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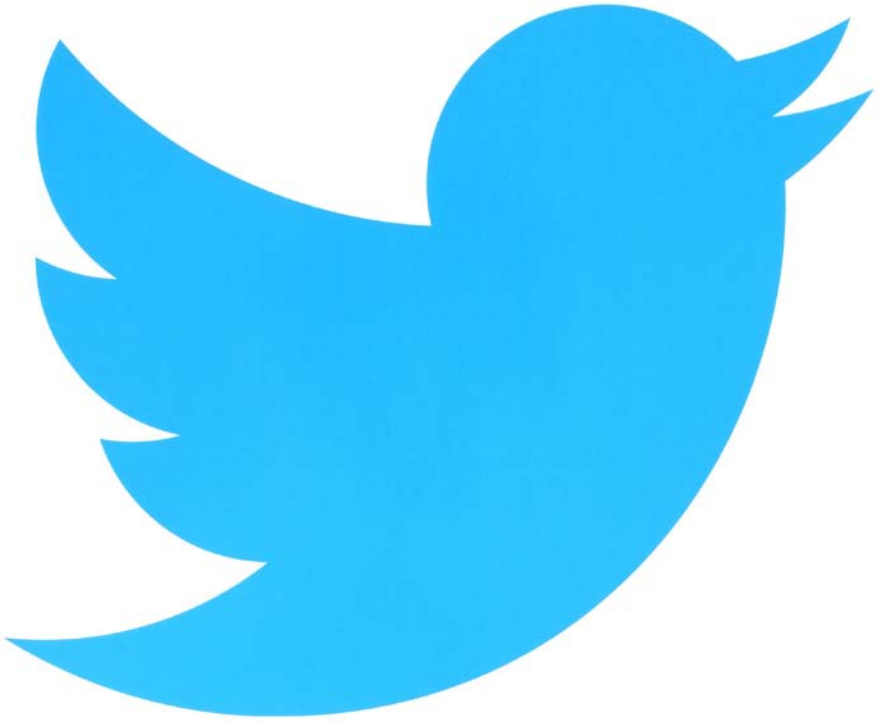

RBI REVEALS THE TWITTER TOP 60...

...AND THE YOUTUBE TOP 40

- DIGITAL: Neon & Bankaool
- ANALYSIS: Branches
- DISTRIBUTION: TBC Georgia
- CUSTOMER SERVICE: RBC

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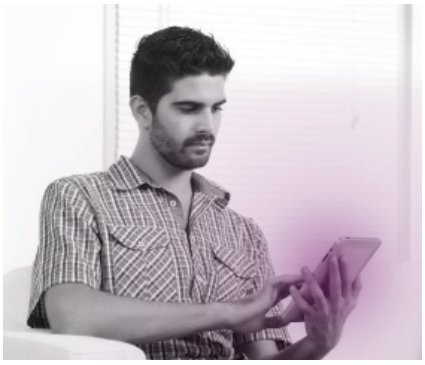

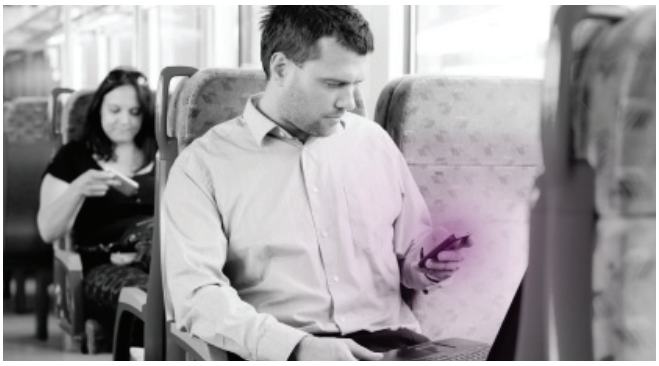

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Intelligent Environments is an international provider of innovative mobile and online solutions for financial services providers. Our mission is to enable our clients to always stay close to their own customers.

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

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

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

For many years we have been the digital heart of a diverse range of financial services providers including Atom Bank, Generali Wealth Management, HRG, Ikano Retail Finance, Lloyds Banking Group and Think Money Group.

CONTENTS

W&G soap opera continues to run; surely CYBG will not come to the rescue?

Clydesdale & Yorkshire has been on an aggressive branch right-sizing drive for the past four years.

In September 2012, the CYBG network totaled 333 branches; today that number has fallen by a quarter to 248 (111 branded Clydesdale and 137 Yorkshire).

And that branch rationalisation drive shows no sign of letting up.

On 13 September, a CYBG investor presentation reset the bank's targets.

CEO David Duffy said: "We will invest more than £350m ($455m) over the next two years to simplify our business, drive cost and capital efficiency, maintain our platform's resilience and support the continued roll-out of our omni-channel model."

New medium-term performance targets included:

- Mid-single digital annual loan growth;
- Cost-income ratio of 55%-58%, and
- £100m of sustainable cost reductions by FY2019

As part of the new round of savings, a further 50 branches will close with CYBG targeting a branch network across the two brands of less than 200.

And yet CYBG continues to be linked with a possible bid for just over 300 branches from Royal Bank of Scotland.

By all accounts, CYBG have engaged Morgan Stanley to examine the feasibility of bidding for the RBS business unit that was to form Williams & Glyn.

Until RBS threw in that particular towel and tried to sell the unit – again – to Santander – only for the Spanish lender to walk away from a deal.

To date, RBS has spent north of £1.3bn trying and failing to dispose of the W&G unit.

At one stage, RBS hoped to achieve a sale price of up to £1.9bn for W&G.

RBS is obliged by the European Commission to dispose of W&G as a result of its UK government £45bn bailout. The latest deadline – it has been extended twice already – was to agree a sale by the end of 2017.

An application for yet another extension looks increasingly likely.

The whole sorry saga has been a shambles and highly embarrassing; already there is news of senior W&G staffers abandoning ship and securing roles at rival banks.

The costs continue to rise for RBS until it can offload W&G. It is estimated that the unit is burning through £50m a month.

It will spend an estimated £200m just to can an IT system that it would have required had it pulled off an IPO.

But back at CYBG – even at a knockdown price, does it really want to rip-up its new business plan and add 300 branches?

Not to mention tapping its shareholders to fund the acquisition of W&G.

If Santander, with its steller track record for M&A acitivity, walks away from W&G, that might just persuade CYBG to think very carefully about the costs and challenges of integrating W&G. ■

Douglas Blakey
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Are banks throwing branches out with the bathwater?

Financial institutions are constantly under pressure to deliver profits. While long-term strategies could be developed, an easy solution is to cut existing costs. This leads to the shuttering of bricks-and-mortar branches and a reduction in headcounts, but is this the right strategy? **Patrick Brusnahan** reports

Branch closures are nothing new. Even in realms outside banking, many firms employ the cost-cutting manoeuvre of closing down property.

Derek French, director of the Campaign for Community Banking Services (CCBS), speaking to *RBI*, says: "Branch closures go further back than [the banking crisis in 2008].

"We started in 1998 when branch closures were also at a high level, and we succeeded with a lot of help from the press to slow them down for seven or eight years, but it took off again. We've been telling banks that the need for branches will be there for a long time.

"Our strategy was always to try and slow down branch closures to make banks think about strategy."

The tactic of lowering branch numbers to raise profit seems to work for some, but not for others.

Take Barclays in the UK: According to *RBI*'s data, Barclays' branch presence dropped from 2,000 locations in 2006 to 1,488 in 2014. Meanwhile, average profit per branch rose from $0.86m to $2.15m in the same period.

In addition, close to all the Italian banks surveyed by *RBI* saw profit per branch rise as the number of branches closed.

However, HSBC dropped its number of branches from 1,518 to 1,079 from 2006 to 2014. Average profit per branch dropped in a similar fashion from $824,000 to a loss of $0.9m per branch.

There does not seem to be a clear trend; nobody seems to be finding one.

John Dunlop, design director at allen international, tells *RBI*: "It's a fascinating topic and one of our biggest-debated subjects. People are looking to rationalise their branch networks. There is a big trend to close branches and go digital or online.

"The big digital push has been phenomenal, but a lot of banks that have rationalised their branch network have seen their profits drop off because, first of all, their acquisition has started to dry up and, secondly, they have seen their product sales drop off.

"While their margins have been quite good, they're not seeing product sales.

"We're still hearing that a lot of customers, especially when buying a product, still want to see a consultant, a face, and are reluctant to purchase online," Dunlop continues.

"Closures are not the way forward because they lose that client contact. A lot of banks are now reviewing their retail strategy and saying it's not one or the other: It's the combination of bricks-and-mortar and a digital presence. They're not mutually exclusive."

"You've got a choice: Either keep the bricks-and-mortar [branches] there and make them more interesting and much more diversified so people actually want to visit them – some have tried that and failed, or start cutting them out," French adds.

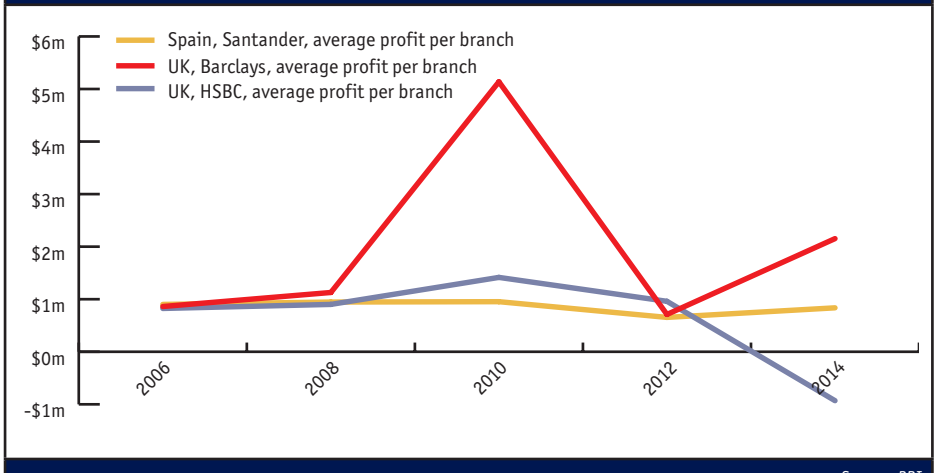
"They started withdrawing from branches the services that people went into branches for, apart from transactions. You reached a point where all you could do in a branch is something you could do online or at an ATM. You couldn't get more from a branch, so why would you go?

"They seem surprised that the footfall has been dropping, and quite severely in recent years, so hence the acceleration of reducing the branch network."

Will there be a slowdown in branch closures?

French concludes: "No, I don't think there will. I think there will be a hastening of it." ■

AVERAGE PROFIT PER BRANCH



Source: *RBI*

An ambitious redefining of the customer experience

With an award-winning multi-channel distribution platform and the country's highest net promoter scores for its customer experience, Georgia's TBC Bank invited allen international to take the branch concept to the next level in terms of customer service delivery. Douglas Blakey reports on the resulting locations

The brief from TBC to allen international: to redefine the customer experience by encouraging increased engagement levels with products, services and advisers.

With a branch network of 128 outlets, TBC ranked second in the country by assets at the time of the commission (behind Bank of Georgia) with loans and deposits market shares of 28.4% and 29.2% respectively.

The new branch design offers clearly defined zones for retail, SME and affluent segment (dubbed Status by TBC), with concise customer journeys via interactive touchpoints throughout the store.

allen international design director John Dunlop tells *RBI*: "The breakthrough design for the bank minimises physical and psychological barriers between the bank and its customers, thus creating a unique, customer-centric layout.

"The new concept was developed specifically for TBC Bank as a result of a comprehensive tailored study of the bank's existing branches and its clients' needs and aspirations."

Dunlop said that the project will transform the bank's entire branch network. Eight pilot branches have already been completed and the new design concept will be used as a blueprint for all new-builds.

TBC has now kicked off retrospective refurbishing of the remaining outlets with an ambitious plan to retrofit around 25-30 units a year.

TBC's ambitions are clear from its ongoing acquisition strategy, highlighted by two recent deals.

In a relatively modest deal, TBC is snapping up selected assets and liabilities of JSC Progress Bank, a small local Georgian bank. The acquisition consists of GEL108m ($46.8m) of assets and GEL108m of liabilities.

The second deal, announced on 12 September, is at the opposite scale and transformative. TBC agreed to acquire a 93.6% stake in Bank Republic for GEL315m from Société Générale.

TBC combined with Bank Republic will create the largest bank in Georgia by loans and deposits, and increase TBC's loans market share by 7.3 percentage points to 35.7%.

Its deposits market share will grow by 5.3 percentage points to 34.5% after the deal.

According to TBC, pre-tax cost synergies from the acquisition have been estimated at approximately GEL21m, derived primarily from marketing, consulting costs, streamlining of other administrative expenses as well as from moderate branch network optimisation.

TBC has estimated integration costs of about GEL23m. The transaction is expected to close before the end of 2016

TBC is also in talks to acquire the remaining 6.4% stake in Bank Republic, owned by the European Bank for Reconstruction and Development.

According to Vakhtang Butskhrikidze, CEO of TBC: "Bank Republic is an excellent strategic fit for TBC given its focus on the mortgage and consumer lending segments, complemented by an attractive product offering for large multinationals operating in Georgia." ■

RBC's award-winning customer satisfaction recognised in survey

Royal Bank of Canada (RBC) recently captured top spot among Canada's big banks in an annual survey of customer satisfaction by JD Power, knocking off TD Bank, which had held the honour for 10 years. **Douglas Blakey** spoke with RBC's Kirk Dudtschak to find out how RBC topped the poll and its plan to stay there

It is just the latest in a growing list of accolades for RBC over the past few years, including best retail bank in the world, best payments innovation, and best use of data analytics.

But the latest award – ranking first in overall customer satisfaction among the Big Five Banks in JD Power's *Retail Banking Satisfaction Study* – is among the most significant.

RBI spoke with Kirk Dudtschak, RBC's executive vice-president of personal and commercial banking, to find out how RBC is achieving these kinds of results.

***RBI*: What's the value of winning these types of awards?**

Kirk Dudtschak (KD): We take client service very seriously and are extremely proud of the recognition our advisers have received.

These awards and rankings are a testament to their capability and commitment. The recognition is also a validation of our collective ambition and how we've embedded it within all that we do.

***RBI*: What do you mean by collective ambition?**

KD: Our collective ambition frames our path forward as a company that is purpose-driven, performance-oriented and principles-led. It articulates who we are, why we exist, how we win and our aspirations for the future.

RBC's collective ambition was driven in large part from what our employees told us during a global, real-time online conversation last year.

In some form or another, they said: "We're here to help our clients thrive and communities prosper." It's become our purpose and it underpins everything we do.

***RBI*: How has your collective ambition informed your business strategy?**

KD: We believe that our future is one as a digitally enabled relationship bank.

How we serve our clients and cover a market or community is evolving to a combination of digital, mobile advisors and branch teams all working together to deliver an exceptional client experience to more Canadians, more often.

What that means in terms of our business strategy is greater investment in our digital solutions, and in the digital enablement and education of our clients so they can transact wherever and whenever they want.

It means evolving our branches and the in-branch service experience so we can become centres to onboard our clients, provide education and advice and solve their problems.

We're also investing in our advisers' roles so we can develop natural and meaningful career paths and progression that allow them to grow in their careers, as well as investing in more mobile experts so we can meet with our clients wherever is most convenient for them – in branch, on the phone or in the community.

***RBI*: Can you give an example of how you're integrating digital and people?**

KD: We know that clients are looking for more convenient and integrated ways to manage their financial lives and, at the same time, value trust and confidence in their more complex decisions.

We also expect our employees to play a key role in the digitisation of banking, rather than be replaced by it.

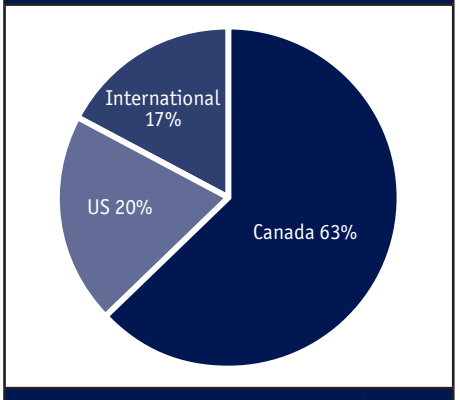
Clients can take advantage of digital tools to build their own mortgage or to invest funds, but our advisers are there to help them figure out their priorities and make important trade-offs.

An app can't do that. That's a trusted adviser. This combination of people and technology has given us a key advantage in onboarding new clients, acquiring a bigger share of wallet, and helping clients access the full strength of our capabilities – digital and people.

***RBI*: How are you getting employees to buy into it?**

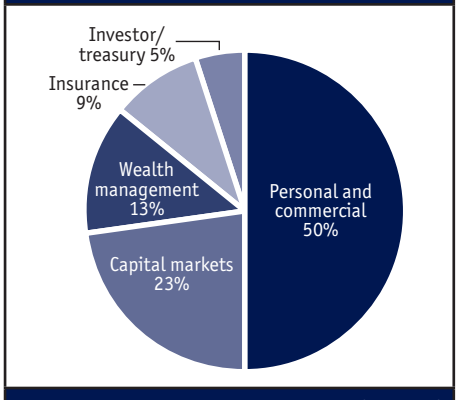
KD: Communication is essential. We've spent a lot of time at the national, regional and local levels engaging employees in our vision of a digitally enabled, relationship bank.

RBC REVENUE BY GEOGRAPHY – 12 MONTHS TO END JULY 2016



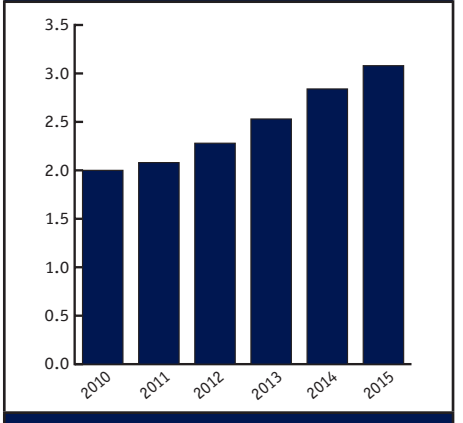
Source: RBC

RBC REVENUE BY SEGMENT – 12 MONTHS TO END JULY 2016



Source: RBC

RBC DIVIDEND GROWTH 2010-2015, C$



Source: RBC

RBC pips TD in 2016 JD Power survey

RBC ranks highest in overall customer satisfaction among the Big Five Canadian Banks in the 2016 JD Power *Retail Banking Satisfaction Study*, achieving a score of 765.

RBC performs particularly well in all seven factors, most notably in product. TD ranks second with a score of 761.

The study, now in its 11th year, measures customer satisfaction in seven factors (in order of importance): product, self-service, personal service, facilities, communication, financial advisor, and problem resolution. Satisfaction is calculated on a 1,000-point scale.

The 2016 Canadian *Retail Banking Satisfaction Study* is based on responses from more than 13,000 customers who use a primary financial institution for personal banking.

The study includes the largest financial institutions in Canada and was conducted in April/May 2016. ■

We've talked about the drivers of change – technology, demographics and evolving client preferences – and how we're building the bank of the future. Employees want to understand why we're evolving, how the future will look, and their role in that future.

To that end, we've also given entry-level advisers a clear road map for becoming, say, a financial planner or commercial banker. We absolutely want our employees to know where we're headed, what their role is, and how we're stepping through the change together.

***RBI*: Can you speak to how you are changing to keep pace with client needs, deliver solid results and not incur a restructuring charge as many of your peers have?**

KD: We started this work about seven to eight years ago, in terms of investments in our digital, branch and people capabilities to reflect how clients are changing and how they want to interact with us.

And we continue to innovate. We have a diverse client base and our newcomer clients are an important and growing segment, so we recently introduced a language line app for in-branch tablets.

It helps branch staff communicate with clients in more than 200 languages, including sign language, using videoconferencing with professional translators.

We're investing in new and differentiated branch formats to reflect the communities we serve. We recently opened a store on McMaster University's campus in Hamilton, Ontario. It is geared almost exclusively towards advice and education-based conversations with students about their particular needs.

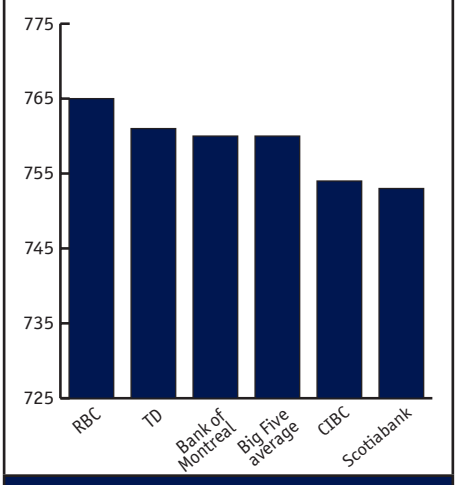
We're adding more expert mobile advisors to our teams – financial planners, mortgage specialists, and commercial account managers – to meet our clients' needs for more complex advice. These investments are part of the foundation we're building for future growth.

At the same time, we maintained a strong focus on managing employee recruitment, personal development and career planning.

We carefully managed the evolution of roles as I mentioned earlier, as well as every position that turned over. It has allowed us to change as our customers change and to shift our workforce without the significant restructuring charges our competitors have taken.

***RBI*: JD Power noted that RBC performed well in all seven categories measured in the survey, including product selection, online and mobile phone capabilities, and level of personal service. What are the key reasons for RBC doing so well?**

■ CUSTOMER SATISFACTION



Source: JD Power 2016 Canadian Retail Banking Satisfaction Survey

KD: There are three key reasons: First, we listen to what our clients tell us about their financial and service needs, and what they value most.

We've been conducting client experience surveys for more than 20 years, and we share that feedback and coaching with our employees.

Second, we invest heavily in our people to build their skills and capabilities, including comprehensive learning and accreditation. It enables us to continue meeting all our clients' needs, and grow and deepen relationships.

In fact, RBC ranked first among banks in share of wallet (defined as clients with a transaction, investment and a lending product with the same bank) for the past five years based on another survey, Canadian Financial Monitor, conducted by Ipsos.

And third, our strategy is based on deep client insights. We know clients want more than just convenient banking hours.

We're making smart investments that allow us to remain on their path, and extend our reach and impact in new and innovative ways.

It's what I believe is clearly differentiating RBC from the competition. ■

Earnings: RBC posts record net income for Q3 2016

RBC posted record net income of C$2.89bn ($2.18bn) for the third quarter, up 17% year-on-year.

For the first three quarters of the year, RBC recorded net income of C$7.91bn, up 6.5% year-on-year.

Results reflect strong earnings in wealth management, which benefited from the inclusion of City National Bank (City National), and strong earnings in capital markets and higher earnings in personal and commercial banking.

The results also reflected improved credit quality, with a provision for credit losses ratio of 0.24%, down 12 basis points.

"RBC had a record third quarter, demonstrating the strength of our diversified business model and our disciplined risk and efficiency management.

"Our strong capital position enabled us to repurchase $292m of common shares in the third quarter, and I'm pleased to announce a 2% increase to our quarterly dividend," says Dave McKay, RBC President and Chief Executive Officer.

"We remain focused on prudently managing risks and costs while innovating to enhance the client experience and deliver long-term shareholder value." ■

■ MARKET SHARES

RBC Personal and Commercial Banking Canada		Rank
Consumer lending	23.5	1st
Personal core deposits	20.1	2nd
Long-term mutual funds	14.5	1st
Business loans (C$0-25m)	24.2	1st
Business deposits	26.1	1st

Source: RBC

Brazilian digital-only banking heats up

The Brazilian digital banking market has another contender, a digital-only startup called Neon, which opened its virtual doors in July 2016, targeting millennials and promising no monthly or annual fees. **Robin Arnfield** finds out more about its cutting-edge approach to security and marketing

Neon is the latest digital startup in Brazil, joining other digital-only financial institutions Banco Original which launched Brazil's first digital-only consumer banking platform in March 2016, digital lending platform BankFacil and mobile-only credit card issuer Nubank.

Brazilians love their smartphones, making them an attractive target for fintechs and large incumbent banks such as Banco do Brasil, Bradesco, Santander and Itaú Unibanco, which have invested heavily in their digital channels.

Brazil is the world's fourth-largest smartphone market with an installed base of 70 million smartphones in 2014. According to a study by Brazilian banking association Federação Brasileira de Bancos (Febraban), internet and mobile banking accounted for 52% of total Brazilian banking transactions in 2014. One in four Brazilian current account customers use mobile banking, Febraban says.

Bradesco will be launching a digital-only bank called Next by the end of 2016 to compete with the fintechs. However, Bradesco, which also uses the Next brand for its branches of the future in shopping malls and some online banking services, declined to comment when contacted by *RBI*.

The startups have raised significant investment money. In June 2016, BankFacil, which offers low-cost secured loans with interest rates starting at 1.05% per month, raised BRL15m ($5m), bringing its total investment funding to date to BRL25m. BankFacil says it ended 2015 with originations totalling BRL100m in collateralised loans.

In April 2016, Nubank signed an agreement with Goldman Sachs for loans totalling around $50m to finance its credit card receivables portfolio. Nubank, which charges lower-than-average interest rates, previously raised almost $100m in its four equity fund-raising rounds since its launch in 2013.

Banco Original, which offers current accounts, credit cards earning cashback, and seven different investment products, is a subsidiary of Brazilian holding company J&F Investimentos.

"The total amount of our investment in our digital banking platform is around BRL600m."Marcos Lacerda, Banco Original's chief marketing officer, tells *RBI*.

Neon

Founded by 24-year-old entrepreneur Pedro Conrade, Neon is a spin-off from Brazilian fintech firm Contro.ly which was established in 2014. Contro.ly offered prepaid MasterCards online and had around 10,000 cardholders.

"Contro.ly customers have been offered an easy upgrade path to opening Neon accounts, and don't have to go through the account-opening process," says Juan Mazzini, a senior analyst at US-based Celent.

Neon promises an alternative to what it describes as the "frustrations that have plagued the traditional [Brazilian] bricks-and-mortar banking industry, including long lines, bureaucracy and hidden fees."

"My distaste with the traditional banking model started after a disastrous experience during international travel where my bank didn't bother to help me through a tough situation," Conrade, Neon's CEO, said in a statement.

"It was then that I realised I was just another number to them."

Conrade tells *RBI* that Neon aims to sign up 100,000 active customers in its first year of operation.

"Our focus is on young consumers who want a closer relationship with their bank and want to start their financial life without getting into debt," he says.

"We offer all the features and services of a traditional bank, with the difference being that customers carry out transactions on our website or via our Android and iOS apps.

"Two other key differences are that we are totally free of annual or monthly charges, and that we are the first Brazilian bank to use facial recognition biometric authentication within a banking app.

"We also offer 24-hour chat facilities with customer service representatives via Facebook, our website and our app."

Social media sites such as Facebook, Instagram and Twitter play an important part in Neon's engagement with its customers, Conrade adds.

Conrade explains that Neon helps its customers manage their finances and avoid getting into debt by providing tools to categorise their spending habits and to create goals for saving money in fixed-income time deposits called certificates of bank deposit (Certificados de Depósito Bancário – CBDs).

Neon's CBDs pay higher rates of interest than those of traditional banks, he continues.

The minimum balance required to open a Neon account is BRL100. Each month, a customer's first cash withdrawal and interbank transfer are free of charge.

Starting with the second interbank transfer per month, interbank transfers cost BRL3.50. The second ATM withdrawal per month costs BRL6.90.

Neon customers are issued with one physical and one virtual Visa-branded debit card. The physical card can be used for point-of-sale purchases at retail locations, and the virtual card for online purchases. Neon does not currently offer credit cards, nor does it offer a digital wallet.

"Developing a digital wallet is on our roadmap for the next few years," explains Conrade.

Instead of user names and passwords, Neon uses IdentityX, a biometric authentication platform developed by US-based Daon, for its facial recognition security feature.

Banco do Brasil and Bradesco, two of the country's biggest banks, use biometrics at their ATMs, but no Brazilian bank apart from Neon currently offers biometric authentication for digital banking.

"Customers have to use our facial recognition system to access their accounts and perform transactions such as internal transfers and payments," says Conrade.

"When a customer first downloads our app, their smartphone automatically takes a photo of them which is used as part of the customer registration process and as authentication for future banking sessions.

"The technology doesn't just make it easier for customers to access our service, but also ensures greater security in banking transactions."

"Brazil is a great market to launch facial

Marketing efforts

"At its core, Neon is basically a prepaid card with excellent marketing and client interfaces around it," says Guilherme Lima, founder of Brazilian consultancy Ponto Futuro Consultoria Estratégica.

"While it may sound trivial, this – plus a very disciplined branding effort – seems to be working wonderfully for Nubank's credit cards."

"While Neon's success will depend on execution, it is safe to say that Brazilian millennials don't value the same attributes that even the Gen Xers did, and don't take some of these attributes for granted - for instance, a bank's financial soundness and balance sheet strength," says Lima.

"Instead, millennials' focus is more heavily on convenience and on frictionless consumer experiences, which is a daunting task for bricks-and-mortar banks for technological and organisational reasons."

"Two interesting developments to watch are how Brazil's digital-only banks will increase their product portfolio, which they will have to do to achieve break-even eventually, and how they will manage to keep their user interface straightforward," says Lima. ■

recognition technology, because it is one of the most connected markets in the world," says Lindsay Lehr, senior director at US-based Americas Market Intelligence.

"Brazilians are early technology adopters and highly connected on social media. But I would imagine that face recognition could feel gimmicky, and limit its reach to only those in a certain age bracket, probably under 25 or 26."

IdentityX

"Built on the heritage of our software that helps secure national borders and critical infrastructure, IdentityX is a universal authentication platform for mobile devices," says Jonathan Distler, Daon's director of solutions.

"IdentityX enables multi-factor authentication using biometrics such as faces, voices and fingerprints to improve the customer experience with a more convenient, secure alternative to passwords. It allows customers to register once and authenticate themselves across multiple channels, for example within a mobile app and on a PC for online banking transactions.

"Once a consumer experiences how much easier it is to do business with innovative digital banking companies, the experience with a traditional bank is very frustrating. Mobile banking and biometric authentication are the future."

On the IdentityX platform, customers register a mobile device and use it to enrol their biometrics (face or fingerprints), says Distler.

"Once enrolled, customers are able to login with the registered device and their preferred biometrics," he says.

"No password is needed because customers must have possession of the mobile device used to enrol their biometrics. IdentityX has the ability to integrate one-time passcodes into a security process if our clients so desire. However, we don't send login passcodes over SMS as they are susceptible to man-in-the-middle attacks.

Distler says that a Daon client first decides which transactions should be protected – such as mobile login – and maps the required security according to their risk classification.

"They are then able to configure and enforce these rules in IdentityX," he says.

Several additional Brazilian financial institutions are planning to use IdentityX with their customers, Distler says.

"Other financial organisations which use IdentityX include MasterCard for payments, USAA (a US financial institution serving the US military) for banking, and challenger digital-only banks such as UK-based Atom Bank," he says.

"The Brazilian market is interesting," says Mazzini. "We're seeing a lot more activity in Brazil than in Mexico in terms of new banks being launched. Brazil has seen the launch of BankFacil, Banco Original, Neon and Nubank, while the only new digital-only bank in Mexico is Bankaool."

Originally known as Agrofinanzas, a non-bank lender to Mexican farmers and agri-businesses, Bankaool obtained a full banking licence in 2012 and launched its digital-only retail banking distribution platform in 2015.

Mazzini says Contro.ly will have been inspired to get a banking licence for Neon because of the success of Nubank, which by April 2016 had received around two million applications for its credit cards.

This figure includes rejected applicants, successful applicants and people on a waiting list for a card while their credit history is checked by Nubank.

"I think that Nubank will follow Contro.ly's example with Neon, and get a banking licence," Mazzini says.

"The publicity received by Nubank, Brazil's first online-only financial services company which successfully raised significant amounts of investment dollars, has attracted others to the space such as Neon," says Lehr.

"As a startup bank, you have to ensure your platform works well and offers a good customer experience from the start," Mazzini says.

"So this is why Neon initially restricted its customer numbers and launched with only 5,000 customers. If you offer fee-free banking like Neon does, then hundreds of thousands of customers will apply for an account, but with a small staff you can't support this."

Slow and steady

One of the big banks' advantages is that they have the necessary infrastructure to be able to handle volume and scale up, which start-ups don't, Mazzini says.

"Digital-only banks like Banco Original and Neon face a problem in how they will be able to scale up to meet demand," he explains.

"Neon was wise to grow slowly. One advantage of restricting new customer numbers is that the people who get accounts feel like an elite. It becomes highly desirable to belong to a bank that restricts customer numbers, and word gets around."

Mazzini warns that Neon's focus on young people may cause difficulties certificate of bank deposit in the short term, as the Brazilian economy is floundering.

"Young people in Brazil have been hit hard by the recession," he says. "The real has depreciated by 40% and inflation is over 10%, while unemployment among 18–39-year-olds is over 30%, compared to around 10% for the country as a whole.

"So this affects the opportunity for banks to win customers in the youth segment. However, even unemployed young people will need a bank and will likely have money to deposit with Neon."

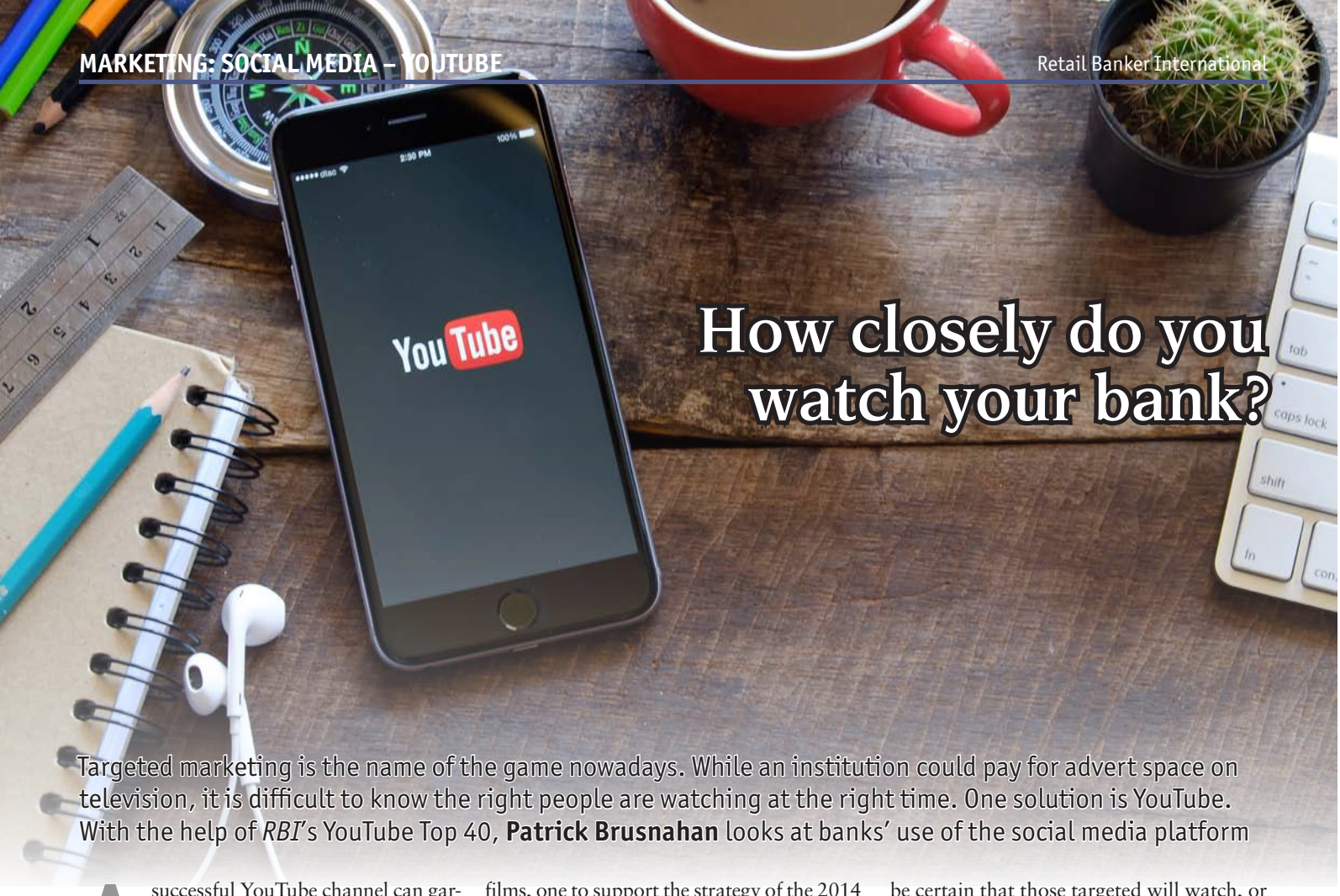
Lehr says Neon's decision to stick to debit cards, as opposed to also offering credit cards, caters to millennial needs to avoid debt accumulation.

"Also, offering a virtual debit card will help millennials access highly demanded aspirational goods and services only accessible with an electronic payment method such as taxi rides (Uber), online streaming (Netflix, Spotify) and food delivery, " she says.

As Neon has very few fees, the big question is how it will make money.

"I think Neon may be looking to cross-sell more financial services to its new customers," Mazzini says.

"Also, the very few fees that Neon charges are actually higher than fees charged by some other banks for the same services. However, unlike Neon, other Brazilian banks charge a registration fee just to open an account, and a monthly statement fee. Neon doesn't charge for monthly statements as they are delivered digitally." ■



How closely do you watch your bank?

Targeted marketing is the name of the game nowadays. While an institution could pay for advert space on television, it is difficult to know the right people are watching at the right time. One solution is YouTube. With the help of *RBI*'s YouTube Top 40, **Patrick Brusnahan** looks at banks' use of the social media platform

A successful YouTube channel can garner millions of views with ease

According to social agency We Are Social, the time adults spend watching digital video each day rose from 21 minutes in 2011 to 1 hour 16 minutes in 2015. The most successful YouTube channel, by Swedish YouTuber PewDiePie, has 47 million subscribers waiting fervently for each video.

Many have attributed the success of some of the most popular channels to the personal touch; feeling a connection to the person you are watching. If that is the case, how can huge, multinational institutions such as banks even come close to that experience?

Some have managed this with ease. Brazil-based Itaú came first in *RBI*'s YouTube ranking of views attained with close to 220 million views, over double the second-placed figure.

An Itaú spokesperson tells *RBI*: "YouTube initially proved to be a hub for our content created for TV. Then we understood that digital was one of the most important ways in spreading videos.

"This trend in digital consolidated and created an area dedicated to creating language-specific videos made for digital.

"Today, we create content of very different natures, such as tutorials that explain our products, financial education, and editorial content. All this helps us, and we can delight our audiences with the beliefs of the brand.

"The #issomudaomundo series, for example, brings a playful manner to the views of the brand. We have also launched two short films, one to support the strategy of the 2014 Fifa World Cup and, more recently, the short, DAD."

What strategy has led to such success through a wide berth of content?

"We gave less prominence to the logic of advertising and we thought more of the entertainment industry, in most cases, utilising the documentary style.

"Having seen this opportunity before all other brands assured us to make mistakes and learn before others, which helped us actually enrich our creative online videos on the internet," Itaú says.

The struggle with advertising on any format is making sure the content reaches the appropriate viewer. It is normal to reach the consumers where they are located; for the millennial segment, this is online.

Wells Fargo, with 39 million views on YouTube and counting, focuses on the channel to attract younger customers.

Speaking to *RBI*, Michael Lacorazza, executive vice-president and head of integrated marketing at Wells Fargo, says: "It's really effective. If you look at the generational split, millennials are going on YouTube to watch long-format programming. YouTube has some nice formats, and you can even take over the entire website for a day.

"Google is a master advertising platform. Between Google and Facebook, they have 50% of the share of digital spend in the US. We do spend a fair amount of advertising dollars to amplify video content that we want people to see."

Even with targeted marketing, it can never be certain that those targeted will watch, or even approach, the content. Luckily, YouTube supplies a large amount of analytics to observe what people are watching, and for how long.

Lacorazza explains: "We can buy and

FIS WITH MOST YOUTUBE SUBSCRIBERS

Financial Institution	Subscribers
Itaú	130,197
American Express	103,266
Wells Fargo	47,140
Bradesco	35,838
Visa	32,497
Bank of America	32,174
Santander Brasil	31,062
MasterCard	22,706
TD Bank	16,943
Citi	16,777
Capital One	15,677
SBI	15,333
BBVA	15,244
Sberbank	12,653
SocGen	10,674
Santander (UK)	10,478
HSBC	10,178
HDFC	9,632
laCaixa	9,561
Credit Suisse	8,997

Source: *RBI*

optimise based on completed views, and that's how we look at it. We can see if people drop out, and if a video is longer, say three to four minutes, we have to be clear with ourselves with what we expect.

"Generally, we optimise towards completed views, and there are some techniques we have with data and how we format content. It's one of the best platforms for video completion out there, in terms of cost per completed view: It could be pennies."

A bold, new approach

TSB has decided to take a new campaign to YouTube this year in an attempt to become more relevant to its target customers.

Bian Salins, TSB's head of social media, says: "Consumers are consuming content differently. Mass media consumption is slowly decreasing, and relevant, interactive content, available when and where you want it, has become increasingly important. Because of this, TSB's approach to YouTube follows the Hero, Hub and Hygiene approach.

"Our Hero content uses influencers and TSB-branded long-form content to amplify our brand purpose, create transparency and build trust with the bank. Hub content is tips and advice on topics like managing your money or borrowing. Finally, Hygiene content is about how to use our products and services.

"We also use YouTube as a pure media platform, using skipable ads and other formats to run our direct response activity."

How much success has this had? When *RBI* collated data earlier this year, the strategy was still in its formative days and TSB's channel had cumulated over 15 million views.

"It's safe to say we've only just activated our strategy this year, so it's early days for us to comment on engagement rates. But what I can say is that performance varies depending on what is most relevant to our audiences.

"For example, our best-performing pieces of content range from our Christmas saving tips to our most recent partnership with Trinity Mirror on Pride of Britain and Pride of Sport," Salins explains.

"What's important is that we can see people engage with our content through views, likes, shares, and comments and that our subscriber volumes are growing the more we refine our content strategy."

This is clearly something into which financial giants are putting plenty of time and effort as consumers embrace the digital realm.

Salins concludes: "Video is incredibly important, and is a core part of our brand and marketing strategy. Not only do we invest in the platform as a media type, we know consumers are spending more time year-on-year watching video online so having a strong, clear and consistent approach is fundamental to making it a success and something we are committed to doing.

"We see YouTube as a way to reach new audiences, either directly through our own content but also through a strong influencer approach.

"Saying that, we also recognise that competing for attention is tough – making it both a challenge and an opportunity. It's something we as digital marketers within TSB look to tackle head-on." ■

TOP 40 FINANCIAL INSTITUTIONS ON YOUTUBE

Financial Institution	Views on YouTube	Subscribers	Highest Viewed Video
Itaú	218,246,437	130,197	22,804,360
Santander Brasil	72,247,356	31,062	5,645,777
MasterCard	62,152,124	22,706	6,871,677
Bradesco	61,919,967	35,838	7,567,307
Sberbank	55,767,467	12,653	5,773,848
Visa	51,237,560	32,497	10,764,455
American Express	44,855,744	103,266	5,201,497
laCaixa TV	39,272,178	9,561	3,870,996
TD Bank	39,235,505	16,943	23,525,764
Wells Fargo	39,083,828	47140	11,685,822
ING Bank Slaski	35,841,750	2,689	2,177,369
Capital One	31,004,887	15,677	12,392,578
Bank of America	26,066,424	32,174	1,617,341
BBVA	25,738,841	15,244	15,975,523
Citi	23,145,318	16,777	8,114,490
SocGen	21,519,784	10,674	1,388,872
Scotiabank Mexico	19,354,164	3,870	10,400,867
RBC	17,855,198	4,412	2,123,845
Banamex	17,828,706	8,438	2,117,588
Banque Misr	16,881,122	2,821	2,437,623
Intesa Sanpaolo	16,678,321	4,435	1,092,214
Garanti Bank	15,737,846	5,922	3,693,125
TSB	15,710,688	4,310	5,953,604
Santander (UK)	14,520,614	10,478	1,583,764
Kotak Mahindra	14,398,911	4,340	2,905,686
Maybank	13,899,109	8,987	1,513,327
mBank	13,753,213	1,664	817,759
NatWest	13,599,619	4,890	1,647,356
AkBank	13,226,127	3,490	5,228,977
Credit Suisse	13,214,181	8,997	7,464,544
ING Nederland	11,541,804	6,235	5,911,380
Nationwide Building Soc.	11,112,328	4,690	3,213,595
Barclays UK	10,402,882	6,237	2,436,312
ING Bank Türkiye	10,052,576	1,570	1,263,525
ICICI	8,475,866	5,401	1,801,760
StanChart	8,445,234	2,090	953,902
HSBC	8,389,527	10,178	1,997,529
DBS Bank	8,383,487	3,068	1,040,481
SBI	8,002,625	15,333	883,037
Axis Bank	7,160,895	5,047	1,159,853

Source: *RBI*

How do you turn customers into followers?

Banks are still trying to crack the social media code. As the market continues its steady rise in popularity and relevance, banks are eager to exploit this direct avenue to their customers. However, it is not necessarily the easiest road. **Patrick Brusnahan** writes on RBI's latest Twitter's Top 60 financial institutions

With an average rise of 97% in followers, over the past two years across *RBI's* Twitter Top 60, it is clear that financial institutions are taking the format seriously.

The lowest number of followers on the table was 78,900, close to double the amount of followers held by 60th place in *RBI*'s last ranking.

Multiple institutions increased their number of followers many times over, with the highest rise attributed to Deutsche Bank which recorded a 659% rise. However, some saw barely any increase, with some banks even losing followers.

BBVA claimed first place once again with close to 3.5 million followers, a 34% rise since 2014. Two card companies, Visa and MasterCard, also placed in the top five, with American Express also holding strong in the top 10.

There were two new additions to the top ten, both headquartered in India: Yes Bank and State Bank of India with 1,050,000 and 742,300 followers respectively.

Why bother with Twitter?

A strong social media presence can have many advantages, from increasing awareness of products and services, to customer help, to simple advertising.

Sberbank, 12th in our rankings with 678,000 followers, states: "We use it for everything. We have three accounts: the main account of the bank, the one of the press office, and the account for business.

"We find it fair to give Twitter as much attention as all the other channels: Our clients use twitter as well as other social networks, and we want to communicate with them."

Raphaël Krivine, director of Axa's online bank Soon, believes social media is a crucial aspect in attracting the student market.

He says: "We've been omnipresent on social media from the start. And continue to be. Soon is for geeks. And all students are geeks!"

Speaking to *RBI*, Michael Lacorazza, executive vice-president and head of integrated marketing at Wells Fargo, says: "It's on multiple dimensions for us.

"Given the complexity of the customer profiles that we serve, we have millions of customers and 90 different businesses, there are a number of different audience profiles that we want to connect with.

"We have multiple Twitter handles, one that's the main Wells Fargo handle which has the largest number of followers, we have an Ask Wells Fargo handle which is more of a service-type handle for us, and we have Wells Fargo News, where we get information out about the company."

Several banks decided to host several Twitter handles rather than funnel all information for all parties through a main one.

On this decision, Lacorazza explains: "This way everyone doesn't have to wade through the main handle to find what they want. It's more specific than that.

"We realised that if we tried to run everything through our main handle, you'd have to wade through a lot of irrelevant information to find what you followed us for.

"By creating a couple of these specific extensions, it gave us that ability to distinguish the content strains for our Twitter audience.

"We had a fair amount of discussion about this because, on the one hand, there was a

■ *RBI* TWITTER RANKINGS – THE BIGGEST IMPROVERS (2014-2016)

Financial Institution	Followers 2016	Followers 2014	% Change
Deutsche Bank	679,175	89,500	659
Bank Mandiri Group	1,447,000	224,600	544
HSBC Group	378,624	64,990	483
GT Bank Group	624,000	173,000	261
Maybank	280,000	90,100	211
HDFC	419,000	146,300	186
Sberbank	678,800	242,000	180
Credit Suisse	229,000	84,100	172
First Bank of Nigeria	162,000	64,100	153
Citi	1,321,700	605,100	118

Source: *RBI*

THE *RBI* TWITTER TOP 60

Financial Institution	Followers 2016	Followers 2014	% Change	Financial Institution	Followers 2016	Followers 2014	% Change
BBVA Provincial	3,449,228	2,572,500	34	ING Direct Group	218,258	124,053	76
World Bank Group*	3,227,400	1,735,700	86	Commonwealth Bank Aus.	213,000	109,600	94
MasterCard	2,713,817	1,998,800	36	Kuwait Finance House	204,000	98,800	106
Visa Group	1,934,211	1,393,800	39	RBC	193,029	123,332	57
Bank Mandiri Group	1,447,000	224,600	544	Banco Popular	193,000	108,000	79
Citi	1,321,700	605,100	118	Fidelity Investments	186,000	133,347	39
Bank of America	1,300,795	862,400	51	CIMB	164,500	83,800	96
American Express	1,190,500	1,024,700	16	First Bank of Nigeria	162,000	64,100	153
Yes Bank	1,050,000	N/A	N/A	Akbank Group	157,600	158,344	0
State Bank of India	742,300	N/A	N/A	Banco do Brasil	155,000	106,000	46
Deutsche Bank	679,175	89,500	659	Zenith Bank	151,000	N/A	N/A
Sberbank	678,800	242,000	180	BNP Paribas Group	149,637	143,600	4
Itau	654,913	N/A	N/A	Rabobank	146,471	105,000	39
Banesco Banco	635,600	679,800	-7	NatWest	143,374	76,305	88
GT Bank Group	624,000	173,000	261	Scotiabank	141,434	81,904	73
Chase	600,500	342,800	75	Banco de Chile Group	141,000	83,100	70
Santander Group	581,498	320,200	82	Isbank	140,019	89,700	56
Barclays	502,743	352,700	43	TD Bank	135,000	94,500	43
HDFC	419,000	146,300	186	Bradesco Group	127,000	132,200	-4
HSBC Group	378,624	64,990	483	USAA Group	121,600	76,700	59
Wells Fargo Group	375,700	191,800	96	Kotak Mahindra	121,000	102,000	19
SCB Thailand	371,000	225,000	65	Bank of Japan	113,100	68,600	65
Maybank	280,000	90,100	211	CIBC	110,000	N/A	N/A
Garanti Bank	257,000	180,000	43	Standard Bank	107,928	60,637	78
Bancolombia	246,000	167,000	47	ABN Amro	107,136	59,347	81
Interbank	244,000	187,000	30	Société Générale Group	91,442	53,700	70
UBS	242,300	126,248	92	Discover	88,900	73,400	21
Yapı Kredi	236,978	151,000	57	Lloyds Banking Group	86,990	70,300	24
Capital One Group	235,311	302,700	-22	Finansbank	79,733	47,700	67
Credit Suisse	229,000	84,100	172	Denizbank	78,900	54,400	45

*Includes Banco Mundial.

Source: *RBI*

desire to have a very consistent one-brand type of thing.

"We still see it as one brand, but we're aware that we have different audiences that are interested in very specific types of content. If we pushed every single one, we wouldn't reach many people."

Keeping pace

Twitter is one of the fastest moving forms of social media out there. With that in mind, it can be tricky to stick out from the crowd.

In addition, with the multitude of regulations and compliance issues that banks work with, speedy communication is not thought of as their forte. However, financial institutions are getting around this.

Sberbank says it can tweet between three and seven times a week, and 'sometimes more if we have news'.

A bank spokesperson says: "We have our product posts approved, but all in all we don't have a complicated system of approvals."

Using this method, Sberbank attains an average engagement rate of 0.009%, which it states is 'at the same level or sometimes even higher than our international competitors'.

Lacorazza says: "[Wells Fargo has] the ability to get something out the same day. We have processes to get it reviewed.

"Most of the content that's going through there, we're preparing in advance for. We might be launching a new product or service and there's been a whole effort leading up to that.

"The first thing that we try to do is having the content that gets engagement. You have to get in there with a nice headline and snackable content ,as it is short-form.

"For the most part, that user profile wants information quickly," Lacorazza continues.

"We do some paid application there as well, it's not all organic, which is part of how you build your following.

"If you don't pay for it, Twitter doesn't distribute it as much."

With regards to people contacting the bank's customer service Twitter handle, things are not as easy.

"We have a command centre listening in to that and we can respond within a day, but customer expectation is within hours," Lacorazza explains. ■

"A fascinating, inevitable journey"

The 2016 Digital Banking Club Power 50, the annual list of the most innovative and powerful people in European digital financial services, has been revealed. **Douglas Blakey** speaks with 15 prominent Power 50 members to canvass their expert opinions on their firms' digital culture, strategy and future priorities

"Intelligent Environments are delighted to have been the sponsors of the Power 50 since its inception. Recognition for the key players shaping this fast moving and disruptive part of the industry was long overdue and we wholehartedly congratulate those both nominated and selected," says Simon Cadbury, Director of Strategy and Innovation, Intelligent Environments.

The digital banking revolution is well underway. Customers and regulators both demand it.

But to what extent are board and C-level executives driving digital strategy?

What is driving that strategy: is it revenue, customer retention, or is it competitive pressure?

What is the risk appetite to innovate? How should financial institutions measure the success of their digital strategy? And who will be the winners?

There is a broad consensus among the Power 50 members canvassed for this paper that there is an acute need for banks to accelerate their efforts to become digitally proficient.

There is also agreement that if the incumbent banks fail to act, they will be punished by a combination of new entrants, the financial markets and regulators and especially, customers.

Culture shock

Can banks ever develop the culture of digitally native outfits?

"In the UK it has been difficult for senior managers, perhaps because they are older, to understand the value of digital," says Oliwia Berdak of Forrester.

"They thought about it as fluffy stuff that may improve the customer experience, but customers were not switching, so some saw digital investment as just another cost.

"There has been a change in attitude in the UK about the opportunity that digital has created.

"From having been seen as the minimum you have to do – so you had to offer some online banking and a mobile banking app in order to be on par with competitors – banks such as Barclays and Lloyds realised that this could be a way for them to become more profitable. And develop better customer journeys.

"It is like a self perpetuating cycle. Once one bank starts to be more innovative it propels other banks to do the same. I would not be surprised if the UK is at beginning of such a cycle and that impetus comes from banks such as Barclays and Lloyds as well as the challenger banks."

Berdak argues that while culture is changing for the better, banks should not per se have a digital strategy but should instead digitise their business strategy.

Daryl Wilkinson agrees with Berdak and says there has been a big change in attitude at C-level.

"If you had asked me a few years ago I would have said a flat no - they do not get it," Wilkinson says.

"Now, they intellectually grasp what they need to do and are taking action against plans to get things done but there is still a huge amount of conservatism and reservation to move things at the pace they really should be moving at.

"There is still a lot of procrastination around getting the right talent in at senior level because that is tough."

Kevin Hanley at Royal Bank of Scotland (RBS) echoes the view that there has been a marked, albeit recent, change in cultural outlook at the highest level.

"At the very top of house the amount of airtime focus and attention has increased significantly over the past couple of years.

"Every quarter, Simon McNamara (group chief administrative officer at RBS) and I are required to sit in front of the board and give an update on all things innovative.

"It is not just an intellectual thought leadership discussion. The Board of Directors is interested in how new technology is changing the business of banking and more importantly, they want me to explain how we as a bank how we are responding.

At Lloyds, Terry Cordeiro says: "We are very fortunate, still to be the only major UK bank that has a digital director on the executive board.

"That reaffirms our commitment to digital and how important it is."

David Urbano of CaixaBank says there has been a profound reshaping of the group's business culture at all levels.

"In 2013, Caixa developed the Innova website to encourage an innovative attitude among CaixaBank staff, and to establish instruments and tools that support idea and knowledge sharing," he says.

"The drive and change in culture within the bank came from the very top. The aims were to accelerate and generate new ideas, stimulate innovative attitudes within the organisation and encourage engagement and partnership among employees.

"By 2015 more than 85% of the workforce used the system, with over 1,500 employees submitting ideas and comments. The ideas submitted to Innova have helped to improve products prior to launch, enhance communications with customers and support access to credit."

Says Simon Cadbury: "The new entrants

are coming into banking with not just new technology but more importantly a digital mindest. They are developing their products more quickly than the traditional players and, without any historic revenue streams to protect, have a more open mind as to what is a good return on investment."

What is driving digital strategy?

If there is broad agreement that there has been a cultural change – and for the better – views differ as to what is actually driving digital strategy.

Says Wilkinson, there has been a mix of revenue concerns, competitive and cost pressures but he argues it was skewed.

"First off, we saw competitive pressure. What got everyone standing to attention and thinking was a mood of 'we need to do something here it was competitive threat,'" he adds.

"The fintech hype was quite mobilising for the incumbent banks. That has cooled now a little and I think that senior management now realise there was a bit of hype from the fintechs and commentators - but what it served to do was to awaken people to things that previously they were not looking at.

"Examples include things such as the user experience and design or alternative ways of delivering services and outcomes.

"There is a cost play now but we are also starting to see more serious movement to create sales opportunities and revenue in particular from mobile banking experiences.

"Before that, it was not discussed."

Says Jakub Grzechnik at PKO: "We saw the iceberg on the horizon. Usually it takes ages to turn the ship and avoid the iceberg but because of the digital start-ups on the market we had to react quicker.

"We had the conditions and the infrastructure to turn this Titanic when we saw the iceberg on the horizon.

"We are pulling it off – we are maintaining market share and gaining new customers – and launching new products that are innovative."

Shashi Bhat says that at the heart of Citi's digital strategy is operating efficiency, driving the customer experience and potentially attracting new business that will then drive revenue.

Lloyds' Cordeiro has the bluntest answer as to digital drivers: "The customer is driving the digital strategy at Lloyds. Our customers are demanding that we serve them in their channel of their choice and that drives the digital agenda.

"Five years ago that situation did not exist. The proof is in the pudding in that five years on we have seven million mobile banking customers, over 8-9 million online banking customers and these figures suggests that that was the right thing to do.

"If you look across all the banks, most of them are pretty good at digital.

"We have made a concerted effort and Lloyds Banking Group is the biggest digital franchise in the UK.

"At our busiest we have more log-ons in the UK than Amazon have check outs."

And what of the oft-repeated claim by commentators that banks lack the risk appetite to innovate?

Bhat argues: "At Citi there is definitely a risk appetite to innovate but there are challenges around legacy although legacy is an umbrella phrase.

"Some hard legacy issues relate to technology and some soft legacy issues are cultural that can hold us back.

"So there can be processes that demand multiple stakeholders to sign off but risk appetite in itself is not a problem at Citi."

Wilkinson is not entirely convinced.

"The incumbents are following slowly but they are not leading. I see a bit of experimentation but the culture is still conservative and understandably so. The incumbents are taking a slowly catchy monkey approach," he says.

On budgets and dedicating sufficient resource to invest in new digital hires and technology, there is broad agreement.

"There is enough resource in terms of quantity of spend; I'd say there is enough being committed and on staffing, I think some banks probably hired too many folks," says Wilkinson.

"One of the largest banks had a bit of a hiring spree and you will probably start to see some changes later this year and paring back of staff hires.

"I think some banks have too many people in the digital teams and I question if some of them are the right people?

"Some banks now realise it does not work; hotshots from Silicon Valley or someone who has founded a start-up may now find they are struggling to get things done.

"Suddenly finding yourself in a highly regulated conservative institution: it can be extremely difficult to operate and a number of hires have not worked out because they cannot fit into the culture."

Argues Bhat: "Budget is not an issue – the bigger issue is prioritising the investment.

"We have to be a little more careful where we spend. Fail fast is not core for our model. We do have innovation labs and we have a huge number of innovations we are looking at but if we spend six months doing something it had better have a reasonable chance of being a success."

Cordeiro also has no budget issues: "We originally invested £750m ($996m) in digital and then about 18 months we announced a further £1bn investment."

Cadbury adds: "A recent survey from Intelligent Environments found that 86% of respondents said that digital banking is the method they use most to stay in touch with their bank balances.

While over half (53%) said a computer or PC is their preferred method of checking their balance, a quarter (25%) said smartphone banking is the method they use the most to check their bank balance.

"Given smartphone banking was used by as little as 10% of consumers just five years ago, the momentum implies it will become the most powerful channel very soon."

Legacy and Technology

Cordeiro of Lloyds says that traditionally, because of the nature of banking and the security you need to put around it, 'a lot of our stuff has been built in-house'.

But that is changing.

"We are now leaning towards the view that storage is getting cheaper, the cloud is getting more secure and therefore, there will be a shift in IT strategy" says Cordeiro.

Over at RBS, Hanley says that his team have had contact with as many as 1,500 tech companies.

At Fidor Bank, Sophie Guibaud argues that you can have any amount of budget but that is not enough.

"Customer needs have increased significantly – they want better customer service – but traditional banks have not been able to deliver because of legacy banking systems and implementation of new regulations arising from the crisis," she describes.

Tom Blomfield agrees and is blunt.

He says: "60 million people in the UK are being forced to use such a crap banking service. It should be so much better.

"What we are trying to do is to take a generational leap in product and functionality.

"Established banks have taken existing core banking software and deployed it to the cloud but Monzo will probably be the first to have it written from scratch and deployed to the cloud.

"You've got the combination of really, really old systems that no one understands anymore, and a total lack of technical capability in the banks, and really complex operations.

"The existing high street banks are spending billions of pounds a year on their IT infrastructure.

"What we're building is fundamentally a data platform. This sort of balance-sheet lending is crucial to our business in the short to medium term. The long term for us is a data platform."

Wilkinson has some sympathy for the incumbents.

"Every time you have a project that requires a new a new integration path to be developed you suddenly have a multimillion pound project because you need to mobilise resources to figure out the architecture that embeds that new system and that process in the existing IT estate.

"It has become very difficult for banks to do development work that is truly innovative because of the strain and the cost of just maintaining what they have got and ensuring that the lights stay on and compliance is checked."

Intelligent Environments' Simon Cadbury notes: "It has been interesting to see how Fidor has developed from a B2C brand to one that is also offering new entrants banking infrastructure. Following their recent acquisition by French bank, BPCE, they announced a new structure, separating its own banking business from a white label service enabling other. A new bank from O2 Germany will be their first customer."

Measuring the success of digital investment

Typical metrics deployed by banks include adoption of digital touchpoints, customer engagement with digital assets, or acquisition through digital channels but Berdak argues these are not always correlated with business results.

She adds: "For example, customers who spend a huge amount of time on a bank's mobile app could mean great customer engagement or it could be a sign of a frustrated customer who was unable to get help in another way and is about to leave.

"Digital-only metrics can also drive internal competition and channel conflict. Digital customer acquisition might not take into consideration the subsequent cost of serving these customers or show the impact of online research on offline sales.

"Basic metrics like time spent on site, page views, and conversion rates should really just be the starting point."

She argues that banks also need metrics that are much more difficult to gather but should hopefully say more about the contribution of digital touchpoints to the overall customer experience and business results.

Examples include customer acquisition and service costs, number of transactions or wallet share, customer satisfaction measured on the level of a customer journey (rather than just by channel), and customer retention or lifetime value.

"These are essentially customer-centric business metrics that don't treat digital channels in isolation but look at them in the context of a cross-touchpoint customer journey," concludes Berdak.

Caixa's Urbano rattles off some impressive figures as examples of the success of the bank's digital strategy: "In 2015, digital use among our clients rose to five million online and 2.9 million active mobile banking customers with three million downloads of our 69 available apps.

"We see one billion transactions every month via our internal cloud architecture with 4,505 transactions per second at peak times."

At Lloyds, Cordeiro says that log-ins per month is a good measurement because it gives you a sign about levels of engagement

But he agrees with Berdak: "You need to look into the reasons why people are logging in so much.

"You need to understand the reasons why people log in frequently - it is because they want to manage their money better.

"There are proactive ways we can help customers manage their money better which might mean they do not log in so often and so you might see a decrease in log-ins and that does not necessarily mean we have been unsuccessful.

"So we can move from being reactive to proactive to being interactive."

He says that customers are not using as many apps as they used to so the aim must be to get the bank app onto their home page and within the first 20 apps on the device.

For his part, Wilkinson does not like measurements such as engagement or log ins.

"It is lazy and generic. You need to be clear about the business outcomes expected and which measures are used to gauge the success of the outcomes

"You might just make it easier for customers to tell you they are unhappy and they have just found an easier way of telling you they are unhappy.

"You need to measure why they are contacting you and ask is that the outcome you wanted?"

For Hanley: "The only thing we care about is getting things into production. The only thing we are measured on is what has progressed through the pipeline.

"50 things made it into production last year. My team was renamed from innovation team to solutions team in direct response to the question – how to measure success."

At CheBanca, Ferrari says that Net Promoter Scores and customer satisfaction analysis are key measures and help to identify areas for potential improvement.

"We do enjoy a very high NPS at +48 and this is the result of our ongoing effort in improving processes and streamlining interactions with customers using digital as key enabler.

"We do monitor app store reviews and have lots of social media interactions and we also focus on specific quantitative measures of some key processes such as onboarding conversions, home banking navigation and app usage."

Citi's Shashi Bhat deploys a wide range of metrics.

"We have near term, medium term and long term targets covering operating model simplicity and efficiency," he explains.

"We have a number of metrics in play and targets set we want to achieve by the end of 2017 including mobile penetration rates, NPS, digital acquisition metrics. We are also tracking reducing the number of calls and looking carefully at call intensity.

"Medium term targets include how we improve around activation and payments while long term we are looking at innovation in areas such as Blockchain."

Cadbury adds that the adoption of Big Data in banking has proven slow and somewhat challenging for the key players.

"However, examples are now emerging that leverage the depth and insight that for so long has been promised.

"One of the key applications has been the use of predictive intelligence to proactively help customers manage their finances more easily.

"Those without such capabilities are finding themselves at a competitive disadvantage."

Emerging technology

CaixaBank has been among the most enthusiastic investors in emerging technology in the sector.

Caixa has adopted internal cloud architecture, thus rendering the infrastructure fully adaptable to the financial management and service demands of its customers, while also ensuring maximum security guarantees.

Caixa's Urbano also has big hopes for greater use of APIs and practical benefits deriving from big data.

Says Urbano: "Big data represents a key aspect of the CaixaBank 2015-2018 strategic plan. It offers an essential tool for personalising the bank's commercial offering and establishing stronger ties with customers.

"We have more than 80 projects underway based on big data."

At Masthaven, Jon Hall says: "We are already using APIs in the mortgage part of our business and we are looking for ways to expand this.

"API has become integral to financial services providers and I believe it will be the biggest opportunity for our digital strategy."

At Tesco Bank, Kate Frankish is equally

optimistic: "I think APIs will be a game changer, particularly when most banks in the UK have this capability and data movement becomes seamless."

Mark Mullen of Atom says: "Artificial intelligence will continue to transform our lives (and our expectations of banks) in more ways than I could list.

"And I really believe in the potential of biometrics to revolutionise the way that people interact with machines and, through them, with the people around them."

RBS' Hanley is 'excited about what we are doing with AI and data analytics and with biometrics in the security space'.

And Hanley is also particularly upbeat about the potential of blockchain.

"We are excited about we could do with Blockchain and within six to 12 months we may start to see first real use cases coming to life that better serve customers," he says.

"Blockchain and IOT come together there is potential for disruption and opportunity."

Guibaud concurs succinctly: "The opportunity is massive. API is the future of banking."

Chebanca's Ferrari agrees but sets out a longer timetable.

"In the short term, let's say five years time, APIs, chatbot leading to messaging banking, biometrics identification and greater use of analytics will be probably the most impactful technologies.

"Then I think portability progression, blockchain, big data and the use of natural language incorporating industrial application of artificial intelligence will bring the most fundamental changes to banking.

"Right now, our architectural priorities right now lay on the development and population of an API layer, which we generated about 10 months ago and on the use of a cloud platform," adds Ferrari.

CYBG's Helen Page speaks for a number of her peers when she says that she tends to look outside of the banking sector for inspiration.

"I have looked at the likes of Apple, Google, Airbnb, and Uber. When we set up B Bank, the digital sub-brand, part of the brief to our agency was that we did not want it to look like a bank, speak like a bank or feel like a bank," she explains.

Threats and Opportunities

All of the interviewees agree that security is potentially the biggest threat to digital goals being realised.

Says Jon Hall: "Banks should always be concerned with security for the benefit of their customers. We take the safekeeping of customers' information extremely seriously and are building resilient systems to protect this.

Adds Cordeiro: "Talk to the digital director and he will say that one of the things that keep him up at night is cyber security."

But Cordeiro speaks for the majority of his peers when he sums up the challenge thus:

"There is a 100% need to keep customers safe but at same time you cannot do that at the expense of the customer experience.

"You have to get the right balance: the right trade off between keeping customers' safe and offering a great customer experience."

Hanley adds another key point, echoing a number of his colleagues: "The biggest threat for us as an organisation is not responding to the world that is changing around us.

"I do not like to use the word 'threat' – the world of financial services is full of opportunities moving forward."

Says Cadbury: "For too long financial institutions have relied on an 'impermeable' perimeter to withstand attack.

"The cyber threat is more ever-present and ever-evolving. They need to expect the networks to be penetrated, and identify where this has occurred. Implementing security controls right inside the application server will give them capability to respond."

Looking ahead: who will win?

Mullen argues that the real customer war is yet to kick off and will not do so until there are real credible alternatives to the incumbent banks offering current accounts.

"You have an industry that is full of potential but it has a way to go to realise that potential," he explains.

Tom Blomfield is more bullish.

"A challenger bank started this decade can have a truly disruptive impact on the industry and become as significant as a Google or Facebook," argues Blomfield.

Alessandro Hatami disagrees: "I group the contenders into four groups.

"The incumbent banks have lots of cash and customers but they are bogged down by legacy platforms, outdated processes and huge fixed costs (e.g. branches).

"They are also terrified of change, short-term focussed and have a lot to lose if they get things wrong.

"The neobanks have modern platforms and business models but they have relatively little cash and they have no customers.

"There are a lot of them out there with various business models (some even want to partners with the fintechs and the incumbent) and the big question is whether customers will find them different enough from their existing banks to switch.

"Fintechs are carving our profitable product niches from the banks, often leveraging existing banking infrastructure. They are very efficient, can undercut the banks but also have relatively few customers and limited capital. Like neobanks their challenge is attracting customers.

"The most interesting player is the fourth group: social networks are huge organisations that have enormously deep pockets and billions of customers. They could offer banking services by outsourcing the regulated stuff to several firms from the three groups above."

Concludes Hatami: "They would own the customer relationship, have access to the customer's data and could seamlessly integrate the banking offering to the other social services they provide. Look at ApplePay, AndroidPay and WeChat as the first examples of this.

"This group would be very hard to beat."

The last word goes to Roberto Ferrari and his conclusion is one with which all of the Power 50 would probably agree: "In 20 years from now banking will be tremendously different from 10 to 15 years ago. It is a fascinating, inevitable journey." ■

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Mexican digital-only operator Bankaool predicts rapid growth for 2016

Evolving from a farming and agribusiness lender, Bankaool, Mexico's first digital-only bank, expects to grow its customer base fivefold to 100,000 in 2016 by targeting underbanked and unbanked consumers as well as digital natives and millennials. **Robin Arnfield** takes a closer look at its strategy

Originally known as Agrofinanzas, Bankaool started life in 2005 as a non-deposit-taking financial institution providing loans to Mexican farmers and agribusinesses.

The company received a full banking licence in 2012. In 2013, Agrofinanzas was recognised by World Bank subsidiary International Finance Corporation (IFC), which also invested in it, as a global leader in innovation for business inclusion.

Digital-only

While continuing to provide agricultural loans, Agrofinanzas changed its name to Bankaool in 2014, entering the retail banking market with a digital-only distribution platform in 2015.

"Because it doesn't have branches, Bankaool offers better rates than other Mexican banks, as it shares its physical infrastructure cost-savings with the customer," says Juan Mazzini, senior analyst, financial services at US-based consultancy Celent.

"As it is digital-only, Bankaool is able to reach new customers right across Mexico."

Bankaool offers fee-free bank accounts with debit cards, as well as prepaid cards, several investment products, and loans to agribusiness and SMEs.

Existing customers receive a MXN100 ($5.73) reward for each new client they attract to Bankaool. It provides customers with two surcharge-free withdrawals a month from RED, Mexico's inter-bank ATM network comprising 43,000 ATMs.

Consumers and SME clients open Bankaool accounts online or by using mobile devices. Currently, only Bankaool and Acertum Bank, a subsidiary of branch-based Banco Azteca, offer online account opening in Mexico.

"Bankaool is raising the bar for the rest of Mexico's banks, as it is the only Mexican bank onboarding digitally; its vision is that banking should be simple," says Mazzini.

"Now the other banks have no excuse."

"Any Mexican aged 18-plus, whether banked or unbanked, can open an account with us," says Juan Carlos Espinosa Ortega, Bankaool's digital channels, marketing and new business director.

"Bankaool's digital ecosystem includes the main social media platforms – Facebook, Twitter, LinkedIn and YouTube – and we may add new platforms.

"We believe that being effective on social media is key for a branchless bank, which is why we manage all our social media activities internally."

Bankaool's SME Express online lending platform offers a simplified application process for working capital loans of MXN500,000 to MXN3m.

"Any established SME can apply online in up to 10-15 minutes at any time that is convenient for them," says Espinosa Ortega.

"A successful application is subject to the SME uploading all the scanned documents required, providing proof for all data supplied online, and our meeting them to validate that their business exists.

"The gap in SME bank loans in Mexico is huge, and there is a great opportunity. Also, in the fourth quarter of 2016 we plan to offer personal loans to individuals and payroll loans."

"In Mexico, SMES are really underserved and find it very hard to get loans from banks," says Mazzini.

"By making it easy for SMEs to get loans, Bankaool could have a very profitable business."

Partnerships

In 2015, Bankaool announced a partnership with Los Angeles-based fintech GlobeOne, which has developed a mobile banking app for underserved consumers.

"The idea is to bring GlobeOne's product to unbanked customers using our digital account opening process," says Espinosa Ortega.

"The project is in the process of being implemented."

Bankaool has developed an open application programming interface, and is working with several fintech companies to integrate their products.

"Bankaool's strategy is to use its core technology and partners to provide clients with innovative products adapted to their needs," says Espinosa Ortega.

"We develop mutually beneficial partnerships that enable us to leverage third-party networks to reach a broad range of potential clients. For example, Bankaool has an agreement with Spotify, according to which we reimburse clients for three months' worth of Spotify Premium Service fees, if paid for with a Bankaool debit card and after the client has made a deposit into their account."

Great expectations

Francisco Meré Palafox, Bankaool's CEO and co-founder, told Mexican government news agency Notimex that, due to the rapid growth of smartphone adoption by Mexicans, he expects Bankaool's customer base to grow from 20,000 in December 2015 to 100,000 in December 2016.

"In March 2016, we had around 35,000 customers," says Espinosa Ortega.

"So far, almost 70% of our accounts are opened with mobile devices."

"Based on my observation of other startup digital-only banks such as Germany's Fidor, I'm not sure Bankaool will reach 100,000 customers by the end of 2016," says Mazzini.

Fidor took five years from launching in 2009 to get to 76,000 retail account owners and 5,000 business account owners in 2014, Mazzini says.

"It's hard to see Bankaool getting to 100,000 by December 2016. If it only concentrated on digitally-savvy consumers, its customer numbers would eventually plateau. So it is very wisely seeking to sign up unbanked and underbanked consumers who have smartphones and mobile internet access."

Mazzini says Bankaool is in a much better position than any other Mexican banks as it is 100% digital.

"When you don't have branches, there's no way you can design any process or product that doesn't leverage the digital world," he says.

"As they have a branch-based culture, the other Mexican banks find it harder to develop digital services. They tend to see mobile as an extension of their online channel rather than as a standalone channel."

Meré Palafox told Notimex that customers can open a Bankaool account in 2.5 minutes.

"Bankaool's onboarding process is designed to be simple enough to be used by unbanked consumers," Mazzini says.

"But Bankaool will face a challenge in educating cash-preferred unbanked consumers about the advantages not just of its digital banking proposition but also of putting their cash into a bank."

"I'm not seeing rapid growth in bancarisation in Mexico," Lindsay Lehr, senior director at US-based Americas Market Intelligence, says

"What is growing is use of online and mobile banking by existing banked customers."

"Mexico is definitely a digital country, with most internet traffic coming from mobiles," says Jeffrey Bower, a digital finance specialist at the United Nations Capital Development Fund's Better Than Cash Alliance.

"As the 11th-largest country in the world, Mexico has a disproportionate number of social media users. This is why, more than in most countries, a non-traditional bank like Bankaool has a good chance of attracting new users to its digital-only offering."

With 61% of the Mexican population unbanked, high levels of digital penetration, and a large number of banked customers with deposit-only relationships with their financial institution, a digital-only bank stands out compared to the country's traditional banked network, says Bower.

"By focusing on the highly digitally connected youth segment and SMEs, Bankaool is pursuing a non-traditional approach to highly overlooked users," he says.

"Young people expect a digital experience that traditional banks aren't well equipped to give them; speed to market isn't traditionally associated with banks. By providing credit to SMEs – 99% of businesses in Mexico – Bankaool hopes to attract a segment to formal financial services who for too long have been overlooked by traditional institutions.

"Interestingly, Bankaool sees its highest spike in account registrations between 9PM and 1AM, indicating that it is successful at reaching its non-traditional targets, who would significantly benefit from the use of meaningful formal financial services."

Bankaool faces competition from online lending marketplaces in Mexico, says Lehr.

"There is quite an active online lending market in Mexico, with around 10 non-bank lending platforms," Lehr says.

The largest are kubo.financiero, a peer-to-peer lending platform offering personal loans and working capital finance, and Kueski, which raised $35m in equity funding in April 2016.

"Online lending is still very emergent in Mexico, but there is a lot of competition among the players in this space," Lehr says.

BBVA Bancomer, one of Mexico's largest banks, is really pushing to transfer all its products and services to digital channels, Lehr says.

"Commercial Mexican banks have been slow to innovate in digital, but BBVA Bancomer has been the most active.

"BBVA Bancomer has prioritised online lending, and around 30% of its personal loans are issued online, up from 2% of loans issued online 18 months ago.

"I also see other commercial banks moving to offer more services online and to expand their online lending.

"This will be problematic for smaller banks like Bankaool which aren't profitable yet and don't have the customer base and footprint that the big banks have." ■

SECURITY

Wells Fargo to eliminate sales targets after account scandal

Wells Fargo & Company is set to drop all product sales goals in retail banking from 1 January 2017 after being fined by regulators for abusive sales practices.

Wells Fargo & Company CEO John Stumpf said: "We are eliminating product sales goals because we want to make certain our customers have full confidence that our retail bankers are always focused on the best interests of customers."

The bank recently reached a $185m settlement with the US Consumer Financial Protection Bureau (CFPB) and two other regulators for secretly opening unauthorised deposit and credit card accounts.

The settlement includes a $100m fine by the CFPB, an additional $35m penalty to the US Office of the Comptroller of the Currency, and another $50m to the City and County of Los Angeles.

The bank has already dismissed 5,300 employees involved in the illegal sales practices.

"For the past several years, we have significantly strengthened our training programs, controls and oversight and have evolved our model to ensure we are rewarding deeper relationships and providing excellent customer service.

"The elimination of product sales goals represents another step to reinforce our service culture, helps ensure that nothing gets in the way of our ability to achieve our mission, and is consistent with our commitment to providing a great place to work," Stumpf added.

DISTRIBUTION

Fifth Third Bancorp to close another 44 branches

Fifth Third Bancorp has announced plans to close an additional 44 branches and sell five parcels of land as part of an ongoing assessment of its retail banking network.

The branches, expected to be closed during the first quarter of 2017, are expected to save $13-14m annually.

"Fifth Third Bancorp monitors changing customer preferences associated with the channels it uses to distribute its products and services to evaluate the efficiency, competitiveness and quality of the customer service experience in its consumer distribution network.

"As part of this ongoing assessment, the Bancorp identified 44 additional branch locations and five parcels of undeveloped land that had been acquired by the Bank for future branch expansion that it plans to consolidate or sell," the bank said in a filing to the US Securities and Exchange Commission.

In association with these closures, the bank expects to report a non-cash impairment charge of $25-30m in the third quarter of 2016.

The bank also stated that it could spend $4-6m on lease terminations during the first quarter of 2017.

STRATEGY

ABN Amro CEO to step down next year

Dutch banking group ABN Amro has confirmed that Gerrit Zalm will step down from his role as CEO next year, even though his contract runs until 2018.

Zalm, who was the Dutch Minister of Finance from 1994 to 2002, took charge of the bank during the financial crisis in 2009.

"After the bank's split-up, merger and IPO, Gerrit Zalm has decided to make way for a new chairman who will be able to lead the bank for a longer period of time.

"The Supervisory Board respects his decision," the Dutch lender said in short statement.

The statement added that the bank's supervisory board has already initiated the process for searching a replacement and would unveil details as they become available.

DISTRIBUTION

CYBG to shed branches in £100m cost-cutting drive

The Clydesdale and Yorkshire Bank (CYBG) has announced plans to reduce costs by £100m ($130.4m) over the next three years, mainly through closure of branches.

Fifty branches are expected to be closed as part of the plan, shrinking the bank's branch network from 248 to less than 200.

CYBG CEO David Duffy said: "We have refreshed our strategic plan, taking into account revised expectations for the UK economy.

"Our strategy is unchanged: We will continue to support our customers, invest in our business, and remain focused on delivering enhanced returns for shareholders.

"We firmly believe that our size and scale, strong funding base and balance of assets across retail and business lending give us a solid foundation – enabling us to simplify and grow our business, reduce costs and increase capital efficiency, notwithstanding more complex market conditions.

At the same time, the bank is also planning to invest over £350m to facilitate its digital services over the next two years.

"We will invest more than £350m over the next two years to simplify our business, drive cost and capital efficiency, maintain our platform's resilience and support the continued roll out of our omni-channel model.

"Delivering our strategy will provide an improved branch experience, supported by a strong digital offering, reflecting the new face of banking and putting customers at the heart of what we do," Duffy added.

The banking group also plans to deliver mid-single-digit annual loan growth by 2019, and a cost-to-income ratio of 55-58%, down from its earlier target of less than 60% by the end of 2020.

SECURITY

Ant Financial acquires biometric security start-up EyeVerify

Ant Financial Services Group, the payments arm of Alibaba Group, has snapped up biometric security startup EyeVerify for an undisclosed sum.

EyeVerify will now operate as a wholly-owned subsidiary of Ant Financial, and will remain headquartered in Kansas City.

Ant Financial vice president of fraud risk management Jason Lu said: "The acquisition of EyeVerify is a critical part of our effort to make bold, yet thoughtful moves to continually enhance user trust, safety and experience.

"It is an important extension of our efforts to accelerate the global adoption of secure mobile payments and allows us to improve our overall risk management."

EyeVerify has created mobile eye-verification technology, Eyeprint ID, which was integrated into Ant Financial's payment authentication platform following a licensing agreement between the two companies earlier this year.

The technology allows users to transform an ordinary 'selfie' into a key for authentication purposes, phasing out the need for passwords.

EyeVerify claims the technology is highly accurate, easy to use, and 'spoof-proof'.

EyeVerify founder and CEO Toby Rush said: "Our payment-grade biometric platform is already trusted by over three dozen banks and technology leaders, and we look forward to helping even more people across the financial spectrum access digital services with security and convenience."

RESEARCH

Banks open to partnering with fintech startups: IDC survey

A majority of global banks are considering collaboration with fintechs as an essential element in their digital transformation strategies, according to a survey conducted by IDC Financial Insights and sponsored by SAP.

The study, which surveyed respondents from 265 retail and corporate banks in 24 countries, found that 34% of banks are willing to partner with a fintech firm, while 25% are open to considering an acquisition.

The study also found that most digitally transformative initiatives are still business-led 'islands of innovation', though true business-wide digital transformation is rare.

North America puts core focus on digital transformation as a business enabler, with 40% of the region's banks investing over a quarter of their IT budget in these initiatives. Also, 20% of banks in the US view digital transformation as an organisational strategy.

Investment in European, Middle Eastern and African banks is driven by customer-centricity, with 57% believing improved customer experience as the result of digital transformation.

Forty-four percent of digital transformation initiatives in Europe, the Middle East and Africa are mainly focused on the front office, while less than 25% of the banks in the region have already incorporated a strategic enterprise-wide approach to digital transformation.

In Latin America, 24% of the digital transformation initiatives are focused on back office, while 42% are focused on the front office, the report noted.

In Asia-Pacific, 29% of banks have already implemented an organisation-wide digital transformation strategy, which is higher than the 28% worldwide.

However, only 41% of banks in Asia-Pacific focus on improving the customer experience, compared to the global average of 50%, the report added.

SAP global head of financial services Rob Hetherington said: "Banks are in the midst of digital transformation, looking for ways to speed their time to market and to deliver new value or services to customers.

"Startups, on the other hand, are mobile, agile and built solely for the customer, yet they lack the regulatory know-how and customer confidence that large, global banks have.

"Both have something the other wants, and I anticipate that we'll witness far greater collaboration, integration and – in some instances – acquisitions happening in the next year."

REGULATION

CBA fined A$180,000 for overdraft error

The Australian Securities & Investments Commission (ASIC) has fined Commonwealth Bank of Australia (CBA) A$180,000 ($135,000) for violating responsible lending laws.

The lender has also been forced to write off A$2.5m in loan balances after a system error led to incorrect assessments in personal overdraft accounts applications.

As a result of the error, between July 2011 and September 2015, CBA failed to take into consideration the declared housing and living expenses of some consumers, the regulator said in its press note.

"As a result, this led to an overestimation of the consumer's capacity to service the overdraft facility," the regulator added.

A total of 9,577 consumers were approved for overdrafts which would have otherwise been declined, and 1,152 more consumers were given higher overdraft limits. CBA admitted the error after an ASIC inspection.

ASIC deputy chairman Peter Kell said: "Credit licensees should continuously monitor their internal processes to ensure compliance with the law.

"This is especially the case with automated decision-making systems where ongoing monitoring is needed to ensure that information is correctly inputted into systems."

M&A

Banco Popolare-Banca Popolare di Milano merger approved

The European Central Bank (ECB) and the Bank of Italy have approved the merger between Italian lenders Banco Popolare and Banca Popolare di Milano.

The merged bank will have more than €171bn ($190bn) in assets, making it Italy's third-largest bank.

The combined entity will be headquartered in Milan and Verona. It will comprise 2,500 branches, employ over 25,000 staff and serve 4m clients.

Banco Popolare shareholders will own 54% of the combined group, while the rest will be owned by shareholders of Banca Popolare di Milano shareholders.

The all-share deal, announced in March 2016, is now subject to shareholder approval.

The deal was previously delayed as the banks struggled to meet higher capital requirements. However, in June 2016, Banco Popolare raised the €1bn it needed to complete the merger.

The Bank of Italy said it issued the authorisation based on the outcome of its due diligence and in the absence of objections by the European Central Bank. ■

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Credit unions: For the financially vulnerable... but not solely

Credit unions have long been known to provide a saving and lending platform for the most financially vulnerable to help them get on top of their finances. **Jessica Longley** speaks to Frank McKillop, communications manager at the Association of British Credit Unions, to find out if this is still the case

Today, credit unions (CUs) play a crucial role in guiding consumers away from payday lenders such as Wonga.

Frank McKillop from the Association of British Credit Unions Ltd (ABCUL) explains: "The biggest attraction that a credit union offers over a payday lender is the idea that you are not taking out a crisis loan.

"Rather than postponing a solution by borrowing more and more money from increasingly high interest rate lenders, credit unions give you a helping hand in getting on top of your finances."

At a CU, you can save regularly and access credit when needed. These non-profit organisations, run by members, provide low interest rates on loans to prevent spirals into debt.

McKillop insists that CUs are always the best alternative to payday loans: "The most expensive credit union loan that you could possibly get is eight times cheaper than the caps for payday lenders in the UK."

There has been a tendency from credit unions to appeal not only to people in financial difficulty, but also to a wider demographic. By offering a range of different financial products, and a high quality of service, CUs have attracted a wider range of consumers.

According to McKillop, the CU sector vows to be sustainable and to consistently attract new consumers from different backgrounds.

CUs have grown significantly in the last decade. Membership has doubled, lending has doubled and deposits have tripled in this period, says McKillop.

Taking inspiration from elsewhere

CUs in the UK have not been known tfor their growth and more needs to be done before they reach a level even vaguely resembling the ones in the US, Ireland or Australia.

"In countries where credit unions are successful, there is a variety of financial services providers. We want Britain to have that similar type of landscape," explains McKillop.

The first CU in the UK was launched in 1963, at a time where there was already a well-established banking sector. This left little space for CUs to develop.

According to McKillop: "British credit unions started at a massive disadvantage, and it is only over the last three decades that we've been able to attract people from different places."

In Ireland and the US, CUs emerged at a time where some consumers had a wide range of banks to choose from, while others lived in areas not served by banks at all.

McKillop adds: "I think the credit unions' popularity in the US is also down to a more flexible legislative landscape towards CUs, that has been round for decades. We've seen the scale that they've reached, and I think that's very much a model that we would like to replicate here."

CUs have managed to grow year-on-year thanks to the backing of political parties, the government, churches and also the indirect support they receive from the EU.

"The UK government has made a substantial investment over a number of years with their CU expansion project, funded by the department of working pensions. It has helped CUs modernise and encouraged them to make their services more accessible and user-friendly," McKillop explains.

"There is a recognition that CUs are worth supporting because they bring communities together and help alleviate hardships."

A key part of US CUs' success is the connections they build with employers, and the way they pull resources together to develop a largely single product offering. McKillop explains that UK CUs are trying to adopt and mimic the US's tactics to learn from its success.

"The most successful credit unions in the UK, the US, Australia and Canada are those with partnerships with employers. When you have that direct connection, in essence a workplace community, there's a trusted element because it is attached to the employer."

ABCUL is focusing on increasing partnerships with employers that prove to be beneficial for both employers and consumers. If consumers have access to a CU via their workplace, they can make loan repayments and save money straight from their payroll. This in turn helps a CU's confidence in lending to consumers.

As for employers, research has shown that by reducing money worries, CUs can increase productivity and reduce absence.

The single product offering

Another of ABCUL's priorities is to tie in different financial services across CUs to produce a single product offering to consumers.

"A number of credit unions are working together to develop shared services and products. Over the next year, we will see more credit unions that have a similar product offering. Consumers will have a better understanding of what to expect when they come to a credit union," reveals McKillop.

Alongside copying the US model, CUs are also planning to modernise their services, improving the quality of services and ensuring ease of access. ABCUL is behind the technological push for CUs to adopt technology for increasingly digitally aware consumers.

Several CUs have looked into security and privacy considerations to potentially make their services accessible to third-party sites.

"Social media is one of the best ways to connect with both existing and potential members. Although there is a lack of budget for a full-blown national marketing campaign, there is recognition that spending money on social media marketing is money well spent," says McKillop.

CUs were affected both positively and negatively by the financial crisis. In the immediate aftermath of the crash, the number of consumers moving money to CUs grew as a result of a loss of faith in the financial sector.

"The flip side of that is that growth of deposits hasn't followed the growth of loans, with some CU members less inclined to borrow. Furthermore, the financial crisis has diminished another of CUs' revenue streams. Variable interest rates meant that the reserves deposited by CUs into banks or building societies received very low returns," says McKillop.

To counteract this lack of lending, CUs have tried to modernise services to attract a new generation of borrowers.

"CUs' consumer base is typically skewed in favour of the older generation. However, we are trying to change that by catering to the needs of both the current as well as the next digital savvy generation. They are looking for financial products and services that can be accessed remotely, via smartphone." ■

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