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KENYA

ENTERING A NEW DIGITAL REALM

- PRODUCTS: Retail and Cash
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Stop the presses: Caixa launches mobile only sub-brand imaginBank

As ***RBI*** goes to print, stop press news from CaixaBank results in the originally planned page 1 being canned and replaced with news of the launch of imaginBank, Spain's first mobile-only bank providing banking services exclusively through mobile apps and social networks.

It's only the second week of 2016 – a very Happy New Year to all subscribers by the by - but it is safe to say that the roll out of imaginBank will be one of the big digital banking stories of the New Year.

laCaixa is rightly regarded as a world class leading digital bank. Imagin will leverage the latest technology and the high penetration rates for smartphones and social networks, especially among the young adults segment in Spain.

It is the last two points that are especially interesting. The use of social networks and the new bank's segmentation strategy.

CaixaBank currently services 2.9 million customers aged between 18 and 35, with a market share in this segment of 30%, meaning one in three individuals in Spain in this age range are CaixaBank customers.

The bank is however at pains to stress that the service will be aimed at customers of all ages; it talks of serving millennials or digital natives of all ages; anyone to whom a new, simple and innovative service model might appeal.

On charging, the bank is aiming at simplicity: one that charges customers no maintenance fees but is comprehensive enough to cover all of the financial services demanded by the target market.

imaginBank customers will manage their products and services via apps. The app will support fingerprint identification for devices that have fingerprint sensors.

Everything will be run entirely on mobile devices. There is also an imaginBank website (www.imaginBank.com), but this is only provided as a source of basic information.

Wearable tech is also covered: imaginBank will offer services for smartwatches, with a special application that includes an ATM and branch finder, as well as several other features.

An imaginBank Facebook application will be offered so that customers can check account balances and view recent transactions in a secure environment.

Social networks are also harnessed to provide customer service 24 hours a day. A Twitter channel is also available to all users, as is the customer service line.

In addition, there will be an internal chat system to contact account managers, while there is also a WhatsApp message line.

There are advanced services to allow customers to manage personal finances and make transfers and P2P payments.

The imaginBank account will support free money transfers to any account in Spain, regardless of the bank that they are held at. Money can also be sent to a CaixaBank ATM, with customers then able to make a withdrawal without taking their card with them.

Add in a Visa imaginBank debit card with no annual maintenance fees and at first glance, this all adds up to a potential winner.

CaixaBank has not earned its reputation as one of the world's leading digital banks by accident. Having had the pleasure of visiting its innovation lab and getting to know some of its leading executives, it is one of the favourite banks on this editorial desk: the analysts Forrester go even further.

Last year, Forrester's "2015 Global Mobile Banking Functionality Benchmark" report from Forrester Research, examining the mobile applications provided by 41 major retail banks all over the world named CaixaBank as the world's best mobile banking operator.

I remember being quite excited by the Raiffeisen launch of its Zuno sub-brand; I got that one terribly wrong. I'll stick my neck out and forecast – not I suspect a reckless forecast – that CaixaBank is onto a winner with imagin.

Douglas Blakey
Douglas.Blakey@retailbankerinternational.com

Up-to-date technology, data and expertise are key ingredients of modern fraud management programmes

An increasing number of payment options, the demand for faster payments and the rapidly changing nature of fraud all present new challenges for fraud management within retail banks. But what are the solutions? It comes down to technology, data and expertise. **Jay Floyd** of ACI Worldwide writes

Today, retail banks offer their customers an increasing number of electronic payment methods. From EMV cards to contactless cards, internet banking and telephone banking and more recently Apple Pay, customers in the UK have come to expect a wide range of choice when it comes to payment options.

At the same time, we have seen the nature of fraud rapidly changing in recent years. As new payment options have become more diverse and fraud management programmes have become more sophisticated, fraudsters have also come up with new, innovative methods for stealing and selling data on the black markets hidden within the darkest corners of the web known as the DarkNet. But there has also been a shift of back-to-basics and crude methods among fraudsters such as social engineering specifically preying on the naïve and vulnerable.

The increasing number of payment options, the demand for faster payments and the rapidly changing nature of fraud all present significant challenges to retail banks' fraud management policy.

Retail banks must ensure they have robust technology, strategy and expertise in place to monitor all payment channels. Get this wrong and the bank suffers from increased fraud losses, potential fines from the schemes or regulators on top of the reputational damage which easily can result in the exodus of customers.

Worrying developments

A look at the fraud statistics published by Financial Fraud Action UK reveals that fraud remains a major concern for retail banks in the UK. In recent years for example we have seen a significant rise in online banking fraud; in 2014 alone fraud incidents in this category, commonly known as 'account takeover' fraud, increased by 48% and resulted in £60m ($88m) of fraud loss in the UK alone. Card fraud in the same year rose by 6% resulting in a staggering £479m gross loss on UK issued cards.

Having worked with many banks and building societies across Europe and other parts of the globe, I have come to see how many financial crime departments get their approach to fraud prevention right, whilst many others are faced by challenges such as inadequate collection and procedures around fraud metrics, silo mentality, inefficient communication between IT and Fraud Departments and lack of resource to name but a few.

In my view, there are three core areas that banks must address to effectively manage fraud in today's age.

Technology

Having the right technology and a robust infrastructure in place to monitor payments 'real time' is crucial, along with technology that can support non-financial transactions such as IP intelligence systems.

Many banks today still rely on archaic technology which is effectively crumbling and failing to meet today's infrastructure requirements. Some of the monitoring systems used by banks today were implemented years, and in some cases, decades ago and many banks have failed to upgrade or move to better fraud detection systems. Payments and the systems to monitor payments has moved on and banks must invest wisely to implement the right back office technology.

Data

Collecting and passing transaction information into a monitoring system is paramount. Most banks monitor payments well but many today do not include all 'non-financial' transactions, which can include anything from recording when a consumer logs into their internet bank account from mobile phones and computers, setting up a new beneficiary (payee), changing an address and so on.

Essentially everything a consumer does though their bank should be collected and passed into the monitoring system in order to look for anomalies. The collection and monitoring of 'big data' is key in order to reveal irregular and abnormal patterns, especially relating to customer behaviour. In the fraud prevention world, we typically call this profiling and while a lot of banks implement this type of strategy today, many others do not.

Expertise

To cut costs, banks sometimes move parts of their monitoring teams offshore but this usually turns out to be a false economy as the teams in overseas territories lack the experience and social understanding of the UK and European markets, especially in specific niche areas such as fraud. Furthermore, some banks look to streamline their costs by centralising office locations and reducing headcount. Fraudsters are more likely to target banks that are in this position as they are seen as more vulnerable.

Today, many banks are under pressure to save costs on multiple fronts, however, being too cost sensitive in the realms of financial crime prevention has its perils. It's important that banks build a robust enough business case that justifies the cost to invest in better technology and retaining or building the right expertise for their fraud management programmes.

There are many parts to such a business case and, for some banks, there are more important areas than others but typically, it should include fraud projection models, comparisons of old versus new and improved system features and functionality, current hardware platforms, any analysis of where the bank is in industry standings and where they should be in comparison to their peers and others.

Finally, I often find banks implement multiple monitoring systems to cater for different fraud channels such anti money laundering and sanctions checking, merchant acquiring, card issuing, employee, cheque and online banking fraud, but a multiple system approach can be costly and inefficient.

Few banks have fully embraced Enterprise Fraud Management by using a single system that can cater for the many different fraud channels but it's certainly the future. If banks can build a strong enough business case to justify these costs and succeed in implementing a strategic platform for Enterprise Fraud Management, they will be in a better place to keep themselves and their customers protected and keeping running costs down. ■

Jay Floyd is Principal Fraud Consultant at ACI Worldwide

Gopalakrishnan: One plus one means more than two

Douglas Blakey meets with Raja Gopalakrishnan, executive vice president of International Markets for FIS, responsible for the firm's performance outside North America. Gopalakrishnan says FIS' acquisition of SunGard creates one of the broadest sets of technology assets and market expertise in the industry

A ten year FIS veteran, Raja Gopalakrishnan manages FIS' International Markets across the four key regions of Europe, Middle East and Africa (EMEA), Latin America and Asia Pacific.

Prior to assuming his current role, Gopalakrishnan managed the Asia Pacific market where, over a period of five years, he built one of the highest-growth businesses for the company, successfully establishing FIS as a fintech leader across multiple markets.

Earlier roles with FIS also included developing and building the Global Outsourcing business in North America and Europe.

Before joining FIS, Gopalakrishnan spent more than 10 years in retail and commercial banking with Bank of America and ABN AMRO.

So it is fair to say that on his travels, Gopalakrishnan has experienced a fair amount of M&A activity; but he is especially energised by the potential offered by FIS' acquisition of SunGard.

"From a market perspective, the deal means that we will offer the broadest combination of assets on the banking and payments and side as well as wholesale and institutional.

"With the combination [of FIS and SunGard] we can offer customers big or small, the entire spectrum of financial services technology.

"It should mean more innovation and more value add services and it should mean future proofing and reducing risk and bring down the total cost of ownership for clients for like to like."

The combined firm will continue under a sole FIS brand strategy.

"The FIS brand is core to our go-to-market strategy and recognised by clients all over the world."

FIS, with 13,000 clients will grow to 20,000 clients post acquisition and says Gopalakrishnan, customers will benefit from more innovation, more value add services, future proofing, reduced risk, with the ultimate benefit of a reduction in the total cost of ownership for like to like.

"The beautiful thing about this acquisition is that from a front end market perspective there is a huge amount of complimentary. We were operating in very different markets and there is almost no overlap from a customer as well as a

product proposition perspective.

"It is a case of adding one plus one and getting more than two.

"We will definitely look at opportunities of consolidation and synergy as far as infrastructure goes – how can we do more with our infrastructure.

"But for now, the exciting opportunity for us is to take products that both organisations bring to the table and immediately start offering them to each other's customers for cross sell and upsell and increase share of wallet opportunities.

"The new leadership teams are announced and it is business as usual."

For 2016, Gopalakrishnan identifies three key priorities.

"First off, we must offer customers from both organisations access to the entire breadth of our solutions and ensure that best practice from both firms is engrained.

"Secondly, we need to make sure the organisation that has seen change can seamlessly integrate and have the platform to go for future growth. The key ingredient is the talented employees that we have.

"Just in the international business alone, we will have over 25,000 employees across 130 countries.

"We have to integrate them and make sure we keep them focussed on the right things.

"And thirdly, we must look for all different points of opportunity for consolidation in terms of infrastructure and relationships on the vendor side and leverage purchasing power and bring efficiency into the business to allow us to achieve a level of margin expansion."

For Gopalakrishnan, SunGard has three key strengths: "A very strong customer relationship base, a very strong sales culture and market leadership in intellectual property."

While a number of the start-up banks are opting to develop their IT in-house as opposed to partnering with major service providers such as FIS – Mondo and Starling are two such examples – Gopalakrishnan argues that FIS' offering is most appropriate for the new entrant sector.

He continues: "The FIS proposition to start-ups is this: we have the scale, the infrastructure, the track record, the credibility and all of the intellectual property embedded into our proposition.

"Mr New Banker should focus on the front end, the product, should focus on building the customer base, distribution, treasury and capital management and risk management.

"Let us take care of the entire back end and many elements of your delivery which beyond a point are frankly commoditised and do not really differentiate you.

"The new banks will have to process hundreds and thousands of transactions every day without error without fraud without risk without breakdowns and we can provide all of that.

"Looking ahead over the next one to three years, I see three key areas of particular interest: payment hubs, on demand banking or the banking utility and digital banking -and of course the ongoing move to becoming a one stop shop for the banks."

Of these, digital is the most emergent and is happening in real time, he adds.

"The emphasis right now is on agility - there is an element of everyone, banks and vendors, playing leapfrog.

"The reason why banks will work with us as a digital provider not only relates to the specific digital offering that we bring to the table: that is very competitive.

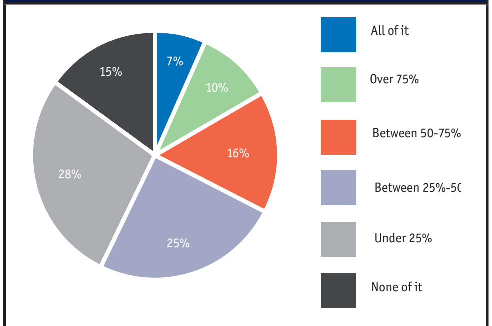
"This is our business and we have been in this business for 40 years – this is what we do for a living.

"If you talk about digital embedded in the entire environment and ecosystem of banking on demand and payments, it talks to all of it. No one else is able to bring all of those pieces and assets to bear." ■

Can retailers still afford their love of cash?

So retailers won the war and interchange across Europe will reduce dramatically. The results are still to be revealed. The big guys with the negotiating power will see a dramatic drop in their MSC, but how SMEs will fair is still open to debate. **David Parker** comments on this and recent prepaid card developments

PROPORTION OF MONEY WITHDRAWN AT ATM SPENT ON HIGH STREET



Source: Cardtronics

The British Retail Consortium has reported that currently cash accounts for 54.4% of transactions - yet only accounts for 10.3% of costs. In addition, debit cards account for 30% of transactions - and accounts for 35.1% of costs, and credit and charge cards account for only 10.6% of transactions - but 50.1% of costs.

The average cost to handle a transaction based as a percentage of total sales turnover for that payment type is:

- Cash – 0.16%
- Debit Cards – 0.32%
- Credit and Charge Cards – 1.04%

With the potential reduction in MSC, merchants will obviously be looking for overall reductions in their tendering costs, but just as they are about to look forward to this we see a new warning for retailers that their cost of accepting cash could go up by 50%. Taking BRC figures above this would mean that cash's average cost would increase to 0.32% and become the same as debit cards pre the interchange reductions.

Retailers are seeing a number of factors that will affect the cost of cash through tills:

- Polymer notes entering the UK;
- The new £1 coin;
- Reduction in cash usage overall, thus less cash transactions to amortise costs over;
- Rising interest: The Bank of England has indicated that interest rates of 2.5% to 3% will likely become the 'new normal', so with cash taking on average 4.5 days to get from a retailer's till to their bank, the cost of holding cash – in tills, safes and in transit – will grow, and
- Cash takes longer to process at tills and with the move from the minimum wage to the 'living wage', staff will cost more.

The cost of cash is crucial to retailers as some £36bn ($51.8bn) is still spent in cash on the UK high street, nearly half of all turnover. And UK shoppers, despite the ever increasing rise in contactless, still prefer cash over cards for purchases below £17.

Perhaps even more disconcerting for retailers is that despite Apple and Samsung both riding on existing NFC rails, there are a large number of other new payment types coming to market, all of which require additional IT resources and spend. Yet, when asked, only 30% of retailers state that their investments in the last two years have had a positive effect on their business performance.

Terrorist Financing and Prepaid Cards; Ban Them!

The hysteria has started; the knee jerk reactions can be seen. The terrorists in France used prepaid cards so all prepaid cards should be banned or, at the very minimum, KYC done on people who get them. France has already stated that it will target prepaid cards which it said were used in the recent Paris attacks.

"We will regulate more strictly the use of prepaid cards which were used in the November 13 attacks, in order to make it harder to remain anonymous," Finance Minister Michel Sapin told a news conference.

There seems to be a lack of understanding as well that anonymous cards, as in those without the name on the front, do not have KYC, or a known source of funds.

We need to be careful and deal with these issues separately because you can have anonymous full KYC products. In addition, just because you have not done full KYC also does not mean you know the full source of funds.

Bruno Dalles, head of the ministry's Tracfin financing intelligence unit, has added: "There are new means of payment which have been created which should be on our radar, I am thinking particularly of prepaid cards, especially if they are delivered in nearby foreign countries and used in France."

One has to ask what is meant by 'nearby foreign countries'. Are they talking about EU countries that would fall under any new regulations or nearby countries that no matter what regulations are brought in will not fall under it?

French newspapers, according to Reuters, have been equally vocal in their support: "E-money and, particularly, prepaid cards… could be very widely used by organised crime, migrant traffickers and terrorists. Criminal investigation department officers have already found prepaid cards during searches of the homes of individuals belonging to such networks."

When the terrorist or organised crime member is tracked down and the prepaid cards found, law enforcement agencies can see exactly how the funds were spent and, at least, where the funds were loaded from.

If the funds were loaded electronically they can track the source of the funds and then even further back.

I am slightly confused at why prepaid cards are so bad given the relatively low limits on SDD products in Europe.

There is an argument to say these could be lowered to further inhibit the attractiveness of them to terrorists, but we are talking about the same European Governments that agreed to produce a €500 note, worth seven times more than any UK sterling note and over five times more than the favourite currency of the international black market, the $100 note! Are those any harder to carry around?

Reuters recently reported that French customs seized a Panamanian prepaid card with €250,000 ($270,000) stored on it; issued, we assume, by a Panamanian bank. How is reducing or eliminating SDD in Europe going to help if other global markets, with less efficient KYC procedures and policies, will issue them anyway?

This is not about having a name or having documentation; it is about should this person have that money? Do the people handling and issuing these products truly understand what it means to be regulated and are they living up to the standards? ■

Canadian fintech needs collaboration

"Banks must collaborate more openly with the fintech community" declared David McKay, CEO of Royal Bank of Canada, at a roundtable in Toronto chaired by *RBI* editor Douglas Blakey. The debate discussed best practises in the Canadian digital banking environment and featured a number of expert panellists. **Alexander Atkins** reports

David McKay, CEO and chairman of Royal Bank of Canada, opened the Canadian digital banking debate, hosted by ***RBI*** and S2C, and noted that while Toronto was a growing fintech hub there was a caveat: to ensure future growth, banks would have to build up better relationships with fintech start-ups in the area.

The high level debate, before a full house, pitted experts from both the banking and fintech communities.

Said McKay: "Toronto can become a major player in global financial technology."

Talking about the importance of digitisation, he added: "If you look at the fundamental drivers of change in technology, it's the digitisation of our physical world, the digitisation of knowledge that's transforming our economy and sectors within that economy."

However, he added that it could not be a totally digital future and that instead a healthy mix was needed. "It's not going to be a solely digital world; it's going to be a hybrid world for the foreseeable future as customers come in and out of a physical and personal channel and the question is how we build those relationships through that digital journey."

Relationship with fintech

The debate then began by talking about the relationship banks have with fintech in Toronto and whether it's positive or not. Mark O'Connell, CEO of Interac Association and Acxsys Corp, was adamant that there was a healthy relationship and, furthermore, that there has to be especially considering the role of fintech in the financial world.

"You have to be friends with fintech," he explained. "The whole approach should be using disruptive technology to disrupt the disruptors and if you're not utilising those technologies, you're going to be left behind."

Mark Barach, Chief Marketing Officer at Jumio, agreed and explained that with such a healthy relationship, banks and fintech must, while looking to the future, use what they have now to continue to make the customer experience better.

"Looking at everything through the consumer lens is the key. To give our customers what they want, it's all about constantly making the processes just a little bit better. It's not necessarily about leaping to the next newest thing, but more about what we have right now and how we can use that."


David McKay, Royal Bank of Canada

Omni-channel

The talk turned to uses of omnichannel. Arguing that the bank branch was still relevant because it was an integral part of a range of channels, Linda Mantia, RBC's executive vice-president of digital, payments and cards, said: "Letting customers interact with us in any channel is crucial. How you allow them to do what they want on a device or in the branch or meeting a mobile adviser, whichever way they want and making sure that their data is there, that is what we need to strive for, and branches will play a part of that."

Her belief in an omnichannel approach brought the discussion to mobile usage in Canada, which has some way to go to match adoption rates in other mature banking markets .

O'Connell, however, was positive, stating that NFC technology was widespread throughout Canada and that this, combined with the country having some of the lowest fraud rates in the world and a large amount of goodwill with the merchant community, means that Canada has the potential to have one of the highest mobile usage rates in the world.

Chris Finan, CEO of Manifold Technology Inc, agreed but also stated that, in approaching improving customer experience through omnichannel, banks should never compromise customer trust to do so.

"Yes, improving customer experience is important but you cannot do it in a way that ever undermines trust especially when considering customer data" he said. "Omnichannel means a lot of new threat factors and this is something you have to consider when trying to improve the customer experience in a way that preserves that trust."

Blockchain and cybersecurity

The mention of financial security brought the debate onto blockchain and its potential and dangers. Finan was aware of both and said: "Bitcoin has incredible potential as it's a way to move money around on the internet anonymously and in this sense it's incredibly empowering technology."

However, he admitted that for banks, this was not always a good thing.

"As a bank, when you're worried about things like responding to anti-money laundering or bank secrecy act regulations, that anonymity actually hurts you.

"But the main point is it's important to separate out the open networks like Bitcoin from the underlying technology itself, blockchain, and I think when you do that, and when regulators start to understand the power of this technology as a way to increase transparency and ensure accountability and trust, I think it will be seen much more as an empowering technology," he added.

The debate considered the question of whether banks should be cooperating or competing in the area of cybersecurity, a highly controversial topic in the UK at the moment.

Mantia asserted that it should be a mixture of both.

"In terms of collaborating, you need to do it, because keeping the bad guys out of the system is incredibly important. I think where we do compete and we've always competed, is in how the security experience is for the


Mark O'Connell, Interac and Acxsys Corporation


Linda Mantia, RBC

customer," she said.

O'Connell was in agreement: "Yes, you can have differentiators on how you execute in your different fraud departments on top of that but collaboration should definitely continue when it comes to cybercrime."

The culture of start-ups

The conversation then moved on to whether established banks like RBC can really re-create the culture of start-ups. Mantia believed it could as long as you have a client first mind-set when building innovation.

She said: "If we look at the technology that is now available to improve that client experience and you stay focused on that, when our team comes up with what it, say blockchain, can do to really drive that real time experience with all of the data you need, we will do it because of this client first mind-set."

Co-founder of innovative start-up Kasisto, Dror Oren, gave his opinion: "Looking from the other side I completely agree. As start-ups, we also make a decision when we wake up in the morning to decide who we're working with. And for us we always tell ourselves every time we do a proof of concept, what are we proving?

"We don't want to be an innovation play to showcase because it's sexy; we actually want to prove something to the bank because we want to get across to the consumers."

Barach, however, reminded the debate of how important it was to identify the up-and-coming market that may define the future of the financial industry.

Barach added: "I think the risk is to think about consumerism as one thing. There are different segments - there always were. But what is happening now is that it is the more advanced and forward leaning consumer, who tends to be younger, who is adopting new technologies, and then a whole chain of events happens.

"A perfect service is then built for that constituency, like Uber which brings in massive investment from venture capitalists, and with this comes the ability to expand into new segments."

Admitting that the way customers act was changing led to a discussion on how they had changed in the last few years. Oren believed that things were heading back towards Natural Language Interaction (NLI).

"In this digital world, if I want to increase my limit on my card or report a lost card, spending my time looking for specific buttons doesn't make sense. What really makes sense for me is to talk to the bank but not to a person because I don't want to have to be polite or wait in a line, I just want it done and the issue resolved no matter whether I am on the train or on my way to work."

He added: "Yes, the human interaction is very important but it doesn't necessarily mean interaction with another person. Instead it means I interact as a person with the bank in the most convenient way."

He further illustrated his point by stating that a bank should not force you to choose one particular channel to do something but instead should be available to the customer in the best way possible for the situation that the customer is in.

Regulation

Compliance was another subject touched upon by the panel, looking at both banks and start-ups' relationships with the regulator and whether the regulator is a barrier to fintech growth.

Barach believed that through a healthy relationship, companies can and have been working with both the regulators to find solutions.

He said: "The most effective thing is to find those companies who have a real problem to solve and work with them to advance a solution that we think would be good for our client, as well as for their customers, and then with their power and knowledge, they work with the regulators, both internal and external, to figure out if these solutions are going to be within the frameworks of these regulations."

Yet Linda Mantia believed there were still some major barriers in easing regulation in Canada: "I would say that the most obvious problem that we have is that in Canada we're one of the rare jurisdictions that regulates the players as opposed to the activity."

She continued: "It is hard because we've seen some players come in, we know that they are risking the financial system, we know that at the end we're the underwriters, like with cards, we're the ones who give insurance to the entire payments system.

"It's not that it's unfair, it just not right that the activity isn't what we're protecting if we're trying to look after the clients and the merchants and the environment."

The debate concluded by discussing the areas in which Canada is a global leader of in terms of fintech.

For Mantia, it is payments, as she explained that Canada has a unique payments system that even some of the top payments solutions coming out of the US are not aware of.

"We really lead in building the rails, we lead in putting good rules around some of these rails and that's something we are really proud of and we do talk about, at RBC in particular, because we were the first to do host card emulation," she added.

Mark O'Connell believed their strength lay in partnerships.

"Whether it is this Canadian demeanour or something in the DNA, Canada and Canadian companies have a world leading capability of fair partnering and knowing which technologies to choose, and these partnerships with technology companies or process companies or whatever are going to be crucial," he said.

The debate was closed with upbeat comments from Jennifer Tory, the head of personal and commercial banking for RBC.

"We've got a good track record of having done a good job with innovation in our industry in Canada and taking a collective approach to some of that innovation," she said.

However she also noted the challenges faced by Toronto's growing fintech industry adding: "We have a very strong regulator which is very helpful and we're good at working with them but we need to figure out how to incorporate some of the innovation into their thinking so they understand how to help us to help our consumers."

All in all though, the debate showcased Canada's fast growing fintech community and potential for future growth, something that will flourish with collaboration between the regulators, the banks and the fintech community. ■

The Panel

Linda Mantia
Executive Vice President, Digital, Payment and Cards, RBC

Linda is the Executive Vice President of Digital, Payment and Cards for RBC. She has global responsibility for the strategic direction of RBC's Personal and Business Credit Cards, Rewards and Partnership Programmes, Merchant/ Staregies/Moneris, online and mobile banking as well as the enterprise Retail Payments Strategy and Innovation.

Linda joined RBI in 2003 as the SVP of the Innovation & Process Design teams. She then moved to the UK as COO of Global Private Banking. Most recently, Linda was Head of Enterprise Services and Chief Procurement Officer, accountable globally for Acquisition Integration, Procurement, Corporate Real Estate, Lean Six Sigma, Global Consulting, Business Process Outsourcing and Enterprise Programme Management Office.

Prior to joining RBC, Linda was an Associate Principal for McKinsey based in Canada, the US and Australia and prior to that, was a partner at Davies, Ward & Beck, specialising in corporate and securities law.

Marc O'Connell
President and CEO Interac and Acxsys Corporation

Mark is president and CEO of Interac and Acxsys Corporation which together operate an economical world class debit system that allows Canadians to access their money through 66,000 ATMs and 879,000 POS terminals across Canada.

Mark oversees the operation of INTERAC, Canada's leading payment brand and only domestically run, coast-to-coast debit payment network.

Mark has extensive experience in the payment card and banking technology industries and was previously Executive VP, Finance Market at Energis Inc (now Telus). He has held other senior positions at NCR and IBM.

Dror Oren
VP of Product and co-founder Kasisto

Dror has over 10 years of experience in software engineering, marketing and product management. Prior to starting Kasisto, Dror was an executive director in the SRI Ventures team at SRI International, where he focused on commercialisation of technologies in information and computer sciences and helped spin out companies such as Tempo, ai and Desti.

Before SRI, Dror worked in product marketing and management at VMware and NICE Systems, where he led a technical product line.

Marc Barach
Chief marketing officer, Jumio

Marc leads Jumio's worldwide marketing efforts and brings over 20 years of marketing, innovation and operational experience in emerging technologies and the financial sector to Jumio. Previosuly, he served as CEO of mobile applications company Emotive, CMO of enterprise search SaaS pioneer Marin Software and and CMO of Ingenio, where he sparked creation of pay-per-call technology; a multi-billion dollar adtech product which led to Ingenio's acquisition by AT&T in 2007.

Chris Finan
CEO and Co-Founder Manifold Technology

Chris is CEO and co-founder of Manifold Technology, a Silicon-Valley-based start-up that provides a private blockchain platform for compliance asset liquidity. Chris previously led business development for Impermium, a cybersecurity start-up that was acquired by Google.

Prior to that, Chris was the product director for Plan X, a Department of Defense cyber warfare research and development programme at DARPA.

Douglas Blakey
Editor of RBI and Group Editor, Retail & Private Banking, Timetric

L-R Douglas Blakey, Dror Oren, Linda Mantia, Marc Barach, Mark O'Connell, Chris Finan

Go mobile but don't forego online channel

Canadian banks need to invest in mobile offerings, but can't afford to neglect the online channel. Online remains the most popular banking channel but while Canadian online banking customers have a high level of satisfaction with their primary banks, there is no room for complacency. **Robin Arnfield** reports

In December 2015, Aite Group published a report on Canadian online banking customers' channel preferences along with a study on the impact of digital technology on their relationship with their banks.

Both reports are based on a 2015 survey sponsored by Capco of 1,246 Canadians who bank online via PCs and laptops. The survey respondents were representative of the overall Canadian population by gender, age, income, and province of residence, Aite Group says.

Channel preferences

Canadian Banking Consumers: Evolving Channel Preferences says 97% of online banking customers still conduct account transactions in branches, and 80% do so via call centres. Nearly two-thirds (61%) of online banking customers conduct transactions using mobile apps on smartphones and tablets.

While the branch is used by 95% of online banking consumers to resolve service problems and questions, 92% use the online channel for customer service issues, Aite Group says. The survey also found that online banking customers prefer branches over other channels for seeking advice on products and consulting investment advisors.

"We found that overall online banking customers are highly satisfied with their primary financial institution (FI)," the report's author, Aite Group Retail Banking and Payments Senior Analyst David Albertazzi tells ***RBI***. Satisfaction levels are high (92%) for conducting account transactions online.

"Three-quarters of online banking customers were satisfied with branch-based transactions, two-thirds with mobile transactions and nearly half with call centre transactions," says Albertazzi. "So call centres perform less well than the other channels."

Another finding was that satisfaction levels across all channels declined for problem resolution, getting advice on products, and consulting investment advisors.

Impact on financial management

Aite Group found that few Canadians believe online and mobile channels had significantly helped them better manage their money.

"We asked respondents if online and mobile banking had significantly improved their ability to manage their finances," says Albertazzi. "Satisfaction ratings were high for knowing account balances and where their money is, but dropped off when respondents were asked if they found it easier to share financial data with their family or advisor, get better returns, or become more knowledgeable about how to manage finances, for example.

"This showed online and mobile work well for simple tasks, but, if you want to resolve problems or significantly make a difference in how you manage your finances, the satisfaction ratings drop off quite a bit."

Financial engagement

"A new feature in our research is a financial engagement score," says Albertazzi. "We asked respondents how much time they spend time managing their finances, and identified three groups: highly engaged, moderately engaged and unengaged."

Aite Group found there is a significant difference between highly engaged, moderately engaged and unengaged respondents. "Our financial engagement score revealed that highly engaged customers have a higher satisfaction rating for their FI," says Albertazzi.

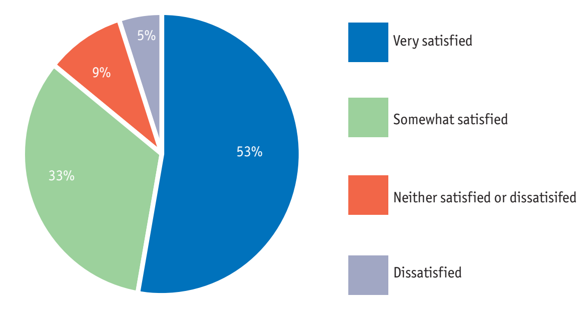
"They open more accounts and so provide more cross-selling opportunities, and they refer more new customers. The takeout for banks is that, if you can get your customers engaged with you, they will increase the number of products they hold with you and refer more people to you."

Mobile channel

Two-thirds of Canadians banking online consider the mobile channel unimportant to their banking needs, while 20% consider it somewhat important, and 15% say it's very important, Aite Group says.

The consultancy found that 89% of 18- to 34-year-old online banking consumers – a segment representing a growing proportion of Canadian banks' revenue opportunity - have a smartphone.

■ CANADA - HOW WOULD YOU RATE YOUR LEVEL OF SATISFACTION WITH YOUR PRIMARY BANK (%)



Source: Aite Group

Among consumers aged 18 to 34, 27% consider the mobile channel very important, and 32% consider it somewhat important. Around half of younger consumers consider mobile very important for checking their account balances.

"Among overall respondents who find the mobile channel very important, 46% referred their primary FI to family and friends, and 23% increased the number of accounts they held with the FI," Albertazzi says.

The importance of online

It's important that banks don't neglect the online channel, while continuing to enhance their mobile channels, Aite Group stresses. "Canadian consumers value the online channel above all others, particularly for day-to-day transactional needs," it says. "Highly engaged consumers, who represent a valuable consumer segment thanks to their increased likelihood to refer acquaintances to the bank and to open more accounts, have a particular affinity for the online channel."

"The importance of the online and mobile channel to the younger demographics underscores the need for banks to develop and improve financial management capabilities on these channels," Albertazzi says.

Digital challenges and opportunities

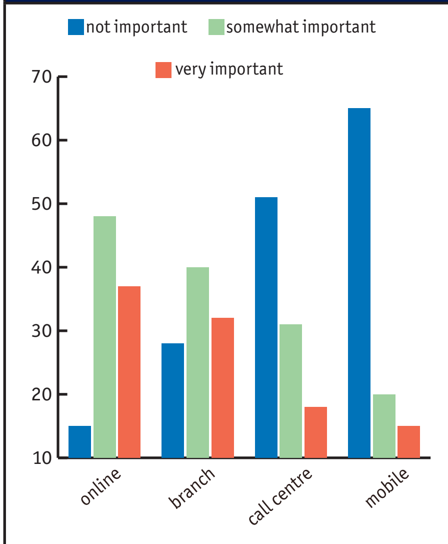
Julie Conroy, research director for Aite Group's Retail Banking practice, says that Canadian consumers are generally happy with their banks.

However, banks can't get complacent about the threat of disintermediation or cybersecurity. "While Canadian consumers are generally happy with their FIs, the threat landscape on both fronts is moving rapidly," she adds.

Aite Group's survey gauged Canadian consumers' interest in trusting prominent consumer brands with their financial needs.

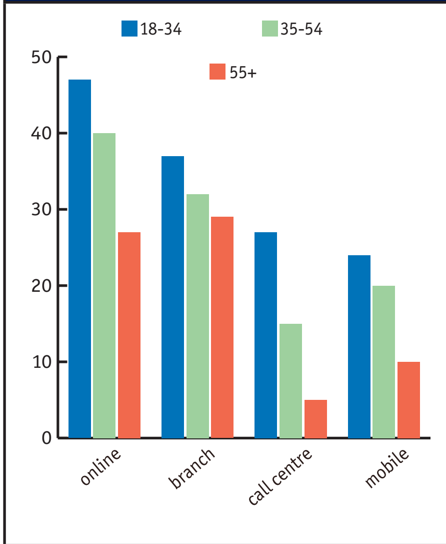
With the exception of PayPal, which already competes with banks for consumers' payments business, under 20% of Canadians would consider using a financial product such as a chequeing account or a credit card offered by a non-bank. A quarter (24%) of respondents said they would possibly use such financial products from PayPal and 11% said they would very likely do so.

■ CANADA - IMPORTANCE OF BANKING CHANNELS (%)



Source: Aite Group

■ CANADA - % OF CONSUMERS WHO CONSIDER EACH CHANNEL VERY IMPORTANT BY AGE



Source: Aite Group

Millennials

Millennial Canadians – 'digital native' consumers aged 18 to 34 – tend to be less loyal to established FIs than older consumers. It states: "27% of millennial Canadians indicate they would consider Amazon as a financial provider, while 9% of consumers over the age of 55 say the same,.

"22% of millennials would consider Google, while only 6% of those over 55 would do so. Three times as many millennials as consumers aged 55 and over would consider Facebook or their mobile phone providers for financial services."

For both 18- to 34-year-olds and 34- to 54-year-olds, the most frequently cited reason for selecting an alternative provider is consumer trust. Better price is the second most frequently cited reason for selection among 18- to 34-year-olds, the report concludes. Among 35- to 54-year olds, better online and mobile capabilities is the second most important reason.

The good news for incumbents is that banks still have the edge over alternative providers. "More of the surveyed Canadians believe banks and credit card providers do an excellent job with user experience and offer relevance than believe that the online and consumer goods firms do so," it says.

Data security

According to Statistics Canada 6% of surveyed Canadian businesses had experienced an Internet data breach in 2013, with 26% of these breaches involving theft of or unauthorised access to client or proprietary information.

"This statistic likely understates the true extent of the issue, since Canada didn't have a mandatory data-breach-reporting law in place until June 2015," says the consultants.

Despite the escalating digital security threat landscape, the majority of Canadians believe banks are protecting consumers' personal data. "More than four in 10 rate their primary bank as doing an excellent job protecting personal data, and one-third say their bank does a good job," it says.

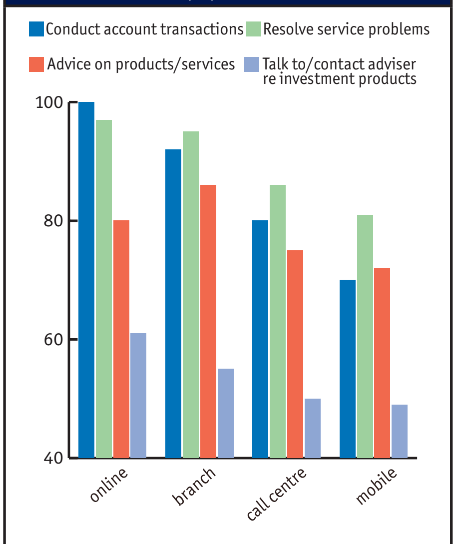
"Just 3% say their bank does a poor job protecting personal data. Canadians weren't as generous regarding their banks' ability to efficiently access customer data in interactions or to use personal data appropriately, but very few consumers say their banks do a poor job in these areas."

Differences in perceptions regarding data privacy and security emerge when segmenting Canadian consumers by age. Among 18- to 34-year-olds, one in five rate their primary bank as only doing a poor to average job of protecting personal data. "About one in four of these younger consumers say their bank does a poor to average job of accessing personal data in interactions and of using personal data in appropriate ways."

Because Canada migrated earlier to EMV cards than the US, Canadians are better protected from the impact of data breaches than US consumers. This is because chip cards are much more difficult for criminals to monetise after a data breach.

"Given that Canada didn't have mandatory breach-reporting laws until mid-2015, awareness of data breaches likely lags the actual impact," says the report. "As a result, just 9% of consumers believe that they have been personally affected by a data compromise, although younger consumers' perception of the impact is higher than that of older generations."

■ CANADA - WHICH OF THE FOLLOWING CHANNELS DO YOU USE TO PERFORM THE FOLLOWING TASKS (%)



Source: Aite Group

Recommendations

Now that breach notification is mandatory in Canada, it is critical to prioritise investment in data security, says Aite.

The consultancy also recommends FIs evolve their offerings to increase their appeal to digital natives. "Millennials exhibit much more willingness than do older generations to bank with non-traditional firms.

"Strong online and mobile transactional capabilities, robust security that does not intrude on the user experience, and excellent service and support: this is the recipe to ward off those firms looking to encroach upon banks' terrain." ■

RBC's winning strategy puts client first

RBC ranks number one in almost every key Canadian banking product category. **Douglas Blakey** meets with Jennifer Tory, group head for personal and commercial banking, to discuss how RBC's retail focused Personal & Commercial Banking unit continues to churn out record quarter after record quarter

A strict focus on client first, collaboration, accountability, diversity and inclusion and integrity would be a fair summary of the key values that guide, unite and inspire RBC staffers to produce record result year after year.

2015 was no exception: record net income of C$10.02bn ($6.96bn) for the year ended 31 October 2015, up 11% from the prior year.

RBC's retail focused Personal & Commercial Banking unit posted 12% earnings growth, contributing more than half of group net income and enjoyed particular success with its Home equity offerings supported by RBC's Newcomer Advantage and Employee Pricing campaigns.

Other highlights included credit cards through strong account and balance growth in its industry leading Avion card; ongoing investment in digitising the client experience with a focus on speed of service and simplifying the end-to-end processes, such as the launch of Cheque-Pro, allowing high cheque volume clients to connect to RBC's online banking channels using an in-office scanner to make deposits.

In addition, RBC continued to invest in the branch channel, evolving the network for basic service transactions while investing in digital and mobile platforms.

RBC ended 2015 with five million active clients on its digital and mobile platforms, with particularly strong growth of 23% in the number of active clients using the mobile platform. Other digital highlights included the launch of Host Card Emulation technology allowing RBC clients with Android devices to use the RBC Wallet anywhere in the world with a mobile network.

RBI met up in Toronto with Jennifer Tory. As Group Head, Personal & Commercial Banking (P&CB), Jennifer is responsible for RBC's banking businesses in Canada, the US and the Caribbean, including personal and commercial financial services, credit cards and payments, as well as RBC's sales and branch distribution, operations and advice centres.

RBI: How would you summarise RBC's current distribution strategy?

Jennifer Tory (JT):
Our distribution strategy is based on the

premise that customers increasingly expect a seamless, omni-channel experience that includes branches, Automated Teller Machines (ATMs), call centres, digital, and mobile sales capabilities. As a result, the bank's goal is to maximise the volume of client business at the most effective cost while always meeting or exceeding client expectations.

RBI: How do you persuade clients to use the most appropriate channel?

JT: Our primary goal is to make it easier for clients to do business with us wherever, whenever and however they want while encouraging them to choose the most effective channel through pricing, convenience, and advice.

To support that journey, we'll be making a number of investments; in smarter ATMs that can support an increasing number of service and simple sales transactions, as well as in data analytics, loyalty programmes, and building advice capabilities across all our channels to support the increasingly connected client.

We want to ensure we evolve as our clients' needs and expectations evolve, especially as they integrate mobile and digital into their lives.

RBI: Unlike a number of the leading retail banks in the US for example and in the UK, where the banks are actively shrinking the size of the branch network, the size of RBC's branch network has barely changed: 1,355 branches in 2015 compared with 1,372 outlets in 2013. Just how important are branches to the overall distribution mix?

JT: The branch channel remains a key driver of P&CB's outstanding performance and is foundational to our client experience. Though as customers continue to heavily use all of our alternative channels, the role of the branch will evolve away from transactional banking and toward being a client onboarding, education, advice and problem resolution centre.

When it comes to clients' complex needs and their financial well-being, most clients turn to an adviser they know and trust, who will give them the advice and solutions they need and deserve. That has been, and will always be, a foundational element of our client experience and one of our most significant differentiators going forward. In the future we see our branches becoming:

- An 'Onboarding Centre' – for setting up new clients, as well as our current clients, with the everyday banking relationship they need to carry on their life in both the digital and physical world;
- An 'Education Centre', where we educate clients on our products and services including how to use them, and where we educate them on using our digital and ATM channels to make their banking life simpler and more accessible;
- An 'Advice Centre', where we proactively advise and support them with their more complex financial needs, where we activate or turn on already approved offers and services, and
- A 'Problem Resolution Centre' to help our clients with the challenging moments that we all know occur.

We have been 'right-sizing' our branch network since 2010, with a focus on technology, roles and physical design to enable greater flexibility and operational effectiveness. This includes organising our branches in a community around a hub and spoke concept.

We design our markets based on competition and demographics, including how multichannel the customer base is. We do the same with our stores. Stores within each market are designed based on our 'kit of parts' store elements that we've tested and refined in 'concept' stores and then rolled out to fit the market the store will serve.

Part of this work has involved the creation of multiple retail tools and store formats which we developed to help address needs and differences of Canadian communities. Our formats now include our retail stores, small retail stores, as well as our newly launched Showcase store.

While we continue to explore additional formats, such as mobile and pop-up branches, a primary focus has been on identifying successful elements from our new formats that can be scaled effectively across the network.

Our retail store designs are made up of a hybrid of best-in-class retail shopping and financial services – a more open concept that provides a more informative and friendly experience.

***RBI*: And what about the small retail stores?**

JT: Our 'small-footprint' stores occupy an average of 1,500 sq-ft compared to a typical branch of 4,500 sq-ft, which represents a 65% reduction in space. The smaller store requires five staff to operate as compared to an average of eight staff for traditional branches, yet they can provide virtually all of the sales and service offerings available from much larger branches.

This new format provides the bank with an alternative footprint within its network and will improve efficiency and shareholder returns.

In fact, our first cohort of small footprint stores has had strong client acquisition and volume growth results to date, despite the smaller footprint and fewer staff.

***RBI*: How is the new retail store strategy delivering?**

JT: Retail store results have been positive, and are highlighted by new client acquisition at newly opened retail stores that meets or exceeds historical averages, and driving top-line revenue growth.

Newly opened stores continue to perform well against key performance indicators (KPIs), including incremental business volumes, client acquisition, client satisfaction and loyalty measures, and staff surveys.

Overall we are satisfied with our return on investment, notwithstanding recent factors impacting the broader branch network including slower market growth, change in product mix (e.g. less consumer demand for personal loans), site selection/regional differences, and spread compression.

Overall in-branch sales increased by 7% YoY and the number of service client solutions we provided per week increased by 9% YoY.

- We led the industry with 17% of our clients having at least three key products or services with us (transaction, investment and borrowing), compared to the peer average of 11% and next closest competitor at 13%;
- A best-in-class efficiency ratio of 43.5% as at Q3/2015 for Canadian Banking, improved by 70 basis points (bps) over 2014 and by 630 bps since 2008. This ratio is ~460 bps better than its Canadian peer group average, and
- A 19% premium in year-over-year (YoY) volume growth for Canadian Banking over its Canadian peers (RBC growth of 5.6% vs. peer average 4.75%).

***RBI*: One of the channels that RBC has pioneered is the mobile sales force. How does this operate?**

JT: When it comes to service, we believe that our customers want options and flexibility. In the physical network, this means giving clients the option of coming to a branch to interact with us, or our mobile sales professionals can go to them at their work or home.

In addition, through RBC's 'Bank at Work' programme, we send representatives to large employers in the community who have our group banking services, and we provide banking services to employees at their place of work.

As clients continue to visit branches less frequently, we will be increasingly externally-oriented. We want to be where clients are, to be on their path, where and when they need us most.

Our connection to our clients and our communities both physically and virtually will become an even more significant differentiator for us in the future.

***RBI*: How important is the retail sales force to your strategy?**

JT: Our physical channel strategy is designed to employ the right combination of people and technology to deliver an even greater client experience. The retail sales force is a critical enabler of this strategy. Branch sales and service employees take care of the everyday banking needs of customers, complemented by more specialised sales people who support clients with more complex needs.

Our specialised sales forces include 1,164 commercial bankers aligned to industry sectors, 659 small business specialists, 1,299 mortgage specialists, 1,120 financial planners and 974 investment and retirement professionals, making it the largest and most specialised proprietary sales force of any Canadian bank. These specialised sales forces work together with our branch staff, often via technology, to give RBC the scale and specialised skills to meet unique customer needs in any location.

In addition, private bankers have long met the needs of our high value clients wherever and whenever it's most convenient for the client.

***RBI*: What about mobile banking? How important is this to your distribution strategy?**

JT: As consumers adopt new connected technologies, RBC needs to be at the forefront of delivering financial service capabilities across all channels that improve the experience of our clients, while keeping advisors central to the client experience.

Canadians check their mobile phones over 100 times a day. The relationship our clients have with their phones is unlike any channel. We are investing in digital distribution, not only because of its efficiency, but also because our clients are interacting with the channel differently than anything else. Through mobile we are able to be a part of our clients lives every day, even multiple times a day.

***RBI*: RBC is one of the few banks in the world that has developed its cloud-based digital wallet. Can you talk about the strategy behind this move?**

JT: RBC Wallet is about making it safer, easier and more rewarding for our clients to choose an RBC payment card at the point of sale. This past summer, we made it even easier for our clients to use their phone to pay by updating our app to the latest technology - HCE (host card emulation). Now virtually all clients with an Android smartphone can pay with their RBC debit or credit card in seconds, without worrying about being on the right mobile network or having the right SIM card.

Now that we have the foundation, we are investing in new capabilities that unleash the power of the mobile phone for commerce. We recently launched a mobile gift card wallet that allows clients to digitise and use all of their gift cards wherever they are, and will be adding digital loyalty cards and programmes, and receipts. We already have one of the industry's best loyalty programmes in RBC Rewards, so we are building on one of our key strengths.

The Secure Cloud wallet is built to be flexible now and into the future. We are already seeing new form factors – like wearable technology-entering into the payment space.

Secure Cloud is designed to accommodate these evolutions. As the name would suggest, it is also a highly secure platform that keeps sensitive client data with the bank as opposed to on the phone. We are very proud to have been awarded a patent on RBC Secure Cloud this past September. ■

Kenya Commercial Bank goes digital

Kenya is one of the leading countries in Africa in terms of financial inclusion, despite low internet penetration across its population. Instead, mobile money is dominant. **Alexander Atkins** reports on how Kenya Commercial Bank, one of the country's largest banks, is tackling digitisation with the help of M-PESA

Financial development in Kenya is steadily gaining pace, as banks look both to banking in developed countries and to Africa's own methods of innovation to confront their unique financial issues.

In October 2014, Kenya Commercial Bank (KCB) took its next step forward in financial evolution when it launched contactless cards with MasterCard PayPass technology, only the second bank in Kenya to do so.

However, a year on and KCB's contactless technology appears to be catching on: now every single MasterCard plastic card the bank has issued has been contactless enabled. "Our entire MasterCard issuance is contactless," Annastacia Kimtai, KCB Group retail director tells ***RBI***.

But the focus has also turned to spreading contactless to the retailers. "The bank has rolled out and is scaling up contactless acceptance devices, particularly point-of-sales terminals issued to the merchants," she adds.

Its progress into the world of contactless comes at a time when Kenya's payments services are fast evolving. But KCB is continuing to push development into this realm, looking at the possibility of other contactless objects besides cards.

Its latest product is the Pepea Card, a prepaid card that has tap-and-go technology and is globally accepted. Over one million cards have been distributed over the last year, and have, according to Kimtai, been crucial in ticketing, retail, online shopping and in-transit.

Yet KCB has many more challenges ahead, especially concerning digitisation in a market that, whilst making great strides in technological development, still has a long way to go to providing basic internet access to large areas of the country.

However, Kimtai believes Kenya's digital market is fast accelerating due to a number of factors - mainly an increase in mobile usage, internet access and a largely youthful demographic.

Currently over 68% of Kenyans have access to a mobile phone and more than 70% of Kenyans are below the age of 35. "The combination of a youthful demographic, growth in the use of smart devices and increasing access to the internet makes the digital banking space a very natural area of focus for the banks," says Kimtai. "The digital market space is therefore getting bullish in growth and opening at a fairly fast rate."

Currently only 39% of Kenya's 45 million people are internet users, yet that number is expected to grow as access to the internet becomes more widespread, a change that could help Kenya's financial system greatly along the path to digitisation.

However, despite the current low internet usage figures, KCB is taking digitisation head on with new online products and services. One such concept is the KCB Super application which is accessible on the mobile banking platform alongside KCB's internet banking.

The app allows customers to run peer-to-peer transactions, manage bill payments, and fund their prepaid and credit cards. The success of the application is shown in the uptake: since its launch four months ago, adoption has already exceeded 100,000 users.

However, whilst the future focus may be on digital, the present for Kenya's financial industry is, without a doubt, on mobile. With such a high rate of mobile phone usage, Kenyans with no previous access to the financial system are slowly being brought into the fold, mainly through mobile money schemes such as M-PESA, one of a number throughout Africa that have experienced huge success.

One issue in the past has been access to bank branches in order to open an account, but this was solved when mobile provider Safaricom launched its mobile money scheme M-PESA. This turned the mobile phone into a bank account that can be used to send money across the country to other mobiles, without the need for internet access.

The concept, which began in 2007, is hugely popular and had attracted over 17 million users by 2013.

The success of M-PESA caused the banks to take notice, in particular KCB. "For an average Kenyan demanding convenience, their mobile phone provides the solution in that they can transact through their phone, wherever they are, whenever they need to," says Kimtai. "The bank has therefore adapted to the needs of the customers."

Kimtai is referring in particular to a partnership between KCB and M-PESA, which has resulted in the KCB M-PESA account, a mobile enabled platform that allows customers to save money and borrow based on their credit worth. The product was launched in March 2015 and already has over 4.7 million customers. Its main selling point is that, alongside offering the usual M-PESA services, it allows users to apply for loans in a more efficient way.

"This revolutionised banking as we were able to lend as low as five dollars to our customers. Through this we are underway in achieving our banks strategy of deepening financial inclusion," says Kimtai. She adds: "As a bank, we have tailored our products to suit the divergent needs of our mobile customers."

Most importantly, it gives Kenyans something that M-PESA alone cannot: access to a tangible bank account. With an account, Kenyans will be able to use more products and services than the mobile money scheme can offer alone. From KCB's perspective, it will mean the bank can innovate new ideas specific to the needs of their expanding customer base, especially those in rural areas looking for diversified products that suit more basic financial needs.

Kimtai concludes by pointing out that no matter what sort of market you are in, you cannot ignore digitisation. "Digitisation is to some a basis for competitiveness while to others a means of survival, without which they become completely uncompetitive," she says.

Digitisation in Kenya, as in many other parts of Africa, faces significant challenges and for now it is clear that mobile money is prevailing. Yet just as they have realised the power of the mobile for banking currently, KCB know that as Kenya continues to develop, they must embrace the growing potential of digitisation to reach new markets and create innovative products or be left behind. ■

Fending off the digital disruptors in 2016

If disruption was the theme of 2015, no industry was more affected than banking. Not only did smaller 'fintech' disruptors receive the lion's share of venture capital, but successive articles in industry broadsheets also breathlessly predicted doom and gloom for traditional banking. **Simon Mulcahy** writes

There is some truth to their soothsaying. Nutmeg, Transferwise and Venmo are becoming household names, and new, mobile-only banks are sprouting up everywhere. Lending, investing, payments, money transfer, insurance and financial advice are all in the cross-hairs of change. And not just targeted by the fintech army. Apple, Facebook, Google, Uber and other technology players are clearly in the game. Challenger banks, such as supermarkets, are there as well.

And finally, telcos, as witnessed by Orange's recent bid for Groupama Banque, are looking for a piece of the action.

How much risk does this pose to traditional banks' bottom lines? McKinsey points to 10 to 40% of traditional bank revenues being at risk by 2025.

But while this is, on the surface, significant, the industry should be paying attention to evolving customer expectations driven by the same technology that is changing the competitive landscape.

For example, banking has gone from sporadic visits and cheque book balancing to daily log-ins on a mobile app. The bank is now in your pocket. At the same time, customer expectations now draw from experiences in retail.

Consumers want simplicity - and to bank the way they want to, be it through an app, at an ATM or in a branch. They also want the bank to know them. They expect that all the data they are giving up is delivering value back to them.

Traditional banks know this. And while the whole story has not yet been finished, the writing is already on the wall. In fact, the UK Government is subsidising the ink and brushes. Under the Payment Services Directive II, which comes into effect in July 2017, new parties can stand between the bank and the customer to take on a lot of the important front-end, 'customer experience' services for them. This makes it easier for customers to switch to providers of 'better experiences'.

Yet, despite all this disruption, I believe that retail banks have a major opportunity to win. Why? They have millions of customers, extraordinary amounts of data and many channels. They know their customers. If only they could achieve personalisation at scale with every customer interaction, the game would be over. How do they do this, though? Here are six ways for banks to fend off digital disruptors in 2016:

1. Think Effortless Experiences, not Products

The customer is only ever one click away from choosing a competing payment method or loan. Every poor service experience increases disloyalty. The key to driving loyalty is to deliver effortless experiences. There are thousands of ways of doing this - every touchpoint with the customer should be designed to reduce effort.

Banks need to proactively reach out to the customer when there is a service issue; make it easy when the customer swaps channels; make onboarding blindingly swift; do away with labyrinthine automated phone answering experiences; pre-approve customers to certain offers to reduce wait time; and, ultimately, provide a single view of the customer to employees so that they can represent the bank more completely.

2. Build an Engagement Layer

Almost all core banking technology is designed for a product-centric world that celebrates 'build-it-and-they-will-come' thinking. They won't (anymore). Banks need to build a separate 'engagement layer' that delivers a single, unified view of the customer for the bank's systems and employees.

This engagement layer needs to live in the cloud, API-first, mobile-first and highly flexible. Otherwise, it becomes just another disconnected system or tool that employees and customers need to grudgingly log into.

3. Deliver Precision Banking

Engage every customer on the back of what you know about them in real, or near-real time. Deliver personal and contextual messages, alerts, offers and advice delivered on the most appropriate device at the most relevant time. At scale. Banks do this by aggregating information from multiple sources, and connecting it to carefully designed journeys and a real-time decision engine.

4. Be Agile

The pace of business is accelerating. Banks need to be able to gather feedback from customers and react to it faster than the competition. Apps are key to bolstering responsiveness, but they cannot go through long traditional app development lifecycles if they are to be effective. Indeed, a recent study by CSC and Finextra of 74 financial institutions shows that for nearly one in two (45%) financial institutions it takes more than six months to build a new mobile app. Worse still, for nearly a quarter (22%) it takes more than a year. Building apps close to the customer by business analysts is a smart approach that can improve timeliness.

5. Partner

Technology firms have traditionally acted as vendors to the industry, selling point products, whether it's core banking or call center software. The best banks bring their technology providers closer, making them part of the team. That proximity benefits both sides, allowing for much needed cross-fertilisation of knowledge, ideas and needs. In this new world, banks fail when they go alone.

6. Be One Bank

The customer sees one bank, and has no patience for operational and process siloes. For example, it is a missed opportunity for a customer making a large deposit to not automatically receive offers around tax free savings. The benefits are clear: a customer who uses four financial products provides 730% more revenue, on average, than the customer with just the single product.

Despite the pressure from non-traditional banks, regulators and customers themselves, it's not all doom and gloom for retail banks this year. Technology-savvy banks are already beginning to move towards precision banking. They'll not only win customers, but they'll also have the pick from all the disaffected banking talent in the market today. And that's why 'digital disintermediation' don't have to be dirty words. ■

Simon Mulcahy is GM of Salesforce Financial Services

YellowPepper focuses on Latin American mobile payments market

Latin American mobile banking services pioneer YellowPepper has reinvented itself as a provider of mobile payments platforms in the region. The move reflects the rapid growth of smartphone penetration in the region and the opportunities this provides to banks and retailers. **Robin Arnfield** reports

Privately-owned YellowPepper was founded in 2004 to provide value-added services for US cellphone users. In 2007, the Miami, Florida-based company decided to focus exclusively on the Latin America and Caribbean mobile financial services market, offering mobile banking services to banked and unbanked consumers through partnerships with local banks, telcos and cash-in/cash-out agent networks.

In 2010, YellowPepper became the recipient of the World Bank-owned International Finance Corporation's (IFC) first equity investment in a Latin America mobile financial services company. As of December 2015, YellowPepper has raised $39m from five investors.

In June 2015, YellowPepper appointed mobile payments industry pioneer Mohammad Khan as chairman of its board. Khan is former president and founder of ViVOtech, an NFC technology company that helped paved the way for mobile payments.

Refocus

YellowPepper received a lot of kudos for providing the underlying software for Haiti's TchoTcho Mobile money service, which was launched in 2010 by mobile telco Digicel and Canada's Scotiabank and funded by USAID and the Bill and Melinda Gates Foundation. It also helped set up mobile money services in the Dominican Republic, Mexico and Peru.

However, YellowPepper found the cost of operating mobile money services for the unbanked was too high for the volume of revenues it received. So, for the time being, it has stopped providing services to that segment, no longer has agent networks, and isn't working with Digicel.

"Although YellowPepper has pulled out of the unbanked mobile money business, it will offer services to the unbanked if banks are willing to pay properly for these services," says Jeffrey Bower, Digital Finance Specialist at the UNCDF's (United Nations Capital Development Fund) Better Than Cash Alliance.

"We now focus on banked customers," says YellowPepper's CEO Serge Elkiner. "At the beginning of 2013, we did an in-depth analysis of our market, our financial results, the positioning of the banks, and the future of mobile in the region. We decided we had done well with our mobile banking product for banked consumers."

In early 2013, YellowPepper had 3.5 million users and were processing 200 million mobile banking transactions a year. "We now have nearly 5.5 million users, and are processing over 400 million banking transactions a year," says Elkiner. "But providing banking services to the unbanked wasn't paying enough for us to survive, so for the time being we've left that market."

Currently, YellowPepper offers its mobile banking platform on a white-label basis in partnership with local banks in Colombia, Ecuador, Mexico and Peru. Its mobile banking software, which is available as a mobile app and via SMS and USSD (Unstructured Supplementary Service Data), enables customers to check balances, pay bills, send money and perform cardless ATM withdrawals instantly.

Banking partners include Scotiabank, Grupo Aval, Banamex, Banco Pichincha, Banco Davivienda and BCP.

Trends

Elkiner identifies two major trends in Latin America. "We see bancarisation happening at the speed and investment priority determined by local banks and pushed by government policies and regulations," he says. "For example, the banks in Peru have come together to develop a national mobile banking platform for the unbanked called Bim (Billetera móvil/mobile wallet), but it has taken them four years to do this. Setting up services for the unbanked takes time."

"According to Mercator Advisory Group estimates, in 2013 there were approximately 170 million unbanked or underbanked adults in South America," says Tristan Hugo-Webb, associate director of US-based Mercator's International Advisory Service. "The migration of 170 million individuals into the electronic payments mainstream won't occur overnight and will be a long and somewhat arduous task."

The other key trend is the very rapid growth of smartphones in the region, which offers the potential for point-of-sale mobile payments, Elkiner says.

"We have bank clients that have trusted us for the last six to seven years, and they were asking us what the next innovation is that they can get into," Elkiner says. "So initially we considered using our mobile banking app to provide a bridge from banking into mobile payments. We then realised we needed to develop a stand-alone app for payments which wasn't an extension of our banking app, and which would be offered either under the brand of a single bank or a group of banks or under our own brand. Our mission is to make mobile payments a reality in Latin America, so we don't mind if banks push their own brand on our platform or whether they use our brand."

Yepex Smart Wallet

YellowPepper has developed the Yepex Smart Wallet mobile payment app and platform which offers similar functionality to Apple Wallet and which it describes as technology-agnostic.

"We don't believe any one technology will fulfill every single use case or consumer demand," Elkiner says. "For example, if you don't have an iPhone 6, you can't do Apple Pay, as you don't have NFC on your phone. If you have an iPhone 5, you can't do NFC, but you could pay via Bluetooth or by QR code or generate a one-time token."

YellowPepper provides a SDK (software development toolkit) for banks that want to integrate their own white-label system with the YellowPepper mobile payment platform. Alternatively, banks can offer Yepex to their customers.

Yepex is capable of supporting NFC payments using HCE (Host Card Emulation); Bluetooth Low Energy (BLE) payments via BLE beacons; QR codes; and six-digit one-time passcodes that are generated on the user's phone and manually entered into a POS terminal. Yepex can also be used for cardless ATM withdrawals.

"All our different implementations of our platform – NFC, QR codes, BLE and one-time passcodes - use tokenisation, where card numbers are turned into security tokens which are only valid for one transaction," says Elkiner. "Only the form of the token differs between the implementations. So far, the mobile payment platforms we have rolled out in Colombia and Ecuador only use one-time passcodes."

HCE technology enables an NFC-enabled smartphone to make secure, contactless card transactions without the need to store card data in a hardware Secure Element. "Our HCE implementation use the major card schemes' tokenisation technology," says Elkiner.

"We tell banks that, before deciding to do HCE-NFC mobile payments, they need to know what percentage of their customers have NFC-enabled phones and they need to have a strategy for enabling retailers for NFC payments," says Elkiner. "In the US, less than one percent of transactions at POS are NFC. If you only have a low number of customers with NFC-enabled phones, then it isn't worthwhile going with NFC and you can reach a lot more merchants and consumers if you use a solution like one-time-passcodes."

The advantage of one-time-passcodes is that no additional hardware is needed at the POS.

Loyalty/rewards

YellowPepper says Yepex integrates with loyalty and reward programmes and gives users exclusive access to promotions and discounts,

"YellowPepper layers mobile payments over loyalty and rewards on behalf of key merchants for existing banked customers," Better than Cash's Bower says. "The company works closely with its clients to enable them to access a level of customer information they couldn't access on their own. Banks, merchants and marketers get a level of unprecedented access through YellowPepper's services."

Partnerships

At the end of 2014, YellowPepper announced it had formed partnerships with Colombian processor CredibanCo and Mexican processor eGlobal to roll out its mobile payment platform to local banks in Colombia and Mexico respectively.

"In Mexico, we brand our mobile payment app as Yepex, and in Colombia it is called Smart Wallet," says Elkiner.

In September 2015, YellowPepper launched Smart Wallet in Colombia in partnership with Citibank and Banco Davivienda, and is currently adding more bank partners. It also launched a white-label version of Smart Wallet called AvalPay in partnership with Colombia's Grupo Aval and CredibanCo.

Grupo Aval, the largest financial services group in Colombia, owns Banco de Bogota, Banco de Occidente, Banco Popular and Banco AV Villas. The goal is to make Aval Pay available to 60,000 POS terminals in 20,000 retail locations in Colombia.

In November 2015, YellowPepper launched PayClub, which is based on Yepex, in Ecuador in partnership with Diners Club of Ecuador, the largest credit card issuer in the country. Diners Club of Ecuador has an estimated 600,000 active credit cards and over 450,000 clients.

"Diners Club of Ecuador is part of Grupo Pichincha, which is the largest bank in Ecuador and issues Visa, MasterCard, Diners and Discover cards," says Elkiner. "Also, through its processor, Diners Club of Ecuador issues Visa and MasterCard itself."

PayClub lets users make mobile payments with their Diners and Discover cards and Visa Interdin (Visa brand) cards. They can also view promotions, locate them on a map inside the app and receive notifications as well as view their transaction history and manage their cards.

Adoption

In Colombia, YellowPepper and its partners signed up 45,000 users in the first two months from the September 2015 launch. "We've succeeded as people find the system easy to use and very fast," Elkiner says. "McDonalds Colombia accounts for 55% of our Colombian transactions, as they did a big promotion. You get two McDonalds combos for the price of one if you use the YellowPepper wallet. But if you pay with plastic cards or cash you get one combo."

While not disclosing actual user figures for Ecuador, Elkiner said that there had been a very good response in the first 10 days since launch in that country. "We had a very high percentage of new users registering their credit cards with us, which contrasts with Apple Pay's US rollout, where only 12-15% of people downloading Apple Pay have registered their cards."

"The biggest use case we have in Ecuador is for home delivery services," says Elkiner. "In Ecuador, McDonalds, pizza takeout firms and pharmacies are using our platform for home delivery. When you phone in your order, instead of taking the security risk of giving your credit card number, expiry date and CVC code, you just give the six-digit passcode generated by your YellowPepper wallet. The passcode is only valid for one transaction for a few minutes."

In Mexico, YellowPepper now has 6,000 POS terminals enabled to accept Yepex payments "We are now in beta trial stage in Mexico and plan to do the official commercial launch in Mexico in Q1 2016," Elkiner says.

Success factors

"Several factors have been important for the success we've seen with the launches we did in September and November 2015," says Elkiner. "Firstly, we work with the banks to build the ecosystem needed for success in mobile payments. For example, we are integrated with the local processors and we set up infrastructure at these processors. Also, we integrate with the local POS system used by the merchants."

Elkiner says that, in YellowPepper's business model, there is no extra fee to the merchant for accepting YellowPepper mobile payments. "The merchant fee doesn't change with a YellowPepper mobile payment transaction, as we charge the same as for standard credit and debit cards," he says. "Our competitors who are offering closed-loop mobile payments in Latin America charge an extra fee over and above what merchants pay for accepting standard credit and debit cards."

Because YellowPepper is integrated with the local processor, merchants receive YellowPepper transaction information in the same file as their traditional credit and debit card payments. "We use the same clearing and settlement as for existing card payments," says Elkiner. "As the merchant gets one file from the processor showing which transactions were mobile-initiated and which involved plastic cards, there are no operational and technology changes for the merchant. All they have to do is to train their staff to accept mobile payments from customers."

The opportunity for growth in Latin America is huge for a company like YellowPepper, Bower says. "It has developed a business of working with the emerging middle class, which has been growing exponentially over the past decade," he says. "As these customers expect more and more from their digital services providers, YellowPepper will play an increasingly important role in providing digital services at the point of sale.

"YellowPepper's new focus on mobile purchases and loyalty has resulted in higher revenues and the development of a digital customer engagement process, leading to higher user by customers across key merchants in Latin America. Right now, YellowPepper is leading in the specific niche it has created for itself." ■

The evolution of core banking upgrades

Demand for core banking upgrades is on the up, according to Misys, and vendors are increasingly able to meet the high expectations of banks due to a tried-and-tested modular approach. This means lower risk and a higher return on investment, for small and large banks alike. **Anna Milne** writes

The market has been getting tougher and tougher for financial technology vendors, given the understandable fear and trepidation on behalf of banks in committing to full-blown core banking upgrades.

Vendors have had to adapt to this environment and respond with a more viable solution that is less 'all or nothing' and more piecemeal: proven processes that can be integrated easily to decrease running costs and increase revenue.

Cormac Flanagan, product director of core banking at Misys, says: "More banks are looking for core replacements. Some of this is regional. Africa is very buoyant at the moment but there is definitely more happening in Europe, Asia Pacific and the Middle East than there was. And there is less demand for a full-blown core banking upgrade - it's a more modular approach now and it's all about processes and channels."

Demand

And demand in Europe is coming not only from the small banks and credit unions but also the large banks. Aside from this, there is an emerging trend towards models. Banks no longer want to start from a blank sheet; they now demand to know the product or process has been tested by the vendor.

"Invariably, banks now want mobile and digital channels and they want something quick in this space. This means they want from a vendor a pre-determined set of models for processes and products 'off the shelf' and 'best of breed'," says Flanagan.

"In the past, when you 'blue sky', as it's called, the projects just go on and on and die on the vine, especially with the larger banks, so most of them now ask for model banks," Flanagan adds.

Alex Kwiatkowski senior marketing strategist for banking at Misys, says the vendor industry has struggled to meet the ROI expected from core replacements and that the focus on channels has been increasingly important to get right. The pressure is on to make new releases far easier to install and upgrade so that banks can take on functionality in a much easier fashion. Historically, an upgrade was an enormous task.

"Banks no longer want to start from a blank sheet; they now demand to know the product or process has been tested by the vendor"

"Software would be slowed down in the past by having to adapt to banks' legacy systems. We now have mapped out processes for increased revenue, giving lower running costs and greater customer satisfaction. These are better than trying to marry software with systems from the 70s and 80s, which can massively curtail the value of investment," Kwiatkowski says.

Demand is down to technical obsolescence and cost of ownership and this is driven by the digital channel piece. The expectation now is for a seamless experience.

"The mobile banking channel is driving more change in the core banking system. Banks realise they need far more utility in the back end.

"For larger banks with in-house systems, the running cost is huge, so more of those banks are looking at full replacement. The vendor market has matured in banks' eyes in terms of being able to handle volumes and resistance," says Flanagan.

"At the end of the day it's the riskiest thing you can do. It's like changing the engines in a plane when it's flying"

Ultimately, banks only do a core transformation if they really have to. And Flanagan is generous enough to extend sympathy to those faced with this decision:

"At the end of the day it's the riskiest thing you can do. It really is the last thing you want to do. It's like changing the engines in a plane when it's flying.

"In fairness, the so-called proponentisation approach, also known as a graceful change, is understandable, especially for the larger banks. Start with the channels then pick off the silos, etc."

Adopting a different strategy to core upgrades, some banks are going for a brand new digital offering instead of a new brand and are taking on new customers, Flanagan explains.

"In two years' time when they've proved to their internal staff that it is resilient and does offer flexibility and functionality, then they'll migrate over - this is another strategy for some of the medium-to-large banks."

Going forward: rigorous regulation, rapid mobile banking growth and wearables

Due to the failures experienced in the UK and Ireland over the last few years, Flanagan expects to see greater regulatory oversight around technology.

"We'll be subject to more and more questioning along the lines of how resilient your software is. That drive will change as well. Regulators know nothing about technology but they know it's a risk to our financial system," Flanagan says.

In the emerging markets for the unbanked, mobile will be the way to offer financial services. "This has been talked about for the last fifteen years but there is going to be rapid growth in that market," Flanagan continues.

Wearables will be the most important development, according to Balazs Vinnai, general manager of digital channels.

"I believe voice command and AI similar to touch screen, will flourish. Wearables can be a device to enable voice and touch commands in a much better way."

Kwiatkowski says analysts are forecasting huge growth in spending in core banking and digital channels investment. "We're not chasing a market that doesn't exist. At a CapGemini event this time last year over 50% of the room of corporate bankers said they were committed to spending at least €30m ($32.6m) on digital channels. Banks are spending."

A pertinent point to remember, however, as Flanagan highlights, is that the replacement cycle of digital channels is three to five years; the core banking one is ten to fifteen. ■

Keynote Debate - You don't have to be a start-up to be a disruptor

There was disagreement on the panel as to what constituted disruption, whether the big banks are seriously under threat or whether they themselves are disrupting as much as their nimble, digital counterparts. Are they the dinosaurs they are made out to be and do they face obsoletion?

Liz Lumley, managing director, Startupbootcamp Fintech

Nicolas Cary, co-founder, Blockchain

Dan Roberts, managing director, Trade and Working Capital, Barclays

Moderator: Alex Kwiatkowski, senior marketing strategist, banking, Misys

To kick off, Nic Carey explained his company was not the designer of the original blockchain, rather develops ways into making it work. Carey admitted the namesake did benefit massively, however, in terms of SEO.

"Essentially a spreadsheet in the sky, that's been replicated by thousands and thousands of people and they maintain it. In order for you to write to this ledger, you have to send a bitcoin transaction and when you do that, you can store some data with it. The first practical application of this is a payments system for the internet. This is why companies such as Microsoft, Dell, Wikipedia, Wordpress and many others are starting to accept bitcoin as a payments platform because it allows them to open up their doors to consumers and customers all over the world to receive a payment digitally and get 100% of the value of the transaction. Earlier I described it as a P2P transaction - essentially digital cash. Ecommerce is another application," Carey explained.

Land title registry is another use case - a ledger that keeps track of everybody's property, that can't be changed - an immutable database that is replicated globally. Carey also mentioned the tracking of stocks, bonds, certificates; the provenance of diamonds, "these are all real world applications and are now proofs of concept that are now developed in a live and working-on-the-bitcoin blockchain right now. There is a lot to disrupt - it doesn't have to just win in a few places - it could be 15% of online commerce; it could be 30% of world remittances, it could be a way to do online payments and P2P and all these registry services. If it does any of those things, the bitcoin blockchain will be worth hundreds of billions of dollars."

Alex Kwiatkowski was quick to point out that regulation-wise, however, blockchain is the Wild West.

"The protocol level of bitcoin is not regulated in the sense that it is not owned by a company so just like TCP-IP allows people to send messages all over the world using the internet, the bitcoin protocol does the same thing for value transfer. So companies that choose to implement that technology will be regulated just like banks or just like financial service providers," Carey explained.

Anyone holding custody of user funds will be audited and insured, Carey pointed out, and emphasised that blockchain technology can build a trustless service.

"For the first time in history we have computer science innovation that allows us to send value anywhere in the world without a middle man: no merchant processor, no merchant clearing house, no bank, no forex exchange, just peer to peer."

Liz Lumley made an impelling argument to dispel the myth that financial services will fall by the wayside, yielding to digital competitors.

"To compare banking to other industries that have been disrupted, like Kodak or Blockbuster, is to fundamentally misunderstand what banking is and what banking means to society. Financial services and banking underpins every single industry in the civilised world. A secure, regulated bank account is the cornerstone of civilisation. Can banking and financial services be made better? Yes. Can that be disruptive? Yes. But this whole idea that we're going to wipe out the dinosaurs is nonsense. It's about working together and collaboration and bringing in new thought. New fintech companies are going to disrupt market thought, not market share," Lumley said.

"Ultimately, our goals are the same, which are to provide decent services for our users. We are trying to completely re-imagine the way the world transacts, not just in finance, or in a payments platform but using the blockchain to do all kinds of other interesting things," Lumley continued.

At Startupbootcamp, fintech start-ups work very closely with partners such as Lloyds, Rabobank, MasterCard, Intesa Sanpaolo and PwC. Around ten start-ups a year are chosen to work with the banks.

"I have issues with the term disruption. Every single start-up that comes in wants to sell to a bank or asset manager or a large corporate. The people who disrupt this industry are inside the banks."

Barclays' Dan Roberts added: "I do like the term disruption and I do see the industry as ripe for disruption. However, people confuse the notions of inevitable and imminent. I would agree with the debate thread which is you don't need to be a start-up to be a disruptor- both the start-ups and the incumbents have disadvantages.

"I work for the seventh oldest bank in the world, which celebrated its 325th birthday in 2015. I would definitely consider companies that are 325 days old as being a competitor today, that's not something I would have said even two or four years ago," Roberts said.

Lumley: "When this fintech revolution came about a few years ago, there were people who got on stage and called banks dinosaurs and said the new fintechs were going to come and a financial utopia will emerge. Your customer service app is not going to take down a bank, it isn't. And to compare banking to the demise of other industries is ridiculous."

Lumley pointed out that while banks are fostering start-ups and innovation, they are not changing the system so as to make it actually viable for start-ups to set up here, meaning that many then disappear off to New York and other places where it's easier to set up an account. Simple measures like this are holding back innovation.

Countering this, Roberts came in: "Yes, there is a trust requirement, the fiduciary nature is for sure one of the dynamics of the industry and it is a highly regulated industry but I'm not sure either of those in their own right really means that the barrier to entry for start-ups is too high.

"Any new start-up can develop ideas and if they're relevant they will get adopted and frankly it may be the Wild West but it will catch up. Blockchain became a buzzword without a great deal of thought or understanding - there are some incredibly powerful ideas that sit behind the technology in terms of distributed ledger and tackling the huge and fundamental problem of reconciliation that sits at the heart of banking. If we can suddenly wipe out in an instant reconciliation between banks this is powerful."

Carey came in again: "I haven't seen a lot of actual success from banking incubator schemes, where the bank brings in entrepreneurs and learn from them. Entrepreneurs put themselves in a position and take the view the closer they are to danger, the further they are from harm. I'm not really sure if that's true but I do strongly believe there is an opportunity where software will severely eat into profit margins."

London's fintech scene is as vibrant as ever

The UK capital's financial reputation coupled with a thriving technology scene has transformed the city into a hub of digital innovation. Payments are the largest fintech subsector in the UK, with the UK Trade and Investment Government department estimating its worth at £10bn ($14.4bn). **Ian Dowson** writes

Research from William Garrity Associates shows over the last five years (January 2010 until June 2015) global fintech investment – including institutional debt financing provided to P2P platforms - hit $49.7bn. The UK has raised more than 10% ($5.4bn) of this figure, with the majority going directly to London ($4.5bn).

The analysis marks the UK as the European leader of the fintech industry, as the continent's entire direct investment for the same duration has hauled $4.4bn. Elsewhere China has secured $3.5bn over the five years, and India $2.2bn.

While the US has received the lion's share of direct investment ($31.6bn over the same period), IC Dowson William Garrity's report shows the total value of fintech deals – including direct investment, plus listed companies, and acquisitions - in London has topped $18.4bn. This figure includes the capital's aforementioned $4.5bn and contributes to the UK's total investment figure ($5.4bn) over the five years.

Interestingly, Silicon Valley has secured only $200m more than London in terms of deals, with $18.6bn of investment flowing to the region over the same period.

London's unique access to talent and its strategic geographical position, in terms of middling the Asian and American time zones, are proving especially relevant to investors.

Presently there are 44, 000 people working across London's fintech scene – which is more than New York or Silicone Valley – and more than 150,000 digital tech professionals.

The fintech industry is not exclusive to established banks or small firms. It is a melting pot of financial interests, all of which contribute in some way to the sharing economy.

Bridging the gap

Banks like Barclays are already capitalising on this. Fintech accelerator programmes, coordinated in conjunction with start-ups like TechStars, help to develop the next generation of digital entrepreneurs. But just like any other industry, innovative banking products will fail to exist without cash injections and an operable legal climate.

Luckily for London, these conditions are being met. In the first six months of 2015 the capital's fin tech companies had raised $1.5bn worth of venture capital investment. This figure, according to London and Partners, eclipses the same period in 2014, when just more than $1bn had been raised.

In addition British regulators, especially the Financial Conduct Authority's Innovation Hub, are self-styled supporters of fintech. There are three main investment areas: Payments, Loans consisting of Direct and Peer to Peer Lending and Cyber Security, including Identity and Fraud prevention, representing $29.8bn, or 60%, of total global investment ($49.7bn).

Within this context, electronic payments services are especially popular.

Low cost FX transfers benefit economically and socially disparate regions like Africa- once viewed as extremely difficult to reach digitally. Yet nowadays the continent has a record number of mobile phone owners (67% of total population as of June 2015), opening up interest to international investors.

However, in the UK, 82% of the public own smart phones that can downloads apps and operate email services, according to Deloitte. The firm's research also shows that, collectively, UK consumers check their smartphone one billion times per day.

Changing consumer behaviour has led product developers – from both traditional banks and challengers – to prioritise the creation of digital-first platforms.

Nine of the biggest names in banking (RBS, Santander and JP Morgan to name a few) recently announced a partnership with startup firm R3 to integrate blockchain-inspired systems into the financial landscape. It is a landmark initiative, potentially weaving the fabric for cheaper, faster, and online only services from legacy structures.

Already offering this kind of deal is TransferWise, arguably London's best known fintech start-up. It almost became a 'unicorn' company (worth $1bn) in January 2015 after securing $58.8m of investment.

Mobile money

Mobile penetration and the internet have revolutionised payments. Tech geniuses with banking backgrounds are grasping the opportunity, with mobile-only banks like Mondo, Atom and Starling trying their best to enter the British market. Interestingly, Germany's Fidor bank, also without a branch presence, has outflanked its UK contemporaries by opening its virtual doors on 18 September.

Amongst the German challenger's list of financial products are European money transfers for a flat fee (£2.49 charge for transfers up to £25,000) and flexible savings bonds that allow customers to invest £100 to £100,000. However, Fidor's interest rates are not exactly table-topping. It offers 0.75% AER on a 3 month term, rising to 1.80% for the longest term of 36 months. Yet the draw for UK customers could be the 60 seconds it takes a Fidor Current Account holder to set up a Savings Bond, or the fact that credit checks are not required.

Even more interesting is the fact Fidor does not have a UK banking license. It enacts a method called 'passport in'. This effectively allows financial firms regulated by a state within the European Economic Area to offer services or products in the UK.

Critically, however, UK consumers depositing into Fidor's Savings Bond are protected by the German savings guarantee scheme rather than the British Financial Compensation Service. The scheme, under Entschädigungseinrichtung deutscher Banken or EdB, covers up to €100,000 ($109,090).

Either way Fidor's emphasis on social media, 'community' and its app like design has a hold on more than 100,000 customers in its native Germany. The waves it makes in the UK remain to be seen.

Similarly, smartphone based banking service Monese is adding to the number of market disruptors launching in Britain. Its services became available on 21 September, but unlike Fidor this market disruptor is not a bank. Monese focuses on ex-pats, immigrants and those who find it difficult to open a UK bank account.

Monese customers sign up to the free account and receive a free Visa debit card that can be used to pay for items in-store at no cost. However, there are a few limits. The account comes with five credits, meaning customers can withdraw money from ATMs and make transfer without paying. Once the credits are used, customers will be charged 50p.

Globalisation has been instrumental to the growth of fintech, and vice-versa. However, the technologies are relatively new and many challenger services offered today may not be around tomorrow.

And as more millennials pick and choose their financial products, traditional banks will have to entice this demographic to their service or risk losing potential customers. Today, however, fintech has never looked stronger. ■

Ian Dowson is a manging director at William Garrity Associates

What is the Polish market marching towards?

Poland is a market, similar to Turkey and Scandinavia, which many look towards to see what is the next big thing in banking and payments. Technology firm Comarch are one of the companies that try to set these trends. Patrick Brusnahan met up with Comarch executives in Krakow

Krakow-based Comarch, founded in 1993, is a software company that serves a myriad of sectors.

These include telecommunications, trade and services, IT infrastructure, public administration, manufacturing, healthcare, and SMEs.

However, some of its most interesting work is in finance and banking.

Comarch's financial services sector specialises in creating and developing software and IT systems for major financial institutions operating on banking. Its portfolio currently includes UniCredit, BNP Paribas, ING, Raiffeisen, Allianz, Societe Generale and more. Overall, 24,000 bank employees use Comarch software every day.

According to Comarch, the 'undisputed leader' in sales for the last year is its Comarch Internet Banking, which is in great demand in Europe.

A transactional platform designed to handle large volumes of data; it processes 28 million transactions monthly.

Other tools include Comarch CRM & Loyalty for banking, a set of products to aid building and maintaining customer relationships, and Comarch Smart Finance, a retail banking solution that consolidates internet and mobile banking, as well as personal finance management.

With the latter, the bank can analyse the financial behaviour of its customers and offer products adjusted to their specific needs and expectations.

With a particular focus on global scale operations, the financial services arm of Comarch places its interest in countries with the most developed or rapidly developing financial markets.

A few examples are Belgium, Turkey, the US, and Singapore.

Last year, the sales revenue of the financial services arm amounted to €33m ($35.9m), around 13.4% of Comarch's entire revenue, and is third in financial performance among all of the sectors that Comarch covers.

Rising prospects

Andrzej Przewiezlikowski, vice president of Comarch, is confident that things can only get better.

At its conference, in association with Efma, in Krakow, The Retail and Corporate Finance Excellence Summit, he said: "Profits reached €23m last year. We can't officially comment about results this year, but the first three quarters were pretty decent if you look at the numbers compared to the previous years.

"We have a presence in 46 subsidiaries in 24 countries across the world. The important thing is that these markets grow, so it is not pure luck that drives us. It's not something that we did one time and we're happy about that. It's something that we've been doing constantly for the last ten years; we're growing on a year-to-year basis.

"That basically means that we are able to provide a service and will not disappear a few years from now because we have sufficient business to support us, even if we have something like a financial crisis."

Embracing the new

During the conference, Jakub Grzechnik, head of mobile and internet banking at PKO BP, presented on the topic of digital product development to support banking propositions.

The main point was that new products needed to be built with digital first in mind.

He said: "Young and affluent customers want to be self-service customers...but legacy customers may have habits that are not necessarily digital."

Przewiezlikowski, when speaking to *RBI*, added: "11% of our revenue goes to research and development (R&D); I call it, a promise of future excellence. We are not a company without a long term view, we are actually a company that does have products, that does invest in those products and that does support and improve those products."

Comarch prides itself on its reputation and 'expertise', particularly when it comes to working within companies' existing legacy systems.

As a problem throughout a large chunk of the financial sector, this is crucial. With large costs in play, whether that be maintaining existing systems or replacing them, Comarch works within legacy limitations.

Przewiezlikowski said: "There are many companies out there with legacy solutions and we have changed the way that we work in our software design package. Rather than developing everything from scratch, we first of all design the customer experience. This basically leads us to solutions which are more product-oriented with a very good customer experience and good design.

"This ethos makes sure that we're actually taking responsibility for the whole implementation of the product."

He concluded: "The trouble with the banks is that if you look at the best that the banks have in their IT systems, the majority of that comes from legacy programmes, but if they do, let's say, new internet banking, they aren't necessarily changing.

"They ate putting another layer of complexity that comes with their system. The thing is that if they do it this way, they have much more ability in changing the way they interact with customers because they don't need to change a whole core system in order to have a banking product. That does save a lot of money." ■

MOBILE

United Bank for Africa unveils new mobile banking app 'U-Mobile'

The United Bank for Africa (UBA), a Nigerian multinational financial institution, has rolled out its new mobile banking application, called U-Mobile.

The latest platform, which is designed to be 'more advanced and user-friendly' than the previous platform 'U-Direct', will be compatible with multiple devices including tablets and iPhone, Android and BlackBerry phones.

U-Mobile also allows SMEs to operate a virtual store and receive payments.

UBA divisional head for digital banking Yinka Adedej said that the aim of the new app is 'to offer quick and easy banking at your fingertips, no matter where you are or the time of day'.

Additionally, the Pan-African banking group is also planning to unveil cardless transactions which allow customers to withdraw money from ATMs without their cards.

M&A

Orange in talks to buy majority stake in Groupama's banking unit

French telecom giant Orange has entered into exclusive negotiations with Groupama to buy up to 65% stake in the insurer's banking unit to foray into the mobile banking space.

The telecom company didn't reveal how much it plans to pay for Groupama's banking unit.

The move forms part of the telecom firm's Essentials2020 strategic plan, which aims for €400m ($429m) of revenue from financial services in 2018.

Orange plans to launch a 100% mobile bank, Orange Bank, at the start of 2017 in France. The proposed bank will offer all standard banking services, including savings loans and insurance services.

Following its launch in France, Orange intends to extend its banking service to other European markets such as Spain and Belgium.

The 65% stake in Groupama's banking unit will give Orange an existing infrastructure in which to operate, as well as a network of high street-based branches.

Orange CEO Stephane Richard said: "Our partnership with Groupama, which has recognised expertise and key assets in the areas of both banking and insurance, will enable us to accelerate the implementation of our strategic ambition to be able to offer our customers Orange Bank services in France from the beginning of 2017."

Groupama CEO Thierry Martel said: "Orange's technological leadership and the ubiquity of mobile phones will enable us to move forwards, faster and further, to create a bank that factors in all the possibilities and the fluidity that is inherent in today's technology.

"In a word, and without revealing the innovations at this stage, Orange's know-how and expertise in robust digital systems will enable us to go beyond online banking applications that are currently available on smartphones in order to transform users' mobiles into a virtual bank and insurance branch that is always at hand."

REGULATION

Biggest banks in Indonesia instructed to hold more capital

Indonesia's Financial Services Authority (OJK) has instructed the country's biggest banks to set aside more capital this year to reduce risks to the financial sector.

OJK will rank systemically important banks (SIBs) based on their size, interconnectedness with the financial system and the complexity of their business.

Under new regulations, SIBs are required to set aside capital surcharges of between 0.25% and 0.625% of risk-weighted assets starting from 1 January - depending on how systemically important the institutions are.

This surcharge will be gradually increased each year until 2019 when it reaches 1% to 2.5% of the institution's risk-weighted assets.

This comes on top of capital adequacy regulations, which start at a minimum of 8% of risk-weighted assets. The regulation is part of Indonesia's move to fully adopt Basel III.

OJK has already identified banks that are systemically important, although it has yet to name them.

SECURITY

New Aeon Bank ATMs require only a fingerprint scan

Aeon Bank is introducing ATMs that allow clients to perform transactions using only their fingerprints for identification. It will be the first Japanese bank to offer biometric verification without also requiring a card or PIN.

Clients of the bank will first have to register their prints with the bank. They then have to scan two fingers to activate the ATM before they are allowed to make deposits, withdrawals, transfers or check their account balances. Withdrawals and transfers will be capped at one million yen ($8,233) for now. Users will need to be 18 years of age or older.

Fingerprint registration will be open on 15 February and the bank aims to have the technology ready for use by late March. The first of these ATMs will be installed at a store in Tokyo's Chiyoda Ward. Aeon Bank hopes to eventually operate around 5,500 units throughout Japan.

A number of Japanese banks already use biometric identification - but in conjunction with cards or PINs. Aeon Bank is partnering with start-up Liquid - which boasts advanced fingerprint recognition technology - for this project. The bank hopes to make ATMs more convenient while reducing card theft.

STRATEGY

Deutsche Bank to offload 20% stake in Hua Xia Bank for $4bn

Deutsche Bank has agreed to sell its 20% stake in China's Hua Xia Bank to Chinese insurer PICC Property and Casualty for up to RMB25.7bn ($3.9bn) in a bid to boost profitability.

On a pro-forma basis, the transaction is expected to boost Deutsche Bank's common equity tier 1 capital ratio as of 30 September 2015 by about 30-40 basis points.

The deal is subject to regulatory approvals and customary closing conditions.

Deutsche Bank co-CEO John Cryan said: "We made our first equity investment in Hua Xia Bank in 2006. Since then, we have been pleased with Hua Xia Bank's development and performance. As we execute on Deutsche Bank's strategic agenda, now is the right time for us to sell this investment.

"China remains a key growth market for us where, since opening our first local office in 1872, we have helped our clients to achieve their goals."

PRODUCTS

UK banks roll out fee-free basic bank accounts

A total of nine British banks and building societies are set to introduce new fee-free basic bank accounts.

The organisations offering the new account include Barclays, Santander, NatWest, Ulster Bank (Northern Ireland), The Royal Bank of Scotland (Scotland), RBS England & Wales, HSBC, Nationwide, Co-operative Bank, Lloyds Banking Group, TSB, as well as National Australia Bank Group (including Yorkshire Bank and Clydesdale brands).

The accounts will be available from 1 January 2016 for consumers who do not have a bank account or are not qualified for a standard current account.

The change, which follows a deal signed between the government and the banking industry last December, will exempt account holders from being charged fees for missing a direct debit payment or standing order.

Previously, customers could be charged as high as £35 ($51) for every failed payment, which often pushed them into overdraft.

Commenting on the move, Economic Secretary Harriett Baldwin said: “Making sure that everyone in Britain has access to basic banking and financial services is at the heart of our long term plan.

“That’s why I’m delighted that for the first time, truly fee-free basic bank accounts will be available to anyone who doesn’t already have an account, or isn’t able to use their existing account due to financial difficulty.”

DISTRIBUTION

China Bank to open 66 new branches in 2016

China Banking Corporation (China Bank), one of the major banks in the Philippines, has revealed plans to open 66 new branches in the country in 2016.

The lender in a statement said it will open 50 branches for the main bank and 16 for China Bank Savings, its thrift bank unit.

The lender opened 47 new branches in 2015, including 38 China Bank and nine China Bank Savings branches.

Set up in 1920, China Banking offers banking services to retail, corporate, as well as commercial customers.

The bank currently operates with 517 branches across the nation, which includes 352 China Bank and 165 China Bank Savings (including Plantersbank) branches.

RESEARCH

EY: Fintech adoption among consumers to double in next 12 months

Use of financial technology (fintech) services by digitally active consumers is expected to double within the next 12 months, according to the first FinTech Adoption Index from EY.

The survey, that studied consumers in Australia, Canada, Hong Kong, Singapore, the UK and the US, revealed that 15.5% of consumers have used at least two fintech services in the past six months.

Among the various fintech products evaluated in the survey, payment services recorded the highest adoption rate at 17.6%, followed by savings and investments (16.7%).

Relatively lower adoption rate was recorded in case of insurance services (7.7%), and online peer-to-peer borrowing (5.6%).

Adoption of fintech services was the highest in Hong Kong (29.1%), followed by the US (16.5%), Singapore (14.7%), the UK (14.3%), Australia (13%) and Canada (8.2%).

The study also unveiled that younger, higher-income customers are early fintech adopters, with the 25 to 34 years customer segment representing the majority (25.2%) of respondents who used at least two fintech products in the past six months.

Rate of fintech adoption is higher in urban areas, with adoption rate by urban consumers greater than the 15.5% average for all regions surveyed.

The survey report further said that lack of product awareness remains the greatest impediment to fintech use among consumers.

EY Global FinTech leader Imran Gulamhuseinwala said: “The adoption of FinTech products is relatively high for such a new sector, so the risk of disruption is real. As FinTech continues to catch on among consumers, traditional financial services companies will have to reassess their view of which customers are most at risk from the new competition and step up their efforts to serve them effectively.”

SECURITY

SIA and Inform partner to fight frauds on digital payments

SIA, an Italian company specialising in electronic payments, has entered into an agreement with Inform, a provider of risk management and fraud prevention solutions, to offer a fraud prevention and risk management service to SIA’s acquiring banks and financial clients across Europe.

The agreement will see Inform integrating its RiskShield platform inside SIA’s infrastructure to securely protect acquiring banks and financial clients.

The integration will also enhance the security of payment and card transactions through real-time prevention and to protect both the client’s business and reputation.

Initially aimed to protect the card acquiring unit of SIA, the agreement will be extended to SIA’s e-commerce transactions, bank accounts and telco services.

RiskShield is a multi-channel fraud detection and prevention solution, which integrates software technologies such as fuzzy logic, dynamic profiling and machine learning capabilities in a single platform to monitor over 5,000 payment and card transactions per second.

SIA financial institutions director Gabriele Boni said: “SIA manages more than nine billion clearing transactions and 3.6 billion card payments and we found in RiskShield the innovative anti-fraud solution that could match our strategic ambition and deliver a robust and reliable service.

“Seamlessly integrated in our payment infrastructure, RiskShield monitors every transaction that occurs in order to detect any unusual behaviour within a few milliseconds.”

Inform director risk & fraud division Andreas Meyer said: “We are confident that our award-winning anti-fraud solution will be instrumental to SIA’s strategic plans and we look forward to partnering with them for the long-term.”

M&A

BB&T secures regulatory approval for $1.8bn National Penn Bancshares deal

BB&T has received the go-ahead from the Federal Reserve, the FDIC and all required state banking regulators to take over Allentown-based National Penn Bancshares.

National Penn Bancshares currently operates with 124 banking offices in Pennsylvania, New Jersey and Maryland. The bank managed $9.6bn in assets and $7bn in deposits as of 30 September 2015.

BB&T agreed to purchase National Penn Bancshares in a cash-stock deal worth nearly $1.8bn in August 2015.

Following the acquisition, National Penn Bancshares president and CEO Scott Fainor will assume the role of group executive, and will be tasked with managing various community banking regions in Pennsylvania and contiguous states.

BB&T also intends to set up a fourth community banking region for eastern Pennsylvania, with National Penn Bancshares chief banking officer David Kennedy expected to be appointed as the region’s president.

BB&T chairman and CEO Kelly King said: “We are very pleased to receive these approvals and excited to move forward with the merger. National Penn is a strategically compelling deal that complements the legacy Susquehanna franchise and presents enormous opportunities to leverage our proven community banking capabilities in these mid-Atlantic markets.”

MOBILE

TransferWise in talks with UK banks to integrate its services into banking apps

London-based fintech firm TransferWise is in talks with up to 20 banks worldwide over integrating its money transfer capabilities in their mobile banking apps.

The firm said that these lenders include various established as well as challenger UK banks. It did not divulge any more details on the talks.

TransferWise, valued at over $1bn, was co-founded by Taavet Hinrikus and Kristo Kaarmann. The firm uses a peer-to-peer matching service that reduces transfer fees and enables consumers to transfer money abroad online at a lower rate compared to that offered by traditional lenders and operators.

The firm has already signed an agreement with Estonian retail lender LHV for embedding its service directly into the bank's mobile banking app.

The service is expected to be integrated into LHV's mobile platform from early 2016.

REGULATION

Nigeria prohibits use of debit and credit cards overseas

The Central Bank of Nigeria (CBN) has directed all commercial banks in the country to stop customers from using of debit and credit cards abroad.

The move forms part of the government's strategy to prevent foreign exchange outflow following the drop in the value of Nigerian currency due to a fall in oil prices.

The ban will prevent Nigerians from using naira-denominated credit, debit and ATM cards for transactions denominated in foreign currencies, whether locally or overseas.

It will also restrict customers from making purchases on foreign e-commerce sites.

The measure, which is expected to be a temporary one, will be effective from 1 January 2016.

M&A

QNB Group to take over Finansbank for €2.7bn

Qatar's QNB Group has agreed to purchase a 99.81% stake in Turkish lender Finansbank in a deal worth €2.7bn ($2.94bn).

QNB will acquire the shares from National Bank of Greece, which currently owns Finansbank.

Finansbank currently operates with 647 branches and has over 5.3 million customers. The bank managed $29bn in assets, $19.5bn in loans and $14.6bn in deposits as of 30 June 2015.

The transaction, scheduled to close in the first half of 2016, will be financed through QNB's own funds.

The deal has already secured the nod from both banks' board of directors and the General Council of the Hellenic Financial Stability Fund, and is now subject to regulatory approvals and other customary closing conditions.

QNB Group CEO Ali Ahmed Al-Kuwari said: "This transaction is a significant milestone in QNB's Vision to becoming a MEA Icon by 2017 and a leading global bank by 2030. Finansbank is a highly regarded financial institution with an impressive track record of success in Turkey, and we look forward to welcoming the personnel and management of Finansbank to QNB Group.

"We also look forward to contributing towards Turkey's future economic development and further enhancing its overall connectivity with international markets as an integral part of QNB Group's global network."

M&A

Erste Bank Hungary secures approval to buy Citibank Hungary's retail business

Erste Bank Hungary and its subsidiary Erste Befektetesi have received the green light from Hungarian Competition Authority and the National Bank of Hungary to acquire Citibank's retail arm in Hungary.

"This decision is in line with Citi's global strategy of focusing its resources on those sectors where it has a competitive advantage, including its institutional and commercial banking businesses in Hungary," Erste Bank said in a statement.

Under the terms of the transaction, Erste Bank will take over Citibank's retail banking and investment division, consumer loans, cards business, and CitiBusiness microenterprise accounts.

Citibank's consumer banking employees will migrate to Erste Bank following completion of the deal, which is expected by the fourth quarter of 2016.

The deal would make Erste Bank the second largest player in the Hungarian retail banking industry, Erste Bank said.

Citi would now its focus on expanding its services to corporations, financial institutions, multinational clients in Hungary and public sector clients, as well as expand its Citi Service Center in Budapest.

STRATEGY

Indonesian banks ATM-pool to reduce costs

Four Indonesian state-owned banks have launched a pooled automated teller machine (ATM) service that lowers transfer and withdrawal fees in an effort to increase transactions while reducing operating costs.

Bank Mandiri, Bank Rakyat Indonesia, Bank Negara Indonesia and Bank Tabungan Negara are jointly rolling out the ATMs with charges of only IDR4,000 per interbank transfer and IDR500 per withdrawal - which is a reduction of between 50% and 90% from charges incurred on existing ATMs. If successful, this would save an estimated IDR6.8 trillion ($490 million) each year in capital expenditure and maintenance.

Currently, it is still being run on a trial basis to establish procedures. The banks have thus far installed about 50 ATMs in the Greater Jakarta area and plan to have 800 in place during the course of 2016. Altogether, the four banks operate nearly 56,000 of their own ATMs at present. To boost efficiency, the four banks might acquire an existing company that facilitates interbank transactions.

Based on data from the International Monetary Fund, Indonesia has one ATM per 2,000 adults - which is about the same as in Malaysia but double that of the Philippines.

Pooling ATM services is not just part of an effort by the Indonesian financial authorities to enhance interbank cooperation, it might be the first step towards the merger of Indonesia's four state banks - although a full merger of the four entities has yet to be discussed.

DISTRIBUTION

DBS Bank sets up wholly owned subsidiary in India

DBS Group Holdings (DBSH), a Singapore-based banking group, has opened a new wholly-owned subsidiary in Hyderabad, India.

Known as DBS Asia Hub 2, the new subsidiary will have INR705m ($10.5m) in initial paid-up share capital.

The unit would primarily focus on offering technology-related services to DBS Group.

"The establishment of DBS Asia Hub 2 has no material impact on the consolidated net tangible assets or earnings of DBSH and its subsidiaries for the financial year ending 31 December 2015," DBS said in a statement to the Singapore stock exchange.

Directors or controlling shareholder of DBSH will not have any direct or indirect interest in the new subsidiary, the statement added.

STRATEGY

Banks in Hong Kong target young customers

Banks in Hong Kong are turning their attention to young customers by offering online and mobile banking products.

Bank of China and Citigroup are two such banks that are trying to lure tech-savvy students and young professionals as they are about to open their first bank account. Bank of China allows clients to make cross-border payments through an app and it uses WeChat to handle customer queries.

Citibank is also jumping on the bandwagon as it opens 19 smart branches in Hong Kong, which are modelled after Apple stores - with touch panels, video conferencing facilities and iPads to access a wide range of banking services.

For HSBC - which has put China at the centre of its global strategy - the battle to win over this segment is particularly important because its retail banking division in Hong Kong helped buoy its overall profit up 2% in the first half of 2015. It is also contemplating whether to shift its global headquarters to Hong Kong.

In an HSBC survey that was conducted by Nielsen last year, the bank said its market share of 18-24-year-olds was nearly two times more than Bank of China's. Aware of the increasing need to offer more online services, its head of retail banking and wealth management in Asia-Pacific, Kevin Martin, says: "We are investing heavily in developing new capabilities to meet customers' needs."

HSBC will be launching more products for smartphones and digital payments as well as new security features.

M&A

Banco Santander Totta to buy Banif for €150m

Banco Santander Totta has agreed to acquire Portugal's troubled bank Banif-Banco Internacional do Funchal (Banif) in a deal valued at €150m ($162.8m).

Banco Banif operates with 150 branches and has 400,000 customers.

Under the terms of the agreement, Santander Totta will purchase clients and branches of Banif, excluding problematic assets that will be transferred to a special vehicle.

Banif will retain a very restricted set of assets to be liquidated later, as well as subordinated debt.

"The acquisition of Banco Banif's businesses positions Banco Santander Totta as Portugal's second privately-held bank, after BCP-Milenium, with a 14.5% market share in loans and deposits," Banco Santander said in a statement.

The deal includes an injection of €2.26bn to cover future contingencies, out of which €1.77bn will be offered directly by the state. The remaining amount of €489m will be offered by the Resolution Fund.

Banco Santander chairman Ana Botín said: "The acquisition of Banco Banif is another example of Banco Santander's commitment to Portugal, one of the group's main countries. We are fully committed to the economic development of Portugal and make available all our capacity to help people and businesses prosper in the communities where we operate."

MOBILE

Yes Bank and iSPIRT partner to launch fintech app store

Indian private sector lender Yes Bank has joined forces with software product think-tank organisation iSPIRT to introduce a fintech app store.

The app store will support Indian start-ups in the fintech sector with a governance structure that can be accessed easily by any start-up.

iSPIRT is set to mentor fintech start-ups, while Yes Bank will deliver products and payment gateways to support onboarded start-ups to start operations easily.

Yes Bank senior president and country head, digital banking Ritesh Pai said: "Yes Bank has always been at the forefront of innovation through its products and services by offering convenient banking solutions. This will help in transforming India into a hub for new generation software products."

iSPIRT co-founder and governing council member Sharad Sharma said: "All the building blocks that are needed to make service delivery presence-less, paperless and cashless are now in place.

"This is going to unleash a wave of innovation across many sectors in India. Yes Bank sees this as an opportunity. Early movers like Yes Bank will shape the new era of banking in India."

RESEARCH

Digital disruption still moving at slow pace in British banking sector

The much hyped digital disruption is taking place at a much slower pace in the UK banking sector than reports and commentators have suggested, and consumers are still in the early days of embracing and encouraging change, according to a survey report published YouGov and ACI Worldwide.

The online survey, in which more than 2,000 UK adults participated, found that the majority of account holders are in fact loyal to their banks, but will quickly adopt new services that are convenient and easy to use.

The report says that 88% of current account holders have no intention of switching bank accounts within the next 12 months.

Staggering 82% of the respondents said they never use mobile payment services such as PayM or PingIT during an average month, while 59% said never use mobile banking within this same timeframe.

Further, 78% of the respondents stated that it is unlikely they would use banking services offered by the likes of Google, Apple or Facebook.

Commenting on the finding, ACI Worldwide global business lead, mobile payments, Dean Wallace said: "The results appear to fly in the face of the popular 'banking disruption theory' and suggest that the majority of consumers are in fact loyal to their banks, that they don't really like change and are staying put. This could be because e-services offered by most UK retail banks today are simply not compelling or different enough for the majority of customers to change bank account providers."

The report added that 50% of respondents are now regularly using third-party payment providers such as PayPal (once a month). 76% of current account holders online are using Internet banking at least once a month and 29% of UK consumers are now paying regularly via contactless cards, with Londoners leading the charge; 56% of the respondents said they are using contactless payment methods every month.

"The reality among many consumers is that they don't really know what they want until it's available or already in use by friends or family. The fact that nearly 90% of current account holders will stay put with their current bank should only be a mild solace for banking providers, as who knows what will happen in the next year or two," Wallace added.

"It is now that banks need to differentiate themselves from their competition and find ways to better attract and retain their customers. In terms of providing easily accessible and flexible services, banks need to focus on those opportunities that exist and grasp them quickly. The history of adoption shows that there is likely to be a 'tipping point,' especially for younger customers who will follow where their peers lead." ■

Time for technologists to sit at the top table

Boards have failed to grasp the importance of having technology experience in their midst, so it's time for shareholders, as well as banks' consumers, to demand it before its too late. **David Arnott** comments

Technology is a critical issue for banks and yet they just don't have the board level experience to deal with it. Of course I would say that, but it's not just me.

Accenture, the global consulting group, recently warned that banks' boards lack the technology knowledge needed to make critical decisions. In a report published in the autumn, it found that only 6% of board directors and 3% of CEOs of leading banks have professional technology experience.

Commenting on the findings, Richard Lumb, group chief executive of financial services at Accenture, wrote: "Fintech, cyber-security, IT resilience and technology implications of regulatory changes have all become critical board level issues but many bank boards simply don't have the adequate expertise to assess these issues and make decisions about strategy, investment and how best to allocate technology resources."

The banks themselves admit they need to hire the right IT experience, though their focus is lower down the hierarchy. In our annual survey, hiring the right talent was a much higher priority than ever before and innovation was the banks' second highest.

Banks want to introduce products and services that can help to develop intimate customer relationships in the digital world, and are looking for software engineers to do this. They also need inspirational leaders to help them successfully recruit, leaders who get the technology and can lay out a strategy that will excite staff.

This is increasingly critical because banks have become relatively less attractive places to work, particularly in the eyes of Millennials. These guys would rather work for a slick start-up than a stodgy bank. Indeed, talent management has become the highest priority in wealth management, according to our survey.

Among the big operators, Nationwide has woken up to this and just appointed Joe Garner from Openreach as its new CEO. David Roberts, the building society's chairman, is quoted in the Financial Times (FT) saying that understanding new technology and the challenges of moving into the digital age were key considerations in Garner's appointment.

It's not easy being an early IT adopter – certainly not for banks. Legacy systems represent billions of dollars of investment and the risk of change has meant their managers have preferred to stick with what they know, particularly when resources are tight. But the landscape has changed.

Not only must banks deal with the considerations highlighted by Accenture, but customers are also crying out for solutions that they're not getting from traditional banks but can get in abundance from companies such as Google and Apple.

The result? The disrupters are gaining market share, focusing on the profitable markets such as forex and payment processing. Now there's peer-to-peer lending too. You've just got to look at the way the disrupters have grown. Today, they have perhaps less than 3% of the market, but they have acquired that in just three years.

These disrupters are tech specialists and have no interest in obtaining banking licences: they just want profits and absolutely understand the role of data in looking after people's money. They can hold a complete picture of a customer, whereas the banks just see a balance.

Until the boards of the traditional banks understand what they can do with technology, they won't mandate investment in digital platforms and won't be competing on a level playing field. There's certainly plenty of talent on these boards, but they have backgrounds in marketing, strategy, operations or finance.

But it's the fintechs that are setting the agenda: they understand the capabilities of digital banking and are driving the market. Banks have got to meet that challenge or ultimately it will be the shareholders who lose out. ■

David Arnott is the CEO of Temenos

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