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UK banks failing to reward loyalty, but scoring well for innovation and digital

If you have not yet had a chance to look through the FIS Consumer Banking PACE Index, it is worth a glance.

The survey, conducted by TNS for FIS, tracks how financial institutions are performing against customer expectations in nine markets: the US, UK, Brazil, Canada, France, Germany, India, Netherlands and Thailand, using data compiled from more than 9,000 banking consumers.

Among a number of key takeaways:

- 28% of banked UK consumers perceive that their financial institutions meet their expectations. The UK score ranks the country third of the nine markets surveyed;
- The UK ranks bottom of the 9 countries in rewarding customers for their business and helping them manage their finances;
- UK consumers view fairness (no hidden charges or fees) as second in importance only to security;
- UK banks outperform almost all others in providing in-person service, and
- UK banks are excelling at innovation and digital access.

Results of the study show that, worldwide, banked consumers say financial institutions excel at providing digital access and convenience. However, in basic banking areas such as fair and transparent pricing, banks fall below consumer expectations.

In fact, only one in four respondents believes a financial institution meets his or her needs in these basic trust and relationship areas.

In addition, there is great opportunity for banks to win consumer support by packaging rewards programmes with personalised, customised banking products to meet customer needs.

This suggests that while the financial industry as a whole is successfully delivering digital access solutions, there are significant opportunities to reset the foundation for consumer relationships.

In addition, the results indicate financial institutions can forge deeper relationships via the digital experience by integrating with consumers' lives through insight-driven alerts, advisory services, planning tools and more.

Retail banking in the UK is dominated by the four main domestic High Street banks, plus a large global bank. These five hold 85% of the market share for current accounts. Those banks rate very highly amongst consumers, perhaps because they offer many different access points and quick responses. However, 30% of consumers reported themselves as self-sufficient money managers.

Despite such self-sufficiency amongst their consumers, UK banks fared well below average for the simplicity of the products they provide. With new market entrants offering accounts, lending and insurance at advantageous rates, this could be a challenge for the largest banks going forward.

As the report concludes, falling short of expectations in meeting many basic banking requirements represents an obstacle in building deeper, more relevant relationships. ■

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When did I last visit a bank branch?

As each month passes by, concern for the survival of the traditional brick-and-mortar bank branch increases. While statistics can prove either death or rebirth for this side of distribution on a large scale, on a more personal level, when was the last time I entered a branch? **Patrick Brusnahan** writes

While the death of the bank branch is announced nearly as frequently as Bitcoin (which has died 71 times since 2010), one can wonder how much life is left in the most public face of banking.

Community banking campaigners state that half of the UK's bank branches have shut down since 1989. In 2014, approximately 479 branches were shut down with over 2,000 of Britain's bank branches discontinued over the last decade.

The lobby group The Campaign for Community Banking Services (CCBS) has claimed that bank branch closures could exceed the near-500 last year as already 399 have been announced, partly due to HSBC's plans to cut down staff in an attempt to sell its UK business.

Even the Knott End branch of NatWest, featured in the bank's advert claiming that "We will continue to provide banking services wherever we're the last bank in town," has shut down in a move that can only be described as depressingly inevitable irony.

In comparison to other countries within Europe, the situation seems even dimmer. The UK has 150 branches per million inhabitants, compared to Spain and Italy, which have 720 and 520 respectively.

It's hard to blame banks for shutting down branches as consumers move further towards digital solutions and further away from the physical. Looking into a branch on my local high street feels like watching an old episode of Scooby Doo, the setting completely empty bar two members of staff, either of whom could be seen dressing as a ghost to scare off meddling Millennials.

Personally, I have only been into a bank branch to purchase a product once, a product I still have to this day, despite account switching being easier than it has ever been in the United Kingdom.

If I need to transfer money, I can do it via phone. If I need cash, there are ATMs everywhere, from supermarkets to petrol stations to just outside that pub that nobody goes to.

However, despite my lack of usage, I find the bank branch strangely assuring. Seeing my bank's logo still on a building ten minutes from my house makes me think: "If that's still there, it can't be doing that badly."

If something were ever to go wrong, be it a lost card or, heaven forbid, fraud, a bank branch would be my first port of call to sort everything out.

The human touch cannot be neglected. It actually feels good to talk through a situation with a member of staff without typing in several random assortments of numbers and waiting on hold.

Hopefully, I am not the only one who feels this way. If so, then the bank branch still has a few strings left to its bow. If not, then I may have to get used to typing in random assortments of numbers and waiting on hold. ■

Atom Bank to deploy Intelligent Environments' Interact software

So. Now we know. In one of the most interesting and eagerly awaited UK banking supplier deals of this or recent years, Atom Bank has plumped for Intelligent Environments' Interact software to underpin their customers' digital experience. **Douglas Blakey** writes

This digital only solution is unique within the UK banking market and Atom will implement Interact across iOS, Android and Windows.

And for the writer's part putting to one side for a second editorial independence, it is especially agreeable to see the good guys at Intelligent Environments - the founders of The Digital Banking Club with whom we work closely on the DBC web platform and quarterly debates - have picked up this deal.

Atom Bank CEO Mark Mullen said: "This partnership with Intelligent Environments is a critical part of our infrastructure and our offer to customers. The Interact platform allows us to fully customise and evolve our app.

"This collaboration brings together two highly compatible organisations that are both determined to provide the very best of app based technology and security to customers.

"It has been a great experience working with Intelligent Environments in the early part of our journey and I know that they are going to be great partners going forward."

David Webber, MD at Intelligent Environments said: "Atom is leading the way amongst a new wave of disruptive and innovative players coming into the UK financial services industry. It has a determined focus on customer security and user experience.

"By implementing Interact with us, Atom will promptly establish a reputation for secure and swift data handling for its customers across any channel. We are incredibly excited about working with Atom."

Co-founded by Mullen, ex CEO of First Direct and Anthony Thomson, co-founder of Metro Bank, Atom is the first bank in the UK focused on a mobile app to be awarded a banking licence.

The Atom app will feature face and voice recognition biometric security and will be available on wearable devices as well as online, tablet and smartphone.

Based in Durham in the North East of England, the start-up has identified six key values: respectful, sharing, pioneering, courageous, energetic and joyful.

Thomson has spoken of the potential for Atom to target a cost-income ratio of below 30% with savings passed on to customers via attractively priced products.

Notwithstanding the success of the seven-day current account switching initiative launched in late 2013, switching rates in the UK remain stubbornly low.

In the 12 months to April, only 1.2m of 46m current account holders switched banks, a switching-rate barely above 2%.

Atom has now recruited around 100 staff as it gears up to go live with Lisa Wood, the distinguished former head of marketing at First Direct, among a number of high profile hires.

Atom has selected Mother, the world's largest independent marketing agency, to be its strategic creative partner across all activity from developing brand strategy to producing a full, integrated creative platform. ■

STRATEGY

Banco INVEX renews payments accord with TSYS

Mexican banking company Banco INVEX has renewed its payments agreement with TSYS, a US-based credit card processor.

The new multi-year agreement will cover processing services for INVEX's consumer and commercial credit card portfolios.

Under the extended deal, TSYS will continue to provide INVEX with services including data analytics, fraud prevention and risk management tools.

INVEX head of the card business Jean Marc Mercier said: "We look forward to continuing our business relationship with TSYS, and are excited about consolidating our consumer line of business onto the more robust TS2 platform."

TSYS president of the North America services segment Bill Pruett said: "INVEX has been a valued client for more than 10 years, and this renewal is an example of our ongoing commitment to the Latin American market as we move forward and look for ways to continue our growth in the region as well as the support of our existing client base."

Financial terms of the transaction have not been disclosed.

DIGITAL

US retail banks to invest $16.6bn on digital transformation initiatives

In order to develop and implement digital transformation initiatives, retail banks in the US will spend about $16.6bn on hardware, software, services, and internal IT staff in 2015, according to new report from IDC Financial Insights.

This spending will increase at a compound annual growth rate (CAGR) of 10.4% into 2019. This compares to a growth rate of 3.9% for an overall IT spending by the US banks.

The study found that highest growth in digital transformation spending comes from software and internal IT.

According to the report, spending on IT services for digital transformation is a smaller, but not inconsequential, source of spending growth as well, forecast to grow at 8.5% year over year in 2016. Only hardware is keeping pace with total IT spending growth.

The growth of spending on digital transformation is outpacing aggregate IT spending by more than 2.5 to 1. As per IDC Financial Insights' estimates fully one third of the IT budget at the US banks will be dedicated to achieving digital transformation in five years.

IDC Financial Insights global banking research director Jerry Silva said: "It's like two teams of diggers making their way through a mountain to build a tunnel. They're hoping they'll be aligned when they meet in the middle and it's a $16.6 billion bet."

DISTRIBUTION

US fund Apollo and EBRD acquire Slovenian bank NKBM for €250m

Slovenian Sovereign Holding (SSH), which is coordinating the privatization process in the country, has signed a deal to sell Slovenia's second-largest bank Nova KBM (NKBM) to US buyout fund Apollo Global Management and EBRD for €250m ($279m).

Under the deal, certain Apollo affiliated funds will acquire 80% of NKBM, while EBRD will own the remaining 20%.

Gernot Lohr, senior partner at Apollo, said: "We believe NKBM is a franchise asset, with a challenging recent history, that under the guidance of an experienced and committed owner such as Apollo can return to its past glory, delivering stability for all stakeholders, namely NKBM's clients and customers, its employees, the local community and the State.

"We believe that NKBM has tremendous growth potential and we remain committed to cooperating with all stakeholders to deliver excellence in services to current and future clients."

EBRD managing director Nick Tesseyman said the EBRD will work closely with the new majority owner to support the restructuring of the bank which was rescued by the state in 2013.

Established in 1862, Nova KBM was bailed out by the Slovenian government alongside peers NLB and Abanka in late 2013. It currently employs more than 1,700 employees.

STRATEGY

Mitsubishi UFJ eyeing further retail bank acquisition in Asia

Japanese banking giant Mitsubishi UFJ Financial Group is looking to acquire another bank in Asia, two years after it bought Thailand's Bank of Ayudhya for $5bn.

The lender is considering acquiring a bank that has expertise in consumer banking in Indonesia, the Philippines or India, according to a Bloomberg report.

In an interview with the publication, Mitsubishi UFJ Asia-Oceania arm CEO Go Watanabe said: "We're looking for a bank that is very strong in both corporate and retail consumer finance akin to Bangkok-based Bank of Ayudhya Pcl.

The bank ideally wants a majority stake in a "relatively big-sized bank," he said.

"Doing business with corporates isn't enough. Having a retail business is something we want, to capture the high growth of the Asian economy," said Watanabe, who moved to Singapore in July 2013 to take up his current role.

Currently, regulators in Indonesia, Philippines and India are at various stages of easing rules on ownership of their banks by foreign lenders. While India now allows a foreign entity to hold around 74% stake, up from previous 49%; Indonesia is at 40% limit and Philippines allows complete foreign ownership.

However, Indonesia recently made an exception when it permitted South Korea's Shinhan Bank to acquire two lenders and merge them that exceeded the prescribed 40% foreign ownership limit.

M&A

Hungary pays GE Capital $700m for Budapest Bank

Hungary's state-owned investment firm Corvinus has signed a deal to acquire 100% stake in Budapest Bank, the local unit of GE Capital, for $700m.

The interests include Budapest Fund Management, Budapest Car Leasing and car fleet management company Budapest Flotta, Hungary's Prime Minister Office said in a statement.

Payment of the purchase price was calculated using a HUF/USD cross rate of 279.64, "which is more favourable than market rates at present", the statement read.

The statement added that the new owner does not plan to make any big changes to the bank's operation, business policy or operative management.

GE Capital put Budapest Bank up for sale after it decided to divest its financial services segment globally.

The government of Hungary inked a preliminary deal with GE to buy the bank in late 2014, and it received the regulatory approval in the middle of June 2015. ■

DISTRIBUTION

State Bank of India to overhaul branch formats in digital push

State Bank of India (SBI) is planning to undertake a major overhaul in branch formats and open new digital branches to target young customers.

SBI chairperson Arundhati Bhattacharya said: "We are going to convert quite a lot of our branches. The entire branch network is undergoing a transformation. So, there will be changes to the branch format, changes in the branch location as well depending on the need and where the habitation is moving.

"It will be well-thought-out approach, based on the clientele in that segment and their needs."

She revealed that the bank is planning to launch around 250 Intouch Lite branches in the fiscal year 2016 as a part of its digital push.

Intouch Lite is a lighter version of the bank's full-fledged digital branch, differing only by way of a smaller screen size.

These digital outlets offer multiple services like instant account opening, instant issuance of debit card, live interaction with experts, opportunities to buy financial products and home loans under a single roof, Bhattacharya added.

The bank commenced its digital journey in July 2014, launching a large number of online products, collaborations and MoUs with e-commerce players. ■

STRATEGY

Santander partners with Monitise to launch fintech JV

Spanish banking giant Banco Santander and British mobile money vendor Monitise have formed a joint venture that looks to invest in the disruptive financial technology sector.

Both partners will provide up to £10m of capital each over the next two years depending on the opportunities are identified.

Monitise and Santander will each take a 50:50 share in the new business, which will be based in London.

It will be led by Santander's head of R&D and innovation Julio Faura, and chaired by Monitise founder Alastair Lukies.

In addition to its 50% ownership, Monitise says it will also benefit from a multi-million pound upfront licence fee, as well as the generation of further ongoing revenues.

Investee businesses will also have the opportunity to become partners with Santander and gain access to Monitise's new cloud-based platform.

M&A

Wintrust Financial completes North Bank acquisition

Wintrust Financial has completed its previously announced acquisition of North Bank by its wholly-owned subsidiary, Wintrust Bank.

Wintrust Financial agreed to acquire Illinois-based North Bank for about $17m in March this year.

Following the deal, two downtown-Chicago locations of North Bank will operate as branches of Wintrust Bank.

As of 31 March 2015, North Bank had approximately $106m in assets, approximately $55m in loans and approximately $94m in deposits.

Wintrust president and CEO Edward Wehmer said: "This transaction allows us to expand and complement our growing market presence in downtown Chicago. We look forward to continuing with the community banking approach that North Bank has established while providing its customer base with an expanded array of products and services."

Wintrust said that the transaction will not have a material effect on its 2015 earnings per share. ■

M&A

Vietnamese lender BIDV may sell 15-20% stake to foreign investor

Vietnamese bank BIDV is in talks to sell a 15-20% stake in its business to a long-term foreign investor in the banking sector, and 10% to another overseas investor in 2016, the chairman of the bank said.

"State ownership would be kept at 65%," Reuters quoted BIDV chairman Tran Bac Ha as saying.

However, he did not disclose name of any investors BIDV has been in talks with or a date in 2016 when the stake sales would be completed.

It would depend on the performances of Vietnam's stock market and BIDV shares, Bac Ha told Reuters.

Currently, Vietnamese banks are allowed to have a foreign shareholding of up to 30%, with a single strategic partner allowed a maximum 20%.

BIDV's registered capital has increased by 12% to nearly $1.44bn after completing a merger with state-owned Mekong Housing Bank in May 2015, the banks' senior executive vice-president Tran Phuong said. ■

DISTRIBUTION

Shinhan Card opens new credit arm in Kazakhstan

Korean credit card company Shinhan Card has expanded its overseas presence by opening a new branch in Almaty, Kazakhstan.

Dubbed 'Shinhan Finance', the new branch plans to focus its attention on auto, heavy machinery and home appliance financing and leasing services.

As part of the move, the company has formed strategic partnerships with several automobile dealerships in Kazakhstan, including Astana Motors and Allur Auto.

The company has invested KRW5bn ($4.4m) into Shinhan Finance and plans to double to KRW10bn by early 2016.

Shinhan Card CEO and president Wi Sung-ho said that the company must get approval from the local financial authorities to run a credit and debit card business in Kazakhstan.

He added that Shinhan Card has forayed into the central Asian country as it foresaw great potential for growth in banking and other financial services.

"In recent years, Kazakhstan has shown the highest growth among the Common Wealth of Independent State (CIS) countries. Its retail banking market has seen double-digit growth each year; and the country's per-capita gross domestic product has reached $14,000," he added.

Additionally, Shinhan Card is planning to expand its footprint to emerging markets in Southeast Asia. ■

STRATEGY

Deutsche Bank extends IT outsourcing contract with Accenture

Deutsche Bank has extended its existing information technology (IT) outsourcing contract with Accenture for an additional five-years.

The new contract will exceed the initial agreement, which was scheduled to expire in December 2016, through the end of 2021.

Under the original contract signed in 2004, Deutsche Bank outsourced its procurement operations and accounts payable processing to Accenture, as well as the maintenance of its procurement IT system.

Accenture said that in addition to continuing to provide Deutsche Bank with procurement operations and accounts payable processing services, it will further automate the source-to-pay process, including invoice processing and contract compliance management.

Accenture will also migrate Deutsche Bank's current on premise procurement IT platform to an on demand procurement solution from Ariba, an SAP company.

Through the IT outsourcing deal, Deutsche Bank aims to reduce operational costs, enhance spending control and streamline sourcing and procurement services.

Mark Loring, head of source-to-pay and travel operations, and John Goyanes, head of purchasing at Deutsche Bank said: "We extended our relationship because Accenture understands how to derive real financial benefits and business value from sourcing and procurement.

"The contract extension positions Accenture as one of our few strategic business partners, and we can now leverage their enhanced sourcing capabilities to accelerate the source-to-pay process with strong compliance, and ultimately work towards meeting our clear business objectives, including sustainable cost savings targets." ■

M&A

ING emerges as frontrunner to buy HSBC's Turkish operations

Dutch bank ING Group has reportedly left behind Bahrain's Arab Banking Corp (ABC) and France's BNP Paribas to emerge as a leading bidder for the acquisition of HSBC's Turkish unit.

Three persons familiar with the development told Reuters that HSBC had narrowed down the field to one suitor, and it was ING.

In May 2015, HSBC revealed its intentions to sell its operations in Brazil and Turkey, shrink its investment bank and cut up to 25,000 jobs globally in a bid to slash costs and bolster returns to shareholders.

According to Reuters, currently ING Turkey has 319 branches employs over 6,250 people, whereas HSBC Turkey employs 5,536 people in 291 branches. The two lenders total assets are $15bn and $12bn respectively.

In case the deal materialises, the combined entity may outperform Turkish affiliate of French BNP Paribas, Türkiye Ekonomi Bankasi (TEB), and Denizbank, Turkish affiliate of Russian Sberbank, the publication added.

REGULATION

ANZ receives full banking license in Thailand

Australian banking giant ANZ has received a full banking licence in Thailand, which will allow it to upgrade its presence from a representative office to a subsidiary and transact in local currency.

The bank, which opened the representative office in Bangkok in 1985, has appointed Panadda Manoleehakul - former chief executive of ANZ Philippines - as CEO of ANZ Thai.

Prior to joining ANZ in 2008, she held senior banking roles across Asia with HSBC, JP Morgan Chase, Chase Manhattan Bank and Standard Chartered Bank.

The Australian lender in a press release said ANZ Thai will be an important addition to its Asia network and its activities in the GMS that already include operations in Vietnam, Cambodia, Myanmar and Laos.

ANZ CEO International and Institutional Banking Andrew Géczy said: "This is an important milestone for our super regional strategy and means we can now better connect our multi- national customers to the growing trade and investment flows across Asia with the Greater Mekong.

"Panadda built a strong, growing franchise for ANZ in The Philippines and has been instrumental in the process to gain our banking licence in Thailand. I'm pleased ANZ will continue to benefit from her experience and leadership as she continues to drive our expansion into Thailand," Géczy added. ■

BMO ramps up branch transformation

BMO Bank of Montreal has been on a seven-year journey to transform its branches for the new era of digital banking. The outcome has been smaller branches that make innovative use of technology, Paul Dilda, head of BMO's North American branch and ATM channels, tells **Robin Arnfield**

Paul Dilda, head of BMO's North American branch and ATM channels says: "Branch transformation has been a journey for BMO".

"We started to review our branch strategy in 2008-2009, and had two primary objectives: improving the brand-aligned customer experience, which involved looking at our branch format, and increasing staff productivity. Traditionally, we had a cookie-cutter approach to branch format and would go into a new market and build a 5,000-square-foot branch with a big teller line and lots of financial advisers."

However, BMO noticed that European banks were deploying smaller footprints for their branches. "So we started to ask ourselves whether there was a smarter way of doing branch banking," Dilda says. "We carried out a review of everything we did in our branches to see how we could make the branches more productive and save ourselves time, space, and staffing and rent costs."

BMO engaged Toronto-based design consultancy Figure 3 to help it with its branch transformation programme. "We wanted to create a smaller footprint where we used space more efficiently and deployed technology to help staff become optimally efficient," says Dilda.

Trends in Canada

BMO's branch transformation programme is part of a wider trend which has seen all the major Canadian banks deploying smaller branches and making greater use of technology (see "CIBC elevates its branches into the modern era," RBI 712, April 2015), says Mark Smith, national industry leader in KPMG Canada's financial services practice.

"North American banks are moving from having full-service branches everywhere to a variety of different sizes of branches," Smith says. "Branches are becoming a multi-functional space with meeting rooms and with very few, if any, designated offices. Also, the role of the branch workforce has changed and is being augmented with interactive kiosks offering videoconferencing with remote tellers and experts. As you remove simple transactions as much as you can from branches, they become places where staff help customers with more complex transactions and with services."

"Looking forward 10 years, we will still have branches, but, because of the growth of digital banking, we won't need long teller lines," says Dilda.

Neighbourhood branches

The initial outcome of BMO's work with Figure 3 was the launch of the bank's first smaller-footprint neighbourhood branch in Toronto in 2009. As of May 2015, BMO has opened 30 neighbourhood branches in Canada, with several more in the pipeline, plus three neighbourhood branches operated by its US subsidiary, BMO Harris Bank.

Neighbourhood branches are the next size down from BMO's Metro branches, 4,000 square foot branches which BMO still builds in markets which are appropriate for this format, says Dilda. The next size up is BMO's Universal branches, larger, legacy branches which BMO no longer builds.

"We looked at the idea of just cramming all the standard elements of a branch into a smaller location along the lines of 'honey, I just shrunk the branch,'" says Dilda. "In the end, we decided to redesign the branch format and do things differently. We noticed that the layout of our traditional branches, with staff enclosed behind walls, was a barrier to achieving our service values, which require branch staff to provide a friendly, welcoming environment for customers."

The design of BMO's neighbourhood branches has an open, transparent layout, where staff are more accessible than in its traditional branches. "Our neighbourhood branches are intended to be intimate and inviting," Dilda says.

"The first neighbourhood branch was 2,200 square feet, but we can go to 2,500 to 3,000 feet, depending on the needs of the local market. Our base format for neighbourhood branches is now 2,500 square feet, but the design is really scalable and we can optimise the size of the neighbourhood branch for individual markets. Using our smaller footprint branch model, we can go into places where we couldn't have gone with a larger branch."

Customer response to the neighbourhood branch design has been very positive, Dilda says. "Customers using our first neighbourhood branch in Toronto told us that it was set up for delivering service, which was exactly our goal," he says.

First Canadian Place

The open, transparent design of BMO's neighbourhood branches is at the core of its totally remodelled 21,000-square-foot flagship branch at First Canadian Place, Toronto.

"We apply the look and feel of our neighbourhood branches across all our branch formats," says Dilda. "So we took the neighbourhood branch core design principles – open, accessible, human and intuitive - and scaled them up to apply them to the First Canadian Place branch."

The First Canadian Place branch includes digital signage, tablets for use by customers, meeting pods, and open, accessible workstations for use by staff. "We provide a secure wireless network for the staff at First Canadian Place so that they can move around the branch with laptops to open meeting areas or private meeting rooms," says Dilda. "We also created a dedicated wealth management centre at First Canadian Place with wealth advisors and planners plus private banking staff."

Flexibility

BMO has a flexible approach to its neighbourhood branch design. Initially, BMO had a policy of not providing safety deposit boxes in its neighbourhood branches, in order to save space. "But we found that in markets where there is a demand for safety deposit boxes, for example in ethnic neighbourhoods, we needed to include a safety deposit vault in the neighbourhood branches," Dilda says. "We also use cash-recycler technology for our tellers, so the neighbourhood branches don't need a cash vault, as cash is stored in a customised safe."

Instead of having financial advisors based permanently in its neighbourhood branches, BMO decided that these staff should visit the branches to meet with customers by appointment. "This meant that we could replace permanently-owned individual offices with client meeting rooms," Dilda says. "Also, our neighbourhood branch bankers work in an open environment, and can hold conversations with customers at a banker's desk or in a meeting room."

"In some markets, our high-net-worth clients may have a high demand for wealth management services," says Dilda. "So we can add permanent office facilities for investment advisors in neighbourhood branches in these markets instead of using visiting experts."

Videoconferencing

Initially, BMO offered a videoconferencing service in its Canadian urban neighbourhood branches enabling customers to speak to remote financial advisors via desktop videoconferencing units. But after piloting the service, BMO discontinued it.

"What we found was that, in an urban environment, customers really wanted to meet their advisors face to face, not by video link," Dilda says. "It turned out that urban customers were happy to make an appointment to come into a neighbourhood branch and meet their advisor, rather than carry out a videoconference. For relationship-based services like financial planning, we are in favour of face-to-face meetings, at least in the initial stage of the relationship."

However, BMO does provide videoconferencing at 50 of its branches in rural parts of Canada, where financial advisors cover large geographical areas. "Because of the great distances and the harsh winters in these regions, it makes sense for local advisors to use videoconferencing," Dilda says.

Smart branch

BMO Harris Bank opened its first "smart branch" in March 2015 in a Chicago suburb.

"The smart branch leverages the learnings we got from the neighbourhood branch, but, unlike the neighbourhood branch, it doesn't have a teller line," says Dilda. "Instead, customers use video feeds at NCR Interactive Teller machines to speak to remote tellers. The smart branch is an open space where the staff, whom we describe as 'universal bankers,' use tablets and laptops to help customers. Staff are also able to instantly issue debit cards to customers at the smart branch."

In addition to Interactive Teller machines, the smart branch includes advanced ATMs which allow customers to set their transaction preferences, and withdraw cash using smartphones instead of debit cards.

The universal bankers can help customers perform self-service transactions at the ATMs and the NCR Interactive Teller machines. "For example, they can over-ride cash withdrawal limits or print out certified cheques, and they can also provide information on products and services," says Dilda. "The design of the smart branch is intended to facilitate good sales conversations between bankers and customers."

BMO Harris is piloting high-definition videoconferencing with remote product experts such as mortgage advisors at its smart branch in a dedicated room. "We've seen tremendous uptake by customers of our video expert service," says Dilda. "Customers don't need to book an appointment to speak to a remote expert. They can just walk into the smart branch, and, within a few minutes, if the expert is available, hold a videoconference with them."

Currently, BMO has no firm plans to open smart branches in Canada. However, it is revisiting its earlier decision to stop providing video links to remote experts at its urban Canadian branches, and is looking at options to offer this service again, Dilda says. "But, right now, we're concentrating on scaling up our plans to roll out smart branches in the US," he says.

Branch transactions volumes differ between Canada and the US BMO has found. "There is enough regular transaction and sales volume in our Canadian branches to justify keeping the roles of teller and banker separate," says Dilda. "So we don't intend to remove traditional tellers from our Canadian branches, or to deploy universal bankers who handle both sales and service in Canada."

Studio branches

In August 2011, BMO opened a scaled-down version of its neighbourhood branch in the Oakridge Center shopping mall in Vancouver. The 1,200 square foot Oakridge Center branch, which features self-service technologies such as a foreign currency ATM and an online banking kiosk, replaced BMO's previous branch in a local Safeway supermarket.

"The Oakridge Center branch was a prototype of our smallest branch format, the studio branch, which is designed for locations where people live and work such as real-estate developments, and uses more technology than neighbourhood branches," says Dilda.

BMO opened its first studio branch, an 800 square foot branch located in a condo block, in Montreal in May 2013, with a second studio branch opening in July 2013 in a mall in Port Colborne, Ontario.

"Studio branches don't represent a large market for us," says Dilda. "We see them as a very specific application and as more of a convenience centre which is more transactional than our other branches. We opened our Montreal studio branch because it represented an opportunity for us to be the first bank to get into a developing area."

The studio branches' features include:

- Open banker workstations: traditional enclosed office spaces have been replaced with an open layout to allow customers greater visibility and access to branch staff;
- Shared customer meeting spaces which allow for more comfortable, collaborative and private conversations between customers and BMO staff;
- Customer connectivity: BMO's Wi-Fi network provides free Internet access for branch customers for their banking and other personal needs.

Although, as a general principle, BMO believes in keeping the roles of its Canadian tellers and bankers separate, its studio branch staff are able to handle both sales and service depending on a customer's needs.

ATMs

In March 2015, BMO Harris Bank launched Mobile Cash, a QR code-based service enabling customers to withdraw cash from ATMs using smartphones without needing debit cards. As of March 2015, 750 of BMO Harris Bank's ATMs were enabled for Mobile Cash, with a further 150 ATMs due to offer the service by June 2015.

"In the US, all our ATMs are image-enabled so they can accept envelope-free deposits," says Dilda. "We're also working on offering mixed-media cash and cheque deposits at our U.S. ATMs, and letting customers withdraw different denominations of notes."

BMO is currently in the process of upgrading its network of 2,200 ATMs in Canada. "Mobile Cash is definitely on the roadmap for our Canadian ATMs," adds Dilda. "Right now, we're focusing on adding envelope-free deposits as well as the ability to deposit cheques and cash simultaneously in Canada." ■

What can the next stage of digitisation offer the financial sector?

Banks have been utilising the digital experience to their advantage, but every time they catch up, technology has moved on. **John Manwaring** considers the steps needed by financial institutions to fully consider themselves digital and the infinite possiblities that this creates for the firms

The financial sector has changed more in the past two decades than at any point previously in history. Technology is the primary reason for this.

Around the world banks have spent the last twenty years pouring money in to IT to deliver new digital services to a tech-savvy and demanding customer base.

While areas of the financial services industry have often been accused of laggardism, it must be remembered that banks were among the first organisations to embrace IT on a mass scale, decades ago. Today, the picture has changed.

The combination of mobile devices, big data, and ubiquitous mobile internet coverage means that today's digitisation has less to do with optimising existing processes and much more to do with empowering end users and creating brand-new paradigms.

What's clear is that this is only the start of the financial digital revolution, with tech investment set to soar. A recent report from the Confederation of British Industry (CBI) estimates UK financial services companies expect to spend 75% more on IT in 2015. The impact of this can already be seen in the news, with Deutsche Bank signing a vast 10-year deal with HP earlier this year to re-engineer the IT infrastructure supporting its wholesale banking arm.

Digitisation v2

Financial services and trading firms realise their sector stands to benefit more than most from digital evolution and from advances in mobile technology in particular.

This is an industry where the immediacy and availability of data is critical. New mobile advances are providing new platforms for this information to be delivered more easily to both internal users and also to customers.

For instance, the recent high profile launches of the Apple Watch, Google's Android Wear and Samsung's Gear S have heralded the wearable technology era, and with it whole new ways of accessing information. Elsewhere, new applications and digital initiatives, such as Apple Pay and Bitcoin, are also changing the way firms and individuals manage their finances.

The threat posed by non-FS companies entering the banking and payment space hasn't gone unnoticed.

A recent new report from The Economist Intelligence Unit revealed seven out of 10 bankers believe consumers "expect banks to provide the same quality of experience big Internet companies provide." Indeed, the study claimed some 42 per cent of banks saw technology firms such as PayPal as a potential rival.

This should act as a guiding principle for decision makers across the financial spectrum: they should see their company as a technology business as much as a financial services organisation.

However, digitisation also provides financial institutions with an opportunity as much as a threat, so long as they are prepared to be innovative and bold.

There are signs this is happening; the same Economist report also revealed 71% of banks surveyed said they considered mobile phone providers to be potential partners, and 60% said they were thinking about partnering with social media firms like Facebook.

However, for such dynamic partnerships to be effective, both logistically and financially, the businesses involved will need to reach a certain level of digitisation, for example, to handle the ensuing increased flow of data and information.

While this likely wouldn't be a problem for a social media firm, the digital infrastructure of a financial organisation would be strained very quickly.

Why wearables?

Despite the hype and high profile launches, wearable tech hasn't taken off as many expected it would – leading to Google suspending Google Glass sales earlier this year. The same might soon be said of the Internet of Things, which has a long way to go before Gartner's prediction of 25 billion connected devices by 2020 is realised.

However, the core building blocks of the financial services of tomorrow are well known to us: data, mobility, and speed. Institutions should ensure they have these building blocks in place so they can rapidly prototype and roll-out new services.

The key to ensuring end-user or customer uptake of digital initiatives is marrying data with convenience. You can have mountains of data, or swish devices on which to present it, but should it be too great an effort to access, people are likely to give it a miss. There may be many false starts before the winning products come along.

Endless digital possibilities

If financial firms equip themselves with a flexible digital infrastructure, capable of processing the high levels of data the next digital evolution will generate, and deliver it in real-time to a range of devices, the possibilities are truly endless.

For instance, you could set alerts to tell you when a news story or research document on a particular stock is published, which flow through instantly to the smartwatch on your wrist. From there, you could sync that content to your tablet or desktop to come back to and analyse later.

Or if you wanted, you could access additional quote data on your watch or smartphone and dig deeper into what's happening there and then.

It's this ability to be alerted quickly to new information that helps professionals really make sense of the markets and react quickly and confidently, turning market information into actionable insight.

While little is certain in the financial sector, we can be sure the future will be more global, complex, competitive and regulated. How companies use the information available to them will determine how successfully they navigate this progression.

This explains why attitudes to IT have shifted in recent years. They must continue to do so to ensure financial institutions make best use of the new technology available to them and meet the ever changing expectations of end users – whether they work for the institution in question or are serviced by it. ■

John Manwaring is head of mobile and search, financial & risk, Thomson Reuters

"Get people together and invest in the future"

A panel of financial experts gathered at the Law Society to debate legacy infrastructure and the constraints it places on digital innovation, while offering consumer-centric and efficient solutions. However, with legacy systems bogging down banking, can the banks manage this? **Franchesca Hashemi** writes

Panel Members

Simon Cadbury, head of strategy at Intelligent Environment
Simon joined Intelligent Environments in November 2013 as head of strategy and innovation. He came from Lloyds Banking Group, where he was responsible for payment technology and sat on the leadership team for credit cards. Having worked with Transport for London during the initial stage of the contactless payment project, Simon's thorough understanding of the field has enabled an impressive catalogue of relative ventures, including mobile contactless payment projects with Lloyds, Visa and Samsung, product development roles with BT, (where he helped develop Europe's first Blackberry and public Wi-Fi service, Vodafone (launching 3G in Australia) and BSKYB.

Jake Chambers, head of insight and innovation at Nationwide
Jake leads Nationwide's digital strategy, research and innovation team.

Alongside a deep understanding of consumer needs and unparalleled creative flair, Jake front's Nationwide's digital ambition and takes business steps necessary to maintain and develop his bank's customer-focused products. At the heart of it is Jake's commitment to helping customers get the best value for money, a job he's been doing for Nationwide since 2012. Before this, Jake worked in strategy, customer and competitor intelligence for Vodafone. His most recent role was head of market intelligence, where he led a team responsible for analysing market trends and competitor activity.

Benjamin Ensor, research director at Forrester
Benjamin serves eBusiness and channel strategy professional, where he researches the intricate nature of consumer perception, adaptation, and use of new technologies and the impact consumer behaviour has for business executives and their company's goals. The information is invaluable to Benjamin's professional counterparts, providing stats and insight on consumer segmentation, business models as well managing multiple and diverse distribution channels. During his 16 years at Forrester, Benjamin has worked in the company's technographics, financial services, and eBusiness channel and product management professional teams.

Richard Fraser, managing director at Global Financial Institutions, FIS
Richard's career began in retail banking as a management trainee with Northern Rock during the 1980s. He then went on to join the Nottingham Building Society and Bank of Scotland joint venture in 1984, which launched the United Kingdom's first home-banking service. A few years later, Richard joined forces with FIS, first in sales and marketing roles then moving to IBM in 1995 as its head of the newly formed core banking solutions unit.

Re-joining FIS in 2009, Richard currently leads the GFI team and supports the company's largest European clients.

Roy Vella managing director at V2
Roy is a digital entrepreneur and independent consultant to brands such as Visa, Vodafone, GSMA, and small start-ups. Before offering his expertise at large, Roy served as leader of RBS global mobile banking efforts. Before this, he spent five years at PayPal, starting out as director of business development in USA merchant services before leading the mobile payments initiative across Europe. Prior to PayPal, Roy worked as VP of sales and marketing at 4charity, Inc., then as partner of Quantum Technology Ventures (which is a corporate VC firm focused on the storage industry).

There is a relentless pace of change driving digital innovation in the banking sector. However, there isn't going to be a big bang moment and the system won't change overnight, according to Simon Cadbury, head of strategy and innovation at Intelligent Environments.

Adding weight to the analysis, Cadbury said: "There are more challenger banks offering modern and competitive systems. If banks want to keep up, they have to adapt. If that goes well then big changes can be made to people's lives."

While some panel members wanted to eradicate legacy infrastructures, others preferred to modify existing IT systems on a piece-by-piece basis.

The debate covered cultural modernisation from the consumer's perspective and whether this will allow current banks to maintain market relevance. If this doesn't happen, traditional financial institutions will be picked off by challenger banks and Cloud platforms in the next five to ten years.

A full house of members listened carefully to the straight-talking panellists, while group editor of Timetric's consumer finance publications, Douglas Blakey, chaired the event.

A plethora of contemporary issues soon followed, including business to business collaboration, whether small banks versus big banks is a legitimate argument, product testing and the impact Apple, Google and PayPal will have on banking ecosystems.

Cadbury said: "There are three phenomena changing the face of British banking right now. The first is obvious, it is digital, but we also have an array of new competitors which are shaking up the banking system by creating principal forms of interaction that are digital only.

The current online climate, he added, is revolutionising not only British banking, but the way we interact with each other.

This cycle, the panel agreed, impacts public expectation and in turn the digital experience.

Cadbury continued: "The new financial entities come from small and simple backgrounds yet are top for innovation and continue to change the way consumers use services. They come in the form of banks like Fidor and Atom who are trying to become fully accessible in their own rights. So for example, Anthony Thompson, the co-founder of Atom Bank, believes he can deliver a 30% lower cost-of-income ratio in comparison to a traditional bank."

Presently, three of the big British banks cost income ratio stands at RBS with 68%, Barclays at 64% and Lloyds at 47.7%.

Yet across Europe, retail banks have digitised only 20% - 40% of their services while 90% invest less than 0.5% on digital innovation, according to McKinsey's figures from 2014.

However, Cadbury argued: "The third and final point is that current infrastructures shouldn't support digital debt. The legacy is creaking at the seams and seems Victorian in comparison to new competitors.

"We are also seeing evidence from organisations like CEB TowerGroup who are saying the cost of a branch telephone transaction is

up to forty times the cost of a digital transaction, so we are really at a very early stage in this journey."

A low digital offering from bank to customer has serious potential to alienate millennials, tech-savvies and business people, who are increasingly self-directed when it comes to money management while looking to download apps and other interactive platforms that help prioritise expenses.

Richard Fraser, managing director at Global Financial Institutions and FIS, disagreed that legacy banking was crumbling and that while digitally transforming financial services is inevitable, he thought it difficult 'to create real relevance unless there is a big enough franchise'.

Fraser argued: "We've seen improvements, a few of them have been mentioned already, but when you add it all together the result has not revolutionised true change in the way people make everyday transactions."

When pressed on whether legacy infrastructure was holding back digital innovation, in relation to the recent IT system failure at RBS, Fraser suggested that modern life is now so reliant on timely payments that as soon as one system outs, the cost to the consumer is drastic. This, he argued, detracted from successful 'layers of integrative applications' which have seen legacy and new systems work comprehensively.

Echoing this view, albeit from a different perspective, Benjamin Ensor, director of research at Forrester, added to the RBS system failure topic by suggesting the cost of replacing certain, big institutions legacy infrastructures 'is greater than your royalties or profit'.

On closer examination, Ensor said: "Regulations are pushing down markets, plus banks are losing competition. So your margins are gradually squeezed. This leaves the bank's ability to invest and make statutory system payments diminishable yet. In light of RBS, however, legacy infrastructure cannot be ignored for much longer."

Roy Vella, managing director and consultant for V2, offered a solution to the banking sector's legacy-to-digital transition. His thinking effectively removed the middle person from any financial equation, while instead focusing attention on remote brand loyalty.

Vella said: "There is a modern and alternative system, which doesn't have to be built in house or be stored on servers. The result is a platform that crosses between mobile, online and finance.

The digital entrepreneur and independent advisor went on to explain the benefits of running a modest banking IT system.

He added: "Interoperability and coherent relationships with different providers will create a superior and manageable route forward. This is exactly the reason why Amazon is so successful.

"It's an old mentality that hypothesises on the inability to run legacy structures as they are, but we don't need to think that way. In the modern world, everything is open and you only lock away items which need to stay secure - the question of whether a thirty year old legacy system should stay in place is ridiculous."

Pitting old technology against new creates a valuable opportunity. The grey area between both issues can be filled with five key areas, according to Cadbury, that will help 'incumbent and struggling banks' seize the day.

He continued: "The first is mobile, and the fact there is a much better understood user interface and experience. That should be at the heart of what they do. Then look at a social media, challenge again the community aspect and send your message across in a cost effective and instantaneous way, while harvesting the data garnered from both platforms.

"Helping customers understand their money and the organisation's proposition will instil a level of control and confidence. And not to forget niche markets, fill the gaps in society because nothing these days is blindingly obvious. Trends come along that shock and surprise you: the world changes."

The zenith of Cadbury's five point plan was collaboration and culture. This, he went on to state, will enable architects of legacy banks to reinvent their core system, while potentially opening the gates to a bigger target market.

Jake Chambers, head of innovation and insight at Nationwide, conceded that new IT systems were advantageous. However, he added that it is far more complex than stated to successfully operate and manage new digital infrastructures within start-up financial organisations.

Chambers said: "Some banks today have invested in modernising their legacy infrastructure, Nationwide restructured; others are replicating their systems with new variants already.

Furthermore, Chambers reasoned: "The point is you have to keep investing in your organisation: IT, the way you make decisions, the way your employees work, being able to respond to the changing world around you. This, alongside agility, is the essence of financial modernity.

"It is an ongoing practice, and there is more to it than throwing your hands in the air and declaring a new IT system will set your organisation up for life. "

The panellist's conflicting visions were soon balanced by a shared pragmatism: to create a virtual and physical community that focused on financial service's interaction with consumers and potential employees.

Nowadays, 71% of people would rather visit the dentist than listen to their bank manager, while 68% think the way in which we access money in five years' time will be completely different to now, according to Fidor Bank's latest statistics.

Investing in the culture of a financial organisation lay at the heart of the legacy debate. Hi-tech software aside, consumers have to want the technology created for banks by Fintech companies, and what better way to innovate than asking people directly what products will help them manage their life?

Ensor led the notion that success is met when customer centricity is based on collaborations as well as culture, making the quality over quantity argument as pertinent as ever.

He claimed: "It is about the attitude of a financial organisation and its willingness to invest in products and development, all of which are valuable to customers. The alternative is to continue as before, trying to make a profit off existing systems and fiddling with the rates.

"Technology is an enabler. It is putting the transparency back into banking for the benefits of its customer: from automated emails, sending money online, to the mount of people who now manage their accounts digitally."

The big bank and small bank question proved popular in this debate, as Ensor continued to say that digital innovation is irrelevant to 'the size of company, but rather take into account its willingness to change'.

"It's just not the case that big banks are doomed and small ones will be okay. It's all about the culture in the organisation and whether they can be agile. So the premise of the digital debate should not take into account size but rather the organisation's aptitude for innovation.

"Regulations are pushing down markets, plus banks are losing competition. So your margins are gradually squeezed. This leaves the bank's ability to invest and make statutory system payments diminishable yet. In light of RBS, however, legacy infrastructure cannot be ignored for much longer."

The panel agreed on a need for technology infrastructures to partner with companies and use the abilities of other Fintech firms. Furthermore, Fraser suggested a shared service approach could ease and potentially safeguard established banks transition away from legacy infrastructures.

Coming in with a different take on the subject, Jake Chambers stated: "No bank is perfect. That's why we innovate. It is about trying to better the business.

Nationwide's head of strategy drew on one particular example that strained his bank's dip into digital: "The mobile operators at Nationwide realised that trying to run everything early on was a losing battle, and that collaborating with established network providers like Apple and Google would prove beneficial in the long run.

"It was a painful journey. We had to give up some ground and see what other people and businesses could do for us."

The panel agreed on a business technology agenda, with reference to small and unknown software companies developing into gigantic international brands, including PayPal, EBay, Amazon, Apple and Google.

Chair of the debate, Douglas Blakey, rounded up the discussion with a final proposition: if the financial sector took into account digital innovation on an Apple-scale, what would become of legacy infrastructures?

While Jake Chambers viewed aspects of the sentiment as 'paradoxical', he also cited 'brand loyalty, in the form of John Lewis' to emphasise a financial services appeal. On the other hand, Roy Vella listed Russian Standard as having a fantastic reputation amongst clients.

Vella expanded on this by stating two vital dynamics fundamental to successful digital innovation: "Customers at the centre, then test and learn. Taking up a scientific method and approach to your commercial business, involve the customer in the process of decision making. Without this, you won't attain innovation and drive."

However, as Simon Cadbury pointed out: "Involving all aspects of your organisation, from finance to corporate, will create a highly innovative atmosphere.

"Get people together and invest in the future. Only then will it become apparent that you can't test products by sitting in a room and talking about them. It is vital to get out there and see what happens." ■

Bringing financial services out of its shell

Financial institution brands have been known to lack social media foresight for a number of reasons such as regulatory concerns and unimaginative marketing. **Franchesca Hashemi** examines a report delivered by Innovalue on how to engage effectively in the rapidly growing environment of digital consumption

Financial institutions and social mediums have a challenging relationship: it is not a natural marriage, to say the least.

Research by Innovalue and Locke Lorde, a strategic management and advisory firm rooted in finance and international law firm respectively, list key areas where significant gains can be made:

"Talent recruitment, employee engagement and empowerment, market intelligence and product design, credit scoring and analytics, awareness, marketing and consumer engagement".

The report entitled *Financial Services and Social Media* includes a wealth of solutions that will help financial providers to build a loyal online following.

The Future's in the Past

Presently there are more than one billion active Facebook users around the world and the company is worth nearly $245bn, according to FB Tech 30.

Innovalue's research shows almost 2.1 billion people are now engaged in social networking, with approximately 1 billion people registered to a Youtube account. A further 28% of time spent online is on social media, of which more than half is on Facebook, according to wearesocial.net.

Yet as social media and banking analysts, The Financial Brand, state on its website:

"As social media marketing continues to gain steam in retail banking, financial marketers need to pause and think about how they use social channels and whether this activity is really adding any value."

For instance, there are 100 hours of video uploaded to YouTube every minute, Innovalue's research found, and this particular channel has had a profound impact on culture.

Photographs and moving images are fundamental to user engagement on social media. Mobile app Vine, a short-form video service that plays clips of footage which its users produce on 6 second loops, garners 1 billion hits per month. Interlink Vine with Twitter and you'll find that 12 million Vine videos are posted via the little blue bird icon every month, according to a New York Times blog from 2013.

Elsewhere, Twitter and Instagram, of which their respective defining features are breaking news and alluring pictures, provide financial services with an unorthodox platform to post all sorts of content.

The Financial Brand gives another piece of advice in this respect: "People don't want to hear only about banking. Instead of boring readers with posts exclusively about your bank's hours, rates, or services, try to entertain them.

"Use a casual, conversational tone. Post content in varied forms — text, photos, videos."

For example, a well-executed and witty Instagram account from a legacy bank has potential to achieve unparalleled popularity.

In order to do this, however, Innovalue reasons that operational challenges preceding "real time interaction", paramount to credibility, come into play:

In 2013, Instagram – or "Insta" as its largest demographic say – hit 150 million monthly users, according to its own figures. Today, in 2015, current statistics stand at 300 million users, with 75 million using their account every day.

Financial Services Brands on Social Media

Just over 1% of Facebook's users 'Like' the card payment brand Visa however nearly double this number 'Like' Redbull, according to Innovalue's figures.

Similarly, Starbucks' updates adorn just under 3% of Facebook user's timeline, with huge graphic images of colourful Frappuccinos and seasonal hot drinks enticing users to 'share' the post, 'comment' on it and ultimately buy the product.

Innnovalue warns the sector risks "lags behind" its commercial peers. However, it should be noted that Red Bull boasts a string of sponsorship deals which enhance its online popularity.

The irrefutably "cool" Red Bull Music Academy, which brings together alternative musicians, has more than 244,000 Facebook likes. 'Red Bull' as the umbrella company draws in 43 million. Within this arm, Red Bull TV, racing, adventure, games, hiking, and sky-diving exist. It prove collaboration and association work exceptionally well in the realms of social media.

Innovalue's research shows approximately 0.03% of the Twitter population follow Red Bull's Twitter account, which is more than Visa, American Express, Bank of America and the insurer State Farm.

This illustrates the importance of commercial popularity, which is prerequisite of successful online campaigns.

However, as Innovalue explains, negative press received by the industry, due to 'scandals' and public criticism, restricts the popularity of the financial institutions sector. To achieve social media success, this must be addressed.

In Other News

Pew Research Centre found that 72% of online adults use video-based websites, such as YouTube, Vine and Vimeo. This figure is more than double the number recorded between 2006 and 2013.

Picking up on the cross functionality of video, Lloyds Bank celebrated its 250th anniversary with an advert which found resounding praise on the Twitter sphere.

Here examples of enthusiastic Twitter users commenting on the ad while sharing Lloyds' hashtag.

- #lloyds what's the name of the song in Lloyds bank ad? Goose bumps every time I hear it!

- From the #Lloyds ad! Beautiful tune. I just used #Shazam to discover Wings Acoustic [soundtrack] by Birdy.

In this scenario, a 250 year celebration that focused on the customer gained Lloyds traction, both in the press, digital and social media.

Innovalue also references MasterCard's "imaginative" social media competitions, which give the brand a contemporary edge. In 2012, MasterCard co-sponsorship of the Brit Awards provided millennials with reason to click the brand's Facebook page and stay abreast of the campaign's developments.

According to the report: "The advantages of social media over traditional communication channels include its universal reach, its 'non-corporate' atmosphere and the speed of discussion."

If financial institutions want to garner more social media shares and likes, it may be a question of investing in trendy social media managers. Efforts to do so 'empower' employee, brand and company, Innovalue state.

As well as this, light subject matters will rejuvenate a financial brand's online reputation. Jason DeMers of Forbes Magazine calls this the "humanisation element".

'The Social Media Opportunity'

Recruitment and employee engagement should work cohesively for optimum productivity, the report discloses. This works both practically and empirically, as advertising job openings through the brand's social media account is a positive conversation starter.

It allows vast amounts of skilled and technologically savvy people to view a vacancy. This in turn increases brand awareness while 'empowering' existing employees, who may choose to share the job link on their personal account

The go-to business community is LinkedIn, which is designed for professionals. It networks more than 264 million customers across 200 countries, including 39 million students or graduates, according to LinkedIn figures.

It should be kept in mind however that "social recruitment" can be applied in any capacity the financial brand sees fit.

LinkedIn, Facebook and Google+ provide environments where employees can discern specific information about potential recruits, as well as providing an analytical space to conduct research.

Innovalue lists opportunities surrounding "credit-scoring, fraud prevention and analytics" that help financial services make good choices.

According to the report, payday loan provider LendUp checks the Twitter footprint of potential clients for "economic stability".

There are a number of tools referenced by Innovalue that help the social media checking process: microfinance, research on behavioural consumption and social media data.

Product Awareness, Marketing and Promotion

Producing and distributing marketing messages on social media can generate user engagement and encourage new audience to join in. However, customisation and insightful posts, which take into account the social platform you are posting, are key to influencing relationships.

Fidor has successfully investigated the potential Facebook brings to a financial provider.

The German bank also utilises aspects of Innovalue's remaining five 'strategic applications': "Consumer engagement/ loyalty building, Customer Service/ Consumer Education/, Public Relationship and Social Responsibility, and Payment Imitative."

Research by UK-based Kantar Media TGI from the first quarter of 2014 found that social media users are more likely to embrace financial innovation technologies.

The same study found that people who log onto a social media platform at least twice a day are 22% more likely than an average consumer to stay abreast of new technologies, and 22% more likely to use contactless payment.

It should be stated however that payment services must be authorised in the EU, and as Innovalue states: "The reporting and capital requirements accompanying such Authorisation form a very high bar for organisations to enter."

Regulation, Security and Constraints

Data concerns and security are major issues for the financial services and social media. There are slews of regulatory bodies that keep in check British institutions as well as their global arms.

From the Financial Services and Markets Act 200 (FMSA), which a company's online presence can be held accountable and Data Protection Act (DPA) to the FCA (Financial Conduct Authority) and ASA (Advertising Standards Agency), digital marketers must ensure that rules which apply on paper are carefully considered and applied accordingly online.

Pew Research Centre found that 86% of internet users have at some stage attempted to hide their online footprints: "From clearing cookies to encrypting their email, from avoiding using their name to using virtual networks that mask their internet protocol (IP) address."

Recently, the FFIEC (an American financial regulator), released guidelines governing social media use by the financial industries both domestically and abroad.

According to Innovalue, the FFIE proposed: "Financial institutions must have a formal written social media strategy that is aligned with the global goals and objectives of the organisation."

Innovalue also stress that customer "culture" must be taken into account, as this helps the brand see through media hype and adhere to legal challenges.

Data

Protecting customer data is tantamount to the image of financial institutions. Yet the very nature of social media, its openness and instant conversations, means that negative interactions will happen.

Complaints directed at the institution should not be covered up by a social media manager. Leaving negative user comments on a business page, as long as there is a helpful reply below, show good will and a keen interest in maintaining healthy customer relationships.

Yet Innovalue reports that "uncontrolled and unaddressed complaints" are difficult to moderate or control. This is factually true, however allowing bad press, as long as it is doesn't infringe anyone's rights, conveys commitment to customer satisfaction.

A survey carried out by Forrester showed that 8% of US social networkers, who interact with financial firms, do so primarily to 'post reviews, complaints and questions', while 15% preferred to be 'alerted to promotions and special offers'. The contrast proves that it isn't all doom and gloom for the sector.

In the UK, only 9% of Forrester's respondents agreed that communication with banks via social media is central. Contrastingly, 24% of respondents in Honk Kong wanted their financial.

Wells Fargo challenges the undertone of this sentiment with its stealthy online persona, including 733,00 Facebook likes, a Twitter account, LinkedIn, YouTube channel with 2.6 million views, 7 active education-based blogs and a totally unique online community developed by the brad called Stagecoach Island.

The survey aimed to give a rounded idea as to what customers want from technology and retail banking, as a singular entity.

Innovalue sums up: "The vast majority of people do not consider engaging or sharing information with banks via social media channels a priority, mainly suggesting concerns around security."

However, the report cites the financial crisis and well-publicised scandals as reasons why customers are disinterested in pursuing social media relationships with them:

"Consumers consequently lost their trust in financial institutions; social media can give financial providers new means of engaging with them in an appealing manner that can help restore lost confidence."

People will continue to use social media as long as it exists. Therefore if a financial brand wants to remain relevant to potential customers, it must sign up to social media. ■

Is the digital experience for the bank or for the consumer? For a profit or for convenience?

The digital conundrum has been circling the financial industry for years now. Chaired by the editor of *RBI*, Douglas Blakey, and hosted by Assurant, a select group of financial minds came together to discuss the true purpose of digital channels. **Patrick Brusnahan** reports on the highlights of this discussion


Rajat Garg, CitiBank


Tracey Rogers, Assurant

Held in the financial hub of London, the roundtable considered digital's role in the financial equation. Obviously, with the adoption of the Internet and smart devices growing with no end in sight, digital is something that the banks cannot, and have not, been ignoring.

Questions still surround whether the banks are doing enough though. While close to every financial institution has some sort of mobile or online presence; are they fit for purpose? This is in regards to both the institution and the consumer gaining as much from the digital experience as possible.

Douglas Blakey: The first question I'd like to ask is: Should we be welcoming digital engagement?

Nicholas Stefanovitz (Vice President, UK Acquisition & Digital Engagement, EMEA Emerging Payments, American Express): Yes, I would say so. Digital is not an option for us, we want to be omnichannel. From our prospective point of view, we don't have branches in the UK, so it's digital only. The mindset has shifted over to the engagement side.

Bhavik Sangvhi (Digital Channels, Metro Bank): Digital is a vital part of the banking experience. We use internal launches to identify the vast majority of problems with our app. There will always be some that our customers alert us to, but we continually gather feedback to improve the app. We believe this is necessary for us to improve the product.

Douglas Blakey: What sort of metrics are you looking at to gage the level of engagement? Is it number of logins?

Bhavik Sangvhi: The statistics that we use are based on the number of log-ins per month. Alongside that, we also see transaction volumes. For us, the success measure would be they use the app a certain number of times where there are no Metro Bank stores.

Clare Dean (Mobile Roadmap & Features manager, TSB): TSB is very focused on how we can serve our customers without necessarily having that branch presence. It's making sure that as a new bank we can maintain the right message and metrics when you're not engaging with customers face to face.

Julie Baker (Head of Enterprise, Business Banking, NatWest): Key findings (from the BBA Way we Bank now report) suggest that those who do use our apps are the most satisfied and often score us higher in terms of NPS (net promoter score). Internet and mobile banking is now used for transactions worth £6.4billion a week, up from £5.4billion last year. We are seeing banking apps for mobiles downloaded at a rate of 15,000 per day.

Scott Manson (Head of Digital Strategy and Proposition, Visa): Ultimately, the mobile channel is great for engagement, but you don't have the ability to cross sell and use it as a revenue generating tool. How do you counter balance that?

Douglas Blakey: Can we see a stage where we start to monetise digital by charging given the low interest rate environment?

Venkatraman Calidas (SVP, Digital Products for Payments, Investments, FX & Wealth Management, Citi): At the moment, differentiated pricing strategy, to encourage customers to use digital, is serving us well. There is a huge saving enabling all interactions to be digital. However, we do need the phone channel for complex queries or transactions. It is important to track why a customer would choose other channels when more convenient options are available. Since we offer almost all transactions online, we are closely tracking why customers still call us. Could it be that the user experience is poor?

Douglas Blakey: At what stage do you see in the UK where the mobile or tablet app is also a sales channel?

Nicholas Stefanovitz: How you define sales? We're tracking app downloads, usage, logins, but we also have offers on the app. It enhances customer engagement and everyone's happy. There's a lot you can do with the app to monetise without charging. We've asked ourselves if we should push certain things and so far it's a no because the purpose of the app has to remain as servicing.

Bhavik Sangvhi: That's a very interesting point because availability is different to pushing. It's not selling; it's making the option available. It's a different vertical in the digital channel itself as you're getting a value added service at a cost but for servicing, charging wouldn't be ideal.

Douglas Blakey: If I go into the Metro banking app with just a current account, can I apply for a credit card?

Bhavik Sangvhi: The culture at Metro Bank does not believe in cross selling or push selling, that is why we don't do that. Our colleagues do not have any sales targets; they are measured only in customer service. We don't think we're missing anything. Our customers come to us because we're different and we don't want to change that.

Tracey Rogers (International Business Development Leader, Assurant): At Assurant Solutions we are continually pulsing customer feedback and satisfaction scores. In addition, we undertake bespoke consumer research. Recently, which I found surprising, the research indicated that customers who are very engaged with the app, are comfortable paying for other products and services.

Venkatraman Calidas: On our website, customers see banners which announce new products and offers tailor-made to the customer. The trick is to do it so we are not seen as pushing but being there for the customer.

Tracey Rogers: Coming back to Amex and VISA, you have a different relationship with customers to the high street banks because you are a credit card provider, not a bank account provider. How do you face this challenge? You have the digital platforms, but are they really the only channels?

Nicholas Stefanovitz: It's the classic strain that we try to find our way around and find our strengths somewhere else.

Scott Manson: The idea behind Visa is that we're there to help make payments simpler, quicker, and faster. What we have to do, our key thing is try and take the friction out of payments. Where can we affect change there? We understand that you have to make changes that allow your customers to be in control and we can do that by providing some functionality through our systems.

Rajat Garg (EMEA Head of Mass Affluent, CIti): At the core of what we're trying to do is customer engagement. We're not trying to sell a feature; we're trying to sell an experience. What banks have been trying to do is to simultaneously improve the convenience for the customer and reduce costs. The digital channel becomes an enabler for that strategy.

Douglas Blakey: If the customer experience is so crucial and banks are so customer centric, why is it that so few banks have invested in an optimised tablet app?

Nicholas Stefanovitz: At the beginning with websites, everyone tried to cram it all onto a mobile, but realised that it doesn't work, you have to be mobile optimised. The tablet comes in just when you get an optimised version for mobile. It takes time.

Rajat Garg: The bigger challenge is how do you design the entire banking and present it in e-channels? Start with a proposition and then see if the digital feature can come in.

Anna Milne (*RBI*): Is it pushy having the option available on an app to apply for another product?

Scott Manson: You can do it already with simplistic products. It's when you get into the complex credit card or loan space where you would have seven pages of Terms and Conditions and that doesn't really work on a mobile channel.

Anna Milne: So is it not worth trying to simplify?

Scott Manson: Well, speak to the regulator. It's more of a case of: “Is your legal or risk department willing to sign off a credit card based on a tick box?” Probably not at this point in time. It's not a great sell for the mobile space, you don't want to be there for 30 minutes; you want to be there for 30 seconds.

Douglas Blakey: Would it be appropriate while using the mobile app to be offered the chance to be upgraded?

Scott Manson: It depends again if that's appropriate and if you have enough information to make that decision. I would say that we don't. The whole balance is now where you focus your customer.

Bhavik Sangvhi: From a customer perspective, they prefer being offered products via internet banking rather than mobile, especially as there is the reassurance of two-level authentication security there. People tend to access mobile apps whilst they're out and about and aren't looking to review products.

Tracey Rogers: There is now a mind-boggling amount of data that is being collected across the globe by various financial players. The amount of data is huge. We now know so much about how customers are behaving, what they're doing and how they interact with financial services. Isn't it now about how we create customer intelligence and customer value with the data?

Bhavik Sangvhi: In the digital space, data is changing every day. We have to catch up with the times. We definitely need to look beyond financial data and transactions people are undertaking. Customers are happier with non-financial benefits than financial benefits because they can get financial products from any bank. It's about customising as much as possible. That is only possible if you start understanding their choices and using that to give them rewards outside banking.

Rajat Garg: Historically, banking has never really done a good job with data.

Nicholas Stefanovitz: These platforms were never built with the purpose of taking data and using it for customer experience purposes or cross selling. There is still the strategy of making the experience and the offers more relevant. For example, we've partnered with TripAdviser and we matched our data. AmEx customers can actually choose to see the reviews from Amex customers only. That adds a layer of credibility.

Tracey Rogers: Isn't it about understanding the relationship not just with the credit card or the banking provider, but the customer's lifestyle and it's tapping into what's important to them, not necessarily the credit card and banking world?

Clare Dean: Unfortunately, banking back-end solutions are still not as dynamic as in other industries. Until that time, you need to find the little tweaks that can make or save you a lot of money without huge costs. You don't necessarily need fancy new products or push communications, just moving a button or changing a colour can make a difference.

Douglas Blakey: Would I be fair in suggesting that there's a bit of room for improvement if banking apps were to learn lessons from some of the best non-banking apps?

Rajat Garg: Historically, banks have always done these sorts of things in-house and banks need to open up. It's a big cultural change for a bank to say: 'Okay, we don't know everything; there might be others who can help us. While we need to learn a lot from these new players, these new players also need to learn a little about the real world of banking. The fact that the industry is hiring such people is a recognition of that we have things to learn.

Tracey Rogers: Looking at gamification as a form of interaction, is that on any of your radars?

Julie Baker: For many years, RBS visited Schools to present their MoneySense programme which was a well received and valued service. It is now available as a free interactive programme online with a wide range of activities.

Douglas Blakey: Our award for "Retail banker of the year" went to Garvan Callan; the head of digital at Bank of Ireland due to his drive not just to improve digital in terms of improving customer experience, but the drive to generate revenue. Has that drive fed through?

Nicola St. Louis (Channel Development Business Analyst, Bank of Ireland): I think it's definitely something that's on, especially as we don't sell our products directly to market in the UK. We're doing it through the Post Office. For us it's all about being digital because how often can we engage with our customers if they can't pop into a branch, how would they build a connection with the bank and not the Post Office?

Douglas Blakey: In terms of gamification, should banking be fun or simple?

Scott Manson: Ultimately, it is really simple at this point in time. People think passwords on apps are hard or difficult, I don't know how much simpler you can make that without making it a little bit risky. These are the kind of things that we need to balance. It's certainly moving towards a more convenient side of things, but there has to be a form of security there.

Douglas Blakey: Bringing it back to potential revenue generation, is there any scope to work with new players?

Scott Manson: 3rd parties are finding ways to work around you, not with you, especially from a payments perspective. We've got to find ways to open ourselves up as organisations to say 'actually work with us' rather than being defensive. In that way, you can become more of a friend than a foe and that's the kind of attitude we're trying to set.

Bhavik Sangvhi: We shouldn't see them as a threat, we should see them as a value-add. The industry is more collaboration rather than competition. Technology is in competition with banking because banks are seeing them as competition. Once we start looking at them as collaboration, it will work better.

Clare Dean: I think it's all about collaborating. It goes back to your point of two extremes, you work together, and who knows, it might work, it might not, as we've discussed, try these things. Why put those barriers up when you can have a chat instead?

Douglas Blakey: Is this a good point to be in retail banking in the UK?

Rajat Garg: There are grounds for optimism. The retail banking business model is still evolving because the route that everyone's taken is taking up costs and serving the customer by providing convenience through the digital route. It's a work in progress. There's a lot going for London, it has a very vibrant fintech centre. The next three to five years should be very exciting here.

Julie Baker: I think it's a very exciting time. I can see a lot of new which are required to keep ahead of customer demands. I think the banks needs to work together, get some fintech experts in and see what they can do. We're seeing more non-bankers being recruited in the digital teams and that adds real value.

Scott Manson: One of the biggest calls we have from our strategy department is how do we become digital? That's the conversation we have with most banks. I don't think anyone's cracked it yet. There will be winners and losers in this. It will be an interesting space over the next few years.

Marissa Alleyne (Channel Development Business Analyst, Bank of Ireland): It's really good for the customers at the moment due to the emergence of the challenger banks and new entrants. You're creating a position where even the larger banks are being forced to rethink their strategies. There's so much more competition now and the customers are going to get true value with their bank accounts now. It's a real challenge for the current leaders to keep rotating their thinking. Nobody's mastered digital yet, but it's pushing everyone in the right direction. ■

Big Data, Bold Future

Big Data could be the very future of retail banking and the one thing to rebuild consumer trust, said the chief executive of the British Bankers Association at a roundtable in London where the future of retail banking was put in the spotlight in a very big way. **Anna Milne** reports

Anthony Browne, chief executive of the BBA, boldly proclaimed: "Big data could be the future of retail banking.

"If banks do get this right it could help rebuild trust in banks. No longer will they make the mistakes of the past, sending the wrong products to the wrong customers.

"There will be a world where your bank will be your financial ally. It will help you make your money go further, guide you to the right financial products and help you achieve your ambitions."

The difference between trust in banking as an industry and trust on the part of individuals towards their bank is quite significant and there is a gulf between them. This was highlighted when Charles Blake-Thomas, product management and strategy lead, Lloyds, made the point that banks are still fighting against consumer trust. Most studies and surveys show us the individual still has strong faith in their bank to keep their financial affairs in order. And less trust in emerging challenger banks or start-ups.

Potential for banks and the first step

Vidur Varma, product director, Citibank said the first key thing for a bank is to define what they are going to use it for: "Is it for loyalty or otherwise? Banks are good at structured data, but not unstructured."

Francesco Burelli, partner, Innovalue Management Advisors, said :"Banks need an element of clarity and prioritisation- they need to figure out what to use big data for before they move forward. It's a no-brainer, for example, to use analytics for risk but in terms of bringing further service to the customer, if they are not clear what their line of intent is they won't get off the starting blocks- product, optimising channels, improving customer experience, optimising channel management in terms of cost effectiveness.

"This is a perfect example of how you can simplify the back end data and manage it properly. The payback is there- with the current technology banks can add layers on top of siloes to help them extract the information. The payback is there for the taking."

Reiterating Burelli's point, Venkatesh Vaidyanathan, vice president of product management at Infosys, said: "Some data in legacy systems is buried so deep within the bank that it is nigh on impossible to even extract. When you imagine some banks having up to fifty or sixty different systems- and bigger banks may have more- you can begin to understand why.

The time it takes to realise value is a very strong proposition, Vaidyanathan continued, often taking only a matter of months before the bank is able to realise the value from analytics using open source 'and at a much lower cost than we've ever seen before'.

It can consolidate information about a customer such as the number of times they called the bank, what they have posted on Facebook, Twitter, and their interest in a particular service. This, married with a bank's information on customers becomes very powerful.

So why don't banks get into it faster? Browne said they all are but it takes time and Vaidyanathan said the fear in banks of disrupting a service is huge, making them risk averse and slow to embrace change. When there is a glitch, it is immediately broadcasted all over the internet and the bank gets lambasted.

"Upgrades are what banks really fear. It would be easier if banks collaborated on big data as they do on fraud," Vaidyanathan said, adding that collaboration is a big problem:"The credit card department often has no clue as to whether that customer also has a current account with the bank or not. Tackling collaboration will tackle attrition. And you can use data to predict likelihood of attrition. You collect the data of customers who have left and recognise a pattern. Today all banks talk to credit agencies- could they also talk to telecom providers? Or retailers?"

> **"Upgrades are what banks really fear. It would be easier if banks collaborated on big data as they do on fraud"**
> Venkatesh Vaidyanathan, vice president of product management, Infosys

And staff: the crucial link. It's true that the data scientist is a relatively new professional to banking, but this is no reason banks cannot move forward in this space. Vaidyanathan: "There was nobody with a PhD in Data Science ten years ago. There are people who are passionate about data. You could probably have one data scientist for an organisation of 1,000 or 500. It is far more scalable to have enough people in the organisation who are passionate about data. And incorporate it from the teller up. Educate the staff."

Vaidyanathan continued: "Structured data is dead. We've beaten the death out of BI. Sending out something, waiting for a response, every morning receiving a report- from the CEO down, then some actions are taken. Forget it. People are banking online and on mobile. From a bank's perspective, a customer with a high Twitter following is a very important customer.

"Social media equals unstructured data. Banks need to harness the power of unstructured data."

Regulation

While there was little disagreement about the potential for banks in harnessing big data by the bankers in the room, it was acknowledged how banks are hindered and therefore things take a while. They are confined to tight rails by both regulators and inherent culture- two aspects which are by no means mutually exclusive.

For some it solves problems; for others it poses as many questions as solutions.

The National Crime Agency in particular is starting to look at big data and how it impacts regulation. The issue is again protecting confidentiality without strangling innovation or preventing innovation.

He said: "We all have different thresholds from what kind of alerts we want from our bank: some of us happily flaunt ourselves on Twitter while others loathe the idea. Our types of services will be just as diverse. Our

BBA Big Data stats

- 23 million banking apps have already been downloaded in the UK alone
- £3bn per week is transferred by tablets and smartphones
- Mobile banking has overtaken internet banking as the most popular way to interact with your bank
- Mobile banking is the most popular form of banking in the UK
- Banks send more texts than any other industry in the country
- In 2014 the speed of transaction for contactless cards saved 100 years of queing in UK shops
- The number of interactions people have with their banks is doubling over a ten year period
- We have more contact with our banks than ever before in history

industry will need to listen acutely to what the British public wants, powered by their information. Big data could power the next revolution in retail banking but only if the customer wants it."

Advent of big data.
In two years so much has changed. Two years ago, data was very confidential. Roll forward to this year's BBA annual conference and big data was the recurring theme for all banks, Browne said.

The term big data was only born in the late 90s; it was supposed to refer to data so large that it presented a major logistical problem that computers just couldn't handle. With today's much higher processing speeds everything has changed. There is huge opportunity to use vast amounts of data.

"Mobile banking is changing consumer behaviour, for example text alerts, stopping customers from going into the red. We are now in a position where banks are sending more texts than any other industry in the country," said Browne.

Vaidyanathan: "The broader adoption of open source- a few years ago there was no discussion at all about this. There is a good conversation now. Banks are in a very competitive environment and they are trying to figure out how to get value out of big data without investing millions and millions of dollars."

How it can help the customer
Digital bank innovation teams need to utilise big data to better serve the customer. This is the next step: it can transform the way customers interact with shops, with energy companies and so on. It can change the way we interact in our lives.

- Energy companies- comparing spend to other consumers in same locality- banks have all this information

- It empowers customers, giving them far greater insight into how they spend their money. Personal finance management tools have taken off in the US. These offer a categorised break down into how a customer spends their money and what on. They are great budgeting tools and can be personalised so the consumer can set alerts to prevent them spending over a certain amount on a certain category. Iceland and Turkey are hailed as advanced markets in PFM

- Major lifetime events such as buying a house, getting married, planning a family

Browne: "Ask yourself this: if your bank has spotted that you are spending 25% more on your broadband than your neighbours, wouldn't you want to know? If you are spending 15% more on electricity than the other houses in your street, wouldn't you want to know? All that data is there. Banks hold that data. They don't use it at the moment."

Banks also know about major events in people's lives, and how those have been budgeted for by hundreds of thousands of different people. One major UK bank is developing an app to help prepare for such events. For the individual, it may occur only once or twice in their lifetime but banks can consolidate the financial experience attached to these events of thousands of people.

House hunting
If the bank knows a customer is house hunting and has already discussed mortgage options, using locations services, that bank can set up an alert to draw attention to any suitable houses the customer walks past, giving details of the relevant estate agent and contact details.


Anthony Browne, BBA

Another example is a customer being able to upload the last year's history of their current account data to a price comparison website in order to see a league table of the best current accounts for them. This kind of data is anonymised and cannot be stored by the price comparison website.

Big Data, Big Brother? Not for the SME
Some may hold this view but the reality is most people find it extremely useful to be handed the tools with which they can better manage their finances. Then there is the SME.

Banks hold enormous amounts of payments data from customers of small businesses. This could be shared with business owners in a secure, regulated way. They could find out where their customers tend to live, where a second shop could be opened. Or find out overheads of similar businesses in order to try and make savings. Consumer 'opt-in' is essential for certain of these services of course.

"At the moment the government is working with the industry of standardised APIs for banks. These effectively act as DNA for your banking IT platform. There are huge opportunities there. But it is vital for the customer's data to be safeguarded. An opportunity cannot be presented to fraudsters," said Browne.

Understanding customers
Vaidyanathan explained that, after all, "two generations ago, banks understood customers really well. Looking back just one generation, the bank would always know when my father needed money; when it was time to invest in agriculture. When you were having a child, they would come round to your house to advise on setting up an investment programme for that child's education or wedding. We are now relying on machines to do all this. We really could use a branch manager who knew every customer but that's not possible." ■

Consumer loyalty in the post-interchange era

Rising prosperity has had a profound effect on the global economy, with consumption patterns beginning to signal that a new 'normal' may soon be upon us. We are all aware of the disparity between the 1% and the rest, but the real story has been the expanding middle class in Asia, Latin America, and Africa

Millions of consumers, flush with newly-acquired disposable income, will emerge in these regions over the coming decades – the OECD expects the global middle class to grow from 1.8 billion in 2009, to 3.2 billion in 2020, and reach 4.9 billion by 2030.

The values and outlook of these increasingly prosperous consumers are of particular interest to financial services providers of all kinds. The best place to look for clues about how best to engage with these consumers is towards the higher end of the earnings scale – a group known as the Mass Affluent.

These consumers, within the top 10-15% of the income bracket for their countries, have considerable spending power and the potential to shape the aspirations, buying habits and behaviour of other consumers. It is no surprise that many companies and financial services organisations look to attract and retain this group's custom.

Whilst brand cachet clearly plays a part in where this group of consumers decide to spend, much of the mass affluent's loyalty to financial services companies has been driven by rewards, whether through cashback on credit cards, travel incentives like air miles and airport lounge access, or discounts on products.

Financial services providers have traditionally funded these rewards largely through the interchange fees levied on merchants. And with the European Union now mandating these fees are capped at 0.3% for credit cards and 0.2% for debit cards–a reduction of up to 1.85%–the future of these programmes is at risk.

On 1 March of this year, Visa reduced its debit card fees, and on 1 April , MasterCard began reducing fees on their credit cards, both with the aim of reaching the E.U. regulated levels by mid-2016.

These interchange reductions will affect the mass affluent to a greater extent, as the credit cards held by this group are more likely to have been on a premium interchange rate which largely funded their higher value rewards.

As the interchange transition gets underway, now is the time for financial services companies to relook at their customer loyalty programmes and question how they can continue to acquire, engage with and retain customers at a time when the primary way of paying for these programmes is being reduced.

At Collinson Group, we wanted to assist businesses in understanding the behaviour and motivation of the mass affluent, which could then be used to inform how loyalty programmes in the low interchange era can be run. To achieve this first step in-depth research was carried out with 4,400 high earners from Brazil, China, India, Singapore, the UAE, US and UK.

Through this research, we identified four 'tribes' that share common traits that cut across age, gender and international boundaries. For too long, financial services companies have defined customers by income, spend or the products they buy. We believe these tribes provide additional insight into the motivation and expectations of the world's growing middle class, and will be especially useful for financial services providers:

- Prudent Planners are the largest tribe representing 41% of respondents, most prevalent in the United Kingdom and United States. Three quarters of this tribe cite spending on family members as a priority and they have a higher than average interest in giving to charity and protecting the environment;

- Stylish Spenders seek the finer things in life, and are most common in China and the United Arab Emirates. They are four times more likely to buy leading brands and drive a luxury car than other affluent middle class consumers. Stylish Spenders are a small but very influential tribe with over half under 34 years of age and almost a third earning over $190,000 per annum. Interestingly, this group is the most loyal to brands they trust, participating in an average of five loyalty programmes and feeling loyal to up to eight brands.

- Mid-Life Modernists stand out for their enthusiastic use of technology, with 61% citing gadgets as their biggest indulgence, 90% spending more than five hours a week using their smartphone and 45% spending over 20 hours a week online via a computer. They are well represented in India, China and Singapore, and as digital experiences have a significant influence on this group, businesses that invest in this area can create powerful advocates amongst them, and

- Experientialists value unique, money can't buy experiences and exclusivity rather than standard products and services. Prevalent in China, the United Arab Emirates and the United Kingdom, this tribe is most likely to enjoy experiencing a different culture and using travel as a way of keeping in touch with friends and family. Experiences such as spending on holidays, dining out and luxury foods are also high priorities. Flexible rewards that include attainable travel redemption options and enriching lifestyle benefits are effective ways to tap into this group.

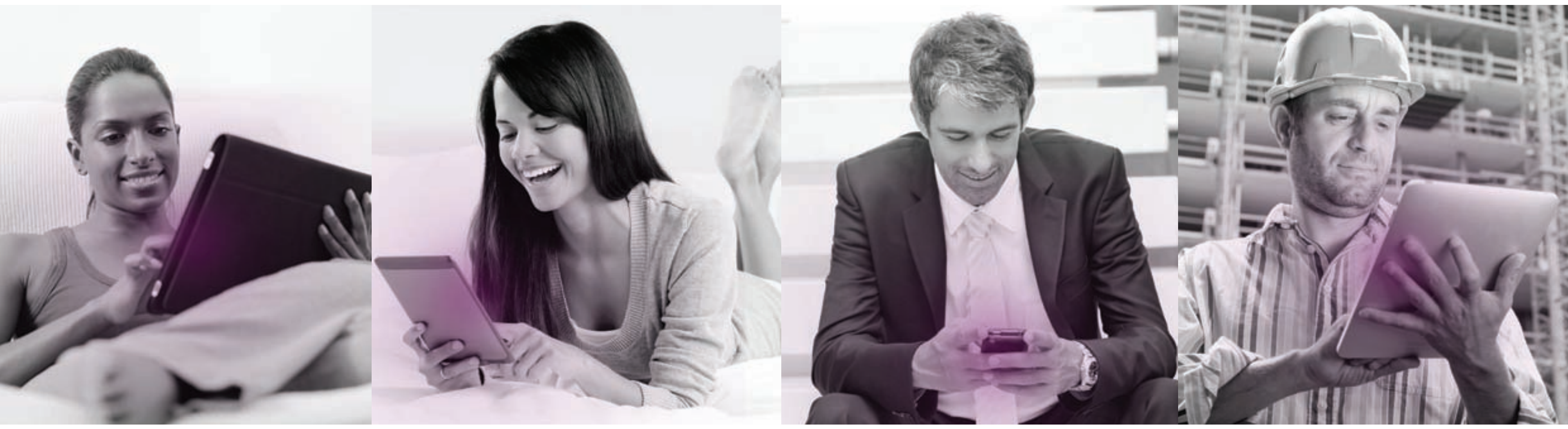
The mass affluent, increasingly aware of the worth of their custom, are also making additional demands on financial services providers.

Rebuilding trust, destroyed by the global financial crisis, remains crucial as demonstrated by almost seven in ten expecting their bank to follow ethical practices. The pressure of delivering returns to the business has also never been higher, as financial services organisations struggle to contend with easier switching models, increased competition from agile new players, and more regulation than ever before.

In summary, it is simply too risky to stand still, and not offer valued, differentiated, personalised experiences and rewards, that start to move beyond the traditional transactional loyalty programmes. Providers need to get to the heart of what motivates a customer to join, spend and stay with them. This could be through 'Wow' experiences, things that benefit the whole family, new technology or travel opportunities, and start to define a customer loyalty strategy that protects patronage and increases engagement.

By focusing on tailored offerings and customers' motivations and aspirations, it is still possible to run effective loyalty programmes at an affordable cost to the business. This new approach will encourage the right behaviours and the long term loyalty and engagement of new and existing customers. ■

***Mark Roper** is group commercial director at Collinson Group*



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