RETAIL BANKER INTERNATIONAL

March 2015 Issue 711

www.retailbankerinternational.com

GAMIFICATION

A WINNING STRATEGY OR A RISKY GAMBLE?

- COMMENT: BASEL III
- FEATURE: ONLINE SECURITY
- INTERVIEW: NICK LEESON
- STRATEGY: ACCESSIBILITY

timetric

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The 2015 European Digital Financial Services Power 50

Now I need your help.

The Digital Banking Club is delighted to announce the launch of the 2015 European Digital Financial Services Power 50, the only independent ranking of the most influential people in digital - and we're talking mobile and online - financial services in Europe.

The 2015 listing of the important people in European digital financial services today will build on the success of last year's inaugural Digital Banking Club European Digital Financial Services Power 50.

I want to hear your views on which individuals deserve to be recognised as the most powerful influencers and innovators.

Voting is initially open to members of The Digital Banking Club and to subscribers of Retail Banker International, Electronic Payments International and Cards International. This is your chance to have a say about who should make it onto the final list!

Public nominations will close on 23 April and will be followed by a final vote by an external judging panel including Roy Vella, Alessandro Hatami, Jerry Mulle (Intelligent Environments), Chris Skinner and Kieran Hines (Ovum).

European digital financial services movers and shakers will be fêted in the final list to be revealed on www.thedigitalbankingclub.com in June.

Criteria for inclusion on The European Digital Financial Services Power 50:

- The most influential thought leaders within European financial services providers, and
- Regulators, consultants, analysts, innovators and influencers.

I am not seeking nominations for individuals working for payments providers (unless their work is part of a broader digital financial services offering), digital and/or mobile platform providers and back office technology suppliers.

Nor nominations for journalists or PRs, although nominations by these groups on behalf of others are welcome.

The European Digital Financial Services Rising Stars:

Everyone loves to spot the stars of the future and The European Digital Financial Services Power 50 will also list 5 Rising Stars aged 35 years or under who are changing the way their financial services firms do business.

Finally, the Power 50 will honour The Digital Banking Club Power 50 Personality of the Year to recognise outstanding service to digital financial services.

Power lists often start more arguments than they settle so let the debate begin.

Email me in confidence your nominations to **douglas.blakey@uk.timetric.com**

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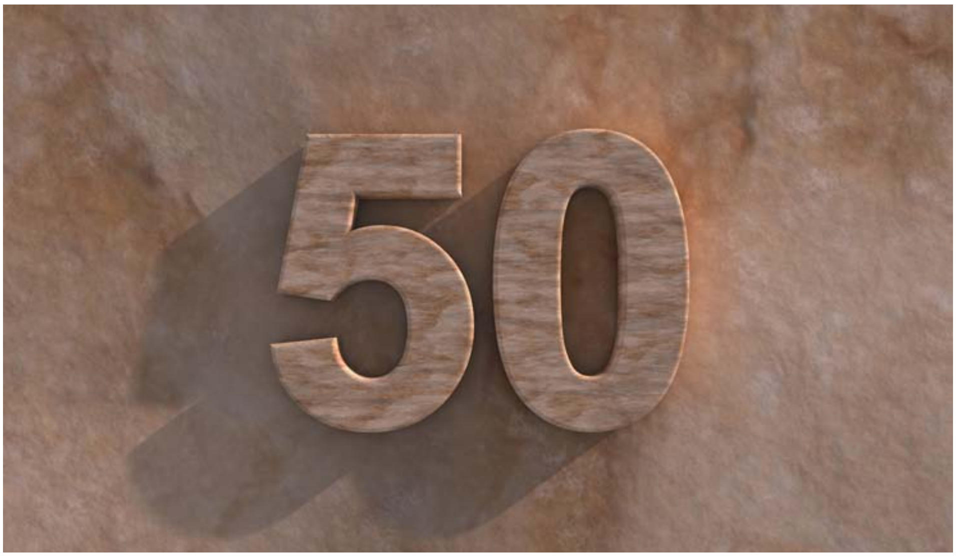


Contactless- the Age of Convenience

Marshall Haldane, director of global card manufacturer, allpay Card Services, talks about contactless and how the latest UK soap opera plug by Visa Europe further demonstrates how the technology is becoming more readily accepted by consumers and retailers alike

Contactless payments have made their big screen debut since prime time British soap operas Coronation Street and Emmerdale both agreed deals with Visa Europe to use the technology during the shows.

With contactless transactions hurtling towards the mainstream – and even making an appearance in the UK's prime time soap opera– this is another example of how the masses are continuing to embrace the technology that's set to rise again this year.

Initially the market was slow in its adoption, punctuated by initial security scares and a chicken & egg scenario between banks and retailers, but it looks increasingly like we will see 2015 become the year in which contactless payments is widely embraced.

Recent Data from WorldPay revealed contactless transactions leapt by 150 per cent over the last six months, as the technology became adopted across London's transport network and the word itself was adopted into the Oxford Dictionary.

So what has been the tipping point?

Did convenience conquer, did the banks take a leap of faith, or did we all just get fed up of counting change?

Certainly, the roll-out of the technology on the tube and bus networks in the capital has made a huge impact, not just practically, but in the mind-set of consumers. More than 19 million journeys using contactless payment cards have been made on the tube since Transport for London introduced the payment method in September 2014.

Additionally, this is now widely-acceptance at retailers from Waitrose to Lidl, food and drink outlets from McDonalds to Starbucks – and the evolution of the smartphone as an enabler of card-like payments has ultimately created a perfect storm of industries, banks and consumers coming together to drive the technology forward.

Research also consistently shows that once people use contactless for travel, they increasingly use their cards over cash for other small payments too. However, with consumer confidence rocketing, the banks cannot afford to drag their heels.

According to the UK Cards Association, more than 94 million contactless transactions were made in 2013 – treble the number during 2012.

Additionally, more transactions took place in the first 10 months of last year than those registered over the previous six years put together. While banks such as Barclays and TSB have seized the moment, others have been slower to embrace contactless, a position they can ill afford to take.

> "According to the UK Cards Association, more than 94 million contactless transactions were made in 2013 – treble the number during 2012"

The technology is also accelerating the decline of cash as the dominant force on the high street, particularly for lower value transactions – the average contactless transaction being nearly £8.

Figures from the British Retail Consortium show that the availability of contactless cards has contributed to the increased use of debit cards to 50% of retail sales value in 2013, up by 11% over the last five years. Over the same time period there has been a decline in the average debit card transaction value, and in use of cash by 14%.

allpay Card Services is fully approved to manufacture and personalise both MasterCard and Visa cards – including contactless and dual interface products – and both of the processing networks have lofty ambitions for contactless.

Visa Europe, for instance, predicts that Brits will make 500 million contactless payments in 2015, while MasterCard has announced that all its shop terminals across Europe will accept contactless payments by the start of 2020.

And with the limit on payments increasing to £30 this year and the further widespread enablement of contactless payments via NFC built into phones and wearable technology, the age of convenience has arrived. We have lift off. ■

Contactless Statistics

- **58 million contactless cards have been issued that can be used to make a contactless payment. These cards are split between 35.3 million debit cards and 21.2 million credit or charge cards. This is an increase of 3.8% on the previous month and 52.2% over the year;**

- **£380.8m ($567m) was spent in the UK in December using a contactless card. This is an increase of 25.8% on the previous month and 330.8% over the year. The value is split between debit (£343.6m) and credit / charge cards (£37.2m);**

- **46.1 million contactless transactions were made in December 2014. This is an increase of 15.6% on the previous month and 255.1% over the year. The volume is split between debit (40.5 million) and credit or charge cards (5.6 million);**

- **215,380 bank-owned terminals are available in the UK where contactless cardholders can make a contactless transaction. This is an increase of 3.3% on the previous month and 22.7% over the year;**

- **On average, each contactless transaction is worth £8.26. This is split £8.48 on a debit card and £6.68 on a credit or charge card, and**

- **On average, each bank-owned terminal has processed 191 transactions and taken £1,768.**

Source: The UK Cards Association (December 2014)

The three key strategies to overcome Basel III

The implementation of Basel III creates a new set of unprecedented challenges for the financial industry. Customer types, relationship types, channel types and many more will need to be categorised. A possible solution to these challenges is accurate and versatile data. **Damian Young** explains why this is the case

Basel III is having and will have a profound impact on bank operations; from reporting requirements and balance-sheet management to customer pricing and lending capacity.

The positive changes that Basel III will make to the finance world are more than welcome for banks and customers alike, but the road to achieving change effectively will have its challenges.

In a nutshell, Basel III is designed to improve banks' ability to absorb shocks, improve risk management and governance of balance sheets and to improve banks' transparency. These new measures will change capital requirements for banks, introduce new liquidity and funding measures, and implement new leverage ratios.

The two new ratios, Liquidity Coverage Ratio (LCR) and the Stable Funding Ratio (NSFR) that measure short-term and long-term resilience respectively will be implemented gradually to avoid a shock to the system in the guise of harming economic growth through reduced lending and funding issues.

Answering Basel III means that customer types, relationship types, channel types, etc., will need to be categorized resulting in a new set of challenges for deposit managers and treasury managers. To answer these challenges; having accurate but versatile data is essential.

How prepared are we for Basel III?

In 2014, Nomis Solutions completed an audit of 40 senior retail bankers from Europe and the Middle East where we found that only 8% felt that they were "highly prepared" for pricing differentials as a result of Basel III. Highly prepared would mean that these banks had fully embedded Basel III metrics in funds transfer or customer pricing, of the remaining 92%, 9% said they had little or no preparations at all, 50% had some preparations, and the remaining 41% said they were prepared but not fully embedded.

Three key strategies for deposits under Basel III

The impact of Basel III is highly likely to be acute on strategies for deposits. A greater focus will be placed on gathering retail-type deposits to provide a sustainable base on which to lend and as the markets begin to pick up, and lending returns to normal levels it will be essential that banks are positioned to take advantage of this. We feel that the following three strategies will help banks to have the capacity to lend and thrive in this environment.

Pricing strategies

Basel III means that deposits will now see a complex segmentation that will determine their true value to the bank. Pricing such segments will differ significantly with non-retail-type deposits being less attractive for banks.

Given that non-retail sources will attract higher outflow costs and lower stability measures, the deposits book of a bank should be managed holistically, reducing the costs in non-retail segments and increasing the growth and focus of retail deposits. Banks must approach pricing for all segments in a data-driven manner to fully factor in costs in FTP, or use customer pricing to maintain margin control. Categorisation and calculation of LCR/NSFR in deposits portfolios must be done in a dynamic fashion and lead to appropriate pricing strategies fitting with bank balance sheet and P&L strategies.

Product Strategies

Product pricing strategies will enable banks to maintain margins through reflecting the costs of LCR outflows and/or stable funding value. Developing and/or changing products may assist in establishing this differentiated pricing structure within portfolios and many banks are approaching product strategies and realignment in light of Basel III in stages on their overall customer deposits book:

- Reduce LCR and increase stability for non-retail balances;
- Move retail balances from higher outflow and lower stability with due reference to cost, and
- Grow retail balances in overall portfolio mix

The result is more stable balances and reduced costs.

Enhancing or changing the product mix in the non-retail segments first, followed by retail segments and a growth strategy for retail customers, will lead to lower total outflows and higher stability overall.

Data-driven market strategies

In our experience, gathering and using this data to drive specific strategies is largely underdeveloped. Most banks have a significant repository of customer, account, behavioural, and market data that can help them determine appropriate methods of product categorisation, pricing execution, and market opportunities.

Using data analytics to support the development of business strategies must be supported by deploying the right internal and external market strategy. Data-driven reporting, business intelligence, and performance metrics are key components and drivers of such strategies. It is our experience that many banks lack the requisite portfolio view of their deposits and as a result do not have the key insights they need to drive strategies.

As new Basel measures become more critical in the business, deposits portfolios must have the appropriate Basel III segments, calculations, and categorisations within their reporting. The implementation of Basel III measures in the business needs to be embedded in the strategy of the business as well as the treasury function. ■

Damian Young is the director of Banking EMEA at Nomis Solutions

Security is a Service

In a time of new online attacks, security should be treated as a service, not as a product. If you get it right, and promote it appropriately, security can be a key factor in your bank achieving above normal performance. **Michael Nuciforo** argues for this approach and explains the reasons behind his stance

The very foundations of banking are based on the concept of money and security. If you were to look back at the history of banking, from the very first coins, to loans and the advent of cash, the very purpose of banking was to be a secure store of value.

And even though customers expect their money to be secure, they don't often get excited about it. Due to this a lot of banks invest heavily in new innovations while reducing expenditure in security. A change in mind-set is required.

With more and more threats emerging every day, it is becoming clear that having a secure and robust security platform is going to be a key enabler to achieving competitive differentiation in the banking industry.

In a recent US study, the primary reason given for not using new forms of digital and mobile banking was security. Four in ten respondents had concerns that prevented them from using these services. Security also closely relates to how quickly a bank can bring new services to market.

One of the longest lead times on any project is security approval. With security assessments and penetration testing being on the critical path, the more robust your security platform is, the less time you need to spend debating whether your feature is going to create additional security loopholes.

The key to a successful security strategy is to not make the customer work while reducing any risks. The security solution needs to be integrated and consistent with the form factor of the device and if that means setting up a tailored approach – go for it.

Giving customers the flexibility to customise their security controls to cater for their own personal preferences is vital. Specific rules, limits and treatments based on the customer's location, direction or situation should all be available. Finally, simple, clear and accessible guidance for customers to ensure safe and secure banking whilst on the move is becoming increasingly important. Customers want to be told what best practice is.

With new banking technology most banks have an excellent opportunity to maintain control of their environment. Banks can utilise the latest device, behavioural, location and transaction profiling techniques to protect their ground. Organisations such as Trusteer offer banks advanced Malware and Jailbreak detection API's which can be updated without subsequent client releases.

These can be coded into native app builds using standard code libraries. Finally banks can use firms like Melbourne IT for rapid identification, takedown and analysis of fake apps and websites targeting mobile products and services.

As more and more people start to use mobile and online banking, fraudsters will start to follow. In its '2014 Threat Predictions' report, McAfee forecasts that over the next 18 months attackers will improve on their skill set. Attackers are likely to bypass PCs and go straight after mobile banking apps.

So always keep one eye open through effective identification and assessment of the emerging security threat landscape, from both closed and open sources. Don't assume that because you have strong measures in place today, that they will be strong in the future.

Most product, strategy and marketing teams have extensive roadmaps outlining what features they aim to launch over the next few years. Have you ever seen something similar for security? Rarely. Banks must set a clear mobile security strategy that links together with the channels product backlog. Remember what your potential customers are telling you. The number one reason they are not adopting your new online services is because they maintain security fears.

One of the number one reasons security is not a primary scope candidate is that fraud losses are generally tracked at group level, not at an initiative level. This is also linked to how security initiatives are structured. They are generally managed as group initiatives and benefits are not tracked accurately.

By treating security as a service, you can start tracking its impact on hard benefits such as improved customer acquisition and most importantly a reduction in fraud. If the product manager for your mobile project felt accountable for these benefit areas, then security would automatically get a higher priority.

Fraud guarantee

Do you know that all major UK banks offer a fraud guarantee? They guarantee to refund customers who suffer from legitimate acts of fraud via their online and mobile channels? I firmly believe that banks need to start promoting this service. They should develop an icon that is consistently presented across digital channels at all relevant opportunities – especially login.

Banks also need to ensure that the way they design their mobile service should give an immediate impression of strength and safety. Use icons, colours, gradients and tone of voice to improve the perception. Customers will subconsciously notice. Banks should also provide simple, clear and accessible guidance for customers to ensure safe and secure banking whilst on the move.

One of the great advantages of mobile banking is that it's with your customers all of the time. It is the greatest communications tool ever invented. Mobile should not just be treated as a vertical channel but a horizontal capability that can be leveraged across the bank.

From a security perspective it can be used as a delivery channel for services such as card fraud alerts or to validate card not present transactions. It can also be used to validate overseas transactions. Customers can be notified when their card is used, or by validating that they are overseas, they can ensure transactions are not blocked by the banks fraud systems.

"One of the great advantages of mobile banking is that it's with your customers all of the time. It is the greatest communications tool ever invented"

The security landscape is constantly moving, as soon as you think you are one step ahead, you are one step behind. Banks need to be ready to act so they should establish a dedicated mobile security team that is empowered, funded and resourced to deliver tactical changes in response to evolving mobile security threats.

The last thing you want to do when an issue goes down is be haggling over budgets and resources. By having funding and resources allocated at the start of the year, small changes, minor enhancements and tactical fixes can be deployed rapidly.

Biometrics technology such as iris scans, face recognition or finger print scanning has been touted for years. Australian bank, ANZ, recently announced that they are looking to deploy finger print based ATMs. In the UK we have seen excellent traction in schools with WisePay who are deploying finger print scanning technology that allows children to purchase goods in school canteens around the country. Why aren't banks doing this yet? Not sure. There has been a significant improvement in biometric security over the last few years, and of any option available, biometrics is likely to be the solution capable of converting the unconverted.

Mobile applications present many security challenges, but also opportunities. By augmenting the inbuilt platform controls provided by Android and Apple, and innovatively exploiting native mobile capabilities, we can improve our customers' security and provide a more frictionless user experience.

Three-way trust

The "3-way trust" that is established during App Enrolment can be used as a transparent second factor of authentication (something the user has).

This provides a more frictionless experience for customer logon and payment journeys (c.f. Online Web channel). Leverage and augment existing platform data protection controls to protect confidential and highly confidential information. Implement authentication controls which leverage existing mechanisms and exploit new opportunities that mobile presents, improving customer experience and advocacy wherever possible. Protect inbound and outbound communications between the application and our server-side components or third party sites or components

Proactive monitoring of digital storefront for unauthorised applications is a domain that is becoming increasingly important. With this in mind, there is increasing demand for security specialists to review site and application source code and perform custom tests to detect security vulnerabilities. Getting these assessments done by a third-party also adds a layer of protection, as a significant amount of bank fraud is performed internally.

"Giving customers the flexibility to customise their security controls to cater for their own personal preferences is vital"

During the development lifecycle it is important to set standards with our developers and testers about the appropriate protocol. One step you can take is to publish a set of guidelines and rules to assist developers in building websites and applications that are absent of the majority of security vulnerabilities.

During the testing phase, static and dynamic automated code review tools can detect security vulnerabilities during the development and testing phases of a project. This coupled with penetration testing, and code obfuscation, should be enough to protect your systems and render the code unreadable to a hacker attempting to understand how it works.

Recent advancements in the market, such as Apple's recent launch of Apple Pay and Touch ID also shift the game in terms of security and convenience. As part of Apple's iOS 8 preview, it was announced that the Touch ID fingerprint capability would be opened up to developers to allow apps to use this as a user authentication method.

This technology is very unique because it scans sub-epidural skin layers in the finger, therefore making it less susceptible to false readings and rejections than optical solutions in the market. By using a multifaceted skin layer approach, it is harder for a hacker to spoof than optical – it almost makes it impossible. Apple insists they do not store the fingerprint itself, which implies it is stored as a non-reversible encrypted one-way hash for comparison against subsequent scans.

Security as a service

If you treat security as a service, rather than something that you just have to do, you change the mind-set of your organisation.

In this way, you will also ensure the customer experience is better. With the risks of a major cyber-attack being more prevalent, it's time for banks to start working together to deliver a cross-competitor solution. The good news is that technology is constantly improving and also reducing the load on the customer. Ultimately, security is becoming the most aspect of banking services. Customers demand and expect their money to be safe; so what are you going to do? ■

Nick Leeson: Taming the Beast of Barings

Twenty years ago, the world of rogue trader Nick Leeson crashed spectacularly. When it was revealed that Leeson had gambled away hundreds of millions, stock markets reacted with sheer terror and his employer, Barings Bank, was torn to shreds and left in pieces. **Fergus Ewbank** speaks to the former 'rising star'

With his name on the front page of every newspaper, Leeson, the man who 'broke the bank', fled the scene of his crime, leaving a note for his employer that said simply 'I'm sorry'. As the incident came crashing into the public eye, a mixture of opinions about Leeson began to emerge. Some saw him as a 'brilliant' trader, a confident 28-year-old who had been responsible for 10% of Barings' total earnings.

Others saw Leeson as a 'high flyer', someone who had carelessly squandered the fortunes of others for his own gain. Twenty years on and the Leeson of today is neither of those things; both out of obligation and out of choice, he keeps a measured distance from the industry. Now very much reformed, he possesses a clear understanding of "what is right and what's appropriate". He views his past actions as the result of a lack of clarity, on his own part and that of the industry as a whole.

A few months after the incident back in 1995, Chancellor Kenneth Clarke presented a report on bank regulatory systems to the House of Commons. The report blamed the fall of Barings on 'serious problems of controls and management failings within the Barings group'. Obviously, the consequences of wrongdoing weren't, and for him still aren't, spelled out clearly enough.

In 20 years, what has changed in the industry, if anything?

Reflecting upon his own failings in an attempt to guide the actions of others, Leeson fears the same underlying problems exist today as they did back then. He sees the regulatory systems in place today as futile, "everything that has been tried over the last 20 years is not moulding the culture in the way that it should be." For Leeson, the current practice of fining banks is ineffectual, he points out that there has been £166bn ($246bn) worth of fines made in the last six years. "Has it really changed anything?" he asks, "the evidence suggests that it has not."

Leeson believes that the current regulatory system needs to undergo change but wonders if, really, such a thing could ever happen.

He says: 'The capitalist animal that we built in financial centres around the world is always going to be a problem from time to time."

Whatever the route of a problem - be it a rogue trader or a product that doesn't work as intended - for Leeson, the controls are just not good enough. "There is no silver bullet that is going to make everything ok," he says, believing that the only real solution is to mitigate the propensity for problems "as much as you can, as quickly as you can".

Without a serious upheaval of current systems of regulation, Leeson views another debacle as inevitable. "We're talking about something that is always going to blow up from time to time, hopefully never again to the extent that we saw in 2008."

The problem is an inconsistency within banking culture as a whole, the only way to address this would be to, in Leeson's words, "rip up the rulebook and start again."

However, this is a century old rulebook and while, from the outset, the public become increasingly suspicious of the banks, on the inside it's a different story. Leeson believes "there's a lack of appetite for change"; the problem is one that is deeply ingrained within the system under which we live, trickling all the way down from the top to the bottom. As Leeson puts it: "If you're a politician and your party is being largely financed by a huge hedge fund or a very successful financier, why would you have any desire for change?"

What is Leeson doing now?

Often speaking at banking events, Leeson uses his own experiences to advise other bankers against making the same mistakes he did. His admission of the wrongdoings he made is genuine; he is under no false impression when it comes to the fall of Barings, he was the spark that ignited the flames.

The collapse of Barings "is a story of negligence and incompetence on a grand scale, with my incompetence and negligence is very much at the forefront", he openly admits. "Sometimes you have to admit your mistakes. I do that openly, I never lecture, it's about storytelling, and that story brings with it some serious messages that people can learn from."

Leeson's own culpability, his self-admission, has allowed him a good deal of respect within an industry he once brought crashing down. "I never get a problem from other bankers," he says, "if you stand up and tell lies, you get seen through. I told enough lies years ago and I'm not in that game anymore." Despite all the embarrassment and strife it eventually brought him, Leeson clearly misses the industry. Crooked though he may once have been, there's could be no arguing Leeson's talent for the market – something that, despite his wrongdoings, he will always be respected for.

Leeson knows he cannot, and will never, return to the industry. For him, banking "was the thing that made me sick, ending up with me being in jail." Allowed to run wild, then torn forcibly from his habitat and placed in captivity, Leeson has no desire to once again tread the floors of the banking institutions – the great monetary Savannah.

Now tamed, he sees the industry as impossible to control: you can tame a lion but you can't single-handedly take on the entire pride. ■

The Barings Bank Disaster

Barings was brought down in 1995 due to unauthorised trading by its head derivatives trader in Singapore, Nick Leeson. Leeson was supposed to be arbitraging, seeking to profit from differences in the prices of Nikkei 225 futures contracts. However, instead of buying on one market and immediately selling on another market for a small profit, Leeson bought on one market then held on to the contract, gambling on the future direction of the Japanese markets. His unhedged losses quickly escalated. Leeson's activities had generated losses totalling £827m ($1.3bn), twice the bank's available trading capital. The collapse cost another £100 million. ING eventually bought the bank for a mere £1. Leeson was arrested in Frankfurt that same year, but was released in 1999 due to having been diagnosed with colon cancer, which he went on to survive.

The developing world's unbanked turn to mobile

As mobile phone penetration grows in the developing world, so does the potential for mobile money vendors. With mobile financial services now available in 60% of developing countries, it is a time of great opportunity for the market according to the GSMA's new report. **Patrick Brusnahan** examines the study

The GSM Association (GSMA) has launched its '2015 State of the Industry: Mobile Financial Services for the Unbanked' report with some interesting insight into the 2.5 billion people currently unbanked in developing countries. This section of society has to rely on cash transactions or informal financial services, which are usually expensive and unsafe. Traditional banking infrastructure has yet to adapt their business model to work to serve low-income customers and many do not make the effort.

The silver lining, however, is that over two fifths of the unbanked have access to a mobile phone, which can extend the reach of financial services such as payments, transfers, insurance, savings and credit. Now established in the majority of emerging economies, mobile has become a maturing industry serving new business areas and enabling a wider range of digital payments.

The report highlighted a number of key trends concerning the mobile financial services industry in 2014:

- 255 mobile money services are now available across 89 countries. This is set to increase as the level of smartphone penetration rises;
- Competition is tight in markets where mobile money is available but a growing number of mobile network operators (MNOs) are becoming interested in interoperable solutions. In 2014, MNOs interconnected their services in Pakistan, Sri Lanka and Tanzania. This follows the work of MNOs in Indonesia which has had interoperability since 2013;
- Regulators are beginning to recognise the importance of non-bank providers of mobile money services in fostering financial inclusion. As a consequence, more are establishing more enabling regulatory frameworks for the provision of mobile money services. Reforms have been passed in Colombia, India, Kenya and Liberia in 2014. Currently, 47 out of 89 markers where mobile money is available, regulation allows both banks and non-banks to provide mobile money services sustainably;
- Providers have begun to expand into adjacent markets for mobile financial services, leveraging their strengths in mobile money to provide mobile insurance, mobile savings and mobile credit to customers who previously never had access to formal financial services;
- The number of registered mobile money accounts globally grew to reach nearly 300 million in 2014. While this is steady growth, there is still much room for further increases as these accounts only represent 8% of mobile connections in the markets where mobile money services are available. 2014 saw seven new markets join the ranks of countries where mobile money accounts outnumbered bank account. The number of markets with this status is now 16, and
- Active mobile accounts stand at 103 million and an increasing number of services are reaching scale. 21 services now have over one million active accounts.

For those invested in the financial sector, these signs of growth are encouraging. Investment in improving and expanding mobile money services is continuing. Providers are strengthening their capability in handling a rapidly increasing number of users and transactions through platform migrations and extension of application programming interfaces (APIs) to third party users.

2014, additionally, recorded a steep increase in the number of international remittances via mobile money. The GSMA attributed this rise to the introduction of a new model; using mobile money as both the sending and the receiving channel. In turn, mobile money is reducing the costs of international remittances for consumers. Respondents to the survey said that the median cost to send $100 was $4, less than half of the average cost to send money globally via traditional money transfer channels.

Despite the progress made in 2014, the mobile money industry still has hurdles it needs to overcome. Regulatory barriers, low levels of investment and the lack of industry collaboration are hindering mobile money from reaching scale.

54 developing countries do not have a live mobile money service. 70% of these countries have a population of less than 10 million. Due to the relatively smaller population size, it is harder to build a business case for investment in mobile money. It becomes harder for a mobile money service provider to achieve scale and actually make a profit. This severely reduces the desire of operators and banks to invest in new mobile money launches.

However, 13 of the 54 developing markets without mobile money services have a population of over ten million. 14 launches are planned in these 13 markets, proving that the interest is still there for new launches. The barrier now is regulation.

Without regulators creating an open field for mobile money services, market uptake and customer adoption is hindered. Even in markets that contain an enabling licensing or authorisation framework for non-banks, there are barriers. Respondents highlighted three key regulatory priorities:

1. Transaction/balance limits too low and/or onerous customer identification requirements;

2. Not allowed to earn interest on pooled funds or to utilise interest earned, and

3. Restrictions on international remittance business.

While obstacles remain, the mobile money industry continues to progress. In order for mobile financial services to reach more people and achieve the scale it needs, the industry will need to continue strengthening the foundations for mobile money services and instil best practices in order to continually improve quality of service. Mobile financial service providers have to engage with regulators and standard setting bodies to create more enabling regulatory environments to foster sustainable investment in the service that will, eventually, underpin a balanced strong digital financial ecosystem. ■

Banking embraces the mobile Millennial generation

Gemalto's study into the mobile banking behaviour of young individuals (aged 16 to 24) shows the huge impact that mobile phones have made on the banking sector. This surge in popularity is set to continue as the younger generation ages and technology develops. **Patrick Brusnahan** reports on the findings

In the modern day, it seems that a mobile phone is around every corner in every hand. Gemalto, an international digital security company, polled 1,184 16-24 year-olds and revealed that the devices are in near constant use. 1.2 billion people across the world use mobile phones to go online and 25% of them are young adults.

While it's no revelation that young people like mobile phones, a startling 97% of respondents owned a mobile or a tablet or both. 70% of respondents used their phone for over two hours a day. 38% used their mobile devices for over five hours a day. In fact, 27% would rather go without a bank account than a mobile phone. The time where a smartphone was merely a gadget is well and truly over; it is now, according to the report, 'a way of life'.

The concerns of the younger consumer

Mobile phones are clearly having an impact on young consumers' banking choices. 37% said that they would change bank if they were not able to conduct their banking on their mobile device. 24% of respondents believed that banking on their mobile or tablet was absolutely 'essential', while 36% believed that mobile banking helps them keep better control of their finances.

This rise in digital alternatives is in stark contrast to the decline of the bank branch. Over a quarter (27%) of respondents said that they never visit their branch and only 14% of young people preferred doing their banking in person. However, 77% of young people bank online monthly, at least, and 62% use the mobile apps at least once a month.

Not everything about mobile banking was praised. Security was a worrying issue as 67% of respondents were actually concerned about the security risks of using their mobile for banking. Expectations for security were incredibly high as nearly 90% felt that mobile services should incorporate the same security features as existing online services. 48% would switch banks if they felt that the banking app's security was poor while 38% would only use the app's most basic features.

This, however, is not simple as not only do young people want something secure, but something convenient. These two factors do not necessarily go hand-in-hand. 30.6% of those surveyed were completely happy to access mobile or online banking services via public Wi-Fi and, in turn, putting themselves in risk of cyber crime. It is a common assumption that younger people are informed about online threats, but the report deemed it 'surprising' that so many risked their own online safety.

This generation is also 'far more likely' to air grievances over social media. According to communications agency Echo Research, 36% of young people had used a social media platform to contact a big company. 65% believed it to be a better way than call centres to get in touch with companies.

While the security concerns remain present, trust in banks among young people is high. Only 16% of respondents said that they trust their mobile provider more than their bank. Gemalto believed this to show that 'banks have an opportunity to have a fresh start with the younger generation and use them as a vehicle to build greater trust among their entire consumer base'.

The report also focused on the changing habits of young consumers. When it comes to the quality of mobile banking, young people wanted a fully featured service with access to all the functions and access they have grown accustomed to in-branch and online. This is not just balance checking, but advanced tasks. For example, domestic transfers and paying bills, which 26% and 40%, respectively, of young customers are doing already.

User experience is crucial to keep the younger section of the market happy. If the mobile banking app was hard to use, 68% of respondents would use the app less and 37% would switch banks altogether. Gemalto said: "Banks need to realise that a fiddly, unresponsive or unreliable app could well cost them customers quickly. Apps need to be thoroughly tested, regularly reviewed and benchmarked against competing services to make sure that quality of service is the best it can be."

Security measures must be considered when calibrating the user experience, especially in terms of speed. As everything online is designed to be done in as few clicks as possible, young consumers will not tolerate going through several security barriers to carry out simple transactions on an app. Gemalto said: "Security cannot be an afterthought when designing an app; it must be included in the discussion and designed right from the start to ensure a positive user experience; whilst ensuring compliance needs are also being met."

The evolving challenge of customer retention

Traditionally, customer retention was fairly simple. People just stuck with the bank they had always used. Nowadays, with the financial crisis of 2008 and the emergence of new technologies, the situation has significantly changed.

RESPONDENTS CONCERNED WITH MOBILE BANKING SECURITY

Country	% of respondents
Brazil	84%
Singapore	77%
Mexico	71%
USA	54%
UK	49%
Overall	67%

Source: The GSMA

RESPONDENTS WHO WOULD CHANGE BANK IF IT DID NOT OFFER MOBILE BANKING SERVICES

Country	% of respondents
Mexico	49%
Brazil	42%
USA	32%
UK	29%
Singapore	28%
Overall	37%

Source: The GSMA

This new generation is more demanding than previous ones. 37% would change banks simply because the mBanking experience is inadequate. In the UK alone, 1 million people switched bank accounts in 2014, a rise of 20% year-on-year. While regulation made it easier to switch than it has been in the past, the report claimed this mass exodus purports a sense of dissatisfaction with the consumer experience.

For customer retention, Gemalto highlighted two key priorities:

1. Building out the service catalogue and user experience for this generation, and

2. Using engaging techniques and tools to engage and upsell to your upcoming audience, from social media platforms and engaging digital content to intelligent mobile marketing techniques.

Old tactics, such as offering a package of bundled products for consumers in a branch, are no longer relevant. Fewer and fewer people are going anywhere near a branch now that much more convenient access is available on their phone.

Gemalto said: "Banks should be using the mobile channel to cost-effectively engage and deliver product offers and general content to the right customers at the right time, driving organic growth and customer retention and, ultimately, increasing revenue."

There are various options to make this happen. From dynamic messaging programs to deliver 'tappable' tailored offers and content to the pre-login mobile apps screen, to contextual messages to customers based on their activity, there's a wide range of opportunity for banks to differentiate themselves.

Mobile can also be used for engagement not related to sales. There's an opportunity to educate consumers further on finance with, for example, messages about digital fraud prevention or value-added content such as guides for first-time homebuyers or parents.

The benefits to this approach are many and varied. Gemalto said: "First and foremost, mobile channels cost less to serve. According to the TowerGroup, the average cost per transaction of the mobile banking channel in the United States is 2% of branch-based transaction costs.

"And for course the right marketing and advertising campaigns will boost revenues. But there is also an incredible return from the recognition and excitement that comes from being seen as an innovator by existing and prospective customers."

TIME SPENT ON MOBILE DEVICES

Time	% of respondents
Less than an hour	4%
1-2 hours	10%
2-3 hours	15%
3-4 hours	18%
4-5 hours	15%
Over 5 hours	38%

Source: The GSMA

Regional differences

The report honed in on five regions in their research; Brazil, Mexico, Singapore, the United Kingdom and the United States. While trends were largely the same worldwide, there were some key differences.

Brazil's young people with smartphones or tablets used them more than in any other country. Almost half (45.9%) used them for more than five hours a day. With that level of usage, it is not a surprise that security and ease of use were key concerns. 84% were worried about the security of their mobile banking services, more than any other country in the survey, and 49.9% stated that they would switch banks if an app was hard to use. Gemalto posited the theory that security concerns were high due to the prominent levels of criminal activity in Brazil, but this was merely speculation.

Mexico polled fairly similarly to Brazil, with comparable reactions for overall mobile banking usage and results for poor security or ease of use. One difference was the trust factor. 22% of Mexican respondents trusted their mobile provider more than their bank, more than in any other surveyed country.

According to the Mexican Internet Association (AMIPCI), 47% of those who do not use online banking give distrust of the security as their reason. This could be a heavy concern for the unbanked customers who may not have experience with secure traditional financial services.

Singapore's technological astuteness comes across in the report. A greater percentage of the population in Singapore use mobile banking services than in any other country (71%). Singaporeans are also the most intolerant of security issues with more than half (50.3%) prepared to switch bank if its app is not secure.

The United Kingdom's young people use their mobiles and tablets less than their international counterparts with only 27% using them for more than five hours. They are also the slowest surveyed to adopt mobile banking services as only 53% of them use the services. Young Brits tend to be more trusting and accepting of their bank though. Among the countries in the survey, they're the least worried about mobile banking security with only 49% expressing concern. Less than 10% trust their mobile operator more than their bank and only 26.2% of young people would switch bank if the app is hard to use.

Gemalto said: "Whilst this should seem promising, it contrasts significantly with the rest of the British adult's population confidence in the banking industry as a whole. [According to Ernst & Young], this has continued to decrease dramatically since the 2008 crash – 37% in the last 12 months alone, and 10% more than any other countries included in this research.

"This suggests that British banks have the most work to do to regain overall consumer trust. Perhaps the younger audience is simply a little more apathetic about the issue and apathy and distrust in the banking system develops with age."

In the United States, behaviour is similar to the United Kingdom with closely low levels of mobile banking adoption and concerns about security. They are also the second most trusting of banking as only 13.2% trust their mobile provider more and only 45.9% were prepared to switch bank if their mobile app was not secure enough.

In regards to this lack of concern, the report said: "Perhaps education and awareness campaigns are necessary to help American youth understand the risk cyber crime represents and encourage them to take protective measures accordingly.

"Indeed, many of the banks invest in anti-fraud organisations, such as Financial Fraud Action in the UK, focused on raising consumer awareness and understanding of the issues and how to protect themselves from social engineering and other criminal attempts to separate consumers from their money."

The smartphone and tablet boom has heavily affected the financial services sector. Many believe that banking through these pieces of technology is absolutely crucial. Their influence will only grow as the younger generation of digital natives grows older and its needs expand. Procrastinating when it comes to this issue would be a major misstep. As the report conveys, mobile is 'a rapidly accelerating, unstoppable force'.

The report concluded: "This generation demands innovation, quality and security in mobile, and if you don't give it to them, they'll find another provider who can." ■

More accessible banking in sight

While the banking industry continually focuses on delivering a more accessible user experience, there are still sections of society that remain neglected. One of these is the blind and partially sighted. **Patrick Brusnahan** talks to the head of strategy at the RNIB about the steps that need to be taken by the banks

As user experience improves in quality with each passing year, through products such as mobile banking apps and contactless cards, there are some sectors of the market still not catered for; including the two million blind and partially sighted people living in the UK. In fact, some of the new services out there are making banking even more frustrating for the visually impaired.

Steve Tyler, head of strategy and planning at RNIB (The Royal National Institute of Blind People) Solutions, told RBI: "The current state is that we're doing pretty well, but there's room for improvement. Today, we're in a place where if you're a blind or partially sighted person, you can approach any bank and get your statements or letters in Braille or large print or in audio. In terms of access of information, I think we're doing pretty well."

There has been progress. This is largely due to the RNIB and the banking industry communicating more on the issue. Tyler said: "We've had some major breakthroughs around talking ATMs and we've got a bunch of commitments from the industry around making more of those available in more locations. We're expecting that by 2016, or the end of 2016, pretty much every location will have at least one accessible cash dispenser."

Despite the advancements made recently, there are still hurdles that need to be addressed. Tyler highlighted and explained the most crucial three.

Firstly, banks have to understand that all customers are different and everyone has their own particular needs. This includes staff at branches being informed of the options available for the visually impaired so they can, in turn, inform consumers.

Tyler added: "Blind and partially sighted people are, first and foremost, individuals and they want to be treated as genuine customers. They want to be treated with respect and dignity. A lot of that comes down to staff training and understanding around accessibility. We've got a way to go on that."

The next challenge relates to new technology. While it opens up possibilities, it also adds barriers. For example, contactless cards make payments easier and quicker. However, from a blind perspective, if you can't see the screen and there are no other notifications apart from a beep, it can be unclear if the transaction went through twice or how much was actually taken from the card. Tyler added: "It's so easy to make payments, which is a breakthrough in itself, but that can come with accessibility challenges or massive potential benefits."

The third key struggle is that sight loss is often accompanied with other problems, particularly with the elderly. This could range from anything associated with memory loss or even frailty. Tyler said: "There's a real challenge around this because with the processes that allow people to make decisions about money, these people are relying on friends and family to help. This problem's growing all the time as the population grows older. We've got some work to do around the nicest, easiest and most efficient processes to engage with friends and family supporting that individual."

A greater problem is the fear of losing control of one's own personal finances if the visually impaired population need to rely on others. Tyler said: "It certainly leads to people being afraid and not dealing with it themselves, despite a want to do so.

"One example is cheque books. A few years ago, there was a whole push back from the general public surrounding cheque books, but not from the visually impaired. I mean, what does a cheque book do for you? It means you've got control. You agree a certain amount you're going to pay. If you have any doubts, you can cancel it. There's a control aspect, you can reverse decisions or at least feel as if you can. In the new era of electronic banking, that's less obvious to individuals. It's one of those less tangible challenges that are a problem."

It is a tricky balance to maintain. How do you maintain control for the consumer as well as making it more accessible? Even some of the more accessible services have their own pitfalls, for example, talking automated teller machines (ATMs). A service that you would presume hands more control over to a blind or partially sighted customer can end up taking it away.

On this issue, Tyler explained: "People were worried about the idea of making cash dispensers accessible because they were thinking,:'crikey, what issues does this raise?' How about if you're on the street and plug an earpiece in, people will surely know that you can't see the screen and you might be more susceptible to being mugged or attacked.

"Another aspect is the sheer amount of people who reported that they needed to withdraw money, went to an ATM and asked a passer-by to help them. That's fraught with issues. Some of the accessibility solutions were adding to the problems, rather than alleviating them."

The trend surrounding all of these issues seems to be the banking sector's difficulty in thinking outside of the box and stepping into a cross section of society's shoes.

Some banks are taking small, but significant, steps. RBS and NatWest recently launched new accessible debit and savings cards specifically designed for the visually impaired. The features of the card include Braille markings to identify which card is which and a notch cut on the right hand side of the card to help visually impaired customers insert their card into ATMs and PIN pads correctly.

Ross McEwan, CEO of RBS, said: "We want to be recognised as a bank that listens to its customers and responds to their issues. It's really important to me that we make banking as simple and easy as possible for all of our customers and our accessible cards are another step towards us earning back the trust of the public."

It seems to be that things are moving are in the right direction. Tyler concluded: "People are very different and have different needs. Of course, visual impairment comes in all shapes and sizes from blindness to tunnel vision to colour-blindness. We're just trying to educate the banking sector a bit more around these certain needs." ■

Digital Banking Club security debate: "The perimeter has already been breached"

The Digital Banking Club's latest debate focussed on the topic of progressive security. Clayton Locke said that financial institutions must go beyond perimeter defences to deploy new technologies smart enough to defeat current and emerging threats, keep their data safe and protect their customers. **Patrick Brusnahan** reports

The Panellists

Shashidhar Bhat, head of digital products EMEA Consumer
Citibank
Shashidhar is head for Citibank Consumer in EMEA for all digital products, a role in which he champions the roadmap for digital channels. He has worked in operations, sales and extensively in digital in many geographies across the globe.

Shashidhar has a passion for improving digital engagement and enhancing the customer experience.

Peter Neufeld, UK & EMEIA head of digital advisory
EY
Peter is EY's UK & EMEIA head of digital advisory within the financial services practice and has, over the last 20 years, provided strategic insight, creative thinking and reliable technology to some of the world's most successful financial services businesses.

During his career, Peter has helped organisations to build digital capabilities through to maturity and steered award winning digital experiences, programmes and solutions for Global Fortune 100 brands. He led the digital function for a Global Fortune 100 company for EMEA delivering significant digital transformation programmes to clients in the financial services industry and he developed and oversaw the multi-year digital end-to-end transformation of a major UK retailer.

Orna Joseph, head of cyber communications (serious and organised crime)
Office for Security and Counter Terrorism, Home Office
Orna is a communications professional who has worked in central Government for the past five years raising the public's and SMEs' awareness of fraud and cyber-crime prevention. She currently runs HM Government's 'BE Cyber Streetwise' campaign which is a cross-government initiative funded by the Cabinet Office's national Cyber Security Programme that aims to improve the public's cyber hygiene by encouraging them to adopt basic good online behaviours.

Previously, Orna spent over seven years in the law environment world as PR Manager for City of London Police, where she advised on media communications and delivered awareness campaigns for the force on fraud and other security issues. Her background before joining City Police was in charity communications.

Michael Soppitt, director of digital risk and information security
Parker Fitzgerald
Michael is a director within Parker Fitzgerald's digital risk and information security practice focusing on the design and implementation of market leading capabilities to support clients throughout each stage of their digital transformations. He has over 10 years' experience delivering major architecture and business process initiatives at leading financial institutions and consultancies including Santander, Co-operative Financial Services, Accenture, Lloyds Banking Group and American Express.

He has helped develop the firm's approach to cyber security, credit decisioning, fraud detection and digital risk and is a recognised expert in the field of digital risk, lecturing on MSc courses at Warwick University.

Michael holds an MSc in Human Centred Computer Systems, a BSc in Neuroscience from University of Sussex and is a published academic in the field of digital research.

Clayton Locke, CTO
Intelligent Environments
Clayton joined Intelligent Environments in 2012, taking charge of the company's technology team. He brings over 30 years' experience in the software development and consulting industry. He has delivered innovative products and solutions to clients n the financial services and telecommunications sectors, including online banking, FX trading, enterprise architecture and mobile application development.

Clayton is responsible for technology strategy, development and delivery of the Intelligent Environments product suite. He does this passionately, leveraging a lean software development approach to build high quality software products for the company's solid base of blue chip clients.

Held at the prestigious Law Society on Chancery Lane, the Digital Banking Club's first debate of 2015, before a packed room of over 120 attendees, debated the challenges relating to security. According to Intelligent Environments, 87% of customers would change provider if they thought the security of their digital banking application wasn't good enough and 65% of consumers want to see their current provider deploy more security measures, so this side of financial services is clearly non-negotiable.

Chaired by Douglas Blakey, group editor of Timetric's consumer finance titles and Chairman of The Digital Banking Club, the debate covered many aspects of this theme, including security vs. usability, the evolving nature of cyber-crime, the consumer as a possible weak link and financial services' attempts to improve security on all sides.

What exactly is progressive security?

An application armed with progressive security uses a 'nervous system' of sensors and detection points to build up an understanding of what a user is doing. Since the context of the user's actions is well understood within a business application, the accuracy of the risk assessment can be improved.

For example, a network security monitor might understand that a user is sending data from a particular port, but progressive security uses specific domain knowledge to understand that they're making a large CHAPS transfer to an unknown account. This knowledge changes the risk assessment associated with that user's behaviour.

Within an application, user behaviour is monitored and a risk assessment is made of the session based on an overall pattern of behaviour. Suspicion may be raised by individual events, such as a user trying to access an account that doesn't belong to them, or by a collection of small events that are individually innocuous but might indicate a systemic probing for vulnerabilities by a hacker.

Applications can also create a broader context by including infomation from outside the application such as location data from the device or alerts downloaded from the

Cloud. A continuous security monitor, with detectors placed at critical points within the application, provides a higher level of security than perimeter defences alone. When deployed correctly, progressive security can actually enhance the user's digital banking experience as well.

Perimeter security

Clayton Locke, CTO of Intelligent Environments, opened the debate saying banks must move beyond an all-or-nothing authentication perimeter. What was needed, he argued, was a continuous assessment of risk.

An attacker who makes it through an exterior perimeter into a corporate network is let into an implicitly trusting environment. Although systems are often segregated into VLANs, an undetected hacker is in no rush and can take their time to penetrate each one. The similarities to computer gaming are there to see; hackers can enjoy the freedom of undetected activity in pursuit of a stimulating challenge.

Locke said: "In our increasingly networked world, we can no longer rely on perimeter defences to protect our digital assets. The information stored in our systems has significant value and the criminals trying to steal it are technically sophisticated and well organised.

"Banks and financial service companies must go beyond perimeter defences to deploy new technologies smart enough to defeat current and emerging threats, keep their data safe and protect their customers."

He continued: "Progressive security holds the promise of banking applications that tailor the balance between usability and security dynamically for each user, in the user's context, in real time.

"Increasing the height of the wall won't help if there are holes in it. Attackers don't have to break through the perimeter if they can trick a user into letting them in. Despite years of end-user education, people continue to pick dreadful passwords and fall prey to simple-phishing attacks. The weakest point in security systems is the human element.

"Banks and financial services companies must go beyond perimeter defences to deploy new technologies smart enough to defeat current and emerging threats, keep their data safe and protect their customers. By focusing only on the perimeter, the user experience takes a hit."

Michael Soppitt, director of digital risk and information security at Parker Fitzgerald, agreed and added that perimeter-based defences don't work as digital changes the idea of risks themselves. He said that the 'economics of crime have changed forever'.

Locke added that progressive security could be the answer, but only if the software was malleable, such as being able to work in real time and not as a static rule. One example he gave was that certain banks deem it unacceptable to show something as simple as a bank balance without logging in.

"Progressive security seeks to establish a user's degree of trustworthiness and makes applications more nuanced and analogued. Users are no longer trusted or untrusted in a single binary decision"

The persistence of cyber criminals

The security issue is a serious one. Despite there being more security tools than ever, cyber-crime has shown no sign of halting in the financial sector. Online fraud increased by 71% in 2014. In 2013, 62% of records stolen in online data beaches were credit and debit card data.

The last 12 months saw a 50% increase in the number of declared data breaches and 7 of the 10 worst data breaches of all time, including one attack on JPMorgan Chase, according to the Breach Index Level. Shockingly, over 500 million financial records were stolen in 2014.

One example of the developing nature of hacking was the Sony Pictures breach. Hackers were able to range far and wide through the Sony coporate network, compromising the entire organisation and leading to a multitude of leaks. The thieves made off with everything from employee social security numbers to unreleased films as well as caches of highly embarrassing emails that resulted in a constant stream of bad PR all over the world.

Whoever broke into Sony Pictures used spear-phishing to breach the organisation's security perimeter. Having got past the company's security at the gate, the attackers enjoyed significant freedom of movement for an elongated amount of time. They spent months undetected within Sony's systems. It is a significant illustration of the painful limitations of a perimeter-centric security policy.

Peter Neufeld, UK & EMEIA head of digital advisory at EY, believed that consumer education was critical in security otherwise 'some policies would do more to irritate customers than protect them'.

Consumers' role in their own security was an interesting point.

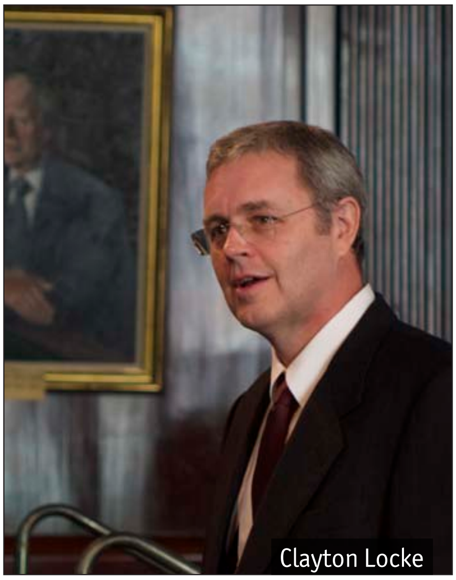
Orna Joseph, head of cyber communications (serious and organised crime) at the Office for Security and Counter Terrorism in the Home Office, said that her work involves bringing 'responsibility back to the individual'.

Shashidhar Bhat, head of digital products EMEA at Citibank Consumer, argued that 'the customer is the weakest link' in the security process. However, he added that there's no 'definite answer' to this problem, but the situation is improving.

Soppitt suggested that one possible answer was 'organisations doing more so the customer has to do less' and that 'consumer education is absolutely key'.

The biometric question

Of all the possible solutions offered, one that was shot down fairly quickly was biometrics. Soppitt suggested that 'biometrics have merely reduced friction' and nothing else,



Clayton Locke

"Traditionally, security and usability have been viewed as opposing priorities that need to be traded off against each other. However, there is a growing body of thought that suggests this is wrong. Security that sacrifices usability is not secure in practice"

while Bhat said that 'biometrics are weaker than passwords' but they were 'one brick in the solution to this challenge'.

Bhat stated that 'from a banking perspective, we are making significant investments in progressive security'. Soppitt shot back and said: "From a consumer perspective, they are yet to see this expenditure affect them."

In terms of cost, perimeter security is expensive and burns a large part of cybersecurity budgets. The RSA said that 80% of security spending is spent on the perimeter while it only thwarts 30% of threats.

Next was the debate of usability vs. security and whether the two terms were actually mutually exclusive. Bhat believed that 'usability is a way to keep the good users happy'.

Locke added: "Traditionally, security and usability have been viewed as opposing priorities that need to be traded off against each other; users want freedom of access, security demands checkpoints and controls.

"However, there is a growing body of thought that suggests this is wrong. Security that sacrifices usability is not secure in practice. It's no coincidence that two of the most pressing problems keeping corporate IT up at night, phishing and poor passwords, are problems caused in large part by poor usability. Passwords require us to create and remember large and random strings of characters; something humans find difficult and uncomfortable, so we don't do it."

Can a company's level of security be used to stand out in the market?

Another point of discussion was whether a financial institution's level of security could be used as a differentiator in the marketplace. Bhat believed that security should not be treated as a competitive advantage and that if a bank claimed to have better security, it was just an invitation for hackers to attack. In fact, if banks did start competing on this issue, it could be a 'race to the bottom'.

Soppitt argued that while security itself was not a differentiator due to security being 'not a product, but a process', the security experience is in fact a differentiator and banks should hone in on that.

Locke said that there needed to be a 'standard for progressive security across the entire industry' He said: "The industry must resist the temptation to make security a point of differentiation. We should share best practice and work together to gather intelligence that helps all players in the industry indentify threats to banking services."

Joseph concurred and thought that a 'neutral brand' would help with the security debate.

The mutual trust between user and device

Locke added: "Progressive security seeks to establish a user's degree of trustworthiness and makes applications more nuanced.

"Users are no longer trusted or untrusted in a single binary decision. Security and credential requirements can be dialled up or down depending upon context and risk assessment.

"To support that concept, the application's interface has to become malleable. It must be able to change in real-time to support a range of different countermeasures such as different authentication factors, alerts and warnings or restricted access."

Could banks help each other out security-wise by sharing information? Neufeld felt that 'there's already a lot of sharing in the industry', but Locke put forward the argument that 'there needs to be more information sharing about cyber-threats'.

He continued: "Cooperation requires a common language and collective understanding of the threats and risk. Today, there are many basic security questions that banks don't agree on, from acceptable PIN length to balance before log in.

"This causes confusion for customers who are not in a position to judge what is secure. A practical way forward is the creation of a reference standard for progressive security. This standard could build upon CBEST, ISO27001 and BSI to become a reference for financial services firms seeking to build better security into their infrastructures."

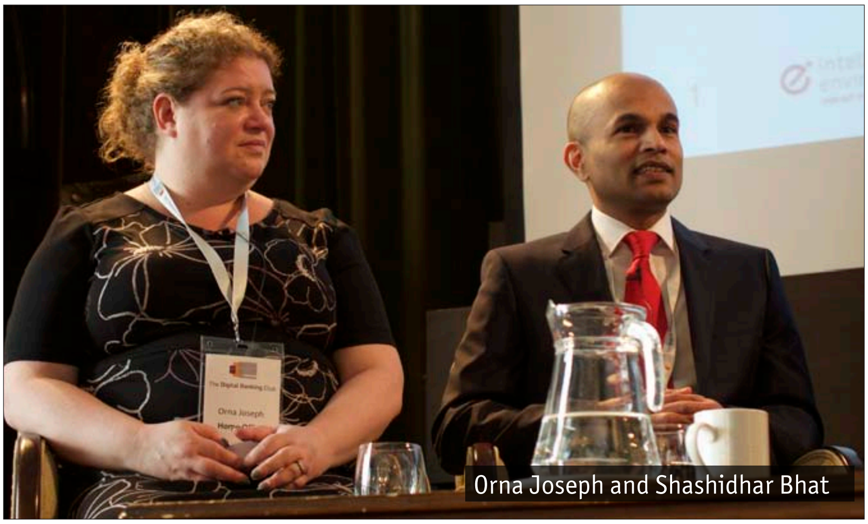
One thing that the panel did agree on was that security will never be 100% secure. There will always be cybercrime. On this subject, Soppitt quipped:

"The only way to avoid fraud is to not sell anything."

Locke concluded: "Customers are making faster and more frequent contact with their banks and getting more used to devices with excellent standards of design and usability.

"They expect the highest standards of protection and demand a fast, seamless experience unhindered by awkward security protocols.

"In the past, security and usability were often viewed as mutually exclusive. Now we are compelled to move beyond that way of thinking: we need more of both." ■



Orna Joseph and Shashidhar Bhat

Gamification: Is it a winning strategy?

There has been a large amount of hype centred on gamification and its application to financial institutions. Although predictions have been made of a widespread uptake, has the innovation left a real mark on the banking industry? **John Schaffer** speaks to industry experts on the trend and where it seems to be heading

The consumer appetite for video games has grown exponentially over the past few years. Video games have overtaken film as the biggest entertainment industry. Clearly interactivity is paramount in the digital age, so can this addictive pastime be utilised by financial institutions in the form of gamification?

According to a 2014 survey from the entertainment software association, 59% of Americans play video games. The demographic of players has also changed. Computer games can no longer merely be associated with children and male teenagers, with the average gamer age is 31 and 48% of them are female.

The rise in popularity of video games has meant that the sentiment behind it has become more pervasive. Gamification takes game mechanics and applies them to a non-gaming context by using features such as collecting tokens, competition with friends and addictiveness.

Gamification has been successfully adopted in scenarios such as learning applications. Apps such as Duolingo, where users can learn a foreign language, or Codecademy, where numerous computer programming languages can be learnt, utilise gamification whereby users can compete with each other and share their stats over social media. This incentivises the entire experience, as users are more likely to improve in a more competitive environment.

Using gamification in a financial context does not have to mimic the feel of a video game. The interpretation of what gamification is can be different for both financial institutions and customers.

Alex Bray, retail channels director for banking at Misys, told RBI: "It is always very interesting how we define gamification and what people mean by gamification because it means very different things for different people. The way I define gamification, is to look at any application of the principals of gaming within a business process. For some banks they see it very much as a defined, 'I have launched a game' sort of thing. For some banks its very much about taking a process and adding the concepts of gamification to it to get people to do that process more regularly."

The integration of gamification into a financial context usually centres around either branding or education. The education element will be predominantly centered around personal financial management. Financial institutions have used gamification in a purely branding context, but it is questionable how effective these applications can be.

Barclaycard launched its waterslide extreme app in 2009 and attained 3 million downloads within two weeks of release. The game saw users navigating slides whilst collecting coins and avoiding dangerous obstacles. Although the game was clearly popular and had an addictive element, the experience had no relation to any of Barclaycard's services.

However, current banking apps are certainly not amongst consumers' favourite, so gamification could potentially be a way to improve consumer engagement. Current banking apps are, in the most part, seen as purely functional. On the other hand, as games are not usually seen to be a serious pursuit, the image of gamification is perhaps incongruent with customers' fears over financial security.

There has certainly been a degree of hype around gamification over the past few years. However, there has not been a mass uptake of gamification technology by banks and financial institutions. Although services such as BBVA's 'game' have had successes, with 100,000 active users six months after its release, gamification has not become as pervasive as some had predicted.

Online fraud was up 71% in 2014, according to Financial Fraud Action UK, despite the release of numerous gadgets to tighten security. So the 'fun' image of gamification is perhaps met with scepticism as consumers fear the reliability of financial security.

Bulgarian bank uses gamification

Bulgaria's DSK bank uses a gamification app called Gameo, giving customers a personal financial management tool. The application takes everyday banking tasks such as setting financial goals and making savings, and creates a game around the process. Customers can gain real world benefits by attaining points in the game to redeem against incentives such as concert tickets or vouchers.

The benefit for the bank is that it encourages DSK customers to make regular savings. Misys, a financial software development company, have developed the technology used by DSK.

A spokesperson from DSK Bank told RBI, that alongside the expected benefits such as improvements in market perception and greater customer engagement the gamification app allows the bank to improve its Corporate Social Responsibility profile. The spokesperson said: "Realizing the low financial literacy in Bulgaria, we designed a series of questions which will help our customers about personal finance for which they receive reward points."

Gamified internal training

Brian Burke, research VP at Gartner, suggested that the focus has moved away from customer engagement to internal staff training: "While there was an initial flurry of activity in banks around gamification, it has somewhat died down.

"Clearly where it has shifted is to training for banks. There have been a number of vendors and applications that have sprung up fairly recently. Vendors such as Morph Media, True Office and Banker's Lab provide specific training for banks and financial institutions."

Burke commented on the relative lull in advancement in gamification: "The over inflated expectations are adjusting back to reality. I think that when you look at how gamification is being leveraged, there is a bit of a lull in terms of the hype. But, ultimately there is value in terms of engaging in motivating people using gamification, so we'll eventually see that turn around."

The name of the game

Gamification brings up connotations of a novelty item. Although banks and financial institutions will not disregard the effectiveness of entertainment for increased customer engagement, gamification can conjure up a juvenile image. Although there have been some instances of gamification, uptake has been modest, especially amongst the larger banks.

Bray said: "The name gamification does not do gamification any favours. When people talk about the cloud, people freak out because they imagine some sort of amorphous blob that's incredibly vulnerable, and we know that the cloud is not like that at all. The name has not helped the concept here. If it was called something else, it would probably have been adopted much faster."

Banks are slow to adopt technology innovations but, in this case, it is understandable. Financial institutions hold some of the most sensitive information about individuals. The similarities to the adoption of cloud technology are clear, as the name of an innovation could understandably deter customers if it promotes a lack of trust.

Slow uptake in the US

Banks and financial institutions in America have been slow in their uptake of gamification. There have however been some moderate success. PNC Bank released 'Punch the Pig' in 2010. The app encourages customers to save by punching a piggy bank that pops up, and a saving amount is suggested. Money is transferred from the spend account to the growth account. The app can be set to pop up spontaneously, encouraging customers to save small amounts at regular intervals.

Bray talked about gamification in the American market: "If we are talking about does every bank have a stand alone application saying, 'here's my gamification app', then yes the uptake has been slow in the American market.

"I think what banks should be thinking about is more subtle. It's about how you take the concepts of gaming and deploy them against your existing processes. Clearly we've seen some banks start to do this from the internal training perspective.

"Then we are seeing some banks using it for education. We're seeing it in patches here and there, but I think people are slowly starting to come alive to the fact that it is not a stand alone thing that you deploy, it is something that you have to look across your processes and see how you can improve them by deploying those principals. It's less of a thing that you do, its more of a concept that you apply."

Kartik Ramakrishnan, senior VP at Campgemini, gave RBI his views on the uptake in America: "You'd be hard pressed to find examples of gamification at the major banks. Its the start ups and the new entrants who've probably adopted it more.

"You'll find examples in Asia, you'll find examples elsewhere, but the scale is fairly low in North America."

Demand in the Asian market

Where there has been little uptake in the American market, gamification has had some appeal in Asia. Video games are ingrained into society in the east, where the vast majority of gaming technology has originated.

Brian Burke, research VP Gartner, told RBI: "If I had to guess, I would suggest that banks in North America want to be perceived as being more serious, and they think that gamification may detract from that, whereas in the east, its not that banks don't perceive themselves as being serious, but they don't engage with their customers in as serious a manner."

PlayMoolah, is a Singapore headquartered technology company who create interactive games for mobile devices. The games are primarily educational and assist users in the management of their finances. The company has partnered with two banks in Singapore, OCBC and DBS. PlayMoolah's applications have been used by approximately 65,000 people since launching in 2011.

PlayMoolah's partnership with OCBC uses the technology company's Moolahverse mobile app. Access to the game is given to new account holders with $50 deposited. The game is aimed at children aged six and above and is a learning tool for children to cultivate their money management skills. Parents can monitor their child's activity through their own dashboard which is linked to the child's account.

Bi Ying Wong, marketing lead at PlayMoolah, told RBI: "For each license that was given away, three times as many new customers were acquired through this campaign"

The start-up fintech company also has a game named WhyMoolah, released in 2013. The game is targeted at young adults and is a real life simulator which emulates scenarios such as paying back student debt and budgeting. Wong said: "We ran four campaigns with DBS Bank. This generated over 1000, leads for them in the time span of four months."

Ramakrishnan, Capgemini, told RBI: "If you see banks in Asia, there's a whole range of new banks, many of whom don't have what would be fairly mature internet banking options, they did not have fully fledged internet banking capability and they're just coming around to starting to build more internet facing banks.

"What I see in three or four years time is the next wave of digital hits. The US will see a high increase in these methods as part of what they are rolling out to the market." ■

Impulse Saving

Nationwide, the UK's largest mutual, has added gamification features to its smartphone app. The 'Impulse Saver' feature, encourages customers to save small amounts regularly with minimal effort. Customers are not required to enter the regular authentication requirements and can save without entering a passcode.

The functionality of Impulse Saver is almost identical to PNC's Punch the Pig app. Impulse Saver rewards customers with an interactive piggy bank graphic to provide tangible feedback. Nationwide released the added gamification feature in June 2014 and the building society claim that £7m ($10m) has been saved since its launch.

Paul Cooper, head of digital banking at Nationwide, told RBI: "The benefits of gamification are clear; Impulse Saver is specifically designed to promote and reward savings behaviours making saving fun and engaging whilst encouraging customers to create a nest egg.

"We have seen over 52,000 customers use the feature of the last few months, showing the popularity of saving on an impulse."

What makes an app effective?

Andy Lees, member of the UK board at Camgemini, told RBI: "The rules I give my clients are:

- Keep it simple;
- Make sure its engaging through to addictive;
- Make sure that their friends or social group can also access it (because competition is only fun if it's your mate that you're playing against), and
- Give it some purpose to the outcome, (i.e. there's something to celebrate in that success)."

Lee added: "I think the ones that haven't worked so well are the ones that are almost too corporate and too obvious in terms of the message or what they are trying to push to the audience base.

"So if you play the game and I'm going to end up being sold a loan, I'm probably not going to play it. It creates implicit awareness as opposed to a direct and obvious sell. So keep it simple, keep it engaging and give me some purpose to celebrate."

Gamification still has a long way to go until it is completely mainstream. Only time will tell if the major banks become more serious in their uptake and the innovation becomes less of a novelty. ■

PRODUCTS

DBS debuts SMS queue system in Singapore

Singapore-based DBS and POSB, a consumer banking services brand of DBS, have launched a new SMS queue system which will relieve customers from the hassles of waiting in lines.

The new service, dubbed SMS 'Q', is the first to be launched by a bank in Singapore.

It will enable customers to request for a queue number through SMS before they visit DBS/POSB branches. Customers will also receive notifications on the number of customers ahead of them which will significantly reduce waiting times.

For using the service, customers have to text "Q" to the number tagged to the branch they will visit.

Customers will receive an SMS menu where they can choose their required service. Following their selection, they will receive their queue number and the number of customers ahead of them.

Customers will get a reminder SMS when their turn approaches, and can go directly to their assigned counter when the turn is up.

Moreover, in case a customer misses the turn, he or she will get an SMS providing the option to rejoin the queue.

SMS 'Q' is slated to be rolled out to all full-service DBS/POSB branches by the end of this March.

DBS/POSB is also replacing traditional standing queues with seats to enhance customer comfort.

DBS Bank consumer banking group head (Singapore) Jeremy Soo said: "As the largest bank in Singapore, our branches are one of the most utilised and we are constantly exploring ways to enhance our customers' branch banking experience.

"We also understand that time is a precious commodity so the crucial part of the SMS 'Q' service is that it provides queue information in advance and allows our customers to decide how best to use their time. By removing standing queues and providing seats for our customers, we also hope to make the branch visit more comfortable for all our customers."

STRATEGY

Standard Chartered to cut bonuses by 9%

British lender Standard Chartered has reportedly decided to cut its bonuses by a smaller percentage than its decline in profits.

According to a Sky News report, the bank will shrink its bonus pool by approximately 9% from the previous year's £786m ($1.1bn) putting it in the range of £715m.

With the move, Standard Chartered will risk reigniting a row over banking industry bonuses as the decrease amounts less than the 20% drop in pretax profit analysts' forecast for the bank.

The move will also welcome criticism for the bank's outgoing CEO Peter Sands, who cut bonuses by 15% last year while profits had fallen by 11%, reported the bulletin.

Standard Chartered will replace Sands with the appointment of Bill Winters, a former JP Morgan executive, which was announced earlier in 2015.

REGULATION

George Osborne admits failure to reshape RBS and plans early sale

UK chancellor George Osborne has admitted not radically restructuring Royal Bank of Scotland (RBS) in 2010 was a mistake and outlined plans for an early sale of the government's stake in RBS after the general election.

"When I say 'get rid of it', I mean put it into the good hands of the private sector", Osborne said in an interview with the FT.

Osborne highlighted that cutting down the government stake could take years to complete owing to its large size.

"It's not an exact science, but on some measures it's bigger than all the privatisations of the 1980s put together. Second, I think people want to see they get their money back. The British taxpayer wants to feel they haven't suffered some enormous loss.

Osbourne continued: "So there are constraints around it, but it's certainly something I would want to get moving on in the summer after the election. I would want to see a review on a plan for disposal."

The lender is currently 79% owned by taxpayers after the government bailed it out in end of 2008 and early 2009 to prevent its collapse.

Business secretary Vince Cable wanted to break up RBS in 2012 but was overruled by Osborne who orchestrated the exit of the bank's chief executive Stephen Hester in 2013.

M&A

Scotiabank offloads credit portfolio in Egypt

Canada's Scotiabank has sold its credit portfolio in Egypt to local lender Arab African International Bank (AAIB).

Under the deal, Scotiabank has sold its loan and deposit portfolios, its portfolio of letters of credit and guarantees and documentary collections to AAIB.

AAIB will now be responsible for delivering banking services for Scotiabank's clients in Egypt through the Scotiabank's office or AAIB's nationwide branches.

RESEARCH

UK banking industry's ROE to hit almost double digit mark in 2015: EY

UK bankers anticipate that the industry will report a nearly double digit average return on equity (ROE) in 2015 at 9.5% for the first time since 2009, according to EY's European Banking Barometer 2015.

The increase, attributed to an anticipated 3.75% uplift this year, represents over thrice the rise forecast in mainland Europe (1.09%).

Estimates imply that UK lenders will be able to cover their cost of equity (9.1%) for the first time in six years if the projected figures are achieved.

EY lead global banking analyst Steven Lewis commented: "Strong revenue figures herald a positive message of a changed industry, which is on a more sustainable footing for future performance. Although achieving an ROE of 9.5% and exceeding the cost of equity depends on the banks delivering on their revenue and cost targets and continued growth in the UK economy, it would be a welcome boost to UK banks that have been struggling to deliver to shareholders.

"Achieving ever greater ROE requires more than just an improving economic environment. It is a balancing act, which has been difficult to get right given increased capital requirements, a higher cost of capital, more liquidity and an increase in the cost of compliance. But, it appears that we are finally getting back on track to achieving sustainable growth."

UK banks have been unable to reach double digit ROE since 2007, when they posted an average ROE of 17.6%.

Notably in 2009, ROE reached 9.4%, but saw a sharp decline to 1.1% in 2013.

M&A

Citigroup sells 9.9% stake in Akbank for $1.15bn

Citigroup has completed offloading a 9.9% equity interest in Turkey's Akbank for about $1.15bn, its latest sale of non-core operations overseas to slash costs and boost capital.

Citigroup has sold 396 million common shares in Akbank through an equity offering for TRY7.45 per share.

However, Citigroup said it is committed to serving its Turkey's corporate and commercial clients such as medium and large corporations, financial institutions, public entities, and subsidiaries of foreign multinational companies even following the sale.

Citigroup acquired a 20% equity stake in Akbank in 2007, and in May 2012 sold 10.1% equity stake for $1.15bn.

DISTRIBUTION

RBS to slash 600 jobs in Netherlands

The Royal Bank of Scotland (RBS) is axing at least 600 of its 650 jobs in its Dutch branch.

The bank CEO Jan de Ruiter said that the job cuts will be executed in a period of 18 to 26 months and compulsory redundancies may be unavoidable.

Ruiter added that the lender will now completely exit the Dutch market. However, it will remain active in risk management as well as currency trading in the region.

Union CN Dienstenbond said that there will be just 10 to 15 jobs at the Amsterdam office by 2018.

M&A

Barclays Africa is in talks to buy the parent company's Egypt and Zimbabwe operations

Barclays Africa Group is reportedly in talks with its parent company to acquire the latter's Egypt and Zimbabwe businesses.

"We're keen to acquire them, but it has to be done at a competitive price and be value accretive and that's the process we're in with Plc. Our core priority is to extract value from our existing portfolio," Bloomberg quoted Barclays Africa CEO Maria Ramos as saying.

Earlier in 2013, Barclays Africa had purchased its parent company's businesses in eight countries on the continent in an all-share transaction.

M&A

Citi eyes sale of Central American retail units to Banco Popular for $1.5bn

Citigroup is planning to offload its Central American retail units to Spain's Banco Popular Espanol for $1.5bn.

According to media reports, the sale price is expected to slightly exceed the units' book value. The deal is also expected to include the assumption of certain liabilities.

The deal value could however, change as the decision is yet to be finalised.

Citigroup is set to exit consumer banking business in 11 countries, in an effort to focus on high-growth markets and simplify operations. This includes five Latin American countries namely Panama, Guatemala, Costa Rica, Nicaragua and El Salvador. The bank will however, retain corporate banking operations in these markets.

REGULATION

EBA delays stress tests until 2016

The European Banking Authority (EBA) has decided not to run stress tests in 2015, which are targeted at gauging whether European banks have adequate core capital to withstand shocks.

The watchdog will instead run another transparency exercise this year, which will aim to provide detailed data on balance sheets and portfolios of EU banks. The exercise will be in line with a similar exercise carried out in 2013.

According to the EBA: "The decision not to run an EU-wide stress test in 2015 was driven by an acknowledgement of the progress that EU-banks have made in strengthening their capital positions in response to the 2014 asset quality reviews and EU-wide stress test.

"Moreover, these efforts were preceded by several years of capital raising spurred by the EBA's 2011/12 recapitalisation exercise, which led EU banks to strengthen their capital positions by over €200bn ($218bn) and to start the 2014 exercise with a CET1 [common equity Tier 1] ratio of 11.5 per cent."

DISTRIBUTION

Credit Agricole's retail banking arm to slash over 1,600 jobs

LCL, the retail banking unit of France's Credit Agricole, is planning to axe over 1,600 jobs at its branches and among back office roles.

The job cuts, expected by 2018, will constitute nearly 10% of the unit's workforce.

The layoffs are expected to be made through retirements and not through redundancies.

STRATEGY

StanChart may shift global headquarters to Asia

British banking group Standard Chartered may consider shifting its global headquarters to Asia and spinning off its India business into a subsidiary at its board meeting in India on March 23.

The two issues will be discussed in the board meeting though there is no certainty on a decision either way as of now, The Economic Times has reported citing two bankers familiar with the matter.

Sunil Kaushal, who heads the bank's operations in South Asia, said: "India is one of our key markets. Issues such as subsidiarisation have to be discussed on an ongoing basis. I am in no position to comment on what the board would discuss at this point in time. Speculations on moving headquarters have been going on for years. This is reviewed on an on going basis. Immediately there is nothing on the table as of now."

The London-based banking giant generates almost 90% of its earnings from Asia, Africa and the Middle East, and has no retail banking operations in the UK.

For some time now, the bank mulled over the idea of shifting its base to somewhere in Asia, either Singapore or Hong Kong, and converting its Indian arm into a new completely separate subsidiary.

Last month it replaced its longest serving CEO Peter Sands with Bill Winter, an investment banking specialist who worked in JP Morgan Chase.

M&A

Cedrus Invest Bank acquires Stanchart Lebanon's retail operations

Lebanon's Cedrus Invest Bank has completed the acquisition of Standard Chartered Bank's retail banking operations in Lebanon.

Standard Chartered Lebanon will now become a subsidiary of Cedrus Invest Bank and will be rebranded as Cedrus Bank. Cedrus Bank is set to increase its equity to $60m following the acquisition.

Cedrus Invest Bank is the majority stakeholder in Cedrus Bank with a 85% holding, with the remaining stake owned by the Beirut Traders Association's head, Nicolas Chammas.

Fadi Assali, chairman and co-founder of Cedrus Invest Bank, said: "There will be two different managements for the commercial and investment banks, and we are fully committed to separating their activities and boards of directors. However, there will always be cooperation between the two entities," said Cedrus Invest Bank co-founder and chairman Fadi Assali.

About the existing staff of Standard Chartered Cedrus Invest Bank chairman Raed Khoury said, "We will retain the existing staff because we believe that their knowledge of the local and international markets will add great value to our group. We are not merging two banks together; rather we are acquiring a bank so we will need more staff." ■

Silicon Roundabout or Silicon Valley- it's down to 5G

Anna Milne speaks to Richard Wagner, the founder of Advanced Payment Solutions (APS), about the journey to become the first fintech non-bank to offer financial services through the Post Office network, the struggles that followed and what the main barrier for fintech progress is

"A 25% share for digital challengers, collectively, in five years' time would be considered a raving success."

The subscript there being that it is not out of the question, according to Rich Wagner, whose company, Advanced Payment Solutions (APS), has just linked up with the UK's Post Office, granting it access to the Post Office's banking services across its 11,500 branches.

APS started in 2004 and, as CEO Rich Wagner says, was trying to be a challenger bank before the term challenger bank ever became nomenclature in the fintech world. Aps provides banking solutions for consumers, business and the public sector.

Cashplus and the Post Office

Its digital account, Cashplus, serves one million customers and with the service now linked to the Post Office, these customers will be able to make real time deposits, withdrawals and instant balance enquiries over the counter.

Wagner has been targeting the Post Office for seven years to secure this particular access to its branch services. When he initiated early conversation around it, the powers that be at the Post Office felt it was just for traditional banks it seems. Wagner returned two years later and while proceedings got a little further, talks fell down again amid apprehension the project would not gain volume. It seemed to Wagner that the Post Office just didn't see APS as a legitimate player, not being a traditional bank.

"Ultimately, in the last five to six years, the Post Office has become more commercially minded and opened up to ask how are they going to monitise the great distribution channel that it has. They came around to the fact we were showing growth in the marketplace and credibility in providing an alternative solution. We may not be a bank but our product is a current account in all name except cheque-clearing."

The deal was signed about six months ago and the service is now live following a small pilot among friends and family.

"I see ourselves as a First Direct in everything they do, even the servicing side, which we're very proud of. We have over one million consumers, 30,000 SMEs and nearly 30% of the local authority market use our services to facilitate their banking and payment needs.

What are the key barriers for fintech players in London?

"One of the main hurdles that the fintech players need to overcome is financial investment. Anyone that actually has a banking environment has spent many millions and probably billions of pounds to set up an infrastructure that we as a fintech player and the end consumer enjoy today and the bigger financial institutions certainly have a view that they would prefer us not having direct access to capabilities that have been there for, and I hate to say it, the old boys network, the high street clearing banks of the UK."

Wagner says this goes back to 2007 when he APS became the first principal member of MasterCard as a non-bank entity.

"We were able to break those barriers down. It didn't take as long as the Post Office but it did require a two-year lobbying effort to make it happen. And I think once they see the competency these fintech players have- with as much capability and certainly more innovativeness than the high street banks- they'll also see that the volume and growth are going to come from players like us and not from the retail establishments that we've seen over the last 50 years."

What part did the CMA play?

Wagner certainly has temerity: "MasterCard said no about ten times and the Post Office about a hundred. But there are critical access points for fintech players to operate in and by having external parties like the CMA pointing this out to the wider industry. Despite now having access to 11,000 branches and having been a direct member of MasterCard for the last eight years, I still don't have direct access to the faster payments network; I still don't have access to BACS directly and that is an inhibitor for me.

"I'm lucky enough to have a partnership with NatWest, which allows me to have a sort code and account number but I'm not allowed the responsibility to own that sort code and account number range myself- I need to rent it from NatWest. They will have a certain risk parameter from a high street bank legacy system, which I will still have to operate under. If we had that direct access, there is much more flexibility that we could provide to consumers, businesses and even the government- if we were allowed the capability to build those innovative features onto networks that have been there for the benefit of banks for the last five to ten years.

"I'm happy to be the first, it gives me a first mover advantage, but also I recognise the need to do something for the industry and help revolutionise the payments industry"

"The CMA, whatever the outcome, will provide an extremely informative view of the industry. The regulators are going to have to look at this as one small step that says the bodies are going to have to be more proactive in providing access to players like us to accomplish the goals and the CMA-recommended outcomes.

"This link up was a large initiative, a never-before done collaborative effort to grant access to a non-bank. We needed access to the Bank of England; to the link network and it was a combined IT undertaking between the Post Office, Vocalink as a payment gateway network and FIS, APS' card processing platform player.

"I'm happy to be the first, it gives me a first mover advantage, but also I recognise we need to do something for the industry also in providing similar solutions to consumers and businesses in a much digitally-enabled way and will help revolutionise the payments industry on behalf of the banking industry."

Any more lobbying efforts in the pipeline?

"I'm an advisory member on the board of the Emerging Payments Association and we're passionate about getting equal access for non-banks.

"This step took me seven years - I hope the next one won't: getting direct access to the faster payments networks and BACS. If you asked me three or four years ago whether that was even feasible, I would probably have said no but with the emerging aspects of the payments system regulator, the PFR, and with the regulation momentum and the CMA promoting more competitiveness, we no longer have headwinds. We have tailwinds pushing us to the fact that these access capabilities will be there.

"Within the next two years you'll be calling me up talking about APS being the first non-bank to have access to BACS and faster payments."

"In another year or two you'll be hearing of other firsts from APS because that's what we've been doing for the last ten years and we are certainly not going to stop now"

Will non-banks overtake traditional banks?

Wagner is optimistic about the potential fintech non-bank challengers have to disrupt the monopoly of the big UK high street banks, despite the market share they have established."I think it would be a wonderful dream come true. The banks have established a tremendous market share over 50 to 100 years. We know the lethargy of the consumer base. Less than 3% will change their current account in a lifetime, let alone within a year. It'll be interesting to see how the new generation will do their banking.

The banking industry brings innovation every year to the table. Adoption of that innovation sometimes takes a generation to take hold. That is speeding up. Adoption is going faster than I've ever seen in 30 years.

"I think adoption will be much faster than in the previous 25 years. There'll be material change happening and five years from now I still think the big banks will have a majority share but they certainly won't have a 90% share. The fintechs will take a pretty large chunk of that and if collectively, say, fintech players five years from now had a 25% share against major banks I think everyone would agree that would be a raving success.

Of Wagner's 15 years in the UK, ten and a half have been with APS. He also has experience of the US region and is well placed to compare the fintech of both regions.

"In terms of mobile, Europe and the UK are far more advanced. In terms of digital and online customer experience, because of Silicon Valley and a lot of fintech hubs in the US and the technology in the US, they still have a little bit of advantage over the UK and Europe.

"But when it comes to core fintech, even my investor, who's been a managing partner of a private equity firm for well over 30 years, loves the fact that we're in London. Everything you read, all the PR, it's not just PR, it's reality.

However, one concern is that despite the massive talent, the intellectual capital that's in Silicon Roundabout and the City and certainly on South Bank where we sit-the one concern is the internet speed. The UK's internet speed is average, midmarket for all of Europe. And if the UK or certainly London wants to be the fintech capital of the world, they better be in the top tier of internet speed in the world. I don't think it's a big inhibitor but it is a misfit right now. If it continues without change, in five to ten years' time then it will be damaging.

"The UK ranks middle of the table which counters the fact you have so many fintech companies coming for the talent that exists here and it was quite interesting to hear people talk about the sheer amount of traffic. It's so congested. The infrastructure for internet speed hasn't kept up with the growth of the fintech sector within the UK."

"Despite the massive talent in London's Silicon Roundabout, a big concern is internet speed. If it continues without change, in five to ten years' time it will be damaging"

Wagner concludes:

"Never rest on your laurels. We have been a leader for the last 10 years of operation; we want to be a leader for the next ten years. Are we done with lobbying and further access into the payment networks? No, this is a great landmark milestone for us as well as the industry because there's no question the Post Office will allow access to other players. In another year or two you'll be hearing of other firsts from APS because that's what we've been doing for the last ten years and we are certainly not going to stop now." ■

London's internet speed

The table Wagner refers to regarding London's internet speed was part of an article published by The House of Lords Digital Skills Select Committee, examing digital services, adoption and education in the UK.

According to the report, a serious barrier for business is national infrastructure, "we need a minimum of three Server Farms".

Sean Williams, group director, Strategy, Policy and Portfolio, BT, said, "I think it is a shared responsibility between the Government, the regulator, the industry and our customers. I think it is quite well recognised in the UK that there is a commercial case to take investment to about two-thirds of the country, and beyond that the commercial case for investing in new networks is uneconomic. We have had support from the Government under the BBUK scheme. As a result, we will get superfast broadband networks into more than 90% of the country."

Dominic Field, from the Boston Consulting Group talked about the bigger problem being mobile broadband speeds, not the fixed variety.

"In the infrastructure scores that I talked about earlier, we place the UK at number 13 out of 65 countries around the world.

"The area that held us back was not fixed broadband, which we have talked about so far, but mobile. Mobile broadband access is actually the primary mode of access for many people in the country and is increasingly becoming so. That is an area where we have lagged behind both in access and in price. That was the factor that weighed us down and took us to number 13."

3G, 4G, 5G

It could be that the UK is about to leapfrog from lagging broadband speeds to leading the way with advanced 5G broadband connectivity.

Marcus Mason, policy manager, employment and skills, British Chambers of Commerce, said, "While we have done well in our 3G development, we have begun to lag behind on 4G. Perhaps the development of 5G could be an opportunity for the UK to take the lead once again. A huge benefit of seizing the opportunity on 5G is that we'd then have the infrastructure for new types of businesses to develop off the back of it, ones with a global competitive advantage.

Calling out cold callers: The new threat

Gabriel Hopkins looks at the annoying and ever-present cold caller and what the UK government is doing to combat this nuisance to the benefit of consumers

Starting on April 6, it will be easier for the UK government to fine firms that perpetrate nuisance calls and texts. The fines run as high as £500,000. The government is responding to a tidal wave of complaints —more than 175,000 complaints last year, according to the BBC.

This glut of nuisance calls and text messages has caused annoyance, inconvenience and distress for consumers. Anyone who has been hounded at home by cold calls, or mobbed on their mobile by spam texts, will be glad that the law's muzzle is being removed.

But consumers aren't the only ones cheered by this move. Banks, card issuers and other large enterprises should be grateful as well.

Nuisance calls impair the opportunity for legitimate contacts between companies and their customers. Many large well-known brands, such as banks, successfully use automated customer engagement to quickly and efficiently resolve issues, such as determining the validity of suspicious transactions, helping borrowers make payments or simplifying aspects of customer service.

Automated contact – a valuable channel

By reaching customers in real time across a range of channels, companies are simultaneously improving customer experience and their ability to tackle fraud, manage their accounts and collect overdue funds - helping customers stay current with their payments. Using these tools, one major UK bank reduced the number of fraudulent transactions per compromise from 5 to 3 on average. Another bank found that 94% of customers would recommend them to friends following a positive automated experience.

Mobile communications can be extraordinarily useful in collections. By giving customers more control and making it easier for them to pay, many more of them pay within a much shorter time frame. State-of-art mobile payment systems can not only manage standard customer payments, but also payment plans. These systems also feature a two-way text messaging system that allows payment via regular mobile phones. Alerts are sent to customers as payments are due, and customers can authorize repeat payments just by replying to the SMS, paying in real-time without any need to provide card details. Payment reminders go straight to their pocket.

Mobile services often achieve better results than standard strategies. One leading utility found that on average customers pay six days sooner and that they were able to volume of paper letters to customers by 34%. A survey revealed that 55% of consumers said they preferred the automated voice call, while just 29% said they would prefer a call centre agent. A major bank was able to increase customer contact in collections by 400% without increasing staffing numbers significantly reducing bad debt.

Talking to Millennials

Mobile contact strategies are also important as a channel to reach younger borrowers. FICO has just released research that shows that Millennials are five times more likely to use mobile payment services than other age cohort. In addition, twice as many Millennials (32%) reported that they are likely to use mobile wallet services like Apple Pay or Google Wallet in the next 12 months, compared to survey respondents who are 35 and older (16%). Additionally, 56% of younger Millennials (18-24) report that they are already using or very likely to use alternative payment services like Venmo and PayPal. Banks and card issuers need to use SMS to communicate with younger borrowers through their preferred channel – the mobile device. Without this, customer service for the customers of the future will be hobbled.

The Financial Conduct Authority also recognizes the value of automated communications. The FCA just released an occasional paper on their research into what helps consumers better manage their current accounts and avoid unintended overdrafts.

As shown in a handy infographic the FCA posted on its LinkedIn page, annual summaries of costs and activity don't help at all. What does work? SMS alerts and mobile banking messages. The FCA found that these together resulted in a 24% reduction in unarranged overdraft charges.

As the paper reports: "We find that text alerts reduce monthly unarranged overdraft charges by 6% (£0.22) for Bank A. Mobile banking apps reduce monthly unarranged overdraft charges by 8% (£0.33) for Bank A and by 5% (£0.23) for Bank B. Signing up to both services reduces monthly charges by 24% (£0.93) for Bank A, an effect greater than the sum of the individual effects of each service (an additive effect)."

SMS texts and other automated communications truly are a win-win-win; a lower-cost channel for lenders, a better service for customers and a legitimate way for both parties to ensure and protect the consumer's financial health. It's absolutely critical that we encourage consumers to embrace this form of communications; not train them to shun it. That's why so much of the industry stands behind stepped-up enforcement of the nuisance call laws.

For more information, read FICO's new research report on Millennial banking habits. ■

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