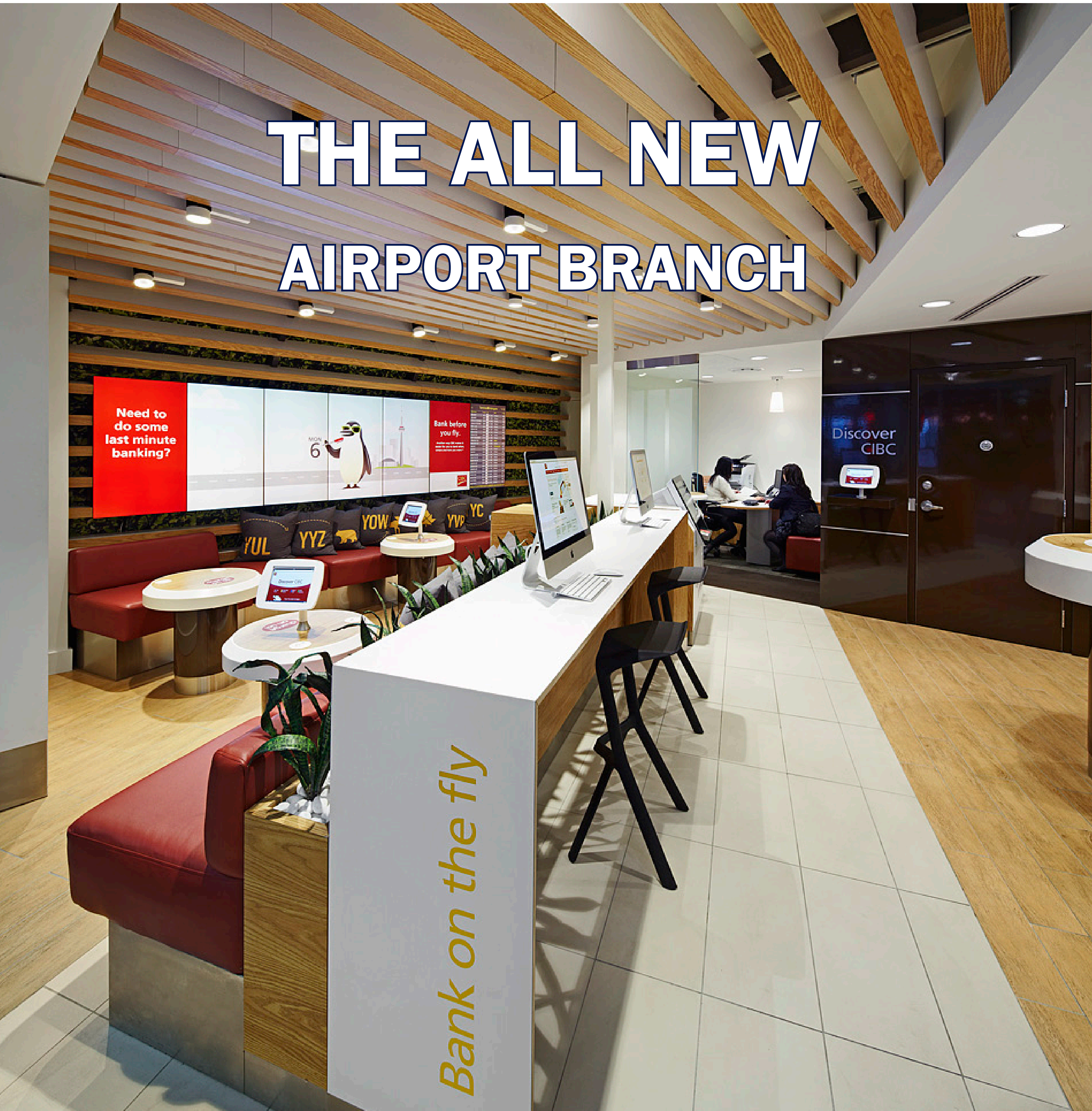
RETAIL BANKER INTERNATIONAL

April 2015 Issue 712

www.retailbankerinternational.com

THE ALL NEW AIRPORT BRANCH



- TECHNOLOGY: CLOUD SECURITY
- STRATEGY: FACEBOOK P2P
- INTERVIEW: UNITE
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WRBR flags up customers' fragile bank loyalty

With a sample size of 16,000 retail banking customers and covering 32 markets, the World Retail Banking Report - the latest is the 12th such annual report published by Capgemini and EFMA - is one of the most impressive surveys of its type.

The WRBR report finds that for the second year in a row, customer satisfaction levels have fallen.

It goes on to say that stagnating global customer experience levels combined with an alarming increase in customers willing to leave their banks, points to weakening bank-customer relationships and the increased possibility of disintermediation by non-bank competitors such as brand-name retailers, FinTech firms, crowd-funding websites, peer-to-peer lenders, Internet/mobile service providers, and Apple NFC-based payment systems. Fair enough and fairly uncontroversial.

So it argues that retail banks must make investments to improve customer experience, especially with middle and back offices, which have historically been ignored and are essential to providing engaging digital services through faster processing times and reduction in errors.

Where the report does raise eyebrows, at least on this desk, is its reference to the number of customers who said they were likely to leave their primary bank in the next six months.

If the report is to be believed - and as stated above - it is a respected report with a deservedly high reputation - account switching will rise into double digits in every region except Western Europe.

According to the WRBR data, customers' likelihood to leave their banks increased anywhere from nearly 4 percentage points (pp) to over 12pp last year depending on region.

That does seem a tad on the high side. Even more incredible, is the finding that globally, less than 50% Gen Y customers are likely to continue with their primary bank in the next six months.

We have been here before with account switching forecasts. Some frankly, incredibly optimistic and outlandish forecasts were made about switching rates in the UK in the run up to the launch of the seven-day switching initiative.

In the end - and apologies for the 'told you so' tone - the Payments Council did a sterling job and the banks have administered seven day switching with impressive efficiency.

Actual number switching: in the 12-month period from 1 April 2014 to 31 March 2015 there were 1.14 million switches, up from 1.06 million switches in the same time period one year before. So an increase of 7%.

The WRBR report is essential reading and warmly recommended. Forgive me if I remain sceptical in the extreme as regards the section of the report relating to prospective account switching.

A magic bullet?

NCR's Kalpana solution has been described as a 'magic bullet' for the ATM industry which is a fairly bold claim.

It may just be deserved. As a veteran attendee of ATM trade shows, Wincor Worlds, branch transformation conferences, ATMIA events and the like, it takes a fair bit for the writer to become excited about a new iteration of the ATM.

Kalpana is an enterprise software platform that moves ATM software and operations to the cloud.

By running ATMs remotely, initially through a thin-client ATM including an Android operating system, it is designed to eliminate malware, enable rapid deployment of new devices and ATM services and this is the part that should interest CIOs and finance directors: reduce costs by up to 40%.

NCR gives as an example a bank running a network of 100 ATMs - Kalpana software could reduce the total cost of ownership by $540,000 to $800,000 a year.

Having no Microsoft licence fees to pay certainly is a contributing factor.

I am obliged to NCR for a peek preview and an excellent demonstration of Kalpana - it will now be fascinating to track its success in the market. ■

Douglas Blakey
Douglas.Blakey@retailbankerinternational.com

There's still life in the old branch

To paraphrase Mark Twain, the reports of the death of the branch have been greatly exaggerated. **Patrick Brusnahan** comments on the misguided predictions of the bank branch's extinction in the marketplace

Despite over 40% of the UK's bank branches (since 1989) now closed, with over 2,000 of these closures in the last decade, there are still signs of life in the old boy.

Metro Bank, the UK challenger bank with a particular focus on branches, is set for a £1bn ($1.4bn) stock market listing merely five years after launch. In addition, Nationwide has just declared an investment of £300m to upgrade its 700-strong branch network over the next five years.

Banks in the UK are also beginning to utilise the Post Office's huge branch network, currently totalling at 12,500 branches, to offer banking solutions to those in smaller communities.

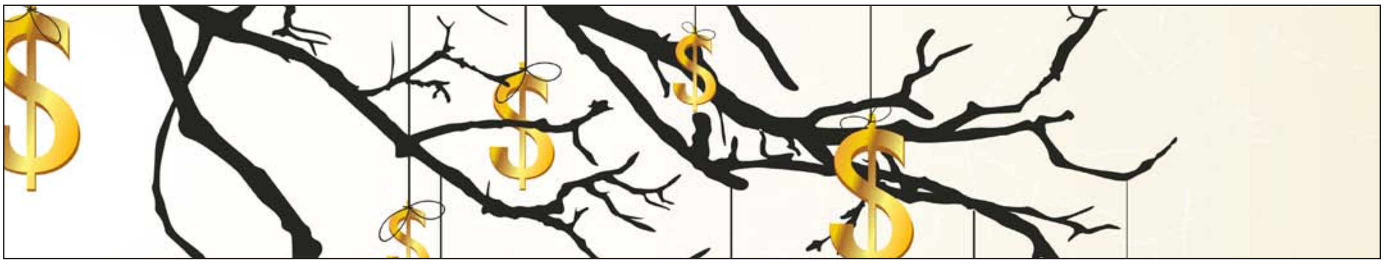
These signs of life are not limited to the UK. Multiple banks worldwide are looking at moving branches into the modern era, including the Canadian Imperial Bank of Commerce (more details on pages 9-11), State Bank of India and DBS.

International involvement is also benefitting the United Kingdom's bank branches. Rob MacGregor of UNITE (see page 14) believes that Spain-based Sabadell's £1.7bn takeover of TSB could benefit TSB's branches. According to MacGregor, the investment provided from such a large bank could give TSB the scale it needs to compete with the Big Four.

It is very easy (too easy, some might say) to predict that electronic and digital payments, provided by banks and non-banks alike, will shove the branch out of the picture. However, a large segment of consumers still prefer their branch.

According to a 2014 survey by the American Bankers Association, 21% of respondents prefer going to a bank branch than any other method to manage their accounts. This is actually a rise from the 18% recorded in 2013.

The future is not as bleak as some reports describe. If the branch is set to disappear, it certainly won't be soon and certainly not without a fight. ■



Wonga needs to make Haste and re-brand

Wonga has fallen into the red. What future is there for this payday lender and indeed the sector as a whole? **Anna Milne** comments

At last- Wonga falls into the red. Who would have thought those funny puppets were the face of such antics as threatening customers with fictitious legal summons for repayments.

It is currently dealing with a double whammy hit in the form of fallen revenues, as a result of the narrower customer base it can go after since the FCA's imposed restrictions on this lending sector in 2014. And a drop in profit as a result of provisions put aside for fines. Lost revenues from decreased advertising have probably also had an impact. Gone are the amusing fuddy-duddy puppets. Even its own advertising agency, Albion, drew the line and retracted its business. Although, in Wonga's defence, boss Andy Haste may have prompted Albion's exit by taking the decision that the puppets could attract children.

"There have been certain practices that we now know went on before we worked with the business and then during the tenure of our relationship that we were unaware of and that we categorically do not agree with," said an Albion spokesperson.

In a year, Wonga's customer base has fallen by around a third and it has announced a pre-tax loss of just over £37m ($55m) for 2014. This is quite a turnaround from the pre-tax profit of £39.7m it made in 2013.

Having to write off thousands of debts after issuing a raft of loans to customers without much discrimination in terms of affordability has been a definite reality check for the lender.

Some industry spokespeople have gone so far as to knock the FCA's imposed restrictions, saying that cash-strapped customers will succumb to traditional loan sharks and end up in worse circumstances. It has also been said that credit unions are not big enough to accommodate the fallout from now-restricted payday lenders and that other options simply aren't known about among the very communities in need.

However, with current press coverage and a brighter industry spotlight on unfair and illicit lending, as well as increased opportunities for unbanked or ill of credit individuals, it could be time for some creativity among financial lenders- there is a potential new stomping ground here for (responsible) lending.

Perhaps also time for government-backed initiatives such as those by Experian, to extend credit-scoring to include social tenant rent payments, private tenant rent payments and other household bills such as broadband.

All is not necessarily lost for Wonga either. Gone are the puppets, maybe it's time to invest in some serious re-branding before the next slick advertising campaign. Boss Andy Haste should make like his namesake and get to re-building the business- sooner or later he may be calling in for a debt fund himself. ■

Digital adoption drives omnichannel banking in APAC

Today's financial services landscape is changing at a faster rate than ever before. The rules of the game are evolving as new entrants seek to disrupt the industry and attack established players' market share. A recent McKinsey report on the APAC banking sector asks: what do consumers in the region really want?

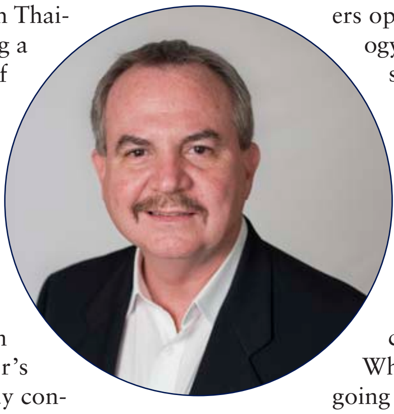
A valid question, and one frequently asked by banks around the world. For those operating in the APAC market, the answer is constantly shifting.

With a rapidly changing demographic and phenomenal economic growth rates, the opportunities and challenges for financial institutions in the region are huge. A key driver, of course, is the dramatic rise in demand for mobile and digital banking services.

With 80% of consumers willing to move banks to those with a more compelling digital proposition, this will act as a key differentiator. Traditional retail banking is under threat in the face of digital innovation, and those that fail to reinvent will be left behind.

Mobile, agile, versatile

Recent years have seen technology adoption across the APAC region grow at an astonishing rate. Smartphones are becoming a part of everyday life – with Thailand in particular boasting a smartphone penetration of 130% at more than one per person for the population of 69 million.



The banking industry is just beginning to tap into the opportunities associated with mobile devices, but it is already becoming a key driver in influencing a customer's choice of bank, as the way consumers manage their money is revolutionizsd.

The adoption of mobile and digital banking has been accelerated by shifting demographics in countries such as Vietnam, Thailand and the Philippines. With a growing proportion of the population under-30, banking customers are more digitally savvy than ever before.

These digital natives differ greatly in their banking requirements from the older generations, looking to manage their finances while on the move, at work or at home. In other words – their bank branch is not where they bank. With the likes of Citigroup anticipating demand for digital banking in Asia to more than double by 2019, the major players in the market are braced for change.

In catering to these needs, APAC banks hold a unique advantage over the larger international players: they are not hindered by the costly baggage of outdated legacy systems. These systems, which sit at the core of most major banks globally, can often be decades old and cause serious headaches when looking to integrate with a new front-end offering.

Not weighed down by legacy technology, the regional players can adapt more readily to the needs of their customers and potentially leapfrog those banks which are slower to react to consumer demands. This agility, combined with relatively low barriers to growth from a regulatory sense, could see them eat into the market share of larger competitors over the next five years.

But all is not lost for the larger players operating on legacy technology – they can engage in core system transformation projects to revolutionise and reinvent their operations. An efficiently-managed project can enable banks to upgrade their core systems to support the front-end services required to remain competitive in the market. While banks must be aware going into such a project that it can often prove a lengthy and complex process, it can produce significant dividends in the long term.

Multi-channel out, omnichannel in

The swift adoption of mobile and digital is ushering in a move towards an 'omnichannel' mindset among retail banks in the region – financial institutions are becoming less product-driven and more customer-centric.

While many sought to bolster their digital and mobile footprints over the last few years, they are now investing heavily in world class technology in a bid to keep up with the expectations of customers.

But this is where many firms try to run before they can walk. A truly omnichannel approach relies heavily on the core processing system supporting it. Too many invest in shiny new front-end offerings without thinking about how it integrates with their core systems.

Temporary solutions may paper over the cracks in the short term, but this is unsustainable and means that a more complex surgical process is required in the long term. Full core transformation projects may seem a daunting prospect, but if managed properly can deliver real benefits across the business once completed.

Utilities level the playing field

It can be challenging for smaller banks to find the budget they need to create the innovative services that will help them stand out from the crowd.

In this case, collaboration through shared financial utilities can help smaller players make cost savings by outsourcing non-differentiating back-end processing, and reallocating funds to the creation of shiny front-end services.

More and more banks globally are recognising which segments of their businesses are non-differentiators, and outsourcing these services to a third party provider. While utilities are a mature concept in other industries, we're only now seeing the financial sector adopting them – primarily driven by the shift from generating revenue to reducing underlying costs.

This frees up valuable resources which can be allocated to differentiating activities that create genuine competitive advantage.

Clearly, banking customers across APAC are quickly warming to the idea of digital and mobile banking. As demand grows for these non-traditional banking channels, banks which adopt an omnichannel approach – underpinned by a top class core system – will be well set for future success. ■

Brian Birt, Managing Director, ASEAN & North Asia, FIS

Not on my shift- the real reason for cloud security concerns

Many financial organisations have dived head first into cloud migration. At the Cloud Banking Europe conference, senior bankers and IT executives explained the need for cloud processes to deliver competitive and fast services as banks strive to stay relevant. Slow and steady wins the race. A**nna Milne** writes

Financial service institutions need to realise that putting their business on the cloud does not have to happen in one fell swoop. Rather, it is better simply to start by putting innovation and new processes on the cloud.

Today's Application Programme Interfaces (APIs) are such that it is quite easy to lay new cloud processes on top of legacy systems. Indeed, new applications and processes should automatically go into the cloud and functions running in a stable and static way, on written-down infrastructure, be left where they are until there is a pressing need to move them.

"If your competitors are coming up with cloud based better alternatives, this might speed the end of life for certain processes, and therefor build a business case for moving them to cloud. Currently, migration tends to be driven by the business case. Efficiency alone- although this inevitably leads to a solid business case- has not been a significant driver," says Anne MacRae, head of financial services at Fujitsu.

Some financial organisations have jumped in wholesale and have set themselves up for very expensive and lengthy cloud migration.

"I question whether that was the right choice. The way to go is to take innovation into the cloud and legacy migration in a managed way, gradually, over time. Where an app comes to end of life, tackle it then. It will be a very long time before core banking platforms get put into the cloud and actually the customers don't want their banks to put their core banking platforms in the cloud."

Getting around security concerns

You need different conversations with Tier 1 organisations and quite another with smaller ones. Predictably, the difference tends to come down to Tier 1 organisations having ingrained die hard attitudes towards change- based on fear, mainly. They have mature procedures and long-developed approaches to security; they need to look at facts intellectually in order to break down security concerns.

There are three main aspects to security concerns, says MacRae. Firstly, around the security within the design of the cloud- data centre-type security built into servers. Secondly, around security by default- how that solution is being deployed; and thirdly, concerns relating to where that solution is deployed. The only concern which is different in a cloud solution to an on-premise solution is the last one.

"Then we ask why-is it because you think the regulators won't like it there? If so, either go and look at regulation or ask the regulator. It's about instilling a problem-solving mind-set," says MacRae.

It seems banks look for obstacles rather than solutions. Smaller organisations tend to be open to the idea that things are safer in the cloud than on-premise. But of course there is the very valid fear of redundancy, which, for all the conferences and vendor efforts to convince the industry to transform their operations, is possibly the one main obstacle as yet insurmountable.

"People do hide behind security concerns, as an excuse to not want to lose their job," says MacRae.

"Banks should be creating a community cloud- there have been attempts by some of our competitors to set this up. I genuinely don't know why they haven't been successful. There is evidence of FS organisations collaborating on other types of utility- where there's a business imperative to do so, for example, collaborating to manage exchanges. Cloud would be for the benefit of efficient business and it's done in retail where they share servers with for example Marks and Spencer sitting next to Boots. It would work well with businesses that have different burst capacities. Retail has a demand at Christmas time and banks at the end of the financial year- around March for many. A shared cloud would work well between businesses of these sectors."

What will and what won't work- why aren't banks jumping into cloud?

Security concerns are very real, but most of the time apprehension comes from the fact organisations seem to perceive it as an all or nothing move, which of course involves huge amounts of cost and risk. No CIO wants to take on such a level of risk.

However, IT is changing and with that, maturity is coming in. CIOs are beginning to see cloud as a very relevant enabler for where they want to drive the business without having to consider taking the legacy infrastructure to cloud at the same time. Providers are beginning to offer APIs, which sit in the cloud but straddle both legacy and cloud platforms.

"There will always be a place for on-premise and private cloud, which is where core banking platforms will end up. New challenger banks are putting core processes into on-premise private cloud, it's a more agile functionality within your computers and storage. It is entirely contained wthin your network so security risks are not the same.

When banks are working with both legacy IT and cloud-based IT, there is a risk of exposure to hackers because the technology is being delivered in a way it wasn't intended.

"Over time most of the cloud stuff will become commodity, and different providers' solutions will look the same. The differentiators will be around location- is there the global footprint?" says MacRae.

It will also come down to the providers' ability to manage a brokerage layer (cloud integration layer) and its trustworthiness.

"When you engage a cloud provider you assess their appetite for risk and some of that risk comes by means of pricing- the risk in the technology, the capital outlay, and the level of business risk. I have heard complaints from financial organisations about a lack of differentiation within cloud providers' commercial models- the pricing and the risk profile that the cloud providers are willing to accept. Providers need to be upfront about this when pitching for business."

At the same time, when clients go to market it is often still the old questions they ask- some of which are no longer applicable. Then they get nervous when something is too innovative, and they don't want the supplier to have the upper hand on the commercials. So it's difficult to get the right balance but the more it is talked about and questions are asked, the more a considered business case may be forged. ■

Gemalto and Coop Bank tackle environmentally friendly and biodegradable contactless cards

How can banking be better for the environment? One option, offered by international digital security company Gemalto, is a biodegradable contactless card. **Patrick Brusnahan** talks to Billy Tran of Gemalto about this new product and its benefits as well as other sustainable services that can be provided by banks

Gemalto's new offering, currently deployed with Coop Bank in Denmark, is an environmentally friendly contactless chip card. The main highlight, in an environmental sense, is that the card is biodegradable.

When speaking to *RBI*, Billy Tran, marketing manager for financial services at Gemalto, said: "Obviously, billions of payment cards are manufactured each and every year. The industry standard, in general, is using a plastic called PVC, also used in piping and other plastic products.

"That's been the industry standard for the last 20-30 years, but it is derived from petroleum, which is not the most sustainable resource and the PVC plastic does not biodegrade.

"It sits in landfills along with all of the other plastic products out there and if you try to incinerate them or break them down in other ways, they release toxic fumes which are also harmful for the environment.

"We've developed a plastic product not developed from petroleum, but from corn. The new card is made from PLA, which is basically plastic made out of corn starch sugar.

"We derived the card out of the corn-based material with the beneficial knowledge that corn is a renewable resource and the card product is 100% biodegradable. If you throw it into a landfill, it will decompose back to its original form in a few weeks."

Danish deployment

Denmark-based Coop Bank has already devoted substantial efforts to create an environmentally stable card network.

To date, Coop Bank has issued a total of nearly 50,000 cards, all of which are biodegradable EMV cards with another 20,000 expected over the next year.

In fact, Coop Bank has been dedicated to the cause since its launch in 2013. In its entire existence, all MasterCard credit cards, debit cards and Visa/Dankort cards have been issued as biodegradable EMV cards.

Now, all newly-issued MasterCard cards are also contactless, as well as having the biodegradable factor, with Visa/Dankart cards set to be the same, starting in the second half of the year.

Challenges

There are some challenges with implementing such a product; the first being manufacturing.

Tran said: "There are some complications with chip in terms of being able to put a chip on the card. Complications such as making sure the plastic and the chip adhere properly and, with contactless cards, there were further challenges.

"Particularly, making sure that the antenna fits properly inside and that you still have a quality product with the durability and lifespan to be able to be in the consumers' wallet."

The awareness factor

Another problem is actually making the market aware to these more environmentally sound options. This does not mean just consumers, but the banks and card issuers themselves.

Tran added: "This technology has been around for a few years. It is not just about creating consumer awareness in the marketplace, but building awareness in terms of financial institutions being aware of the options outside of traditional PVC that bring value to the consumer.

"I think Denmark is a great case study in that you have a very high consumer awareness of environmental issues and there's an expectation for environmentally sustainable products in everyday life.

"Combining that with a market that is already using chip cards and recognises the convenience of contactless payments, you get the best of both worlds.

"The US is becoming more environmentally conscious, as are other parts of the world, and we believe that as awareness grows, so will the demand for such a product."

Sustainable services

While the biodegradable card is a step in the right direction, there is still much more that can be done to make the financial sector more environmentally sustainable. Two factors that Tran highlighted were in deployment and manufacturing.


Billy Tran, Gemalto

Tran said: "The plastic is only a portion of what the consumer gets when they receive their card. The product is probably in an envelope and it's delivered by a carrier. As part of our offering, there are options for printing on recycled paper; there are envelopes that are more sustainable.

"We are also looking at the size of the chip, which is made out of metal. They come in different shapes and sizes. Historically, the chip that goes on the card is a square 8-pin module.

"Globally, something Gemalto has championed is the use of a smaller chip. Functionally, it is exactly the same, but uses less metal.

"By using a fraction less, you have a tremendous environmental impact considering the billions of cards produced every year."

Lesser options

Other manufacturers in the industry have made attempts to be more environmentally conscious in their cards, especially with the usage of recycled PVC. However, Tran found that that process 'doesn't produce a finished product as high quality or as durable' as Gemalto's offering.

To make the card a quality product, the recycled PVC needs to be mixed with regular PVC, making the product far less sustainable than it may seem.

Tran concluded: "The PLA product is unique to Gemalto. In the end, PVC is not renewable. Our biocard is a step forward." ■

The Net Interest Income Conundrum

Ewen Fleming examines the Bank of England's official rate fluctutation since 1975 and asks what can banks and building societies do to deliver high savings rates while still meeting their conduct obligations. Is it fair to accuse them of giving customers a raw deal? It's all in the net interest income conundrum

Savers have been dealt another blow as inflation has dropped to record lows of 0.3% in early 2015. Falling prices of food and fuel have been the main drivers, although we have also seen the Retail Prices Index (RPI) dropping to 1.1%, adding to the downward pressure on inflation.

This is generally considered good news for consumers and the value of their money; however it will likely translate into further pressure on savers who are generating low returns from their nest eggs.

In January the FCA came out saying that savers are 'getting a raw deal' and have been let down by the High Street Banks.

In particular, the FCA found around £160bn ($246.6bn) of the funds held in easy access savings accounts earned an interest rate equal to or lower than the Bank of England base rate of 0.5% in 2013, yet consumers often find it difficult to know what rate they are on, or are put off switching by the expected inconvenience.

Eighty per cent of easy access accounts have not been switched in the last three years.

In the context of ongoing reputational issues faced by financial institutions, brought on by high profile cases of misconduct and unethical behaviour.

The public may find it is easy to pin low savings rates as the fault of the banks, but is this an unfair criticism?

Is it within their gift to increase rates given the economy they are operating in and the regulatory obligations they are expected to adhere to?

Banks often come under fire for driving profit and the public is quick to villainise banks for appearing to rake in profits while the rest of the economy struggles to recover.

In reality, a strong and stable financial sector benefits the wider economy in a number of ways.

Financial institutions need to be able to attract investors and then reward those shareholders for their investment and the government needs a profitable financial sector for a healthy economy.

Banks making sustainable profits while serving their customers with the advice and products they need is a good thing although that balance is becoming harder to achieve.

"It seems inevitable that UK banks will eventually follow many of their international peers and introducr a fee structure for basic transactional accounts. However, the introduction of feeds will cause an upset"

A Challenging Economic and Regulatory Environment

The official bank rate has been at an unprecedented low of 0.5% since 2009. Consumer confidence is only slowly improving and the improved employment figures have not yet translated into economic activity.

Some of this be could the impact of increasing life expectancy and therefore retirement periods, forcing consumers to spend less now and save more to cushion them in later years.

The Government's Funding for Lending Scheme has provided lenders with a cheap source of funding making them less reliant on savings deposits and enabling them to slash savings rates.

The FCA's Customer Conduct Agenda compels financial institutions to keep their customer's interests front of mind.

They are expected to treat customers fairly, often demonstrated through helping customers understand the benefits and risks of products, providing clear information and good service.

Government has added pressure by urging banks to keep the "last branch in town" open providing access to banking in rural communities.

This makes for a challenging economic and regulatory environment for banks to operate in, whilst remaining profitable.

The Regulator would like to see firms focus on core banking activities and move away from complex securitisation models.

The impending ring-fencing deadline will mean that retail banks will be even more dependent on traditional banking activities as their income will no longer be subsidised by their investment banking arm.

A retail bank or building society's chief source of income is Net Interest Income (NII).

In its most basic form; the differential between the rate earned on loans and the rate paid on savings.

If the official rate remains at 0.5%; what

Bank of England official rate- snapshot '75 to date

Jan 1975	11	June 1988	7.875
Jan 1976	11	Sep 1989	13.75
Feb 1977	12	July 1991	10.875
Jan 1978	6.5	Oct 1992	7.875
Feb 1979	14	Jan 1999	6
July 1980	16	Feb 2004	4
Nov 1984	9.5	Dec 2008	2
April 1985	12.375	Mar 2009	0.5


Ewen Fleming, Grant Thornton

levers do these organisations have available to them to improve margins and profits, improve savings rates and maintain their obligations to the customer?

Traditional tools are No longer effective differential pricing per delivery channel

Until recently, banks were able to differentiate pricing based on the delivery channel and customers accepted the value distinction between channels.

Customers who demand the security of face-to-face interactions have traditionally accepted the trade-off of earning less on savings products sold and serviced through the branch network while banks have heavily marketed "online only" deals to entice customers to purchase products via the internet.

An omnichannel world has now decoupled products and channels.

A multi-tier pricing system will only serve to alienate customers who are now comfortable using more than one channel and will likely discover that they are able to get the same product at a better price had they gone online instead of walking into a branch.

Bonus rates

Although the FCA has frowned on the use of bonus or teaser rates - attractive, but temporary rates used to entice savers - they failed to ban the practice altogether.

However "large back books that may lead banks to act against their existing customers" was cited as one of the seven forward looking areas of focus in the FCA 2014 Risk Outlook Statement and we expect this to be an area of high priority to the Regulator.

We have already seen the Royal Bank of Scotland curtail their use of teaser rates offered alongside savings and credit card products.

CEO Ross McEwan, is quoted as saying "You would have thought you would get a better rate for staying, rather than a worse rate for staying and a better rate for going."

The removal of teaser rates and front and back book differential pricing changes the economics considerably.

Cross sales

The easiest way to generate new business and income is to offer existing customers more products.

Repeat customers tend to spend more, cost less to acquire and are more loyal to the brand. Every bank competes to own as much of their customers' wallet as possible.

The PPI mis-selling scandal has cost the industry millions and subsequent remediation and fines on PPI and other cross sold products has made firms rightfully wary of pushing products on customers who don't understand what they are.

Cross selling and bundling products makes it difficult for customers to compare across competitors and allows banks to mask costs and justify lower rates of returns.

Calls for greater transparency and accountability in this area mean that financial service providers are now required to evidence that products have been sold fairly and that the product is deemed suitable for the customer's need.

This is known as an advised sales process and has made selling more complex and costly to provide and to evidence they have delivered this compliantly.

Lend more for more

The ability to increase lending rates and fund this lending with cheap savings is the most powerful lever for banks and building societies to widen the NII margin.

When demand for loans is strong, backed by a growing economy, firms typically acquire new savings by offering higher rates.

However many of the high street brands are finding it difficult to lend money out. Within the existing regulatory framework banks are incentivised to lend to low risk borrowers and there just aren't as many of them out there as the banks would like to hear from.

Metro Bank is testament to that and in its financial statements to 31 December 2014 the bank reported deposits of £2.87bn compared to total loans of £1.59bn.

Despite the imbalance, Metro Bank deposits are still growing marginally faster than loans and this is despite a focus on lending to business customers who now make up almost half of its total lending.

Where to from here?

As discussed, banks and building societies are not in a position to easily widen the NII margin using traditional levers.

Given NII margins are being squeezed, where can these organisations compensate for the shortfall while imbibing the values encouraged by the FCA?

The fee debate

The debate continues about whether or not banks should charge fees on current accounts.

A fee structure will help create transparency and facilitate competition as customers would be able to compare products like for like.

It seems inevitable that UK banks will eventually follow many of their international peers and introduce a fee structure for basic transactional accounts.

However, the introduction of fees will cause an upset and given the current public opinion, many may choose to tread cautiously in this area.

Change the business model: Disruptive and innovative change is required.

The reality that a low interest rate environment might be here to stay, means that financial service providers need to abandon short term fixes to keep them afloat and rather, commit to fundamentally changing their business model.

One such example is committing and wholeheartedly embracing the digital agenda that so many organisations have been toying with over the last decade or more.

A digital bank; one that moves beyond digital channels and strives for a digital, integrated core will be able to realise long term cost efficiencies that will translate into operational savings and can eventually have a positive impact on rates; all the while keeping the customer at the heart of the business.

So perhaps the debate rightfully moves to cost:income ratios once more, but focused on slashing costs without sacrificing levels of service or operations.

The tricky balance for organisations will be to simultaneously keep customer' welfare at the heart of their operations, offer a great customer experience and increase returns for their investors.

Many banks are standing on the edge of the proverbial "burning platform"; there has been enough debate and the survivors will be the ones who make the decision to jump into and embrace the new world order.

The ones who jump soonest and also execute with excellence will be the ones that prosper. ■

__Ewen Fleming__ is a partner in Grant Thornton's financial services advisory division

Why banks welcome Facebook peer-to-peer payments

The 21st century is the era of embracing and sharing new technology, especially for those traditional industries such as banking. These high street banks, where most of us hold our savings, mortgages and travel insurance are perceived as being threatened by new technology. Suntec's **Nanda Kumar** writes

It is true that the traditional banking sector has seen a growing mountain of formidable competitors such as challenger banks like Metro, online lenders like Wonga or new payment providers like Facebook. However, the reality is, customers do not want to leave established banks.

Promoting and delivering higher interest rates are no longer key to keeping hold of customers. In this connected world, customers are more accustomed to getting services and feedback in real-time.

Although according to Avangate research, the majority of customers prefer to pick up the phone if they have a customer service question, but using social media as an avenue is growing due to its real time, direct to vendor offering.

The pace of change

Contrasted with the fast moving world of social media, traditional banking environments for customers appear more lethargic.

The acquisition of customers for banks has become more difficult in this new era by the increased expectations created by maturing technologies. Banks need to step on and deliver high quality service to this "always on" attitude, otherwise customers move to a banking service provider which does.

A recent survey by MobStac 2014 showed 74% of customers rely on social media to make purchase decisions.

Therefore it is no surprise Facebook, following Google, has made a strategic move into payment by offering a service to potential customers so they do not have to visit the merchant's website to make a purchase.

Motivated by the decrease in consumer trust of traditional banks, Facebook has spotted a weakness and is calling out high street banks for a fight.

The recent announcement of its peer-to-peer payments feature to the Messenger platform is an act of war on banks. The social networking giant may have a large user base but will users actually trust Facebook to hold and send their hard-earned money to relatives?

Even though it may be threatening at first glance for banks, they should not lose sleep over new challengers. In fact, this is an opportunity for banks to show off what they know about their customers. The advantage for banks is that they still hold the lifetime relationship with customers.

Over many years, customer data has been created and stored in the various technology systems they use. Although gaining decent intelligence from these unconnected silos of data is an issue, it is not a terminal one.

New challengers are healthy for slow-moving industries such as banking. The challenge laid out by Facebook should serve as a wake up call.

Even after the financial crisis of 2008, which put some global banks out of business, they still remain the most trusted institution to handle personal data and provide the most convenient way of managing money. New technologies aren't scaring banks right now but it is making them rethink their customer offerings in a new light.

Developing economies leading the way

Some of the best examples of adapting new technology within the Financial Services sector are occurring within developing economies. Mobile payments such as M-pesa in Kenya is turning mobile phones into mobile wallets for 17 million people. Facebook should look no further if they want to make its latest bet a success.

There are much bigger challenges for banks to overcome in securing their future beyond the growth of upstarts. New-school banking service providers already have an advantage as traditional players are under heavy regulatory scrutiny.

So to overcome this issue, banks should only focus on the customer because that is the main reason why regulators have found their voice in recent years.

Industry-specific technology can certainly help banks to recalibrate their customer focus.

Banks, due to their faulty legacy technology, are losing potential income as they do not have accurate data to know when and to whom they can sell new accounts and services.

However, the lifetime relationship between banks and the consumers give banks the edge of over digital disrupters.

The wealth of data kept internally can help account managers review current services on offer and predict what new services they may need in the future. With this intelligence, products can be created which tell customers the bank is at the top of its game.

Banks have realised they have to work harder to win customers and have already dismissed the old expectation of sitting back and waiting for new customers to walk through the front door. To maintain the customer relationship, banks are going digital-first as physical branch relationships have become more obsolete.

Digital interactions between bank and customer is the future for banks, according to thought-leader Brett King who claims there has been a 90% reduction in branch visits.

To deliver value-added offerings in a digital age, banks in Asia and Africa are implementing strategies which combine the deep understanding of customer needs with the omnichannel experience modern customers demand.

Even though Facebook, Google and Twitter have spotted an opportunity to make themselves relevant in Financial Services, they still have a long way to go before they are trusted.

It is true to say social media companies have lots of user data on what is liked and disliked, but the relevance of that is minimal when customers are looking for a mortgage provider.

Will being a fan of Breaking Bad on Facebook be useful when a customer is looking to lower her transaction fee?

It is true banking customers are more empowered than before and will switch providers if they do not get the service demanded. However, customers tend to go to a rival bank rather than a Facebook type.

The lifelong understanding of customers is what sets banks above the rest of the competition. Banks already possess the meaningful data, which has not been fully utilised, on customers and this is a major asset.

The real challenge for banks is whether they will wake up and realise their potential. ■

Nanda Kumar, Chief Executive Officer at SunTec.

CIBC elevates its branches into the modern era

CIBC has worked with design consultancy allen international to develop state-of-the-art branches to optimise customer experience. The Canadian bank is using its innovative branch design as a template for full-service and small teller-free convenience branches, including airport outlets. **Robin Arnfield** reports

The Canadian Imperial Bank of Commerce (CIBC) opened a 6,000 square foot full-service concept branch based on the new design in Courtice, near Toronto, in the first quarter of 2013. As RBI's June 2013 issue (number 690) reported, the concept branch design received rave reviews from customers and staff.

"The exterior and interior design used in the concept branch is now standard for all our new branches and our refurbished branches," says Lynne Kilpatrick, CIBC's Senior Vice President, Channel Strategy and Integration.

"We think that the design achieves a lovely balance between being contemporary and modern on the one hand and warm and inviting on the other. The two don't always go hand in hand."

As of March 2015, CIBC has deployed its new design in 35 branches, out of a total of 1,131 branches.

By the end of 2015, over 50 branches will have the new design.

Branch transformation

A July 2014 survey of major international banks by ATM Marketplace, sponsored by Italian banking software vendor Auriga, found that 54% of respondents had a branch transformation programme.

The survey, published in *ATM–Mobile Integration Guide: Strategies for Successful Omnichannel Banking*, found that 38% of respondents had branches of the future where they test new self-service applications.

Like other banks which have engaged in branch transformation projects, CIBC has fundamentally redesigned the traditional branch layout.

CIBC's full-service branch design features highly visible and mobile concierge/cross-sell staff and an integrated events space with segmented areas within the outlet for its Imperial Service and Business customers.

Increasing engagement between customers and staff

Every detail of the branch is designed to create an engaging space for both clients and staff, complete with high-tech digital displays replacing all in-branch posters, as well as interactive iPads and laptops to encourage on-premise online banking registration and product research.

At the core of the branch is a Service Island with a sit down meeting space which enables branch staff to welcome clients and serve their immediate needs.

The Service Island also has an active waiting area with a large digital wall backdrop. The branch features very visible and open sales offices, warm, home-inspired lighting, as well as a multi-functional client lounge/seminar space.

"We bring new technology to the front in our new branches so clients can explore our digital banking capabilities," says Kilpatrick. "The concierge staff in our new branches interact with customers and demonstrate new self-service technology using tablets, and there are also tablet areas where customers can use bank-supplied tablets."

"CIBC's new branches provide an environment where people meet people, and the transaction element is secondary to building customer relationships," says international retail banking consultant David Cavell.

He continues: "At a time when digital banking is so important, this is confirmation that branch banking still has a major role to play.

"An important aspect of CIBC's new branches is their flexibility, which means they are able to accommodate the next big technology development that comes down the track.

"Another benefit is that their digital displays don't just offer product advertising, but they also show local community information.

"I believe that community outreach is very important for banks."

Airport branches

Under a multi-year contract with the Greater Toronto Airport Authority, CIBC is Pearson International Airport's exclusive financial institution sponsor.

The deal, announced in December 2013, gives CIBC the exclusive right to advertise inside the airport, although HSBC has the advertising rights for gangways. CIBC also has the exclusive right to offer banking services through its ATMs and branches at the airport.

In February 2015, CIBC announced a multi-year sponsorship deal as the exclusive financial services partner of the Union Pearson Express, the new rail link from downtown Toronto to Pearson International Airport, which will open in spring 2015.

CIBC will provide multi-currency ATMs at Union Pearson's (UP) stations at Union Station in Toronto and Pearson, and will offer the "CIBC UPstairs" travellers lounge at Union Station. It will also sponsor the Wi-Fi service aboard UP Express trains and at its stations, and have exclusive advertising rights on the trains.

Opportunity

"We were excited with the opportunity to open branches at Pearson," says Kilpatrick. "CIBC is a bank that wants to be where its clients are, and Pearson is a great venue for us. We have been able to bring our branch presence and our brand to life at the airport in a very relevant way to our clients. The results from our airport branches are exceeding our sales and marketing expectations. The ROI on our branding and marketing efforts at Pearson are measuring well."

Around 37 million travellers a year pass through Pearson, which is the largest retail location in Canada, according to Kilpatrick.

Each year, 100,000 new immigrants arrive in Canada at Pearson, and 40,000 people work at the airport.

"We took the basics of the concept branch design and reinterpreted it in a very modern way for the airport environment," says Kilpatrick.

"We had to think what travellers want, what newcomers to Canada want, and what airport employees want, and what design to deploy in terms of innovative branches and ATMs to better serve them. Our focus at Pearson is to strengthen our relationship with existing clients and be respectful for what they need in their time available at the airport."

Before travellers go through security, they are short of time and under pressure. "Once they have passed through security they have more time for relaxing and for interacting with us," says Kilpatrick.

> **"In our new and redesigned branches, we want to project a modern, warm, welcoming environment for people to do banking business."**
> Lynne Kilpatrick, CIBC's Senior Vice President, Channel Strategy and Integration.

Airport branch format

CIBC has opened six full-service branches at Pearson, five of which are post-security, in addition to 27 ATMs.

"Our smallest airport branch format is the Express branch, which is 150 square feet and is designed for short ten minute interactions between staff and clients," says Kilpatrick.

"We have three Express branches in the domestic and U.S. departure areas, which sell travel insurance and credit cards, and have ATMs offering Canadian and US dollars. Travellers can also open daily banking accounts at the branches."

CIBC also has a different type of Express branch which offers foreign exchange over the counter and at an ATM in Terminal 1's International departures area. "This branch has proved very popular with international travellers," says Kilpatrick.

CIBC serves all airport travellers with foreign exchange, and offers preferential rates to its clients, Kilpatrick says.

In Terminal 1's domestic departure area, CIBC has installed a lounge-style branch which is designed for longer conversations between staff and customers and has a welcoming and open environment.

"It is a place for people to relax and get organised, for example charging up their smartphone and doing some work," says Kilpatrick. "You can also open accounts and buy products such as mortgages and insurance in this branch."

CIBC has opened a branch outside Pearson's security area which is mainly intended for people who work at the airport.

"We offer special rates and fees to airport employees at this branch," says Kilpatrick. "It has proved popular with airport employees, and we're opening a lot of accounts at this branch for them."

"Airport authority staff and workers in the airport shopping mall are a very good target market," says Cavell.

Marketing

CIBC operates the Aventura pop-up lounge at Pearson, named after its Aventura travel rewards credit card, which is not a branch and is open to anyone.

"You can get free services such as manicures and shoe-shines at the lounge," says Kilpatrick. "The free luggage carts provided by CIBC have proved very popular with travellers, as demonstrated by their many positive Tweets highlighting the free carts."

"The airport is a great place to market our brand, provide special offers and provide convenient banking services," Kilpatrick adds.

"We are planning a number of new marketing initiatives at Pearson. For example, we are the lead sponsor for the Toronto Pan Am and Parapan Am Games (in July-August 2015), and will be doing some fun, special marketing at Pearson for the games which will enable us to engage with our clients and acquire new clients."

Airports are well-known as a profitable venue for marketing credit cards.

While marketing the Aventura card is the focus for CIBC's credit card sales at Pearson, the airport branches sell a full set of the bank's products and services, says Kilpatrick.

The airport branches use Compass, CIBC's new branch-based desktop application which offers sophisticated cross-selling capabilities and sales fulfilment.

New immigrants

CIBC has a welcome zone in Pearson in international arrivals for newcomers to Canada. Immigrants are an important target market, because they typically lack existing banking relationships in Canada.

"The welcome zone provides an opportunity for us to create new relationships with newcomers, and help them figure out what to do next," says Kilpatrick.

"We introduce them to our bank and let them know where to find us. We don't do a hard sell, but we do capture sales leads and can open accounts if this is what immigrants want."

Convenience branches

CIBC is currently piloting two small-format convenience branches with the same look and feel as the new design for CIBC's full-service branches, but functionally different - one in Whistler, British Columbia, and one in Toronto, both of which opened in 2014. "We will be opening an additional convenience branch in Regina, Saskatchewan, later this year," says Kilpatrick.

Each convenience branch is 1,300 square feet, with two full-function ATMs, two shared private sales offices, and capacity for three to four staff.

There are no traditional counter services or tellers, and customers receive assisted self service via Universal Bankers who are equipped with tablets.

"The client and staff members work together to satisfy the client's transaction needs through the ATMs, online terminals and tablets," says Kilpatrick.

"Staff move fluidly throughout the branch to help clients with their needs, for example, showing them how to use mobile banking apps or opening accounts for them."

Patrick Myron, senior vice president of retail network strategy/sales analytics at Rockland, Massachusetts-based Rockland Trust, told the BAI Retail Delivery Conference in Chicago in November 2014 that universal bankers work best not in traditional branches but in branches with more open layouts where staff can move around and engage with customers.

Branch strategy

Like other North American banks, CIBC is seeing a move to smaller branches in response to the growth in digital banking transactions.

"We build branches that are appropriate for a particular market," says Kilpatrick. "So we do have large branches, but increasingly our branches are smaller with a greater focus on sales and advice. All over the world, digital banking transactions are increasing and branch-based traditional transactions are declining, so we are adapting to this trend."

Like other banks around the world, CIBC is finding that its digital channels are its largest transaction channels, Kilpatrick says.

"We're working on developing mobile-ATM integration services to enable our clients to interact with our ATMs through their mobile devices," she says.

"We have robust personalised marketing capabilities on all our digital channels and are working on integrating our mobile and Internet marketing.

"This means that clients will enjoy a consistent marketing message on multiple channels and start an application on one channel and finish it on another."

In May 2014, Forrester Research rated CIBC as the leader for mobile banking functionality among the top five Canadian banks which the consultancy reviewed.

Forrester rated CIBC as the leader for online banking functionality in January 2015 among the five largest Canadian banks.

Remote deposit

In December 2013, CIBC became the first Canadian bank to offer customers remote deposit capture of cheques using mobile devices.

Its eDeposit service allows clients to deposit cheques by taking a picture using their smartphone and CIBC's Mobile Banking App.

Over 2 million cheques were deposited using eDeposit in 2014.

"We're currently piloting a number of ATMs with cheque scanners where you can deposit cheques without using an envelope," says Kilpatrick.

"As with all tests and pilots, we will monitor the client experience and performance of our remote deposit capture ATMs prior to making any further decisions about a national rollout."

CIBC has a total of 4,215 ATMs, Kilpatrick concludes. ■

Profiling the social profilers

As digital banking and peer-to-peer lenders have sprouted up, so innovation has been adapted to fit the demand for speed decisions. Loan origination has taken an interesting turn towards the plethora of free online data so is it time for consumers to social engineer their private profiles? **Anna Milne** writes

Provenir is a loan origination firm with a strong focus on tech to provide lenders with a fast loan decision strategy. With two big banks on its books, HSBC and Wells Fargo, it has been operating under the radar as a "well-kept secret" since starting in 1996. This is due to not having a PR or marketing strategy until 2013. In the US it is slightly better known and it is busy doing the rounds in Europe to fully expand into and establish itself in this market before hitting Africa and Asia.

What may come as a surprise is the range of tactics it employs to enable lenders to make such fast decisions. The 'well-kept secret' may be more about this than about the fact that the company exists after all.

"We have three main reference points: Retail; Non-bank and Cards and Payments. And four key areas within our remit: a solid tech offering; value- time to market; customer experience (improvement of); product innovation (enablement of). Provenir's clients are non-banks, peer-to-peer lenders and regular banks.

Streamlined loan origination

Provenir is enlisted to embed a scoring system into banks' and lenders' legacy systems, which can be cumbersome and can take anything from weeks to months. Provenir says it is able to reduce this time frame to deliver this service in a matter of hours and minutes.

"If it's manual, it's broken", is Paul Thomas' mantra, referring to manual legacy systems. Thomas is Provenir's managing director, EMEA. "Firms will use Excel to build risk models. Provenir takes data and feeds it into the sheet- this is what reduces the time-frame. Data is fed automatically into the sheets, rather than being manually processed.

Klarna is a Swedish payments firm that processes 30% of all online transactions in Sweden. Its ecommerce payments system allows shoppers to receive goods before paying for them, taking on the credit risk for retailers. Its popularity has grown and it has announced plans to introduce person-to-person payments.

Being able to offer credit at the point of transaction, such as it does, requires a fast decision process, which of course is where Provenir comes into play.

Decreased credit risk: increased revenue

The merchant offloads the credit risk to Klarna, "the consumer who's buying something has the goods delivered, they can keep the good or not but if they keep, after seven days Klarna issues an invoice, at which point the merchant is invoiced.

"No money changes hands and the result for merchants has been an increase in fulfilment at checkout from 35% to 55%.

"Provenir pushes through several hundred transactions per second with less than a second's latency." The decision model is based on core data and is surprisingly basic, checking as to whether that person does live at that address; is it a repeat customer? How many transactions has that customer made that day? And more.

And so to the most interesting aspect of Provenir loan origination- the use of social media as an 'add-on' to the approval process. If a loan application is 'referred', aka undecided, social media analytics are employed to try and bump through as many referrals as possible. And if you're the lender who had a 98% decline ratio, which is clearly not unheard of, as Thomas explains, you might be well-placed to enlist Provenir's help.

> "Bankers were at once horrified and delighted- as consumers, terrified; as risk managers, delighted"

If there is nothing in the person's activity to suggest an irresponsible or impulsive nature or a dubious lifestyle, then this will add credibility to a referral and it is likely to be pushed through. If something is flagged up, "such as regular posts about gambling in the casino", then it will likely be declined. Common sense, except that all the person's friends are pulled under the radar as well.

The case for the unbanked

In cases where there is very little credit history on which to score a person for approval it can be a very useful tool, even if it does make us all squirm just a little. And of course, for the unbanked, it opens up the credit world where previously they were pooled together as one large group of high-risk individuals.

It is just a matter of whether the consumer will fully understand the implications of granting permission to a lender to access to his or her social media activity. And this is where there is something of a grey area, because regardless of consumer's data, it is difficult to ascertain how a lender will score the data, if the algorithms are undisclosed.

"It can become a fair lending issue if the use of that data results in disproportionate negative outcomes for members of a protected class," said Anand Raman, partner of a Washington DC law firm, specialising in consumer finance. Raman was speaking to the FT in February.

During the application process, the consumer is invited to allow the lender access to his or her social media activity, to "increase the likelihood of doing business". Thomas sees it as a way of engaging that is not just about bureau data; a way of understanding customer behaviour without a credit history- behavioural scoring.

"As lending goes, the more declines you make in the referral space, the more responsible you are as a lender, but if you can find a

■ PREDICTION ACCURACY OF CLASSIFICATION FOR DICHOTOMOUS ATTRIBUTES	
Single vs. In Relationship	67
Parents together at 21	60
Smokes cigarettes	73
Drinks alcohol	70
Uses drugs	65
Caucasian vs. African American	95
Christianity vs. Islam	82
Democrat vs. Republican	85
Gay	88
Lesbian	75
Gender	93

Source: pnas.org

way of informing that referral space to allow more approvals through, then you can reap the benefits."

Provenir works with a Big Data partner to incorporate this. "It's going to be the norm but at the moment it's novelty."

Mixed reactions: lender vs. consumer

When Provenir pitched it to a group of bankers at a roundtable event it hosted, Thomas said the reaction was at once horrified and delighted- as consumers, terrified; as risk managers, delighted.

German digital bank, Kreditech, calls it Algorithmic Banking. Its website boldly states: "Banking as we know it today is dead. Your banking branch won't exist ten years from now, and neither will cost intensive, manual banking processes. We believe algorithms and automated processes are the way to customer-friendly banking. That's why we offer individual products at individual prices to customers via their smartphones."

It further states that it uses 20,000 dynamic data points to credit score anyone, "including the four billion individuals without a credit score".

The finer details

The only stipulation is that a user has and operates a smartphone. The kinds of data that are taken into consideration are mind-boggling, from the browser that someone uses to the time of day a loan application is made. UK-based Wonga uses similar scoring methods to provide fast decisions, based on myriad data points.

Where Facebook is concerned, Kreditech also asks consumers to allow its app to connect with their home page, stating quite proudly it is interested in their news feed, activities, home town, education and that of all their friends.

Wonga states on its website that, "in addition to the personal and financial information you submit (or we collect), we may collect information about your computer including, where available, your IP address, operating system and browser type – for the purposes of system and loan administration and product improvement."

What's in a Like?

A recent report by Proceedings of the National Academy of Sciences of the United States of America on digital data profiling highlighted the efficacy of predicting all manner of attributes from the person's Likes. For example, "users who liked the Hello Kitty brand tended to be high on 'Openness' and low on 'Conscientiousness', 'Agreeableness', and Emotional Stability'.

The report concluded that a wide variety of people's personal attributes, ranging from sexual orientation to intelligence, can be automatically and accurately inferred using their Facebook Likes. "Similarity between Facebook Likes and other widespread kinds of digital records, such as browsing histories, search queries, or purchase histories suggests that the potential to reveal users' attributes is unlikely to be limited to Likes. Moreover, the wide variety of attributes predicted in this study indicates that, given appropriate training data, it may be possible to reveal other attributes as well."

POTENTIAL CONSEQUENCES OF DIGITAL PROFILING

On the other hand, the predictability of individual attributes from digital records of behaviour may have considerable negative implications, because it can easily be applied to large numbers of people without obtaining their individual consent and without them noticing. Commercial companies, governmental institutions, or even one's Facebook friends could use software to infer attributes such as intelligence, sexual orientation, or political views that an individual may not have intended to share. One can imagine situations in which such predictions, even if incorrect, could pose a threat to an individual's well-being, freedom, or even life. Importantly, given the ever-increasing amount of digital traces people leave behind, it becomes difficult for individuals to control which of their attributes are being revealed. For example, merely avoiding explicitly homosexual content may be insufficient to prevent others from discovering one's sexual orientation.

There is a risk that the growing awareness of digital exposure may negatively affect people's experience of digital technologies, decrease their trust in online services, or even completely deter them from using digital technology. It is our hope, however, that the trust and goodwill among parties interacting in the digital environment can be maintained by providing users with transparency and control over their information, leading to an individually controlled balance between the promises and perils of the Digital Age. *pnas.org*

"Banking as we know it today is dead. Your banking branch won't exist ten years from now"
Kreditech, advocate of 'Algorithmic Banking'

Digital rights and binary data

"We show that a wide variety of people's personal attributes, ranging from sexual orientation to intelligence, can be automatically and accurately inferred using their Facebook Likes," concluded the report.

Speaking at the SWIFT Business Forum in London, Nick Grove, founder of NXT 2 Pay, said it is a dangerous territory that banks have entered with this use of social media profiling. "It simply isn't binary data- it is information- but how do you set boundaries as to what can and cannot be deduced from such information.

Facebook posts do not paint the entire picture about someone- it encourages jumping to conclusions and you wonder where it might go next. And then there is the question of how the data is interpreted- whether a personality trait deduced from this information is categorised as positive or negative.

The IoT is a massive game changer but we need to clarify 'digital rights'- how many people have lost a job or not got a job due to digital data?"

From another angle, the potential for the unbanked must not be taken lightly. This technology, and indeed forward thinking by banks to utilise this innovative strategy, is already opening up the market to people who thoroughly deserve to have a strong credit score but until now have not been able to build up enough of a credit history. In this way it is a significant enabler. Of course it benefits banks- as was said, the more loans a bank can push through, the better it is for business, yet banks have a tight rope to walk in terms of risk.

If this method is used as an add-on, simply called upon to inform the referrals space- and only then in a positive manner, meaning that 'nothing negative found' results in a positive, then what's to worry about?

This method of loan origination is not the defining point for Provenir, however it is a sign o'the times for retail banking.

It is the kind of technology and innovation that could have far-reaching ethical consequences, the kind which at present seem like some dim and distant bleak dystopia. Or perhaps utopia, whatever your outlook.

We must not get carried away but we should keep an eye on it. As Lee Gibson Grant from Coinstructors said, at the SWIFT Business Forum's Future of Money session (albeit speaking about digital currencies and blockchain infrastructure), "the technology is there, it will be used for great benefit but we cannot yet know how it will be used or where it will end up- the potential is vast and untapped."

Provenir is by no means the first to employ this method but as Thomas says, it will soon no longer be a novelty but the norm. Exactly how regulation will catch up with it remains to be seen, particularly given the generation coming of age now whose lives are played out on social media without a second thought. ■

UK general election unlikely to change anything for banking's workers: Unite

On the cusp of the next UK general election, a multitude of issues are being highlighted. One issue currently being neglected by politicians is the fate of financial sector workers. **Patrick Brusnahan** speaks to Rob MacGregor from Unite to see if the upcoming election is set to bring change or business as usual

Unite's finance division is in the middle of a difficult time. Membership in the financial sector is, according to Rob MacGregor, national officer at Unite, 'never going to set the world on fire' and branch closures are becoming more frequent.

However, with the general election coming up, is there any hope that the situation could improve?

"I don't get any sense that there's going to be any material change. I don't get the sense that any of the main political parties actually have a sufficient grasp on what needs to be done"
Rob MacGregor, national officer of finance at Unite

Unite's view

When speaking to *RBI*, MacGregor said: "No, I don't get any sense that there's going to be any material change. None of the main political parties have articulated the kind of radical manifesto we would look for to change the face of retail finance in this country.

"This is still a huge cultural issue within the industry to overcome and there's a structural issue as well, but I don't get any sense that any of the political parties actually have a sufficient grasp on what needs to be done or are prepared to be bold enough to actually take on the vested interests of corporate finance in the country."

Employment security and zero-hour contracts

This might seem surprising considering that employment has been particularly highlighted in this year's election campaigns.

This is mainly due to the divisive issue of zero-hour contracts and the lack of available apprenticeships.

On whether these issues affect the retail finance sector, MacGregor said: "No, not really. There are some agency and contract labour issues, but by large, that's not a particular issue in employment terms for finance workers.

"The general issue is if you look at the scale of digitisation in UK finance, the rapid advances of mobile applications and internet banking; what is the industry's reaction to the technological revolution that is taking over the delivery of financial services in this country?

"We've seen a massive reduction in the number of physical counter transactions that take place in branches. The number of people who physically visit a bank branch is in decline.

"What is going to be the future of retail banking in this country and what will be the future of retail banking in this country and what will be the impact on general levels of employment?"

Institution-driven change

MacGregor believed the changes needed will come from the banks themselves, not due to any government intervention, and maybe not for the better.

He said: "With technological changes affecting retail finance, and we will see thousands of jobs go, what alternative employment strategies are there going to be in place for the next generation of workers?

"We're not going to open up mines or new shipyards again to replace these jobs.

"There will be further consolidation and contraction in jobs. Again, what are the alternative strategies that political parties, indeed businesses, are likely to put forward to mitigate the consequences? At the moment, there are very few."

It's not all doom and gloom

While it seems that the situation is bleak, there are some bright prospects in the form of challenger banks.

Despite membership in the finance union being lower than others, currently holding approximately 100,000 members compared to the National Union of Teachers and GMB, which have 388,000 and 613,400 members repectively, the newer challenger banks hold steady membership in the union.

MacGregor added: "Some of the challenger banks coming into the market (TSB, Virgin Money, Metro Bank) show some signs of optimism.

"However, it's a question of scale as much as anything else. These are relatively small players. I mean, they're doing well, but compared to the behemoths of Lloyds or Barclays, they're still very small players."

International banks providing scale

A very encouraging sign is Sabadell's, Spain's fifth-biggest bank, £1.7bn ($2.49bn) takeover of TSB.

This is a move which might give a challenger bank some decent scale.

Chairman of Sabadell, Josep Oliu Creus, said: "We think TSB has enormous potential for the UK market and we can help them execute... growth plans with much more success than on their own."

The Sabadell influence

On this development, MacGregor noted: "Obviously, Sabadell is a much larger organisation than TSB, so it may be able to provide the economies of scale that a challenger bank like TSB needs.

"The interesting thing will be what Sabadell's plans are for the future.

"There will be a period of time where very little will change, but will it seek to use TSB as establishing a foothold in the British market and then undergo a process of expansion?

"As with all these things, we'll judge not by what they say in terms of jobs and the like. So far, the signs have been positive."

MacGregor concluded: "Most of the banks, like most of commerce in general, are looking very closely at the outcome of the general election. Like many of us, they have no idea how it's going to pan out in reality.

"I think we may see further changes within the industry post-election. After all, this might not be the only election we have this year." ■

Is loyalty realistic in the digital age?

It is said that one cannot buy loyalty, but that hasn't stopped industries, including the financial sector, from trying. In the United States alone, companies spend $2bn a year on loyalty programmes. However, are these investments getting a worthy return? And are customers returning? **Patrick Brusnahan** writes

Research from Capgemini suggests that loyalty programmes are not inspiring the loyalty they are designed to create.

The report states the average US household has over 21 loyalty programme memberships, but only actively uses 44% of these. More than half of consumers in a 2013 survey admitted that they had abandoned at least one loyalty programme in the last year.

Capgemini revealed that almost 90% of social media sentiment on loyalty programmes was of a negative nature. This isn't limited to a single industry either. Telecoms recorded 96% of opinions on social media were unfavourable while the lowest percentage polled, hotel chains, still found 72% of opinions to be unfavourable.

Among the Millennial generation, who are expected to spend more than $200bn annually by 2017 (according to Advertising Age), negative sentiment stands at 85%.

Loyalty programmes are created to engage with consumers, but its success rate is low. According to the report, this is down to:

- A lack of reward relevance. Many rewards are not aligned to consumer preferences and go to waste;
- Rigid reward structures which lead to long stretches of time before consumers are even able to claim their loyalty benefits. Many companies do not even offer rewards for referrals to the loyalty programme;
- User experience issues when companies have not adapted sufficiently for mobile devices and apps, and
- Poor customer service, such as long call wait times with multiple transfers before being able to speak to a representative. Even worse, when eventually speaking to someone, the experience is often unpleasant.

Transactions do not equal loyalty

The majority of companies have basic transactional loyalty programmes, where rewards are based primarily on purchase. The customer buys a product, earns points and, when enough points are collated, exchanges these points for gifts, merchandise or cash.

Capgemini's research shows that 97% of loyalty programmes are of this fashion. It is not an entirely successful method as 77% of programmes such as these fail within the first two years, according to Entrepreneur magazine.

Breaking out of this transactional mindset, where the customer is only as good as their last purchase, does not seem to be very popular. Only 25% of companies surveyed reward for engagement, such as gamification campaigns, social media or in-store check-ins.

Some industries are ahead of the curve. 57% of airlines and 41% of hotel chains offer rewards for at least one form of engagement. Meanwhile, at the bottom of the table is banking, where only 3% of companies offer engagement-based rewards.

Cross-channel customer experiences

Another problem is the failure to make a loyalty programme seamless over both offline and online channels.

Capgemini found that 79% of loyalty programmes use the mobile channel, but only 24% allow the redemption of loyalty awards through it. More importantly, only 9% of loyalty programmes offer points redemption across all channels. The cross-channel experience is far from a reality at the moment.

Personalising the programmes

Companies segment their customers, but customisation is still very basic. A common approach uses Platinum, Gold and Silver tiers of reward programmes, usually assigned due to purchasing volume. Capgemini's research shows that as many as 45% of loyalty programmes follow this tier-based method.

Currently lacking in the market is advanced personalisation. This is needed so rewards can be based on location or purchase history, rather than merely sheer volume. Only 11% of loyalty programmes offer personalised rewards based on a customer's purchase history or location data.

The way forward

There is some hope for loyalty programmes, but changes need to be made first, particularly with regards to customer engagement. A study by Gallup found that 'fully engaged' customers deliver a 23% premium over the average customer in share of wallet, profitability, and revenue. On the other hand, 'actively disengaged' customers represent a 13% discount in the same measures.

Loyalty programmes need to be seen within a larger strategy for increasing engagement and not the other way round.

Capgemini stated: "Engagement is a leading indicator of customer loyalty and financial performance, while loyalty by itself is a lagging indicator of financial performance."

A focus must also be put on strengthening the mobile channels of loyalty programmes. Mobile apps should be made as easy as possible with a few clicks as possible. Additionally, features should include up-to-date information on programme policy, points balance, and offers.

Expanding into the mobile wallet field

The report highlights a crucial development; the app should also be able to act as a mobile wallet. This is so customers are able to instantly redeem reward points.

As a result, programmes need to be monitored more effectively. Traditional operational metrics, such as redemption and enrolment rates, can offer useful insights in the health of the loyalty programme. However, metrics needs to be established that also monitor engagement, such as time spent online or in store, social media sentiment, and purchase frequency.

Companies spend millions on loyalty programmes, but the investment rarely sees returns. Organisations need to start thinking outside of the box and beyond traditional rewards or see their investment disappear.

The report concluded: "A well-designed, engagement-based loyalty programme will create a virtuous cycle: strong customer relationships, greater advocacy, and enhanced loyalty." ■

Data: Surely it is an IT issue, right?

Data is not generally seen as a banking issue, when in fact, it is one of the few, crucial advantages it has. **Ben Robinson** argues that the banking sector needs to build on the competitive advantages it has, particularly around data, to deliver a better, fuller, richer banking experience for the consumer

When discussing data, it's very easy to couch the issues in technical language – models, warehouses, cubes and so on.

This makes it tempting to see data as an IT issue. However, data lies at the very core of what banks do; it represents the industry's only source of enduring competitive advantage and the effective use of data will determine which banks are successful in the digital age.

An explosion of data – and processing capabilities

The amount of data being produced every year is increasing exponentially, by a compound rate of 40%, according to McKinsey estimates.

This is being driven by an explosion in take-up of smart devices (embedded with computer chips capable of recording and transmitting data) and in user-generated content such as photos, Tweets and instant messages.

As Eric Schmidt famously said in 2010: "Every two days now we create as much information as we did from the dawn of civilization up until 2003."

The same is true in the world of banking. As banking digitises (moves online) and as payments dematerialise (move away from cash), the amount and variety of data is mushrooming.

The digital versus the physical

With the advent of mobile banking, the look-to-book ratio (the ratio of banking interactions, such as balance checks, to transactions) is increasingly sharply.

A recent article on Barclays' Pingit, for example, found that on average customers are using their mobile app 26 times a month compared with two visits to a branch per month.

This is likely to reach at least 500 to 1 if lessons from other industries, such as travel, are representative.

And it could possibly reach 5,000 to 1 when, with the machine-to-machine interaction of the internet of things, our fridges, wallets and cards all query our bank balance. The variety of data is also growing – banks are able to gain contextual and social data about their customers, for instance.

The good news for banks (and other companies) is that with improvements in processing power, this data can be turned into insights that will help drive a more intimate customer relationship.

Moore's Law predicted the density of chip transistors would double roughly every two years, which has played out over time and allowed computers to become much more powerful.

But, it is also interesting to look at storage costs ("Kryder's Law"). These have fallen even faster thanks to increasing disk density: 1GB of data cost more than $200,000 in 1980 compared with less than 3 cents today.

Still, banks are doing very little with their data. A survey by Capgemini found, for example, that only 37% of customers believe that banks understand their needs and preferences adequately.

> "With rapidly growing databases being queried at ever increasing rates, banks also need to consider how they store data"

In order to capitalise on their data assets, banks will need to overcome challenges.

The first involves tackling the prevailing mindset at most banks. Banks reputations rest on safeguarding customer assets.

For many bankers, therefore, the priority is to lock down customer data to ensure that it isn't compromised in any way, for example being burnt onto a USB stick that gets left on a train, or stolen by someone who intends to commit fraud.

While the privacy of customers must be maintained, this mindset will limit banks' ability to take advantage of data to improve the customer experience.

Changing the mindset of data

The second challenge is one of data silos. Banks' IT systems have been typically built to offer specific products and services (loans, credit cards etc) and the data is product- rather than customer-focused.

The data is moreover bound up in multiple different systems with no conformity on semantic standards (for example, a standard definition of what constitutes a customer).

Banks will need to solve this problem if they are to get data flowing easily and usefully through the entire organisation. The renewal of core banking software is the best means to consolidate data sets and – as echoed by a recent McKinsey study – represents the most fundamental step to digitisation.

A third challenge relates to using unstructured data.

Since few banks today have a single, consolidated view of their structured data, trying to enrich structured data with references to unstructured might seem a challenge too far.

New pathways ahead

However, the ability to do so would open up new frontiers for banks.

Consider, for example, a bank being able to enrich its existing credit scoring capabilities with information from social media such as recommendations.

Fourth, to really leverage the power of big data and the internet of things, banks will need to access and capitalise on data in real time, and move off batch systems.

With rapidly growing databases being queried at ever increasing rates, banks also need to consider how they store data.

Splitting read/write data from read-only data would be a good place to start since it would improve data management by separating the mission critical data from the mission sustaining data.

This separation would also provide far faster querying to accommodate increased look-to-book; and it would make transactions cheaper by using in-memory for the (reduced in size) read/write database.

Lastly, banks – like other industries – are likely to come up against skills shortages.

To be able to analyse, interpret and draw meaningful insight from massive amounts of data requires skills that combine technology knowledge (eg ability to use complex statistical models) with business acumen, problem-solving capabilities and excellent communication.

This is why it is hard to find the right candidates and wages are high – a recent report looking at the UK market found three quarters of "big data" jobs were difficult to fill and wages were twice the national average.

IT has a key role – but must work together with rest of organisation

The IT team must provide the technological backbone for the company data, ensuring all company data is in a single data model against which users can run interactive queries and visualise outcomes in real time.

For many banks, this will be best achieved through moving to a cloud-based model. The mainframe is a high performance computer, but unfortunately built for a world where storage and CPU were scarce and i/o abundant, which is the exact opposite of the current situation.

The IT team is also chiefly responsible for maintaining data security and should ensure this by designing it into the systems architecture from scratch. That's why we are seeing some companies move responsibility for data security from the office of the general counsel to the CIO.

Another option – which runs contrary to much prevailing thinking – would be to have cloud providers run applications since they adhere to recognised data security standards, such as ISO 27001.

The move to self-assisted transactions with straight through processing will also help since, as NetGuardians recently pointed out to me, more than 60% of bank fraud is committed by internal users.

As crucial as IT's role is, most data does not reside with IT.

Most customer data, for example, sits with the CMO, and there are other pockets of data across whole organisations. Further, IT doesn't own all IT spending.

According to Gartner, CIOs typically only control 50% of IT spending today.

Also, data is far too crucial to the success of the bank for the CEO to delegate responsibility to any single department.

The role of the Chief Data Officer, a fast growing C-level position, working directly for the CEO, is to bridge the data silos, to interpret business requirements for the CIO's team, to oversee procurement and to ensure data is top of mind.

A key source of competitive advantage

The banking industry is clearly undergoing massive structural change.

Technology changes, in particular in areas such as mobility and cloud, have reduced the cost of doing business and created alternative distribution channels that, in turn, have opened up the industry to new competitors and new disruptive business models.

However, banks retain several sources of competitive advantage, even in the digital age, the most enduring of which is data.

When it comes to data security, consumers rank banks higher than any other of their service providers.

This advantage may diminish over time, but for now banks enjoy a better rating than some of their emerging competitors such as online retailers (in which a mere six percent of consumers have a lot of trust) and social media sites (2%).

Adding to the data advantage is the fact that banks have masses of it. They have millions of customers and records of billions of transactions.

Google and Apple and other potential disruptors are spending billions of dollars on digital wallets and other means of getting access to the information that banks already have. It is now incumbent on banks to do something with this rich material, and not just utilise it for up- and cross-selling opportunities.

"Since few banks today have a single, consolidated view of their structured data, trying to enrich structured data with references to unstructured might seem a challenge too far. However, the ability to do so would open up new frontiers for banks"

Realising the promise of experience-driven banking

Before the banking crisis, you were statistically more likely to change spouse than switch banking providers.

But this is beginning to change. Customers have more choice.

They have more information. And, they have become accustomed to the kind of rich, interactive customer experience afforded by e-commerce providers such as Amazon.

Bank customer attrition is therefore ticking up, especially among millennials who have the lowest levels of loyalty.

72% of millennials say they would be likely to move to a non-traditional banking provider (compared with 27% for those over 55).

Increasingly, to retain customers – especially younger ones – banks will need to use data and analytics to provide a more value-added service for their consumers.

An EY banking customer survey found that people would expand their relationship (or pay more) in return for providers giving expert advice, finding ways for them to save money and rewarding their loyalty.

Accenture found that 58% of millennials

Ben Robinson, Temenos

would like their banking providers to proactively recommend products and services that they need.

And, the success of new banking ventures such as Simple (acquired by BBVA), built around the concept of helping people to achieve their financial goals, demonstrates that people would like their banks to be more involved in their financial and commercial lives.

When financial providers are able to combine this kind of personalised service with other information, such as context and channel preferences, we begin to enter the realm of experience-driven banking.

That is, using data to drive value-added customer insights and getting that information to customers at the time and place they need it, over their preferred channel.

Imagine, for instance, landing at an airport and receiving a text to say that there is a sale in a store that you regularly visit and that if you use your debit card to withdraw cash at the airport there will be no commission charged. It's going to be hit or miss.

Banking is at a crossroads

Digitisation is bringing major structural change including the opening up of the industry to new non-traditional competitors such as Google and Apple, which have cutting-edge analytical capabilities.

The industry can respond by building on the competitive advantages it has, particularly around data, to deliver a better, fuller, richer banking experience. Or, it can continue on a path towards disintermediation which will see it relegated to a role of providing highly regulated commodity back-office services. ■

Ben Robinson is chief strategy officer at Temenos

DIGITAL

YES BANK launches Tweets via missed call service for retail customers

YES BANK, an Indian private sector bank, has entered into a strategic partnership with Twitter for its missed call services.

The service will allow users to follow YES BANK even without a Twitter account and get the bank's tweets on SMS.

Just by placing missed calls to the number 011 3008 0888, clients will receive tweets via text messages from the bank, which will include updates on the latest news, events and discounts and offers from the bank.

YES BANK chief marketing officer Anindya Datta said: "This innovative partnership with Twitter will facilitate Yes Bank to reach its stakeholders who do not have an online Twitter account, thereby helping us penetrate deeper in the retail segment."

Valerie Wagoner, global director of growth markets at Twitter said: "We applaud the innovation by YES BANK to become the first Indian financial services partner to work with us. This is a strong sign of their focus on customer service and we look forward to doing more."

Twitter's unique missed call offering is the result of the recent acquisition of ZipDial, a mobile engagement and analytics platform.

M&A

BBVA acquires design firm Spring Studio to enhance digital banking

Spanish lender BBVA has purchased San Francisco-based user experience and design agency Spring Studio to accelerate its efforts in digital banking.

The acquisition, which will be completed through US-based Compass Bank, is the latest step by BBVA to lead digital banking amid the rapidly changing landscape of financial services.

As part of the deal, Spring Studio will now focus on BBVA projects in the US and South America. Following the acquisition, Spring Studio will continue to operate as an independent company.

Also, Bruce Randall, co-founder and president, and Sanjay Shamdasani, co-founder and principal UX strategist, will continue to head the 38-member team at Spring's office in San Francisco.

BBVA said it believes that design is fundamental to the success of any business and investing in Spring Studio will make it a core competency of the bank and will attract customers who wish to bank via a smartphone, computer or tablet.

BBVA head of digital banking Carlos Torres Vila said: "The importance of user experience and design is growing exponentially in banking and with Spring Studio we can move into fast-forward mode with our design ambitions."

Randall said: "We are going to be part of the most progressive and ambitious financial institution, delivering the next generation of digital banking products and services that will help people be smarter about their money."

M&A

VietinBank to merge with PGBank

VietinBank has agreed to merge with Petrolimex Group Commercial Joint Stock Bank (PGBank) in the third quarter of 2015.

Nguyen Van Thang, chairman of the board of directors at Vietinbank, said that the merger will allow Vietinbank to boost its capital, develop and expand branches, foster retail services, and increase its lending and investments.

PG Bank is currently 40% owned by fuel importer and distributor Petrolimex.

VietinBank deputy general director Tran Minh Binh said: "Merging PG Bank into VietinBank will open VietinBank to new opportunities to develop, aiming at a strategic, long-term and organic cooperative relationship."

As part of the merger plan, VietinBank will issue more shares for conversion with PG Bank shares. Following the merger, Vietinbank will register with the Central Securities Committee to issue new shares and form a new financial firm to complete the merger

Called VietinPG Finance, the new firm will serve the specific customer group of Petrolimex and individual customers at petrol stations with charter capital of VND1 trillion ($46.3m).

Post-merger, the total assets of VietinBank will grow by VND25 trillion, while its charter capital will rise by VND3 trillion to VND40 trillion.

Thang said that PG Bank's board of supervisors and board of directors will step down from their current positions after the merger.

However, Vietinbank will set up suitable roles for the senior officials and will employ all PG Bank's employees after the merge and ensure that they receive the same incomes and benefits in the coming six months before the merge.

"The merger, together with the reorganisation of PGBank, also reflects our high determination for implementing general directions of the Government and the State Bank of Vietnam (SBV) for restructuring the banking sectors stabilising and developing the economy," Thang added.

STRATEGY

RBS to sell Luxembourg fund management unit amid restructuring

Royal Bank of Scotland (RBS) is planning to sell its Luxembourg-based fund management arm as part of a restructuring plan to focus on the UK commercial and retail banking market.

The state-backed lender has appointed PwC to advise on the sale of the offshore business, currently overseeing £20bn ($30bn) in assets.

"In line with our strategy to make RBS a smaller, more focused bank, we have taken the decision to sell RBS (Luxembourg)," the bank said in a statement.

The fund management business, with Industrial and Commercial Bank of China as one of its largest clients, focuses on governance, ensuring that asset managers' funds are compliant with regulations, such as UCITS.

The decision comes as part the bank's global retrenchment strategy, under which RBS is pulling out of 25 of the 38 countries in which it operates.

The first phase of selling the Luxembourg-based fund management has begun with PwC helping the bank to select a 'limited number of potential buyers'.

M&A

Pakistan sells Habib Bank stake for $1.02bn

The government of Pakistan has sold its entire stake in Habib Bank, the country's largest private-sector bank by asset, for $1.02bn.

The government has divested 609 million shares, or a 42% stake, at a strike price of PKR168 (about $1.68) per share as against the floor price of PKR166 or $1.66.

Privatisation Commission chairman Mohammad Zubair said: "It was an international and domestic offering and we received tremendous response from both the markets.

Pakistan will be richer by around over a billion dollars due to this transaction and the bulk of money, more than 764 million dollars, is in foreign exchange."

The sale comprise a part of Pakistan's prime minister Nawaz Sharif's plans to privatise 68 public companies including two gas companies, an oil company, about 10 banks, the national airline, and power distribution companies.

According to the government, the sell-offs will prevent further losses and stabilise the country's economy, crippled by power shortages, corruption and militant violence.

Habib Bank is 51% owned by the Agha Khan Fund for Economic Development and 7.5% by private investors.

REGULATION

FCA fines Clydesdale Bank £20.7m for PPI compliant failings

The Financial Conduct Authority (FCA) has fined Clydesdale Bank £20.7m ($31.1m) for serious failings in the handling of Payment Protection Insurance (PPI) claims.

The regulator said that the bank implemented inappropriate policies and provided false information to the Financial Ombudsman Service (FOS) between May 2011 and July 2013.

Documents were altered in a small number of cases to make it look as if Clydesdale held no relevant papers and staff deleted all PPI information from a separate print-out listing the products sold.

The regulator also found that complaint handlers were failing to identify cases where the PPI policy sold was unsuitable for the customer, and also found deficiencies in the training and monitoring of complaint handlers.

Clydesdale said it will review all PPI complaints handled prior to August 2014 and offer redress to any customers impacted.

Among the 126,000 PPI complaints decided between May 2011 and July 2013, up to 42,200 may have been rejected unfairly and up to 50,900 may have resulted in inadequate redress, said the FCA.

Clydesdale has received the regulator's standard 30% discount for co-operating with the investigation and settling early. The company will be contacting all affected customers in due course.

The bank's PPI leadership team or senior management was not aware of these practices.

FCA acting director of enforcement and market oversight Georgina Philippou said: "Clydesdale's failings were unacceptable and fell well below the standard the FCA expects. The fact that Clydesdale misled the Financial Ombudsman by providing false information about the information it held is particularly serious and this is reflected in the size of the fine.

"We have been very clear about how firms should treat customers who may have been mis-sold PPI. In ignoring documents it held which were relevant to its customers' complaints, Clydesdale failed to treat its customers fairly."

STRATEGY

Scotiabank eyeing acquisitions in Brazil, says CEO

Bank of Nova Scotia, the Canadian lender with operations in more than 55 countries, is considering acquisitions in Brazil, according to the bank's CEO Brian Porter.

"The bank has a history of being acquisitive and that could be anywhere within our footprint," Bloomberg quoted Porter as saying.

Porter's comment after the bank's annual investors meeting in Ottawa come after Mexican publication El Financiero reported that Scotiabank and a Mexican lender are in negotiations to buy the Brazil and Mexico operations of London-based HSBC Holdings.

Porter said: "Brazil will come back. The economy will come back, there's no question about that."

"It's an exciting market and an attractive market", he added.

According to the Bloomberg report, the lender is also targeting Peru, Chile and Colombia along with Mexico, as countries offering the growth potential.

Scotiabank has spent about C$8.5bn ($6.9bn) on takeovers in the past five years, including the $1bn purchase of 51% of Colombia-based Banco Colpatria Red Multibanca Colpatria, its largest foreign purchase.

SECURITY

Standard Bank launches biometric mobile banking

South Africa's Standard Bank has introduced a biometric mobile banking solution that allows iPhone and iPad users to sign into the bank's mobile app using fingerprints.

The new solution will leverage Apple's TouchID technology to authenticate customers through their biometric parameters.

Standard Bank head of mobile banking Magnus Taljaard said: "With the latest upgrade to our banking apps, customers with Touch ID enabled smartphones and tablets have the option to use Apple's fingerprint identity sensor to sign into our mobile banking apps.

"The ability to sign in using the fingerprint sensor is also combined with an additional security layer for certain transactions -- for example, when paying a new beneficiary."

Taljaard added: "The new biometric identification feature... underwent rigorous testing so that we could ensure a safe and robust solution for our customers."

The bank will roll out the feature for Android phones with fingerprint readers in the future.

REGULATION

Federal Reserve eases small bank mergers

The Federal Reserve has finalised a rule to allow small banks to exceed debt limits when financing mergers and acquisitions.

The new rule will raise the asset-size threshold for regulatory exemption for community bank holding companies to $1bn from the current threshold of $500m in total assets.

The move will make it easier for small banks to pursue mergers allowing them to take on debt unlike the existing capital requirements that had limited the parent companies' ability to borrow.

Under the policy statement, holding companies will be able to use debt to finance up to 75% of the purchase price of an acquisition after fulfilling certain requirements, including requirements to repay all debt within 25 years and reduce the debt to equity ratio to 30:1 or less within 12 years.

The parent companies will also be required to well capitalise each of its subsidiary insured depository institution and will be restricted from paying dividends until it reduces its debt to equity ratio to 1.0:1 or less.

The revised regulations will also apply to savings and loan holding companies.

STRATEGY

GE to sell most of its banking business

General Electric (GE) has decided to sell most GE Capital assets and return about $90bn to shareholders by reducing the size of its financial businesses.

Under the plan, the GE Capital businesses that will remain with GE will account for about $90bn in ending net investments (ENI) excluding liquidity including about $40bn in the US.

As part of the execution of the new plan, GE will sell the bulk of the assets of GE Capital Real Estate to funds managed by Blackstone while Wells Fargo will acquire a portion of the performing loans at closing.

GE will consider an additional sale of $4bn of commercial real estate assets while divesting GE Capital operation over the next two years with transactions amounting to a total of about $26.5bn.

GE Capital chairman and CEO Keith Sherin said: "The successful IPO of GE's retail finance business, Synchrony Financial, and other recent business exits have demonstrated that our financial services assets can be more valuable to others. GE Capital's businesses are excellent, and this is a great market for selling financial assets." ■

Digital Banking and the Big Bang Theory

Martin Dempsey argues that it is time for banks to promote transformational digital change. The consequences of failing to assess what customers want now, and also in 10 years time, do not bear thinking about

Digital revolution has come in waves. The first heralded the spread of the internet and then its ubiquity. This allowed the growth of social networks, instant news and global reach transforming the way we communicate, the way we shop and of course the way we bank. Then came the increase in bandwidth transforming the way that we now buy and stream things like music and television.

But maybe the biggest digital innovation to change our lives has been the smartphone, so important that it is increasingly replacing our wallets and purses, our watches and diaries.

When someone loses their phone, they rarely bemoan the cost of replacement; instead they anguish over the photos, music and even the way they had customised their phone with apps for every aspect of their lives.

On the business side, the smartphone has created an m-commerce culture where success for retail businesses relies on tailoring the customer experience for every customer.

The whole digital conundrum – m-banking in particular – has a lot of the big banks on the back foot. And it's hardly surprising. Most of the large banks have spent the past five years focused on Conduct issues, regulatory compliance and shoring up creaking legacy systems.

Building a digital model on the front end of core systems that were built when the latest hit was more Uptown Girl than Uptown Funk was never going to be an easy task. However, this is a dangerous place for banks and they need to be mindful of lessons from other industries.

Take retail. Digital revolution claimed casualties that we once thought of as impregnable bastions of the UK high street. Napster and then iTunes were windows on a future that HMV ignored and denied - and it paid the price for digital denial with a collapse into administration.

So the story goes for Amazon and Borders and so many more retailers. Look at the utilities industry. Even the big six energy companies are starting to haemorrhage customers to challengers such as Ovo and First Utility, emboldened by the access and marketing potential of the digital landscape, as well as the unique customer engagement opportunities.

Creeping up on the banks are the banking equivalents to Napster or iTunes – banking is no more immune to digital disruption than music retail.

The problem for the banking sector, is that cash has been in short supply for major transformation - and understandably so. The global financial crisis crystallised major losses for the banks and eroded capital ratios that simultaneously had to be raised to comply with Basel 3. Billions had to be paid out to settle Conduct issues such as PPI and Libor and continue to be provisioned. As a result, all change has had to have a bullet-proof business case with a quick return on investment.

This has predominantly led to short, sharp pockets of change rather than anything particularly groundbreaking. It might involve redesigning the front end of a digital app or bolting on a new payment capability. Speeding up operations or automating to reduce headcount. All perfectly worthwhile but if that's your entire strategy, it's ultimately like scooping buckets of water out of the hull of the Titanic.

Customers don't want bite-sized chunks of digital transformation. They have a voracious digital appetite that needs to be whetted. As millenials and digital natives get older, they will expect to be able to use their phones to check the detail of their banking portfolios – their latest mortgage status, key stats from their ISA portfolios, negotiate an overdraft extension or check credit card outgoings.

Are the big banks there yet? Not by a long stretch. Legacy systems are the millstones around the necks of the big banks in more ways than one – they are a massive inhibitor to digital transformation.

The time has come - transform, don't just change. Go big or go home. We can roll out the bumper sticker slogans here, but the opportunity is clear. Now is the time for major banks to leap ahead of their rivals – they need to clearly assess the tech landscape, ascertain what customers want now and in 10 years time and, using cutting edge fintech and technologies like the Cloud, put the innovation engine in place to build something dramatic and truly transformational.

Find the best minds in your business and beyond and give them the space and freedom to imagine a future unencumbered by legacy issues – and then give them the cash and the time to deliver that major transformation as a holistic programme creating the future of banking within your walls.

Maybe, just maybe, it might be the first step on the path to securing another century of market dominance. The alternative? Ask HMV. ■

Martin Dempsey is a client director at business change consultancy Certeco

RETAIL BANKER INTERNATIONAL

Editor: Douglas Blakey
Tel: +44 (0)20 7406 6523
Email: douglas.blakey@uk.timetric.com

Senior Reporter: Anna Milne
Tel: +44 (0)20 7406 6701
Email: anna.milne@uk.timetric.com

Reporter: Patrick Brusnahan
Tel: +44 (0)20 7406 6526
Email: patrick.brusnahan@uk.timetric.com

Asia Editorial: Sruti Rao
Email: sruti.rao@timetric.com.sg

Group Publisher: Ameet Phadnis
Tel: +44 (0)207 406 6561
Email: ameet.phadnis@uk.timetric.com

Sub-editors: Kev Walsh, Nick Midgley

Director of Events: Ray Giddings
Tel: +44 (0) 203 096 2585
Email: ray.giddings@uk.timetric.com

Head of Subscriptions: Sharon Howley
Tel: +44 (0)203 096 2636
Email: sharon.howley@uk.timetric.com

Sales Executive: Alexander Koidis
Tel: +44 (0) 203 096 2586
Email: alexander.koidis@uk.timetric.com

Customer Services:
Tel: +44 (0)20 3096 2636 or +44 (0)20 3096 2622
Email: customer.services@uk.timetric.com

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London Office
5th Floor,
Farringdon Place,
20 Farringdon Road,
London, EC1M 3AP

Asia Office
1 Finlayson Green, #09-01
Singapore 049246
Tel: +65 6383 4688
Fax: +65 6383 5433
Email: asiapacific@timetric.com.sg

Financial News Publishing Ltd, 2012
Registered in the UK No 6931627

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