupted the market with innovative but monoline offerings now find themselves critically limited by their initial business model and internal development. The bespoke technology that helped establish them is now holding them back as they cannot grow or scale any further on their current systems, and their initial niche market has changed or become oversaturated.

As a direct result of their success, their business needs have evolved to focus on growth and diversification and their technology must also evolve in order to support these objectives.

To keep growing at the same pace as before, we see these fintechs seeking out new technology to help drive their journey and support their long-term strategy. This is an opportunity for them to capitalise on momentum, focus on customer experience while leveraging best-of-breed technology to deliver seamlessly.

API-DRIVEN ECOSYSTEMS

Both fintech and traditional institutions are shying away from internal development due to the significant time and resource implications. Instead they are looking to build operating models with API-driven ecosystems at their core, taking a modular approach.

This shift helps businesses to attain speed, both in execution and time to market, as well as business agility, giving them access to the technology required to be relevant and competitive in a changing market. Why craft an architecture in stone when you can build it with interchangeable blocks, replacing and connecting component parts as needed?

APIs give different business areas within an institution the ability to easily access customer data, draw insights and create innovative products tailored to consumer, market and regulatory needs.

For partners or third party developers, they provide access to the core platforms on which they can develop more innovative products. End customers benefit from enhanced products, services and more transparency enabling them to better manage their personal finance. It also puts customers in charge of their personal information, putting more power in their hands.

All of these combine to create a better user experience while giving both established institutions and fintechs their best opportunity to focus on innovation and the customer instead of 'keeping the lights on'. ■

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