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SMALLER BANKS STEPPING UP



- ANALYSIS: Challenger Banks
- DISTRIBUTION: Nationwide
- INTERVIEW: Massimo Arrighetti
- FEATURE: Dejardins

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No more hype: digital players will not KO the banking establishment



I have been fortunate to moderate more than 20 events this year around the world from Dubai to Milan, Riyadh to Casablanca, all across Europe and now this month a hugely enjoyable trip to Toronto.

A report of the debate (on Canadian digital banking as it happens) will run in the December issue of *RBI* but in the meantime, some quick comments.

The recent report from McKinsey on the future of retail banking keeps cropping up on the banking events circuit and Toronto was no exception.

It states, inter alia, that retail banks have digitised only about 20% to 40% of the customer experience.

Banks are investing too little on digital; it goes on to forecast that up to 40% of retail banking revenue and up to 60% of profits are at risk over the next decade.

Some digital evangelists go so far as to suggest that digital start-ups, challenger banks and fintech firms will kill off established banks. Uber is held up as an example of a successful digital disruptor; some even argue that established banks will go the way of Tower Records or Blockbuster.

Anthony Thomson, late of Metro and now co-founder of Atom Bank, has been especially apocalyptic in his forecasts about the prospects for the established banks.

I would respectfully beg to differ with this line.

It was a joy to be in Canada – a banking market from whom much of the rest of the world could learn a thing or two by the by – and hear a rather more sober and I would suggest realistic forecast of how things will pan out.

Yes, fintechs will disrupt and beating them will cost the banks a lot of money.

The message from Canada however is that banks are not pushovers and are not going to take the fintech challenge lying down.

The Toronto Globe and Mail made the excellent point that Canadian banks have been challenged by a digital start up before.

What happened: ING Direct was snapped up by Scotiabank, albeit it cost C\$3bn (\$2.2bn) to do so.

Any new start-up that causes a material challenge – in Canada or elsewhere – may well be snapped up or become a JV partner. Witness BBVA, a genuinely world class leading digital bank acquiring a one-third stake in Atom Bank, at a cost to BBVA of the equivalent of loose change found behind the settee.

The lesson from the Canada debate was that the leading banks there are not complacent and have the funds to fight a protracted battle.

There is also a strong sense that collaboration between financial institutions and the fintech community is feasible.

Dave McKay, CEO of Royal Bank of Canada, opening the debate, highlighted the scope for fintech firms as potential allies to established banks, rather than threats.

"It is incredibly motivating and engaging for our own employees to partner and work with fintech companies.

We've had enormous success sharing ideas and building on ideas," said McKay.

It was also gratifying to hear a constrictive debate about the future of bank branches.

Digital growth is not going to spell the death of the branch. A significant segment of the market will continue to value the branch, despite some of the forecasts of the start-up brigade.

Digital will herald the transformation of the branch, yes. We are witnessing a digital revolution and it is not hype to call it a digital age of banking.

Digital-only players will thrive and lessons are being learned from less than successful digital start-ups such as Egg.

And established world class players such as Royal Bank of Canada will continue to thrive and post record earnings. It is not Canada's most profitable firm by accident.

Douglas Blakey

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Fairbanking Foundation grows Mark certification scheme encouraging organisations to improve financial well-being

The Fairbanking Foundation - the not-for-profit charity dedicated to encouraging banking institutions to improve the financial well-being of their customers - has expanded its Mark certification scheme to now cover products owned by one in three UK adults. **Douglas Blakey** examines

Eight new providers have been approved: Barclays, Halifax, Bank of Scotland and Capital One as well as four credit unions Enterprise, Central Liverpool, 1st Alliance Ayrshire and London Capital.

The total of financial products covered by the scheme is now 25 as the scheme expands to cover loans and credit cards for the first time.

Prior to 2015, the Foundation had approved Marks for products from NatWest, RBS, Lloyds, Saffron Building Society, Secure Trust Bank and Thinkmoney.

Image improvement

Research for the Foundation however shows the UK's banking sector is still battling to improve its reputation with nearly two out of five customers (38%) believing the industry's image has deteriorated over the past year.

Its study found that 13% believe the image of banks has deteriorated significantly.

The main issue for these negative customers identified by the research is a lack of focus on customer needs cited by 24%.

But there are signs that the mood of customers is shifting with 25% that questioned saying they believe the image of retail banks has improved.

Nearly one in five (18%) who believe banks' images have improved say companies have become more transparent while 38% believe banks are now more focused on customer needs.

Product coverage

Antony Elliott, chief executive of Fairbanking Foundation, said: "Financial institutions are improving their products and behaviours and we may be reaching a tipping point where the reputation of the sector will recover although clearly there is some distance to travel.

"Increased transparency by banks and an improved focus on customer needs are helping to improve banks' reputations as



our research demonstrates.

"Participation in the Fairbanking Mark scheme can enable institutions to help improve trust in the banking industry based on the proven benefits to customers.

"The expansion of our Fairbanking

Mark scheme to cover products used by one in three UK adults highlights the progress being made.

"Our research shows that customers' views of banks are affected when they are helped to manage their money.

"The existing players need to improve and the new players need to prove they are really better."

Archbishop of Canterbury Justin Welby, a patron of the Foundation, added: "This is a real opportunity for the financial

services industry to demonstrate its commitment to the financial well-being of its customers, combining its power with responsibility to wider society.

"We are all acutely aware that we need a change of culture within the banking sector if we are to avoid some of the problems and excesses that led to the financial crash of 2008.

"As well as developing smart regulation, we also need financial institutions to do the right thing - not because of reward and sanction - but because it is the right thing to do - because it is good for customers and for the wider common good."

How a Fairbanking Mark is granted

Banking organisations and financial institutions seeking to gain a Fairbanking Mark for one of their products must submit it for full analysis and testing by The Fairbanking Foundation.

This includes research conducted with a representative number of customers by an independent research firm.

This is usually carried out by Ipsos MORI, the Foundation's research partner.

This research must confirm that a significant percentage of customers using the product found it useful in helping to improve their financial well-being, through factors like helping them to manage their money better and to achieve their savings goals. ■

Marks awarded in 2015

Bank of Scotland – Flexible Loan (5 stars)
Barclays – Barclayloan (4 stars) and Barclays Bank Account (3 stars)
Capital One – Classic Card and Balance Plus Card (4 stars)
Central Liverpool Credit Union – Shares Based Loan and Helping Hand Loan (5 stars)
Enterprise Credit Union – Loyalty loan (5 stars)
1st Alliance Ayrshire Credit Union – Personal Loan (5 stars)
Halifax – Clarity Loan (5 stars)
Lloyds – Flexible Loan (5 stars)
London Capital Credit Union – Instant Saver Loan and Saver Loan (5 stars)
NatWest – Clear Rate and Reward credit cards (3 stars) Cash ISA with Savings Goal (5 stars)
RBS – Clear Rate and Reward credit cards (3 stars) Instant Access ISA with Savings Goals (5 star)

Marks awarded pre 2015

Lloyds – Classic Account with control (3 stars)
NatWest – Instant Saver with Savings Goals (5 stars)
RBS – Instant Saver with Savings Goals (5 stars)
Saffron Building Society – Goal Saver (4 stars)
Secure Trust Bank – Current Account (4 stars)
Think Money – Personal Account (4 stars)

State Bank of India UK in a great place

Sanjiv Chadha, regional head of State Bank of India UK, tells **Douglas Blakey** about the bank's expansion plans, channel strategy, regulatory challenges and product innovation. Says Chadha, transparency, fair pricing and consistency will remain at the heart of SBI's growing UK operation

The importance of the UK market to India's largest lender, State Bank of India (SBI) has been highlighted in two very high profile ways during 2015.

The year kicked off with the appointment of an SBI heavyweight to become UK regional head: Sanjiv Chadha moved to the UK from India where he was global general manager for retail banking.

Prior to fulfilling that role, Chadha was head of mergers and acquisitions and private equity for SBI's investment banking arm.

In addition to the high profile hire, SBI marked 2015 with plans for major investment in its UK operation via an injection of around \$300m to capitalise a new UK subsidiary.

The establishment of a separate UK subsidiary is a regulatory requirement that the bank could have done without; for his part, Chadha has resisted the temptation to criticise the Bank of England.

He told RBI: "We have been in the UK a long time [95 years plus], are committed to the UK and have had constructive dialogue with the regulators, with good progress being made."

SBI will treat the cost of setting up a UK subsidiary as an incremental cost, establish an independent board for the UK and continue with its plans to grow its UK operations.

It remains, said Chadha, an opportune time for the bank to do business in the UK.

"This is the largest international operation of SBI. There are 10 retail branches in the UK with plans to open two new branches.

"Fairness and transparency are at the heart of the bank's operation and SBI's brand value depends on that."

On channel investment, SBI has thrown itself energetically into the digital age with the launch in India of a network of digital branches with the aim of broadening the bank's appeal to the youth and growing mass affluent segment.

The thinking behind the launch of the digital branches is part of a drive to devel-

SBI already serves 12m mobile banking customers

- India has the youngest mobile banking user base in the world according to research from KPMG and UBS. In India, the median age is 30 compared to 32 in the US, 39 in Italy, Spain and Sweden and 38 in the UK.
- The mobile banking adoption rate in India puts Europe into the shade; in India the rate exceeds 50% compared with 38% in UK.
- SBI's latest mobile banking initiative is the launch of a mobile wallet called Batua for feature phones, on offer to SBI customers and non-customers.
- SBI's smart phone mobile wallet, SBI Buddy, was rolled out in August.
- Buddy can be used to send money to new and registered customers, book flights, pay for movies, hotels as well as for shopping.
- SBI already has 23 million internet banking customers and 12 million mobile banking customers in India.

op a sub-brand sbiINTOUCH to capture the imagination of the youth market by offering a more modern and digitally innovative service.

Lessons learned from the Indian digital branch initiative are being incorporated into SBI's UK operations.

Chadha said: "We are experimenting with elements of inTOUCH being transferred to the UK. We can, for example now open new accounts inside 15 minutes."

Other customer service enhancements include instant loan approval and interactive LCDs mounted on walls designed to help customers map out their financial plans.

Rich areas

A core competency for SBI in the UK and an area where the bank punches well above its weight is SME lending. It remains, says Chadha, a vibrant sector and an area that continues to offer SBI scope to grow its market share.

Another rich area for SBI to tap into is the provision of safety deposit boxes at all of its UK outlets.

Chadha commented: "There is a large unmet demand here. Each branch has room for 1,000 safety deposit boxes."

With the notable exception of Metro Bank, SBI is very much in the minority in the UK

market in promoting its safety deposit boxes. By contrast, the service has been axed by UK banks such as Lloyds, RBS NatWest and HSBC.

SBI will continue to target retail customers in the UK of Indian descent but Chadha stressed the bank's success in attracting customer from all backgrounds.

"We have growing customer numbers from all backgrounds and the bank is agnostic as regards ethnicity."

The UK Indian business community survived the financial crisis relatively well and SBI has benefitted from that. Product innovation has also boosted the bank's UK performance.

"The SBI cash ISA has been astonishingly successful," adds Chadha.

Buy-to-let is another area where SBI has outperformed the market. In the first quarter of the year, it accepted buy-to-let loan applications from intermediaries.

"We are very competitive on pricing and have an advantage over some of the larger players by being small enough to be flexible. All lending decisions are made in the UK.

"We will not buy market share by offering products as a loss leader; SBI pricing will remain fair and consistent. That is the heart of what we do.

"For most of our customers, we are not their only bank but by offering excellent service we will remain profitable." ■

The challenges behind being a challenger bank

Formerly part of Lloyds Banking Group, TSB Bank was thrown from the Big Four into challenger bank status following a European Commission ruling in 2013. Two years later, the lender accepted a takeover offer from Spain-based Sabadell. What has changed in the bank in the interim? **Patrick Brusnahan** writes

Headquartered in Edinburgh, TSB launched on 9 September 2013, with more than 4.6 million customers and over £20bn (\$30.1bn) of loans and customer deposits. It was formed from all branches of Cheltenham & Gloucester and Lloyds TSB Scotland.

In its last results statement, TSB stated that its total assets were valued at £28bn on 30 June 2015, a 3% increase from the end of 2014.

Earlier this year, Sabadell completed a £1.7bn takeover of the bank. What has made it so appealing to investors?

Addressing the challenges

Network Research, an insights company, has been working with TSB since its years with Lloyds Banking Group on customer experience tracking services.

Part of this was a unique web-based solution with allowed every part of the TSB business, particularly the research, to react to customer trends with speed and veracity.

The insights company claims that this has provided direct support in creating new products for TSB which have not only drawn plaudits, but helped TSB increase its market share and considerably improve customer satisfaction.

Santosh Makhani, associate director at Network Research, spoke to *RBI* about this process. He says: “[Lloyds and TSB] had been clients of ours for 17 years now. We were on a number of significant research programmes for them. When they were pushed apart by the taxman, it was the case that TSB had a very historical brand, without a huge amount of brand equity, and were forced to come into a competitive and fast moving marketplace and get moving very quickly.

“We had a great relationship with Lloyds TSB, but only a few from Lloyds went across to TSB, but the guys that went were more suited to the challenge of being a challenger brand. They pulled together a good team to address the challenge from a research and insight point of view. Clearly, the business at the time had a huge appetite for market research as they inherited a customer base

that they did not know a huge amount about.”

Janet Hurford, senior manager of customer research and market insights at TSB, adds: “TSB was created to bring more competition to British banking – to be a real challenger to the big banks and to deliver the kind of banking the people of Britain want.

“To achieve this we need to really understand our customers so it’s essential that we get good quality customer insight to those responsible for delivering our differentiated service proposition, as well as our key decision makers and the best way to achieve this is through an online portal.”

Success through research

Network Research’s role consisted of research; a lot of research. The core is an ‘enormous’ customer experience tracking study where it interviews 100,000 customers every year after they have contacted TSB. This can range from anything from entering a branch or using internet banking.

After this research portion, insight is developed, put on an online portal, and sent to the workers on the ground level, such as branch managers. This was crucial as TSB customers could use Lloyds Bank branches for a limited time post-split. Therefore, making the TSB branch experience better than the one at Lloyds was seen as a distinct differentiator.

Makhani explains: “The challenge was that consumers didn’t have a great deal of expectations because they didn’t know the lay of the land after the split. We used the insight to tailor the existing experience. We have a number of people to go out and deliver training programmes to people on the ground to optimise the experience. As part of our work, we set remuneration for local branch workers based on customer experience; hardcore things you would expect from a service industry.

“Having that closed-loop feedback really helps refine the research approach and TSB’s approach to training front-office staff and, ultimately, the customer experience is the winner in all this.”

Hurford elaborates: “We have a TSB Balance Scorecard that tracks the business’ performance. The Business Executive Committee (BEC) has this as a key agenda item every month to discuss.

“The portal provided us with instant access to insight, allowing us to monitor progress and give our frontline partners direct access to exactly what our customers to have a say. This means our frontline partners have the insight they need to improve customer service where it happens.”

Competition present in the market

While TSB were innovating to disrupt the market, it was not the only bank to do so. Offerings such as the Santander 123 account and Halifax’s £100 switching incentive were also changing the market.

When TSB launched its Classic Plus account, there was ‘a short period of growth’ but ‘there were some concerns with the onboarding process’. The result was that TSB and Network Research began mapping the market.

Makhani says: “Santander and Halifax seem to be the most disruptive to TSB’s customer base for different reasons. TSB were losing customers at the same time as acquiring them. We helped them map the market and understand the big threats in terms of acquisition. Afterwards, they were acquiring more customers than they were losing and growth was coming in at a far greater rate than their market share would suggest.”

With regard to the recent takeover by Sabadell and whether Network Research will stay on helping TSB, Makhani concludes: “I hope so. We’re in an industry that is primarily people driven from the point of view of sales and business development. We pride ourselves on being good and easy to work with. We integrate ourselves well within the business and take up a lot of the operational slack.

“We’re also able to challenge them and not be a yes man or patsy, which they value. I very much hope they’d be keen to keep working with us.” ■

Desjardins plans active role in digital banking revolution

Like other major Canadian financial institutions, Quebec-based Desjardins Group is investing in digital platforms to remain competitive in the market. The Canadian financial institution plans to play an active role in the emerging digital world present in the country. **Robin Arnfield** reports

Desjardins (Mouvement des caisses Desjardins in French), an association of savings and credit cooperatives (caisses) located mostly in Quebec, is the largest Canadian cooperative financial group and the fifth largest in the world with assets of nearly C\$251bn (\$146bn).

"The digital revolution is rapidly and profoundly transforming the financial services industry where new players like PayPal, Google and Lending Club are making their mark," Monique Leroux, Desjardins' chair of the board, president and CEO, told the group's AGM in March 2015.

"Desjardins is now part of this reality. We don't want to be mere observers - we want to play an active role in this digital revolution. While remaining what we are - a cooperative financial group with strong cooperative values - we have chosen to be more innovative."

"Desjardins is evolving in a highly competitive and dynamic business environment," Robert Ouellette, Senior Vice President, Technology and Shared Services Centre Executive Division at Desjardins, told *RBI*. "Technology enables us to provide better service experiences for our customer base."

"Desjardins is definitely one of the more innovative financial institutions in Canada," said Christie Christelis, president of Canadian consultancy Technology Strategies International.

Addressing the Montreal Board of Trade in September 2015, Leroux said that between 2008 and 2015 the number of Desjardins customers grew by two million to seven million and that the group's total revenues grew two-fold to nearly C\$15bn.

Leroux told the *Globe & Mail* that Desjardins Group is planning a measured expansion strategy outside its home province.

The Canadian newspaper quoted Leroux as saying that that Desjardins, which currently generates about 35% of its top-line revenue from business outside Quebec, aims to increase that percentage to about 40% over three to five years.

However, instead of making a major acquisition, Desjardins plans to widen its relationship with existing customers by offering them more products while remaining open to opportunistic asset purchases, the *Globe & Mail* said.



Digital solutions

Leroux believes Desjardins has a duty to develop mobility and proximity solutions to meet the needs of its customers.

"We've set clear innovation and investment priorities to support our members and clients in this fast-changing world," she told the Montreal Board of Trade.

But Leroux acknowledged that mobile services and new technology can't replace the 'strong relationship with our members and our clients that we intend to build on'.

"This is what motivated our investment in new spaces, new types of caisses and new client contact centres," Leroux said, referring to Desjardins' new service centre at Montreal's Marché Central and the three 360d centres it opened for 18-30 year-olds near University campuses in Montreal.

In 2014, Desjardins' mobile channel accounted for 11% of total banking transactions, while its online channel accounted for 29%, ATMs 10% and caisses 3%.

"We're finding that our members use ATMs less and less for paying bills, as they now use our mobile platform," a Desjardins spokesperson told *RBI*.

During 2014, Desjardins redesigned its AccèsD transactional banking website and

Desjardins 2014 key facts

- Over 7 million members
- 45,966 employees
- 360 Desjardins caisses (financial cooperatives) in Quebec and Ontario offering services at 805 outlets
- 2,225 ATMs in Quebec and Ontario

Source: Desjardins Group, 31 December 2014

AccèsD mobile banking platform.

The enhancements include offering online account-opening at Desjardins.com; the January 2014 launch of mobile banking on iPads and Android-based tablets; and Plan Selector, an online tool accessible through AccèsD that automatically suggests the best-value banking plan for members based on their transaction history.

Desjardins also offers the Guaranteed Investment Selector providing personalised investment recommendations based on how customers answer a set of questions, and the Dynamic Market-Linked Guaranteed Investment Return Tracker which monitors the performance of customers' market-linked guaranteed investments.

In April 2014, Desjardins launched the Hop 'n S@ve instant savings tool. According to Leroux, Hop 'n S@ve is the only Canadian banking app allowing customers to save in just one

■ DESJARDINS - Key financial data Q315

	as at 30 Sep 2015	as at 30 Sep 2014
Assets (C\$bn)	250.9	229.4
Residential mortgage loans (C\$bn)	101.4	97.5
Consumer, credit card and other personal loans (C\$bn)	21	20.5
Business and government loans (C\$bn)	34.9	32.9
Total gross loans (C\$bn)	157.4	150.9
Gross impaired loans / gross loans ratio	0.36%	0.34%
Tier 1A capital ratio	15.8	15.7
Tier 1 capital ratio	15.9	15.8
Total capital ratio	17.4	17.9

Source: Desjardins

click. "We are happy with how popular the new tool has been with young people," she told the group's AGM. "It fits especially well with our financial education mission."

Hop'n Save enables customers to save toward their goals by transferring money into a Desjardins High Interest Savings Account and create a category such as travel or a specific purchase that they want to save for.

As of March 2015, the 50,000 plus members using Hop'n Save had collectively saved over C\$34m (\$26 million), Leroux said.

Hop'n Save and InstaBalance, Desjardins' instant balance access tool, are available on the iOS and Android platforms as well as for the Apple Watch and the Android Wear smart watch.

InstaBalance provides fast access to customers' Desjardins caisse accounts and Desjardins credit card and prepaid card account balances without the need to log-in.

Hop'n Save and Instabalance are among the most downloaded apps for the Apple Watch, Leroux said.

Improvements to AccèsD Mobile, which is available on the Android, iOS and Blackberry platforms, include more intuitive navigation, a single log-on for both AccèsD and Desjardins' digital business banking service AccèsD Affaires, and the ability for users to reactivate their password from their mobile device, Desjardins says.

Android- and iOS-based app users can also check their caisse, credit card and prepaid card account balances without having to log in.

Desjardins mobile and online banking customers can now use the Desjardins My Budget tool to manage their budget and review their expenses.

Desjardins has launched AccèsD Assistant, a context-sensitive help tool which helps online and mobile banking customers when they are in the middle of a transaction such as a bill payment or person-to-person transfer and aren't sure how to proceed.

Desjardins group insurance policyholders can submit claims in 30 seconds or less using a new mobile app called Claim 360o, which is available on the Android- and iOS platforms and lets them track their mobile claims and most recent reimbursements.

Between its launch in March 2014 and December 2014, Claim 360o was downloaded 22,528 times, Leroux said.

Desjardins Insurance's Ajusto program offers drivers in Quebec and Ontario usage-based discounts that help them save money by incentivising good driving habits.

The March 2015 launch of the Ajusto mobile app for smartphones made Desjardins the first Canadian insurer to offer a 100% mobile telematics programme that doesn't require drivers to install a device in their car, Leroux said.

Zag Bank

Desjardins' direct banking subsidiary Zag Bank competes with President's Choice Financial as well as with Scotiabank's Tangerine subsidiary which has nearly two million customers.

Scotiabank acquired Tangerine, formerly known as ING Direct Canada, from ING in 2012. President's Choice Financial is a joint venture between Canadian retailer Loblaw Companies Limited and CIBC.

Customers across Canada can open accounts with Calgary, Alberta-based Zag Bank, except for residents of Quebec where Zag's products are not available. By contrast, Tangerine and President's Choice Financial offer accounts everywhere in Canada.

"Zag is designed to meet the needs of Canadians who're looking for a simple, transparent and straight-forward banking experience," David Raju, Zag Bank's President and CEO, told *RBI*.

Zag was originally founded by Alberta-based Western Financial Group in 2003 as Bank West, a federally regulated virtual bank accessible through insurance brokers and customer service agents. Bank West was acquired in 2011 by Desjardins as part of its takeover of Western Financial Group.

In 2014, Desjardins relaunched Bank West as Zag Bank and repositioned it as a direct bank, offering a range of financial products through mobile and online applications and targeting younger consumers.

"Since Zag's soft launch in June 2015, we've seen a steady increase in client acquisitions and engagement with our social media properties," said Raju.

He continued: "Our marketing programme has focused on establishing Zag as a recognised brand in our home market of Alberta, as well as in British Columbia. In 2016, we'll look to expand awareness of the Zag brand and its easy-banking solutions in other provinces, including Ontario. We're continually evaluating our options, but there are no immediate plans to launch in Quebec. Our team is focused on establishing Zag Bank as the go-to, easy banking option in the provinces where we operate."

In addition to online access via its website, Zag Bank offers certain deposit products through select brokers, Raju says.

"We're pleased with the trend of new Zag accounts being opened on a daily basis and are excited that our clients are leveraging a variety of channels to manage their accounts," Raju says. "We remain committed to evolving based on our clients' feedback, which will influence the product offering and channels in which we service them."

In October 2014, Desjardins opened its first 360d centre in Montreal for 18-30 year olds near the Université de Montréal campus. It has

Desjardins posts growth

Desjardins posted operating income of C\$10.48bn (\$7.9bn) for the nine months to end September 2015, an increase of 11.1% year-on-year. Surplus earnings before member dividends increased by 20.8% to C\$1.49bn compared to the corresponding period a year ago.

Third quarter operating income for the three months to 30 September grew by 7.4% to C\$3.43bn from the same period of 2014, primarily due to premiums from the acquisition of State Farm's Canadian operations.

Desjardins' Personal Services and Business and Institutional Services posted surplus earnings of C\$703m, up 10.3% for the first nine months of 2015.

Wealth Management and Life and Health Insurance reported surplus earnings for the first three quarters of 2015 of C\$376m, up by 18.4% while Property and Casualty Insurance surplus earnings grew by 19.8% to C\$217m.

"We are satisfied with these results, which show solid growth in our business operations across Canada in spite of intense competition, thereby demonstrating the relevance of our strategies," said Monique Leroux, chair of the board, president and CEO of Desjardins.

"Economic conditions remain fragile and the effects of the digital revolution are being felt throughout the industry. We have to stay focused and actively continue our efforts to position ourselves in this new environment in order to meet the high expectations of our members and clients."

since opened two additional 360d branches near the Concordia University and Université du Québec à Montréal (UQAM) campuses in Montreal.

Desjardins says the 360d branches provide a relaxed, high-tech environment with the latest technology including touchscreens where young people can meet with dedicated advisors who provide guidance on products to meet their financial requirements.

The branches include cluster areas specifically designed for customers' needs such as financing their studies, buying their first car, travelling and entering the labour market. They also offer student-focused activities such as lectures, coaching workshops and mentoring from business leaders, teachers and experts in various industries.

In June 2015, Desjardins opened a new type of branch targeting customers in the 18-50 age group in the Marché Central, a shopping centre in Montreal which receives 10 million visitors a year.

When visitors enter the branch, they are greeted by an advisor who assists them in accessing Desjardins' complete line of products and ser-

2014 social media data

- 215,000 Desjardins Group and caisse followers on Facebook
- 1.8 million views on YouTube
- 15,000 Twitter followers
- 39,000 LinkedIn followers
- 156 Desjardins caisses are on Facebook, and every month over 1.1 million people view content on Desjardins' Facebook pages.

Source: Desjardins Group, 31 December 2014

vices. The branch includes themed areas offering advice tailored to various common goals and situations, as well as interactive technology tools for use by customers.

Desjardins says that, because of its location, the branch reaches a range of ethnic communities in the area, whose population is 70% made up of immigrants. Most of the branch's staff are from ethnic communities and they speak approximately a dozen languages altogether.

In December 2015, Desjardins plans to open the Desjardins Innovation Lab at the Complexe Desjardins office and shopping centre in Montreal.

Leroux told the group's AGM that Desjardins' staff and partners will be able to collaborate in the innovation lab's multidisciplinary environment to design prototypes and explore the most advanced technology.

In September 2015, Desjardins' Monetico merchant services business launched Monetico Mobile and Monetico Mobile +, two mPOS payment solutions for small businesses, the self-employed, seasonal workers and mobile merchants such as plumbers.

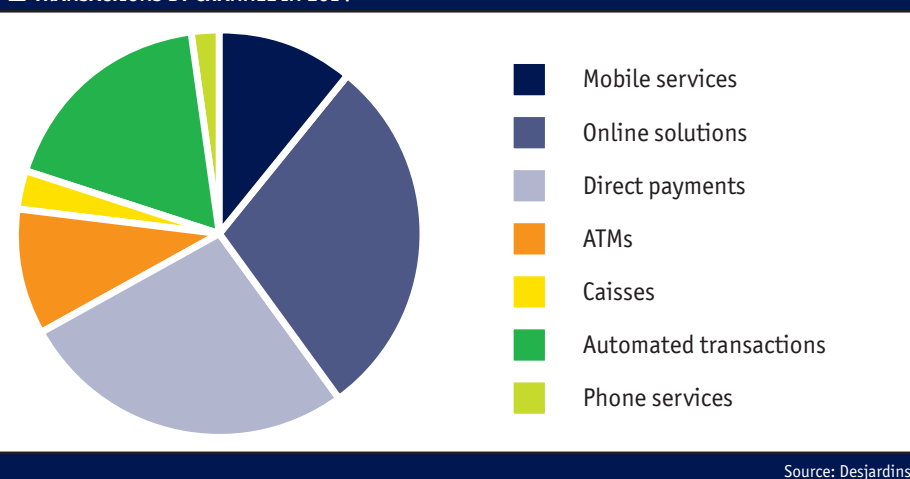
Monetico, a joint venture between Desjardins and France's Crédit Mutuel which was established in 2013, competes with Moneris Solutions, Canada's largest merchant acquirer. Moneris is a joint venture between RBC Royal Bank of Canada and BMO Bank of Montreal.

Both Monetico Mobile and Monetico Mobile + comprise a calculator-sized keypad incorporating an EMV chip card reader and PIN pad which connects via Bluetooth to an Android- or iOS-based smartphone or tablet loaded with the Monetico Mobile app.

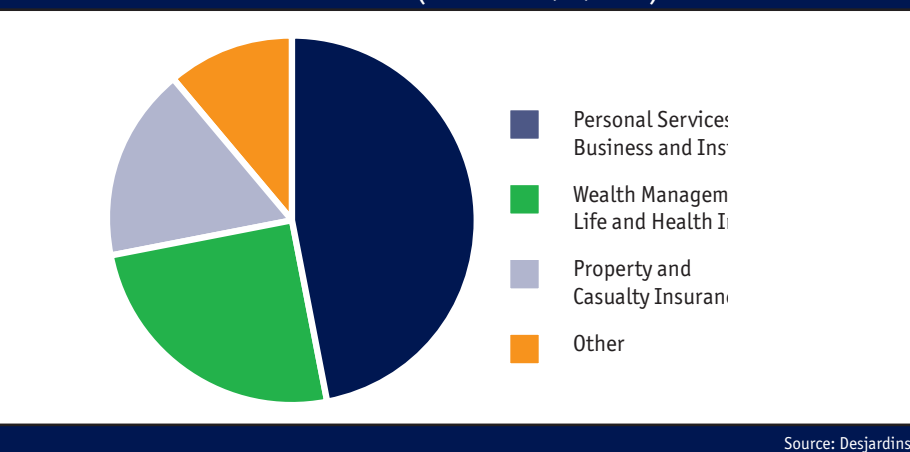
Monetico Mobile, which is available free to Desjardins members, is designed for micro-businesses and mobile self-employed workers, a market which Desjardins sees as having growing demand for mPOS technology. Desjardins' Ouellette told Quebec-based newspaper La Presse that there is a potential market of 100,000 micro-businesses and mobile merchants in Canada.

Monetico Mobile + is designed for businesses with higher transaction volumes which

TRANSACTIONS BY CHANNEL IN 2014



SURPLUS EARNINGS BY BUSINESS SEGMENT (DESJARDINS Q1-Q3 2015)



need advanced management features such as the ability to create quotes and invoices and manage their business expenses.

In September 2014, Desjardins became the first financial institution in Quebec to launch a service enabling mobile payments from customers' Android-based smartphones. Customers can make payments using their Desjardins Visa credit card using phones from five Canadian mobile carriers, Bell Mobility, Rogers Communications, Virgin Mobile Canada, Telus Communications, and Koodo Mobile.

Like CIBC, TD, Scotiabank and President's Choice Financial, Desjardins uses Canadian trusted service provider EnStream's mobile payments hub to load its customers' card credentials onto their smartphones across a range of mobile carriers.

Desjardins says its mobile payments service currently only works with NFC-enabled Samsung Galaxy phones, the HTC One M7 and M8 phones and the BlackBerry Bold 9900.

"I think Desjardins' mobile payments offering is a good start, because it covers all the major Canadian mobile networks," said Technology Strategies International's Christelis. "How-

ever, it very likely has limited uptake at the moment. Also, Desjardins' mobile payments service works with a limited number of smartphones, but this isn't a problem unique to Desjardins. The lack of NFC-enabled phones is a constraint on the whole Canadian market at this stage. Eventually, this problem will disappear as every smartphone will have an NFC antenna and NFC SIM card. I estimate that at the end of 2014 there were four million NFC-enabled smartphones in Canada, but the figure is changing fast."

Desjardins says customers wanting to use their smartphones for payments, must apply for an activated NFC SIM card if their phone doesn't contain an NFC SIM card. "The problem is that only the one percent of customers who are technology innovators is going to request an NFC SIM card," says Christelis. "Another challenge is that customers don't want the hassle of downloading mobile payment apps and their card credentials onto their smartphone. I've found in my research that, if mobile payment apps are preloaded onto a phone, the consumer uptake is much bigger." ■



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Nationwide transforms branch and digital banking experience for customers

As part of Nationwide's 500 branch refurbishment programme being carried out over the next 5 years, the UK's largest mutual has partnered with NCR to help transform its branch experience and banking services available on-line, on-mobile and via other digital channels for its members. **Douglas Blakey** writes

First came a major core banking project, then serious digital banking investment and now the Nationwide is investing big time in the branch.

Nationwide has made no secret of its ambitions to achieve a 10% share of the UK current account market.

As long ago as 2008, with a then market share of around 6%, it has thrown itself enthusiastically into updating its systems, innovating digitally and investing in its branch network.

First up came a five-year core banking transformation programme, with the first UK implementation of SAP Transactional Banking applications from the SAP for Banking suite of solutions.

A new range of current accounts followed – the institutions first such new product offerings in 25 years – as the Society ramped up its efforts to become a serious player in the UK banking market.

In 2008, Nationwide (NBS) told *RBI* that it was aiming for a 10% market share by 2015.

That has proved to be wildly optimistic; now it talks of achieving a 10% share by 2020. It is however making among the winners of the seven-day account switching initiative and the 10% target looks achievable.

NBS' mobile and digital offerings are assisting the Society to win new customers: it has added a net 250,000 current account customers in the six months to end October, bringing its market share up to 7%.

Evidence of digital banking investment paying off is evident from some quick stats: mobile banking log-ins up 40% year-on-year and mobile payment transactions have soared 50% year-on-year.

It has also been among the first adopters of video teller remote banking, rolled out across its 700 branch network, offering mortgage advice.

The Society's latest investment project will see £500m (\$753m) invested in its branches over the next five years, underlining Nationwide's confidence in the future of the branch alongside its commitment to digital channels.

By providing customers with a choice of how, where and when they can bank,

Nationwide says it will provide the best customer service and maintain its reputation as a personable place to bank in today's digital society.

It has deployed NCR's newest and most innovative ATM solutions at flagship branches in Swindon and across London as part of the branch project.

"We've listened to what customers want. This has led us to focus on the next generation of online and mobile services to complement traditional person to person interactions, creating an 'always available' 24/7 banking environment.

"Digitally enabled services and simplified processes will allow our members to choose when, where and how they wish to engage with us," said Barnaby Davis, divisional director for group retail strategy at Nationwide.

"The Society will continue to invest in its systems and infrastructure with strategic suppliers, such as NCR, to ensure that our members can manage their money wherever and however they choose to do so."

Nationwide's investment in its branch network will include the re-definition of the branch with new layouts to enable more person to person conversations.

The design of NCR's SelfServ 91 ATMs – carried out at NCR's Dundee Centre of Excellence R&D centre – helps enable this, as Nationwide employees are better able to assist customers at the ATM, if the customer so wishes. Traditional teller lines, counters and glass screens will be reduced so that Nationwide staff are more readily available to speak to and advise customers on the branch floor.

"Achieving the right balance and integration between digital and physical banking channels is a challenge for most banks and building societies in the UK," said Rachel



Nash, Director Financial Services at NCR UK.

"Nationwide has proved itself fearless when it comes to adopting and rolling out technology to provide value to its members and help drive its business. The implementation of our latest customer experience software platform will provide the flexibility for Nationwide to adopt new and emerging technologies across multiple channels in the future. The deployment of our state-of-the-art multifunction ATMs is just the latest example of innovation at the Society. We look forward to many more in the future."

According to NCR, the solutions will help NBS to reduce total cost of ownership by decreasing its dependence on legacy systems and streamlining duplicated processes. In addition, the aim is for NBS to reduce the time and cost to market for new banking services as they are delivered across all channels, including the new ATMs, and enable NBS to provide more value to customers via its self-service solutions by leveraging existing web services via ATM and other self-service solutions.

NBS posted pre-tax profits up by one-third to £802m for the six months to end September compared to the corresponding period last year.

Its gross mortgage lending market share increased by one percentage point to 13.2% over the same period. ■

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The innovation hole: How do banks stimulate change?

Just about every bank, established or start-up or challenger, says that innovation is at the heart of their operation. Just how fair are such claims and how can lenders, encumbered as they are by their size, culture and regulatory environment – truly be innovative asks **Phil Tootell**

Innovation. It's the Holy Grail in banking isn't it? The golden egg that everyone is set on chasing and understandably so. Innovation sets you apart – it allows you to deliver products and services first, enables you to get ahead of the competition and keeps your customers interested.

And yes, everyone pays lip service and says they are innovative. But are they really?

The answer is a resounding no. But it's not for the want of trying. Banks by their nature are extremely risk averse – and as a society, that is exactly how we want them to be. Regulation is there to enforce that risk averse culture.

But being innovative in a regulatory environment is a bit like trying to juggle whilst having your hands tied behind your back. Risk aversion and innovation aren't the most natural bedfellows.

Hurdles for innovation

Another issue is size. The banks that dominate the global landscape are financial behemoths, with infrastructures to match. Not all innovation is tech-related, but much of it is. Innovation is about being nimble and responsive.

The sheer size of banks, the usual complex network of systems, software and processes that underpin them and also their 24/7 availability is the death knell to any flexibility, creativity and innovation they hope to achieve. Innovation relies on the ability to develop and fail, and banking, with its round the clock opening hours, just isn't an environment that can support that.

Leadership is another important factor. Innovation tends to require an entrepreneurial mindset, but many banking executives have grown up in banks.

They might have operated in that environment for 20 or 30 years and it's impossible for them to change – they have no other industry experience to channel.

In terms of innovation, unsurprisingly challenger banks are forging ahead. Take digital start up, Atom Bank. Launching this year, the fact that it is “digital only” means that it will have lower operating costs than traditional banks and be able to offer more competitive

interest rates as a result.

And for true innovation in banking, many analysts think media companies might well enter the fray. Imagine if KYC was mandated on Google. It would be looking at how it could be used as a platform for wider innovation and how it could improve customer service. Companies like Google, Apple and Amazon would be responding to regulation in a very different



way to the banks.

So how can banks – encumbered as they are by their size, culture and regulatory environment – be innovative?

One answer is developing innovation hubs. In their essence, these are start-up organisations that operate independently of the principle organisation.

They could be created through acquisition (a fin-tech company, for example) or simply setting up a different business, dedicated to innovative thinking and ideas generation.

The important thing is that they are liberated from the bank's risk averse culture to act in a free-thinking, entrepreneurial way.

It is vital that the two organisations are separate and operate independently, so the culture of the bank does not contaminate the start up. And from an organisational point of view, a flat, non-hierarchical structure tends to inspire more innovative thinking than having layers of management.

Letting ideas off the leash

Senior managers from the bank should not be influencing it in the slightest. In fact, it often works best if a third party manages the innovation operation. If its people start thinking “but what about the constraints of our operation” or “what will shareholders think?” is the day they begin to compromise their start-up spirit.

They must also be allowed to fail. Brainstorming and testing different ideas is an important aspect of innovation.

It doesn't matter if something doesn't work. From failure, the best ideas come. But in a 24/7 banking environment, banks can't afford to fail.

This further enforces the need for separate hubs, where ideas are allowed to fully mature before being implemented into the wider organisation.

Although this phenomenon has been around for a while, it is still relatively new in banking. Back in June, Deutsche Bank announced that it is setting up innovation hubs to boost technology development in London, Berlin and Silicon Valley.

Through these hubs they will be starting to work with start-ups and academics to come up with digital ideas that will revolutionise customer products and how the bank operates internally.

They are aiming for 500 ideas a year – obviously, not all will be taken on board but it underlines the point that prolific idea generation plays a key part in innovative thinking.

It's a good starting point for banks. They shouldn't worry about creating innovation directly in the organisation – they need to think about fostering it externally in these hubs, populating them with their most entrepreneurial talent and cross pollinating with external experts.

They need to be given a free reign to come up with the ideas, unencumbered by preconceptions or market perceptions of what others expect.

This is how banks can continue to innovate and develop. ■

Phil Tootell is a founding director at business change consultancy Certeco

Time for a bit of branching out

As digitalisation sweeps the banking world, the question of what role the branch will play in the future of the industry, if any, is still being hotly debated. The RBR Branch Transformation Conference offered up a whole host of concepts to spark life into the brick-and-mortar service. **Alexander Atkins** writes

This year's conference in London, hosted by Retail Banking Research (RBR), featured speakers and presentations from financial organisations hailing from a range of countries around the globe, among them well-known names such as Santander, Banco BIC, Cardtronics, Global Solutions and many more.

The pop-up branch

UniCredit's answer to the pop-up branch was tested with eleven installations in Austria and Italy, most notably at this year's Venice Film Festival. Here, the pop-up branch showed its real potential in two ways: firstly, festival organisers had previously complained that due to a high volume of people, it was difficult to find or utilise an ATM, so the pop-up Branch could be manoeuvred into a traffic choked area.

Secondly, it achieved a large commercial impact with a high lead generation, creating on average 65 new prospects per day. With the success of the prototypes, UniCredit hope's that they can expand the functions of the pop-up branch to include non-banking services such as financial education, urban data generation and community engagement.

However, it admits that for the foreseeable future, it won't be the predominant branch mechanism but that it has the potential to emerge into a flourishing concept.

So what is it? In a nutshell, seven square meters of mobile space providing advisory services, an ATM and two or three staff on hand, with the aim of being highly flexible and mobile, to appear anywhere at any time.

Klaus Sandbiller, head of real estate global projects, who helped with the idea, said they had to be innovative and unique with a low cost implementation, be flexible and adaptable, easy to handle, sustainable, and have the ability to attract and engage customers.

Jack Henry and Associates' speaker, Jason Schwabline, senior manager for global product and strategy, talked about the branch tools of the future and the ways

they must evolve.

He was adamant that the aims of future bank branches should be to enable choice, enable automation, enable the consumer and acquire the transaction as early on in the process as possible.

But the game changer, as he put it, lay in two areas: assisted self-service transaction and field or remote banker transaction.

Most importantly was needed the ability to centralise all services and processes under one roof, whilst silos 'would be the death of the financial industry' and needed to go.

Asked if he thought if branches would ever disappear completely, Schwabline responded: "Never. Some form of branch will always be around because the human interaction can never disappear totally, it may become less frequent but because of an inherent need for trust, interaction has to exist."

He went on to explain how powerful remote banking could be. "You can have someone at the edge of the Andes, in the rainforest, but as long as they have a mobile, they have an environment in which they can bank", said Schwabline.

Postbank, represented by Ioannis Serafeimidis, head of retail banking for Postbank in Bulgaria, was showcasing its new idea of Retail Lending Centres within branches.

As Serafeimidis explained, the idea is to create excellence hotspots by pooling the best talent and resources into the branches most likely to make the biggest impact. These centres would also be places where the best senior employees could mentor the best new talent in a 'real life work experience situation but with a safety net.'

Drive-thru banking

Fifth Third Bank, based in Ohio, showcased a presentation on how technology allowed the bank to engage with their customers differently.

Kevin Sullivan, Managing Director for distribution strategy at Fifth Third, explained that customers want to interact with banks when, where and however they liked. He

said: "If people are becoming comfortable with assisted self-service in airports or shops, surely they can get comfortable with branch self-service."

The result was a piloted new branch format in 2013, with the aim to migrate customers to multi-vendor 'smart ATMs' that would enhance the multi-channel customer experience. The ATMs also have built-in video capability so customers can talk to out-of-branch specialists.

Its branches today don't offer teller lines but instead present three options: a full service manned kiosk, an assisted self-service smart ATM with video option, and a self-service smart ATM, with a 'drive through' style smart ATM option also being considered.

One step further

But Fifth Third wants to go even more digital.

Sullivan continued: "We want customers to have the option to go online at home, to have a voice chat or a video meeting with the universal banker and to talk to a specialist without even having to go to the bank."

So far, it's been relatively successful without the need for large scale layoffs, says Sullivan.

In between the talks were the booths showcasing even more equipment and ideas.

From new money managers and coin systems to card replacement kiosks, there was certainly something for everyone.

The options were numerous and the presentations raised some important ideas about not only what the branch of the future should be, but what it should do, how it should look and where its main place in the entire industry would be.

The only certainty that emerged from the whole conference was that the traditional branch and its traditional functions were no longer feasible with a world where consumers wanted more options when, where and however they liked.

Just as with every antiquated idea, its heyday has passed. The only question now, as the conference pitched, is what route do we go down next? ■

The conflict between new and old in Poland

The struggle for market share between traditional banks and newer challenger brands continues. In SIA's 'Accelerating the Payment Transformation' conference in Poland, **Patrick Brusnahan** speaks exclusively to its CEO, Massimo Arrighetti, on the developments in this conflict and if it looks like reaching a resolution

Hosted in Warsaw, the event discussed the growing presence of new payments and banking solutions in Europe and across the globe. In addition, the challenge lying ahead of banks was an ever-present theme. Where will the key battlefields be for the financial sector in the future?

RBI: In your opening speech, you mentioned how big the subject of payments is becoming in Poland, but only 20% are actively using electronic payments.

Massimo Arrighetti: It depends what you mean by actively using. I guess that the large majority of people are using electronic payments today, but nevertheless, it may only be once a week. As far as I know, the Polish market is still very cash-based and so the fact that some people have the capability to use electronic payments does not mean that they do. This is something that is increasing in Poland and other countries.

This is SIA's first conference here. Are you beginning to put more of an emphasis on Poland? Is this a market you plan on focussing on?

MA: SIA is based in Italy, but over the last few years, we have started moving. International business is increasing. We actually are the only pan-European country in SEPA on behalf of the European Banking Association. The commercial business is growing and Poland is the best performer in terms of growth. By definition, this is a market that SIA is interested in. We have an office here; people are now resident here in Warsaw. In the past, we followed Poland from Milan and Budapest, but now we have people that stay here.

A common statement is that while banks have reach and scale, but might lack functionality; new start-ups have the innovation, but not the reach. Who will catch up with whom?

MA: Who knows? Traditionally, payments have been a banking business and now you have start-ups entering. There are some

barriers, the first being the trust of people. If you buy music or games on the internet, you are fine with that. When it comes to real money and making significant payments or opening an account, you tend to be more cautious.

Banks definitely have to learn something from fintech. Some banks will try to resist. Others will cooperate with or buy a fintech company. This will depend on their opinions regarding in-house or outsourcing. If you decide to outsource, fintech can be a solution but consider that for large banks, depending on a small company can be a risk. A small company can exist today, but you have to be sure it will exist for the next dozen years. Fintech will probably be bought by banks or the giants of the internet. They are the ones with the habits of buying things. Banks should be very quick or Google or Apple will buy it. At that point, it becomes a serious issue for banks because Google, Apple, and Amazon have plenty of money to invest. This is a game that will play over the next couple of years.

At the end of the day, I must say that moving a customer to new habits takes a long time. If you look at any big change in terms of behaviour, it takes ten years, so banks have time to react. But they cannot stay looking out the window.

Do banks have a slight advantage in the solidarity between them while fintech companies' lack of cohesion may limit them?

MA: Innovation is made through one single attempt out of thousands. This is part of innovation.

This is more an issue of the rules of the game. Banks are subject to a number of rules that the others are not. This sets the base for unfair competition and risks for consumers. With a bank, you have some warranties. Banks are controlled and monitored, but one of these small companies can do whatever they, this is a strength, but a weakness because they are high risk.

We still have people afraid of using their card number to buy something online. It's not really clear who the winner is today. The

traditional monopoly is at risk and the most threatening people today are Apple and we will see what Amazon and Google will do. The first attempt by Google was not a success but that tells you there is a resistance from the consumer. There must be a clear advantage in order for a consumer to change. The next step needs to be more secure, more convenient, more something. In that case, you can eventually change the consumer's behaviour.

Would you say that banks are too regulated or that fintechs are not regulated enough?

MA: There needs to be more regulation for fintechs and definitely less for banks. The decision to apply a limit to the interchange is a big mistake. The government should not enter a marketed arena and fix the price. Prices are fixed by the market. Any time the regulator fixes the price, it is a mistake.

With the internet giants, people like their brands. While banks have consumers' trust, they might not be popular.

MA: In my experience, the end user hates the banking system, but has a good relationship with his own bank which is quite a strange kind of schizophrenia. This can be for a number of reasons; maybe your bank helped you buy a house or with a loan. If they don't, you go to another bank who will help, so you hate the first bank but love the second. It's a love/hate relationship with the banking system.

The user experience of the internet is easier. Banks are complex and old. They already have a lot of data and they know their customers' behaviour. If they start to think in terms of customers' needs, they can really make a difference. I think that banks have a chance to compete and win if they change their behaviour versus the market. The monopoly is over and you need to face the competition. To win the competition, you have to think more in terms of customers their needs and less in terms of your own process. You have to be ready to change. ■



MENA's digital potential starts to bloom

Emerging markets in the Middle East and North Africa (MENA), particularly Morocco and Saudi Arabia, are garnering a wealth of attention. With immense amounts of potential in the financial sector, many are looking to see what the region turns to next. As it turns out, it's digital. **Alexander Atkins** writes

In two events hosted by Retail Banker International and Infosys, experts came together to discuss the future of banking in the MENA region.

Moroccan banks prepare to tackle the digital generation

"There is a tsunami coming in the next five years and we don't want to miss it," declared Driss Maghraoui, Executive Director at Attijariwafa Bank, whilst addressing a roundtable conference in Casablanca in September. The conference focused on how the rapidly developing Moroccan retail banking industry is facing disruption and what it will take for Moroccan banks to succeed in the digital age.

Maghraoui's comments were referring to one of Morocco's biggest challenges, and one of the greatest opportunities, in the large youth market that will be emerging in the next five years.

"Our country is a young country in terms of age population. One Moroccan inhabitant out of two is under the age of 27, so imagine the tsunami which will be upon us in five years," he explained. "Is there serious experimentation on the youth? No, because banks are concentrating on the wealthiest market segments and that must change. We must prepare for the future, today."

Morocco is one of the fastest growing, most competitive markets today, and the retail banking sector has recently undergone a series of reforms, mainly focusing on the improvement of financial institutions, the marketing of new products and the modernisation of the banking legal framework. Maghraoui's keynote speech was aimed at highlighting the key challenges and limitations that the industry faces in Morocco.

Whilst talking in relation to the youth of Morocco, he underlined three key factors that banks have to become more involved in if they are to reach this market effectively: mobile usage, social networking and customer loyalty.

He said: "Banks are not doing enough in terms of mobile solutions and social networks, especially when young people spend so much time connected to both."

He remarked on customer loyalty, explaining that the youth market are much more informed by this internet presence and are demanding more than previous generations have.

"We need to create more customer loyalty from this next generation. For example, a lot of banks play a presence when the youth are in their study years. But we do not manage to ensure the bond between the period of education and the time when they become active on the job market. This has to change."

Changing habits

This was a statement that was corroborated by the other speaker of the day, Vishwanath Thanalpatti, Market Strategy Director of Infosys, who spoke about how Moroccan banks can adapt and stay relevant to their customers.

He explained how two of the driving forces changing the banking industry today were social media and the internet which were making the customers more informed.

He said: "Earlier customers would come to the bank in person to meet the staff and form a relationship but now we have customers who are informed by social networks. This means that when they come in to talk to the bank, they know full well what they

need. The result is a new generation who know what they want, who want it on the move and who want it available 24/7."

He continued that the competition has also now expanded beyond banks and if a bank cannot fulfil specific needs the customer can go elsewhere.

Thanalpatti explained: "They want banking services but not necessarily from banks. That is the kind of mindset the customer has."

Maghraoui went on to talk about some of the other key challenges that are faced in the Moroccan environment, one of which was the changing pace of life in rapidly growing cities and its effect on the future of branches.

"Because of rapid urbanisation and other similar issues, customers will find it increasingly harder and harder to move around, they won't have time to go and see their bank because of distance or transport problems," he explained. "So does the traditional model of having more branches in more locations deal with this? I don't think so."

He made clear that it was unsustainable for banks to try to follow the traditional path and continue to set up branches in more locations. He said: "It is not by establishing branches that we will conquer young people between twenty and twenty-five in five years. This model has had its life, and now we must find a new solution."

The solution he proposed was to stop over-investing in physical networks and to look instead to technological networks. "We must invest in technology rather than a physical presence and geographical proximity. We need to progress in a style of digital distribution."

His comments on the future of branches come as global debate continues to revolve

around the place of the branch in the future of the retail banking industry.

Yet Maghraoui was adamant that branches could not disappear. He remarked on branch closures in Europe and made clear that the same could not happen in Morocco.

Instead, he explained, those branches must adapt and evolve from the traditional into a new style that will serve both a physical and digital presence. He said: "There will always be branches because there will always be growth but they must evolve into a new form."

A further point that was raised was the growing importance of the role of big data for banks in Morocco.

Currently, the data bases in Morocco are inadequate and need to be greatly enhanced, he explained, because they would play a prominent role in reaching customers and offering them the correct products when they need them.

"All databases in Moroccan banks are greatly insufficient and therefore suffer from an inability to know the customer well, to segment him and to offer him the right products," he remarked. "This is a major constraint and something we must vastly improve on."

Thanalpatti further emphasised the importance of big data and how useful it will be to the future of banking as he stated: "We have so much digital data with us, so that when we look at our customer statements and their lives, it can help hugely in strategising new products and banking incentives for them."

The future of multichannel, an issue in worldwide discussion at the moment, also featured in the debate.

As the digital banking world extends, banks are examining options other than multichannel including channel integration. This was a sentiment Maghraoui appeared to share as he explained why multichannel initially came around and how it needs to evolve to meet the customers needs.

He said: "Recently multichannel issues have appeared because there has not been enough development in regards to this."

He outlined that one of the major constraints in the development of multichannel in Morocco lay in regulation and the lack of an electronic signature system which is key to those products and services requiring a signature. He added: "The customer starts something on the internet but then has to go into a branch to sign something- he doesn't want to do that and this kills the purpose of the multichannel experience."

A final comment from Maghraoui regarded the danger of looking at digital transformation from one end only, elaborating that the process needs to encompass every part



of the bank.

He concluded: "If we think of digital transformation only from the front end, it will never be enough because we won't arrive at the service we find and the processes won't go from end to end."

"Often we come up with ideas that will stop at branch level and internally, the traditional system will delay the digital introduction. This needs to be tackled by parts of the bank, including HR and training who will play an important role here."

Thanalpatti reiterated many of these points and also broke down the major factors driving change in the financial world including big data, mobility, the cloud, blockchain and the Internet of Things.

He further underlined the importance of understanding payment procedures, especially in a world with growing competition from non-bank competitors.

He said: "Many of these e-commerce sites on the internet have their own payment systems. They handle the sales of customers who, rather than having to pay in the store, they would prefer to do it online because its 24/7 and they can order from the comfort of their home. But when it comes to the payments part, they are paying with a different system like Paypal, and this is the kind of markets that banks could engage in more."

The debate in the conference showed that Moroccan banks face many challenges and serious limitations. But it also showed that by understanding the fast evolving world of retail banking and making the necessary preparations to try to keep pace with that change, they will continue to grow and adapt rapidly.

Saudi banks ready for a digital future

Saudi Arabia's retail banking industry is ready to take on the digital future according to Ali Alomran, the deputy general manager

for Technology Services at Arab National Bank.

"A digital bank should be able to reach everyone and everything in the market," he declared at a roundtable conference in Riyadh in September. The conference focused on how Saudi Arabian banks face continued disruption as the world becomes more digital.

In his key note speech, Alomran highlighted three aspects of banking that would have to evolve for Saudi banks to achieve digitisation: "The three aspects I am concerned about here are reach, products and analytics."

"If we are able to provide a dynamic in our situation where the three aspects are automated, automated reach with minimum human participation, automated product fulfilment in terms of processing, and supporting analytics, that is what I view as a digital bank."

However, he admitted there are significant challenges along the journey to digitisation.

"The bank office today in Saudi Arabia is still late in the digitising place," proclaimed Alomran. "Our key products or processes are still human based."

Going further, he emphasised that there are key limitations, due to the current market, as to how far Saudi banks could take digitisation, including the outsourcing environment of financial services in Saudi Arabia.

He added: "There is a limit to the efficiency gains that we can introduce to an organisation without pushing more community services outside an organisation. I can't see Saudi banks achieving the efficiency limits that are claimed by certain digital banks where, for example, a million customers are served by 300 employees."

A further concern Alomran underlined was the need for more Arabic language research and development, in three areas in particular; sentiment analysis, voice recognition systems, and Optical Character Recognition, stressing

that much more research was needed in all three.

Alomran was also keen to assert that Saudi banking needs to focus on making back offices more efficient and less on making other channels more efficient because the channel inefficiency is linked to the back office.

He said: "We should convert from channels to improving reach and we should introduce more analytics as the analytics of banking in Saudi Arabia is way behind other sectors in the country."

Attracting a larger number of customers

The incentives for digitisation, however, are large Alomran stated. One incentive he listed was banking inclusion and being able to reach the large market separate from the traditional client base, stressing the importance of new means of finding them.

He remarked: "This segment of the market is another incentive for digitalisation, because it requires us to sell simple products for masses. Those customers who have limited device capabilities, limited access to data plans, limited access to bank with and limited education, we will reach them in a similar way to reaching the next billion customers of Facebook."

The conference also featured a theme address from Sriranga Sampathkumar, AVP and head of Middle East at Infosys Finacle, who showcased how to make sure the bank branch network was running efficiently and how to use this infrastructure with digitalisation.

Sampathkumar explained the driving forces behind banking evolution in today's market, focusing on mobility, big data, the cloud, blockchain, social networks and the Internet of Things. He further emphasised the future importance of the bitcoin and the bloc chain as traditional banking disruptors.

Sampathkumar said: "Many banks want to take on bitcoin, many don't want to, and there are serious pros and cons in terms of digital security, but if you see the way bloc chain is growing today, you can see the market for bitcoin is growing."

He further explained that due to these forces, the customer has evolved as well: they are informed and they know what they want and if they cannot get it from a specific bank, they will move to another.

With customers demanding more, he told the conference, banks will have to offer more versatile products, especially with the growing competition from non-banking competitors.

Furthermore, with the pace of business in the world getting faster, this new customer wants their banking on the move, at any time and in any place, something Saudi banks would have to adapt to.

The panel discussion, featuring key figures



in the region's banking industry, examined the big questions facing digitisation in the Saudi market including pricing differentiation and its relevance in the Saudi market. "I think it will be practised because certain transactions online are cheaper than branch equivalent and branch transactions," claimed Ali.

Almohanad Alzooaabe, a partner at Bank Al Jazeera, agreed with Ali's opinion: "I think we have to think about the different generation rules. If we see young kids these days, they are adapting to technology much faster than us and by the time they are our age, everything will be digital.

"It means that we have an advantage if we can teach them how to use financial products with this digital technology and save money, in order to prevent them from weaknesses in the future."

A further issue that arose from the discussion was the future of omnichannel in banking. Douglas Blakey, moderating the debate, brought up the evolving idea that the customer should be given the opportunity to personalise their banking experience depending on different uses of technology at different places and at different times of the day.

Sampathkumar responded by talking about the need for a strong business model that can manage the various channels. He said: "Omnichannel is obviously in the process of becoming more like a commodity. One person may want something exclusive as mobile banking, and another customer may come and say I want a very exclusive ATM. But if you have a business model that sits in the heart of the bank, then you can keep on adding these channels, ATM, mobile, branch, because the business model remains constant."

Alzooaabe talked about channel integration as the future of omnichannel. "A key would be integrating these channels so that if you start a process in a certain channel and this is disconnected for any reason you can go and carry on with some other channel."

Sampathkumar responded by explaining that the business model he was talking about has the capability to integrate various chan-

nels and said: "Every mobile channel will have certain features which are common and very similar to mobile banking with an ATM, these connectors are application programme interfaces (APIs) and the business model exposes those APIs so you no longer need to be dragged through all these channels for one single item."

As to the question of the future of Saudi banks and the future of banking in the region, the speakers sounded positive and proposed how they thought banking was going to change. Alzooaabe believed that payment methods would be one of the major changes, especially with the rise of online banking.

He said: "I think the main difference in five years for Saudi banking will definitely be in payment methods. Maybe online banking will be the only future for the course of banking."

Traditional distribution

However, the repercussions of the possibility of a future of only online banking became apparent when the issue of branch and ATM networks was raised, with the possibility that the larger banks would lose the advantage of having large ATM and branch networks if customers could do banking in other ways, and how this would affect the future of branches and ATMs.

But Sampathkumar was adamant: "The branches will not go and ATMs will not go. Banks like investing in branches because they are efficient."

Alomran shared this sentiment when he too declared in his keynote speech that branches would continue to live on. He stated: "Branches may not continue to be as iconic as they are today. They will stay because we have ethical and legal obligations to interact with customers directly through people."

He continued on what purpose the branch of the future could serve: "Surviving branches might end up being community branches fulfilling the community's needs and they could operate as card centres."

He went further with this talking about the need for banks to centralise complexity and distribute simplicity, by having branches do less and therefore avoid distributing controls, procedures, policies and technology. He continued: "If we centralise as much complexity as possible, than we are keeping a line on all of those centrally, which will give us the pricing advantage too."

The conference helped to highlight what challenges Saudi banks face when tackling digitisation and that they will need to adapt rapidly. But the future is positive and the conference also helped to show that Saudi banks are aware that the market is changing and that they are more than ready to change with it. ■

Banks must view customer service and sales as one

Financial institutions must make attempts to integrate customer service and sales, instead of looking at them separately, according to Efma and Misys. They must aim to achieve actionable analytics, cutting edge digital banking and an accelerated product factory according to the report. **Alexander Atkins** reports

While today's consumers are tech savvy, constantly connected, social and impatient, one in five banks perform less than one per cent of sales via digital channels whilst 40% of customer acquisition is still done through the branch. Yet, according to the report, banks are aware that customers are looking for services similar to those offered by fast, digital companies such as Uber, Amazon and Google.

Whilst the report found that 25% of banks claimed that customer service was their primary focus and 41% saying that customer service and sales are equally balanced focus areas, it also states that 75% of banks believe they have not concentrated efforts on improving the customer experience. Furthermore, these 75% believe that they remain solely sales focused.

However, despite the admission of a lack of customer service focus, 48% of banks feel that the term 'customer-centricity' is overused. The two facts mean that whilst banks are expressing to the public that they are customer centric, this is in fact not true.

This is more important when considering that recent research from McKinsey stated that competition from non-traditional financial services providers means banks must fight for the customer relationship.

More digital needed

The investigation also found a lack of digital sales in banks today. 87% of banks perform less than 10% of sales through digital channels. Yet the report listed the various benefits and opportunities of digital banking such as reduced transaction costs, paperless banking, secure customer communications channels and more integrated services.

There was also a finding that only a minority of banks have embarked on what the report referred to as 'second generation' digital banking. This stage of digital banking incorporates a greater level of interaction and customer engagement, yet banks are experiencing shortcomings in reaching it.

Only 21% of banks that believe they are solely focused on customer service perform more than one in ten sales through digital channels. Whilst branches are still important, banks who fail to invest in a digital strategy

will fail to serve their addressable market.

Alex Kwiatkowski, the senior strategist for banking at Misys, stated: "Institutions in all parts of the financial services sector must digitalise. Their very survival depends upon doing so without hesitation or limitation. Put simply, as the industry continues its transformational journey only those firms who digitalise from front to back will make sufficient progress so as to remain, or become, the market leaders of tomorrow."

It also stated that by 2018, millennials will have the highest spending power of any generation and that by 2025, three out of four workers will be a millennial, people who, on average, check their smartphones 43 times a day. 33% of these millennials also believe that they won't even need a bank in the next five years whilst 53% of consumers believe that their bank offers nothing different compared to others.

Therefore, focus should also be on winning new customers, the report continued. Only 12% of banks believe that digital channels are the greatest source of customer acquisition whilst 41% of banks still place the branch as the best source.

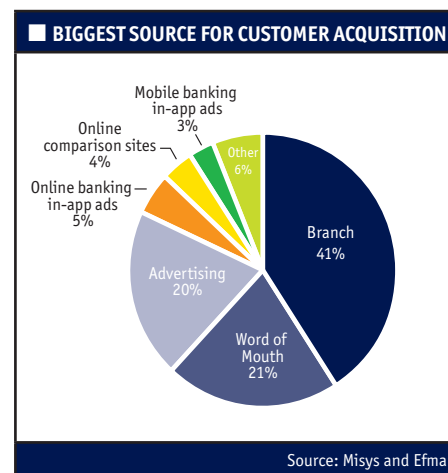
The investigation also found that banks are forecasting a ground-breaking shift in sales through digital channels. The percentage of banks performing more than 10% of sales via digital channels is expected to jump from 13% to 75% in three years. A third of those asked believed that by 2018, only one-quarter of sales will come through traditional channels.

In terms of the use of technology, many banks believe in the power of smart watches and wearables.

82% of bank executives believe smart watches will enable financial transactions in the future. At the moment, however, only 3% of banks use smart watches but 37% state that they are hoping to launch wearables in the next 18 months.

An important point was the ability of banks to make these applications visible to staff across all channels so as to avoid frustrated customers who may have to repeat application processes. To do this, banks must allow for interoperability between channels.

However, 26% of banks say that technology is their biggest challenge to customer-driven sales, whilst 39% state that it is cultural.



Regulation

Another obstacle given by 11% of banks is regulatory and compliance burdens, and in many regions, institutions are so focused on delivering against legislation that they have few resources to dedicate to apparently non-critical technology projects.

The issue of core systems also revealed that 61% of banks believe that core systems are the biggest technology barrier to optimising sales performance, along with CRM, risk management and predictive analytics. Yet as Vincent Bastid, CEO of Efma, stated: "Core banking technology is critical to connecting the front, middle and back office in a way that transforms banks into truly customer-focused, profitable sales operation."

The report also highlighted the impact of technology issues that sales teams face. 18% of banks rated slow time to market with new products as the biggest issue.

Beyond that, 11% listed product personalisation as a large problem, stating that they are frustrated by an inability to create customer driven personal products. The solution, the report believed, is to improve CRM and predictive analytics performances.

Banks must close the gap between sales and customer experience priorities by adopting digital-first core systems and infrastructure. Furthermore, they must move away from 'first generation' banking, which are transactional in nature, towards 'second-generation' digital banking which can deliver relevant products and services across all channels. ■

STRATEGY

Standard Chartered hires new CEO for Islamic banking business

Standard Chartered has hired Rehan Shaikh as new chief executive of its global Islamic banking business, Standard Chartered Saadiq, replacing Sohail Akbar.

Shaikh joined Standard Chartered from Dubai Islamic Bank, where he worked as senior vice president and business head, private sector & transaction banking.

Shaikh, who has over 30 years of banking and management experience, previously worked for StanChart in Pakistan from 1998 to 2007 and also held a number of roles including head, corporate banking and head, client relationships.

Standard Chartered Bank regional CEO, Africa and Middle East Sunil Kaushal said: "Rehan's in-depth knowledge of our footprint markets and corporate banking experience will be invaluable in building our Islamic Banking proposition as the Bank positions for future growth."

Shaikh said: "I look forward to working with the teams in supporting the financing and investment needs of our clients globally."

M&A

GE wraps up sale of Australia and New Zealand consumer finance divisions

General Electric (GE) has completed the sale of its consumer finance operations in Australia and New Zealand in a deal worth about \$4.3bn.



The businesses have been offloaded to a consortium comprising Värde Partners, KKR and Deutsche Bank.

The completion of the latest deal will release about \$1.7bn of capital.

Commenting on the sale, GE Capital chairman and CEO Keith Sherin said: "We are pleased to complete the sale of our consumer lending business in A&NZ. Combined with the recently announced agreement to sell our commercial lending business in A&NZ, this is a big step in the complete exit of GE Capital from the region."

The sale is part of GE's strategy to simplify operations through the sale of most of its GE Capital assets and instead focus on its industrial businesses.

Under this plan, GE will retain the financing verticals that relate to GE's industrial businesses.

DIGITAL

Infosys partners with Oracle to offer Finacle on Oracle Cloud

Infosys Finacle, part of EdgeVerve Systems, a product subsidiary of Infosys, has launched Finacle as a managed service on Oracle Cloud.

The offering will enable banks globally to run enterprise-class banking applications such as payments and core banking on premise or in an external environment.

Infosys said Finacle becomes one of the first comprehensive banking platforms to be available as a managed service on Oracle Compute Cloud.

Users of the new service will also have a choice of no-maintenance cloud infrastructure, which can be utilised for infrequent activities including development, testing, as well as training, Infosys added.

Oracle president for product development Thomas Kurian said: "Infosys Finacle and Oracle have been working together for over a decade now. With the Oracle and Infosys Finacle offerings, banks across the globe can take advantage of the latest Finacle stack along with our industry leading enterprise cloud infrastructure."

cle stack along with our industry leading enterprise cloud infrastructure."

M&A

Swedbank gets go ahead to acquire Danske Bank's Latvia retail operations

Swedish lender Swedbank has received the green light from the Competition Council to acquire Danske Bank's Latvia retail banking business.

The deal has also secured the nod of the Finance and Capital Market Commission of Latvia.

The deal to sell Danske Bank's retail banking businesses in Lithuania and Latvia to Swedbank was agreed to in September this year.

The transaction, which is now subject to approval by Lithuanian supervisory institutions, covers bank accounts, loans, deposits, payment cards and securities of retail customers.

The takeover of operations is projected to impact about 7,000 Danske Bank retail customers in Latvia and 120,000 in Lithuania, leading to the migration of €116m (\$122m) of customer loans in Latvia and €525m in Lithuania.

M&S

MainSource Financial Group to buy Cheviot Financial for \$107.4m

MainSource Financial Group has agreed to acquire all of the common stock of Cheviot Financial in a cash and stock deal worth about \$107.4m.

Cincinnati-based Cheviot Financial is the parent of Cheviot Savings Bank, operating with 12 branches across greater Cincinnati, Ohio.

Cheviot Financial managed about \$576.6m in assets, \$365.1m in loans, \$459.9m in deposits and \$96.9m in total equity as of 30 September 2015.

As per the agreed terms of the merger deal, Cheviot Savings Bank will merge with and into MainSource Financial subsidiary MainSource Bank, where Main-

Source Bank will be the surviving entity.

Cheviot stockholders will have the right to receive either 0.6916 shares of MainSource common stock or \$15.00 in cash for each share of Cheviot common stock owned.

The transaction has already secured the green light from the boards of both companies. It is scheduled to close in the second or third quarter of 2016, subject to regulatory approval and Cheviot stockholders' approval.

Commenting on the deal, MainSource Financial Group president and CEO Archie Brown, Jr. said: "We are very pleased to announce this merger. It will significantly expand our market presence in greater Cincinnati, an area where we have already been focusing, and it presents an opportunity to prudently continue our growth as an organisation."

"As a result of the merger, MainSource will increase its market share position in the Cincinnati MSA from 18th to 10th. MainSource, like Cheviot, is deeply committed to the communities it serves. We look forward to extending our philosophy of community banking to Cheviot customers."

DISTRIBUTION

StanChart plans to axe 100 jobs in UAE

British banking giant Standard Chartered has unveiled its plans to slash 100 jobs from its UAE operations as part of a global overhaul designed to cut costs.

Earlier this month, the bank announced plans to lay off 15,000 employees in order to reap savings of \$2.9bn by 2018.

The bank has not yet disclosed a breakdown of the redundancies in its UAE division, but according to media reports, the move will affect the bank's retail unit in the country.

The UAE job losses follow Standard Chartered's recent announcement to trim 1,000 employees in South Korea, by the end of the year.

In addition, the bank said that

it will accept applications for an early retirement programme from its employees who have served the bank for over 10 years.

M&A

Israel's Discount Bank to sell Swiss subsidiary

Israeli lender Israel Discount Bank has agreed to offload its Swiss operations- IDB Swiss Bank- to Hyposwiss Private Bank Geneva for CHF10.9m (\$10.6m).

Discount Bank will not make any profit on the transaction, the Israeli bank said in a statement.

The sale of the Swiss business forms part of the bank's strategy to shift focus on its international operations in the US.

Discount Bank started implementing the strategy in August 2014, with various bids submitted for the Swiss subsidiary in July 2015.

Under this strategy, the bank has also completed the sale of Discount Bank Latin America operations, a subsidiary of IDB New York, as well as has completed the process of closing its London division.

DISTRIBUTION

Banamex selects NCR as intelligent deposit ATM provider

Banamex, a Mexico-based FI, has selected NCR as its intelligent deposit ATM provider.

The partnership will see the Mexican lender expanding its ATM network with NCR deposit technology.

NCR has already deployed over 1,500 Banamex-branded ATMs across Mexico that includes 750 intelligent deposit units offering coin, cash as well as check deposit function.

The new SelfServ ATMs will be installed in the bank's current branches, and various digital branches. The installation process is scheduled to be completed by December.

NCR Mexico area sales leader Fernando Suárez added: "Consumers and businesses alike want

quick and easy access to banking services. Through our Self-Serv ATMs, consumers will have fast, reliable access to their bank accounts and businesses will be able to make deposits even after their branch has closed."

In addition, services teams from NCR will offer first and second-line maintenance for the Banamex ATMs.

Banamex channel strategy manager Chris Vrey added: "Our work with NCR represents our largest full-function ATM deployment in our history, and it was critical we work with a company known for its innovation and experience."

"Our customers are already able to take advantage of cash deposit features. We've been pleased with speed and quality of NCR's service and installation teams to help us deliver this new experience to our customers."

M&A

Capital Bank Financial to snap up CommunityOne Bancorp for \$350m

Capital Bank Financial has agreed to acquire CommunityOne Bancorp in a cash and stock deal worth about \$350m.

CommunityOne, a \$2.4bn community bank, currently operates with 45 branches across central, southern and western North Carolina, as well as loan production offices in Raleigh and Winston-Salem, North Carolina and Charleston, South Carolina.

As per the agreed deal terms, Capital Bank will purchase CommunityOne by merger, where Capital Bank will be the surviving entity.

CommunityOne shareholders can opt to secure \$14.25 per share in cash or 0.43 of a share of Capital Bank Class A common stock, with the total consideration comprising 85% stock and 15% cash.

The deal has already received the go-ahead from the board of directors of both companies.

Scheduled to close in the first quarter of 2016, the deal is now

subject to shareholder and regulatory approvals and other customary closing conditions.

Following completion of the transaction, Capital Bank plans to recruit existing CommunityOne board members Bob Reid and Scott Kauffman to the Capital Bank board of directors.

Capital Bank chairman and CEO Gene Taylor said: "This combination creates a high-powered Carolinas franchise while meeting the financial expectations of our shareholders."

"CommunityOne brings us skilled employees, a complementary branch network, and high-quality loan and deposit relationships, and the transaction improves Capital Bank's returns. We applaud the excellent work of CommunityOne's leadership in turning around one of the Carolina's oldest franchises, and we welcome CommunityOne employees to the Capital Bank team."

STRATEGY

GE to divest UK home loan portfolio

General Electric (GE) has agreed to sell a \$5.9bn worth of first lien mortgage loan portfolio from its UK home lending business to an investment consortium comprising Blackstone, TPG Special Situations Partners, and CarVal Investors.

The deal substantially completes the exit of the company's UK home lending business that is valued at \$13bn, GE said in a statement.

The company has not yet revealed any other terms of the deal, which is scheduled to close in December 2015.

GE Capital chairman and CEO Keith Sherin said: "This transaction represents the sale of almost all our remaining UK mortgage business, which successfully provided financing for UK home owners."

"We began this year with around \$13bn of ENI and when this transaction closes, we will have approximately \$0.4 billion of ENI remaining in our UK mortgage business. This is

an important step as we continue to execute on our plan to sell most of the assets of GE Capital."

The latest sale forms part of GE's strategy to simplify operations through the sale of most of its GE Capital assets and instead concentrate on its industrial businesses.

As part of this strategy, GE will retain the financing verticals that relate to GE's industrial businesses.

STRATEGY

BBVA to buy 29.5% stake in UK digital bank Atom

Spanish banking group BBVA has agreed to acquire a 29.5% stake in British digital-only bank Atom for £45m (\$67m).

Atom, slated to launch in early 2016, was the first mobile-only bank to have secured a licence from UK's Prudential Regulation Authority in June.

Subject to regulatory approvals, the investment will make BBVA a strategic shareholder and partner in the digital bank.

The move will help BBVA secure two seats on Atom's board as well as allow the Spanish lender to participate in future funding rounds.

Commenting on the alliance, BBVA chairman and chief executive Francisco Gonzalez said: "BBVA believes the digital market in the UK offers excellent growth opportunities and that digital banks that put the customer first are the future. BBVA's investment in Atom backs those beliefs in one move."

Atom chairman Anthony Thomson added: "In the 18 months since the founding team came together, Atom has now raised over £135m."

"This is a wonderful endorsement from investors to the compelling business case that the team has put together, and is a powerful signal to the regulators and most importantly for UK consumers. Now with BBVA as our strategic partner we really do feel that the sky is the limit for Atom." ■

Legacy is still the barrier to innovation

Nimish Shah, banking sector lead at Talend

Outdated legacy IT systems are a major stumbling block for traditional UK high street banks as they look to fight back against their often more agile rivals, widely known as 'challenger banks', who unhindered by complex, unwieldy IT infrastructures are typically better positioned to innovate.

In a recent survey by Talend, nearly half of the banking industry professionals that were polled made reference to the limits of legacy systems as the number one IT challenge facing the sector, with 43% also citing it as the main barrier to realising the benefits of big data analytics.

Often too, it's the bank's existing infrastructure that holds them back from making optimum use of their most valuable asset: their data. 56% of respondents blamed legacy systems for the lack of data integration while 45% claimed that the quality of their data was preventing 'real-time insights for the business,' and a total of 63% of business leaders in all are concerned about the impact of legacy systems restrictions.

Major banks are never going to replace the systems that form the backbone of their business. That's far too risky an option – so data quality and data integration should be their top priorities.

Extracting insight from key data is crucial to retain customers in a world where the industry is increasingly pushing to make it easier to change. Recent years have seen the establishment of the Current Account Switch Service (CASS) specifically set up to make the process more straightforward, together with an ongoing push by the Competition and Markets Authority (CMA) to make it easier for customers to take charge of their accounts. Adding to the uncertainty for the big banks, we are living in a world where challenger organisations are achieving ever greater successes.

Indeed, a KPMG report, "The game changers - Challenger Banking Results May 2015" highlighted just how far those challenger organisations had progressed over the 12 months prior to publication. "The last year has been an important one for the Challenger sector," according to the report. "Five banks have listed on the London Stock Exchange, raising over £350m (\$527m) of new capital to fund growth and strengthen balance sheets. Over the same period, lending assets for these banks increased by 16% compared to a decline of 2.1% for the Big Five [HSBC, Lloyds, Barclays, RBS and Santander]."

It's a stark reminder of how successfully these 'new kinds on the block' have been in laying down the gauntlet, so how can the traditional players fight back?

The good news is there are clear signals that the banks know what they need and want to do to

stay ahead of the pack and perhaps unsurprisingly, big data plays a key role in that. More than three-quarters (76%) of banking professionals agreed that the industry has a clear understanding of the benefits of big data, and more than half (51%) see it as a way to innovate faster and more effectively against industry rivals. Equally, nearly a third (32%) believe that big data can help counteract economic pressures facing the banking industry and a total of 41% see customer demand for access to new products as a key factor. Big data is also increasingly seen as a game changer by banks in helping them to address a regulatory environment that has become increasingly onerous over time since the crash of 2008. According to the survey, 57% of respondents see industry regulations and legislation as the number one area where big data can ease pressure.

This is all positive but banks still face that familiar gap between the vision and reality. There's a divide between the growing understanding of big data and real world implementations. Business leaders typically have a positive outlook with 75% claiming their organisation is well advanced in their big data initiatives but just 30% of junior managers and professionals make the same claim, probably because they are the ones trying to turn big data promises into reality.

So what's continuing to hold uptake levels back? The survey highlighted the integration of multi-channel data (referenced by 34% of the sample); managing the data explosion (33%) and gaining actionable insight from customer data (25%) as critical areas of concern. The ongoing shortage of expert resource is another key issue, a problem exacerbated by the complexity of the big data environment.

As data science has evolved, the technology required has become increasingly advanced and the pool of engineers capable of using it in commercial applications – or even understanding it – has not grown accordingly. Today, 28% of respondents see their lack of in-house skills as a major barrier to big data adoption. The truth is there are few staff with big data skills on the market and so those with the knowledge are extortionately expensive.

To start seeing genuine value from big data projects, banks must start to embrace technology platforms that simplify the process, reduce the need for complex coding and, of course, that integrate with legacy systems and place graphical tools into the hands of users outside the IT department. Only by so doing will banks begin to excel in their big data applications and ensure that 2015/2016 is the timeframe when big data projects start to show real returns. ■

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Intelligent Environments is an international provider of innovative mobile and online solutions for financial services providers. Our mission is to enable our clients to always stay close to their own customers.

We do this through Interact®, our single software platform, which enables secure customer acquisition, engagement, transactions and servicing across any mobile and online channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when they become mainstream.

We provide a more viable option to internally developed technology, enabling our clients with a fast route to market whilst providing the expertise to manage the complexity of multiple channels, devices and operating systems. Interact® is a continuously evolving technology that ensures our clients keep pace with the fast moving digital landscape.

We are immensely proud of our achievements, in relation to our innovation, our thought leadership, our industrywide recognition, our demonstrable product differentiation, the diversity of our client base, and the calibre of our partners.

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