RETAIL BANKER
INTERNATIONAL

March 2017 Issue 735

www.retailbankerinternational.com

PEPPER HEATS UP ISRAELI BANKING MARKET

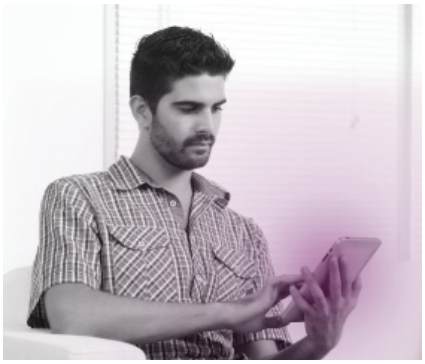
- DISTRIBUTION: BCR
- RESEARCH: Inclusion
- DIGITAL: EQ Bank
- TECHNOLOGY: Lending

VERDICT

intelligent environments®

Digital Financial Solutions

Multichannel digital solutions for financial services providers



To find out more about us please visit:

www.intelligentenvironments.com

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

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

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

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

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

CONTENTS

W&G: the never ending UK banking embarrassment

So I got it wrong - no excuses. In a piece for The New Statesman website in June 2013 – I dared to advise the doyen of City headhunters, Anna Mann, co-founder of blue-chip consultancy MWM, to go for Ross McEwan as the new CEO of Royal Bank of Scotland.

He was then a 20-1 outsider with Ladbrokes and head of RBS' retail unit.

To my shame, I did not back him at 20-1 or at 8-1 when the article appeared.

I did not back him at all in fact – but the UK government did duly appoint McEwan and he seemed a good bet to continue the Herculean job of turning around RBS.

Fast forward four years and the time has come to question if the £10m ($12.4m) or so, give or take the odd million pocketed by McEwan since his appointment, is merited.

I'm out of words to describe the Williams & Glyn saga - in a 2014 editorial I called it a soap opera; in 2015 an expensive shambles; and last year, I described it as an embarrassing mismanagement.

At McEwan's first RBS AGM as CEO, what passes as RBS investors these days, Joe Public, were told that the 308 RBS branded branches in England and Wales and the six NatWest branches in Scotland would be sold off to form Williams & Glyn by the end of 2016.

Since then, the bank has burned through a few hundred million in consultants' fees. At times when back home in Edinburgh I heard that the cost-income ratio of W&G started with a 9; that there were major problems with risk functions and technology.

I was told by one RBS staffer that RBS did not have the change capability needed – that seemed odd as I happened to know that a Change Management Consultancy had put in some of its brightest people to RBS to work on the project.

Over 100 W&G contracts were issued; several thousand staff and agency employees worked on W&G.

The end result of the W&G project - likely to be confirmed on 23 February when the bank releases its full year earnings – it is RBS so that means its annual reporting of a loss probably of about £6bn – is a fail.

McEwan has had a tough four years – as one of the first banking writers to call for him to get the top job at RBS, it seems harsh to be one of the first to suggest his time may be drawing to a close.

I would not however object if our sister title The New Statesman quietly removed my 2013 piece suggesting why McEwan was the right man for the job.

2017 RBI Global Awards Sponsored by Fiserv – Get Your Nominations In

The Retail Banker International Global Awards, now in their 32nd year, celebrate the best in global retail banking, with winners to be announced at the Awards Dinner at The Waldorf Astoria, London on 11 May 2017.

These prestigious awards, sponsored by Fiserv, are highly regarded within the industry as a mark of high performance, and represent an exceptional level of achievement.

The event will feature awards for high achieving retail banks, augmented by individual awards for Retail Banker of the Year and Rising Star Retail Banker of the year.

To nominate or find out more information about the awards, please visit the RBI Awards website: http://www.retailbankerinternational.com/event/retail-banking-conference-awards-london-2017.

Nominations are open until 17 March.

Douglas Blakey
Douglas.Blakey@retailbankerinternational.com

Is British banking institutionally racist?

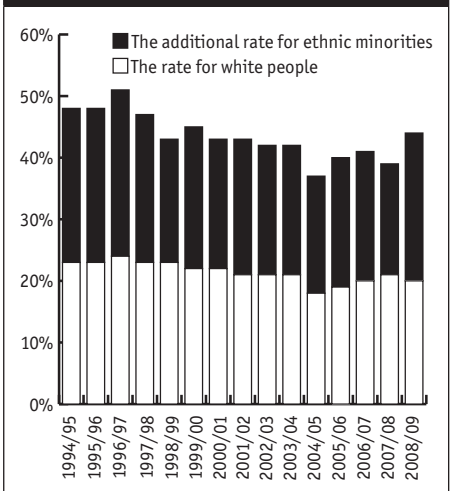
Recent research has shown that black victims of fraud are more than twice as likely to be denied a refund by their bank as white customers in the UK. Is this a blip or a sign of a greater problem? **Patrick Brusnahan** investigates trends that may suggest that banking is not as inclusive as it claims

According to Cambridge University, more than a fifth of complaints in the UK about not getting their money back are from ethnic minorities, even though they make up around only 10% of the population.

The research comes from a survey released by the Financial Ombudsman. It also ties into over 2,000 cases reported over 25 years to the security research group at Cambridge University.

In addition, more than 10,000 customers have complained to the ombudsman about not getting their money back. According to the rules, victims should be reimbursed except in cases of fraudulent claims or gross negligence.

■ SHARE OF THE POPULATION IN HOUSEHOLDS BELOW 60% OF MEDIAN INCOME AFTER DEDUCTING HOUSEHOLD COSTS, 1994–2009



Source: Timetric

The survey of 1,300 complainants revealed that black customers are more likely to not get their money back. Only 3% of the population is black but more than 6% of complainants were from this group. White customers were most likely to get a refund.

Also suggested by the survey was that ethnic minorities are less likely to be refunded at some banks than at others. Non-white customers made up a third of complainants from HSBC, but 19% at Nationwide.

In a statement, the British Bankers' Association said: "This data is not a representative or credible sample of complaints upheld by ethnicity. It is therefore inaccurate to draw wider conclusions from it.

"Banks don't base their decisions on the ethnic origin of their customers and the industry is always seeking to improve how it prevents fraud and supports the victims of fraud."

This pattern does not only apply to fraud reimbursement, but also to borrowing.

Nick Clegg, former deputy prime minister, once addressed the issue saying: "We know that 35% of individuals from black African origin say they want to start a business, but only 6% actually do. Are they having problems accessing the loans they need?

"Past evidence shows that firms owned by individuals of black African origin have been four times more likely than so-called white firms to be denied loans outright, and that Bangladeshi, Pakistani, black Caribbean and black African-owned businesses have been subject to higher interest rates than white and Indian-owned enterprises."

An inquiry was launched and the subsequent report, *Ethnic Minority Businesses and Access to Finance*, stated: "From our review, there is no academic evidence of racial discrimination by banks.

"However, ethnic minority businesses disproportionately face challenges which make access to finance more difficult."

While claims of intentional racism within the banking sector have been put to one side, unintentional racism is a different matter. Banks tend to focus more attention on clients with higher incomes as they are more profitable for the institution. This could, in turn, lead to institutional bias against ethnic minority customers.

The UK's Department of Work and Pensions found that 60% of black and Asian households have no savings at all, compared to 33% of white households. In addition, the UK's Wealth and Assets Survey stated that the average white household had £221,000 ($275, 388) in assets, black Caribbean households had £76,000, Bangladeshi households £21,000 and black African households £15,000.

According to Poverty.org.uk, close to 40% of people from ethnic minorities are in income poverty – twice the rate of white people. This can range as high as 65% for Bangladeshis and 55% for Pakistanis.

As a result of this monetary divide, bankers may, unintentionally, ignore the needs of ethnic customers due to the higher profits to be made with other customer groups. ■

Banco do Brasil responds to neo-banks with digital-only account

Banco do Brasil has launched a digital-only account as part of its digital transformation initiative. Among other objectives, the new account will enable the bank to reduce its customer service costs and to respond to the advent of the neo-banks taking the market by storm. **Robin Arnfield** takes a closer look

In November 2016, Banco do Brasil (BB) announced its Conta Fácil (Easy Account), a totally digital current account which can only be opened and operated via smartphone and requires no paper documentation.

It aims to open 1.8 million Conta Fácil accounts by the end of 2017, targeting consumers who currently do not have active accounts with the bank.

Conta Fácil comes with a debit card branded by Elo, Brazil's domestic card scheme, and consumers have the option of a fee-free account or a fee-charging account with greater functionality.

BB says over 3.6 million consumers open new accounts each year at its branches, and that its objective is to migrate over 50% of these customers to digital account opening. It looks to cut around BRL750m ($221m) in annual costs by increasing its investment in digital channels and by selectively closing branches.

Branch transactions have been declining, and as of November 2016, 9.4 million clients were using its mobile app, carrying out a billion banking transactions a month, or 40% of its total transactions.

In addition, 27% of its total transactions were carried out via the internet as of November 2016. By December 2017, BB expects to have 15 million mobile app users.

Neo-banks

"It's no surprise that Banco do Brasil is going in this direction," says Lindsay Lehr, senior director at US-based consultancy Americas Market Intelligence. "Online-only banks are mushrooming in Brazil, especially NuBank."

NuBank has launched a no-fee credit card that can only be managed via a mobile app, which has proved very popular. It recently secured $80m in investment from Russian venture capitalist Yuri Milner, after receiving funds from Peter Thiel's Founders Fund, QED Investors, Sequoia Capital and Tiger Global Management in 2015 and 2016.

"NuBank has targeted a market with lots of untapped demand – millennials and first-time bank users who have no interest in ever stepping foot in a bank branch," says Lehr.

"Innovative banks are able to offer rock-bottom fees because they don't have expensive overheads to maintain and traditional competitors will be forced to follow suit."

"Banco do Brasil has the advantage of its massive distribution power, as well as a more complete product portfolio," says Guilherme Lima, founder of Brazilian consultancy Ponto Futuro Consultoria Estratégica.

"As a comparison, Banco do Brasil began with a broad media campaign for Conta Fácil, while Neon is still in beta mode, limited to 5,000 accounts, having launched in July 2016. Conta Fácil already allows the sale of small-ticket insurance and saving products.

"The question is how well will Banco do Brasil manage the customer interface and operational challenges compared to a small market entrant. Banco do Brasil has the financial resources and brand equity to invest in learning to operate in this new format, which in time will be commonplace."

Brazilian fintech sector

"Brazil continues to lead the Latin American region in terms of digital," says Juan Mazzini, senior analyst of financial services at Celent. "It has the largest fintech ecosystem in the region with at least 219 Brazilian startups across a range of sectors" according to Finnovista's latest fintech radar.

In early 2016, Celent led a scenario analysis workshop with representatives of financial institutions operating in Argentina, Brazil, Chile, Colombia, Costa Rica, Mexico, and Peru. "One of those scenarios presented the possibility of all financial products being digitised end-to-end," says Mazzini.

"The main conclusions were that customer relationships will be very different. Digitisation will have a large impact on the business models of banks. Some 47% of participants said they believe that the competition will come from new entrants, while 27% identified incumbents. Almost 60% believe that the scenario needs to be addressed immediately and that they are in fact entering into this late; the rest believe it needs to be addressed within the next three years."

"It's no surprise to see Banco do Brasil trying to facilitate account opening as part of a digital strategy," says Mazzini. "It's also an obvious cost-reduction initiative, as Banco do Brasil has the potential to move 3.6 million account openings to a lower-cost channel. Conta Fácil is a first step in that direction.

"I expect that in the future most types of bank account will be digitally opened."

The online channel was responsible for 54% of total Brazilian banking transactions in 2015, according to Febraban," says Mazzini.

"Mobile alone grew from 4.7 billion transactions in 2014 to 11.2 billion in 2015. People are using online channels already so if banks can continue to move customers away from their branches it will have a transformative affect. But it's hard to imagine incumbent banks without any physical presence.

"It's more likely that they will continue to focus on transforming their channel experience, including rethinking the functionality of a branch so it informs part of a digital experience."

In June 2016, BB opened the Laboratório Avançado Banco do Brasil innovation lab in Silicon Valley. The purpose is to learn about and disseminate digital culture within its organisation, identify opportunities for the bank, and work with early-stage fintech startups whose technologies could be of use.

In a press release, BB said it plans to incubate four fintech projects in the lab during 2017, with a further 12 being incubated at its offices in Brazil. ■

RBC goes live with D+H's lending simulation tool Barometer

Royal Bank of Canada has teamed up with leading financial technology provider D+H to implement Barometer, a first-in-class solution crafted to set a new standard in lending oversight. RBC's Mike Dobbins and D+H's Duncan Hannay discuss the Barometer solution with **Douglas Blakey**

When RBC discusses optimising its already-prudent risk culture, the rest of the industry needs to take note. RBC has worked with Toronto-headquartered financial technology provider D+H for many a year on many a project, but the Barometer project deserves special attention.

Barometer, in a nutshell, is lending simulation, the first of its kind, designed to enable lenders to optimise the capability of their back-end underwriters in order to improve the quality of the lender.


Mike Dobbins, RBC

Mike Dobbins, head of strategy and corporate development at RBC, tells *RBI* that RBC began working with D+H in 2015 to develop a tool specifically designed to provide insight into how well employees understand and apply regulations and the bank's policies.

The use of Barometer also creates another opportunity to continuously improve the RBC customer experience through improved assessment and training across lending operations.

This is no small-scale pilot – already 500 RBC loan adjudicators are using Barometer within the bank's Canadian personal and commercial business unit, with plans to expand the Barometer roll out to other functions and regions later this year.

The tool also allows RBC an efficient and repeatable process for assessing workforce knowledge across its lending operation using a library of real-world business scenarios.

Says Dobbins: "We wanted something more real-time. Managers can assign cases to loan officers to test their knowledge of certain regulations and internal policies. After analysing the results, RBC is able to target training on areas where it is needed most, ensuring that all employees are equally knowledgeable on the leading regulations and policies of the day."

He adds that the bank had a successful, longstanding relationship with D+H: "They have been great partners along the way."

At the risk of stating the obvious, consistent, accurate decision-making is essential if banks are to improve loan quality, grow revenue and mitigate risk. That is easier said than done – it is often said that even leading retail banks find it complex, expensive and time-consuming to ensure their employees are up to speed with current bank strategy, the prevailing risk appetite and ever-changing regulations.


Duncan Hannay, D+H

Duncan Hannay, president, global lending solutions at D+H, tells *RBI* that Barometer is a configurable, software-as-a-service, single-instance, multi-tenant product built on the Microsoft Azure platform.

The use of Barometer, says Hannay, empowers the bank to pinpoint and address inconsistencies in decision-making.

Adds Hannay: "Use of a library of real-world scenarios to measure understanding generates the insight needed to make informed decisions on where to deploy resources to improve loan quality, increase profitability and reduce risk."

"The service also provides more security than other solutions – the Azure cloud grants more flexibility and scalability to the financial institution," says Hannay.

Bankers can log in to the service to access a multitude of real-world scenarios, kept consistently updated by D+H, which can then be configured by the financial institution so training is specified and focused on the relevant areas.

Dobbins concludes: "We are the first bank to go live commercially with Barometer. It really does have a lot of feature functionality and is a very intuitive piece of software.

"Users can customise the software and it has a very user friendly, nice feel to it. We will continue to expand this to other parts of the business, and its use will continue to evolve in manual, non-systems-based decision-making.

"We are very, very happy with the results to date." ■

Barometer highlights

- Barometer is a configurable solution to help institutions highlight knowledge gaps and pinpoint inconsistencies in decision-making individually and in aggregate, so training and resources can be targeted at the areas in which they are most needed;
- Users can log in securely from any browser to access a library of relevant real-world scenarios, which are regularly updated by D+H;
- Barometer is commercially available with two proprietary content modules. Adjudication and front line/mobile sales have a growing library of content modules built on existing and emerging regulations, and can be configured to a financial institution's unique policies;
- Managers decide what to test, and gain a detailed view into both individual and team performance;
- Managers can access detailed reporting and analytics on employee performance, and
- Barometer provides compliance and risk officers with a historical repository of evidence, trending results from activities designed to reduce risk exposure and calibrate employee decision-making. ■

Bank Leumi readies Israeli digital-only launch with global ambitions

Bank Leumi is gearing up to launch Pepper, Israel's first standalone digital-only bank. Currently at beta stage, the bank will launch to the general public later this year. Pepper, which will offer current and savings accounts, lending products and a P2P payments app, is targeted at millennials. **Robin Arnfield** reports

"We decided to set up a new venture that will be completely separate from our core business, even if the significant thing is that we are competing with ourselves," Bank Leumi CEO Rakefet Russak-Aminoach told the *FT Innovations* conference in November 2016.

Israeli newspaper *Globes* reported: "I absolutely believe that the fact that Pepper is being established in Israel – the start-up nation – will help distinguish us, and that ultimately we can also make Pepper into a global company."

Fee-free

Pepper says it will enable its customers to fully manage their banking via smartphones, and that it has no ongoing chequeing account-management fees, as all basic banking transactions are free. It will only charge for 'exceptional' items, which it defines as 'special activities and services that you most likely won't use very often'.

"Most traditional banks use digital channels as an extension of their existing services," Pepper's CEO Lilach Bar-David tells *RBI*. "They basically take their existing banking products and try to fit them into smaller screens. However, Pepper was designed for the needs and lifestyles of millennials.

"Applying a user-centred approach that includes on-going co-creation, ideation and validation with target customers, Pepper is designed to provide a personal, proactive banking experience, with products and services built for the mobile-obsessed generation."

Bar-David says Pepper is the first mobile-only bank in Israel, and that it is focused on challenging the status quo in banking.

"Pepper will allow everything to be done entirely through mobile devices – account-opening, customer service, money management, savings, loans, and payments," she tells *RBI*.

"Millennials are known to be more digitally active, specifically via mobile. In a recent study we conducted, we learned that millennials check their bank accounts at least once a week, and that over 40% use digital banking services. Also, most users surveyed said their banking app is more useful than their credit card app."

"Financial institutions today are facing rapid and irreversible changes across technology, consumer behaviour and the economy," Bar-David continues. "The industry is suffering from a heavy lack of trust. There's a demand from consumers for a Google- or Facebook-like simplicity in their banking experience.

"This has led to a banking products revolution – a new breed of technology-driven and consumer-centric financial institution-challenger banks.

"In order to truly disrupt banking, we needed to create a different organisation," Bar-David says. "As innovation was the topic, culture was our first concern. We are a bank that is full of people with passion for technology, design and, of course, banking.

"We set up our startup in July 2015 with eight people, and grew to over 150 within six months. Thousands of ideas were thrown into the air, and most of them ended up in the trash can. At the end, we came up with Pepper. Pepper is a bank that speaks in native digital language and is 100% mobile, full of content and insights to help customers optimise their money."

Design thinking

The bank worked with Denmark-based Designit to develop its products and customer service experience using what it terms 'design thinking' methodologies. The process involved interviewing consumers about their needs and behaviours related to money.

To make Pepper more attractive to millennials, the bank partnered with Israeli digital authoring software vendor Playbuzz to provide personalised, interactive content, including polls and quizzes for its banking app.

"If we can produce clear content that will make people understand their credit and payment options, and provide them with alternatives, we can create a banking experi-

ence that people will like and want to return to," Bar-David said in a news release.

"Content will be at the helm of our communication with users. The goal is to be relevant – both with our content and in the form of presentation, which is similar to how users consume content today."

"Banks suffer from a relatively negative image due to the nature of the industry and the associated red tape," Yael Shafrir, Playbuzz's GM Middle East, Eastern Europe and Africa, tells *RBI*. "They also find it hard to connect with their audience on a personal level. One of the main goals in our collaboration with Pepper was to create a more meaningful, positive user experience through personalised content, which will in turn be translated into a more positive view of the brand overall.

"Imagine customers using Pepper's app on the day they receive their salary, and engaging with a piece of content in the Pepper app that provides the top 10 ways to plan a budget. This is a friendly approach to a serious topic, and will be presented in an interactive format that encourages social sharing.

"By integrating Playbuzz's content technology, Pepper is able to study users' content preferences based on interactions with previous items, and create a more personalised content experience moving forward," Shafrir continues.

"In addition to the high relevancy level, the interactive formats add a gamification element, making the content-consumption process more enjoyable, and increasing key engagement key performance indicators including dwell time and completion rates.

"Our experience in working with financial services brands shows a strong need for engaging content in this environment," Shafrir adds. "American Express and Halifax have created interactive content campaigns with Playbuzz, successfully reached their target audience, and created a well-targeted, meaningful dialogue."

Temenos

In August 2015, Swiss banking software vendor Temenos signed a multi-year agreement to supply Leumi with a new core banking system based on the Temenos T24 platform and the Temenos Connect digital channel software. In the first phase of the contract, Temenos has provided Pepper with T24 and with Temenos Connect, and the software will gradually be rolled out across all Leumi's business lines, replacing an ageing legacy core system.

"It's great news that Leumi is building its digital bank Pepper on a new technology stack," says Forrester Research analyst Aurélie L'Hostis. Leumi and Temenos are working with Deloitte and Israeli IT firm Matrix on the deployment of T24 and Temenos Connect.

According to *Let's Meet Pepper, Banking Services of the Future* by Hickry Meirav and Revital Cohen, respectively partner and manager at Deloitte's FSI Solutions/Technology Advisory Services, Leumi's major challenge in the new digital banking era was to become agile enough to support a quick reaction to market opportunities.

"Since [Leumi's] legacy core system lacks the ability to integrate changes within a short timeframe and at reasonable cost, it was decided not to use Leumi's mainframe but to implement Temenos's T24 solution," the Deloitte consultants wrote. "Regulation was one of the project's main concerns.

"The complex and increasing Israeli regulation requirements have defined a major gap between T24's off-the-shelf capabilities and the required solution for Pepper services and architecture. Since our goal was to maintain as minimum developments as possible, this challenge was even more complex."

Deloitte provided guidance to Temenos in complying with Israeli regulatory requirements, Meirav and Cohen wrote.

"Temenos has made great strides and investments to support the digital transformation of its customers," Tom Zink, associate research director of IDC Financial Insights EMEA, tells *RBI*.

"This strategy has been a key priority for the last few years, and ties together Temenos's more recent focus on customer experience, omnichannel capability, actionable data analytics, and a fintech collaboration platform with its world-class core banking system. Temenos has enabled a number of traditional banks to launch a digital- or mobile-only offshoot."

Digital division

In June 2015, Leumi established a digital division which is overseeing the development and launch of Pepper. The digital division is also responsible for the bank's Leumi Card credit card subsidiary, as well as for Leumi's marketing department, business development department, and Big Data activities.

As of January 2016, over 60% of Bank Leumi's customers used digital channels to carry out their banking operations, with approximately 52% processed through digital channels, the bank said in an investor statement.

Leumi's digital banking plans are part of its efforts to reduce costs, which include an agreement with 695 staff to take early retirement on 30 December 2016, as well as a branch merger program.

During the next five years, an additional 640 employees are expected to retire from Leumi within the framework of normal retirement, the bank says.

"Israel is globally renowned for its entrepreneurial, innovative startup scene leveraging the country's unique advantages such as small size, high mobile engagement, availability of talent in areas such as Big Data, machine learning, and cybersecurity, an unparalleled R&D budget, and a buoyant venture capital scene," says Zink.

"Fintechs have been growing in this environment, however more with an eye to the international market than the domestic market. The Israeli banking system, on the other hand, is dominated by large banks with little room for challengers to penetrate the market, due to regulatory constraints.

"While digital banking has been a key priority for Israeli financial institutions, the state of the industry doesn't differ much from other markets with conservative regulators," Zink continues. "Although almost all transactions can be done digitally, the regulations still mandate that consumers come to a branch for high-value transactions or for opening an account – mandating some form of physical presence.

"In January 2016, the central Bank of Israel (BoI) published new online banking policies allowing existing customers to open bank accounts online or change their bank, without the need to come to a branch.

"While there have been attempts to liberalise the financial sector, the reforms have been moderated by mandates from the BoI, such as minimum capital requirements and licensing requirements restricting smaller platform and service providers' market access," Zink explains.

"Currently, the BoI is in the process of liberalising the credit sector, forcing large banks to divest their credit card companies, allowing access to new acquirers and potentially allowing credit card companies to apply for full banking licenses. This could result in the first 'new' banks in decades. As today all credit providers are backed by large financial groups, it is no surprise that Pepper is built on the back of Leumi to take its digital transformation to a new level."

Small market

"The Israeli financial sector is a relatively small, local market consisting of a small number of major Israeli banks, insurance companies and institutional investors," says Zink. "These are often perceived by the public as slow-moving and conservative.

"Banks have understood the potential of cost savings from digital transformation, and the sector is moving towards a level where almost all transactions can be handled digitally. Banks have partnered with fintechs to stay on top of the digital transformation process, launching new products and channels such as virtual branches, contactless payments, robo-advisory services, and social media analytics – but nothing we haven't seen in other markets."

"Large Israeli banks are also collaborating with Israeli fintechs to test cybersecurity, data analytics and mobile applications, and are partnering with startup funds such as Elevator Fund and Microsoft Ventures. This is a massive change for the Israeli banks, which traditionally developed most of their infrastructure and apps in-house," adds Zink.

"Their mindset is changing towards an understanding that banks need to open up from business, cost-efficiency and innovation viewpoints. So it's no surprise that application programming interfaces are also on top of the Israeli banks' agenda."

Lawrence Freeborn, research manager, European banking at IDC Financial Insights EMEA, notes:"It's interesting that Pepper isn't planning to charge any fees; Leumi, Hapoalim and other Israeli banks charge for a long list of common tasks. So, for the domestic Israeli market, a fee-free approach could help Pepper get off the ground.

"Pepper is at an advantage compared to independent challenger banks across Europe in that it has the backing of Leumi and so can afford to compete in this way."

"It's interesting to speculate on whether, in the long term, a fee-free approach with digital-only touchpoints and relying on analytics for the personalisation of customer service will be more profitable for Leumi than a traditional approach which has to cover the cost of the branch network and employees," Freeborn continues.

"But the fee-free regime suggests that Leumi will encourage its own customers to move over to the digital-only model.

"In any case, Leumi is positioning itself for the generation of bank customers who are most comfortable in a digital setting. Bearing in mind that the infrastructure will be the same as for Leumi, the product set is also likely to be similar, at least initially."

Sandbox

"For a variety of reasons, banks globally will consider the idea of offering a digital subsidiary that gives them a sandbox," says Stephen Greer, banking analyst with US-based Celent.

"The digital subsidiary is able to free itself from its parent's legacy technology while offering a digital proposition that lets it enjoy better use of data.

"The digital bank also has a more flexible operating model and greater modularity, so it can experiment with more modern and advanced products and services," adds Greer.

"Most banks that create standalone digital propositions are using them as a potential long-term strategy for millennial customer acquisition or to move existing mobile-first customers to a digital proposition. Mobile-first customers are still only a small portion of most banks' customer base, but over time they will become a significant part of a retail bank's customer base and offering.

"It sounds like Pepper will be capturing a lot of data on its customers so it can offer them lending products via their mobile phones," says Greer. "This is unique and isn't being done by many other digital banks, with the exception of innovators such as Poland's mBank. But what we've seen is that very few digital-only banks are profitable yet."

International retail banking consultant David Cavell warns that the limited size of the Israeli domestic market may restrict Pepper's growth, citing the example of imaginBank, the digital-only bank launched by Spain's CaixaBank in early 2016.

"CaixaBank has 3.1 million millennial customers aged 18-35, and this represents 30% of its customer base," says Cavell. "Also, Spain has a population of around 48 million, compared to Israel's eight million. In a market like Spain that offers large enough scale, it makes sense for a large, well-resourced and technologically proficient bank like Caixabank to create a standalone proposition.

"The new sub-brand, imaginBank, will pull customers who weren't previously with CaixaBank, while existing customers who weren't engaging with digital banking may migrate to the standalone bank as they find its premise attractive.

"The reality is that setting up Pepper may cost a large amount of money as Leumi has had to use external vendors, and Pepper may not be financially viable due to lack of scale in the Israeli market." ■

Designit part of Pepper from day one

The entire product-service experience of Pepper was developed using 'design thinking' methodologies.

The Designit team was part of Pepper from day one, working closely together to ensure a human-centred approach that puts customers first at every step of the journey.

As a global strategic design firm specialising in digital and business transformation, Designit's experienced, multidisciplinary team of strategists, designers and technologists from around the world – the US, Spain, Denmark, France, the UK, Colombia, Norway – led the innovation process.

Designit worked closely with Pepper's product, marketing and development teams to define and design an entirely new banking experience.

Designit also engaged with consumers to discuss their financial needs, to see how they manage their money, and understand what bothers them about banking services today. Designit learned about their lifestyle, and how today's banking solutions do not help them achieve their goals.

During the process, the Designit team learned that saving money does not necessarily mean depositing it into a savings account. Many people consider making a smart purchasing decision, using a discount or a coupon as great way for saving money and making the most of it.

Pepper in beta testing, Bank Leumi

It also learned that even though many consumers prefer to use digital channels for banking services, it is also helpful and reassuring to know that they can always reach out to real bankers and service representatives if they need help. Insights like these, guided Designit as it worked to design Pepper's products and services. Every Pepper product, service, feature, and experience was developed this way.

There was the added aim of wanting to challenge the status quo of branding design. As a brand built from a digital product, Pepper's design is based on a unique RGB colour palette that cannot be duplicated for print, meaning it is purely digital.

While most banks use single, solid colours for their brands, Pepper uses a range of vibrant colours and a rich visual language, that makes it stand out in the banking design scene and deliver on its promise to provide an innovative range of products, services, and experiences.

The detailed design work is also reflected in Pepper's typography. Its font is custom-made, simple, and bold to reflect Pepper's direct tone and style. The goal is to design an experience that not only provides solutions to customers' financial needs, but is also easy, fun, and similar to other digital products and services. ■

Canada's EQ Bank proves to be a hit with digital-only savers

Canadian digital-only bank EQ Bank was inundated with applications when it launched its high-interest Savings Plus Account in January 2016. Can it maintain its momentum, or will its lack of credit products adversly affect sign-up volumes? Robin Arnfield reports on this new offering

EQ Bank is the mobile-only offshoot of its Toronto, Canada-based parent Equitable Bank, which has C$17bn ($12.96bn) in assets under management and offers mortgages and savings products through a network of brokers across Canada.

At launch, EQ Bank offered a savings rate of 3%, but it has since cut this rate to 2%, which is still higher than other Canadian banks offer for instant-access savings accounts. As of January 2017, EQ Bank had received over C$1bn in deposits and had 27,000 customers.

Customers open their accounts totally digitally, although they have to send a cheque for their initial deposit to EQ Bank.

"You can take a photo of this initial cheque on your phone and send the image to us," says Dan Dickinson , EQ Bank's vice-president of digital banking.

"The cheque, which can be for C$1, is just to prove that another bank has validated your identity. Then you can link your account at another financial institution to your EQ account and transfer funds electronically between the two accounts."

> **"The first thing we needed – and luckily this was in place before I even got here – was the right management team and board oversight"**
>
> Dan Dickinson, VP digital banking, EQ Bank

Initial target exceeded

"EQ Bank beat its first-year target by around 160% in its first three months," says Stephen Greer, banking analyst with US-based Celent.

"In fact, it had to start a wait list for new customers. I think EQ Bank's popularity is a combination of its high interest rate and also the fact that, unlike the US, there are not a lot of other direct banks in Canada.

Currently EQ Bank's three main Canadian direct bank rivals are Zag Bank, a subsidiary of Quebec-based Desjardins; PC Financial, which is provided by CIBC and Canadian retailer Loblaw Companies; and Scotiabank's Tangerine subsidiary.

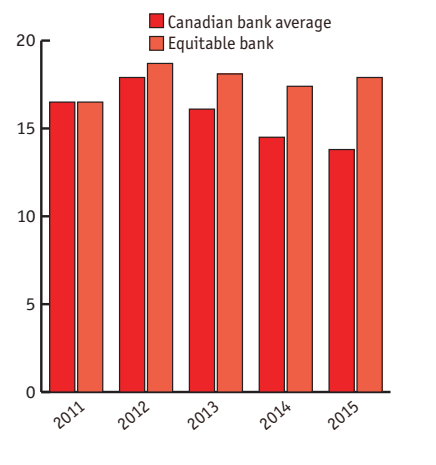
EQ Bank was set up by Dickinson, who was previously MD, online and mobile Banking Canada at BMO Bank of Montreal. "I joined Equitable Bank in October 2013 to set up its digital operation EQ Bank from scratch," says Dickinson.

Single product

Currently, EQ Bank does not offer joint accounts, and its only product is the Savings Plus Account. EQ Bank says on its website that it plans to offer joint accounts and Tax-free Savings Accounts (TFSAs).

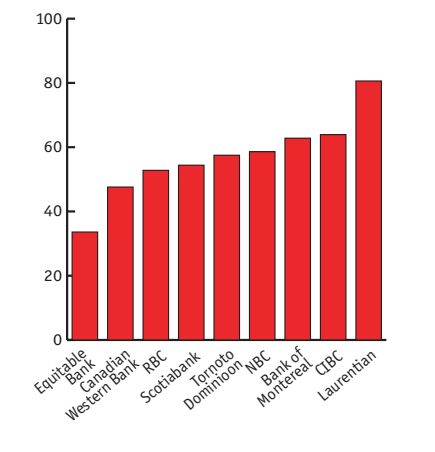
"We can offer any kind of savings product," says Dickinson. "Our roadmap includes Registered Retirement Savings Plans, Guaranteed Interest Certificates, and TFSAs, as our customers are asking for these. It's about prioritising what we do next – it's not just new products but also more functionality for the products we already offer. For example, we offer the ability to have pre-authorised transactions on your account such as having your salary deposited directly and reoccurring bill payments."

RETURN ON EQUITY 2011-2015 (%), CANADA – EQUITABLE BANK VS PEERS



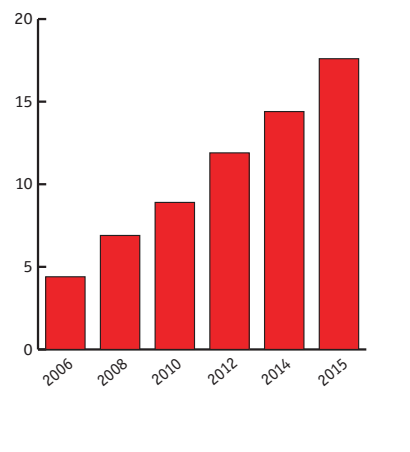
Source: Equitable Bank

COST INCOME, CANADA – EFFICIENCY RATIOS EQUITABLE BANK VS PEERS 2015 (%)



Source: Equitable Bank

ASSETS GROWTH, EQUITABLE BANK – ASSETS UNDER MANAGEMENT 2006–2015, (C$BN)



Source: Equitable Bank

"The Savings Plus Account is a hybrid savings and chequeing account with no monthly bank charges," says Dickinson.

"It lets customers carry out as many banking transactions as they want for free, such as deposits, bill payments and electronic fund transfers. Most other Canadian banks either charge a fee for these transactions or don't offer them on their high-interest savings accounts. We think that our customers find the concept of a hybrid chequeing and savings account attractive. The concept of separate chequeing and savings accounts is really out-dated."

EQ Bank customers can make up to five free Interac e-Transfers a month. Interac e-Transfer is the person-to-person email payment service offered by Canadian debit scheme Interac. According to Dickinson, most customers do not exceed five Interac E-Transfers a month.

Cards

Currently EQ Bank does not offer ATM, debit or credit cards. "We're considering offering customers the ability to make payments direct from their EQ accounts by tapping their phones at a POS terminal and accessing a mobile wallet – either our own or a wallet provided by someone like Apple Pay or Samsung Pay," says Dickinson.

"We're not planning to offer plastic cards if we can help it, since virtually all our clients use mobile banking. As our clients are so mobile-centric, we would like to offer mobile payments. Canadian consumer behaviour is changing, and in downtown Toronto or Vancouver a lot of people pay in stores by tapping their phones or contactless cards.

"However, it remains to be seen whether we can offer payments without plastic cards. ATM access is difficult if you don't offer cards. Most Canadian ATMs include an NFC antenna, but they haven't been switched on yet."

Demographics

"We didn't really go after millennials," says Dickinson. "It was more psychographics than demographics. We go after mobile-first consumers primarily and have attracted a broad range of ages. People who are comfortable with using technology to take control of their finances range across all age groups. We find our customers are clustered in large urban centres."

EQ Bank is available across Canada with the exception of Quebec, where there are special regulatory requirements. "We plan to approach the Quebec market in due course," says Dickinson.

"We realise that right now we're not the primary bank for our customers," says Dickinson. "We're a secondary savings bank for them. Unlike other Canadian direct banks, we don't play promotional games with our interest rate. Our rivals will offer a higher rate, but only for new customers or for new deposits by their existing customers. We have the same interest rate no matter what the balance is on your account."

Celent's Greer says that while EQ Bank's initial adoption figures have been impressive, the bank needs to offer a wider product set. "They need to be able to offer loans to complete the financial management experience and generate a revenue stream," he says.

"We currently have no plans to offer credit products through EQ Bank," an EQ Bank spokesperson tells *RBI*.

Currently, EQ Bank customers interested in mortgages and home equity lines of credit have to click a link on the EQ Bank website that refers them to Equitable Bank.

"At a smaller bank it's easy to know who needs to be in on a decision. Decisions don't need half a dozen meetings and sign-offs and pointless paperwork"

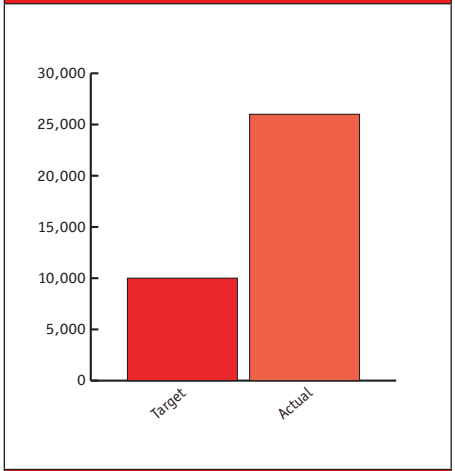
Dan Dickinson, VP digital banking, EQ Bank

Temenos

EQ Bank used Swiss banking software vendor Temenos's T24 platform for its core banking system, as well as Temenos analytics and digital channels software. According to Temenos, being able to examine and analyse customer data is critical for EQ Bank.

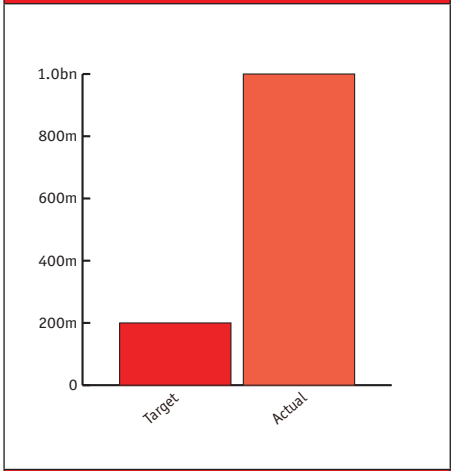
"We're putting data at the heart of everything we do," the white paper quoted Dickinson.

■ EQUITABLE BANK – TOTAL CUSTOMER TARGETS VS ACTUAL, LAUNCH TO END SEPTEMBER (THOUSANDS), 2016



Source: Equitable Bank

■ EQUITABLE BANK – BALANCE TARGETS VS ACTUAL, LAUNCH TO END SEPTEMBER (C$M), 2016



Source: Equitable Bank

"We used Deloitte Digital to help us customise the front-end user interface based on Temenos software," Dickinson tells *RBI*.

"We didn't want our customer interface to be the same as all the other banks' mobile and online platforms. We started out mobile-first, so this informed our design thinking, whereas the big banks started with online and then moved to mobile.

"Our user interface is designed for mobile-first users with a small screen, and uses differentiated font sizes and highlights the key pieces that clients need."

Other digital-only start-ups

"There is more interest in mobile-only banks in Canada now, as people have seen our success when we launched and realise there is an opportunity to take advantage of consumers' mobile adoption," says Dickinson.

"I think we will see more mobile bank launches here. The Big Six will likely offer digital-only banks in the non-Canadian markets where they operate – they would do that first before launching digital-only banks in Canada."

Dickinson notes that consumers can keep accounts with a Big Six bank, but have at least one banking product with a non-Big Six bank. "It's good for Canadian consumers if there are digital-only banks competing with the Big Six banks," he says.

In August 2016, Canadian broadcaster *CBC* reported that Ontario-based Meridian Credit Union plans to obtain a licence for a Canada-wide bank. The *CBC* said Meridian's new bank, which is not expected to begin operations until 2018, will initially offer only digital channels.

However, Meridian reportedly plans to selectively build a few branches for the new bank in the years following its launch. ■

BCR brings the digital touch to Romania's branches

Banca Comerciala Română (BCR), a member of the Erste Group, is Romania's biggest bank in terms of asset value, client base, savings and lending. However, it has struggled to match consumers' developing digital needs. As a result, BCR has overhauled its branches for a new technological age. **Patrick Brusnahan** writes

As of June 2016, BCR had 511 branches in Romania. That is a lot of space to develop, but BCR realised something needed to be done.

Speaking to *RBI*, Irina Mihailescu, head of retail channels evolution at BCR, says: "The rapid evolution of technology and its increasing adoption rate brought significant changes into the behaviour of the people: They now want everything fast, simple and convenient.

For both new and existing clients, it is highly important to innovate and perpetually reshape the customer experience, to meet their evolving needs and expectations."

The old-style branch

Developments included interactive tables for services, ID scanners for authentication – which save more than 80% of operational time according to BCR, a Business Hub, and video banking booths.

"We built the concept on the premise of embedding technology into the lives of our customers, as technology is the tool that responds to the growing need of staying connected, always being available, flexibility and promptitude," states Mihailescu.

Since launch, these services have seen varied amounts of success. While the average number of transactions per month on the interactive tables is 90, the amount of business reservations at the Hub is 15, and so far there have only been eight video-banking calls a month.

While some customers happily switched from face-to-face interaction in a branch to more digital offerings, Mihailescu notes that some customers were more reluctant.

She explains: "The digital branch was designed as a gateway between the physical and digital worlds.

"We brought technology and integrated it in every touch point of the customer journey so that those that still prefer branches as a main channel for banking would get used to digital in a seamless way.

"We aimed towards a double goal: to consolidate our relationship with existing customers and to increase our portfolio with new active, transactional customers."

The way forward

Redeveloping a branch network is no easy or quick feat. From concept to public launch, the process took BCR close to eight months. This included aligning timelines with stakeholders, providers and software developers.

"The first steps towards building the concept of the digital branch was to select the most suitable unit from our network that was meant to undergo a radical change in design and customer flow," Mihailescu says.

"The branch had to be easily reached by people used to technology, open to digital, and willing to change their financial interaction behaviour. A central unit, located in a crowded crossroads, right in the heart of Bucharest, was the perfect choice."

An ambitious project such as this comes with its own share of challenges. Adapting to new technology is only the beginning. A bank would need to reshape the entire customer experience around the new technology, rather than just bolting it on.

Additionally, staff need to be trained on how to use the new offering and on how to pass that knowledge onto the customer in a reassuring way.

"We realised that equipping the branches with devices and going through a facelift

The in-branch video wall

is not sufficient in offering a user-friendly experience to our customers," Mihailescu explains.

"Sometimes we are confronted with weak financial education or reticence to technology from our customers, which needs to be addressed in a different manner. Our aim is to be more than a big bank in Romania, but a partner for our society, an important driver for financial inclusion and education in our community.

"Therefore, we planned to promote and educate both customers and staff to adapt to evolving technology, by organising workshops and dedicated sessions focused on financial education. All staff are being trained to become ambassadors of digital channels."

Keeping ahead

BCR wants to retain its position as the leading bank in Romania, and this new branch concept is part of that.

"Our stake is to maintain our number one position on the Romanian market, and for this we need to constantly set a higher standard for everything that impacts our customers: the range of products and services, customer experience and customer journey," states Mihailescu.

"The branch network is an important factor in terms of the way we are perceived. The launch of our digital branch created a buzz in the market, setting a new benchmark in terms of in-branch customer service and experience."

However, with the market constantly raving about how digital is the future, is such a large-scale investment in physical channels a good idea?

Globally, branch closures are a common occurrence. Since the beginning of the year alone numerous banks, including Wells Fargo, HSBC and Sabadell, have announced branch closures. Is this too little too late?

Mihailescu says: "As customers can handle a major part of their banking business through other channels, the need to visit branches regularly is decreasing. However, the branches still play an important role in customer relationships."

She continues that the key is to ensure that the services are up to the standards required. If the new services do not function immediately, the likelihood is that the customer may never use them again.

However, new offerings cannot simply match up to previous experiences. They not only need to be easier and quicker, but also more memorable and convenient.

"We consider ourselves more than just a bank, but a real partner for our customers and society," Mihailescu adds.

"Of course, the market has shifted to digital across the world, but we put real value on customer satisfaction and customer relationships.

"While transactional banking migrates to online and self-service, our branches will be an integral part of a new social interchange, improving the quality of services.

"Customers will be better informed about competitive products, increasingly comfortable using the different distribution channels available, as a response for their expectations in terms of the level of responsiveness, advice, and service they receive from us," Mihailescu concludes. ■

BCR's new branch features

The new-look Experience branch

- Printed materials such as leaflets or brochures were replaced with an interactive table, where all product information is available to either browse on the spot or send home via email. Customers can also access loan and savings simulator tools, or play games;
- The video wall, a large-scale digital display, allows customers to watch useful tips and tricks on using banking services, and be made aware of announcements and current promotions and special offers;
- A digital information display enables all mandatory announcements to be displayed on a digital screen;
- Free access to Wi-Fi installed in branches enables visitors to either navigate the internet or download and use BCR apps;
- Video assistance is a new and exciting service currently available only in digital branches, allowing extended advisory programmes. Outside opening hours an advisor from a central contact centre is able to provide general or personalised information about products and services, or offer guidance on the branch's functionalities via a video link. The advisor can also share information and perform demonstrations. The service will be extended to other channels of interaction, so customers can access it by mobile phone or home computer;
- The Business Hub is an innovative meeting-room concept, fully equipped with technology, devices and protocol items which can be used by customers to meet business partners. Several branches have unused areas that will be transformed into a dedicated space, increasing the range of non-financial benefits offered. ■

The fintech effect: Are UK banks finally buying in to the benefits of boosting financial well-being?

For the first time since the global financial crisis, the banking sector is showing signs of putting the financial well-being of customers at the heart of its products, according to the *2017 Fairbanking Ratings Report*. **Douglas Blakey** takes a look at the findings and reports back on the sector's efforts

Fintech innovators have set a new standard in focusing on customer control and experience in their products, and now the established banks are starting to follow suit.

After previous reports by UK charity the Fairbanking Foundation identified low levels of customer focus, over the last three years it has recorded an increase of 57% in its ratings of current and savings accounts products that now include more features that put customers in control of their money.

Overall, fintech challengers achieved the best ratings in three of the eight product categories: U Account was crowned as the top current account with no overdraft, Squirrel won top regular savings account and Osper topped children's savings account.

But established banks also ranked highly by introducing new fintech features to their products, such as Clydesdale Bank's B current account, and Barclays.

- The boom in tech disruption has shown bigger financial institutions the opportunities to be seized by increasing customer control of finances. Features such as spending and savings trackers, balance reminders and critical-level alerts, are increasingly being embraced;
- Almost all current accounts analysed now alert customers when the balance is near the overdraft limit;
- Almost half of analysed savings accounts now let customers set their individual savings goals;
- 45% of analysed current accounts can tag expenditure according to category – eating out, petrol or groceries;
- Customers can set their own budgets for different categories with more than a third of analysed accounts;
- Despite the many improvements, progress amongst credit card issuers has slowed in the last three years, due in part to the fact that many providers are not embracing the technology available as readily as the rest of the industry;
- 40% of analysed credit cards do not send a reminder that customers are near their credit limits;
- No analysed credit card has a function that easily shows how long it will take someone to pay off their debts, and
- Only one credit card analysed allows customers to set a budget for different spending categories.

Capital One is the highest-rated provider in this area, with a four-star rating, following assessment and certification in 2015. RBS/NatWest also has a product with many new features, and has been granted a three-star Fairbanking Mark following assessment.

In the regular savings product category Squirrel has taken over from RBS/NatWest as the provider of the highest-potential-rated product. Barclays launched many new features at the end of 2016, and its account has the potential for a five-star Fairbanking Mark.

New products analysed for the first time by the Fairbanking Foundation included student current accounts, children's savings accounts and mortgages. The Fairbanking Foundation found that there are serious pitfalls in many of these products, especially when it comes to student overdrafts and mortgages available to first-time buyers.

All are particularly important for less affluent customers – and all have the potential for significant improvement.

The report finds that many children's savings accounts do not make the most of the extensive technology available on the market to support features that encourage saving habits from a young age.

For the moment, established product providers are lagging behind new fintech-based entrants like Osper and goHenry. It is particularly disappointing, says the report, that the transition from a children's account to an adult account is still not treated as an educational opportunity by providers.

Antony Elliott, chief executive of the Fairbanking Foundation tells *RBI*: "The evidence shows a dramatic shift in the way that providers, large and small, are focussing on the financial well-being of their customers. In 2008, banking could have been compared to a cocktail bar, pushing drinks at customers who'd already had enough.

"Since then, fintech has managed to bring many in the sector to focus on the needs of customers. It's time now for all providers to join the party and use the momentum behind this positive change for the good of their customers.

"In the meantime, the Fairbanking Mark will continue to guide people to those financial products that are best designed to actively help their financial control and, ultimately, their well-being."

Alex Letts, CEO of U, tells *RBI*: "Fairness in banking is largely down to transparency in pricing. The fact that those struggling financially subsidise wealthier customers to get truly free banking is undemocratic.

"This report recognises we are giving people an opportunity to improve their financial well-being. U's transparently priced account, where you pay for what you use, can become a flagship for a new type banking in the UK," he adds.

Overall, the report is upbeat, and Elliott says that a tipping point has been reached in the provision of retail banking services: "A combination of financial technology, regulation, competition and insight from behavioural economics means that customers now have the right to expect better products and services. That applies as much to less sophisticated or less affluent customers as it does to those who are wealthier or better informed.

"Fortunately, there are signs that this message is now being taken seriously."

He concludes: "This is an exciting time. Although there have been significant improvements in the quality of the financial products on offer, with more on the way, there is still much to do.

"More innovation to assist those that are not so technologically savvy is needed, interlinked with overcoming some customers concerns about the security of online accounts." ■

What stops customers from opening accounts online?

While the variety of digital options for opening a bank account, whether online or mobile, seems to expand by the week, consumers are still not fully on board. Why? **Patrick Brusnahan** looks at a new study by HooYu

In its *Online Banking Benchmarking Report*, HooYu asked five UK banks about their online account-opening success rates.

The largest rise in online account opening attempts was recorded by Bank E – all the banks in the report were anonymous – which saw a 50% growth in volume from the previous year, although this can be put down to starting from a low base rate.

Bank B, one of the big four, was able to deliver a sizeable growth in online account-opening attempts of 23.1%.

Bank A was not able to give precise data for the previous year, but stated that it was "double the equivalent number from this time last year".

However, the bank stated that its increased online account-opening volume was driven through in-branch innovation by installing tablets in its bricks-and-mortar locations.

This allowed customers to open accounts digitally without waiting to see a member of staff. This accounted for 70% of its "new to bank" current account demand.

The most popular channel for digital originations was either a desktop or laptop. Applications over smartphones and mobile tablets did record rise, in attempts, however. No bank was able to state whether Android or iOS devices were driving more of the growth.

How long does it take?

The average time taken to open account across the five banks was 14 minutes and 24 seconds.

Banks A, B and C beat this average, with Bank D just missing the cut. Bank E had a much longer journey time.

Compared to previously acquired data, Banks B and D had significantly decreased the time taken to open an account online.

This was attributed to:

- A shorter form
- Fewer pages in the application, resulting in fewer data packets having to be sent between the customer and the bank meaning pages loaded faster
- Better UI including more drop downs and fewer free text fields

Bank A said: "On average, this reduced time spent opening an account from 45 minutes dealing with a colleague in branch, to 10 minutes."

Across all banks, the average completion rate for online applications was 53%, meaning nearly one in two applications do not see completion, and as a result, metrics such as cost per acquisition are being inflated. ■

Is the Tesco Bank hack the wake-up call to make mobile security a priority?

The scale of the Tesco bank hack was unprecedented and shook the industry to its core. **Kirsten Bay**, president and CEO at Cyber adAPT, looks at what happens next, what vulnerabilities have been exposed, and what lessons the industry can take away from the incident and its effect on consumer attitudes

The recent Tesco Bank hack has left the retail banking world reeling, searching for answers and more effective ways to secure networks against future attacks.

It has been revealed weaknesses in the bank's mobile applications left the door open for cybercriminals to brute-force their way in and take more than £2.5m of customers' money. Worse still, the bank had been warned by several security experts of this weakness prior to the attack.

How Tesco got it so wrong

It was the largest ever cyberattacks on a UK bank. One of the most significant things about the Tesco hack was that customer accounts were penetrated forcefully without any credentials, which has not happened before. Cybercriminals broke into Tesco Bank's computer system and stole £2.5m from the current accounts of 9,000 customers.

The result was the scenario many people are most afraid of, that of waking up one morning and finding your bank account is completely empty.

Tesco had a responsibility to protect its customers and, by not doing so, has created an erosion of trust.

What has tarnished consumer trust is the revelation of vulnerabilities that penetration testers had warned Tesco of several times prior to the hack.

While we now know Tesco was aware of the cracks in its security perimeter, it is clear that it either was not aware of the potential scale of the attack, or it simply was not equipped to deal with a cyberattack on this level.

In a moment of malicious compromise, Tesco should have had the appropriate detection and remediation protocols in place to stop the hackers before they could remove actual money from customer accounts.

Keeping pace with multiple threat vectors

With the increasing number of connected devices for cybercriminals to exploit, there are more threat vectors than ever for companies to protect.

It has never been so easy for cybercriminals to obtain confidential information. With the proliferation of mobile devices, social media and social engineering, there are now a million and one ways to reach an individual and gain the keys to the kingdom.

Platform firewalls can easily be misconfigured, creating backdoors for hackers to find vulnerabilities and exploit them. The more complex the network, the greater the likelihood they will make it in undetected.

The edgeless perimeter

Risks are now increasingly extending beyond the perimeter to the individual user via social engineering. We have already seen compromised chip sets, backdoors in operating systems, and rogue apps placing malware on the device.

The greatest element of concern in 2017 is how expanded attack vectors allow for lateral movement, with the bad guys looking to utilise mobile platforms as a means of gaining access to the core of the network.

While the Tesco Bank breach will elevate security further towards being thought of as a high-ticket item, many are left questioning how the industry will act together to resolve the issue.

Like the Heartland breach in the US in 2015, the company thought it was fully compliant and was still compromised, resulting in a year-long rehabilitation campaign.

Instead, we should be asking what the industry is doing wrong. The industry at large has not embraced the notion of hyper-connectivity, which means users and clients alike are all individual vectors of threat. ■

Kirsten Bay, president and CEO, Cyber adAPT

The expert's view

Mobile platforms must be treated as an extension of the network

Securing devices and the traffic they create needs to be treated in the same way you would treat devices within the traditional network perimeter. Just like locking your doors every time you leave the house, you would never set up a network without a firewall – but firewalls are no longer enough to protect the 'edgeless perimeter'.

What happened to Tesco could happen to any company, of any size, in any sector

Financial services are accustomed to being in their own seemingly secure bubble. Now, however, that bubble has well and truly burst. Devices connected to each other via not only mobile networks but the Internet of Things have expanded the risk of all customer devices becoming compromised or attacked.

The financial services industry has a great responsibility to safeguard people's money, and it is heavily regulated because of this. It is imperative, therefore, that it goes further than just basic blocking and tackling of threats within the firewall to encompass the new attack vectors associated with the myriad connected devices. ■

Financial services is about Triple-R KYC: Really, Really, Really Know Your Clients

The next generation of digitisation in finance will propel the industry into the knowledge economy. More specifically, financial services can look forward to using a more contextual knowledge and understanding of their clients. Chris Truce, director of platform development at Saxo Bank, looks at the KYC process

How much time do your customers typically spend on your website? And what are you doing to encourage them to engage more frequently, invest more time with your brand and use more of your services? Even if you've created a dynamic, customisable user-interface, you can still do more to service their needs in this next wave of digitisation in financial services.

Consider a client's total aggregate time. Perhaps, if you're lucky, that client will spend just a fraction of their total time on your digital channels. Thus the key is for you to make optimal use of the time that client spends outside of your digital channels.

A 2015 report by Ofcom, the UK communications regulator, found that the amount of time Brits spend online had doubled in the previous decade, largely thanks to increasing use of smart phones and tablets.

This will rise further as the quality and range of available services continues to surge. Thus it is important for any business which has growth ambitions to ensure it is open to opportunities to better understand and meet their needs, thereby increasing customer loyalty and ensuring sustainable profitability.

Online retail giants such as Amazon are already well-advanced in this respect, having pioneered algorithmic recommendation engines based on machine learning that is able to accurately endorse future purchases with a high potential of interest to its users, based on a combination of navigation behaviour and purchasing activity both on the individual and aggregated level.

The difference now is that this capability is no longer confined to Amazon's own site or apps.

When an Amazon customer accepts cookies on its site, the firm is then able to collect data which when combined with its existing information on the user's Amazon site navigation and purchasing preferences, can make even more accurate predictions.

Moreover, Amazon has the ability to place highly targeted content on other sites frequently visited by the user, for example promoting books or other products available on Amazon that fit the customer's current interests.

How might this translate to digitised financial services?

Self-evidently, by really really really getting to know your clients, you are better placed to serve them.

If you know your client has a particular interest or need, you can act on this by ensuring it is reflected on your customisable user-interface (not just, 'Hello customer', but, 'Welcome back customer, can I provide you with some information on..?').

More importantly you can also draw the customer back to your user interface by ensuring contextually relevant content (that you are probably already producing) is highlighted in your online marketing presence on other sites and targeted specifically to behavioural activities of the individual client. This is increasingly possible thanks to the next generation of fintechs bringing these consumer industry best-practices in behavioural analytics and machine learning to financial services firms.

Similarly, a client might visit an investor platform to research some stocks for potential purchase, perhaps placing them on a personal watchlist, before going off to other sites to do further research. If the client takes the investment advisor's cookie with him, the firm will be able to track the browsing data collected before the client returns to the platform to make the purchase.

Following on, the firm can use the purchasing data alongside behavioural data and other information to add further context to known investment interests and preferences, thus building a more accurate picture of potential future stock purchases.

In addition, the investment platform may be able to post appropriately targeted advice, either from its own resources, or partner firms or other third parties. This can not only improve the tailored user experience but from a compliance and regulatory point-of-view this has the potential to drive a more suitable investment environment for consumers.

Many banks are beginning to embrace digital transformation, but the full potential of such investments will not be realised if banks and other financial services firms don't continue to push the boundaries, exploring the opportunities of digitisation to better understand and fulfil clients' needs and desires.

Big data analytics and artificial intelligence programmes that have been honed in consumer-facing sectors and are becoming increasingly available to banks, enabling them to match more accurately their marketing messages to customers' fast-changing priorities, thereby increasing interaction levels and, ideally, transaction volumes.

Converting client interests into financial transactions is the ultimate goal; generating tangible value from the knowledge economy. But not only that, these same programmes can also aid in the development of more engaging and accurate methods of evaluating a client's knowledge, experience, appropriateness, and investment risk tolerances to better equip these firms at presenting the right investment opportunities, thus aiding in the sustainability of the entire industry.

What is required?

In many cases, these tools can be accessed in the same fashion as the complementary services that banks are already using to redefine their value proposition in the digital age of APIs and open collaboration.

The additional opportunities they offer for enhanced customer satisfaction and customer 'stickiness' make it even more imperative for banks to have a highly flexible and easily integrated technology infrastructure. In some respects, this amounts to building a digital feedback loop.

By augmenting your information about clients' needs and behaviours, you are better placed to attract customers to your digital channels on a more regular basis and to continually evolve the user-experience you offer across your various platforms – all facilitated by an underlying infrastructure that permits you to mix, match and revise the services you offer in response to data driven modelling of consumer demands.

In *Field of Dreams*, Kevin Costner's mantra was 'If you build it, they will come'. In today's digital economy, banks do not have to leave it to chance. ■

MOBILE

Citigroup adds credit card-scanning feature to mobile app

US banking giant Citigroup has incorporated credit card-scanning functionality into its Citi Mobile App.

It will allow US Citi credit cardholders to scan cards using a mobile device's in-built camera, after which the card account number will populate within the registration. Once a card is scanned, holders input their card-verification number, date of birth, and the last four digits of their Social Security number to activate their card.

Alice Milligan, chief customer and digital experience officer for Citi Global Cards and Consumer Services, said: "With more customer logins now occurring through our app than through a browser, we continue to find creative solutions to make their lives simpler and easier.

By enabling the ability to scan their cards rather than input 16 digits on a mobile keyboard, it further streamlines the credit card-activation process." ■

DISTRIBUTION

Neo-bank Moven launches in UK

Moven, a US-based mobile banking venture, has expanded into Europe by launching its app in the UK.

The digital money management service can be downloaded on the iOS and Android platforms and linked to users' bank accounts. This allows the app to monitor and track users' spending habits.

Moven founder and CEO Brett King said the company plans to expand its operations across other regions in Europe. Moven has previously struck partnerships with Canadian lender TD Bank and WestPac in New Zealand. ■

REGULATION

Capgemini unveils PSD2-compliant banking solution

Capgemini has unveiled a new open banking solution to help banks and payment service providers (PSPs) provide services compliant with the EU's Revised Payment Service Directive (PSD2) regulations.

The vendor said its new platform, the PSD2 Open Banking Solution, will reduce compliance costs by speeding up strategy definition, readiness assessment, and implementation capabilities.

The platform, hosted on Amazon's Web Services cloud, offers an open application programming interface to support the new PSD2 requirements, and allows banks and PSPs to easily exchange data.

The platform also offers smart tokens that combine tokenisation and public-key cryptography, and facilitates centralised, real-time monitoring of all platform components and transactions.

Capgemini's head of global banking and capital markets, Anirban Bose, said: "There is an opportunity for banks to turn the PSD2 regulatory compliance investment into a catalyst for accelerated digital innovation by differentiating their businesses and leap-frogging the constraints of legacy technology.

"Through our new open-bank solution we aim to be industry leaders and first movers, reducing compliance costs while not compromising convenience." ■

DISTRIBUTION

UniCredit agrees 3,900 job cuts with Italian trade unions

Italian banking group UniCredit has negotiated an agreement with Italian trade unions to axe 3,900 local jobs as part of a business plan by new CEO Jean Pierre Mustier to strengthen the bank's capital.

Overall, the bank is set to cut 14,000 jobs by 2019 as part of the strategy, which was announced in last December.

The bank also announced plans to launch a €13bn ($13.8bn) rights issue to shed bad loans from the bank's balance sheet.

Layoffs in Italy will be conducted on a voluntary basis; however, the bank has also committed to hiring 1,300 people over the next three years.

"With the agreement defined today, the negotiations with the Trade Unions in Italy, Germany and Austria have been completed in a positive and socially responsible manner.

"On the basis of these agreements, the implementation of the strategic actions has been agreed and targets confirmed," the banking group said. ■

M&A

FB Financial to take over Clayton Bank and American City Bank for $284.2m

Tennessee-based FB Financial, the parent of FirstBank, has agreed to acquire Clayton Bank and Trust and American City Bank (collectively Clayton Banks) in a deal worth $284.2m.

Knoxville-based Clayton Bank has 13 branches in Tennessee and manages $887m in assets; Tullahoma-based American City Bank has five branches in Tennessee and oversees $308m in assets. Both banks are subsidiaries of Clayton HC, owned by Jim Clayton.

FB Financial president and CEO Chris Holmes said: "This strategic transaction will significantly expand our footprint in key metropolitan markets and enhance our community markets in Tennessee.

"We expect the addition of the Clayton Banks to be immediately accretive to our earnings per share in 2017." ■

STRATEGY

Citigroup to exit US mortgage-servicing business

Citigroup is set to exit its US mortgage-servicing business by the end of 2018, and will instead focus on originations to improve returns on capital and reduce costs.

The New York-based lender said it would sell mortgage servicing rights on 780,000 Fannie Mae and Freddie Mac loans of non-Citibank retail customers with outstanding balances of $97bn to New Residential Mortgage (NRZ). The transaction is expected to close during the first half of 2017, subject to regulatory approval.

Any remaining Citi-owned loans and other mortgage-servicing rights not sold to NRZ will be transferred to loan-servicing provider Cenlar FSB in 2018.

CitiMortgage president and CEO CD Davies said: "We have made progress transforming our business to deliver a sustainable annuity of growth.

"CitiMortgage remains a critical part of serving our customers, deepening relationships with existing and prospective retail bank clients and driving growth in our core markets. We will continue to originate loans for current and new clients." ■

STRATEGY

Fosun raises stake in Portuguese lender BCP to 24%

Chinese conglomerate Fosun has increased its stake in Portuguese lender Banco Comercial Portugues (BCP) to 23.92% as a result of the lender's €1.33bn ($1.41bn) rights issue.

"The board is pleased to announce that Chiado (Luxembourg) – an indirect wholly-owned subsidiary – holds approximately 23.92% of BCP's share capital. The total consideration under the Rights Issue Subscription valued €374m," Fosun said in a statement.

Fosun acquired an initial stake of 16.7% in the Portuguese bank last November for a total consideration of €174.6m. The conglomerate also announced plans to raise its stake in BCP to up to 30%. ■

RESEARCH

Consumers' faith in banks' security levels misplaced

Consumers' views regarding levels of security in the financial services sector strongly contradict those of industry insiders, according to research by Capgemini.

The study of 7,600 consumers and over 180 senior data privacy and security professionals from banking and insurance firms in eight countries revealed that banks and insurers had significantly higher levels of consumer trust regarding their systems' cybersecurity (83%) compared to other industries. In contrast, only one in five banking executives were found to be highly confident in their ability to detect a breach.

Three-quarters of consumers said they would switch provider in instances of a data breach, while over a quarter of those opting to remain said they would be cautious about further investments.

However, the majority of consumers were found to disbelieve the idea of their own bank being breached, when in reality one in four financial institutions have reported a breach.

Capgemini global cybersecurity COO Mike Turner said: "Consumers implicitly trust banks with their money and data, but this faith is rooted in a mistaken belief their provider is 100% secure. While banks are evolving to combat the sophisticated cybercriminals, public understanding of the threats and challenges remains low." ■

DIGITAL

BNP Paribas to invest $3.18bn in digital transformation

French banking major BNP Paribas has announced plans to invest €3bn ($3.18bn) in digital initiatives over the next three years.

The bank said that the investment will be used to streamline end-to-end processes, develop mutual platforms, adapt information systems, better use data, and reinforce data storage, protection and analysis capacities.

"In all the divisions, the group will implement an ambitious transformation programme that aims to implement a new customer experience, accelerate digital transformation and improve operating efficiency," the French lender said.

The bank expects the digitisation programme to generate €3.4bn in savings between 2017 and 2019. ■

STRATEGY

HSBC to close 117 branches and shed 380 jobs

UK banking group HSBC is set to close 117 branches and shed 380 jobs in the UK in 2017 in response to the increasing adoption of digital banking.

The closures will lead to the loss of 380 jobs, 204 IT roles in the UK and 176 in-branch posts. The move will reduced the bank's volume of UK branches to 625 by the end of the year.

HSBC head of retail banking and wealth management for the UK and Europe Francesca McDonagh said: "More than 90% of our interactions with customers are through digital channels.

"The decision to close these branches ensures a more sustainable branch network for the future as we continue to invest in our digital platforms. We will have fewer but better branches, with more empowered front-line colleagues using a greater range of technology to support our customers' needs."

Union Unite described the move as a dark day for hundreds of HSBC staff. "Without doubt, customer service in financial services will suffer if our high streets are left without branches," Unite said. ■

DISTRIBUTION

Diebold Nixdorf sets up direct presence in Myanmar

Diebold Nixdorf, the entity formed following the recently concluded acquisition of German ATM manufacturer Wincor Nixdorf by American rival Diebold, has opened an office in Yangon, Myanmar.

The company had been operating in the country through third-party business partners, offering self-service technology to local banks.

Diebold Nixdorf senior vice-president and MD of Asia-Pacific Neil Emerson said: "By establishing a local office it will help us build a closer relationship with our customers and serve them better."

The company also intends to help retailers looking to expand into Myanmar with its automation, omni-channel and lifecycle management solutions. ■

M&A

Bryn Mawr Bank to buy Royal Bancshares of Pennsylvania for $127.7m

Pennsylvania-based Bryn Mawr Bank, parent of the Bryn Mawr Trust Company, has agreed to acquire local rival Royal Bancshares of Pennsylvania, parent of Royal Bank America, in a deal worth $127.7m.

Bryn Mawr said the deal will add $602m in loans and $630m in deposits to its portfolio and help it expand into new markets in New Jersey and Berks County, Pennsylvania.

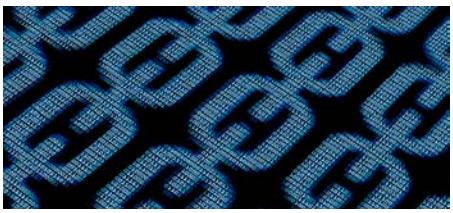
The deal is expected to be concluded in the third quarter of 2017, subject to regulatory and shareholder approval. Royal president and CEO Kevin Tylus will join the senior management team of Bryn Mawr as part of the deal.

Bryn Mawr Bank president and CEO Frank Leto said: "The acquisition of Royal Bank is a logical choice for Bryn Mawr Trust.

"With its strong lending team and prime branch locations, Royal Bank provides BMT with its first location in Center City Philadelphia, as well as a foothold in the state of New Jersey. ■

DIGITAL

NBAD partners with Ripple to offer blockchain payments



National Bank of Abu Dhabi (NBAD) has partnered with blockchain payment company Ripple to launch real time, cross-border payments based on blockchain technology.

NBAD said Ripple's Distributed Financial Technology fits within the bank's existing infrastructure and offers transaction immutability.

The bank added that the solution will offer customers end-to-end visibility of the transaction process, and facilitate instant and cost-effective fund transfers to beneficiary accounts.

NBAD MD and head of global transaction banking Vineet Varma said: "We're always exploring new ways to enhance our customers' experience.

"With blockchain, we hope that we could address the needs of our customers and drive forward more efficient and flexible service. Embracing blockchain is a step in the right direction." ■

RESEARCH

Chinese bank brands most valued in world

The combined brand value of Chinese banks has overtaken that of US banks, driven in part by economic patriotism, according to a report by valuation and strategy consultancy Brand Finance.

China's Industrial and Commercial Bank of China (ICBC) topped the list with its brand value surging 32% year on year to $47.8bn. The brand value of China Construction Bank grew by 17%, while that of Bank of China grew by 13%.

The growth of Chinese banks, in particular ICBC, came at the expense of Wells Fargo that lost its place as one of the world's most valuable banking brands following a fake accounts scandal. The brand value of the US bank dipped 6% to $41.6bn.

The study stated that another factor driving growth in China was accelerating Chinese foreign merger and acquisition activity.

In Canada, most major banks registered growth in brand value, led by RBC which recorded a brand value growth of 28% to $12.7bn. TD, Scotiabank, Bank of Montreal, CIBC and Desjardins also recorded double-digit growths.

European banks HSBC, BNP Paribas, Deutsche Bank and Intesa Sanpaolo all registered declines in brand value. Deutsche Bank had the sharpest decline, with its value slumping 41% to $4.9bn.

In Russia, Sberbank was the country's most valuable banking brand, with its value surging 33% to $9.1bn.

Qatar National Bank ranked as the Middle East and Africa's most valuable bank brand, recording a growth of 56% in brand value to reach $3.82bn.

Itaú ranked as the most valuable banking brand in Latin America with a brand value of $6.9bn, nearly double compared to the previous year. ■

PRODUCTS

Octopus partners UK challenger banks for new savings account

Octopus Labs, the innovation and product development arm of Octopus Investments, has teamed up with a number of UK challenger banks to offer a tech-enabled savings account, Octopus Cash, which will offer customers interest rates of nearly twice the high street average.

Octopus Cash offers customers who deposit £50,000 ($62,270) or more into a one-year fixed-term account an interest rate of over 1%, as against the average high street savings rate of 0.55%.

The product will use technology to spread larger deposits across three challenger banks. Up to £255,000 of the money deposited will be protected by the Financial Services Compensation Scheme.

Octopus Cash director Sam Handfield-Jones said: "The UK's savers have £145bn squirreled away in fixed-term deposits. However, faced with the hassle of switching, fewer than one in 10 of us choose to move it at the end of the term. In today's times of low interest rates and rising inflation, finding an easy way to get the best rate has never been more important." ■

M&A

First Busey to take over First Community for $235.8m

Illinois-based First Busey, the parent of Busey Bank, has agreed to acquire local rival First Community Financial Partners, the parent of First Community Financial Bank, in a transaction valued at $235.8m.

First Community has nine branches and manages more than $1.26bn in assets.

First Community president and CEO Roy Thygesen will take over at Busey Bank as executive vice-president and market president for Northern Illinois following the completion of the deal in mid-2017.

First Community Financial Bank is expected to be integrated into Busey Bank following the merger of the holding companies.

First Busey president and CEO Van Dukeman said: "This business combination is consistent with our strategy of expanding into markets with both population and commercial density in the Midwest through disciplined partnerships with companies who have similar operating and cultural philosophies." ■

DIGITAL

Emirates NBD launches new digital banking service

Emirates NBD has launched a new digital bank, Liv., aimed at millennial customers.

Users will be able to open accounts instantly using a smartphone by scanning an Emirates ID card.

The new offering includes a range of features that will display a curated daily feed of events and selected deals, as well as offer insights on users' transactional history and spending patterns.

Emirates NBD's senior executive vice-president and group head of retail banking and wealth management, Suvo Sarkar, said: "Liv. offers customers a unique experience that will allow them to access the finest lifestyle opportunities while enabling them to better manage their finances."

The beta version of the app will be made available to selected customers on the Android platform, and later on iOS. ■

DISTRIBUTION

TSB to trim branch network

UK-based lender TSB has announced plans to close 29 branches in response to the increasing adoption of digital banking.

Of the branches to be closed, 17 are located in Scotland and most will close in June.

The bank, spun out of Lloyds and currently owned by Spanish lender Sabadell, said the closures will not lead to any redundancies; affected staff will be offered alternative roles at other branches.

"Whilst we continue to focus on upgrading the branches that people use most, some locations are very quiet, serving fewer than 200 people a week" the company said.

The lender is currently in the process of implementing a £250m ($311m) digital transformation programme. ■

STRATEGY

ABN Amro to axe 60% of senior management roles

Dutch banking giant ABN Amro plans to shed 60 of its 100 senior management roles as part of a management restructure.

Under the new structure, the remaining 40 senior management positions will have a stronger involvement in the leadership of the bank, and the composition of these executives will be reviewed annually.

The bank will now have a new management board including heads of retail, commercial, corporate and institutional, as well as private banking.

ABN Amro CEO Kees van Dijkhuizen said: "In recent years, the bank's total staff has decreased significantly, but the size of senior management has remained unchanged.

"The structure and composition of the management level below the executive committee will be reviewed and reduced in size, with a stronger emphasis on strategic involvement." ■

REGULATION

Deutsche Bank fined $630m over money-laundering claims

Deutsche Bank has agreed to pay $630m to US and UK authorities to settle allegations of engaging in a money-laundering scheme to move money out of Russia, and of exposing the UK financial system to the risks of financial crime.

New York's Department of Financial Services (DFS) alleged that the bank had engaged in a scheme that involved clients buying stock in Moscow with rubles, and soon afterwards selling them through the bank's London branch.

The regulator added that this is mirrored in trades that occurred between the bank's Moscow, London and New York offices, laundering $10bn out of Russia. The bank agreed to pay $425m in fines to the DFS and has appointed an independent monitor for its New York branch.

Superintendent Vullo said: "This Russian mirror-trading scheme occurred while the bank was on clear notice of serious and widespread compliance issues dating back a decade.

"The offsetting trades here lacked economic purpose and could have been used to facilitate money laundering or enable other illicit conduct, and today's action sends a clear message that DFS will not tolerate such conduct."

The UK's Financial Conduct Authority fined the bank £163m ($202.8m) for failing to maintain an adequate anti-money laundering (AML) control framework between 2012 and 2015. The fine is the largest ever imposed for AML control failings, the UK watchdog said.

The settlement comes shortly after the bank reached a $7.2bn agreement with the US Department of Justice earlier this month over the issuance and underwriting of residential mortgage-backed securities. ■

RETAIL BANKER INTERNATIONAL

Editor: Douglas Blakey
Tel: +44 (0)20 7406 6523
Email: douglas.blakey@verdict.co.uk

Deputy Editor: Anna Milne
Tel: +44 (0)20 7406 6701
Email: anna.milne@verdict.co.uk

Reporter: Patrick Brusnahan
Tel: +44 (0)20 7406 6526
Email: patrick.brusnahan@verdict.co.uk

Sub-editors: Patrick Fogarty, Nick Midgley

Director of Events: Ray Giddings
Tel: +44 (0)20 3096 2585
Email: ray.giddings@verdict.co.uk

Head of Subscriptions: Sharon Howley
Tel: +44 (0)20 3096 2636
Email: sharon.howley@verdict.co.uk

Sales Executive: Alex Aubrey
Tel: +44 (0)20 3096 2602
Email: alex.aubrey@verdict.co.uk

Customer Services:
Tel: +44 (0)20 3096 2636 or +44 (0)20 3096 2622
Email: customer.services@uk.timetric.com

For more information on Verdict, visit our website at www.verdict.co.uk. As a subscriber, you are automatically entitled to online access to Retail Banker International.
For more information, please telephone +44 (0)20 7406 6536 or email customer.services@verdict.co.uk

London Office
71-73 Carter Lane
London
EC4V 5EQ

Asia Office
1 Finlayson Green, #09-01
Singapore 049246
Tel: +65 6383 4688
Fax: +65 6383 5433
Email: asiapacific@timetric.com.sg

Financial News Publishing Ltd, 2012
Registered in the UK No 6931627

Did you know?

Your subscription to this newsletter entitles you to access its five-year online archive.
Go to www.retailbankerinternational.com

VERDICT

Navigating the delivery of financial services via the Internet of Things

Connected devices have the potential to revolutionise the way we live, administrate and bank. Will we be paying bills via our fridge in the future? Appropriateness, security and customer experience are paramount says **Scott Hess**, vice-president of user experience, consulting and innovation at Fiserv

The Internet of Things (IoT) is with us to stay. With the number of connected devices expected to outnumber humans on the planet by four to one by 2025, it is inevitable that new forms of interaction will become part of daily life.

The IoT – an ever-growing network of devices that can collect and exchange data – is much more than connected cars and smart thermostats. It offers an opportunity for financial institutions to fold a whole range of activities, from payments to financial management, into customers' lives in new ways.

The financial services industry has a significant opportunity to capitalise on the heightened opportunities for customer engagement offered by the IoT by evaluating which connected devices are right for the delivery of financial information and capabilities, and ensuring the security of interactions.

Delivering the right customer experience

As with any new service paradigm, it is important to understand what capabilities are practical and exactly how they can be delivered. As new connected devices emerge, we can evaluate how customers interact with them and if they are suitable for conducting financial tasks.

When driving in their connected car, customers may want to check their balance and initiate a bill payment. At home, they may want Amazon Alexa to provide proactive nudges to help them stay within a budget or remind them to save for a major purchase.

The end user must be at the heart of any new service experience that financial institutions develop for the IoT. In an age of information overload, irrelevant information will at best be ignored, and at worst prompt customers to look elsewhere.

Scott Hess, Fiserv

For financial institutions looking to extend existing capabilities to different devices in the IoT, the approach is the same as would be used when evaluating the capabilities of delivery on a smartphone versus a desktop.

Start with these questions: What types of capability are practical for this device? How will consumers want to access services from it?

Multiple layers and shared standards

Security must also evolve in line with the IoT revolution. The balancing act between customer convenience and security will get ever more precarious as consumers demand new ways to interact with their money. Therefore, a multi-layered approach to security is vital.

Nowhere is this more crucial than in payments. Referencing a prior example – if a customer wants to check their bank balance and pay a bill from their connected car, they could do so by accessing their online banking account, which already has multiple layers of security in place, via the car.

But what about payments that are initiated from a connected device outside of an existing payment application, such as online banking?

If your refrigerator recognises that you are out of milk and automatically orders more, that payment also must be secured. In cases such as these the security of the payment cannot reside exclusively with the device itself – there must be additional security layers, likely in the cloud.

The projected explosion of connected devices should prompt players across the IoT ecosystem to come together to create robust security standards.

The automotive sector has been an early mover in implementing standards-based security for embedded devices. A multi-channel, multi-device approach and thinking in terms of layered security are important considerations for financial services in this new world.

The integration of financial services

By testing technology and gauging consumer demand through research and focus groups, financial institutions and their technology providers can supply customers with relevant content through the right device, while ensuring that customers are able to access information securely to provide an all-round positive consumer experience.

It is essential they keep the experience secure, contextual and as relevant to the consumer as possible. Understanding what each customer needs, how they want information delivered, and how to do so securely are the first steps in providing customers with the best possible experience, one that fits seamlessly into their everyday lives. ■

RETAIL BANKER
INTERNATIONAL

Retail Banking Conference & Awards: London 2017

11th May 2017 • Waldorf Hilton, London

Retail Banking: London 2017 brings together high-street banks, retailers, new market entrants, financial professionals and industry disruptors in an active discussion of the key issues facing the industry:

- How is the Internet of Things (IOT) driving industry change?
- Artificial Intelligence - friend or foe?
- Generation Y Banking Solutions
- Challenger Banks disrupting the landscape
- Cybercrime, Identity Theft and the DarkWeb
- The Future of Payments

Why Attend?

- **Hear** from key senior industry thought leaders via informative and inspiring keynote sessions
- **Network** with speakers, participants, partners and share best practise with your peers
- **Discover** the latest key industry trends and discuss practical solutions to the most pressing industry questions
- **Celebrate** at our black tie awards dinner recognising those at the top of their game

Top industry movers and shakers will meet to debate the importance of new strategies, business practices and partnerships in the industry. We invite you to become an active voice in this discussion to shape the future of retail banking.

For more details please contact Victoria Pennell on victoria.pennell@timetric.com or call +44 (0) 20 3096 2634.

Event supported by

Headline Sponsor

VOCALINK

Exclusive Award Sponsor

fiserv.

Silver Sponsor

AVOKA

Brand Sponsors

NCR

dealflo

Exhibitor

SWORD
UPGRADE YOUR BUSINESS

The **Digital Banking** Club

POWERED BY intelligent environments

Join thousands of financial services professionals who have joined **The Digital Banking Club** to understand the future of mobile and online financial services

Intelligent Environments, the international provider of digital financial services solutions in association with Retail Banker International, Cards International, Electronic Payments International, Private Banker International, and Motor Finance publications.

Membership benefits

10% discount

for new subscribers/purchasers on:

Annual subscription to Retail Banker International, Cards International, Electronic Payments International

World Market Intelligence's archive of over 250 Retail Banking and Cards & Payments research reports

Subscription to the Retail Banking and Cards International Intelligence Centres

World Market Intelligence Ltd.'s bespoke research and consultancy services.

Join The Club!

www.thedigitalbankingclub.com

Membership is free

Or

For further information please email:

tdbc@intelligentenvironments.com