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IT'S NOT EASY BEING GREEN – OR IS IT?

New providers aim to deliver ethical and sustainable banking

- DISTRIBUTION: Avidia
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To the rescue!

Another twist in the overlong tale of The Co-operative Bank (Co-op Bank) and its struggles since 2013, as the ethical bank has ceased plans for its sale.

It hopes a new rescue plan from its hedge fund owners will save the firm.

Co-op Bank put itself on the market in February after it was unable to reach a strong enough footing to satisfy Bank of England regulations. It also said it needed £750m ($961m) to fill a capital shortfall.

But in June, it said it was in “advanced discussions” with a group of existing investors on recapitalisation.

Now the bank says the plan has been “substantially agreed”. It must be one hell of a rescue plan: According to reports, the rescue is valued at approximately £700m.

The Co-op Bank, in which the Co-operative Group still has a 20% stake, was rescued from the brink of collapse by a group of hedge funds in 2013. Earlier this year, it reported its fifth annual loss in a row, although the £477m deficit for 2016 was an improvement on the £610m loss recorded in 2015.

The Co-op Bank has four million customers and is well known for its ethical standpoint. The lender said the rescue plan would enable it to continue as a standalone entity and “safeguard the bank’s values and ethics”.

However, there are a number of new players in the market also aiming for an ethical or sustainable way to do business. If customers really want an ethical bank to manage their finances, it remains to be seen if the Co-op will remain their first port of call.

In terms of needing rescue, Co-op is far from alone. Banco Popular in Spain had to be saved by Santander, increasing that behemoth’s already impressive scale. At the time, Popular was Spain’s sixth-biggest bank, so that’s quite a fall.

Italy has to cough up $19m to clean up two banks in the Veneto region: Banca Popolare di Vincenza SpA and Veneto Banca SpA. Not far behind, the world’s oldest bank, Banca Monte dei Paschi di Siena SpA, is in talks with European authorities about a precautionary recapitalisation, hoping that will be enough to help it remain the world’s oldest surviving bank.

European banks really are testing the value of the phrase ‘too big to fail’.

Real co-operation

I am obliged to Efma and Capgemini for their latest *World Retail Banking Report*. It states what we have all been thinking: Customers are having more positive experiences with newer players than with their banks.

The battle for the customer relationship is truly underway. Without providing positive experiences, the age-old incumbents could easily fall behind.

It goes without saying that banks still have the money and the scale that fintechs can only dream of, but many state that co-operating with tech-savvy players is the way forward.

Is this the key to survival? Let’s hope so, as some institutions are in desperate need of a solution.

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Douglas Blakey is currently away

EBAday 2017: Banks missing a trick with PSD2

With the Second Payment Services Directive (PSD2) deadline quickly approaching, which banks will make the cut and which ones will be left behind? More to the point, why is there so much hesitation in how banks prepare for compliance? **Patrick Brusnahan** speaks with experts to gauge the industry's readiness

Steve Kirsch, CEO at Token, believes the hesitation about PSD2 is just part of the way banks work.

He says: "Bankers hate making decisions. How many bankers does it take to screw in a light bulb? They wonder if something will happen tomorrow which makes the decision they make the wrong decision.

"Our position is: You are out of time, make the best decision possible."

Asked whether banks will be compliant by the PSD2 deadline, he adds: "For some, yes. For others, maybe not.

"It is silly, but it would be like being the last bank on the internet. The guys who moved slowly onto the internet got crushed and are at a permanent competitive disadvantage. Why would anyone want that?"

Tim Brew, global lead of financial services marketing at CGI Global Payments, says: "Bankers really have not got their ducks in a row regarding PSD2, and there is a strong possibility that it will not deliver what it set out to do in the first place.

"This is despite the fact that our research and the market both say that APIs and real-time are the new things."

Jerry Norton, vice-president of financial services at CGI, continues: "I think it is a real disappointment. It is an opportunity missed. Most banks, for lots of reasons, want to see that open API interface. It seems somewhat perverse to me that screen-scraping and whatever is sufficient. It is bizarre, and an opportunity missed in Europe."

While meeting the PSD2 regulation's criteria is crucial, compliance for compliance's sake could be a waste of time when there are other – quite possibly greater – applications and opportunities.

Ben Robinson, chief strategy officer at Temenos, says: "The vast majority of our customers will be compliant in time. I think what we would really like to be doing is having a strategic conversation on doing much more than just compliance.

"The problem is, because the deadline is approaching so quickly, it is difficult to have that conversation.

"We've had interesting conversations with banks that want to become true open banks, Robinson continues.

"In the way we define it, they do not just aggregate their customers' accounts, but distribute products and accounts through third parties – and that is a very interesting proposition.

For the banks that do that successfully, there is a massive market opportunity." ■

EBAday 2017: Dublin set to be the next financial hub?

As more than 1,400 attendees, a new record, entered the latest EBAday, host city Dublin took the spotlight. With ongoing Brexit-related uncertainty leaving numerous question marks over London's future, is the Irish capital on the verge of stealing at least part of the UK capital's crown? **Patrick Brusnahan** writes

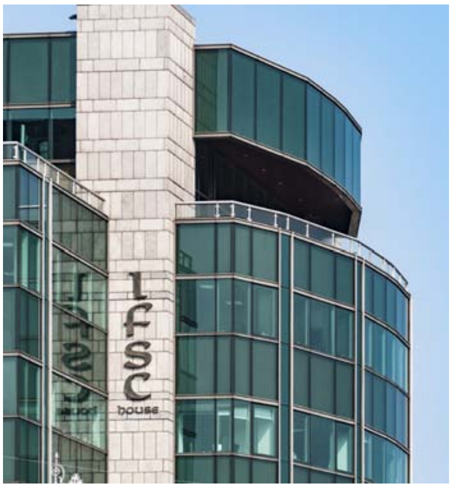
Wolfgang Ehrmann, chair of the board of the Euro Banking Association, praised Dublin as a "prospering financial hub" in his EBAday 2017 welcoming speech.

He said: "The payments industry is currently struggling to find answers to questions. The players are striving to reorient themselves in ongoing market transformation. Change is always a chance for success."

These statements come in the middle of the UK's Brexit negotiations, which has led to many rumours that parts of the financial sector in Britain could migrate to Ireland – and, in particular, Dublin.

Paul Ryan, director for international finance at Ireland's Department of Finance, was even more enthusiastic about Dublin's future in the wider sphere of international financial services.

He stated: "Government policy remains unchanged and remains supportive of the IFS [internationally traded financial services] sector. We want to focus building our strengths and talent."



He discussed IFS 2020, an action plan for Ireland over the next four years. Its set to put Dublin as a key area for data and analytics, artificial intelligence, fintechs and so on

One of the plan's many targets was to create 40,000 new jobs in Ireland through the "twin targets of employment and activity".

In excess of 400 Irish and international companies are based in Ireland, with a concentration on Dublin as the capital as 40% of Irish companies' jobs are located outside the city, with only 30% of international-based companies' jobs outside Dublin.

Ryan continued: "Ireland is now the EU fourth- largest exporter of financial services. This is due to the three Ls: Law, Language and Location."

Location was highlighted as crucial for Dublin as "Ireland has been regarded as a small island on the periphery of Europe, but that's led to our success. Being between North America and Europe helps us to work with key companies in both locations."

With regards to Brexit, Ryan offered an enticing arrangement. He explained: "We are guaranteed passporting and access to EU markets.

"Ireland's relationship to the EU is critically important. It is perfect for companies looking for access to the EU, both inside the UK and elsewhere." ■

Financial exclusion in the UK: It will get better not by chance, but by change

With the explosion of contactless and mobile payments, and a conveyor belt of new financial apps for smartphones, you would think that the UK is ahead of the personal finance curve. Yet, sadly, despite these impressive advances, financial exclusion still exists, writes Monese VP **Mulenga Agley**

While most of us are familiar with checking our account balances on our iPhones, or even using quirky apps that help us track our spending on a monthly basis, this is a stark contrast to the financial experiences of 1.7m adults in the UK.

At the end of March, the full extent of this problem was brought to light by the House of Lords Financial Exclusion Committee Report. The report's fundamental goal was to figure out how to work towards a future whereby the "scandal of the poorest being excluded from even basic financial services" no longer exists.

One of the primary recommendations within the report is the appointment of a Minister for Financial Inclusion. Having a government official devoted to solving this issue is a great idea in theory, and would really help to bring relevant parties together to shine the spotlight on the problem. However, for this person to truly make a difference, they must be ready to address a few key areas.

Bust the 'free' banking myth

While the myth of 'free' banking is beginning to dissipate, we need to ensure that this facade is exposed once and for all. The banks have long been making money from current accounts through hidden fees such as on missed direct debits, or extortionate extras like hefty charges on overseas payments.

These fees prop up bank revenues and can send vulnerable consumers into a world of debt. The real stinger here is the 'unavoidable' costs, where customers are forced to spend money that simply is not there – like the fees charged when you dip into your overdraft for a week or two before payday, for example.

This must be a top priority for an incoming minister – they must realise that 'free' banking cannot be accepted as an industry standard because it does not exist. If it seems too good to be true, it probably is.

Instead, the minister must work to promote financial providers that are completely transparent – by charging a customer a monthly fee, for example, so they know exactly what they are getting for their money, with no nasty surprises at the end of the month. Anything that adds to financial stress for vulnerable customers must be stamped out.

Challengers must be advisers

As a result of relying on the myth of 'free' banking for too long, traditional banks simply have no financial incentive to encourage financial inclusion. Their dependence on hidden fees as a revenue stream is now so severe that it stops them from looking to alternatives, meaning we are now truly at a 'revenue over reason' situation.

This is best illustrated in the instances of people being declined current accounts due to having a bad credit rating. The question we should be asking in response to these stories is: Why should credit come into this if it is not a service they are asking for? Frankly, it should not.

The banks' rationale for asking the question is due to their credit-and-lending-focused business model. For banks, prospective customers are only valuable to them if they can lend to them in the future. While the government did force them to provide basic accounts, they do not promote them and consumer awareness is low. Banks' business models mean they can not make it profitable with legacy infrastructure, expensive branch networks, and slow, overbearing processes holding them back.

This mentality means that if the prospective minister only consults incumbents when looking to solve the problem, we are unlikely to see any change.

Challenger banks take a rather different approach. Organisations that fall under this umbrella recognise that in order to serve this historically underserved group, it is imperative to challenge and change the status quo.

Should we see the appointment of a Financial Inclusion Minister, this person must acknowledge this also, and be bold in challenging existing processes and assumptions.

Risk-based decisions on whether to take on a new customer should be based on the product the customer is looking for, not what you think you might be able to sell them later.

Therefore, it is absolutely fundamental that the minister seeks advice and input from challenger banks in order to think outside the box and create solutions that will really have an impact.

Put a stop to 'problem profiteering'

While bank greed is generally understood by the public, it is sad to see that this mentality extends also to national customer advice and support groups.

It is not unheard of for challenger brands to attempt to join forces with these groups in a bid to tackle financial exclusion by promoting alternative services. Sadly, revenue bells start ringing, and these organisations cannot help but to start to look at what money could be made from a lead referral-type deal to alternative providers.

These organisations are designed to help the most vulnerable of consumers by guiding them to financial options that best suit their needs. They should be in no position to turn down potential landscape-changing partnerships if they don't receive a monetary kickback.

Until this mercenary approach is dealt with, and advice bureaux start thinking about the wider benefits of financial inclusion and education, there is no way that they can fulfil support the function that they should be.

It is great to see that financial inclusion has jumped up the priority ladder for the government, and a dedicated minister could be the step required to drive real change. Provided that the potential minister keeps this – and the other issues discussed – in mind, there is the real chance that we can finally fulfil the needs of the financially underserved and look to a fully inclusive financial landscape.

Situations do not get better by chance, but by change. We look forward to supporting the government on this journey to create a fairer financial system. ■

Sustainable banking: Is it a realistic goal?

Banking can be described as many things, but 'ethical' or 'sustainable' rarely come up, especially if one has just received an unexpected overdraft charge. Even the 'friendly' Co-op has been on the receiving end of negative press. However, some providers are now hoping to change this, writes Patrick Brusnahan

Is ethical banking a feasible option? It has certainly been tried before. The most prominent example in the UK is the Co-operative Bank. It operates an ethical policy which, by and large, excludes the provision of any banking services to businesses which took part in certain business activities or sectors.

However, recent years have not been kind to the Co-op. In 2013-2014 the bank needed a rescue plan to address a capital shortfall of approximately £1.9bn ($2.4bn). Over the last five years, it has accumulated losses of £2.6bn, and since 2012 its branch network has been cut from 353 locations to 95. In February 2017, the bank's board announced it was "inviting offers" for a possible sale.

Away from financial stability, other unethical stories emerged regarding the Co-op, with former chair Paul Flowers caught buying crack cocaine and methamphetamine.

If the most prominent ethical bank in the country turned into this, what chance does anyone else have?

Are ethics sustainable for a bank?

Ethics can be a costly endeavour, as the Co-op can attest. However, it does not have to be that way.

The Global Alliance for Banking on Values (GABV), which comprises 40 banking institutions worldwide, believes this alternative can actually strengthen financial markets and bring steady financial returns.

Marcos Eguiguren, executive director of the GABV, explains: "We can find these [sustainability-focused] banking institutions in different markets, all serving diverse needs, but they all are using specific business models driven by a set of common guidelines, the Principles of Sustainable Banking.

"One of the reasons why these banks are growing in size and number is because they are meeting the needs of individuals and enterprises in the local communities."

The alliance's 2016 report states: "Sustainability-focused banks (SFBs) are growing in strength and number because they focus on real human needs in the real human economy.

"Since the financial crisis seven years ago, a group of SFBs have demonstrated that a focus on the real economy, with a dedication to supporting economic social and environment impact, delivers steady financial returns."

According to the report, SFBs are big financers of the real economy in terms of loans to total assets, which was 76.8% in 2015. This is nearly double the loans-to-total-assets ratio of Globally Systemically Important Financial Institutions (GSIFIs), which include banks such as Barclays, Deutsche Bank and Santander. In addition, in terms of growth, SFBs have had higher levels of grown than GSIFIs with regards to loans, deposits, assets, equity and total income over a five- and a ten-year period. However, the SFBs have come from a much lower base.

What's out there?

While ethical investments or lending to worthy causes are achievable goals, an ethical current account is an entirely different proposition. One operator hoping to have a go is Triodos Bank.

Founded in 1980 in the Netherlands, the bank has been in the UK for 22 years, but has decided to move into the current account space in an ethical way. So, what specifically does that entail?

Huw Davies, head of retail banking at Triodos, tells *RBI*: "We are challenging how banking is done. We're trying to do things differently, and we think money can be one of the most powerful forms of democracy and force for good that there is.

"We have quite a simple model: We take in retail deposits from customers – and we're talking about UK savers – and we lend them out into sustainable lending in some key sectors that we think are important in terms of sustainability.

"Importantly, the way we do that – and there's a lot of talk about transparency – we show every single loan that we make. I think that's refreshing in the sector."

According to research from Triodos, two-thirds of people want to know where banks are lending their money, and three-quarters are unaware of where it ends up.

This ethical mentality also applies to how bank works internally. There are no performance bonuses and the minimum-to-maximum pay ratio is less than 10 – a fair distance apart from some of the bigger banks.

UK-based Unity Trust Bank has a similar approach. While not offering a personal current account – business current accounts are available at the moment – the firm only lends to organisations that contribute to economic and social change, particularly in the provision of community and care facilities.

Becoming independent in 2015, the bank loaned £76.9m in 2016, with £15.1m in additional finance leveraged. Through its work, 1,895 jobs were created and protected, and 1,026 bed spaces created and renovated.

Daryl Wilkinson, director of customer propositions and strategic marketing for Unity Bank, says: "We help organisations to prosper and contribute to economic, community and social change. Put simply, we're here to help create a better society."

Unity CEO Margaret Willis says: "We were established over 30 years ago, with a vision to create a bank that would serve the needs of its customers and enrich society as a whole."

Why now?

"We've been growing steadily over 22 years and we've long considered a current account to be the next step for us," Davies says.

"I think there's been an increasing shift over the past five to ten years to what we're trying to do. As a business, we feel we're in a place to deliver this.

"More and more people care about how they use their money. I would argue that if you look at most sectors, whether its energy, transport or food, it's possible to make a sustainable choice as a consumer. I would argue strongly that financial services, as such a big part of our economy, has been behind in that trend."

Triodos charges £3 a month for its current account, a move that goes slightly against the grain of the multitude of 'free' UK accounts.

"The UK really is an anomaly in the world, and in Europe, in terms of our model of so-called 'free' banking. We really sat back and saw an opportunity to do something different," Davies explains.

"There is no such thing as free banking. We all know that the banks make £1.2bn in revenue from fees and charges often related to unarranged overdrafts and hidden penalty fees. The notion that it is free is a myth, in our opinion, because someone is always paying and the minority of people are absolutely subsidising free banking for a lot of people.

"We could have carried on with the fee structure, but we didn't think that was right. We took a different approach and decided to charge a flat monthly fee to everybody to contribute in part to the day-to-day running and provision of the account.

"On the flip side, we're not going to be taking the high and hidden charges that other banks may take. We'll have a competitive arranged overdraft rate. Any payments over an arranged overdraft would be returned or declined, but we will make sure that the customer is aware when coming up to limits."

Getting the message out

The problem with a new bank or current account in the market is making the public aware of the offering. With big banks having histories – and marketing budgets – that are unavailable to newer entrants, how can anyone hope to compete?

Unity Trust launched a new website in April 2017 in an attempt to make engagement quicker and easier. This was followed by six digital sheet advertisements in train stations across the UK, as well as radio and print advertising.

Triodos recognises the struggle, but is making attempts to gain some attention past its current 50,000 customers in the UK.

"We've had that problem for a while now," says Davies. "We've been growing sustainably and we have a wide range of ways of getting our message out.

"Interestingly, I think we're quite a rare example of a bank of which our customers are very fond because of the nature of what we're doing, and that we're facilitating positive change," Davis continues.

"When they know about us, they think it's a great idea. The challenge we have is quite different from a lot of the banks in that it's a positive message that we need to get out, rather than being known but not liked. It's a distinct marketing challenge, and one that we've been dealing with for a while now.

"We've had the initial launch and were pleased with the coverage. We have a lot of engagement on social media – maybe unusually for a bank. We have a huge amount of social media engagement with customers and non-customers, possibly due to our stories."

So, what's the goal?

Davies claims Triodos's target is to double its customer number in the UK within a couple of years. If the demand is higher, then the situation will be evaluated for sustainable growth.

He says: "It's fair to say, by any bank's standards, doubling a bank's numbers in a couple of years is quite an ambitious target."

Bringing it back to Co-operative Bank, how can Triodos succeed where, arguably, Co-op failed? How will this offering be any different?

Davies concludes: "The main difference between us and Co-op, which has done some really good work with bringing in that voice in high-street banking, is that its focus is on negative screening. We take that a step further and only lend to people making a positive impact. It can't be neutral.

"I think we need different banks and different bankers. Financial services have really lost their way in the last 10-20 years. I suppose part of our message is to really think about the role of money. The notion that banks are big untouchable organisations that cannot be changed is something that I do not believe."

This is certainly a strong message, but it remains to be seen whether the customers believe it as well. ■

Social Finance to apply for industrial bank charter in US

After acquiring multi-currency digital bank Zenbanx, US online lender Social Finance (SoFi) plans to apply for an industrial bank charter so it can offer bank accounts and credit cards. However, whether it will be successful in its attempt is far from certain. **Robin Arnfield** speaks to industry analysts to find out more

SoFi CEO Mike Cagney told US magazine *TechCrunch* in May 2017 that SoFi plans to apply for an industrial loan company (ILC) banking charter within the next month. A SoFi spokesperson confirmed to *RBI* that the *TechCrunch* story is accurate, but declined to provide details.

Cagney said Zenbanx's technology provides the infrastructure for SoFi's move into banking and that, by combining banking services with its lending products, SoFi could offer discounted rates to members who set up auto-pay between their accounts. Cagney admitted that FDIC approval for its ILC application cannot be taken for granted

"SoFi's plan to apply for an ILC charter is a progression step on its part," says Joseph Walent, associate director, customer interaction advisory service, at Mercator Advisory Group. "By becoming an industrial bank, SoFi will be able to build its banking functionality from the ground up and take total control of the financial institution."

The topic of fintech regulation is controversial in the US. In December 2016, the US Office of the Comptroller of the Currency (OCC) proposed that fintechs such as online lenders be offered special charters, allowing them to offer banking services nationwide.

New York State's banking regulator, the New York Department of Financial Services, filed a lawsuit in May 2017, arguing that the plan to offer national charters was "lawless, ill-conceived and destabilising of financial markets" which are best regulated by the state, Reuters said. In April 2017, the Conference of State Banking Supervisors filed a similar lawsuit against the OCC.

Celent banking analyst Stephen Greer says there is strong opposition from established banks to fintechs being granted banking licences. If SoFi's ILC application is approved, it would be the first firm to be granted an ILC charter in a decade in the US.

ILCs differ from standard banks as they are not owned by a bank holding company, but by a commercial venture such as a car manufacturer. Currently, seven US states including Utah, California and Nevada, offer ILC charters. If its ILC application is unsuccessful, SoFi could conceivably partner with Wilmington, Delaware-based WSFS Bank which provides banking services for Zenbanx in the US.

According to the Utah Department of Financial Institutions: "An industrial bank is a state-chartered depository institution that is eligible for FDIC insurance, exempted from the technical definition of a bank for the purposes of the Bank Holding Company Act of 1956, and otherwise generally subject to the same banking laws and regulations as other bank charter types."

Industrial banks are subject to FDIC regulation. Following the 2008 financial crisis, the Dodd-Frank Wall Street Reform and Consumer Protection Act set a three-year moratorium on FDIC approval of ILC applications for deposit insurance after November 2009.

In a July 2016 speech to the US House of Representatives' Committee on Oversight and Government Reform, FDIC chair Martin Gruenberg said: "The current economic environment with narrow net interest margins and modest overall economic growth remains challenging for US banks and the establishment of de novo institutions.

"The FDIC is committed to working with, and providing support to, groups with an interest in organising a bank or an industrial loan company. As outlined earlier, the FDIC continues its efforts to provide interested organising groups with a clear path to forming a new insured depository institution, regardless of the type of charter pursued by an organising group."

Rush of new entrants

"If SoFi's application for an industrial lending licence is successful, this could really start a rush of new fintech entrants applying for similar licenses," says Greer.

"My feeling is that it won't be easy for SoFi to get an industrial lending licence. Also, there are implications about being an industrial bank as opposed to a traditional chartered bank, namely that industrial banks' holding companies aren't subject to oversight by the Federal Reserve.

"It'll be interesting to see if fintechs go this route, or try to take advantage of the OCC's fintech charter. However, this won't include deposit insurance, so it's unclear what the value will be."

Launched in 2011, SoFi initially refinanced student loans, and then expanded into personal loans, mortgages, wealth management and life insurance.

On its website, SoFi states: "We look behind just credit scores and debt-to-income ratios to consider factors like estimated cash-flow, career, and education. While other leaders charge higher rates to account for the possibility that borrowers won't pay back their loans, our unique underwriting process helps ensure our members have a high likelihood of making their payments."

In 2016, SoFi originated $8bn in loans, up from $5bn in 2015, and expanded its member base to 225,000 from 100,000 over the same period. At the end of 2016, the company had 750 total staff.

Last year, SoFi launched Student Loan Payoff Refi for home mortgages and student loans in partnership with Fannie Mae. In addition to new lending products, SoFi introduced its SoFi at Work brand for employee financial wellness, SoFi Wealth for modern investment management, and a partnership with Protective to offer term life insurance.

SoFi focuses primarily on student lending to clients who are at top universities and have the potential to become HNWIs," Greer says. "It wants to offer banking services on top of loans to these clients. SoFi makes money from securitising its loans and from its refinancing and lending process."

According to the *Wall Street Journal*, SoFi estimates it will generate $600m in revenue in 2017, after receiving $40m in adjusted profit in the first quarter.

In April 2017, SoFi launched an investment fund to give investors access to its loan portfolio, disclosing in a Securities and Exchange Commission filing that it raised $105m for its SoFi Prime Income Fund. Each investor contributed a minimum of $500,000.

In February 2017, SoFi bought Delaware, California- and Toronto-based Zenbanx for an undisclosed sum. It also raised $500m in Series F financing in February 2017 led by private equity firm Silver Lake Partners. The investment, which brings the company's total funding to $1.9bn, will be used to speed up SoFi's expansion into new product areas and countries outside the US.

In a SoFi blog, Cagney wrote: "We've never been shy about SoFi's ambitions to become the center of our member's financial lives. Offering deposits, credit cards, and payment solutions is key to that ambition, and we think we can offer something better than incumbent players with the same kind of innovation we've brought to other areas of finance, like student loan refinancing, personal loans, and mortgages.

Zenbanx, established in 2012 by Arkadi Kuhlmann, founder of ING Direct Canada and ING Direct USA, offers mobile banking accounts that let customers save and send money in multiple currencies domestically and internationally.

Its mobile app was designed to eliminate the complexities of international banking for people who bank cross-border. US Zenbanx accounts are available through WSFS Bank, and in Canada through Toronto-based DUCA Financial Services Credit Union. Kuhlmann has taken an executive role leading banking products at SoFi, and Zenbanx staff have also joined SoFi.

"With Zenbanx joining SoFi, we're moving one step closer to becoming the centre of our members' financial lives by adding SoFi deposit, money transfer, and credit card products to our offerings for members," Cagney said in February 2017.

"The logic behind SoFI's acquisition of Zenbanx is twofold," explains Ron Shevlin, director of research at US-based Cornerstone Advisors. "SoFi needs deposits to fund its lending business, and it wants a bank offering to become the provider of choice to young upwardly mobile consumers.

"It isn't going to scale. Zenbanx has little name recognition and won't be much of a draw to many SoFi customers who are perfectly happy with the mobile offerings of their existing banks."

Following its purchase of Zenbanx, SoFi plans to launch a range of mobile deposit, credit, and payment products to its US members in 2017, as well as offer its products in Australia and Canada by 2017 end, SoFi said in a news release. ■

Fintechs enter Canada's prepaid card market

Two Vancouver-based fintechs, Koho and Mogo Finance Technology, have launched mobile-enabled prepaid cards targeting Canadian millennial consumers looking to avoid the country's notoriously high bank charges and expensive credit cards. **Robin Arnfield** assesses the market's promise and headwinds

Koho's prepaid Visa card is linked to a mobile personal financial management (PFM) app, and is issued by Vancouver-based Peoples Trust.

Mogo's prepaid Visa card is issued by Home Trust, a subsidiary of Canadian mortgage lender Home Capital, which in April 2017 saw an exodus of savers after the Ontario Securities Commission alleged it had misled investors in its handling of a scandal involving falsified mortgage applications.

On 1 May, Home Capital said Home Trust had drawn down C$1bn ($731m) from its C$2bn credit line provided by a facility led by the Healthcare of Ontario Pension Plan.

Cash-in

The two startups hope to cash in on young Canadians' dislike of high bank fees and desire for mobile-friendly banking services. CBC cites Statistics Canada as saying Canadians paid "an average of C$216 annually in bank service fees in 2015".

Whereas in the US, prepaid has been mostly stuck in the sub-prime lending market, in Canada the key driver for prepaid adoption is the concept of spending accounts to avoid excessively high banking fees and high-interest credit cards.

Vancouver-based Koho has received C$2.6m in backing from Canada's Power Financial Corp., and other investors including the founders of social media tech company Hootsuite, and e-commerce business Shopify. In April 2017, Koho launched its Smart Spending Account and linked prepaid card. The company says most transactions are free, with the exception of out-of-network ATM withdrawals.

Customers fund their Koho accounts through salary direct deposits and transfers from their bank accounts. Including transactions during its beta trial, Koho had handled C$2m worth of transactions on its prepaid cards up to April 2017.

"The average Koho user is about 30 and predominantly male, but we're trying to change that," says Koho CEO Daniel Eberhard.

"Their average income is about C$74,000. Our goal is to get 100,000 customers, and we're only interested in social media platforms that can scale in terms of promotions. We've done 100-120 customer-acquisition experiments through major digital channels."

"The way we view the Canadian prepaid card market is that prepaid is virtually identical in terms of core feature set to any other primary bank account Canadians use," says Eberhard.

"What we did was map out the functionality people expect from a primary account – such as bill payments and money transfers – then layer this functionality around a prepaid card and offer a much richer feature set."

Currently, Koho does not offer mobile payments or cheques. "There is a low ROI in giving people the ability to write cheques from their prepaid account, although we might offer that at some point," explains Eberhard.

"We plan to offer NFC payments on smartphones in quarter three of 2017."

On its Roadmap website, Koho lists support for Apple Pay and Android Pay in the near term, plus photo cheque deposits.

Customer experience

"Not being a deposit-taking bank and being a pure technology play, we're able to build a rich, elegant customer experience tethered to a prepaid card," says Eberhard. "From a customer usage perspective, prepaid cards make a lot of sense."

Koho's customers can set up Interac e-transfers from the account linked to their prepaid card and also perform Koho-to-Koho transfers. Interac e-transfers are P2P payments using Canadian debit scheme Interac's infrastructure.

"Our Smart Spending Account is a PFM tool that lets customers set control categories for their spending," says Eberhard.

"We look at a lot of the data sets traditional PFMs don't examine because they just scrape your bank account.

"For example, we look at merchant categorisation codes and several other variables to give consumers real-time insight into their spending behaviour to provide the context for their financial life.

"We're accurate 99% of the time in terms of budget categories, and let consumers break down their supermarket spending, for example, into sub-categories like groceries and lifestyle/health. It's very easy to either permanently or temporarily change these categories."

Eberhard says it takes three minutes to get a Koho account on a smartphone, and the account can be totally managed via mobile devices.

Koho is regulated by the Financial Transactions and Reports Analysis Centre of Canada (Fintrac), a Canadian government anti-money-laundering/anti-terrorist-financing agency.

"We do full KYC and terrorist watchlist-screening, and part of the intellectual property we've built is the decisioning on account applications," explains Eberhard.

Roadmap

"We're feature-equal to or better than traditional bank accounts," says Eberhard. "Over the next 18 months, we'll accelerate in terms of technology development and continue to do unique things with our account.

"Ultimately, what we want is to create value throughout the entire financial life of the client. At the moment, we own the spending of a lot of our users and a meaningful percentage of them use Koho as their primary account. We're extending the customer relationship by adding account aggregation so that, with Koho, you'll see what's going on with all your accounts at any time.

"We'll also be adding credit facilities such as an overdraft – but it won't be unsecured lending at 21% APR."

Koho plans to offer a loyalty programme and a referrals reward programme. "We think that using our app for P2P transfers will be important," says Eberhard. "Some of the UK prepaid card issuers like Monzo and Loot that are further ahead of us and have similar models, see 80% of their customer acquisitions come through referrals.

"Koho's management team takes a different approach, as we aren't bankers," Eberhard continues. "We're technology entrepreneurs, and our team comes from Silicon Valley and from firms such as Alibaba and PayPal. I co-founded a wind farm technology company, so I'm basically an entrepreneur.

"The prepaid card model is doing very well in Europe. There has been a lot of noise in the US prepaid market, but there hasn't really been a breakout, maybe because of the fragmentation in the US market. But I understand that the Green Dot/Walmart MoneyCard prepaid card is doing very well in the US."

Koho's target market is Canadian millennials, or people who want to run their financial life on their smartphone.

Asked why they would get a prepaid card account, Eberhard says: "Everyone in Canada can get bank accounts, and there's a very small percentage of underbanked people here. People using Koho fall into three categories: A – they want the technology and the simplicity and intuitiveness of the experience. Also, they want to know how much they are spending via our PFM tool. B – they don't want a primary account that is going to charge them fees. C – they want to have their account run by an institution that they trust and relate to and which isn't going to sell them things they don't need, or overly complicate things to make greater profits. There is a mistrust of banks among younger people.

"Our ethos is to build a great product and not profit from confusion or complexity. People know exactly what they are going to get, and that message resonates with them. Our revenue comes from card interchange and interest on deposits," Eberhard explains.

"We think that our clients might link their Koho account to a savings account with [Canadian digital banks] Tangerine or EQ Bank.

"One of the things that causes a lot of pain for consumers is that they have difficulty in getting a holistic understanding of their financial life. So we're laying some of the functionality of [Canadian digital account-scraper PFM tool] Mint into our PFM tool."

Mogo

Mogo's Platinum Prepaid Visa Card is linked to the digital Mogo Spending Account, which consumers can transfer funds to from most Canadian bank accounts. Each time they add money to their Spending Account, they are prompted to set a spending goal.

The Mogo app provides instant transaction alerts with each purchase along with updated real-time balances. There are no monthly charges for the account, and Mogo prepaid customers have access to Mogo's other products including free monthly Equifax credit scores, mortgages and a range of different personal loans.

In April 2017, Mogo said it had surpassed 400,000 members, up 52,000 from the 348,000 members reported as at 31 December 2016.

Future promise – substantial headwinds

"I think Koho has future promise, while Mogo faces some substantial headwinds," says IDC Canada associate Robert Smythe.

"Mogo could be affected by the problems facing Home Capital, parent of Mogo's issuer Home Trust. With the problems Home Capital is facing, it may be more difficult for Mogo to get clients to place funds in a Visa account managed by Home Trust. The plus factor may be that most people won't make the connection between the Mogo prepaid Visa card and Home Trust/Home Capital.

"The other positive for Mogo is that its main source of revenue isn't collecting funds to be placed in prepaid Visa accounts," Smythe continues. "Its primary business is instalment loans and personal line-of-credit accounts.

"Mogo is also a mortgage broker, and this line of business may be facing greater scrutiny from lenders which are becoming more cautious as a result of Home Capital's problems. Mogo has been in operation for many years and is still facing operations losses. Its staff complement seems to be high, based on the business being generated," notes Smythe.

"Koho is a recent startup, whose primary source of revenue is interchange fees and income from funds on deposits in its prepaid card accounts.

"It identifies its target clients as people tired of bank charges. In consumer surveys conducted by IDC Canada, we didn't see bank fees to be a major concern. Desirable clients usually have balances large enough to eliminate fee charges.

Smythe adds: "Koho is trying to convince clients to have their salaries deposited into their prepaid account.

"It suggests anywhere from a third to 100% of income so deposits can then be used to fund on-going purchases. I doubt Koho will have much success in convincing people to deposit their hard-earned money with anyone but a stable bank. IDC Canada surveys also show that consumers are very satisfied with their banks and the services that they provide.

"Koho has some positives going for it, and has also been discovered by Power Financial as well as several other investors. It seems to have a reasonable staff complement and adequate initial funding. It also has an interesting array of services that enables payments while providing real-time information on how funds are spent.

"The major challenge Koho faces is the assumption that there are many bank clients wanting to switch to a solution that provides lower fees," Smythe says. "I don't think there are too many people in this category. It will also be difficult to provide core bank services based on prepaid debit cards.

"This may be why Koho's projected growth targets are very low. These need to be increased substantially to make the company viable and to make it a potential acquisition target.

"On the positive side, Koho provides innovative payment reporting and management services that are currently only offered by TD as a result of its partnership with Moven."

Smythe concludes: "Koho needs to target being the Canadian equivalent to Moven, which involves selling its software solutions to banks globally. This will involve abandoning trying to be a bank and focusing on being a fintech software vendor." ■

BMO leads in digital account-opening

BMO Bank of Montreal has won Celent's Model Bank 2017 Award for process automation, thanks to its digital account-opening capability. Robin Arnfield talks to Niti Badarinath, BMO Financial Group's head of North American channels, to find out more about how the bank's digital initiatives are progressing

BMO Bank of Montreal is in the midst of a digital transformation as it celebrates its 200th anniversary.

"Our FY2017 digital investments in Canada are focused on key strategic objectives: making it easy for customers to join BMO and open accounts, enhancing our digital [mobile and online] capabilities, and building a new mobile experience that makes it easy for our customers to bank," says Niti Badarinath, BMO Financial Group's head of North American channels.

In addition to its Canadian retail banking operation, BMO owns BMO Harris Bank, which is headquartered in Chicago.

"We're now working on a new mobile experience that we're co-creating with our Canadian customers, with new features allowing them to make recurring bill payments and transfers, and deposit cheques.

"The new user experience will also give customers greater control of their finances by offering credit card alerts, card controls – lock or unlock cards, report lost or stolen cards etcetera – and the ability to view pending credit card transactions."

Digital onboarding

BMO Canada has introduced a service allowing customers to open an account in minutes using their smartphone, without having to go to a branch or download an app.

The bank partnered with GMC Software and Vasco Data Security's eSignLive by Vasco unit to develop the digital account-opening platform, which has been in full production since December 2016 across its Canadian branches.

"Celent gave BMO the Model Bank award for process automation in its Digital Transformation in Personal Banking initiative, as it has automated and streamlined the customer on-boarding process," says Celent senior industry analyst Joan McGowan, author of Celent case study *BMO: Digital Transformation in Personal Banking*.

"BMO has introduced an enterprise-wide e-forms and e-signature shared services platform for personal banking accounts, that lets anyone with a smartphone onboard. The new digital account-opening platform can be used by any business line across BMO Canada. For example, BMO is rolling the platform out across its Canadian wealth management business."

Benefits

"BMO claims that it takes eight minutes to onboard a new customer using a smartphone, including customer validation and verification and e-signing of documents," McGowan says.

"The process efficiency that BMO has brought about is very significant, as it went from siloed, highly paper-based processes to fully digital onboarding.

"BMO's personal banking sales force is saving 15-30 minutes in processing forms for new product sales due to the digital account-opening platform, which creates efficiencies and increases revenues for the bank.

"Also, the reduction of paperwork means an 80% efficiency increase in the audit process, and makes the audit trail easier for bank compliance officers."

According to McGowan, other benefits include an up to 80% reduction in errors and irregularities in the personal banking account-opening process, and an approximately 40% increase in process efficiency around personal banking on-boarding. BMO Canada has seen a C$12m ($8.96m) increase in revenues from digital account-opening, she notes.

Niti Badarinath, BMO Financial Group

Common IT platform

Canadian Banks' Digital Transformation & Maturity Level, a February 2017 report authored by IDC Canada analysts Robert Smythe and Jason Bremner, found that Royal Bank of Canada and Scotiabank are the two Canadian banks most focused on financial technology.

The two banks came joint first with very high levels of digital readiness, while BMO, CIBC and TD came joint second.

"While BMO CEO Bill Downe has spoken about digitisation on a number of occasions, BMO hasn't been a leader in terms of public statements about digital," says Smythe. "Scotiabank has been very public about its digital plans."

"BMO's strategy has been to centralise IT support for its Canadian and US operations, and to have a single IT platform for banking in North America," Smythe says.

According to the IDC report, BMO's policy is to integrate all its applications through a connector grid that brings together over 1,400 applications across the bank.

It also has a "build once" software-development policy, with over 1,000 reusable software-based services employed to create applications quickly and easily, the IDC report adds.

Mobile payments

"We're building foundational mobile payment capabilities to enable simple and convenient ways to pay," says Badarinath.

"In the US, we've followed up our 2015 Apple Pay launch by delivering Android Pay and Samsung Pay mobile payment capabilities for Android and Samsung customers in January 2017."

BMO also launched the BMO Harris Bank MasterPass digital wallet in the US in January 2017.

In May 2016, BMO announced that it supported Apple Pay in Canada. "In Canada, we're working on going beyond just 'pay by phone', exploring several value-added services that focus on both pre-purchase and post-purchase aspects of customers' payment journeys," says Badarinath.

Emerging technologies

Asked about BMO's plans for emerging digital payments such as blockchain, mobile peer-to-peer (P2P) transfers within social media apps, and mobile ATM access in Canada, Badarinath notes: "The bank approaches everything through the 'customer experience' lens. What will make it easier for customers to bank with BMO and manage their payments?

"BMO is actively exploring several emerging technologies across social media, mobile P2P and mobile cash," he says. "In the near term, our social media teams are already engaged in brand and marketing activities on Facebook, Twitter, YouTube and Instagram.

"In January 2017, we launched the People-Pay mobile P2P capability in the US within the BMO Harris Mobile Banking app, with continued investment in P2P capability in Canada through Interac eTransfer enhancements this year."

Interac eTransfer is an email- and cellphone-based P2P payment service offered by Canada's banks, which can also be used by businesses for bulk payments. Through an automated file-transfer process, businesses can send multiple payments in a single file upload, without the need for the recipients' personal financial information.

In March 2017, BMO announced free Interac eTransfer transactions for all Canadian chequeing and Premium Rate Savings accounts that are part of a banking plan. BMO also now offers Interac e-Transfer bulk disbursement to its commercial customers.

"Our Mobile Cash service, which was launched in March 2015, allows our US customers to stage and make cardless ATM withdrawals via their smartphones," explains Badarinath.

"We're exploring ways of bringing this mobile ATM capability to our Canadian ATMs. In the longer term, we've been actively learning about and identifying potential applications for blockchain and distributed financial technologies. Our selected partners in the blockchain and distributed financial technology space include R3 and Ripple."

Digital trends

Badarinath sees several key catalysts that will impact the digital experience. They are:

- **Voice** – the concept of using 'my voice as my keyboard' to simplify data entry and queries
- **Biometrics** – the concept of 'me as my password' to reduce or remove the need for passwords, tokens, etcetera
- **Social** – leveraging customers' social media circle to enable insight for financial decisions, and the use of peer influence in decision-making
- **Artificial intelligence** – using machine learning and data to complete tasks for the customer, including chatbots driving conversational banking.

Adoption

BMO said in its first-quarter 2017 earnings call on 28 February 2017 that its Canadian customers' digital adoption rate has increased to 49%, with 16% of sales now originated through digital channels. Also, mobile transactions are up by 54% in each of the last two years, BMO added.

"A good way to measure how we're focusing on our customers' digital banking needs is to look at digital adoption – the percentage of our customers who bank online or via mobile," says Badarinath.

"We've grown over 20% year-on-year in Canada and over 10% in the US. Another measurement is digital usage, which is the percentage of bank transactions that are now done digitally. This grew by 27% in Canada and 13% in the US for BMO.

"An interesting data point is that currently over a third of all core banking transactions at BMO are done via mobile devices in Canada." ■

BMO at a glance

- Over 900 branches in Canada
- Almost 600 branches in the US
- Total assets of C$719bn
- Deposits of $488bn
- Over 45,000 employees
- Around 50% of BMO's Canadian customers are active digital users, with 16% of product sales completed digitally, and over 30 million mobile transactions this year.

BMO launches Android Pay

BMO launched Android Pay in June 2017, becoming one of the first Canadian lenders to offer the service.

Commenting on the launch, Jennifer Hawkins, BMO Financial Group's head of North American retail payments, said: "As digital is increasingly the preferred channel for managing accounts and making purchases, our focus continues to be on providing our customers with more simple and secure choices to meet their evolving needs, and bringing Android Pay to customers in Canada is a reflection of that commitment."

Pali Bhat, Google's vice-president of product payments added: "We're excited to bring the simplicity and security of mobile payments to BMO customers with Android Pay. Starting today, people will be able to use their Android device to pay at hundreds of thousands of contactless payment terminals in Canada."

In addition to the contactless mobile solution, BMO has also introduced a number of new features to help customers stay on top of everyday spending and rewards:

- **Credit card alerts** allow customers to stay on top of credit card transactions with timely account updates sent via email and text message alerts.
- **Pending credit card transactions** help customers remain in control of transactions and credit card spending by displaying current transactions in real time.
- **Real-time rewards balances** give customers a tool to view and track rewards points balances in real time on BMO Mobile & Online Banking.
- **Rewards site single sign-on** allows easy access to the rewards-redemption site with a simple tap or click from BMO Mobile & Online Banking.

"Alongside quickly bringing to market new purchasing capabilities, we've also focused on building technology that can streamline our customers' experience in areas that are equally important to them, such as the ability to track credit card activity in real time from their mobile device, allowing for a more current and fulsome view of their finances while on the go," added Hawkins. ■

Branch transformation embraces social media

Massachusetts-based Avidia Bank is making innovative use of social media in conjunction with a branch transformation programme and outreach to the local community. CarrieAnne Cormier, Avidia's digital banking strategist and innovation leader, explains all to Robin Arnfield

A $1.2bn mutual community bank, Avidia was formed in 2007 from the merger of Hudson Savings Bank and Westborough Bank, both of which were founded in 1869.

Flagship branch

Avidia has carried out an integrated digital transformation and community engagement programme at its flagship 17 Pope Street financial centre in Hudson, Massachusetts, which opened in February 2017.

The Pope Street branch, which was renovated following its purchase from Citizens Bank in 2016, combines retail, commercial, and investment banking, mortgage lending, and community events like farmers' markets. It also includes a community room, which is available for local events by community partners and non-profit organisations.

Digital banking strategist and innovation leader CarrieAnne Cormier says: "Our three-year plan calls for us to do the same digital transformation at all our branches that we did at Pope Street.

"But, before we actually transform our branch spaces, we are bringing our community emphasis and focus into our branch culture at our other branches."

In July 2017, Avidia, which currently has nine branches, will open a new branch with the same design as Pope Street's. It is working with digital design firm The Element Group on its branch redesign programme.

Display screens

At the Pope Street branch, Avidia's social media feeds are displayed on digital screens. "One of these display screens is a touchscreen so customers can navigate the display, and engage with the bank both physically and digitally," says Cormier.

"Other banks have told me that they tried touchscreens, but no one uses them. The reason is that what they put up is basically just a product finder.

"We've tried to make our touchscreen more engaging. Everyone likes to feel like they are an insider, so our touchscreen shows what is happening at Avidia behind the scenes. People can see new initiatives and projects that are coming up and community volunteer events that we're doing.

"We're not doing 'tech' branches just to do it," explains Cormier. "We're really reinventing our spaces to blend our digital presence and our physical presence. We very much integrate social media into everything we do and feed it into our in-branch digital displays.

"For example, we bring feeds like 17popest.hscampaigns.com into the touchscreen at the Pope Street branch. Also, any time someone uses the #17PopeSt hashtag, this pulls into a feed that we moderate."

"In the Pope Street branch, we've built a social thought bubble wall, where people can come and take pictures and share. Usually, we tie this sort of activity to a contest or giveaway.

"We've also done some fun events, like live screen-printing of T-shirts in the Pope Street branch, and will be launching a farmers' market there starting in June 2017."

Brand identity

Cormier adds: "I've talked to a lot of banks which are doing their branch transformations now, and none of them seem to know their brand identity or have a clear goal.

"A lot of banks are trying to redesign their branches, but just want to do what's popular without any clear goal or brand. I think we have a solid brand, which helps us support our redesign."

Cormier says that, over the last eight years, Avidia has experienced a decrease of about 40,000 teller transactions at its branches, year on year.

"Sure, digital technology plays a huge role in the downturn in transactions, but the other part is just the state of retail banking in general," she says.

"Branches are ugly and remind me of going to the post office, or of retail stores that are outdated and have lots of empty shelves. No one wants to come into a retail store – or in our case a branch – more than once or twice a year if it always looks the same or if they can get the entire experience online. So we're redesigning our branches, and providing interesting and engaging activities in them, to make people want to come in."

The Pope Street branch offers iPads for use by customers, says Cormier. "We're testing Amazon Alexa in the Pope Street branch so customers can see what we are working on with our developer app. They can try out these new services on the iPads."

Cardless ATM access

Avidia was one of the pioneers of cardless ATM access in the US. In August 2015, it launched Cardless Cash mobile ATM access technology from FIS and its partner Paydiant – now owned by PayPal – in 2015 on its mobile banking app.

In March 2017, IDG Enterprise named Avidia as one of 50 US recipients of its 2017 Digital Edge award for its promotion of the launch of its Cardless Cash initiative using multiple social media platforms.

Leading up to the launch, Avidia Bank promoted Cardless Cash on social media through images, live-stream demonstrations and employees' experiences of the feature during testing.

"When we launched our Cardless Cash service, instead of trying to talk to customers about the service or hand out a leaflet, we wore T-shirts saying 'no card no problem' on the front and a picture of a phone with our app on the back," says Cormier. "The clients all wanted to talk about the T-shirts."

Avidia Smarties

To promote the bank, Avidia has a team of tech-savvy and social media-friendly Avidia Smarties, who act as brand ambassadors.

"A Smartie takes pride in the job that he or she does for the bank and the communities that Avidia Bank belongs to," the bank says.

"They are knowledgeable about bank products and services and industry trends, and love how banking is evolving at a rapid pace. "Each Smartie is put through an interview process and is chosen based on personality, social media experience.

"You will find Avidia Smarties at community events around the Central Massachusetts area. The community is an integral part of the success of Avidia Bank, and the Avidia Smarties want to support it in any way possible."

The Smarties team attend and tweet from local events, hold Instagram contests and wear Avidia Smarties bright orange T-shirts. They also conduct product promotions and 'Smartie Swarms', where they descend en masse on a local business to bring it to the public's attention.

"Avidia staff will check in at different businesses and post pictures of our lunch or experience at that business on our digital screens," says Cormier. "Local businesses love this, as it is additional marketing for them."

Analyst views

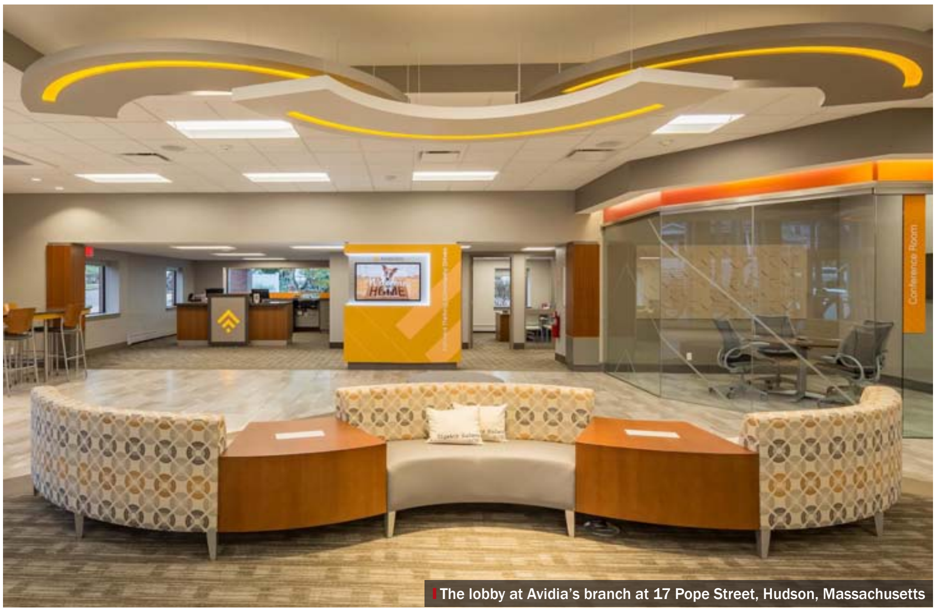
Ron Shevlin, director of research at US-based Cornerstone Advisors, says: "Countless community banks and credit unions complain about the relatively high average age of their customers or members, and say they want to attract younger customers.

"But what do many do about it? Not a whole lot. Kudos to Avidia for committing to – and executing – a strategy that uses social media to create a brand image and proposition that appeals to younger consumers. Plenty of banks would have run a campaign and moved on; Avidia has demonstrated a commitment to using social media."

"Avidia represents the way forward in two respects," says retail banking delivery channel consultant David Cavell.

"We're in an omnichannel/multichannel world, and Avidia is taking an active interest in digital including social media.

"Also, Avidia is looking at its branches for the sake of the branch channel in its own


The lobby at Avidia's branch at 17 Pope Street, Hudson, Massachusetts

right and its relationship with the community," Cavell continues.

"I believe community engagement is the way forward for the branch, and Avidia branches are becoming a community hub."

According to Cavell, there are at least 100 different tactics that banks can deploy at a community-focused branch.

"Every bank or credit union needs a playlist of tactics to enhance the community value of its branches," he says.

"Some are very lightweight, like giving out T-shirts, and others are heavier weight, like arranging events such as farmers' markets or art shows in the branch. These events add value and provide another reason for people to go to their branch. This is particularly the case with attracting millennials to the branch.

"Every time someone says the branch is dead, someone else says it's actually not dead and is in good shape," Cavell continues.

"The key finding of JD Power's *US 2017 Retail Banking Customer Satisfaction Survey* is the rise of the omnichannel banking consumer, and the fact that overall satisfaction rates among US customers visiting branches in the last 12 months were higher than those who only used digital channels.

Social media is central to Avidia's strategy

"The JD Power survey stacks up with other surveys that show that, in the overall channel mix, branches are still relevant."

Brand quality

"Community banks win as they build their brand quality every time they run something in the branch relating to the community," explains Cavell.

"This demonstrates that they are a community bank, and it's proven worldwide that a lot of consumers will buy into the idea of banking with their local bank. Also, in the US, credit union member numbers have been rising steadily.

"I don't think that across the banking industry there is a good appreciation of what brand means," says Cavell. "It isn't just image and it isn't corporate livery. A bank's brand is represented by a set of core intrinsic values and attitudes that customers develop an emotional connection with and buy into."

Joseph Walent, associate director, customer interaction advisory service, at Mercator Advisory Group continues: "Forward-thinking community banks like Avidia are trying to see how they can fit into their customers' lives and bring the community back into their branches.

"They can provide an advisory role to their customer by providing events such as seminars on mortgages and house-buying for first-time buyers, for example."

"Community banks can go digital, but then they are in same playing field as the big banks," says Celent banking analyst Stephen Greer. "Their selling point is face-to-face interaction in the community." ■

Banks sorely lacking in terms of positive customer experience

One thing that new digital banks and fintechs always seem to offer is a new, more positive experience for the customer. However, it seems that many of the new kids on the financial block are actually delivering, especially in comparison to the long-standing incumbents in the sector. **Patrick Brusnahan** reports

Non-traditional providers are moving the needle in terms of attracting customers. This is according to the *World Retail Banking Report 2017* published by Capgemini and Efma, which states that nearly one-third of banking customers are already banking with at least one non-traditional provider. However, they are yet to grasp significant market share.

The search for a positive experience

Fintechs, while new to the sector, are already offering higher levels of positive customer experience than banks. Focusing on specific areas of the banking value chain, and using the latest technologies have helped them deliver frictionless, personalised and attractive offerings to customers.

This is putting added pressure on the traditional relationship between a customer and a bank.

Banks are struggling to respond to the new batch of competitors due to heightened customer expectations, a large amount of regulation, a cultural resistance to change, pressures on profits, and legacy infrastructure.

Tech-driven firms reached the most potential in North America, as they delivered positive experiences to 57.8% of customers, compared to 49.5% for banks. Fintech firms in Asia-Pacific gave 39.5% of their customers a positive experience, a higher level than the 32.6% for banks.

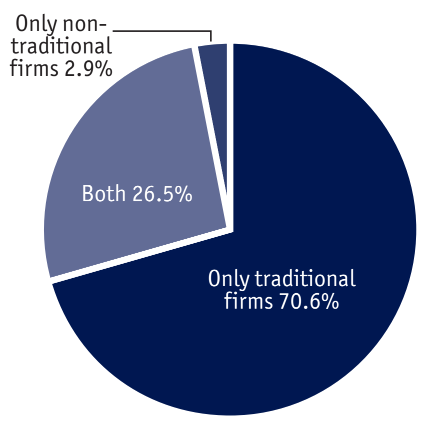
While the global average is 40.3% for tech-driven firms and 37.1% for banks, the Europe, Middle East and Africa (EMEA) region bucked the trend as 35.7% of customers at banks had positive experiences, but only 33.2% of tech-driven firms' customers felt the same way.

Overall, 29.4% of banking customers also used products and services offered by the newer players. In addition, 52.4% of customers that engage with non-traditional operators have relationships with three or more of them.

Younger, tech-savvy consumers are the most likely (42.6%) to embrace the non-traditional providers, but only 12.8% of the non-tech-savvy crowd wants to approach them. Furthermore, 37.2% of Gen Y customers use non-traditional banks, but only 22% of other age groups did.

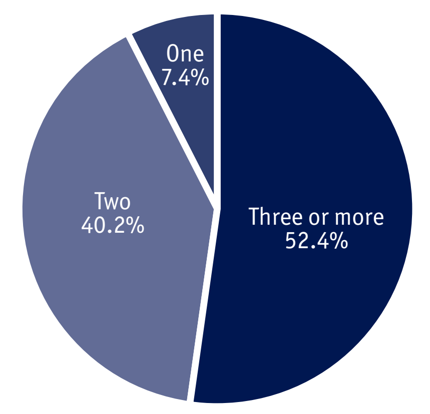
The report states: "Banks are no stranger to competition, having faced incursions from credit unions, post offices, brokerages, internet-only banks, and other entities seeking a piece of the multi-billion-dollar global retail banking market.

CUSTOMERS' USAGE OF FIRMS



Source: *World Retail Banking Report 2017*

CUSTOMERS' NUMBER OF RELATIONSHIPS WITH NON-TRADITIONAL FIRMS



Source: *World Retail Banking Report 2017*

POSITIVE CUSTOMER EXPERIENCE

	Traditional Firms	Non-Traditional Firms
North America	49.5%	57.8%
EMEA	35.7%	33.2%
Asia-Pacific	32.6%	39.5%
Global	**37.1%**	**40.3%**

Source: *World Retail Banking Report 2017*

TOP FIVE MOMENTS OF TRUTH (GEN Y CUSTOMERS)

	Importance Ascribed by Gen Y	Importance Ascribed by the Tech-Savvy
Digitally update transaction limits	70.4%	76.7%
Real-time loan quotes on mobile	66.0%	70.7%
Real-time alert notifications	65.9%	75.7%
Real-time information to better manage your financial life	63.9%	73.7%
Initiate or close a loan from digital channels	**63.5%**	**69.6%**

Source: *World Retail Banking Report 2017*

"However, the variety and severity of forces disrupting traditional banking are now reaching a new pitch, threatening to dismantle long-held ways of doing business.

"Most significant is the advancement of much tougher, technology-driven competition. The new wave of digital banks and fintech companies are wisely putting their efforts into the front-end customer-facing experience, knowing that winning the customer interface primes them to also win over customer relationships, loyalty, and fees."

One aspect that tech-focused firms often get right is turning the banking experience into something relevant for more technically aware users. Atom Bank in the UK was stated as an example for its use of gamification, while mobile-only Starling Bank encourages users to record videos of themselves for biometric identification.

Banks could be considered to be lagging when it comes to these innovations, especially considering that huge operators such Apple, Amazon and Facebook have been utilising these developments for years. As a result, customers expect the same level of service from their bank that they get from other providers.

The report continues: "Merely keeping up with other banks' interest rates on saving accounts or providing mobile apps will not suffice. Today's competitive landscape requires a broader focus as well as a greater appreciation of new ways of doing things. Fintechs have been fast and successful at demonstrating this, and herein lies the threat for banks."

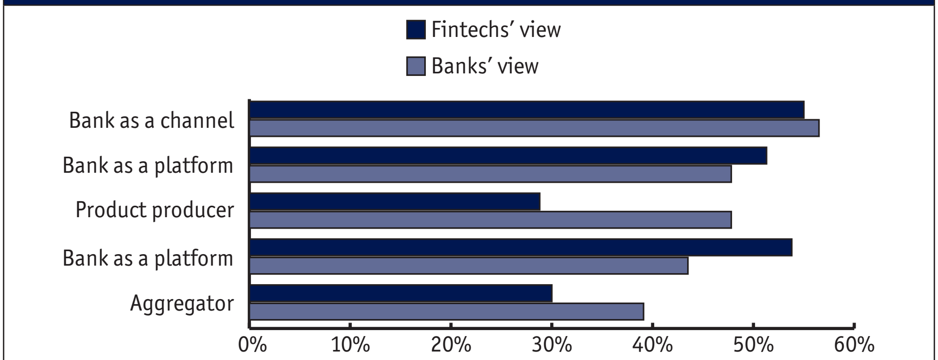
Moments of Truth

Crucial for anyone's success is the ability to create a Moment of Truth (MoT).

The report defines MoTs as instances when customers interact with their financial services provider and form or change an impression about that provider, product or service.

Gen Y and tech-savvy customers placed most importance to the moment when their transaction limits are digitally updated. Both groups gave higher marks to traditional banks for providing those moments.

LIKELIHOOD OF ROLES BANKS WILL PLAY IN FUTURE



Source: *World Retail Banking Report 2017*

In addition, real-time notifications were highly ranked and traditional banks received more credit for that as well.

On the other hand, non-traditional firms made the best impressions in loan-related transactions. This was attributed to providing real-time loan quotes via mobile and initiating, or closing a loan from a digital channel.

What can banks do?

Banks do not need to completely fear the up-and-coming firms just yet.

Banks have huge reservoirs of knowledge on how to navigate banking networks and regulations. They also know of all the technology newer firms employ, despite being slower to implement them. Large banks have the scale and resources that no new fintech can match. And, crucially, the banks have the customers.

However, this will only last for so long. Customers are quickly heading moving away from the usual interactions they have with financial companies. Banks need to keep pace with the frictionless experiences that the more technically cutting-edge firms can offer. Convenience is key.

Having said all that, there is one remaining area that could change the balance entirely, and that is application programming interfaces (APIs).

The potential of APIs

APIs would help the rapid deployment of banks' digital agendas and collaboration with non-financial services providers to create a value-based marketplace and increased long-term loyalty.

Collaboration is expected to be a big part of financial services in the future. Some 91.3% of banks and 75.3% of fintechs say they expect to partner each other; both expect this to improve customer experience, bring new revenue streams, and reduced time to market for new products.

However, there are concerns with data security and customer privacy with open APIs; nearly three-quarters of banks and fintechs cited these concerns.

Banks are the holders of extremely large amounts of customer data that can be used to their benefit. These benefits include enhancing customer engagement and creating new revenue sources.

If banks monetise their APIs, that is one new revenue stream instantly. Overall, 43.5% of banks stated that they preferred a model in which they charge a fee per API transaction.

However, banks are more enthusiastic about revenue-sharing models than fintechs (47.8% versus 27.2%).

SECURITY

Security scares off almost 40% of US consumers from online

Despite the growth of digital shopping in the US, security concerns have led 37% of consumers to avoid making online purchases as they feel their payment would not be secure, according to a survey conducted by American Express.

According to the 2017 *American Express Digital Payments Survey*, consumers are shopping online more, but have fears about digital security.

The survey of 1,020 consumers and 401 merchants highlighted that 90% of US consumers said they had made at least one online purchase in the past year, and 73% had made three or more online purchases.

Nearly half of online shoppers (47%) said they had increased the frequency of online purchases in the past 12 months.

Over 70% of online shoppers had used digital payment services such as mobile wallets, one-click checkout buttons and P2P payment apps, and 41% said they always or sometimes used digital solutions when paying.

Merchants are prioritising security investments to allay consumer fears. In 2016, merchants spent 31% of their IT budgets on payment security, according to the survey. Furthermore, more than half of merchants (54%) said their budgets for payment security will increase over the next year, while 53% take the simple step of requiring customers to enter credit card CVV codes for online purchases.

According to the study, 71% of merchants said the proportions of annual sales generated through online and mobile channels had increased over the previous year.

Mike Matan, American Express's vice-president of industry engagement, product and marketing, global network business, said: "Digital innovation is enabling consumers to buy from merchants when and where it's most convenient for them.

"But the results of our survey show that for merchants to capitalise on consumers' continued shift to online and mobile commerce, they need to provide their customers with the confidence that their information is secure."

STRATEGY

CIBC names new heads for wealth and retail businesses

Canadian Imperial Bank of Commerce (CIBC) has appointed Jon Hountalas and Christina Kramer as new heads of wealth management, and personal and small business banking respectively, in Canada.

Hountalas will replace Steve Geist, who will leave at the end of the year. He will take up responsibility for managing CIBC Asset Management, CIBC Wood Gundy and CIBC Private Wealth Management.

As well as the new role, Hountalas will continue to head the commercial banking unit, the bank said in its press statement. He will report to CIBC president and CEO Victor Dodig, and will also join the group's executive committee.

Kramer will be responsible for retail distribution, CIBC Imperial Service, small business, mobile advice and CIBC investor's edge teams, as well as personal and small business banking products. She will succeed David Williamson, who will depart from the bank in the first quarter of 2018.

The bank also appointed PrivateBancorp CEO Larry Richman as new group head of the US region, following completion of the PrivateBancorp acquisition.

"At a time when we are positioning our bank to embed a client-first culture into our DNA, execute our strategy and deliver growth for our shareholders, these changes are a natural next step that will build on the clear momentum we have established and provide opportunities to develop our next generation of senior leaders," Dodig said.

DISTRIBUTION

HSBC to hire 500 new staff in major Scottish expansion

UK banking group HSBC has unveiled plans to create new 500 jobs in Scotland – its third expansion in the region in three years.

The jobs will be created in the bank's global risk operation Edinburgh in 2015, and in its contact centre in Hamilton. The latest move increases the bank's total headcount in Scotland to 4,500.

The move was described as "fantastic news for the economy" by Scottish First Minister Nicola Sturgeon.

"This is testament to our skills and expertise, and builds on HSBC's significant business presence here. Scotland is open for business, and this announcement further demonstrates our position as a prime location for investment and growth," Sturgeon said.

HSBC's CEO in Scotland, Alison McGregor, added: "This expansion programme spans different locations, skills and disciplines, supporting lots of communities in different ways."

TECHNOLOGY

PayPal to launch instant bank transfer option in US

PayPal has announced that its US customers will soon be able to instantly transfer funds from Venmo accounts to their bank accounts using Visa or MasterCard debit or credit cards.

The instant transfer feature, which is already in beta for selected PayPal users, will let users transfer money in minutes, rather than a day currently.

"We expect that funds will typically be available in your bank account in a matter of minutes, although some banks may take up to 30 minutes," PayPal COO Bill Ready wrote in an official blog post.

The new service will cost $0.25 per transaction. PayPal added that the current system – in which fund availability typically takes one day and there is no charge – will remain available to users.

The move is seen as PayPal's response to Zelle, a new payment-processing service backed by the largest banks in the US.

SECURITY

BBVA launches new biometric technology business

Spanish banking group BBVA has joined with startup Das-Nano to launch a new technology business that will focus on biometrics.

The new entity, Veridas, will focus on research and development for software for personal identity verification, through biometrics such as face, voice, image or document recognition, or fingerprint reading. The new business will be spearheaded by Das-Nano co-founder Eduardo Azanza.

BBVA said biometric technology will allow it to simplify access to off-site services and improve security of digital channels through "authoritative identification of employees and customers remotely".

BBVA's head of architecture and IT innovation, Ignacio Bernal, said: "Veridas will contribute the talent, the knowledge and the specialised experience necessary for the technological development that will allow us to reach our goal, which is to bring the age of opportunity to everyone." ■

REGULATION

Barclays faces fraud charges over Qatar capital raising

UK banking group Barclays and four former executives have been charged with conspiracy to commit fraud over capital raising from Qatari investors in 2008.

The charges relate to two capital raisings with Qatar Holding and Challenger Universal between June and October 2008, and a $3bn loan made available to Qatar through the economy and finance ministry in November 2008.

The executives charged are ex-Barclays CEO John Silvester Varley, former Barclays Capital executive chair of investment banking and investment management in the Middle East and North Africa Roger Allan Jenkins, former Barclays Wealth and Investment Management CEO Thomas Llewellyn Kalaris, and former European head of financial institutions Richard William Boath.

All four executives and the bank have been accused of making representations related to the June 2008 capital raising. Barclays, Varley and Jenkins have also been charged with fraud in relation to the October capital raising, and for unlawful financial assistance.

Barclays issued a statement saying that it is "considering its position in relation to these developments" and that it "awaits further details of the charges from the SFO".

REGULATION

FCA chair to step down as five-year tenure comes to an end

John Griffith-Jones, chair of the UK's Financial Conduct Authority (FCA) and Payment Systems Regulator (PSR), has decided to step down from his role at the end of his five-year term on 31 March 2018.

Griffith-Jones took up the role of FCA chair in April 2013, and has chaired PSR since its establishment in April 2014. The UK treasury is now set to begin a search for Griffith-Jones's replacement.

"I committed to a five-year fixed term to chair the FCA and, in so doing, to help ensure that conduct regulation became a respected part of the UK financial landscape," Griffith-Jones stated.

UK Chancellor of the Exchequer Philip Hammond said: "John Griffith-Jones has provided strong leadership to both boards during his tenure, helping to establish them as key parts of the UK financial regulatory system."

Prior to his time at the UK regulator, Griffith-Jones worked at KPMG. He previously faced calls for resignation in connection with fraud at HBOS, that was audited by KPMG.

STRATEGY

TSYS, Tesco Bank extend payments agreement

US-based payment solutions provider TSYS has extended its payments agreement with Tesco Bank to continue to support the bank's credit card business in the UK. TSYS will offer full customer account-management services on its TS2 platform.

Tesco Bank runs 8.1m accounts and policies, providing a line of core retail banking and general insurance products.

Tesco Bank MD David McCreadie said: "TSYS has proven itself as the right partner for Tesco Bank as we continue to look for new and innovative ways to grow and improve our credit card business.

"With their outstanding client service and deep understanding of our business, we're confident that they will continue to help us provide a seamless experience to our customers."

TSYS International group executive Rob Hudson said: "This is a great example of how TSYS values long-term client relationships.

"Tesco's market-leading retail experience together with TSYS's payments expertise has proven to be a dynamic combination in providing an outstanding cardholder experience."

DISTRIBUTION

Australia's ATM2Go to migrate its ATM estate to TNS

Australian ATM operator ATM2Go has signed a multi-year agreement to migrate its entire ATM estate to Transaction Network Services (TNS). The deal also includes 4G coverage for both mobile and retail ATM sites.

The ATM operator will use the TNSLink for ATMs solution to manage communications from the wide range of locations its terminals serve. TNS claims its platform will enable ATM2Go to maximise uptime and reliability, while cutting capital and operating costs.

The integrated TNSOnline and TNSVision analytics tools will also offer critical insight into ATM fleet performance in near-real time, according to TNS.

ATM2Go director Jenny Marsh said: "We have chosen TNS because of its proven and reliable hardware, its reputation and the 24/7 support it offers. Many of our mobile terminals are deployed at weekends, so as well as the ability to handle high traffic volumes, we needed a network that came with round-the-clock support for peace of mind."

John Tait, MD of TNS's payments division for the Asia-Pacific region, said: "A significant proportion of ATM2Go's 270-strong ATM estate covers mobile sites, which frequently change. We have extensive experience managing the demanding requirements of this type of ATM, such as the critical need to be able to connect quickly and easily when sited.

"Often deployed at a moment's notice, we are able to support the communications requirements instantly, including high-traffic locations which can see in excess of 1,000 transactions a day."

MOBILE

PNC Bank launches mobile app for Visa commercial cardholders

US-based PNC Bank has launched a mobile payment app that allows Visa commercial cardholders to make purchases through Apple Pay, Android Pay and Samsung Pay using a smartphone or mobile device.

The bank said the new payment technology will enhance security and convenience for businesses' travel-related and in-store purchases, while responding to the changing demographics of the US labour force.

When customers transact through PNC's mobile payment option, their commercial card numbers are not stored on the mobile device; instead a unique virtual account number is assigned by the app for each transaction, to ensure safety of sensitive data. Additionally, account numbers are not shared with the merchant.

When adding a commercial card, holders are authenticated through a two-step identification and verification process.

PNC Bank's executive vice-president and head of product management for treasury management, Christopher Ward, said: "Increased security, convenience and ease of reconciliation are critical to administrators who oversee commercial card programmes. Companies also are focused on the changing demographics of the US labour force.

"Payment options for businesses today must keep pace with the technology available to individuals, who would like to give up the reach into their wallets for plastic cards in favour of pointing or waving a smartphone to complete a purchase."

Visa's global head of products and solutions, Vicky Bindra, said: "Visa's collaboration with PNC is helping bring the convenience and security of mobile payments to their corporate cardholders and meet the growing demand for convenient business payments for everyone, everywhere." ■

PAYMENTS

UK card payments volume more than doubles in 10 years

The number of transactions made using debit and credit cards in the UK has more than doubled in the last 10 years, according to a report by The UK Cards Association.

The *UK Card Payments 2017* report highlighted that debit and credit cards were used to make 16.4 billion purchases in 2016, a 146% increase from 6.7 billion in 2006. It means cardholders both in the UK and travelling overseas made 518 card payments every second last year.

Growth in the number of card transactions has surpassed the increase in the amount spent, indicating consumers' increasing preference for using cards instead of cash for lower-value payments. In 2016, the average value of a card transaction fell to £43.47 ($55), its lowest level in 15 years.

According to statistics released by the UK Cards Association, by the end of 2016 39% of card transactions were either online or made using a contactless card, compared to 24% during the previous year.

UK Cards Association CEO Graham Peacop said: "Card payments play a central role in our economy, with spending equivalent to a third of the UK's GDP.

"As consumers continue to make the switch from cash to contactless, and with the rise of the app economy, we forecast that the number of card payments will grow substantially over the next decade too."

The study further highlighted that £709bn was spent by UK debit and credit card holders both domestically and overseas in 2016. Debit cards represented 75% of this total spend, amounting to £530bn.

Payment cards were used for 77% of all retail spending in the UK in 2016. Cardholders spent most on food and drink (£114bn), followed by other services (£100bn), financial services (£80bn) and entertainment (£57bn).

DISTRIBUTION

TSB partners with MasterCard to issue debit and credit cards

TSB, the UK's biggest challenger bank, has signed a seven-year agreement with MasterCard through which the UK lender will issue new MasterCard-branded debit cards to all current account holders from 2018.

TSB will continue to issue MasterCard-branded credit cards during this period.

MasterCard said TSB, which was spun off from Lloyds in 2013, will become the largest issuer of MasterCard-branded debit cards once all TSB customers are migrated onto MasterCard-branded cards. Visa is currently TSB's debit card issuing partner.

The agreement also covers TSB commercial cards, allowing the bank's business customers to benefit from enhanced functionality in the future.

Commenting on the agreement, MasterCard's divisional president for the UK and Ireland, Mark Barnett, said: "As a trusted and successful challenger bank, which puts the consumer at the heart of what it offers, we are excited to deepen our relationship with TSB and build out its debit card offering together.

"This deal is an example of our commitment to grow the issuance of debit MasterCard among our banking partners, and as such we are best placed to support TSB with its transactional and digital banking plans."

TSB director of product Jatin Patel said: "This partnership presents lots of opportunities for TSB and our customers in 2018 and beyond.

"We're looking forward to seeing these opportunities develop and sharing more about what's in store next year as we continue on our mission to bring more competition to UK banking, and ultimately make banking better for all UK consumers."

M&A

Blom Bank completes HSBC Lebanon acquisition

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BLOM BANK SAL

Lebanese lender Blom Bank has completed the acquisition of assets and liabilities of HSBC's Lebanon operations for an undisclosed sum.

The move follows receipt of approval from Lebanon's central Banque du Liban.

HSBC Bank Middle East – Lebanon, a subsidiary of UK banking group HSBC, operates three branches in Dora, Ras Beirut and Zaitunay Bay. Employees of HSBC Lebanon's operations will be retained as part of the deal.

Blom said the transaction, announced in November 2016, is part of plans to expand its customer base, and diversify its assets and revenue sources.

"The transaction will help Blom Bank to expand its corporate and commercial businesses as well as its retail activities," Blom said in a statement.

REGULATION

Swedish payments business Klarna secures banking licence

Swedish e-commerce business Klarna has received a full banking licence from Finansinspektionen, Sweden's financial supervisor.

Klarna, which currently caters to 60 million consumers and works with 70,000 merchants, applied for the licence in October 2015. The licence allows it to expand its offerings for customers and merchants.

Klarna CEO Sebastian Siemiatkowski said: "Klarna has played a role in disrupting payments services for the better, and now as a consumer-oriented, product-driven and technology-intensive bank, we have the tools to drive change in retail banking.

"We will do this by providing solutions that ensure a smooth customer experience, help people streamline their financial lives, and continue to support businesses by solving the complexity in handling payments."

Klarna, set up in 2005, is valued at over $2bn. The firm has operations in 18 markets and employs over 1,500 staff.

SECURITY

BSP asks Philippine banks to migrate to EMV by June 2018

Bangko Sentral ng Pilipinas (BSP), the Philippines' central bank, has extended its deadline for banks to migrate to EMV chip technology to 30 June 2018.

In 2014 the central bank announced that local card-issuing businesses would have to implement EMV standards by 1 January 2017, as EMV chip cards are more secure than traditional magnetic stripe cards.

Some banks are yet to meet that order, so BSP has extended the deadline by a year, warning that non-compliance will be punished by monetary sanctions.

In a statement, BSP said: "BSFIs [BSP-supervised financial institutions] are given until 30 June 2018 to fully comply with the EMV requirement.

"Failure to do so will subject BSFIs to monetary sanctions provided under relevant provisions in the *Manual of Regulations for Bank*s and Manual of Regulations for *Non-Bank Financial Institutions*."

"In the interim, non- or partially compliant BSFIs are mandated to book provisions for probable fraud losses starting 30 September 2017 until full compliance is achieved."

BSP said the new guidelines will push the banking industry towards full adoption of EMV technology at a much faster pace.

The regulator also asked lenders to take extra steps to invite cardholders to exchange old cards with upgraded EMV chip cards. ■

REGULATION

Dutch regulator fines ABN Amro's card business €2.4m

The Netherlands' Authority for the Financial Markets (AFM) has imposed a €2.4m ($2.6m) penalty on International Card Services (ICS), a wholly owned subsidiary of ABN Amro, for providing excessive credit limits to clients.

The fine relates to shortcomings in ICS's lending practices from June 2012 to March 2015. Some ICS clients were provided credit limits that were too high, for which they paid interest and, in some cases, fees.

ICS took the initiative in March, by preparing a compensation plan for the clients concerned. ICS said it has extended its full co-operation in the AFM's probe into the matter, and has taken necessary steps to improve shortcomings in its service.

ICS has started to implement the compensation plan for affected clients, which it said is proceeding as expected.

ICS operates a portfolio of more than 3m credit cards, and has issued and operated Visa and MasterCard credit cards in the Netherlands for over 25 years.

PAYMENTS

Belfius Bank launches HCE mobile payments in Belgium

Belgium-based Belfius Bank, in collaboration with Worldline, has introduced host card emulation (HCE)-based mobile payments for its customers in the country.

Belfius has incorporated Worldline's HCE technology in its contactless payment mobile app with all card types, including Bancontact cards. The solution was developed by Worldline subsidiary equensWorldline.

Belfius Bank customers using the Belfius Mobile app can now make payments with an Android mobile phone by tapping it to a contactless payment terminal. Merchants do not require any additional hardware or software to accept payments. Worldline is currently working on a large-scale operation to ensure that all merchants can accept this type of payment by next year.

When a consumer makes a contactless payment, the card number is replaced by an encrypted unique number, considerably decreasing the risk of fraud.

equensWorldline Belgium general manager Daniel Braeckman said: "Contactless payment via smartphone will drastically change our way of paying. Worldline is particularly proud to bring this innovation to the Belgian market.

"Thanks to the incorporation of Bancontact, it is also possible to pay with a smartphone in a large number of large and small retailers. The innovation also enables banks to provide secure, reliable and innovative solutions for customers, and enables retailers to accept all types of payment."

Users do not need to enter a PIN for payment amounts below €20; for higher amounts, users enter a PIN on their smartphone to validate the transaction.

STRATEGY

Yes Bank, TerraPay collaborate for cross-border money transfer

Indian private-sector lender Yes Bank has joined with mobile payments switch TerraPay to facilitate international money transfers to bank accounts in India.

The Rupee Drawing Arrangement will allow Indian migrants to transfer money to bank accounts in real time through TerraPay's network partners. For accounts with banks other than Yes Bank, funds will be disbursed through the immediate payment service, IMPS.

According to TerraPay founder and CEO Ambar Sur, India is the world's largest recipient of remittances. "According to World Bank reports, Indian migrants sent $62.7bn in FY 2016-17, which is in fact greater than FDI inflows to India," Sur stated.

Yes Bank's group president and global head of international banking, Arun Agrawal, said: "We are glad to partner with TerraPay to enable a convenient, cashless remittance option for migrants looking to transfer money to India.

"This 24/7 service is backed by Yes Bank's state-of-the-art API Banking platform and superior security protocols, and will help boost granular FX inflows into India."

REGULATION

Bahrain's central bank sets up regulatory sandbox for fintechs

The Central Bank of Bahrain (CBB) has launched a new regulatory sandbox to help fintech startups test banking technology.

To meet the eligibility criteria, the solutions tested should be innovative, offer customer benefits, and be implemented in Bahrain.

The solutions can be tested for nine months, with an option to extend for up to three months. The sandbox will be available to CBB licensees, as well as other local and foreign operators, and offers a "virtual space" for startups to test solutions.

CBB governor Rasheed Mohammed Al Maraj said: "We are living in an era of unprecedented changes, mainly brought about by technological advancement, where we are witnessing how technology is defining financial services. CBB remains at the forefront of these developments to enable the industry to advance similarly."

Bahrain has been bolstering its fintech capabilities, and in 2014 launched two new licence types, payment services and card-processing services, to provide support to non-bank companies looking to enter the banking space. ■

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Nurturing SEO strategy in a competitive financial services market

In such a crowded and competitive space, how can banks ensure that their businesses and products are easily discoverable through Google? **Jonathan Moore**, SEO group head at equimedia, takes a look at the key findings from the business's recent white paper on search rankings to offer four critical pieces of advice

It is not news to state that the financial services space is more competitive than ever, not least because there are many external factors impacting on the sector.

Last year, a report from Citibank predicted that up to 30% of current employees in banks across Europe and the US may lose jobs to technology by 2025.

Challenger banks like Metro Bank have shaken up the landscape in recent years, and fintech firms are continually entering the market with new offerings for customers.

Challenges exist in the digital space as well as on the high street – independent research online and the prominence of financial aggregators like Money Saving Expert mean consumers no longer have to rely on financial advisers when considering products and services.

In today's market, when it comes to getting in front of consumers looking for financial products, the importance of Google search rankings cannot be overstated: It is how people research and make financial decisions in the modern age.

The *Financial Times* recently reported that mobile advertising made up more than half of the digital advertising spend in the US last year, underlying the prevalent and increasing use of smartphones to find news and consume media.

Google has been one of the biggest beneficiaries of the growth in digital advertising, and the increase in advertising revenue could signal a further shift from a mobile-first strategy to a mobile-only one, emphasising the importance of developing and sustaining a search engine optimisation (SEO) strategy to improve ranking results.

However, in such a crowded and competitive space, how can banks ensure that their businesses and products are easily discoverable through Google?

There are a few key things to consider. We recently conducted research over a nine-month period for our white paper, *Has Google breathed new life in financial services' SEO?*, by analysing the rankings of the 3,077 most commonly used insurance and financial services search phrases, to see which brands are performing well and which ones need to revisit their strategy to improve results, across eight financial services categories.

We compared these before and after Google's Penguin algorithm update to see how the top 20 natural search ranking on Google across the eight categories had changed.

Here are some of the key learnings from our findings that will help you ensure your business and products are easily discoverable through Google:

Make sure your basics are in order

First, if you have not already done so, you must plan for your business's site to transition to an https:// domain, as it is the now the preferred protocol for security reasons.

Not making the change, or conducting a poorly managed migration, can have a negative impact on rankings. In the insurance rankings, Sainsburysbank.co.uk rose five slots over the period of our research, likely thanks to a well-executed migration.

Preparing for a site migration is also a good opportunity to conduct a site audit and make sure all your SEO basic best practices are up to standard.

For example, remove dead pages and links from your site to improve credibility, and make sure you do not have duplicate pages live under different URLs. Neglecting site basics such as these will send confusing signals to Google.

Develop useful content for consumers

Once your site is fully transitioned, the single most important thing is to develop a healthy content strategy.

The way people search has changed: Instead of just searching for 'mortgage providers', people are now more likely to search for a specific question or instruction, such as 'what is the best high street mortgage lending rate?' or 'compare interest rates'.

Your content should be informative, rooted in answering the implied need of searches and provide the answers that your prospective customers are looking for.

It should also be original to your site and products, as Google will downgrade pages with duplicated content. This is why aggregators like Money Saving Expert and Money Supermarket perform so well in search rankings: Their sites are content-rich and take cues from specific search terms, such as 'best rate savings accounts'.

A solid development strategy does pay off. Tescobank.co.uk gained visibility in the ISA market over our research period thanks to a strategy designed to answer users' queries and provide valuable information by creating specific landing pages for niche search terms like 'fixed-rate cash ISAs'.

Trial paid-for activity

It is also worth considering incorporating a paid-for element into your content strategy to boost brand- and product-related searches throughout the customer journey.

When implementing paid-for components into your marketing strategy, it is important to adopt a 'test, analyse and learn' approach. Google analytics is an effective tool, helping you to determine how your investment will benefit your business, and the results of paid-for campaigns can show where consumer interest lies and further inform your content development.

When testing paid-for activity, it is important to monitor search trends and keyword changes as well; these need to be reviewed regularly so your business can create new content to answer changing consumer needs.

In the mortgage rankings, change was likely driven by searches for terms like 'help to buy' and other first-time-buyer schemes.

Amplify content via social platforms

Once you have established a solid content strategy for your website, it is time to think about how your content can be amplified via social media.

Social engagement from moneyadviceservice.org.uk increased its ranking during our period of research, likely as a result of its informative content attracting those researching financial products to the site.

In practice, your content strategy and social media profiles must work hand in hand to boost your products' visibility and broaden the availability of your content, to attract both customers' eyes and the Google algorithm's attention. ■

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