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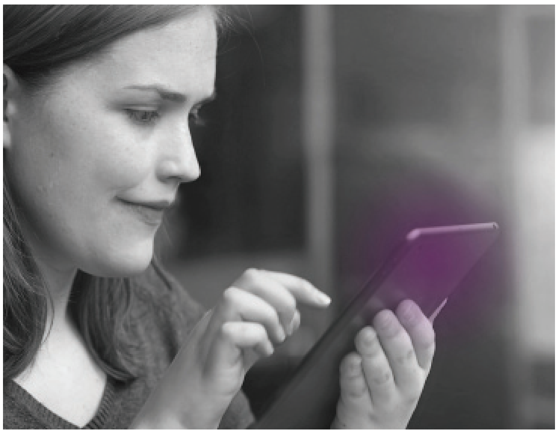
CRACKING LATIN AMERICA

WITH SCOTIABANK AND BANCOLOMBIA

- OPINION: Customer Service
- DISTRIBUTION: Skipton Building Society
- RESEARCH: Mobile & Fintech
- GUEST COMMENTS: GFT, Collinson Group & Tola

VERDICT



CONTENTS

UK right-sizing accelerates: the definitive RBI branch ranking

More than one in four UK bank branches (26.3%) have been shuttered in the past five years, and the new year has kicked off with more of the same.

HSBC, TSB and Clydesdale/Yorkshire have all announced fresh branch closure programmes, resulting in total UK branch numbers set to fall from 11,000 in 2011 to below 8,000 in 2017.

Ranked by brand, Barclays retains the largest presence on the high street, starting 2017 with 1,309 outlets, down a net 424 units or 24% since 2011.

HSBC has seen the most aggressive branch closure of the Big Five banks, down from 1,286 in 2011 to 728 with plans announced to shrink its network to 625 during 2017 meaning a reduction of 51% in its branch numbers in the past five years.

Santander – down from 1,177 to 841 – has reduced its network by 28%.

Of the Big Five banking groups, the UK's largest retail bank by market share, Lloyds Banking Group, has been slower off the mark in axing branches.

Only 12% of Lloyds-branded branches have closed since 2011, down from 1,302 to 1,140, while challenger brand Halifax has only inched down a net five outlets to 657 units. North of the border, Bank of Scotland has closed less than one in five units, from 295 to 241.

Arguably, Royal Bank of Scotland faces the biggest branch headache in the light of its failure to hive off the Williams & Glyn business unit of 280 RBS-branded branches in England and Wales.

It has successfully downsized the NatWest footprint from over 1,500 to 1,058, and in Scotland reduced the network from 336 to below 200.

A total current network across the two RBS brands of over 1,500 seems implausibly large, given the bank's current ambitions.

Of the challengers, TSB will have closed only 10% of the branches carved out of Lloyds TSB by later this year, while the largest mutual Nationwide is down only a net 20 units to 691 since 2011.

By contrast, CYBG has accelerated its closure programme since gaining its independence from National Australia Bank.

Clydesdale-branded branches, currently totalling 111, will reduce to 71 later this year, down from 152 five years ago. Sister brand Yorkshire will reduce from 137 to 99 over the course of 2017; the brand had 178 branches in 2011.

In percentage terms, the beleaguered Co-operative Bank has been the most aggressive closing more than seven in 10 branches, shrinking from 354 to 105 units.

Bucking the trend, Sweden's Handelsbanken has doubled its footprint to 207 branches while Metro Bank is on target to reach 58 stores by the end of 2017; it remains committed to the store format and is aiming to reach 100 by 2020.

Over the next five years, Lloyds Banking Group's 2,038-branch network across its three high street brands offers considerable scope for rationalisation. Its ongoing successful drive for digital channel growth – 12.5 million active online customers, two billion online logins in 2016 – will be used to justify further channel optimisation.

The release of Lloyds 2016 results contained a number of interesting digital metrics: both evidence of success and scope for further improvement.

Only 37% of LBG's total current accounts are opened via digital channels – albeit up from 18% a mere two years ago; LBG also has scope to improve its flow volume of new accounts opened digitally as a percentage of the market volume of all digitally opened accounts. By the last metric, it has only a 16% share of new credit cards and 21% of consumer lending.

If LBG is to hit its cost-income ratio target of around 45% by the end of 2019, from its current 49%, it seems inevitable that the LBG branch network will shrink by several hundred outlets.

Douglas Blakey
Douglas.Blakey@retailbankerinternational.com

The 8th annual Retail Banker International Asia Trailblazer Awards

A record number of entries, categories and a full house at the Parkroyal on Pickering, Singapore for the 8th annual *Retail Banker International* Asia Trailblazer Awards sponsored by Tagit Mobile

The top institutional award was snapped up by DBS recognised as *RBI* Asia Trailblazer of the year: in all DBS scooped five of the 32 awards on offer.

The major individual award was collected by Andrew Chia, head of retail banking at Standard Chartered, Singapore.

The awards recognised outstanding financial institutions for their trailblazing innovation and superior service standards in the past year and were presented by Douglas Blakey, group editor consumer finance, Verdict and Richard Fahy, Regional Director APAC, GlobalData plc.

"Innovation is a key core to the DNA of DBS. The bank has blazed a trail in terms of its digital transformation strategy, recognising that digital is not a threat to the banking sector but a tool of cooperation to innovate products and services," said Blakey.

Other notable multiple-award winning banks included Maybank, Citi, UOB, Standard Chartered and Kasikorn Bank.

The Digital Banking Club Launches the 2017 European Power 50 Awards – Nominations Now Sought

The European *Digital Financial Services Power 50* winners will be made up of influential thought leaders working in digital within financial services companies, regulators and analyst houses. The judging panel will also consider nominations for recognised innovators and industry influencers.

The European *Digital Financial Services 5 Rising Stars* are compiled of digital innovators aged 35 and under who are making changes in the way their financial services organisations are operating.

This year we have introduced two new awards as a result of the DBC expanding into new verticals, the Collections and the Vehicle Finance industries. Therefore, out of the Power 50 winners, one will be recognised for *Digital Innovation in Collections* and one for *Digital Innovation in Vehicle Finance*.

One Power 50 winner will be awarded *Personality of the Year* in recognition of outstanding service.

The Award Categories in 2017:

- Personality of the Year
- Digital Financial Services Power 50
- Digital Financial Services Rising Stars
- Digital Innovation in Collections
- Digital Innovation in Vehicle Finance

October 19th, London

The winners will be announced in a supplement in the September/October edition of *RBI* and will be invited to receive their awards at the October Live Debate. The debate will be held on Thursday 19 October at the Law Society, London.

Nominations

Nominations are sought initially from members of the DBC plus readers of *RBI*. Nominations are to be sent directly to Douglas Blakey – douglas.blakey@verdict.co.uk before 12th May 2017.

They should include a full name, job title, company, and a URL to a LinkedIN profile.

Judging Panel (to date):

Douglas Blakey, editor of *RBI* and chair of the Digital Banking Club is acting as chair of the judging panel.

Other confirmed judges are:

- Alessandro Hatami, Founder, The Pacemakers & ex-Innovation Director, Group Digital, LBG
- Daryl Wilkinson, Managing Director, DWC
- Fred Crawley, Chair of the DBC for Collections
- Jerry Mulle, Director of Customers, Intelligent Environments and Co-Founder, DBC
- Jonathan Minter, Chair of the DBC for Vehicle Finance.
- Roy Vella, Digital Expert & Consultant.

Note on exclusions: We are not seeking nominations for journalists, PRs or individuals working for payments providers, unless their work is part of a broader digital financial service, mobile platform or back office technology supplier. Nominations by these groups on behalf of others are welcome. ■

FULL LIST OF WINNERS

Excellence in Mass Affluent Banking	Kasikorn Bank
Excellence in Service Innovation	Citi Malaysia
Excellence in SME Banking	Maybank Malaysia
Best Initiative in Financial Inclusion	Citi Malaysia
Best Mortgage Offering	Krungsri
Best Loan Offering	RCBC Bankard
Best Bancassurance Product	Bank Muamalat
Outstanding Investment Service – Retail Clients	Citi Singapore
Best Card Offering	Stand Chart Singapore
Excellence in Loan Origination	ANZ Singapore
Excellence in Client Onboarding and Communication	DBS Bank
Excellence in Business Model Innovation	BTPN Bank (Misys)
Dynamic Third-Party Partnership	DBS Bank
Excellence in Customer Centricity	Axis Bank (Tagit)
Best Social Media Marketing Campaign	Kasikorn Bank
Best Digital Marketing Campaign	Citi Malaysia
Excellence in Internal Communications	ANZ Singapore
Excellence in Social Media and Customer Relations & Brand Engagement	DBS Bank
Best New Product, Service or Innovation	Siam Commercial
Best Marketing Campaign – Overall	Citi Malaysia
Most Innovative Branch Offering	Stand Chart Korea
Innovation in Service Delivery – ATM	UOB Singapore
Excellence in Internet Banking – Overall	CTBC Bank
Excellence in Internet Banking – Cross Border	DBS Bank
Excellence in Mobile Banking – Overall	UOB Singapore
Excellence in Mobile Banking – Customisation	UOB Singapore
Excellence in Multi-Channel Integration	Citi Singapore
Best Graduate Employment Scheme - Retail Banking	Alliance Bank
Best Staff Training and Development Programme	Maybank Malaysia
Best Bank in Community Outreach Initiative	ESUN Bank
Institution	DBS Bank
Individual	Andrew Chia

Skipton rolls out branch concept catering for over 50s

The UK's fourth-largest building society by assets, the Skipton, has partnered with retail and design agency M Worldwide to devise a future vision and flexible framework for its in-branch experience, environments, and communications. **Douglas Blakey** reports on the developments and their results

The location: Guildford in Surrey and the financial institution: Skipton Building Society. Not perhaps the most likely combination for one of the more interesting branch projects of the year.

The Skipton, the UK's third-largest building society by branches (95) and fourth-largest by assets (see tables) has spent the past 18 months working with retail and design agency M Worldwide to craft a new branch concept.

In February, a pilot branch opened its doors with big ambitions: to redefine the idea of retirement.

Lee Holden, divisional manager at Skipton Building Society says: "We've always had brilliant existing customer service scores, but our challenge was how to encourage more people across the threshold, then inspire and engage those people to help fulfill their hopes and dreams."

With a range of specialist financial products, this mutual organisation largely caters to the over 50s. In light of the changing needs of its customers, staff, and technology, Skipton tasked M Worldwide with devising a future vision and flexible framework for its in-branch experience, environments, and communications.

David Martin, joint managing director at M Worldwide told *RBI* that retirement holds infinite possibilities – but that landscape also changes with each successive generation.

"60 is the new 40. There is now a world of opportunity out there for retirees, to go back to university, to sail around the world, instead of just going home to do the garden."

"The pilot features an 'Ideas Centre' concept reflecting this 'anything is possible later-in-life' perspective – it's a homely place that's much more proactive, open, and welcoming. It celebrates the fulfilment of those hopes and dreams that had to be put on hold whilst focusing on career or raising the family."

Holden adds: "Customers feel valued and appreciated in this relaxed environment, allowing them to engage with our colleagues and remain open-minded about financial arrangements that can help them achieve their retirement dreams."

The pilot branch offers customers a clear view of what is termed the 'Ideas Kitchen'. Just like the kitchen is the heart of the home, the Ideas Kitchen is at the heart of the concept branch.

Martin adds: "The domestic setting – with items such as globes and travel books that staff can use as conversation starters – combine with gestures like starting every chat with a cup of tea, just as one does when visiting friends. This results in an environment that encourages discussion, to help people unearth and fulfil their later-in-life desires.

"At Skipton, the tea-making ritual is one of those key gestures. People used to congregate around the fire, then they congregated around the TV, but they've always congregated around a cup of tea. That's the sort of culture we wanted to bring into the branch in a bright friendly welcoming and hospitable environment."

He added that the branch staff are key to making the project work.

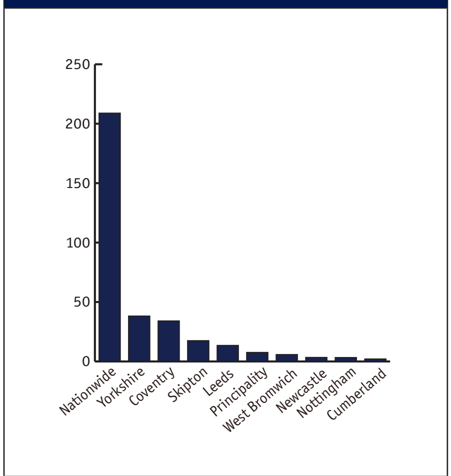
"It is always a big challenge on projects like this, not just in banking, but the staff service levels and their approach have been brilliant. It helps that a lot of what we have done is supporting is what was there already."

As Skipton continues its rollout of the new concept, a scalable kit of parts allows it to retain the spirit of the Ideas Centre concept no matter the branch size.

Martin concludes: "We need to be inventive in how we create these environments to support the right experience without throwing a whole lot of money at it.

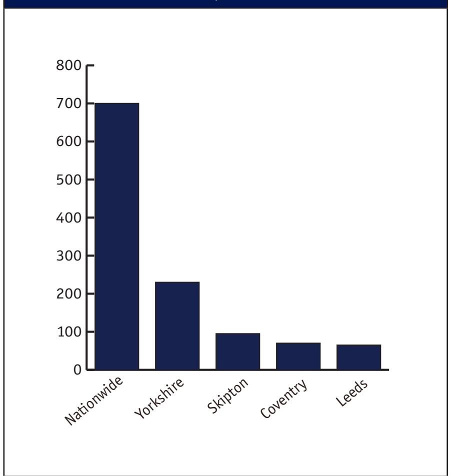
"There is scope to import elements of the Guildford pilot in other branches – not all branches will have a full refit – but we need to be pragmatic about the elements that can be dropped in."

TOTAL GROUP ASSETS BY SOCIETY (£BN), 2016



Source: Building Socieities Association

UK BUILDING SOCIETIES RANKING BY NUMBER OF BRANCHES, 2016



Source: Building Socieities Association

Are fintechs the biggest threat to the banking sector?

While fintech is often considered to be an opportunity for the financial sector, six-in-ten UK financial firms believe that up to 40% of their revenue could be lost to standalone fintech firms. How are firms planning to combat this growing threat? Or is defeat a foregone conclusion? **Patrick Brusnahan** reports

Fintech has progressed from start-ups wanting to challenge the incumbents to a wide ecosystem of different businesses looking to expand. The problem is with garnering scale with regards to customers. This is where partnerships could greatly help, if also bringing a share of its own risks.

According to a new report from PwC, which surveyed more than 1,300 financial service leaders worldwide, 61% of UK financial service industry leaders believe up to 40% of their revenue is at risk, compared to 51% of financial service leaders globally.

Some 88% of participants were worried that part of their business is at risk to standalone fintech companies. In addition, DeNovo's monthly consumer survey stated that while 30% of consumers plan to increase their usage of non-traditional financial service providers, a mere 39% plan to continue using solely traditional service providers.

Perhaps to combat this, 47% of UK firms claim they plan to acquire fintech companies over the next three-to-five years. Some 81% state they plan to initiate strategic partnerships with fintechs over the same period.

However, currently UK financial services firms only dedicate 9% of their annual turnover to fintech and IT projects, below the global average of 15%.

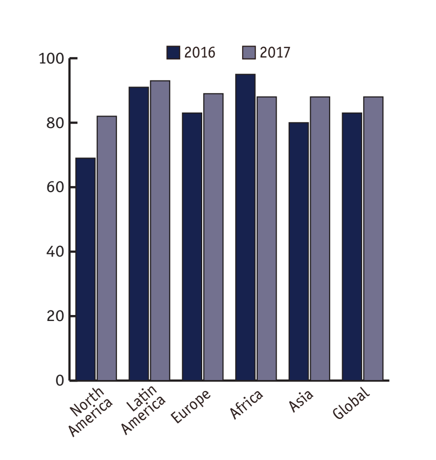
Over a third (39%) plan to invest in cybersecurity while 77% want to invest in data analytics.

Whether this is too little too late remains to be seen, but 92% of UK incumbents believe that consumers use fintech to conduct payments, 81% say it is already used for personal finance and 72% for funds transfers.

Steve Davies, EMEA fintech leader at PwC, said: "The financial services industry has embraced fintech to help drive change and innovation. Fintech collaboration, and innovation more widely, is not about jumping on the latest bandwagon – it's about finding the best, most efficient way to deliver your business strategy and ultimately better serve your customers.

"The UK's financial sector seems to have a more realistic understanding of the long-term returns on targeted investments. Managing expectations around returns is important, particularly for firms facing significant cost pressures."

■ PERCENTAGE OF INCUMBENTS WHO BELIEVE PART OF THEIR BUSINESS IS AT RISK



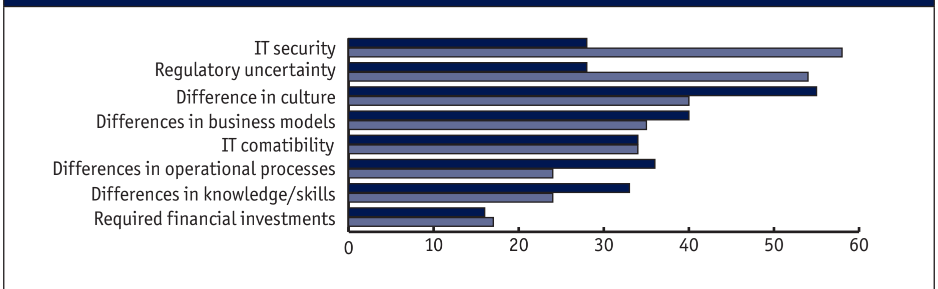
Source: PwC

A disruptive nature

Post-2008, the global financial crisis kick-started a number of business-wide transformation programmes. A decade later, the results are inconsistent and there has been a lot of investment. Many are looking towards fintech to break the cycle.

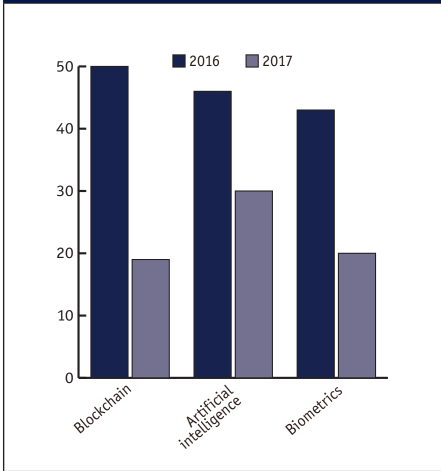
In total, 56% of respondents to PwC's survey agreed that disruption was at the heart of their strategies. By embracing disruption, financial institutions hope to respond to innovation and address customer needs.

■ CHALLENGES FOR FINTECH COMPANIES AND INCUMBENTS (%), 2017



Source: PwC

■ FOCUS ON EMERGING TECHNOLOGIES (%), 2017



Source: PwC

Financial institutions will also need to disrupt their own operations and processes, which will introduce culture and mindset challenges. Overall, 77% of respondents expect to increase internal innovation efforts over the next three-to-five years.

Adopting effective growth strategies and integrating with fintech will be essential when partnering for innovation. Partnering with fintech companies is up from 32% in 2016 to 45% in 2017. However, there are large discrepancies. For example, in Europe, Italy is at 41% while Germany is at 70%.

In all countries, a large chunk of participants, 82% on average, expect to up their level of partnerships within the next three-to-five years.

This will allow incumbents to outsource part of the R&D to help bring their solutions to market quickly. Fintechs, in turn, will benefit from the large data sets that incumbents already have.

Integration will not be easy. Difference in management and culture, as well as regulatory uncertainty and legacy infrastructure difficulties are all roadblocks to true integration.

The report concluded: "The financial services industry will be unrecognisable in five years. The innovators of today will not necessarily be the innovators of tomorrow. The question then that companies need to ask themselves is: what can I do to ensure that I am not caught at the back of the pack?" ■

Scotiabank's digital distribution designs

Scotiabank is rolling out a digitally enabled customer-centric branch design across its Latin American and Caribbean (LAC) operations. Robin Arnfield talks to Katherine Hayward, vice-president of customer experience and retail banking at Scotiabank International, about the bank's objectives and strategy

Scotiabank serves 9.5 million retail customers across 1,500 branches in 29 countries in the LAC region. Scotiabank's Mexican unit, with 600 branches and 2.7 million customers, is the largest subsidiary in the region, followed by Colombia (1.6 million customers) and Peru (1.9 million), both with 200 branches.

In addition to its own branches, Scotiabank partners with correspondent banking agent networks in Mexico and Peru.

"In Mexico, our customers have access to 18,000 non-bank locations through our relationships with [retailers[Oxxo, Soriana and City Club, where they can make deposits, pay credit card bills, and withdraw cash," Hayward tells *RBI*. "In Peru, customers can access 5,000 non-bank locations through the Agente Scotiabank and Cajero [cashier/teller] Express correspondent agent networks, where they can make deposits, pay credit card and utility bills, access loans as well as top up their cellphones."

Scotiabank's LAC branch redesign programme is taking place in tandem with a major digital investment in Canada and the LAC region. This includes the launch of a new version of Scotiabank's online and mobile banking platform in Mexico and 21 Caribbean countries, with Chile and Panama due to go live on the new platform shortly.

"Following the opening of our Canadian digital factory in January 2017, we will also open digital factories in Chile, Colombia, Mexico and Peru this year," Hayward says.

"The goal with our new, simpler-to-use digital banking services is to increase our primary customer relationships through digital technology."

Branch redesign

"We try to build new branches every year as our markets are developing much more rapidly than the Canadian market," says Hayward. "As well as looking for opportunities to find new locations, we're always trying to be where our customers are in our existing markets."

Working with international design consultancy Ideo, Scotiabank created a set of branch design standards for its LAC branches, which it will apply selectively for refurbishments and new builds.

"Our aim is to be extremely customer-centric," says Hayward. "We liked Ideo's approach of doing ethnographic research and prototyping design concepts with customer at the heart. To find out what our customers wanted in branch, we conducted ethnographic research involving accompanying them into their homes and offices on a day-to-day basis, and following them when they conducted financial transactions.

"Our new branches are notably more digital with a host of self-service technology available, concierges to explain the technology, tablets for some staff, and digital messages displayed throughout the branch."

Scotiabank has a consistent customer experience model across all its subsidiaries, Hayward says. It also has an in-house-developed geographical information system (GIS) tool which maps all its locations and all its competitors' branches.

"The tool uses market data to show current and projected growth for these locations," says Hayward. "We can see which markets are up and coming, and where we need to move to in order to be in the right place at the right time for our customers."

What are Scotiabank's goals?

"At the start of our redesign programme, we set three high-level goals: improve our customer experience in branch via the overall design, differentiate ourselves in our markets, and improve our efficiency and effectiveness in our network," says Hayward.

"We want our branches to be places where customers can learn about our digital and self-service technologies. Also, towards the rear of the branches we're providing a pleasant area for customer interaction with our staff.

"We're putting strong brand messaging on our flagship branches and using large digital displays to differentiate them. The effectiveness and efficiency goal relates to our new hub-and-spoke model."

Since November 2016, Scotiabank has been deploying a new Net Promoter System in Canada and the Pacific Alliance countries of Chile, Colombia, Mexico, and Peru.

"It's important to get rapid feedback from clients and bring the voice of the customer to the heart of our branches and contact centres," says Hayward.

"We partnered with [customer feedback specialist] Medallia on this initiative. We use the word 'system' not 'score', as we have a feedback loop direct from customers to staff in the branches so they can act on issues.

"We encourage our branch managers to call three to five clients once a week to follow up on the feedback they received in the branch, and we have a similar policy in the contact centres. Once we identify issues, we make sure they are escalated and any systemic issues are addressed, as well as making sure customers know their issue has been responded to."

Hub and spoke

"We are moving to a hub-and-spoke model, so we can focus resources on where they are most needed. This will enable us to reduce the size of spoke branches," says Hayward.

"The hub is where we have services for segments such as small businesses and premium banking, and our spokes are about convenience banking.

"Our customers are still heavy branch transactors, so there's a big opportunity for us to introduce them to our new digital channels that we are bringing on board in LAC. As they start to adopt our digital channels, there will be less demand for teller services in spoke branches, so we will be able to reduce their size."

In Scotiabank's new design there are four formats: the regional financial centre, which includes a Premium Banking centre; the Community Banking Centre; the Neighbourhood branch; and the in-store/bank-at-work branch.

Around 25% of Scotiabank transaction in the LAC region are still branch-based, and the bank's goal is to cut this to 10% by 2010.

"A lot of our customers will queue up to use a teller, as they don't know how to use an ATM," says Hayward. "There are a lot of transactions they could either perform on our digital channels or at a correspondent agent, instead of in a branch."

Financial education

"The new concept is centred on financial education, aligned with our core belief that every customer has the right to become better off," says Hayward.

"We found in our research with Ideo that there is a lack of providers of financial literacy in our markets. Yet financial literacy is an important skill, so there's an opportunity for us to be involved in the community. We hold Scotia Presents financial literacy events offering refreshments where we teach basic financial matters like: What is a credit score? How do you improve it? And how do you teach children about savings? Historically, many of our markets aren't retirement-savings cultures but are consumer cultures focused on obtaining credit to make purchases."

Instead of traditional product messages, Scotiabank is rolling out messaging containing 'hints and tips' about financial literacy along with customer stories in its LAC branches.

The messages are provided via a mix of digital displays and large static back lights.

"The stories feature Scotiabank customers saying things like: In my new house I have rooms for all my children; with my new car I can get to work on time," says Hayward. "The financial advice aims to help customers reach similar goals to the people in our stories, such as 'your mortgage and bills shouldn't exceed 40% of the household budget,' or 'if you're buying a home, budget for legal expenses.'"

Three zones

As part of the new design, the branch is divided into three zones: a Welcome Porch, a Social Zone, and a Business Zone.

"The Welcome Porch features a new Concierge role as the first point of contact for customers and to helps educate them on the self-service channels available," says Hayward.

"The Social Zone is a warm environment in the centre of the branch where staff can engage with customers in casual meeting spaces, and where we hold Scotia Presents financial educational events.

"Tablets are provided for customers to use for digital banking and product information, and to access our Mi Plan goals-based financial planning tool."

Tellers are housed in the Business Zone at the rear of the branch, and officer workstations have been given a refresh. The reason for putting tellers at the back of the branches is to encourage customers to explore the space first before reaching the tellers and to enable the concierge to talk to them about self-service channels.

"As we continue to enhance our technology, we envision our sales staff being com-

"How do you grade your experience in the branch today?"

pletely mobile throughout the branch," says Hayward. "A portion of our branch network has a special Premium Banking offering, designed for our mass-affluent segment. So we upgraded the Premium Banking centre design with upscale finishes as part of the new concept."

The Premium Banking centre features an exclusive area in the branch where customers can read news on tablets and newspapers while waiting to meet investment specialists and premium relationship officers.

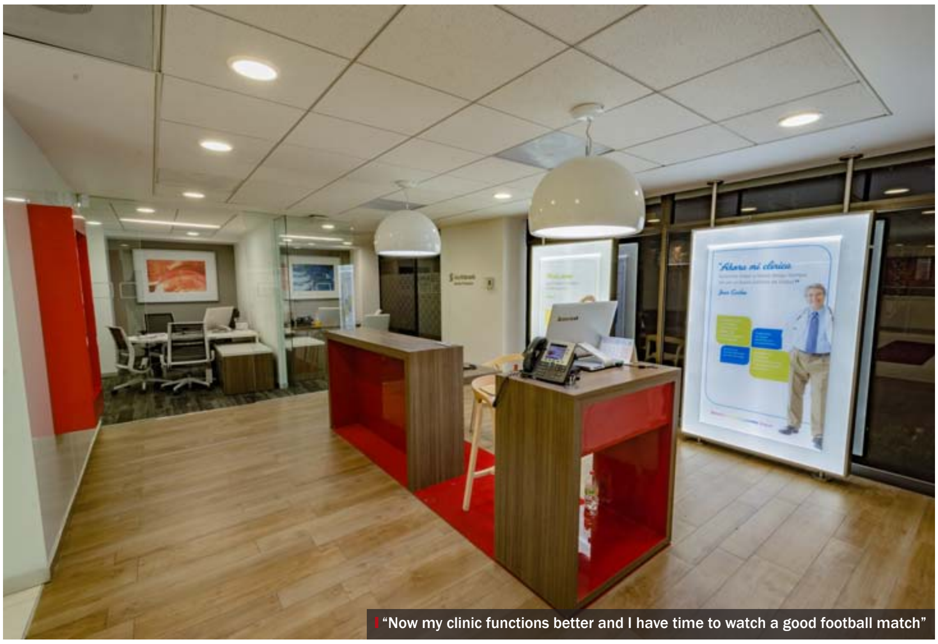
"In our markets, premium customers expect to be given more recognition and a distinguished service," Hayward says.

"In our flagship locations, we've introduced large external digital displays to support our brand presence and differentiate ourselves in the marketplace. We're not the only 'red' bank in Latin America, and sometimes our branches are located next door to a rival, such as Santander. So we use our full colour palette to help create a distinctive identity. As a result, Scotiabank's branches in the region are not fully red, as they are in Canada."

Pilots

Working with Ideo, Scotiabank built four digitally enabled branch prototypes in Mexico City in early 2016, which it uses as the basis for its new branch design standard. These range from a flagship branch with specialist services down to a small, in-store branch.

"The four pilot branches in Mexico are performing well in terms of sales growth and customer experience, and are ahead of the Scotiabank network average in terms of customer experience and sales growth," Hayward says.



"Now my clinic functions better and I have time to watch a good football match"

"The number of branch transactions in the pilot branches are decreasing faster than the average, because of customers' adoption of self-service channels. Many of our Mexican branches have external ATMs, and Mexico is a security-conscious market. One of our learnings for our new design was to put ATMs inside our Mexican branches so the concierge can tell customers how to use the system and because customers feel safer using an internal ATM."

Scotiabank plans to deploy digitally enabled branch pilots in Chile and Peru in mid-2017, which will use the design formats deployed in the Mexican pilot branches. It will also roll out the new design formats in Barbados, Costa Rica and the Dominican Republic during 2017.

"In both Chile and Peru, we will also pilot a tellerless branch, which will be purely digital, with ATMs, intelligent deposit terminals, and sales staff equipped with tablets," says Hayward.

"We already have tellerless Scotiabank Express and Scotiabank Solutions digitally enabled branches in Canada."

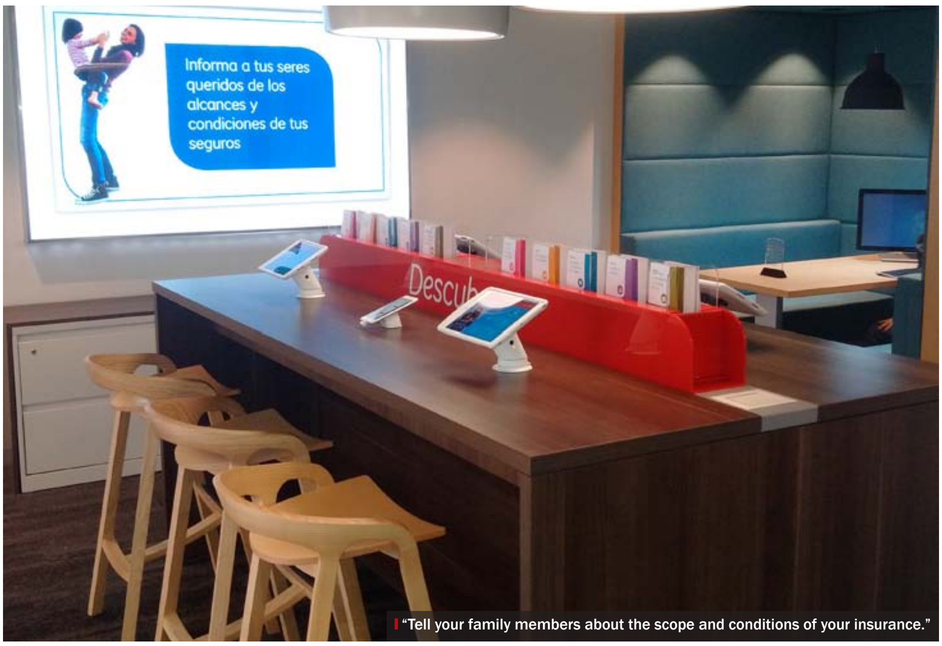
Scotiabank aims to adjust its branch design formats for individual countries across LAC, reflecting local market characteristics, Hayward concludes. ■

"Clever but not enough"

"Scotiabank has created an excellent framework that will enable its branches to involve themselves with the community by providing facilities in their branches," says UK-based international retail banking consultant David Cavell. "There are so many things Scotiabank can do in its redesigned branches. Currently, they are acting as a mediator between the physical and the digital. It's a clever position to be in right now but its not enough."

Banks need to offer neighbourhood branches that reach out to the local community, Cavell says. "This is fundamental. The critical success factors are brand, location, branch design, and staff competence. Brands must use activities that take place in branch and reflect the brand's differentiation to reach out to the community.

"There is a playbook of around 50 non-banking activities you can do in a branch to provide greater value for the community. If digitally enabled branches are to evolve from being transaction shops and have a worthwhile role to play in the future, they must be more about the communities in which they reside. Turning a branch into a limited assisted-service or self-service centre is missing the opportunity of what you can do with a branch." ■



"Tell your family members about the scope and conditions of your insurance."

Banks should ditch cash to boost customer loyalty

The rise of digital wallets, coupled with the adoption of the mobile phone as a mobile payment technology, hint at a future driven by digital first strategies. Can banks move fast enough? Or will legacy systems prove their undoing? Christopher Evans director at Collinson Group reports

The cashless society is not a new concept. Debate about the future of cash has raged since the introduction of magnetic strip cards decades ago but in the age of the digital customer, banks are struggling to engage and retain customers, with millennials and generation Z proving the most challenging. Could ditching cash be the route to customer loyalty for the modern bank? Collinson Group research suggests yes and that it is a win for both customer and bank.

Collinson Group polled 2,500 loyalty programme members across the globe and found that they used a mobile wallet (such as ApplePay or Android Pay) an average of seven times a month – this figure was as high as 10 times per month in the US.

The research also found that 71% favour brands that are early adopters of technology. Despite consumer interest in these services, a number of major banks have yet to announce plans to support services such as Android Pay, including Barclays, Natwest and Santander.

Convenience and reward

Mobile phones are an integral part of everyone's lives – from capturing and sharing memories, to booking travel, grocery shopping and keeping up with news. There are now more mobile phones on the planet than people.

With apps providing information on everything from how we eat, exercise and source entertainment, to how we sleep, it is natural for people to use their phones to complete financial transactions.

Using mobile as a payment technology makes customers' lives easier and is more efficient. No more fumbling around for cash or trying to remember different pins – just a simple wave of a mobile device or a biometric scan and the transaction is complete. By making mobile payments even more accessible, banks will generate positive brand association and will build loyalty with their customers.

If they don't they risk missing out on revenue. Research from financial analyst firm, Lafferty, reveals that non-bank players dominate the US mobile payments market, led by initiatives such as Walmart Pay, Abra and Samsung Pay. They also found that person-to-person (P2P) transactions are gaining more popularity in the US compared to other countries. In total, $7.5bn was transferred using Venmo, one of the most popular P2P money transfer services, during 2015.

Many customers only use banking services a few times a month but are likely to make contactless payments several times a day. Unlike a credit card, a mobile payment also creates the opportunity to deliver a relevant offer, reward or additional service to the customer.

For example, a reminder about a balance and the opportunity to transfer more money; a chance to earn loyalty points in the future, or to use those points to pay for purchases. These are powerful opportunities for banks to offer greater convenience, relevance, timeliness and rewards to customers.

Organisations are recognising the convergence between payments and loyalty, with First Data acquiring Perka (a loyalty platform) and Clover (a point of sale solution), and Visa investing in Square, so that it can offer a closed-loop digital payment and retail system.

Using data and digital wallets

Perhaps the biggest opportunity arising from the cashless experience is the chance to generate more data and use this to retain customers.

A traditional card payment gives the bank insight about a purchase based on outlet, time and location.

For mobile payments, more information is available such as links to social media profiles, mobile browser history and other contextual information through collaboration and shared application programming interfaces (APIs).

Analysis of this behavioural data, including real-time data, can help banks to create better services, deliver great experiences and provide more valued rewards for customers.

Today the majority of consumers have used digital wallet services such as PayPal, increasingly for face-to-face as well as online transactions. Consumers will choose the fastest, most convenient and secure digital payment option and offering a frictionless, channel agnostic service is a way for brands to add value to consumer experiences.

To demonstrate the potential for banks, in China the two main players in this area – Tencent's WeChatPay and Alibaba's AliPay – are far ahead of the West in terms of frequency of use and share of wallet across all demographics.

Alibaba is also expanding into other areas of financial services, with its proposed acquisition of US-listed money transfer service, MoneyGram International.

Overcoming barriers

Banks are taking steps towards a digital first engagement strategy but these changes are incremental.

One of the biggest barriers banks face is overcoming legacy systems and infrastructure, with new platforms facilitating rapid analysis of big data and increased collaboration with third parties through open APIs.

By working with the right partners and adopting a digital first mindset, such as facilitating the reduction of physical cash, banks have a massive opportunity to increase revenue and boost loyalty.

Final thoughts

Banks have an opportunity to build real-time loyalty initiatives based on behavioural data, enabling customers to collect and redeem rewards that are relevant, personal and broad enough to engage more members.

A completely cashless society is still a long way off, but there are many reasons why banks should champion contactless payments and couple this with loyalty programme apps or messaging platforms.

It provides the opportunity for consumers to pay with points and cash, increasing the utilisation of loyalty currency, and presents an improved customer experience and more value to customers overall.

For financial services brands, it offers the opportunity to deliver a differentiated, personal, relevant and unique customer experience. It is undoubtedly a win for customers and a win for banks. ■

High altitude, higher stakes?

Latin America's third-largest economy could slip into recession if US President Donald Trump's toxic cocktail of threats to upend the North American Free Trade Agreement or impose heavy tariffs on Mexican exports come true. However, Mexican banks are – at least for now – unconcerned, writes Ivan Castano

Mexico's payments sector is shrugging off concerns that US President Donald Trump's protectionist threats could hit its fortunes, forecasting strong revenues despite monitoring portfolios more closely.

"So far, we haven't taken any provisions," says Miguel Angel Laurencio de La Vega, investor relations director at Banorte, which with roughly two million customers is Mexico's third-largest bank.

"Overall, consumption remains strong and there are no [portfolio] deterioration signs, despite future uncertainty."

Employment continues to grow, with the nation adding 500,000 jobs in the past year, De La Vega says. Unemployment stood at 3.6% in January, down 4.2% year-on-year according to the latest data from statistics institute Inegi.

"If unemployment rises that would give us a reason to act, but so far our past due portfolio remains at 5%, which matches the industry's, with an improving outlook," De La Vega adds.

Banorte, which intends to double its payments market share to over 16% by 2022, matching arch-rival Citigroup's Citibanamex, expects card revenues to climb 14% to MXN8.2bn ($435m) this year, helped by soaring interest rates in Mexico.

The central Bank of Mexico has stepped up benchmark rates six times to 5.25% since Trump swept into the White House, in a move aimed at shoring up the plummeting peso and combatting soaring inflation, which is currently hovering at 5% – well over its 2% target.

The increases will add 200 basis points to the 28% average rate that Banorte charges for its silver, platinum and gold products, offsetting a slight decrease in its portfolio growth.

"This year, we will probably grow less in our portfolio but more in revenues," says De La Vega, adding that last year its outstanding balance grew by 10% to roughly MXN26bn.

Despite rising margins, Mexico's economy is set to cool this year, with the government recently cutting GDP growth projections to 1.3-1.5%, down from a previous estimate of 2.5%.

The deepening uncertainties are putting investors and businesses on tenterhooks, triggering a sharp fallout in foreign direct investment that is unlikely to recover until the two governments tentatively wrap up negotiations to modify NAFTA by the summer.

Amid such risks, Banorte will focus on growing business with existing clients, and largely shunning new ones or entering new market segments until Mexico's future prospects become clearer.

"We will be more cautious and seek to grow similarly to last year. We will not be launching any new products or targeting new market segments aggressively," De La Vega notes.

"Many of our customers use our cards very little, so the plan is to increase this through reward programmes and promotions."

Others are also being cautious. BBVA Bancomer, which leads Mexico's banking sector, has begun lowering card limits and more closely monitoring its accounts, analysts say; much smaller Inbursa, which belongs to telecoms tycoon Carlos Slim, is also becoming more selective, they add.

Jorge Benitez, an analyst with broker GBM, has a sanguine outlook for 2017. He says issuers continue to enjoy high margins and improving credit quality, with interest rates hovering at 26.4%. This, coupled with an expected 9% rise in plastic issuance this year, will drive revenues up 11% to MXN94bn.

That said, if the economy were to decline by more than expected in the second half – something economists expect if a trade war erupts – lenders could suffer amid rising unemployment and defaults.

"We could see a small decrease in employment which would affect banks' portfolios and they would stop issuing credit," Benitez explains.

To protect themselves, institutions could cut risky personal loans and raise their exposure to safer direct deposit credits, he adds.

However, even if that happens, the payment sector's long-term prospects look bright, largely as a result of Mexico's low banking penetration.

"Credit cards represent 33% of the MXN4.3trn banking sector, where penetration is about 4% of GDP," Benitez says, adding that Chile has an 80% banking rate while Brazil has 80%.

Enrique Mendoza, an analyst at broker Actinver, is more pessimistic, adding that a sharp economic downturn could severely hit issuers. "Banks would have to provision very rapidly, even if there is a small default change from one institution or if credit bureau reports worsen," Mendoza notes.

Joel Cortes, co-founder of consumer card-comparison site Kardmatch, says issuers would struggle to pass on higher interest rates to customers who would likely fall behind on payments.

Cortes adds that 2017 "will be very boring" for new plastic launches or product innovation, except perhaps in the digital arena where online and mobile purchasing is growing strongly.

He highlights Banregio, a tiny lender in Northern Mexico, as this year's top innovator after it launched a platinum card offering 1% cashback, 5% interest and no annual fee.

"You hardly see cards with such high rewards and low interest rates," he notes, adding that the bank has an innovative online application feature.

"Banregio has an interesting philosophy, which is sort of populist because it wants to be seen to be offering a product that won't break your finances," Cortes says.

That could chime well with impoverished Mexicans who have boycotted US brands Starbucks, McDonalds and Walmart to decry Trump's calls that Mexico pay for his border wall, on top of his well-publicised insults against its population.

However, Cortes says the actions have not hurt the likes of Visa, Mastercard or American Express, which has a $2.2bn exposure that analysts believe it is looking to trim.

"Each bank has customer complaints or issues, but nothing has changed because of Trump itself," Cortes adds.

Meanwhile, De La Vega says Banorte is keen to grow its digital business as Mexico's e-commerce market is growing rapidly amid falling mobile data rates, catching up with leading markets in Brazil and Chile. ■

Nequi: a unique Colombian offering

Designit, an integrated design agency recently acquired by Wipro Digital, has partnered with Nequi bank in Colombia to go 100% digital. The bank has redesigned the mobile banking experience, and is creating offerings for millennials who are starting to drift toward a post-app world. **Douglas Blakey** reports

The goal is ambitious: Bancolombia's digital brand, Nequi, aims to challenge traditional banking models and highlight the general cultural move to mobile banking and app-centric offerings.

The bank worked with Wipro Digital and Designit, utilising what the tech vendors term a design-thinking approach, challenging traditional norms and innovating at a faster pace, from which they believe other industry verticals can learn.

Nequi CEO Andrés Vásque (AV), and Mikal Hallstrup (MH), founder and CEO of Designit, discuss the project with *RBI*:

***RBI*: Can you give some background information on the launch's project timeline?**

AV: Bancolombia came to the conclusion that the way people were willing to interact with banks and use their money was slowly but critically changing in a society that is becoming more digitally driven by the day.

Therefore, in December 2014, we decided to mix a team of people from many areas of the company with a team of designers not related to the banking industry, with the goal of understanding how could they structure what they called a 100% digital "neobank".

After aligning Bancolombia's expectations, agreeing the timeline and the business model, the team came up with the idea of designing a service that would allow people to use and manage their money from their mobile phones, with no physical branches, and above all, in accordance with their routines and synced with their everyday lives.

After many prototypes and testing with potential users, they started the development of an MVP that was available in closed testing as of November 2015. From that moment they started the stabilisation and optimisation stage, that led to an open App Store and Google Play Store release in June 2016.

***RBI*: What was the brief from Nequi to Designit? Why did the bank elect to work with Designit?**

AV: Bancolombia started with a blank sheet and approached Designit in order to bring in knowledge about human-centred innovation models and service design methodologies. We needed people with no expertise in traditional banking who, at the same time, were experts in user experience and usability.

***RBI*: Can you explain how Designit went about implementing the project and delivering on the brief for the bank?**

MH: Bancolombia is the largest bank in Colombia and one of the top 10 largest lenders in the Latin American region. It has made its name by offering universal banking solutions to all types of customers. Bancolombia is a bank that takes pride in being the bank for everybody, for whatever they might need.

The vice-chair of corporate services approached Designit to clarify its innovation strategy and help move the organisation towards the next big potential thing for the bank.

We started in December 2014 and created a new team of people comprising our visual designers, researchers, business designers and people from different areas of Bancolombia. Together we would be able to create what we call the 'first neobank'.

We started out by understanding the internal future vision Bancolombia had for its business, consumers and the market.

After aligning Bancolombia's expectations, agreeing the timeline and the business model, the team came up with a new business model where the revenue does not come from transactional fees but from a range of products and services created depending to a user's real needs.

After analysing prototypes and user tests in universities – the smallest representation of our target market – we enabled Nequi accounts to be created and implemented a payments ecosystem where both merchants and users used Nequi. The prototypes were successful and in June 2016 Nequi was launched in beta mode.

LATIN AMERICAN BANK RANKINGS, 2017

	Country	Assets ($m)	Liabilities ($m)	Equity ($m)
Itaú	Brazil	338,108	305,834	32,274
Bradesco	Brazil	309,580	283,355	26,224
Santander	Brazil	166,555	143,125	23,429
BBVA Bancomer	Mexico	110,958	101,033	9,926
Banamex	Mexico	77,200	66,868	10,331
Santander	Mexico	71,381	64,590	6,792
Banorte	Mexico	70,170	62,157	8,014
BTG Pactual	Brazil	65,887	59,375	6,512
Bancolombia	Colombia	63,323	56,777	6,546
Banco Santander Chile	Chile	52,261	47,824	4,278

Source: Bancolombia

RBI: What were the goals and aims of the project?

MH: At first, Bancolombia came to us to help it explore new opportunities for innovation in the market, not knowing what might come out.

At this point it could have been anything. We convinced the bank to allow us not to stop there but continue to create some concepts and even validate those with people.

This way the initial briefing turned from 'help us see what can be done' to 'help us create the bank that might kill us in five years'.

The key idea was to create a new bank concept, with a new way of thinking and tools in only 15 weeks. We did it!

Nequi is a neobank. It operates under the same banking license as Bancolombia but everything is new – new core banking, a new team, new branding, a new company and a completely new human experience, business model and services.

Nequi offers everyday banking: but it's not a bank, it's a platform. It's API-ready and strives to provide value beyond transactions.

Nequi was created upon the belief that banking should be a platform where users can reach out to several relevant services provided by either the same bank or third parties. Users have the right to choose.

RBI: How did Designit engage with consumers prior to launch?

MH: We developed a toolset to help people manage their money better. It was created on the model of how people handle their money every month, how they save, what they understand by saving, and the different rhythms their lives tune into.

One might want to be a great saver one week, but care less about saving the week after when they go out on a date.

Banks have rigid rules for people whose lives aren't rigid at all; we change constantly, our needs change and evolve. Banking should evolve along with us and adapt to us.

During the project, there was no way we were going to create a neobank and not pilot it, so that's what we did.

We decided to use a university as the playground, and during three days we enabled Nequi accounts to be created and implemented a payments ecosystem where both merchants and users used Nequi.

This pilot not only showed us a real performance of the service, but also served as a place for user testing.

RBI: How did Designit record successful results?

MH: Nequi has two different apps: one for users and one for merchants. The user app is available in the Apple and Google app stores and at www.nequi.co. The client was commissioned to launch Nequi and therefore has been tracking the success of the results.

However, during the sprints we made some prototypes and hypotheses that we had to validate with different users, using standard qualitative techniques.

RBI: Is Nequi a first in the Colombian banking market?

AV: While it is not the first financial app, it's definitely not something you'll find elsewhere in the Colombian market. The possibility of letting people use their money at no cost for basic transactions, a fast, ever-evolving service, and a local language approach differentiate us from the usual financial terminology. All these aspects come together to make Nequi a unique offering in the Colombian market.

RBI: What are the initial products on offer from Nequi?

AV: A simplified savings account is offered that can be opened entirely from a mobile phone. With this account users can manage their money with no transaction or administration fee, no minimum balance, send money everywhere in Colombia, make withdrawals at over 4,000 ATMs and recharge their cellphone credit; customers will never have to walk into a branch. Finally the app offers 'pockets', a saving vault with goals to help users manage their money.

RBI: And on costs, how does the Nequi pricing compare to traditional banks?

AV: This is at the very heart of the Nequi proposition. The basic core of Nequi is that there is no cost to users – a feature very hard to come by in Colombia.

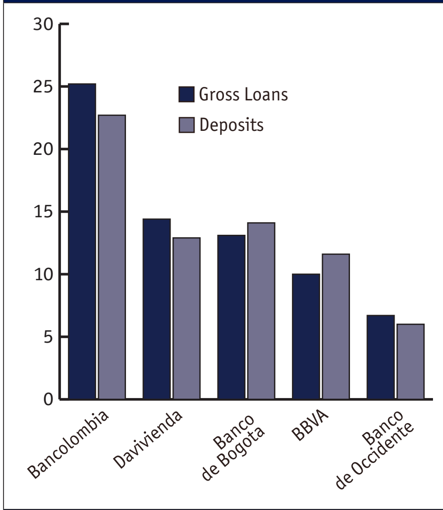
RBI: How has Nequi promoted itself? How has it used social media?

AV: Nequi has opted for a low-scale and organic promoting strategy using social media, word of mouth, and paid advertising with Facebook and Google. Free press has also played an important role at certain points.

RBI: Can you comment on Nequi's use of biometrics

AV: Nequi is the first financial app in Colombia using biometrics – facial, voice and fingerprint – for security and usability purposes.

COLOMBIAN MARKET SHARES (%), DECEMBER 2016



Source: Superintendency of Finance of Colombia

It also launched during November 2016 at the same time as the first transactional Facebook bot in Latin America. The bot is called Eva, and can check customers' balances, send money and recharge cellphone credit.

Nequi has been built as an open platform, aiming to develop an innovative business model based on application program interfaces.

RBI: What is the initial market reaction? How has the launch gone?

AV: Nequi has been in full production mode since July 2016. The app has been downloaded by almost 200,000 people and already boasts around 40,000 users.

MH: Nequi launched near the end of July 2016 in beta mode. We used a launch strategy based in a small ecosystem to trigger network effects quickly in the platform.

Nequi gained more than 12,000 customers in the first month and there's an ever-growing network of merchants and ATMs where people can use Nequi.

RBI: How has Designit and Nequi's relationship expanded since the launch?

MH: After launch, the board in Medellín decided to start the process of internationalisation, with Panama chosen as the first country due to geographic convenience.

Moreover, we have created a framework that allows the bank to build relationships and conversations with clients under the same model across all departments.

It is an important aspect of our offering; by engaging in and maintaining dialogues with our customers we can serve them better. ■

How customer service is becoming the true differentiator

Retaining and gaining customers is a constant concern for banks across the UK, and with the Seven Day Switching Service in full effect, losing a customer is more likely than ever. How can a bank differentiate itself in such a crowded market? Customer service seems to be the answer. Patrick Brusnahan investigates

Customer acquisition has always been a tricky task for banks. Previously, an easy way to differentiate yourself from your competition was on price. In the current UK market, this is a hard task. The interest rates and service charges for current accounts are all within a small margin of each other.

Shashi Nirale, senior vice-president and GM EMEA for Servion, tells *RBI*: "The sector is very commoditised at the moment. Everyone is offering the same interest rates and loan products, and there is little to no difference between banks."

As a result, the real differentiator becomes customer service.

What are customers looking for?

The story behind what customers want has, in general, always been the same. They desire convenient and secure services, but in the new digital age, this can mean many things. According to customer experience management company Servion, customer complaints in the UK alone are costing the banking industry $37bn.

"Banks are not offering true omnichannel customer services to their clients, and it affects loyalty," Nirale says. "In this industry, if you're not offering an enhanced customer experience, you're losing customers and you don't want to do that right now."

With new mobile and digital services available, more than ever before banks need to acknowledge the desire for these options. However, the physical strands of service, such as branches and ATMs, are still in play and must not be ignored. Choice is crucial to keeping a customer happy.

As James Bridge, assistant director of The Association of British Insurers, puts it: "How do you accommodate a huge range of customer journeys?"

Speaking to *RBI*, Eugene Danilkis, CEO of Mambu, says: "There's a new wave of people. Some enjoy the experience of a branch and don't find it cumbersome.

"The new generation has been raised on mobile technology and they would rather be able to do anything transactional at any time anywhere and not have to deal with the hassle of lining up.

"It's a generational gap perhaps which is the tipping point right now, especially in the West. It's different in emerging markets where it is more about opportunity of access, where travelling to a bank branch can involve long distances and there may not be any ATMs. In those markets, it's more about access than convenience."

While much has been said across the sector about how millennial consumers love technology, it can be overstated.

Dr Nicola Millard, head of customer insights and futures at BT, says: "The millennial thing is a bit overblown. A lot is universal, regardless of your age."

Nirale also highlights the many different types of customer a bank can have, all with different preferences. He says: "Different-size banks have different customers. Different regions have different customers. They all vary in nature."

The mobile channel

Mobile banking has seen a large uptake. According to the British Bankers' Association, there were 11 million banking app logins a day in 2015, a 50% rise from the previous year. In addition, the number of payments made using banking apps in 2015 was 347 million, an increase of 54% from 2014.

Bridge says: "Customers have been transacting online for a reasonable time now."

"The majority of day-to-day transactions are probably done via smartphone," Millard adds.

Danilkis says: "The mobile side is one that has been embraced by even established organisations. The difference is the ones taking a digital-first approach and rethinking the entire customer journey.

"Older organisations are adding it as a new way to interact, but the newer players are thinking about how much of the entire customer journey they can put into mobile as the primary factor – the mobile-first customer experience.

"That is the part that is new to many. It's a completely different design and process than what you would get from a traditional bank."

One aspect that has drawn consumers to the mobile experience is how easy it is. Marieke Flament, MD for Europe at social payments mobile app Circle, says: "The main feedback we get is the easiness of the app. That is consistent. Setting up an account with Circle probably takes less than a minute. That's what we think makes it easy to adopt."

Pendar Ostovar, executive director of strategy and research at the BBA, says: "People like convenience. The initial phase of digital involved moving core paper-based client propositions onto the web browser interface. Come smartphones and tablets, the internet became user-friendly and accessible through apps. People started to think what interactions could easily be migrated onto such devices. This was the second phase of digital development.

"The next phase is designing and manufacturing propositions primarily for apps, while making maximum use of data analytics to create tailored and relevant customer journeys."

"If you design a mobile-based customer journey, you can rethink the product and the way it interacts with customers," adds Danilkis.

"From a customer point of view, you can even think differently on what an account is supposed to be. If you design it from a mobile-first perspective, you could have multiple pools of accounts that merge into an account more relevant for the user.

"If you rethink the products, you have a better way of designing a mobile-first experience rather than simply exposing products to mobile channels."

Artificial intelligence

One way institutions are hoping to improve customer service is through the implementation of artificial intelligence (AI). Rather than speak to a person while trying to remember multiple passwords, AI can streamline this entire process through utilising data.

Nirale says: "Based on data analytics and AI and the tools available, they are not harnessing the power of the data they already have about customers. All that can be done.

"If I am on a loan page on a bank's website, nobody is offering a chat or additional advice. Nobody knows that I'm on that loan page. If I have an omnichannel platform working in the background to provide context to my interaction, then an agent or advisor should be able to offer me a deal or a discount based on my history. Intuitive services of this nature are not there.

"If you do happen to have something there, the customer is delighted. It's a relief and doesn't feel like an upsell," Nirale notes.

AI can also be used to improve security Flament explains. She says: "From the bottom up, we have a lot of AI that is probably better than having someone asking you 20 questions. I would argue that the level of security we have is even better than some banks. We have touch ID, a PIN code, and you can set your own limits."

Bridge purports that AI in the form of chatbots could be helpful for the customer experience by creating an experience where customers feel they are dealing with you, even when they are not.

"Various banks are in various stages of implementing this," Nirale adds. "It's not just going in and adopting it. They key part is: What are you going to do? What are you going to solve? There has to be a specific use.

"Data is a fundamental fabric that will change the customer services industry. The bank has to use tools that are available today."

Ostovar adds: "Today, customers' expectations are being shaped through their experiences of solutions offered by different industries such as retail tech providers.

"One area ripe for transformation is robo-advice, which can make maximum use of customer data, propensities and risk appetite to bridge the advice gap."

What's holding banks back?

Why don't banks already offer this level of customer service? It goes back to a very common answer: legacy systems.

"Banks have enormous amounts of legacy code which constrains system development and roll-out of enhanced customer solutions," Ostovar says.

"Making maximum use of fintechs to some extent circumvents the legacy system issues and allows firms to deliver customer functionality quickly, without adding to the legacy code problem. Some big banks invest in such firms to facilitate their takeup within their organisation."

Nirale adds: "Big banks have invested in technology that is old, monolithic. For them to free up capital and invest in new technology is difficult and slow. In a smaller bank, it is easier for them to make a move. All the processes are easier and the customer base is smaller and the systems are relatively newer and move quicker. That's the key difference."

He concludes: "Post-2008, there were so many regulations added to banks. In total, 80% of their budget was allocated towards regulations and fines.

"They didn't have the money to spend on new things, but the costs will go down and it will become an interesting playing field." ■

UK CURRENT ACCOUNTS BY INTEREST RATE, 2017

Account	Rate
Nationwide FlexDirect	5%
TSB Classic Plus	3%
Tesco Bank	3%
Bank of Scotland	2%
Lloyds Bank	2%
Santander 123	1.5%
Clydesdale	0.85%

Source: Comparethemarket.com

That's enough lipstick

Digital initiatives remain a major priority for retail banks as they seek to meet the challenges of new regulations, disruptive start-ups and changing expectations from consumers. **Christian Ball**, head of retail for the Atlantic region at GFT, writes on the importance of this changing mindset

Addressing these competing and concurrent challenges, whilst making the transition to full digitalisation, is a daunting task for banks. How they undergo this transformation while still constrained by their historic business models, processes and methods of doing business remains problematic. Many still have legacy IT systems and architecture which consume significant amounts of their IT spending, making it difficult to invest in innovations.

In this environment, digitalisation requires banks to adopt new technologies and re-evaluate their traditional business models in pursuit of strengthening customer relationships. This process is already underway but the results fall short of what is genuinely required. Too many banks believe digital transformation means creating digital products and services whilst still maintaining existing business models and systems.

This approach cannot be considered to be real digital transformation; it is merely cosmetic in its approach to change.

This point was illustrated by Mark Mullen, CEO of Atom Bank, one of the UK's leading digital only banks. He says: "Banks are trying to be hip, building cool digital front-ends, but it's like putting lipstick on a pig – ultimately it's still a pig and the new front-end is still running into an awful digital back end".

To create a truly digital business, banks must put down the lipstick and make a more concerted attempt to understand the cultural and technological changes required for digital transformation.

Cultural and technological change

Established banks find themselves in the unenviable position of playing catch-up to newer competitors. Digital only challenger banks and start-ups are beginning from a point where their business models and relationship are in a fundamentally different place to that of more established banks. Atom Bank and Germany's Fidor are perfect examples.

They do not have to contend with historic business models or legacy IT systems and they can provide specific niche services targeted to particular customers rapidly and at lower cost. This fact highlights further the need for banks to become fully digital if they are going to survive and compete against younger, more agile competitors.

At present, banks have been slower to address the seismic shift of technology from the preserve of large institutions into the hands (and pockets) of the mass market. This has driven change in business, society and consumer expectation. The three waves of change are technology, connectivity, and automated intelligence.

Christian Ball, head of retail, GFT

The significant, era defining, changes that have and continue to impact consumer lifestyle and expectation trace their roots to these three distinct waves. They are neither sequential nor concurrent and have neither a start nor an end. Each wave continues to have an impact on the other. Banks are being buffeted by these forces of change taking place within the industry and wider society.

Moving to Open Banking

Financial institutions have seen a number of different approaches by challenger banks, start-ups and some notable fast movers such as BBVA, either unencumbered by legacy infrastructure or rapidly evolving from such heritage. They can rapidly deliver and deploy low-cost, market-ready solutions themselves or through third parties with reduced overheads. They are more platform-like in terms of the operating model, focusing on the customer and data needs of a digital economy.

Banks need to change their approach in how they address their own infrastructure and agility issues. To make the transformation to a truly digital world, banks must adopt Open Banking. Regulators in the UK and Europe are pushing a model of 'open banking'.

Open Banking is about creating more competition and transparency within the industry. In the UK, the Competition and Markets Authority (CMA) 2016 report concluded that traditional banks do not face enough competition, with smaller, newer banks finding it difficult to grow.

Banks will be required to share data they have historically held, with consumers and third parties. Third parties can access this data by connecting directly to customer bank accounts via a standard application programming interface (API). This access will enable tailored services to be delivered.

A new relationship

Open Banking will radically transform the relationship between banks and their customers. Power has shifted from the traditional bank to the customer. With this development, banks must reconsider how they create value – it requires banks to adopt a customer and data centric view of how they do business.

With customer experience now at the heart of the new banking model, data has never been a more valuable commodity. The difficulty for banks is that they have always held vast amounts of data but have not always been good at interpreting it to extract insights. The prospect of best utilising data to support customers remains limited with banks continuing to rely on legacy back-end systems that lack the functionality to support the needs of the front-end.

Digital transformation requires banks to show a commitment to innovation and a desire to develop a customer centric approach enabled by technology.

In 2015, the information technology research company Gartner, said of banks: "To be truly digital, banks must pair an emphasis on customer-facing capabilities with investment in the technical, architectural, analytic and organisational foundations that enable participation in the financial services ecosystem."

In 2017 this statement continues to remain pertinent. Remaining banks must ensure they 'engineer in' flexibility and agility of the business model to meet future challenges. ■

Put your money where your mobile is

It would not take long to find an article or a comment on how the banking industry is embracing the digital realm, but is this actually true? Are digital services an opportunity or a burden for banks? **Patrick Brusnahan** reports on what the sector needs to do in order to compete in the cyberworld

While every bank has made efforts with mobile and digital services, the levels of success widely differ.

According to PwC, only 22% of UK financial services firms interact with their customer on mobile. In addition, Avoka's State of Digital Sales in Banking study suggests that there is a lot of work to be done.

The report states that a poor experience, for example an application process designed for a desktop rather than a mobile, could lead to the current 70–90% abandonment rates for new product applications. While marketing may be working, the digital sales experience was not adequate, resulting in the loss of a potential new customer.

Only nine of the 32 banks surveyed across Europe, North America, and Australia, were getting serious in terms of readiness for digital sales of personal banking products.

Progress and opportunity

Luckily for banks, Avoka states that there are plenty of opportunities for improvements to their digital sales capabilities.

While most banks are struggling to create both a superior online customer experience and offer digital account opening across their broad product line, mobile experiences are improving. Some 43% of personal banking products can be opened on a mobile device, up from 31% in 2016.

However, banks are still not taking action on the chances offered by digital sales. Less than 30% of all products can be applied for using digital channels.

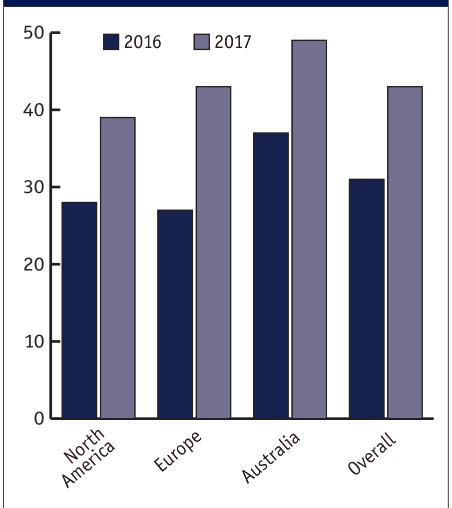
In 2017, 28% of banks' accounts and loans can be opened via a mobile device, up from 20% in 2016. Europe and Australia were the regions with the largest rises while North America showed only a 6% increase over the year.

Larger banks, according to the report, were actually the most dedicated to improvements in this area. Two large US banks showed an improvement of over 30% versus the previous year in terms of the percentage of personal accounts that were ready for mobile sales. Three European banks and two Australian banks surveyed also made significant improvements.

Omnichannel efforts need to improve. Starting on one platform and finishing it on another can be crucial. Starting an application on mobile can be easy, but consumers may need more documents and would prefer to finish the application on a desktop with little to no extra effort.

Save-and-resume is an essential feature but results from Avoka's survey show that not much has changed over the past year. All three geographies show low availability of the feature across product lines. The highest was Australia at 31% in 2017, the same level as 2016. ■

■ PERSONAL BANKING: APPLYING FOR PRODUCTS ON MOBILE DEVICES



Source: Avoka

DISTRIBUTION

Alior Bank to downsize branch network by 2020

Poland's Alior Bank has unveiled plans to trim its branch network and invest in technology in response to the rise of digital banking channels.

The bank currently has a network of 324 branches and 786 franchise outlets. It expects to reduce this figure to 200 branches and 680 franchise outlets by 2020. The remaining branches will be modernised and equipped with mobile tools.

On top of its existing spend on IT systems and infrastructure, the bank plans to invest PLN400m ($100.4m) in IT and innovation projects by 2020.

Alior is currently working to deploy face and voice biometrics and artificial intelligence technologies, and plans to use cloud-based solutions, blockchain and open application programming interfaces banking and PSD2 tools.

The bank has set a target of generating 40% of key product sales through digital channels over the next three years.

Alior CEO Wojciech Sobieraj said: "To face the technological revolution in the banking industry, the changing expectations of clients, and the competition, Alior Bank must transform from a financial firm with a strong IT angle into a fintech with a banking licence.

Banks that ignore out the wave of digital innovation will be left behind." ■

M&A

People's United Financial-Suffolk Bancorp merger secures regulatory approval

Connecticut-based People's United Financial has received approval from the board of governors of the US Federal Reserve for its merger with New York-based Suffolk Bancorp.

The deal, which is valued at $402m, was announced in June 2016, secured the nod from shareholders in October and approval from the Office of the Comptroller of the Currency in February 2017.

Suffolk Bancorp shareholders will receive 2.225 shares of People's United Financial stock for each Suffolk Bancorp share.

As part of the deal, Suffolk Bancorp president and CEO Howard Bluver will join People's United Bank as New York market president

Suffolk will merge with and into People's United, while subsidiary Suffolk County National Bank will merge with and into People's United Bank, National Association. ■

REGULATION

UK Government to create anti-money laundering watchdog

The UK Government has announced plans to launch a new anti-money laundering watchdog to tighten its defences against terrorist financing.

The proposed Office for Professional Body Anti-Money Laundering Supervision (OPBAS) will sit within the Financial Conduct Authority.

It will aim to strengthen oversight of the laws, which is currently carried out by 25 different organisations, of which 22 are professional bodies for accountancy and legal services.

The treasury said that supervision by multiple organisations often leads to inconsistencies that can exploited by criminals. OPBAS will have powers to penalise sectoral bodies for anti-money-laundering rule violations.

It will be funded by a new fee imposed on professional body supervisors, and should be operational by early 2018.

Economic Secretary to the Treasury Simon Kirby said the new standards will: "Send a strong message that money laundering and terrorist financing should not and will not be tolerated." ■

STRATEGY

Diebold Nixdorf plans to offload legacy Diebold business in UK

Diebold Nixdorf, a provider of self-service solutions, is planning to divest its legacy Diebold business in the UK following the Competition and Markets Authority (CMA)'s observation that a structural remedy is required.

Aside from satisfying the CMA's concerns, the move will help Diebold to formally achieve CMA permission regarding its $1.8bn merger with Wincor Nixdorf.

In August 2016, the CMA said that the merger could lead to a substantial lessening of competition in the supply of customer-operated ATMs in the UK, as there is a little possibility of new competitors in market.

Diebold Nixdorf is actively pursuing a divestiture of its legacy Diebold business in the UK with a potential purchaser. ■

TECHNOLOGY

IBM launches new cloud developer tools

IBM has launched a new set of tools to offer essential building blocks to fintech firms looking to develop financial services apps using the business's cloud facility.

The IBM Cloud for Financial Services will give developers access to application programming interfaces, data and content to build and monetise cognitive-enabled apps.

Currently being beta tested, developers will also have the ability to build in customer insights, regulatory compliance analytics, security, privacy and compliance readiness to help reduce the time needed for development and testing.

The new tools aim to simplify the time-consuming tasks of selection, mapping and data integration, enabling developers to use IBM services or integrate them with their own data.

IBM senior vice-president for industry platforms, Bridget van Kralingen said: "Our experience in the commercial deployment of artificial intelligence across financial services with enterprise and startup builders has informed these new tools which we hope will help establish new industry standards.

"We're excited to see how they put them to work to quickly create the latest solutions powered by cognitive computing and blockchain for everything from new payments directives support, and eventually regulatory technology solutions." ■

TECHNOLOGY

Sidian Bank opts for IBM cloud and cognitive solutions

Kenya's Sidian Bank has selected IBM Cloud and Cognitive solutions to accelerate its digital transformation.

The vendor explained that its solution will allow the bank to offer customers faster access to debit and credit card processing, bank account opening, teller, and wealth management services.

"The solution will also free up a typical business day's working hours at the bank, which was earlier spent on problem isolation, as well as help it realise 34% savings in capital costs and a 60% improvement in transaction times across all teller counters and ATMs," IBM said.

Sidian Bank CEO Titus Karanja said: "This is the first collaboration of its kind in this market. It not only cements our partnership with IBM but also creates new and unique partnerships that support our institution's growth strategy and enhance the efficiency of our entire infrastructure." ■

MOBILE

iSentric collaborates with Public Bank to launch m-payment solution in Malaysia

iSentric has announced that its wholly owned subsidiary, iSentric Sdn Bhd, has signed an agreement with Public Bank to collectively develop and launch a mobile payment solution for the Malaysian market.

The solution will use similar mobile technology to that employed by Apple Pay, Samsung Pay, Alipay and Tenpay.

iSentric will serve as the sole solution provider for Public Bank, processing payments from merchants.

Expected to be introduced in the third quarter of 2017, the new m-payment app will be made available on the Android and iOS platforms.

iSentric plans to tap Public Bank's user and merchant base to expand into the Malaysian mobile payment industry, which currently consists of Touch N Go and Samsung Pay.

iSentric CEO Sean Tham said: "Given that Public Bank's strategy is centred on growth in the retail banking business, we are confident that the mobile payment solution will be able to gain traction. Our goal is to use Public Bank's regional presence to penetrate other markets. " ■

MOBILE

New mobile bank Koho formally launches in Canada

Following a successful period of beta testing, a Vancouver-based neobank Koho has launched in Canada.

Koho has developed partnerships with Peoples Trust Company and Visa, and offers customers a prepaid Visa card, a person-to-person payment facility, live chat support, Touch ID-based security, and money management capabilities.

Koho CEO Daniel Eberhard said: "Canadians are paying some of the highest bank fees in the world while being sold products they don't need or understand. We don't think that's right.

"The response during the private beta was amazing. More than 10,000 Canadians signed up and we transacted over $1.3m." ■

TECHNOLOGY

Commercial Bank of Africa taps Tieto technology for digital card and payment solution

Kenya-based Commercial Bank of Africa has introduced its latest digital banking solution: Loop.

Tieto developed the solution that enables the Nairobi-headquartered lender to seamlessly and instantly issue MasterCards, providing customers instant money transfers between accounts and transaction management tools.

Commercial Bank of Africa seeks to serve unbanked Kenyans and is aiming its solution at younger clients, replacing branches in favour of smartphones.

Commercial Bank of Africa general manager of new business ventures Eric Muriuki said: "Commercial Bank of Africa chose Tieto as its provider of card issuance and payment processing solutions due to its extensive experience and proven reputation."

Tieto head of retail payments and cards Maris Ozolins said: "Commercial Bank of Africa's initiative to serve the unbanked youth through a smartphone app is a bold innovation and a future-proof approach to banking and payments solutions.

It was our pleasure to work alongside such an innovative partner that understands the need to put its customers first. This could prove to be an important generational milestone," Ozolins added. ■

MOBILE

Doha Bank introduces new mobile app to reward credit cardholders

Doha Bank, a commercial lender in Qatar, has launched a new mobile app that offers a range of benefits to credit cardholders.

The co-branded app, My Book Qatar, informs users of deals and voucher schemes to help save money.

Available for download on the Apple App Store and Google Play Store, the new app features over 900 buy-one-get-one-free offers and more than 300 vouchers for hotels, restaurants, cafes, leisure attractions, health and fitness spas.

The value of vouchers and deals on the app totals QAR250,000 ($68,660).

Doha Bank head of retail Gul Khan said: "The app's launch reflects our dedication to redefining the lifestyle experience of our customers."

Doha Bank founder and MD Mohamad Saleh added: "An integrated map enables users to spot those deals close to their current location." ■

STRATEGY

Accenture establishes Innovation Centre for Finance & Risk in New York

Accenture has launched the Innovation Centre for Finance & Risk in New York to help financial institutions accelerate and scale advanced data and analytics capabilities.

The centre will develop finance and risk data management, data engineering, advanced analytics, artificial intelligence, and reporting solutions, enabling financial providers to improve regulatory controls as they deploy advanced data and analytic capabilities. It will allow institutions to accelerate transitions by using technology enabled by the Accenture Insights Platform and Accenture Labs.

Accenture Analytics innovation centre lead Antonio Castro said: "Our new Innovation Centre for Finance & Risk fosters deep collaboration between our clients, data scientists and technology experts.

"Together, we can work quickly and effectively to ideate, prototype and scale solutions. The centre has already enabled us to accelerate the delivery of next-generation data platforms for a number of leading financial institutions."

The centre, part of Accenture's international innovation network, already has over 20 partnerships with universities, fintech startups and global financial institutions. ■

PRODUCTS

Fiserv adds credit scores to online and mobile banking

Leading US fintech business Fiserv has launched a new solution that allows financial institutions to offer personalised credit information to customers by integrating credit score monitoring into the digital banking experience.

The vendor said its new solution, Credit Sense, will offer credit scores and daily credit-monitoring functionalities, as well as insight into factors influencing the score.

The offering will display customers' credit scores within the online or mobile banking user interface, enabling banks to make prequalified lending offers customised to individual needs.

The solution will be available through a number of core account-processing and online and mobile banking platforms offered by Fiserv.

Fiserv depository institution services group president Byron Vielehr commented: "It is a natural fit for financial institutions to provide credit-monitoring capabilities and financial literacy resources.

"People trust their financial institutions and will turn to them first for their financial needs, including loans, particularly when they are able to access customised offers directly embedded within a digital banking platform." ■

PRODUCTS

Starling Bank to launch beta version of current account in UK

Starling Bank, a UK-based digitally native mobile challenger bank, has announced plans to launch a beta version of its current account app.

Initially, it will be available on iPhone, with an Android version to follow.

Making use of customer feedback, the lender plans to improve performance and application ahead of a full-scale commercial launch, the estimated timeframe for which is yet to be established.

Commenting on the launch, CEO and founder Anne Boden said: "Our vision is to give everyone the opportunity to enjoy a healthy financial life. We believe that this should be the basic rule of banking.

"Today is another step on that journey. Widening our beta testing programme means we can continue to develop the Starling Account; testing it, getting feedback, improving it so that in the future all our customers can benefit."

The account will feature a MasterCard, direct debit, transfer and overdraft facilities, as well as a real-time feed of transactions and biometric security with facial recognition technology.

Plans are in progress to synchronise the app with digital wallets such as Apple Pay and Android Pay. ■

STRATEGY

Singapore and Japan form fintech co-operation framework

The Monetary Authority of Singapore (MAS) and the Financial Services Agency (FSA) of Japan have set up a co-operation framework to strengthen fintech links between the two countries.

Each will refer fintech companies in their jurisdictions to each other's markets. The framework outlines how fintech businesses can start discussions with watchdogs in the respective jurisdictions, and obtain advice on local regulatory frameworks.

The collaboration is expected to help eliminate regulatory uncertainty and reduce barriers to market.

MAS chief fintech officer Sopnendu Mohanty said: "Technology and innovation remain key enablers of financial sector growth in Singapore and Japan.

"The establishment of the framework is a great opportunity for the fintech ecosystems of both nations to enhance the already strong financial and economic cooperation between the two countries."

Commenting on the launch, FSA vice-commissioner for international affairs Shunsuke Shirakawa said: "We believe that this framework not only strengthens the relationship between our two countries, but also promotes innovation and technology in our respective markets." ■

STRATEGY

Citi confirms Piazza as permanent head of fintech

Citigroup has promoted interim fintech head Yolande Piazza to permanent head of the unit.

Piazza had held the role on an interim basis since August 2016, when the previous CEO, Heather Cox, left the firm for a role with USAA. Piazza has been working with Citi for 30 years and has held numerous technology leadership roles.

In a memorandum, Stephen Bird, CEO of Citi's global consumer bank, praised Piazza's contributions to the business since taking over as interim CEO.

Bird said: "Under her leadership, we successfully launched a new set of features for US retail bank clients that make us the first global bank to integrate banking and wealth management on mobile.

"Client feedback is terrific, colleagues have a powerful platform for engagement, re-engineered processes and are reducing costs and improving speed, all of which has allowed the team to establish itself as a trusted partner with businesses." ■

DISTRIBUTION

Siemens to set up merchant bank in Singapore

Siemens Bank, the financing arm of Germany-based technology giant Siemens, has obtained a licence from the Monetary Authority of Singapore to operate as a merchant bank.

The new office will enable the lender to provide project and structured finance lending for businesses and governments in Asia and Australia, and offer selected finance advisory services for Siemens group companies in the region.

In 2016, Siemens Bank financed projects with assets totalling €26bn ($28bn), including more than €3bn in Asia and Australia.

CEO Roland Chalons-Browne said: "The decision to open a branch in Singapore was a logical step in expanding our local footprint in Asia. We aim to deeply establish ourselves in the local project financing market at an early stage to make ourselves indispensable in the space."

Anton Conradie has been named general manager of the new branch, while Hugo Teixeira will be deputy general manager. ■

TECHNOLOGY

bunq expands service into Germany and Austria

Dutch mobile banking startup bunq has expanded into Germany and Austria with the launch of its open application programming interface (API).

The startup said its new API will allow developers to integrate bunq's real-time payments system into their own apps.

Founded by Ali Niknam in 2013, the startup opened for business at the end of 2015. Operating under a Dutch banking licence, the company enables clients to send money requests, open shared accounts, and pay bills.

bunq CEO Ali Niknam said: "We are the bank to enrich your life with all kinds of unique applications. Daily routines become smarter and more fun as we're offering short cuts for existing services.

"Think of it like WhatsApp. That relatively simple concept has simplified the way we communicate. We believe that everybody should be able to enjoy bunq. Launching our app in Germany and Austria brings us one step closer to that dream." ■

M&A

Misys to merge with D+H in $2.2bn collaboration

Private equity firm Vista Equity Partners has agreed to acquire D+H, a Canada-based provider of financial software solutions. Vista intends to merge D+H with UK software company Misys, which it acquired for £1.27bn ($2bn) in 2012.

The merger will create a fintech firm with $2.2bn in revenue, around 10,000 employees, and more than 9,000 customers in 130 countries, including 48 of the top 50 Banks, Vista said.

D+H CEO Gerrard Schmid commented: "By combining D+H with Misys Vista we will be creating a global leader in financial technology.

"D+H adds depth in North America and leadership qualities in payments and lending, while Misys has a strong market position in Europe, the Middle East, Africa and Asia as well as leadership capabilities in banking, capital markets, investment management and risk solutions."

Misys CEO Nadeem Syed said: "By coming together, we have the opportunity to create a global fintech powerhouse, positioning us to lead the corporate banking software space, accelerate our cloud-based offerings, and expand our footprint in North America, a market we've been eager to penetrate."

Vista Equity Partners co-founder and president Brian Sheth said: "D+H is an outstanding company with impressive talent and deep experience providing technology solutions to financial institutions worldwide. Together, Misys and D+H have the promise to shape and lead the future of financial software."

The combined entity will be privately held following the completion of the transaction at the end of the third calendar quarter of 2017. ■

DISTRIBUTION

RBS's Ulster Bank takes axe to Irish branch network

Royal Bank of Scotland (RBS)'s Ireland subsidiary Ulster Bank is to axe one in seven of its branches in Northern Ireland.

Nine outlets will close in the fourth quarter, reducing Ulster's branch network in Northern of Ireland from 64 units to 55.

Ulster Bank's MD of personal banking in Northern Ireland, Sean Murphy, said: "Banking has changed radically. More of our customers are using digital technology and fewer are using our branch network.

"Closing a branch is never an easy decision and one we do not take lightly. Recognising that customers expect different services from their bank, we continue to invest in a range of channels to improve access in a sustainable way, such as our Bank on Wheels, 24/7 telephone banking and our services available through the Post Office."

In 2010, Ulster Bank operated over 140 branches in Northern Ireland. RBS ended 2016 with 174 Ulster branded branches in Ireland – 110 in the Republic and 64 in Northern Ireland.

Up to 30 of the Ulster-branded branches in the Republic are reportedly set to close over the next 12 months. ■

DISTRIBUTION

Trade union warns of layoffs over Lloyds' outsourcing deal

Lloyds Trade Union (LTU) has expressed concerns over mass layoffs with the £1.3bn ($1.6bn) outsourcing deal that Lloyds Banking Group is likely to sign with IBM.

The union, which was derecognised by the bank in 2015, said the bank is looking to save £760m a year through this contract, which will see the movement of nearly 2,000 IT jobs to IBM.

In a newsletter to its 35,000 members, LTU expressed fears that over 1,961 staff outsourced to IBM would ultimately be laid off after four years.

LTU said that 1,961 staff "will be transferred to IBM, including permanent staff, contractors, third parties, and offshore suppliers. However, after four years, only 193 of the staff transferred to IBM will be still working on the LBG contract."

Citing a presentation by Lloyds CIO Morteza Mahjour, the union said the majority of employees from the bank's data centres in West Yorkshire and Edinburgh will be transferred to IBM.

The outsourcing discussion, which was reportedly initiated in January this year, was delayed as many staff expressed their concerns over layoffs and cybersecurity.

"One of the reasons the deal is being delayed is the mounting internal criticism of the bank's proposals from senior managers and head of functions in IT concerned that critical systems which underpin the bank's major payment, treasury trading, settlement and digital services are being outsourced to a third party to eventually be run offshore," the LTU newsletter added.

LTU expects the agreement to be announced by the end of April, although the bank is yet to reveal further details on the developments. ■

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PSD2 – a catalyst for Pay by Mobile

PSD2 marks a revolutionary development and will have a far-reaching impact on digital commerce. The integration of third-party providers into the Finance Conduct Authority (FCA)'s regulatory framework will provoke new levels of transparency and security. **Simon Pepper**, head of product at Tola, writes

The last few years have brought an explosion in payment innovation, with each development designed to make it quicker and easier to make a payment wherever you are and with whichever method is most convenient. Increasingly, this involves the mobile phone.

Deloitte's 2016 *UK Mobile Consumer* survey reveals that as of mid-2016, four out of five UK adults have a smartphone – equivalent to 37m people. Perhaps a more revealing statistic is that one in three adults, and almost half of 18–24-year-olds, check their phone in the middle of the night.

This same trend is reflected in more recent statistics from programmer Kevin Holesh, who wrote an app called Moment to track how long a user is interacting with a screen. For 88%, it was more than an hour a day – with the average being three hours.

Little wonder then, that the phone is taking centre stage as a payment device. With Android Pay joining Apple Pay as an option for UK consumers last year, recent figures from WorldPay show that £288m was spent on mobile contactless payments in 2016, representing a staggering year-on-year growth rate of 247%.

Consumers have come to expect one-tap or one-click ease when making a payment – they expect it to be quick, and they expect to be offered a range of options on how to pay. These expectations follow through to the purchase of goods or services online.

The fifth annual *MasterCard Digital Payments Study*, released in February 2017, reveals that consumers are showing an increasing interest in the application of new technologies to make shopping faster, easier and more secure.

Mobile overseas

In Africa, 2.5bn people are unbanked and rely on cash or informal financial services which are typically unsafe, inconvenient and expensive.

More traditional banking infrastructures struggle to make the business model work to serve low-income customers, particularly in rural areas. However, over a billion of these people have access to a mobile, which could provide the basis for extending the reach of financial amenities.

In these markets, the mobile phone has naturally taken centre stage for online purchasing. The mobile-centric flow greatly improves the customer experience and allows consumers to complete a transaction without involving a traditional banking provider, as no credit or debit card details are required.

A catalyst for change

Of course, we're looking at a very different market in the UK, with a well-established banking and card infrastructure and a high level of financial inclusion. Demand for mobile payment technology is growing rapidly, with businesses also recognising the importance of delivering quick and seamless payment capabilities to improve mobile commerce and enhance the overall experience.

The introduction of PSD2 will provide new clarity on use of mobile phone accounts to make purchases against your bill – Pay by Mobile. The regulation will legitimise and improve security around this payment mechanism, regulating it in the same way as credit cards. However, this will bring significant restrictions on the distribution of funds through the value chain. To ensure maximum protection for merchants and consumers, any party providing a payment service to a consumer or other entity will need to be licensed as a Payment Service Provider.

There are a few notable exceptions and exclusions within this. One relates to telecommunications providers, which provide a payment service to their customers alongside their core services. This trend is gathering pace, as mobile network operators (MNOs) see the success their counterparts have had in the payments space in Africa, and have started to find ways to monetise billing relationships outside their core business offerings.

These operators do not need to register as payment providers, although they must notify the FCA that they are benefiting from the exclusion and detail how a €300 consumer spending limit – across all services, including voice, SMS, digital content – is to be managed.

It is a complex task, and to avoid a breach networks may need to implement a 'hard stop' when the limit is reached. The type of content or service and the price per service are reasonably easy to control through contractual arrangements between the telecom operator and their intermediaries, but the overall consumer spend on third-party products is not.

Where an individual subscriber spends more than €300 in any month, it may push the operator into a technical breach of the payment services regulation if they are not registered as a payment service provider.

Digital dilemma

Under PSD1, digital service and content providers were able to operate under this exemption; this will change from January 2018.

Service providers looking to use, or continue to use, a Pay by Mobile offering will need to be careful that the intermediary they are working with has an e-money licence. In this payment mechanism, the intermediary sits in the value chain between the MNO and the consumer, handling mobile-based payments to ensure that all transactions are correctly regulated both by the FCA and under the current watching brief of the Phone-paid Service Authority.

At the same time, Pay by Mobile provides consumers with real-time payment authentication and authorisation during the payment process, and complete transparency during and immediately after a purchase.

PSD2 opens the gate for innovative new payment services – and mobile is poised to take centre stage.

Pay by Mobile sits comfortably within this new landscape. The model brings value to all parties in the ecosystem – merchant, MNO and consumer – to drive payments that are fit for a digital world. ■