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RETAIL BANKER INTERNATIONAL

50 AND COUNTING

METRO'S STORE AWAY SUCCESS

TECHNOLOGY

2017 on target to be the second-strongest year ever for fintech financing

INSIGHT

The DBC Power 50 on the art of balancing customer service and security

INDUSTRY INSIGHT

MiFID II and its effect on the relationship between banks and consumers

THIS MONTH

NEWS

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Financial News Publishing, 2012. Registered in the UK No 6931627. ISSN 0956-5558

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15th November 2017 • Amsterdam

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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.

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- Big data and the power of analytics - Utilising advanced data modelling
- Ensuring safety and security in a digital world: Digital identity, cyber security and fraud management
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THE MAGIC OF THE METRO MODEL

Douglas Blakey, Editor

Easy to summarise but harder to execute. The Metro Bank success is summarised by founder Vernon Hill thus: "Create fans designed around service and convenience, deliver unbelievable deposit growth combined with the lowest cost of money."

Hill is in typically ebullient form as he discusses Metro Bank's third-quarter earnings, and with good reason. Pick a metric, just about any typical banking metric, and Metro Bank has reason to toast its latest results – but one metric is a standout at Metro that is not generally studied so forensically at rival banks.

Hill says: "We have delivered average deposits-per-store growth of $105m in the past year; comparable US figures are typically deposit growth per branch of $1m-2m a year."

He adds: "You can always drive deposits if you are a high-rate payer. We do not. Nobody buys the latest Apple iPhone because it is cheap – they buy the whole Apple world and Apple experience and that is the way to describe Metro Bank."

Asked about store profitability, Hill chooses his words carefully. Metro Bank has just opened its 50th UK store and of those open for more than a year, Hill says that "over 80% are making a positive contribution".

A practical example of what differentiates the Metro Bank drive for excellence in service and convenience relates to safety deposit boxes – a service long since shunned by the incumbents. Hill can rattle off store-by-store stats but one in particular is top of mind: "At Ilford, before we even opened the store, we had 1,000 safety deposit boxes reserved – the income from that alone is worth roughly £350,000 ($461,000) per year."

In the past quarter alone, customer numbers at Metro rose by 79,000 to hit 1.12 million, and Metro is punching above its weight in particular in the business banking sector. "If you want to open a new business current account at one of the major incumbent banks it takes about six to eight weeks – it takes one hour at Metro Bank. What you have in the UK is a cartel incumbent market where the banks have taken the business customers for granted," argues Hill.

METRO METRICS – THE FUNDAMENTALS (£M)

	9M 2017	9M 2016	% CHANGE
Total assets	14,574	9,005	62%
Loans	8,608	5,193	66%
Deposits	10,760	7,297	47%
Loan to deposit ratio (%)	80	71	
Underlying profit before tax	7.2	0.6	1,161%
Total revenue	78.1	53.4	46%
Net interest margin (%)	1.94	1.92	

Source: Metro Bank

And Metro Bank's business banking market share is set for a boost as a result of the embarrassing and costly failure by Royal Bank of Scotland (RBS) to hive off its Williams and Glyn business unit. RBS is going to pay competitor banks to offload business customer accounts and Metro Bank is set to benefit.

"Only in Britain," says Hill, but he adds "all of it is helpful. I am surprised that Santander, with £350bn of UK deposits, is being subsidised by RBS." On that score he is not alone in finding the entire arrangement bizarre.

Hill is equally quotable when it comes to the impending changes arising from Open Banking and admits to "mixed feelings".

"I am sceptical that the British (or American) public will let us share their financial information with third parties. Open Banking will not be as big as you might think. Customers are rightly concerned about cybersecurity. But if Open Banking does take off, we are all set up for it because of our modern IT systems."

As for future store expansion, Hill says stores in Bristol and Cardiff are under construction and will be opening next year. The bank will also roll out a Midlands expansion plan next year, with Birmingham firmly in its sights. Pressed on the possibility of expansion further north, he says there are "no immediate plans, but it will certainly happen in time". ■

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OPTIMISING THE CUSTOMER EXPERIENCE WHILE MAINTAINING RESILIENT SECURITY

The 2017 Digital Banking Club Power 50, the annual listing of the most innovative, influential and powerful people in European digital financial services, has been revealed. *Patrick Brusnahan* speaks to some of its prominent members on the tricky balance between excellent customer service and sturdy security

As executives of all service industries will tell you, the customer comes first. This means delivering a great customer experience.

It is recognised that consumers are more likely to regale friends and family with stories of bad experiences than good ones; therefore it is essential to keep the customer happy.

In banking, a seamless omnichannel experience is regarded by many as the way forward. However, reducing friction holds the risk of also reducing security. In a sector that deals with money, this is unacceptable. So where does the balance lie?

DELIVERING THE CUSTOMER EXPERIENCE

Before improving its customer experience, a bank needs to know how customers currently feel about it. This is a tricky task.

Simon Cadbury, head of strategy and innovation at Intelligent Environments, says: "I think banks on the whole find customer experience quite hard to measure. They're definitely using net promoter score (NPS); almost all banks use it as one of their key metrics.

"They compliment that with other data they've got. Sometimes that can be structured customer feedback, such as surveys. There's also unstructured information that comes from call centres, social media, and comments that have been made through complaints."

Paul Horlock, director of payments at Nationwide at time of writing, explains: "We use all we can, including NPS. We also track across our branches and our internet and mobile banking to look at customer satisfaction internally. Also, we talk to customers and members every month. We put C-level executives in front of members and see what's on their mind all around the country. There are also the app store reviews that we get. There's a number of metrics we measure."

"Measuring customer experience in the bank, requires looking at the quality of the experience," says Tomasz Motyl, chief innovation officer at Alior Bank. "Put simply, the quality can be measured as a relationship between the current experience and the prior expectations of the customer."


Paul Horlock, Nationwide

"Experience appears while the service is consumed or the client is using service touchpoints. There is also another caveat – customers know precisely what's the core of the service, a must, something without which the service has no value (i.e. online access to their bank account), and what's the augmented part which makes it surprising. In Alior Bank, we concentrate on all those aspects. We make sure that our offer is simple and accessible, and that it's explained transparently."

Daryl Wilkinson, executive director at Unity Trust Bank, says: "We use the traditional metrics, but we also have independent surveys that look at how easy it is to do business with us. That's from the application stage to day-to-day management of their account. Another thing we tend to do is focus groups. These used to be face-to-face, but now we're also doing some crowd-sourced focus groups.

"It's not dissimilar to what I've done before where you build a community and rather than asking straight questions, we impose some main questions and get some reactions. It's instigating a dialogue with the customers. That allows us to understand two things: the objective priorities and needs of that community and also the emotional


Tomasz Motyl, Alior Bank


Simon Cadbury, Intelligent Environments


Daryl Wilkinson, Unity Trust Bank

expression of those priorities and needs. The ability to connect logically is taken for granted in banking. To have an emotional lens is somewhat new to the industry."

Even as a mobile-only bank, Monzo looks at the traditional customer experience metrics, but in fact does not put too much weight on more modern review methods.

Tom Blomfield, CEO of Monzo, explains: "We use a few things, nothing that would surprise you. We use NPS; last time I checked we were plus 83. We measure retention, people who sign up compared to those still using Monzo six months later – this figure is currently at 75%.

"We do a lot of community work on our forums and on social media. We get people into the office to talk about how they use the app. NPS and retention would be our main two. We look at [app store reviews], but they can be gamed so easily. With the new iOS rating system, you can prompt your users to give you five stars. We haven't yet done that; we look at what people are saying but it's such a low volume. We receive around 10,000 in-app chats a week, which is much higher. We mine those and have human beings responding to all of them."

Giles Andrews, co-founder and chair of Zopa, says: "We measure NPS of all of our customers, and more importantly we measure them throughout the life of a loan. We even include people who have previously been in arrears and people we've had to collect from. "

"We don't measure people who are currently in arrears as I think that would be misleading. We like to think it's a very good cross-section of our customers. I'm proud to say our scores are consistently in the high 70s, which puts us up with the digital greats such as Amazon or Google. If you compare us with the big banks, which are often in the 30s and sometimes negative, we're very proud."

Will Beeson, head of operations and innovation at Civilised Bank, adds: "Our business model, and what we believe makes us unique, is the face-to-face human relationship management team we deploy in the local community to support our customers. It's less about going digital, moving from a traditional branch-based model to a digital-only model, and it's more about building something from the ground up. Leveraging what's available in terms of technology and delivering a first-class human customer experience. We measure our customer experience based on direct feedback. Obviously, we'll look at industry-standard things such as NPS to make sure that we're comparing our performance to our peers."

However, some experts believe that you cannot measure customer experience through a form of metric, but it is more objective based. Tesco Bank's Alessandro Hatami says: "The most obvious way to measure customer experience is through two questions: Are customers using your services? And are they able to go end-to-end and fulfil their needs?

"When a customer approaches a bank, through whatever channel, they have an objective in mind. If they have to change channel to complete their objective, then the bank has failed. If I want to open a bank account online and I can, I have succeeded, if I can't, I have failed. If I want to get a mortgage and I can't complete the whole transaction online, I have failed. That is the gold measure.

"It's not going to be day one when you can get all of these things online, but you need to have, in the back of your mind, 'when the customer comes to me, any reason to change channel is a failure'. If you study this principle and guide yourself in whatever choices you make going forward along with that principle, then you cannot fail."

Cadbury agrees that measuring customer experience may not be as black and white as an NPS. "I don't think there is a recognised way of tracking the entire customer journey through account opening, onboarding and the ongoing process," he adds.

DIFFERING CHANNEL EXPECTATIONS

Customer experience can be a very general term. Obviously, expectations can change depending on whether somebody wants to open an account in a branch or check their balance on a tablet. How does a financial institution account for this?

Cadbury states: "There's definitely a stronger desire to look across the omnichannel experience. That is something that is growing in importance in certain parts of the market. The whole thinking behind it has matured. There are many institutions that are trying to think of the customer experience per se, as opposed to the channels that they are using. They're looking to offer digital within the branch so there's consistency across the whole experience. There still remain a large number of examples where things tend to fall off."

Wilkinson posits that there is no real difference between physical and digital banking experiences. He says: "Actually, I think they're similar. They want access how and when they need it. They need access to be efficient and for it to be consistent. They don't want a different experience depending on the channel.

"The other thing I would say is that they value the experience and the human touch. When you call us, you always speak to a human, never a machine. That's valued by our customers."

Horlock concurs: "There's no substitute for talking to people, so we're working hard on things like online chat to make it the same."

Hatami insists that it is less about differing experiences between channels, but making sure each channel can help a customer achieve


Tom Blomfield, Monzo


Giles Andrews, Zopa


Will Beeson, Civilised Bank

their objectives. "We like to think that customers differentiate between channels," he explains. "What customers ultimately want is a banking service, but they don't care about the bank, they care about what the bank allows them to do.

"I don't care about getting a mortgage, I want a house. I don't care about a loan, I want a holiday. Any time the bank starts thinking of itself as a destination or an end objective, that is when it starts having problems."

Motyl makes the case that the bank needs to be prepared for any situation the customer may bring. "Customers have different preferences in different contexts," he explains. "When they are in a rush, they prefer digital channels, but when they have more time to plan their future, investments or loans they prefer to get quality advice. And just because we may have one client changing their context we need to ensure that quality of service in digital as well as traditional channels supplement each other. On the other hand, we will not change the paradigms – digital is becoming a dominating channel."

Cadbury adds: "What you should never do is ask a customer to start a process in one channel then continue it in another one. If the customer wants to go to the branch, fine, but I don't think you should force one to do so. You can issue cards to a mobile phone now to make contactless and remote payments. That's something that can help bridge the gap."

EXPERIENCE VERSUS SECURITY

A common question when considering customer experience is: does it hinder security? Obviously, as a sector dealing in money, security is of the utmost importance – possibly more than in any other sector. However, having that hinder a customer's experience is no way to keep consumers happy, and certainly no way to work as a financial institution. So where is the line?

"I think everyone is struggling to offer the optimal blend of a seamless user experience and security," Cadbury explains. "Banks have adopted technology that does streamline the experience, but it can often be to the detriment of itself. Many of them make good headlines, but in reality, are not practical on a mass scale. Many of them are putting tolls on security for the sake of customer experience."

Beeson adds: "There's a balance. It's not even just balancing customer experience with security, but the nuance of getting customers comfortable with various ways of interacting with a bank."

Blomfield believes that security and customer experience should work hand-in-hand. "I think great security can be totally unobtrusive," he notes. "If you think hard about the various things you are protecting the customer from, it is easy to protect in an unobtrusive way. If it's 'someone can see my balance', it's very different from 'someone can claim my entire account'. You can put different tiers of security in place depending on the threat."

Wilkinson also states the need for this sacred 'balance'. He says: "It's not a stumbling block, but there is a balance that needs to be met. Security has multiple layers that need to be optimised. Depending on what the customer is doing, you want the security to be enhanced and to be layered to give the balance of ease of use, as frictionless as possible, but as the transaction becomes more sensitive or valuable, it helps to put in a bit of friction.

"Customers don't mind friction if it is designed friction – versus something silly that we can clearly see is a form for the sake of a form, or putting in a password more than once when it's not needed."

Moytl argues: "Security in banking is a must. This is the area that no bank will compromise on. We treat security as another challenge which we need to take into consideration while designing our technology and products.

We have started our biometric journey with the introduction of identity verification through Apple's Touch ID in our mobile banking application. Currently, we are also planning to implement two other methods – voice and facial biometrics.

"We've chosen face and voice biometrics methods, because a combination of these can be used in all bank's channels. It means that our customers will be able to verify their identity in the same way, every time, regardless of the channel."

IS THE PASSWORD SET TO BE REPLACED?

One of the more promising developments in security has been biometrics. From fingerprint scanning on smartphones to retina recognition in cameras, it is more accessible than ever. Does this signal the end of the traditional password?

"The future is not the password alone, but the future isn't biometrics alone," Cadbury says. "It's about blending the two and using the right one at the right time. The password will always be there in some form or another, even if just as a backup.

"There are banks that are adopting facial login or voice biometrics that don't work right now. The voice biometric can be tricked by someone's identical twin or the face login tricked by a moving image of that customer.

"If you consider it as part of a greater security experience where it is just one of the factors, it may well work very well. Use your face to see your balance? Yes, but don't use your face to set up a payee."


Alessandro Hatami, Tesco Bank

Horlock explains: "We can see the password going. We can definitely see that and we're actively trying to improve the concept of a mobile phone as a factor or a better route for security. Passwords could be your iris or your thumbprint, but it has to be in a way in which the customer is completely confident in the process. It has to be very clear that you are applying your biometric for security. I can see the password going, but it has to be replaced by something that customers intellectually and physically understand."

Wilkinson counters: "I think the password will be replaced in time, but we're far away from that. I don't think it will happen imminently and I don't think it will be a sudden switch. It will be a migration to a form of biometrics and layered solutions. My belief is that it will eventually be replaced. I don't feel that the replacements we see today are holistic."

Motyl takes a rather bolder stance: "The future of passwords is no more passwords. The number of passwords that our clients have to remember is skyrocketing. What is more, security requirements for passwords are becoming more complicated. Lastly, technologies that let someone break someone's password are becoming more effective, so a complicated phrase isn't a sufficient protection anymore.

"I do not think that passwords will vanish in the near future, but eventually we expect that. Biometric methods have become much advanced in recent years, and the cost of implementing these technologies is steadily decreasing. Due to this I believe that more and more companies, not only banks, will try to authorise its users using biometrics."

Beeson concurs: "If by password, you mean a static six-to-eight-digit code associated with a user name, and that's the only piece of security, then that form of password is definitely on its way out – and probably gone already.

"Security is increasingly becoming a range of components all taken together. Passwords in the classic sense will most likely be one of them, but it needn't have to be."

Blomfield believes the solution may not be as easy as simply moving away from passwords. He continues: "Moving away from passwords basically means that people can't give away their password. It totally prevents that and removes that attack strategy, but that's just one factor. There's no simple solution when it comes to security."

Andrews also has hope for biometrics, and intends to implement the technology as Zopa increases its range of services. "There is definitely scope for us to use biometrics. We are in the process of launching a bank," he explains. "As we move towards more typical banking products we will look again at security, including biometrics.

"We have an advantage in that our technology is proprietary, fit for purpose, and modern," Andrews continues. "Therefore, we are more flexible in including different technologies than your average bank. We need a compelling case for why different technologies provide better security in a way that doesn't infringe on customer service."

Hatami is less enthusiastic about biometrics than others, but believes it can help in the holistic sense of helping customers achieve goals easily. It can even give a competitive advantage.

"As far as I can tell, no customer will switch bank because it offers a biometric device," he adds. "If my bank offers me a biometric login that allows me an easier login and to be authenticated more quickly and make it easier to buy a product, I'm buying a product from the easy place rather than the complicated place that requires me to go into branches. If a bank says you can achieve your objectives more quickly with us, then that is an advantage."

CONCERNS AND DIGITAL ENGAGEMENT

Customers are concerned about the security of their bank, and with seemingly constant breaches it is hard to blame them. In 2017 alone, Deloitte, Equifax, Verizon, Wonga and other financial sector-related firms have suffered from huge cybersecurity breaches. All of these were covered exhaustively by the media, lowering the already fragile trust in the industry.

Cadbury explains: "I think the way to tackle that is education of the customer. It means talking more to customers face-to-face in branch and making sure you have the correct reassuring messages on digital channels for when they log in or when they register. Possibly sending them reminders through the post or emails about what they should or shouldn't expect from their bank when it comes to security."

Blomfield cautiously agrees: "I don't know if there's an easy answer to that one. Constant consumer communication is a must."

Daryl Wilkinson also believes customer education is crucial. "It is about education and helping customers understand that they can do the same things in branch online," he says. "Once you've educated them on that, it tends to get accepted quite well and you will see more transactions online."

Horlock adds: "I think we're all grappling with this, and there will be a lot of right answers and a lot of wrong answers. The big thing I would say is what we do, we have to do with our members, not to our members. And they need to be aware of that mentality."

"Security is always ranked high on the mind of consumers nowadays," Motyl continues. "Understanding and harnessing the relationship between consumers' security concerns and their preparedness to engage in digital environment is crucial. At Alior Bank, customer education is a major selling point in lessening concerns about security. Digital banking users need to know what their banks are doing and understand how security methods are working.

"Banks should also remember to implement only these security methods that are understandable, reasonable and dependable. Don't forget that just one safety failure leads to the total loss of trust of a large group of customers."

Beeson adds: "Empathy is the biggest factor. It goes back to the point on having six different factors that can be used in co-ordination. You need to appreciate that different people will have different feelings that may not ally with the foremost security expert. Respecting that desire is key. Frankly, that mindset can cover everything customer experience related."

Cadbury concludes: "As with everything, the best experience is one that is personalised. We're looking into application processes that are conversational and adapt. They aren't a one-size-fits-all form. They ask each customer only the questions they need to be asked and not those that aren't relevant. By not capturing unnecessary data, you can offer the customer a lot more comfort." ■

FULL-TIME EMPLOYEE NUMBERS RISE 4% AT MAJOR US BANKS

So much for the notion that falling branch numbers and rising use of Artificial Intelligence are hitting bank employee numbers. Not so. In the year to end June, total FTEs at the largest US banks rose by 4%, writes *Douglas Blakey*

Employment levels at the major US banks are holding up resiliently, and actually rose by 4% in the year to end June 2017.

A number of US banks have been active in ramping up strategic hires in key areas such as City National. Employee numbers rose by 12% at City National as it strengthens its key target segments in the entertainment and sports sectors. Notable hires include executives to service the music hubs of Nashville and Atlanta.

City National has also been active in growing its footprint in the US with the opening of its first full-service regional banking centre in Minneapolis, the first co-branded banking office for the bank since it was acquired by Royal Bank of Canada in November 2015.

Wells Fargo remains the largest bank by employees and actually increased full-time employees (FTEs) by 2% in the past year to almost 239,000.

FTEs rose by 8% at Citi at a time when its branch network shrank from 758 to 719 outlets. Citi ended the first half with more than 175,000 FTEs; prior to the crisis it employed more than 240,000.

Employee numbers also rose by 8% last year at Capital One, a year when its branch network was reduced by a net 146 outlets to 665 units, a drop of 18%.

PNC accelerated its branch right-sizing programme, shrinking its network by almost 5% to 2,561 units, a net reduction of 126 outlets but total employee numbers rose by 345 FTEs in the same period.

By contrast, Bank of America has continued its cost-cutting strategy. BofA has been on a mission to control expenses and streamline its retail banking operation. Not only did it sell its international consumer credit card unit, it reduced its branch network to 4,604 outlets in the year to end June from 4,764 a year earlier. As recently as 2011, BofA operated 5,856 branches in the US.

Total FTEs at BofA declined by almost 5,000 in the year to end June, a reduction of 3.3%. In June 2008, BofA employed more than 191,000 FTEs. But bar BofA, employee numbers rose at almost every major US bank in the past year. ■

US BANK EMPLOYMENT PRE-CRISIS

US BANK FTES, END JUNE 2007

BANK	END H1 07
Citigroup	240,800
Bank of America	184,131
Chase	157,989
Wells Fargo	129,077
Wachovia (acquired by Wells Fargo)	98,674
US Bank	50,451
Washington Mutual (acquired by Chase)	49,403
Capital One	28,211
Citizens	21,499
PNC	19,595

Source: *RBI*

US BANK EMPLOYMENT

THE LARGEST US BANKS BY FTES

BANK	END H1 17	END H1 16
Wells Fargo	238,961	234,468
Chase	198,807	192,864
Citigroup	175,473	161,762
Bank of America	143,354	148,320
US Bank	70,522	66,354
Capital One	52,609	48,515
PNC	51,679	51,345
Bank of NY Mellon	44,891	38,035
BB&T	35,503	35,745
State Street	31,940	29,868
Toronto Dominion	25,171	25,123
Suntrust	22,464	22,154
Regions	21,350	21,593
Keycorp	19,017	14,340
Citizens	17,713	17,802
Fifth Third	17,695	17,906
Northern Trust	17,292	16,350
M&T	16,446	16,703
Huntington	15,070	11,656
Discover Bank	12,353	11,520
BNP Paribas	12,285	12,334
Bank of Montreal	12,277	12,397
MUFJ	12,221	12,228
Santander	10,872	10,540
Zions	10,007	9,941
BBVA	9,837	9,862
Comerica	7,388	8,144
Popular Inc	7,210	7,254
Ally Bank	6,880	1,522
First Citizens	6,665	6,097
HSBC	5,713	5,583
People's United	5,233	4,987
Royal Bank of Canada	4,420	3,934

Source: *RBI*

ING AND ITS NEW FOCUS ON ADVICE AND EXPERIENCE

With physical channels decreasing their square footage in many markets, the challenge for banks is to make the most of what they have. Less is more. ING Netherlands has decided to make a shift towards new advice and experience branches. *Patrick Brusnahan* writes

At Diebold Nixdorf's International Management Seminar in Amsterdam, ING Netherlands focused on how physical channels can progress in an increasingly digital environment.

Ralph Hamers, CEO of ING Group, said: "We want to portray ourselves as a tech company with a banking license. Even further, I think we should be the largest bank without a balance sheet, if you really take it into the future."

ING's Philippine Risch, director of branches, ING agents and cash, said: "The ultimate experience is the ultimate digital mixed with the ultimate human experience."

This has resulted in new branches that focus on advice and experience, without neglecting standard transactions. The branch, after all, is only useful if it satisfies a customer's needs. Even if it is not needed, customers can feel relieved by simply seeing one.

Speaking to *RBI*, Risch says: "We will not move towards stores or branches which are only about experience. You have the basic functions on top of that. It is always about the core functions, providing advice, and in addition, providing a brand experience."

GOODBYE ATMS?

One factor that did not receive the most praise was the ATM. While Risch admitted that cash will retain a large role in Dutch society, it would not be a highlight in branches, and ATMs could well be removed in the near future.

Risch says: "We will continue to use ATMs. The Netherlands is already low on cash and cash usage is decreasing about 5% a year. Despite those facts, we think that cash will remain present in society for the next 10 or 20, maybe even 30, years, and we continue to ensure we provide our customers accessibility and availability of cash, but the way we will distribute and make cash available for our customers is changing.

"We will no longer use it as a differentiator in which we compete as banks but we will move the ATMs and the cash servicing to a joint utility which makes it a commodity in which we share costs," Risch continues.

"ATMs will remain in the Netherlands, but there will be a lower number compared to now as we join forces and they will no longer be branded or on the walls or inside our branches, but they will be everywhere else."

The ATM sharing initiative involves ING, ABN Amro, Rabobank and Geldservice Nederland. A shared ATM network may be the key in ensuring the ATM's survival in the country. However, could this limit the advertising and marketing potential of the ATM?

"We haven't totally defined what it will look like," Risch adds. "We think if you put your card in, if you are an ING client, you will see an ING screen. The functionalities will be identical and the clients will remain the clients of the bank. In this context, I can certainly imagine offices without ATMs."

THE BRANCH'S FUTURE

Does this mean the branch is going to change dramatically? As numbers drop, are they all going to focus on experience and advice?

Risch continues: "If you look at our current network, we have ING compact branches and standard branches, which are more focused on efficient service handling and only secondary on advice.

"The advice branches and the experience branches, which total about 140, are currently only part of the network. We think those will remain. Now it's only a part of the network, but we think that one day nearly 100% of the network will be advice or experience."

As ING is a global company, does this mean more countries are going to follow the Netherlands' example? Risch concludes: "I have been speaking specifically about the Netherlands and not ING Group. However, we are establishing global guidelines for branches together in order to use best practices.

"In other countries we have been strong in physical distribution; We are opening a small number of branches in France. In other countries where we have had a larger network, like the Netherlands, you see we are reducing the number of branches.

"I think in a couple of years, the models will have converged and every country will follow a digital-first strategy with a certain number of branches." ■

STRATEGY: PEKAO AND ALIOR DISCUSS MERGER

The two Polish lenders have signed a letter of intent and, unsurprisingly, the market has not responded positively: Pekao's share price dropped by 7% following news of the possible collaboration. *Douglas Blakey* comments

It does not, at first glance, look like a potential marriage made in heaven.

Central Europe's biggest insurance group, state-run PZU, has a stake in both Pekao and Alior. Pekao has been state controlled since UniCredit's sale earlier this year of a 32.8% stake for PLN10.6bn ($2.9bn). PZU acquired a stake of more than 30% in Alior in 2015.

Alior is one of the most innovative digitally focused banks in Europe, and any possible acquisition by Pekao would be regrettable.

In a statement released on 23 October, Alior said: "Alior Bank and Bank Polska Kasa Opieki signed a letter of intent regarding their wish to enter into preliminary discussions concerning potential co-operation strategies that they could develop in order to bring additional value to their shareholders and clients, which could lead to preliminary discussions and analysis, including potential and upon applicable authorisations, exchange of information, concerning the feasibility of co-operation through various potential arrangements."

That is a lot of words to say 'possible merger'.

As part of Alior's digital drive, it is aiming to shrink its branch network from just over 300 outlets to 200 by 2020. Alior is also investing PLN100m each year until 2020 in four key areas: IT infrastructure, new systems and mobile tools, innovation and fintech, and cybersecurity.

Alior targets include increasing the number of current account holders with a primary bank relation by 77% until 2020, and achieve a 55% share of such clients in the total number of newly acquired daily banking clients. Approximately 30% its new customers are acquired through digital channels.

Alior ended the first half of fiscal 2017 with market shares of 5.2% for deposits and 5.1% for loans respectively. Comparable figures for the year-ago period were 4.0% and 3.7% respectively. Alior is on target to reduce its cost-income ratio to around 40% by 2020.

Bank Pekao ended the first half of the year with a branch network of 918 outlets. It has five million retail banking customers, 1.7 million of whom use its mobile banking channel with 3.5 million internet banking clients. Pekao's retail banking market shares in the first half of fiscal 2017 were 9.5% for lending and 10.2% for deposits.

It is debatable if a possible merger with Pekao is in the interests of Alior stakeholders: customers, shareholders and especially employees.

Irrespective of the merits of this particular possible deal, consolidation in the Polish market is widely expected. By the end of 2016, the market share of foreign-owned banks in Poland stood at 55%, the lowest rate since 1999.

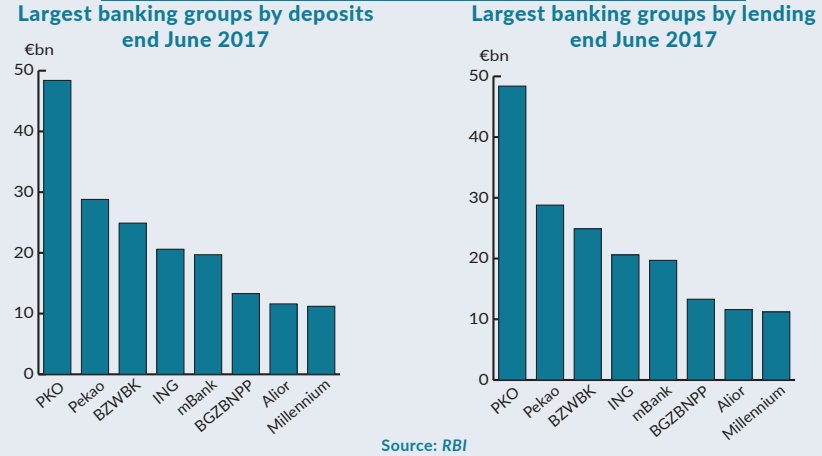
With increased state and local ownership and the decrease of foreign ownership, analysts at Raiffeisen have forecast that the number of banks operating with a country-wide universal banking model may drop from 10-13 players to around four to six.

PZU has spoken of ambitions to form a new national champion with around a 20% market share. The supporters of a potential Pekao/Alior tie-up will point to the need for sector-wide consolidation and the tendency for an increasing degree of digitalisation among the key market players.

At the end of fiscal 2016, PKO ranked first by market share of assets with around 16.7% ahead of Pekao with 10.2% and mBank (owned by Commerzbank) with 7.5%.

International players ING and Santander's local subsidiary BZ WBK ranked next with around 7% each. Alior ranked ninth, with a market share by assets of 3.6%. ■

POLISH MARKET SHARES



Source: *RBI*

WHEN IT COMES TO DIGITISATION: ARE CUSTOMER EXPERIENCE DEMANDS AT LOGGERHEADS?

***Abe Smith*, founder and CEO of Dealflo, looks at how retail banks can remain competitive and delight their customers, without increasing risk. If there's one thing that banks worry about more than compliance (and that's a lot), it's the race to digitisation**

The reasons are threefold: commercial advantage (digital is faster, cheaper and more efficient); competitive advantage, banks need to stay ahead of traditional and new competitors; and customer demand.

CUSTOMER EXPECTATIONS

Today's customers, used to receiving smart and convenient digital services from companies such as Uber, Apple and Amazon, expect similar from banks – services that are personalised, interactive and immediate. Banks that allow customers to access, manage and borrow money digitally, will win more customers.

42% of UK consumers have adopted FinTech services, according to EY's 2017 fintech Adoption Survey. It's no surprise that banks want to adapt to the fast-moving digital marketplace.

So, what's stopping banks innovating as much, or as fast, as they'd like?

In short, risk. Post-2008 banking regulation, as well as recent consumer credit regulatory scrutiny, mean that risk appetite is low. What if digital agreements can't be enforced in court? What if digitisation leads to an increase in identity fraud or money laundering? What about data protection and GDPR compliance? And how do innovative technologies integrate with legacy IT systems?

It's a struggle the Bank for International Settlements recognise, with the Basel Committee on Banking Supervision releasing a paper on the implications of fintech developments.

Whilst recognising the need for innovation, they also warned: "Banks and bank supervisors should consider how they balance ensuring the safety and soundness of the banking system with minimising the risk of inadvertently inhibiting beneficial innovation in the financial sector.

"Such a balanced approach would promote the safety and soundness of banks, financial stability, consumer protection and compliance… without unnecessarily hampering beneficial innovations in financial services."

SOLVING THE CONFLICT

Solving this conflict, and creating an environment that drives the productivity, speed and compliance essential to sell financial services via digital channels, will come down to two things: an organisational culture that embraces change, and a joined-up approach to digitisation.

Take the customer agreement process. Banks which are still hamstrung into running complex semi-automated paper-driven processes will struggle to be relevant to customers, and to provide evidence of compliance if financial agreements are challenged.

To satisfy customers, regulators, and shareholders, banks need to adopt an agreement process that is customer friendly (fast, slick, simple), operationally efficient (automated, low cost, scalable), and most importantly, legal, compliant and enforceable.

The 'fast, slick, simple and scalable element can be achieved through a platform-based technology, which keeps data in one environment, and doesn't require multiple integrations.

Multiple technologies that don't integrate, or integrate badly expose the entire agreement process to compliance and data security risks.

Next to consider is the legality of electronically signed agreements.

Under the EU's eIDAS Regulation, eSignatures are deemed legal and carry the same legal weighting as a 'wet' signature.

The next element banks need to consider is enforceability of digitally created agreements. To create a legally enforceable agreement, banks need to prove four things in the event of a challenge:

1. **Identity.** At its most basic, can you prove that the person who signed the contract exists and is your customer? To use the Financial Conduct Authority's language, do you 'Know Your Customer', and can you 'Prove Your Customer'?
2. **Intent.** Did the customer mean to sign the contract? How long did they spend on the Ts and Cs? Did they download or print the document?
3. **Intelligibility.** Traditionally, electronic evidence was technical, complex, and scattered across a business. The evidence package should be designed to result in a higher likelihood of a deflection (a decision not to move forward in a customer challenge).
4. **Integrity.** In many instances, electronic data can be hacked, amended or even deleted, either by accident or design. Therefore, the strength of any electronic evidence is directly linked to its integrity.

Only if banks can prove these four things, can they deliver much needed automation without compromising on risk.

Digitisation and compliance are not mutually exclusive, but they do need the right culture and technology solutions to create a harmonious working relationship. ■

ICELAND'S ARION BANK: 'MAKING GOOD THINGS HAPPEN' WITH KRINGLAN FLAGSHIP

Arion Bank is on a mission to be the leading bank in Iceland for digital solutions. Arion has not, however, neglected to invest in its physical channel – as evidenced by the launch of a flagship branch. As *Douglas Blakey* reports, the new branch will also enhance the bank's digital credentials

Location, location, location: Get that right if you are going to invest a significant sum in a flagship branch format. By that test Iceland's Arion Bank is off to a great start.

Reykjavik's Kringlan Shopping Mall, the largest in Iceland, is the perfect spot for Arion Bank's newest and most important branch in its ongoing service development.

Banks around the world are investing heavily in digital solutions, and Arion is not unique in targeting a market-leading spot via digital investment. Already, some 96% of all of the banks' customers transactions are conducted digitally. At the same time, Arion cannot neglect the customers who still appreciate personal interaction when it comes to receiving complex financial advice.

Arion tapped UK-headquartered brand experience and retail design agency M Worldwide to craft the Kringlan Shopping Mall outlet. *RBI* speaks with Halldór Harðarson, marketing director and Ragnheiður Jóhannesdóttir, strategy and development manager retail banking at Arion about the project and why the branch investment is entirely in sync with the bank's overall channel strategy.

Harðarson tells *RBI*: "We are determined to be the leading bank in Iceland as a provider of digital solutions. The goal is to make banking easy for our customers. We want our customers to be able to take care of their finances easily and conveniently."

That aim covers the entire range of retail banking services from applying for a new account, requesting an overdraft or a mortgage or opening a new savings account.

The bank's digital focus and the advent of electronic ID mean Arion customers can conduct all their banking via the Arion app, or using its internet banking service. Arion's digital innovations include:

- The bank's mortgage application process is now fully digitised, and is much shorter and more straightforward for customers;
- Existing mortgages can now be refinanced online;
- Fully digital account opening; the only requirement is that new customers have an eID to sign the necessary electronic documents, and
- Arion's Einkaklúbbur discount app has now been downloaded by more than 30,000 users since its launch in March.

Harðarson adds that customers have time pressures and are looking for convenience and productive solutions. Although increasingly self-reliant, they still require help to make life-changing decisions. They will, however, be resistant to formality or hierarchies, preferring to engage on a more equal footing where their opinion counts.

M Worldwide's strategy for Arion Bank moves away from a transactional process-driven approach. As Jóhannesdóttir explains, the new branch is the experiential embodiment of Arion Bank's brand promise: This is a bank where 'Together we make good things happen'.

This 'good things' branch is counterless, and the flexible and reconfigurable space feels more like an Apple store than a bank, incorporating experiences that are

FLAGSHIP BRANCH CROWNS IMPRESSIVE FIGURES

- Arion reported a net profit of ISK10.5bn for the first half of fiscal 2017, up 7.1% year on year.
- Total assets increased by 8.8% from the prior year to ISK1,126.4bn.
- Positive metrics included an impressive reduction in the Arion cost-income ratio to 50.6% from 55.8% a year ago.
- In March, the future ownership of the bank began to take shape when international investors acquired a 29% share in the bank. Preparations for the sale of Kaupthing's stake are ongoing, and one of the options being examined is an IPO on the Icelandic and international markets.
- Arion's capital ratio at the end of June was 28.4%, compared with 27.1% at the end of 2016. Tier 1 Capital increased during the period to 27.8%, compared with 26.5% at the end of 2016.

digitally seamless and integrated with other channels.

The branch is, as Harðarson says: "Relevant, engaging, educational and inspiring – and a showcase for proactive, knowledgeable staff that can advise, guide and steer customers."

Harðarson says: "It's an upbeat and inspiring centre of excellence that puts customer aspirations first, delivering sound financial advice and planning pathways that creates an all-encompassing good feeling around finance to build stronger relationships and invite consideration."

In summary, he says Arion had three main goals when it briefed M Worldwide. "Firstly, to give our existing customers a more relevant service by delivering a more effective and convenient branch experience.

"Secondly, we will use the new branch to attract new customers. It demonstrates our digital differentiation in the market place. And lastly, to express what the Arion brand stands for – we want to make good things happen in co-operation with our customers. The slogan of the bank is 'Arion Bank – for the future'."

As for the future, Harðarson says the bank will measure the success of the Kringlan Shopping Mall branch in terms of Net Promoter Score (NPS), as opposed to traditional monetary measures. "NPS is the main KPI. With good service comes more business," he explains.

"We will try out new things at Kringlan and take what we learn from there to other branches across the network."

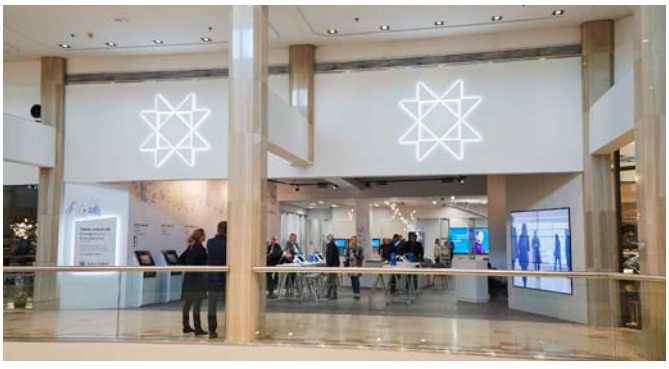
Harðarson is upbeat about the bank's partnership with M Worldwide. "We knew them. They worked well with our predecessor bank, Kaupthing, and they have worked successfully with other Icelandic retailers.

"We liked their take on what we wanted to do and they were focused and progressive in their retail thinking and how they developed the brief. They also understood Arion as a company – it has been a very successful partnership."

David Martin, joint MD at M Worldwide, tells *RBI*: "We have been working in Iceland since 2003 and partnered with Kaupthing back in 2006, so we have a good understanding of the local market.

"The process has been very collaborative, from retail safaris to ideation sessions – it really has been a pleasure to work with Arion," Martin continues.

"And this is not a single-branch kind of exercise – this is a hub in among the branch network that Arion can share and learn from. Kringlan really is a great framework for Arion showcase their content." ■



NOVEMBER NEWS

Nedbank, BMO rank top for diversity and inclusivity: Thomson Reuters

Nine major banks have been named among the most diverse and inclusive workplaces in the world, according to the newly released 2017 Thomson Reuters *Diversity & Inclusion (D&I)* Index.

The annual ranking features the top 100 companies deemed "very likely to be the best in class relative to their industry and country peers". Nedbank (16th) and Bank of Montreal (19th) are the top-ranked banks, ahead of Bank of the Philippines Islands and BNP Paribas (equal 40th) and Citigroup 54th.

Barclays (57th), Société Générale (67th), Toronto Dominion (71st) and ING (93rd) are the other lenders to feature.

The *D&I* index and ratings are based on metrics in four key categories: diversity, inclusion, people development, and news controversies.

"Building a culture where people are valued, respected and heard is an important part of what it means to work at BMO, and to bank with us. I'm excited about the progress we've made, but we also recognise our job is not done", said Sonya Kunkel, head of enterprise customer experience. "

"We are steadfast in our practices and loud in our advocacy to ensure BMO remains a place where we all have a voice, are open to varied perspectives, and learn from each other's differences."

Kunkel was formerly BMO's chief inclusion officer, and a driving force behind building BMO's strong inclusive culture.

BMO has been a champion of diversity and inclusion for more than 25 years. In 1990, the bank produced a ground-breaking report that acknowledged the existence of a glass ceiling, and set out the first steps to shatter it. In 2012, BMO launched a five year Diversity Renewal Initiative which focused on transforming BMO's senior leadership ranks, talent pipeline, and organisational culture through innovative diversity and inclusion strategies.

By the end of 2016, the bank had achieved most of its 2016 diverse workforce representation goals. Of note, 40% of senior leadership roles are held by women and 36.4% of the board of directors are women.

"Our people are our greatest assets, bringing diversity of thought, background and perspectives that reflect the communities we serve," commented Mona Malone, chief talent and learning officer.

"Our inclusive culture, championed by our people, significantly contributes to why our people and customers choose BMO." ■

SCOTIABANK PARTNERS WITH NXTP LABS TO ACCESS FINTECH STARTUPS IN LATIN AMERICA

Scotiabank has agreed a partnership with Latin America's leading startup accelerator, NXTP Labs.

This strategic partnership will allow Scotiabank access to the most promising fintechs in Mexico, Colombia, Chile and Peru, and leverage these countries' innovative startup ecosystems to help drive the business's global digital banking transformation.

"We are thrilled to partner with Latin America's premier startups accelerator to further advance our global digital banking strategy", said Nacho Deschamps, group head, international banking and digital transformation.

"This partnership will allow us to gain competitive advantage, accelerate innovation, and form fintech partnerships to offer innovative solutions to our 24 million customers."

NXTP Labs is the most active early-stage fund for technology companies in Latin America. It has partnered with teams from more than 15 countries and invested in 174 companies in just over five years of operation. ■

AXIS BANK GROWTH SOURED BY LOANS

The third-largest private sector lender in India, Axis Bank, has posted a 36% rise in net profit for the three-month period to the end September of INR4.32bn ($66.64m)

However, a sharp deterioration in Axis's lending book resulted in its shares dropping by 9% on the release of its second-quarter earnings.

It ended the quarter with gross non-performing assets (NPA) of 5.9%, compared with 4.17% in the same quarter of 2016; the bank's net NPA rose to 3.12% from 2.02%.

On a more positive note, other key highlights included:

- CASA deposits grew by 24% year on year and constituted 50% of total deposits;
- Retail loans grew by 23% year-on-year and accounted for 45% of net advances, and
- Mobile banking spends grew 78% year on year, while card spends grew by 67%.

Axis added 100 branches to its network to end the second quarter with 3,485 domestic outlets. ■

RETAIL BANKING PERFORMANCE GIVES BOFA BEST QUARTERLY EARNINGS IN SIX YEARS

Bank of America (BofA) has reported a stellar third quarter, with net income up 13% year on year to $5.6bn, its best quarterly performance for six years.

BofA's retail banking division performed particularly strongly, with consumer banking highlights including:

- Revenue rose 10% to $8.8bn;
- Loans up 8%; deposits up 9%;
- Merrill Edge brokerage assets up 21%;
- Mobile banking active users increased 11% year-on-year to 23.6 million, and
- Credit/debit spend up 7% to $137bn

In addition to the impressive rise in active mobile banking users, digital highlights included digital sales growing to 22% of all consumer banking sales.

Mobile channel usage rose by 19% to 1.2 billion interactions while the bank's person-to-person Zelle service attracted 13.6 million P2P payments, a 68% increase.

About the only negative consumer banking metric was an increase of $100m to $800 in credit card provisions compared to the prior quarter.

CEO Brian Moynihan said: "Our focus on responsible growth and improving the way we serve customers and clients produced another quarter of strong results. Revenue across our four lines of business grew 4%, even with a challenging comparable quarter for trading.

"We delivered positive operating leverage year over year for the 11th consecutive quarter while continuing to invest in improved capabilities," Moynihan continued.

Digital activity with customers continues to shape the way we provide products and services to customers, with the most recent example being Zelle, our new person-to-person payment capability." ■

Low-value remittances from UK direct to bank accounts soar: Small World FS

Banks are fighting back in the low-value remittances sector, according to research released by Small World FS.

Direct bank deposits processed from the UK soared by 59% between 2014 and 2016 compared to a combined 39% growth for all other money-receiving methods.

Bank deposit transactions to South America rose by 81% compared to 34% for other payout options. Asia experienced a 124% boost in demand for instant transfers into bank accounts, outgrowing by far the still-very-strong 48% increase in other transactions.

Global efforts to accelerate adoption of bank accounts have had a significant impact, particularly in Asia and countries such as India. World Bank data shows that between 2011 and 2014, over 700 million people in the world received access to a bank account for the first time. While the current number of unbanked people is still estimated at around 2 billion, the World Bank and its partners have a target of adding another 1 billion bank account holders by 2020.

Meanwhile, Small World FS is continuing to bolster its direct bank relationships. It has announced a new partnership with Sri Lankan lender Pan Asia Bank, which describes itself as the fastest-growing commercial bank in Sri Lanka. Pan Asia operates a network of 83 branches and offers a full range of retail, SME and corporate banking products and services.

Small World FS has also agreed partnerships with two banks in Honduras – Banco Atlántida and SME-focused Banrural – adding to its ability to deliver funds directly into bank accounts in local currency in almost 100 countries around the world. Small World FS already maintains a network of almost 800 representatives from banks and building societies, as well as post offices and mobile networks, to transfer money directly to more than 2.5 billion bank accounts worldwide.

Nick Day, founder and CEO of Small World FS, commented: "While our sector is preoccupied with various tech innovations, many forgot about the growing importance of banks in the process. Over the last two years, direct bank deposits have clearly outgrown other payout methods, and this trend is set to continue. This development will define the future of the money transfer market and we are determined to remain the world leader in offering instant bank deposits."

Founded in the UK in 2006 by Tandem CEO Ricky Knox and entrepreneur Michael Kent, Small World FS has become a world leader in digital money transfer. ■

STANCHART LAUNCHES ASIAN PERSONALISED INVESTMENT TOOL

Standard Chartered has launched a digital wealth management tool that customises investment ideas in minutes, which it claims is a first in the Asia-Pacific market.

The Personalised Investment Ideas tool helps the bank's mass affluent, emerging affluent and private banking clients respond faster to market opportunities, with automated investment ideas based on considerations such as risk profile and the bank's market views. It is now live in Singapore, and the bank plans to introduce it in other Asian markets.

Personalised Investment Ideas combines advanced algorithms and analytics with the bank's market expertise to generate and prioritise investment ideas for funds and bonds, tailored for each client. Following a conversation with their relationship manager (RM), a client is emailed a report with suggestions for buy/sell/hold, backed by rationale. The RM will also advise clients on the suitability of a product based on their needs and objectives, and help them to act on their chosen idea.

Karen Fawcett, CEO of retail banking and group head of brand and marketing, said: "Our clients want banking to be easy – just a few clicks on their smartphones. But for bigger decisions, like investing large sums of money, they often want to speak to an expert as well.

"Now, they'll get customised investment ideas and then talk them through with a relationship manager who has real insight into their needs."

StanChart has been ramping up its digital banking solutions, with recent initiatives including virtual access to investment advisors via video banking, online and mobile access to mutual funds, market information optimised for mobile, as well as mobile FX trading services. ■

ACI WORLDWIDE LAUNCHES API MANAGER TO BOOST CLIENTS' OPEN BANKING STRATEGIES

ACI has launched a new API manager as banks look to monetise the opportunities offered by open banking.

Available to all clients using ACI's Universal Payments (UP) solutions, ACI's API manager capabilities are designed to support customers in developing a strategic approach to the emerging open banking payments ecosystem, and to provide the tools to meet established and emerging regulatory requirements including PSD2 and GDPR.

According to ACI, its new API manager is designed to:

- Connect to any front-end gateway;
- Connect to any back-end system that a bank runs;
- Provide a middleware API layer to help orchestrate the message flows and business logic to allow banks and external developers to define and build appropriate APIs;
- Empower banks to manage the levels of authentication and authorisation required to maintain control in the data being requested and accessed, and
- Enable banks to meet customer expectations for a seamless payment experience.

The solution capabilities support ACI's UP strategy, and help banks lay the foundation for their own enterprise-wide open banking strategy.

Banks can choose and build the endpoints to their systems, and manage which gateways they connect to and utilise.

"The delivery of ACI's new API manager capabilities is a key milestone in the realisation of our Universal Payments strategy," said Mandy Killam, executive vice-president at ACI Worldwide.

"Rather than a tactical quick-fix to meet the PSD2 mandate deadline, our new capabilities will help clients protect their existing business, grow revenues in the short term and place them in the pole position of the open banking payments ecosystem.

"We will give them the tools and ability to monetise their open API strategy quickly and effectively." ■

BBVA targets Latin American remittances

BBVA has launched a new online app-based service, Tuyyo, to support remittances from the US to Latin America and the Caribbean.

Tuyyo will facilitate almost instant fund transfers and reduce costs involved by phasing out the involvement of money-transfer agents. Users can retrieve funds at Bancomer ATMs across Mexico, even without a bank card or account, or at cash-pickup locations. Funds can also be sent to bank accounts at partner banks of BBVA.

Moreover, the service will allow senders to include a message with the remittance notification, a feature that will be expanded in the future to include voice and video messages.

The first transfer made through the app will charge only foreign exchange costs, following which the service will charge a flat fee of $5.49 along with the exchange rate applied.

Consumers using the service for the first time in Mexico will also have to visit a BBVA Bancomer branch for identity verification, following which they only have to enter a code into any Bancomer ATM for cash withdrawal.

Tuyyo will also add support for insurance or microfinancing solutions in the future, with the sender making bill payments through the app for the benefit of the receiver.

The service will initially facilitate remittances from the US to Mexico, which records over $27bn flows annually. Plans are in place for a broader rollout of the service across the rest of Latin America.

BBVA customer and client solutions global head Derek White said: "People feel a strong sense of duty to help out their families. This is one way to say: 'We still love you even if we can't be together right now.'" ■

VIRGIN MONEY ISSUES STRONG Q3 UPDATE

Virgin Money's CEO Jayne-Anne Gadhia has announced "an excellent" third-quarter trading update.

Mortgage, credit card balances and deposits are all ahead year on year, while the UK challenger's net promoter score rose markedly to +40 from +29 a year ago.

Highlights included:

- Gross mortgage lending of £6.5bn to the end of the third quarter, a market share of 3.5%;
- Net mortgage lending of £3.2bn, a market share of 10.0%;
- Mortgage balances rose by 10.7% to £32.9bn;
- Deposits rose by 6.7% year on year to £30bn;
- Credit card balances of £2.9bn with stable customer behaviour, and
- The FY2017 CET1 ratio is expected to be around 13.5%.

Gadhia said: "Our low-risk business model and customer-focused strategy continues to deliver excellent results, and I am delighted with the ongoing momentum of the business.

"Our prime credit card business is developing as planned and, as a responsible lender, the strict and consistent application of underwriting standards supports a low and stable cost of risk as well as resilience in the future."

"Ensuring that our customers are always at the heart of our strategy has seen our overall Net Promoter Score improve to +40 in 2017, making Virgin Money one of the best-rated retail banks in the UK for customer satisfaction" Gadhia continued.

"I am delighted that more customers than ever before would recommend us to their friends and family." ■

HSBC ramps up open banking plans, trials Bud partnership

HSBC's first direct subsidiary has agreed a partnership with fintech startup Bud. The deal represents the first example of a major UK bank making third-party products available for the benefit of customers.

first direct and Bud will trial a new business model, providing customers with an integrated offering of financial services products and tools from across the market, including those from other providers where most appropriate.

The agreement is part of HSBC's push into open banking and follows the recent announcement of its Beta trial. Over the coming months the group will be evaluating new opportunities brought by open banking across its different brands in order to continue to provide the latest in customer-centric services and digital banking offerings.

first direct is trialling the business model with Bud among both customers and non-customers.

It will enable people to link accounts from all their different banks securely in one app, giving them a complete view of their finances, and supporting them with a range of useful tools designed to help them meet their financial goals.

Raman Bhatia, head of digital, UK and Europe at HSBC UK, said: "At HSBC we recognise that the sector needs to innovate to meet changing customer needs and we're investing significantly in digital innovation, including working in partnership with fintechs such as Bud.

"The first direct trial and the launch of HSBC Beta shows our commitment to delivering the best services and technologies to all

our customers, across all our brands. It allows us to test, learn and develop in a live environment, and then deploy the new technologies at scale."

Some of the initial features available through the first direct trial include:

- **Safe to spend** takes into account the regular payments within a customer's account (rent, bills etcetera) and shows the actual balance available to spend over the next month;
- **Lists** enables customers to create separate lists of transactions across accounts. This can help keep track of spending specific to the customer such as household bills or gift shopping;
- **Goals** enables customers to set up financial goals and monitors progress against them, such as saving for a holiday;
- **Virtual joint accounts** enable users to securely share lists and goals with partners, friends, family and housemates, and
- **Spend analysis and categorisation** of transactions, by both vendor and account.

The trial uses a proprietary algorithm, Market+, to suggest suitable financial and non-financial products and services based on individual needs.

The trial will include 2,000 first direct customers and up to 4,000 non-customers, running for six months from December.

Bud chief executive Ed Maslaveckas said: "Our aim is to help identify the journeys that first direct's customers are on.

"Whether they're looking to buy a house or start a family, understanding what people want to achieve will help the bank serve its customers better with relevant products, in the right experience. first direct is a great brand with a pedigree in innovation and service.

"This collaboration will raise the bar for the customer experience in banking globally." ■

ANALYSIS: SOFI ABANDONS PLAN TO 'KILL BANKS' AS LICENCE APPLICATION PULLED AMID SCANDAL

It started out as a refinancer of student loans and quickly expanded into personal loans and mortgages. Never dull, SoFi has been quite a rollercoaster story since it was founded in 2011.

In the second quarter of this year, SoFi funded $3.1bn in loans, generating over $134m million in revenue (67% year on year) and $61.6m in adjusted EBITDA.

SoFi's ambitions knew no bounds. In 2015, co-founder Mike Cagney told Bloomberg that SoFi was out to "kill banks. It would, he said, target HENRYs, (high earners not rich yet) with a new range of insurance, mortgage, wealth-management and deposit-taking products.

SoFi lodged an application for an industrial loan charter, which would give SoFi a banking licence and FDIC cover without being regulated as a bank holding company. Fast-forward to the third quarter of 2017 and its co-founder is gone – amid unsavoury allegations relating to his personal conduct. Other senior executives have also exited SoFi, including its CFO.

SopFi completed its largest loan securitisation to date in early October. Since inception, SoFi has closed 30 transactions totalling $12.4bn in issuance. SoFi interim management reportedly believes that it can reapply for a bank charter in the future, and that it will offer deposit accounts to customers through partner banks in the near future.

Meantime, SoFi has rather more pressing issues to address, such as appointing a new CEO – likely to be a little less brash and outspoken than its co-founder. ■

FINTECH FINANCING ON TRACK FOR SECOND-STRONGEST YEAR TO DATE

2017 is on target to be the second-strongest year ever for fintech financing volume, and the third quarter of 2017 saw the second-highest financing deal count. The banking sector continues to dominate but it has been a stunning quarter for mega payments deals. *Douglas Blakey* reports

2017 has seen another strong quarter, with third-quarter fintech deals the second-highest ever with 412 transactions, only behind the first quarter of 2016, which had 438.

The third quarter of 2017's financing volume hit $5.1bn, lower than the prior quarter ($8.8bn), but higher than in the first quarter of the year ($4.3bn).

Figures released by FT Partners – the only investment bank focused exclusively on fintech – in its *Q317 FinTech Insights Report* show that the banking sector continues to dominate. It is the most active sector this year in both the number of transactions (356 year-to-date) and financing volume ($6.3bn year-to-date).

The 2017 fintech financing volume in Europe ($5.3bn) is already more than twice the financing volume of 2016 for the region ($2.6bn).

Europe also boats the four largest M&A deals in the third quarter, all of which involve acquisitions of payments companies:

- Vantiv/WorldPay in a $9.9bn deal;
- Hellman & Friedman/Nets in a deal worth $5.3bn;
- CVC/Paysafe in a $3.9bn deal, and
- Ingenico/Bambora in a deal worth $1.7bn.

M&A volume for the third quarter of 2017 ($32.9bn) was the highest since the fourth quarter of 2015 ($50.5bn), which included Visa's $23.4bn acquisition of Visa Europe. This quarter had eight $1bn-plus M&A deals, the highest figure since the fourth quarter of 2015, which also had eight.

In the year to date, FT Partners has tracked 1,160 fintech financing transactions, an annualised total of around 1,550, the same total as in the record year of 2016. Notable transactions during the third quarter include:

- **Kabbage:** Investment by Softbank of $250m;
- **Suishou:** Investment by KKR of $200m;
- **FGI:** Undisclosed investors, $140m;
- **Neybar:** Investment by Goldman Sachs of $132m;
- **Bread:** Investors include Menlo Ventures, Bessemer Venture Partners and RRE Ventures – total investment of $126m;
- **Toast:** Investors include Lead Edge Capital, Generation Investment Management and Bessemer Venture Partners – total investment of $101m, and
- **Coinbase:** Investors include Balyasny Asset, IVP, Spark Capital and Greylock Partners – total investment of $100m.

Regionally, in the year to date North America accounts for 539 deals worth $7.5bn, and 42% by volume of all deals. Europe ranks just ahead of Asia by volume by 29% to 27% ($5.3bn to $4.9bn).

In the VC sector, FT Partners reports that Ribbit Capital has been the most active investor with 15 investments in the year to date, just ahead of Sequoia, NEA and Accel, each with 14.

Global fintech M&A deals for the year to date total 675, suggesting that 2017 is on course for around 900 such deals, against a record high of 958 in 2014. ■

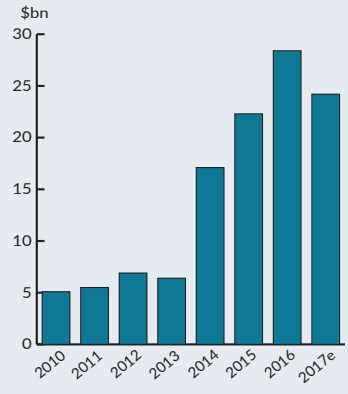
FINTECH FINANCING BY REGION – YEAR TO DATE 2017

REGION	NUMBER OF DEALS	FINANCING VOLUME ($M)	% OF TOTAL VOLUME
North America	539	7,551	42
Europe	364	5,294	29
Asia	184	4,933	27
Middle East	19	173	1
Oceania	24	117	1
South America	17	52	<1
Africa	13	18	<1

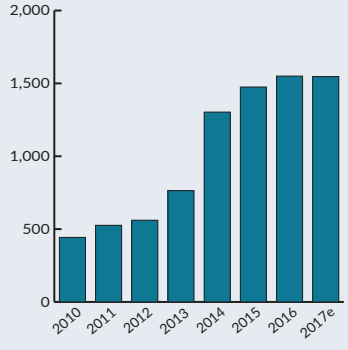
Source: FT Partners

FUNDING AND TRANSACTIONS

Global fintech financing



Global fintech transaction volume



Source: FT Partners

MIFID II: WHERE ARE WE NOW?

The deadline for MiFID II is fast approaching. Reed Smith's *Tasmin Little* discusses implementation strategy, and argues that the regulation may yet prove beneficial for the relationship between customers and their banks

Most retail banks doing business anywhere in the EU – unless they are strictly restricted to deposit taking and lending, without so much as an interest rate or currency swap – are well aware that 3 January 2018 marks the date for compliance with MiFID II, the revised Markets in Financial Instruments Directive and all its associated legislation and regulation. Indeed, most should have had implementation programmes running for the last three years.

As the deadline approaches it may be useful to step back from the detail and consider how effectively banks' implementation plans and operational changes address some of the biggest topics in this all-encompassing revision of EU regulation of investment business.

For retail banks many of these revolve around mis-selling. MiFID II requires a range of overlapping new policies and procedures designed both to reduce the risk of mis-selling in future and to make it easier for regulators to take disciplinary action for procedural failure, without needing to prove that there has actually been any mis-selling or investor losses.

Relevant new, or greatly increased obligations include those relating to remuneration, product governance, identifying the status of advisers, restrictions on third party payments and benefits, and disclosure of these costs and commissions.

Remuneration policies must be revised again. They must cover not just senior management, risk takers and the highly paid, but also all those who deal with customers or otherwise have an impact on investment services or corporate behaviour.

The key MiFID II requirement is that remuneration must not create incentives for staff to favour their own interests or those of the firm to the potential detriment of clients.

Product governance requires both the manufacturers' and distributors of financial products falling within MiFID to put in place procedures to ensure that the financial products they sell are consciously designed to meet the needs of an identified target market, and that the distribution strategy operates in a joined-up way to bring them into the hands of the right type of end client.

Senior management must take full responsibility. Compliance and marketing teams must co-operate. All those involved in design and distribution must be trained to make sure they understand the characteristics of the products and can properly assess compatibility with target clients' needs.

Ongoing review and monitoring will be required after the event to see whether the products did in fact reach the intended target market or whether they were distributed to others for whose needs they were not compatible. If not, corrections and improvements may need to be made.

Product governance obligations will run throughout the distribution chain, both professional and retail. They are separate from and additional to any obligation there may be to give investment advice or ensure suitability for a particular investor at the end of the chain. One of the biggest challenges banks have been wrestling with is the passing of 'post sales' information up and down the distribution chain to enable the required monitoring and follow up to be carried out.

If any advice is given to customers, they must be clearly told first whether the advice is independent, whether it is based on a broad or a more restricted range of investments, and whether the range is limited to investments provided by the bank itself and its related parties. Independent advice must involve review of a sufficiently diverse range of financial instruments and providers to ensure that the client's investment objectives can be met. It cannot be limited to investments provided by the bank and related parties, including those related by contract.

Moreover, no third-party fees, commissions or other monetary or non-monetary benefits can be accepted and retained in relation to independent advice, apart from some very minor non-monetary benefits which are fully disclosed to the client and meet much more stringent tests to ensure the quality of service is enhanced without damaging the client's interests. Considerable difficulty is being experienced in handling the complex provisions relating to payment for research, particularly by global groups and others dealing with US brokers who are unwilling to receive payment for research lest they become 'investment advisers' in US regulatory terms.

If advice is not to be given then MiFID II further restricts the types of investment which may be sold on an execution-only basis. In all cases disclosure obligations have been greatly increased. Direct and indirect costs, charges and commissions, including mark-ups embedded in the product, and third-party payments and benefits, will all have to be disclosed in advance, and at least annually thereafter. Costs disclosure must aggregate the costs and charges relating to the production and management of the investment itself, and those arising for related services and must be expressed both as a percentage and in cash terms, with a detailed breakdown available for those who request it.

All clients will have to be given an illustration, before and after sale, showing the effect of the overall costs and charges on the return from investment and any anticipated spikes or fluctuations in those costs and charges. This is a massive exercise, both in terms of gathering the required information, frequently from several different firms, and in terms of presenting it to customers in a user-friendly compliant manner.

If all this is successful, the result could be very positive for the relationship between retail banks and customers in the EU. It remains to be seen how many banks find it possible to carry out all the required work in the time available, and to implement these and all the many other requirements of MiFID II to achieve its theoretical goals.

A period of regulatory calm so changes can be assimilated without more disruption would be welcome, but seems unlikely to occur. ■

HOW TO BUILD A SEAMLESS CUSTOMER EXPERIENCE

The key to engaging customers in today's digital world is to provide a frictionless experience that fits in with their lifestyles. For FIs, having the right digital banking approach is essential. *Mark Little*, senior user experience researcher for Fiserv, explains

Consumers expect financial institutions to provide a diverse set of services that are fast and reliable. This requires not just speeding up processes for the customer, but evaluating the entire workflow.

People want to interact with solutions that are easy to use and that come almost as second nature, without actually having to think about the details of the process itself.

Think about driving a car. Driving is complicated. It involves many controls and variables, but we do it almost unconsciously.

However, when we get in a rental car with a subtly different set of controls, the experience suddenly changes. Tasks as simple as starting the engine or turning on the windscreen wipers are no longer simple. That's cognitive friction, and it can occur in any activity, including banking.

From checking a balance to applying for a mortgage, a frictionless, seamless digital banking experience means being able to complete a task without puzzling over the details.

To ensure customers have the tools to efficiently, intuitively and successfully manage their money, here are a few key considerations for creating the best possible digital banking experience.

OPTIMAL USER EXPERIENCE

Designing a digital banking platform with consumer experience in mind involves investigating what works but especially, what doesn't.

That means frequent identification of any gaps between the actual experience and what is expected. Through user experience benchmarking, financial institutions can test their digital banking platforms regularly, asking questions such as: Is the product effective in supporting key tasks? Are consumers able to complete tasks efficiently? Do they describe it as easy to use?

Identifying and measuring key performance indicators can help uncover friction points, improve ease of use and deliver a responsive digital user experience that positively affects how a financial institution is perceived by the user.

Regularly testing the user experience provided by digital banking platforms, as part of updating and designing these solutions, is critical for financial institutions who seek to provide the best possible experience for their customers.

END VALUE

Value in digital banking is measured differently from one user to another. Each customer has different needs and requirements.

From accessing a balance instantly without logging in, to analysing spending and budgeting details, customers' needs vary. Digital services can be tailored to add value to each customer individually, no matter what their needs.

SIMPLE AND SECURE

Ease of use and effectiveness has to be a goal, but in financial services security can't be sacrificed. Advances in technology are making it possible to eliminate the historic trade-off between convenience and security. Biometric authentication, for example, improves security and removes the friction and risk of remembering a password. This makes it a great way to enhance ease of use while adding improved protection.

EMOTIONAL EXPERIENCE

Satisfied customers are more likely to remain loyal customers of a financial institution.

Enabling customers quickly and easily to manage financial tasks will drive satisfaction. When a process works as it should while avoiding friction, people can complete tasks without anxiety or tension and will return again and again. This is a way to keep customers in a competitive environment.

Users who constantly come up against friction or absent capabilities may find themselves looking for another more intuitive and innovative option for managing their finances.

Removing friction across channels and tasks not only leads to a transformative digital banking experience for customers, it also helps ensure those positive outcomes translate to business success for financial institutions in the long-term.

Customers will take note when they can easily use self-service tools to manage their money in a way that fits their lifestyle and their expectations.

Financial institutions that regularly test their platforms, listen to their customers to understand how they use products and services, and maintain security while removing friction, will win in the digital banking market. ■

Simple, secure and effortless digital solutions for financial services organisations

To find out more please visit:

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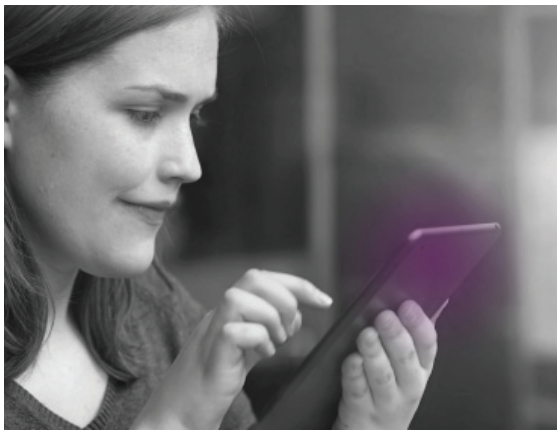

Intelligent Environments is an international provider of innovative financial services technology. Our mission is to enable our clients to deliver a simple, secure and effortless digital customer experience.

We do this through Interact®, our digital financial services platform, which enables secure customer acquisition, onboarding, engagement, transactions and servicing across any digital 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 digital customer engagement platform 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 Generali Worldwide, HRG, Ikano Retail Finance, Lloyds Banking Group, MotoNovo Finance, Think Money Group and Toyota Financial Services.