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RETAIL BANKER INTERNATIONAL

OPENING UP

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

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

Junior Reporter: Briony Richter
+44 (0)20 7406 6701
briony.richter@verdict.co.uk

Group Editorial Director: Ana Gyorkos
+44 (0)20 7406 6707
ana.gyorkos@globaldata.com

Sub-editor: Nick Midgley
+44 (0)161 359 5829
nick.midgley@uk.timetric.com

Publishing Assistant: Joe Pickard
+44 (0)20 7406 6592
joe.pickard@verdict.co.uk

Head of Subscriptions: Alex Aubrey
+44 (0)20 3096 2603
alex.aubrey@verdict.co.uk

Director of Events: Ray Giddings
+44 (0)20 3096 2585
ray.giddings@compelo.com

Customer Services: +44 (0)20 3096 2603 or +44 (0)20 3096 2636, briefings@verdict.co.uk

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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 briefings@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@sg.timetric.com

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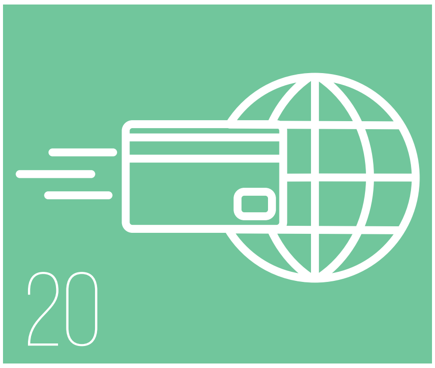
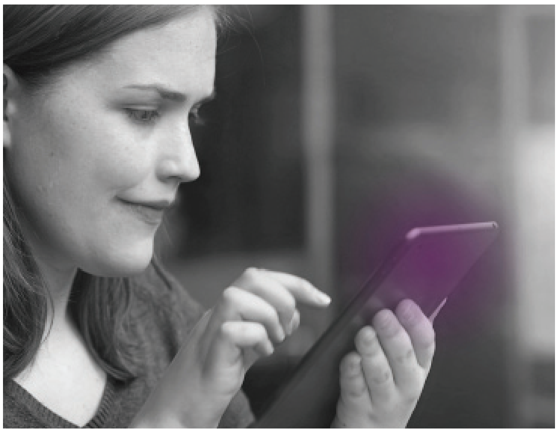




AND FINALLY – THE UK CATCHES UP AND ROLLS OUT REMOTE CHEQUE DEPOSIT

Douglas Blakey, Editor

Back in the summer of 2016, regulatory approval was granted in the UK to allow remote cheque imaging. More than two years later, the UK is finally set to introduce a phased rollout of remote cheque deposit. And about time too.

The technology works. It is not a novelty. First introduced by USAA in the US in 2009, remote cheque imaging works well in a number of markets including the US and Canada. I recall chairing a roundtable on the subject with NCR and Barclays years ago, perhaps as long ago as 2012.

One immediate benefit will be a reduction in cheque clearance times. Instead of the four-to-six-day clearance of old, cheque processing times will be reduced to one working day.

Banks in the UK dragged their heels for a number of reasons, including cost of implementation and a desire to abolish cheques. The notion that legacy UK banks had suddenly discovered the concept of customer-centricity and were driven by delivering services their clients actually wanted was never more shown up by their outright hostility to cheques.

Off the record of course, any number of bankers admitted that they really wanted to see an end to cheques. Only last month, a UK bank chair told me that, compared to the US, cheque-clearing in the UK "was a joke".

For years now, we have been hearing from the banking sector about how they are driven by the need to optimise the customer experience – about how digitalisation will benefit the full range of customer needs and how banks are becoming customer-obsessed.

Banks use of innovation and data analysis would enable them to be customer led with a deep empathy for the customer. That has been the consistent party line. And for a time, when asked, why as an example of this, the over 40s or 50s who might still like to write a cheque could not deposit a cheque without trekking to a branch, the answer came back: These types of customer will die off in time.

But those same retail banking customers of a certain age – clients who will have been among the banks most profitable customers over the years – still happen to like using cheques.

Cheques remain a crucial source of income for UK charities. If for no other reason, the modest cost associated with the launch of remote cheque deposit can be justified by the benefits to be accrued by the charitable sector.

While cheque usage has collapsed as a percentage of all payments, almost 500 million cheques were written in 2016 in the UK. The new cheque-clearing system finally, belatedly, offers a service fit for the 21st century.

There will be other consequences, if lessons from other markets are repeated in the UK. Branch visits will drop. With a further reduction in footfall – a significant number of branch visits are made simply to deposit a cheque – there will be added impetus to close more branches.

By the end of 2017, there will be around 8,000 bank branches in the UK. Fast-forward another five years and it is quite conceivable that this figure will have reduced to around 5,000.

Even challenger brands, hitherto publicly committed to the branch model such as TSB, are now shrinking their branch networks. TSB, with around 580 branches at present, could offer coverage across the major towns and cities of the UK with around 300 outlets.

HSBC has said it will end 2017 with 625 branches, and that it does not envisage any more major branch-closure programmes – it is down from 1,501 outlets in the past decade.

Remote cheque capture, as just one element in the increasing move towards digital banking, will give HSBC cause to look again at the size of its network – anything over 400 HSBC branches by 2022 would be a surprise.

At best, to be realistic, this belated UK banking innovation may do no more than give a brief kiss of life to the cheque for another few years. There will, however, be benefits to the admittedly diminishing number of customers still writing cheques.

It may also boost mobile banking penetration rates; once the cheque-using segment of the market see how easy it is to use a mobile banking app, expect a further rise in m-banking.

There will be benefits also for banks that remain enthusiastic about shrinking the size of their branch networks. ■

GET IN TOUCH WITH THE EDITOR AT: **DOUGLAS.BLAKEY@VERDICT.CO.UK**

ARE CONSUMERS READY TO EMBRACE OPEN BANKING?

With PSD2 coming ever closer, a survey from Ipsos Mori looks at whether consumers are ready for open banking's arrival. *Briony Richter* reports

Open banking has the ability to revolutionise the way we bank and manage money. However, to amplify its potential there needs to be tight regulation, collaboration, and firm strategies on how to protect consumers.

An Ipsos Mori report reveals that UK respondents are enthusiastic about new technology, but are far more sceptical about handing over personal data to third parties.

The survey shows that 63% of people in the UK think the PSD2 directive is 'unique' and are enthusiastic about the new developments. However, asked whether they would partake in open banking, only 21% say they would sign up, and only 13% of people would be willing to share their data with third parties at this time. Of the 15 countries participating in the survey, only Canada, France and Japan rank lower when asked about sharing data.

Consumers are understandably concerned about having personal data shared with third parties. It is vital to educate consumers on the benefits of open banking, and reassure them on how data will be protected. If they sign up, licensed Account Information Service Providers (AISPs) and Payment Initiation Service Providers (PISPs) will be able to access a platform on which they can develop new and unique types of products and services.

The challenge will be bridging the gap between the excitement of the new development and the reluctance to actually sign up. If successful, the regulation will be highly beneficial to both consumers and the banking industry.

Globally, the survey finds that 41% of respondents hold more than one financial product with their primary bank. Overall, 57% view the idea of having everything accessible from a single point as attractive. Respondents in the UK are, again more cautious about an all-in-one platform, with 55% saying they found this unappealing.

MEANINGFUL IMPACT

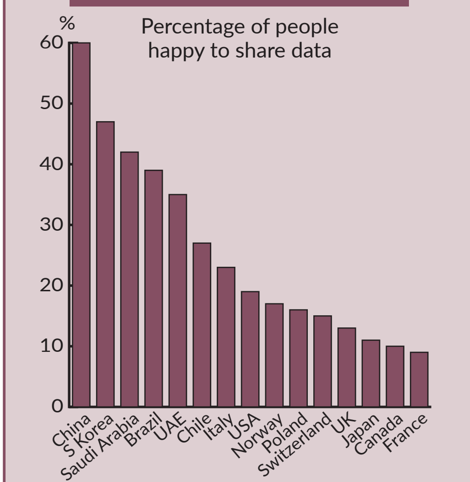
Paul Stamper, UK head of financial services at Ipsos, says: "January's new legislation is set to have a meaningful and long-lasting impact.

"It may take longer to become fully embedded in countries with more traditional, entrenched banking systems, such as the UK, France and Italy, where it seems people are less likely to immediately embrace change.

"However, the sorts of product and service that open banking makes possible will provide financial consumers with improved services and exciting new products."

Respondents from China rank highest in terms of willingness to share data, with 60% happy to have data viewed by third parties. Countries with developing banking markets tend to respond more positively to this idea.

OPENNESS TO OPEN BANKING



Source: Ipsos Mori

Banks will have to respond to consumer requests for more convenient and faster service, but also address concerns over losing control of their money and data.

The survey notes that these results are typical with new initiatives before they have been implemented. This was the case with mobile contactless payments, which recently boasted a 336% year-on-year increase in uptake. For many it will just be a case of waiting a while to see how open banking performs for the early adopters. Once it becomes mainstream and trustworthy the number of people signing up will increase.

Stamper also notes: "For people in the UK to adopt the new opportunities offered by open banking, financial providers will have to convince them of the relevance and practicality of their innovative new services.

"Banks have been cautioning us for years about the need to keep our personal banking data secure. Open banking means that message is going to need modifying and consumers will have to be persuaded to change attitudes and behaviours. The potential is clearly huge, but it will require effort to realise it."

Open banking will force banks to use data to its full potential if they want a chance at competing against other industry players. For consumers, the data they share will help them to manage account information and access products and services of which they may not have previously been aware.

The data can be used by banks and other financial organisations to create a fuller picture of individual customers, enabling them to build and provide tailored and compelling offers. If open banking is incorrectly used, however, it could cause conflicts of interest.

The rise of competition in the financial industry relies heavily on consumers wanting to access new services, so it is imperative that the banking industry goes into it responsibly, with the consumer the top priority.

The survey, however finds positive levels of trust among consumers to their banks. Of the respondents, 77% state that their bank would be their most trusted advisor. For fintechs it was much lower, with only 5% of respondents choosing them as potential main provider, and 19% for newer banks.

Open banking will create a new and innovative platform where unique services can be built on a better understanding of each customer. The survey reveals that if open banking is used properly, the industry will benefit from much more informed data, and consumers will be able to call the shots. ■

LLOYDS, HALIFAX AND BANK OF SCOTLAND GO LIVE WITH SHAKE-UP OF OVERDRAFT CHARGES

Lloyds Banking Group (LBG) has axed unauthorised overdraft fees and standardised charges across its three brands: Lloyds, Halifax and Bank of Scotland. As *Douglas Blakey* reports, while the new fees are simpler and offer greater transparency, they are anything but cheap – and there will be some losers

Lloyds has ripped up its existing charging structure and in its place, as of 2 November, introduced a single fee: 1p per day for every £7 ($9.18) of overdrawn balance.

It is radical, and the move ends unauthorised overdraft fees. It also affects millions of customers. Of the 46 million UK adults holding a current account, around 25% maintain a current account with Lloyds, Halifax or Bank of Scotland.

Why the change? The LBG party line – and to be fair it has some merit – can be summarised thus: The new approach to overdrafts is simple and clear, giving customers more control of their overdraft borrowing and how they manage their finances.

That is not however the full story. The new fee is fixed, and other than the 1p for every £7 borrowed per day, there are no other charges. The LBG spin adds that customers will no longer pay monthly arrangement fees, and returned-item and monthly usage fees will also be axed.

There will be winners and some losers: Lloyds estimates that more than nine in ten of its customers will either be better off or unaffected financially by the changes.

Take the winners first. Under the outgoing fees regime, a customer who exceeds their overdraft limit is charged £10 per day. They also paid 19.89% interest on the overdrawn balance plus a monthly overdraft usage fee of £6. So customers who dip into unauthorised overdraft by a small sum for just a few days will be better off.

Halifax customers will not benefit to quite the same extent under the new standardised fees tariff, as they were charged £5 per day of unauthorised overdraft borrowing.

The losers will be those customers who have an existing high level of agreed overdraft, used for much of the month. So take the example of a customer who uses all of a £1,000 overdraft for say 10 days a month: That customer will now pay around £15 per month, up from £11 under the old rules.

Again, to be fair to Lloyds, it has given its customers more than adequate notice of the changes by letter, online and via social media since the changes were announced in July.

LBG is also at pains to assure students running overdrafts that they are not going to be adversely affected. Lloyds Bank and Bank of Scotland Student Accounts are automatically converted to Graduate Accounts in the summer of graduation. Customers will continue to be able to operate their Graduate Account for three years, and this includes an interest-free overdraft, with the amount tiering down over the course of the three years. Halifax customers can retain their student account and interest-free overdraft for an extra year after graduation before the account is converted to a Halifax Reward current account.

A NINE-FIGURE SUM

LBG itself will drop revenue due to the changes. The Competition and Markets Authority (CMA) estimated last year that UK banks rake in a total of around £1.2bn from authorised overdraft fees. With its 25% market share, one can do the sums: This move will cost LBG a nine-figure sum.

And that is the second reason for Lloyds' radical change in fees strategy: regulatory pressure. Last year the CMA decided not to impose a cap on overdraft fees.

The threat of overdraft charges being regulated in a similar way to payday loans remains, as the FCA is now investigating the cost of short-term consumer credit. With some overdraft charges exceeding payday lending rates, the banking sector has only itself to blame if further regulation results.

Lastly, Lloyds' decision can be viewed against increased competitive pressure. Since the advent of seven-day current account switching in September 2013, Lloyds has been losing market share. By contrast, its Halifax brand has been among the winning brands led by Santander, Nationwide and Metro Bank.

Lloyds is also wary of competition from rivals that have entered the current account sector in recent years, such as Marks and Spencer, the Post Office, and Metro. Next year, the new breed of start-up banks, including Starling and Monzo, will enter the current account battle ground.

Traditionally, banks have not viewed overdraft charges as a competitive arena. Santander, the big winner from seven-day switching, has overdraft charges that are, if anything, higher than Lloyds.

Barclays ended unauthorised overdraft charges more than two years ago – and has been one of the bigger losers from seven-day switching.

And Lloyds' fees changes may give a boost to the UK's low bank-switching rates. At present, only around one million out of the 46 million adults with UK current accounts switch their main current account every year – a miserable 3% – against double-digit rates for mobile phone and energy supplier switchers.

The move by Lloyds represents a move in the right direction – and now attention turns to how its traditional rivals will respond. ■

AS THE APPLE IPHONE X LAUNCHES:

NO MOBILE STRATEGY IS AN OPPORTUNITY MISSED

With more than 5 million high-spending tourists from China expected to travel to Europe this year alone, merchants that ignore their payment preferences risk missing a huge trick, writes *Andy McDonald,* vice-president, merchant payments Europe at ACI Worldwide

Apple's new iPhone X arrived in stores globally on Friday 3 November. As with every iPhone launch, experts have been debating the ins and outs of the Apple X for days as fans queued overnight to get their hands on one.

One of the hallmark features of the new device is Face ID: the primary way to unlock the new phone is with the face scanner. More importantly, the new iPhone X will use the technology not only to unlock the phone, but also to authorise users for mobile payments.

I believe that the launch of the Apple X could be one of many inflection points that drives consumers across the globe to use mobile devices as their main method of payment. You only need to look at China to understand the future of commerce and mobile payments.

In the US and Europe, we are still debating the future of cash and whether the use of cards will one day be challenged by mobile payments. In China, this discussion is completely irrelevant. China has adopted mobile almost exclusively as its payment channel of choice, as everyone of every age is connected to their mobiles for social, content and services related reasons.

Alipay, the world's largest online and mobile payment platform with more than 450 million active Chinese users, and Chinese social media platform WeChat with over 963 million monthly active users, are today the dominant forms of payment in China. In little over five years, these two digital platforms have changed the nature of Chinese retail payments, and shifted hundreds of millions of Chinese citizens away from cash to electronic payments.

Where does this leave the rest of the world? Learning from China would be a good place to start. Many European retailers have already updated, or are currently working on updating, their payments infrastructure in order to accept alternative payment methods, and we at ACI are helping many of our clients to accept Chinese customer payments.

The logic is quite simple: More than fuve million tourists from China are expected to travel to Europe this year alone, and figures show that the Chinese spend more than any other nation when travelling. Merchants in Europe are missing a big trick and a huge opportunity if they do not develop strategies to integrate new forms of alternative payment to cater to this huge consumer group.

Where does this leave merchants, and which steps should they take next? Understanding the payment preferences of your customers is crucial to getting the payment mix right. Consumers typically have one or two payment methods that they prefer, while others are useless to them.

Retailers need to look closely at their customers, understand local payment preferences and devices and alter their payment offering accordingly.

A merchant's payment provider – if they are suitably experienced – should be able to provide valuable guidance. Offering the right payment methods conveys a sense of legitimacy, which is important to building trust with shoppers.

Merchants should also ensure that they always offer at least the top three payment methods in each market or country. Most shoppers will use at least one of them, and it has been shown that providing the top three methods, rather than only the most popular, can increase conversions by up to 30%.

Finally, retailers must continually analyse the conversion rate and usage of each payment method, and be ready to adjust when necessary. This is easier to do when working with a payment provider that offers an extensive global payment network, enables rapid payment method switches, and provides access to comprehensive payment data for advanced analytics. ■

NATWEST OPENS FIRST DIGITALLY FOCUSED BRANCH

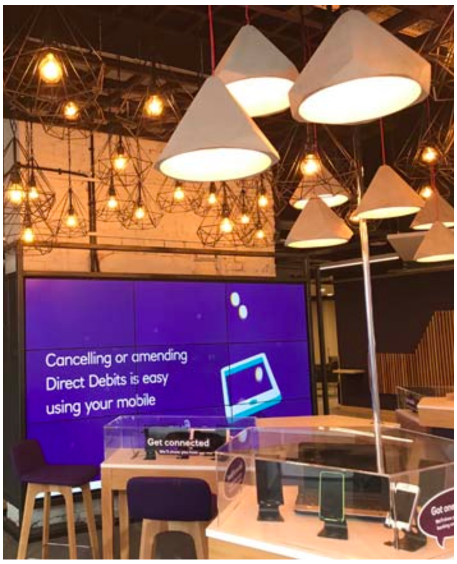
Natwest has opened its first digitally driven branch. In Liverpool, it aims to provide customers with a wider range of options on how they can conduct and oversee their banking activity. *Briony Richter* writes

The north-west of England's two major cities, Liverpool and Manchester, are the venues for the country's two largest retail banking groups' latest branch initiatives.

In October, *RBI* reported on Lloyds' new flagship store of the future in Manchester. Hot on its heels, NatWest has opened its first digitally focused branch in Liverpool.

Michael Burrow, MD of personal banking at NatWest, tells *RBI* that new digital branches have great potential. "With an increasing number of our customers choosing to bank with us using their mobile phones or online, we recognise the need to provide a branch that is both digitally focused and supports customers with their financial needs."

Earlier this year NatWest and Royal Bank of Scotland hired 'TechXperts' in each branch in England, Wales and Scotland to support customers using online and mobile banking through their mobile app. The banks also committed to digital skills training for nearly 10,000 NatWest staff.



More than ever, customers are taking advantage of the convenience and efficiency of online and mobile banking. The branch in Liverpool offers guidance as well as free Wi-Fi and access to iPads so customers can register for online banking services.

Burrow adds: "We're continually innovating in the way that we serve customers face to face. With our TechXperts, community bankers and mobile bank branches, we're excited to see how customers will engage with our new branch so we can learn and adapt how we serve them.

"Knowing our customers are becoming more tech-savvy in the way they engage with many different organisations, we feel it's important to make sure our branches meet their changing needs. Our Liverpool branch is the first of our new digitally focused branches. We live in a digital world, and as a bank we need to embrace this through our branch network using the learning from Liverpool."

First responses from customers have been positive, as they embrace the branch's modern look. "I think our customers like the look and feel of the branches as it doesn't look like a traditional branch and feels very modern. There is a counter service for complex transactions such as foreign exchange, but for the most part it's very much self-service, which is great for customers who don't want to queue," Burrows explains.

"All our staff are trained TechXperts who can support queries on how to use our mobile app across a range of devices or the automated tellers in the branch.

"We are a customer-focused provider, and this remains central to everything we do, including our mobile and internet banking services."

Burrow believes there is good reason to be optimistic about digital branches. "I don't think there are any hurdles to opening more digital branches – assuming there is an appetite. The bigger challenge is making sure we continue to provide the right types of service and product that customers want in the digital space, which is changing very rapidly.

"I think the potential of our digitally focused branches is their adaptability. We know technology is constantly changing, so we need to make sure our digital products and services reflect these changes.

"We have a team of developers who are firmly focused on developing our digital services to ensure we are meeting our customers' banking needs. TechXperts also receive regular training on mobile devices and internet platforms so they are best-placed to support queries. All of our services are developed with our customers' safety and security in mind, as both are essential to good banking in the 21st century."

With open banking just around the corner, it is imperative that banks grab the opportunities it has to offer.

"We're excited by the opportunities presented by the advent of open banking," Burrows says. "We're continuing to enhance and develop the integrated services that we offer customers, for example enabling small business customers to login to FreeAgent, an accountancy software platform."

In all customer segments the preference for digital is growing, and NatWest is looking use its digital branches in the UK to strengthen customer relationships as well as provide new and unique experiences. ■

FINTECH REVOLUTION POWERS REVIEW OF SERVICES

The Canadian government is reviewing Canada's Bank Act and its retail payments legislation in the light of the country's fintech revolution. *Robin Arnfield* reports

In August 2017, the Department of Finance published the second consultation document in its Canadian financial services legislation review, requesting comments by 29 September.

The document incorporates comments submitted by stakeholders following the August 2016 publication of the department's initial consultation report. The review is due to complete by 29 March 2019, at which point the current Bank Act will expire.

"The Department of Finance is reviewing the comments it received on potential policy measures to include in the 2019 update to the Bank Act," a spokesperson says.

These measures are categorised as supporting a competitive, innovative financial sector, improving bank consumers' protection, modernising the financial sector framework, and safeguarding the sector's stability.

Canada's six largest banks represent around 93% of the country's total banking assets, and in 2013 they were designated as domestic systemically important by the Office of the Superintendent of Financial Institutions (OSFI). Canada has 23 small and mid-sized domestically owned banks that together comprise 2% of all Canadian bank assets.

The Department of Finance says several hundred fintechs are active in Canada and have attracted over C$1bn in capital since 2010. The department is considering updating the Bank Act to clarify the fintech activities to facilitate bank-fintech collaboration, it says.

The department's consultation asked whether to give banks greater flexibility to make non-controlling investments in fintechs and to make referrals to fintechs, and whether to introduce regulations for open banking.

The department says open banking potentially facilitates consumer interaction with financial service providers and increases competition by streamlining onboarding and making comparisons more transparent.

CONSULTATION

The department's consultation asked how to streamline entry and exit processes for entrepreneurs such as fintechs targeting underserved niches, and how small and mid-sized banks could promote competition and innovation.

"We're at the first stage of examining the merits of open banking, and developing an approach to consider the risks and benefits of the issue, learn from the experiences of other jurisdictions, and fully consult with stakeholders," the spokesperson says.

"The government takes the protection of financial consumers very seriously. The Financial Consumer Agency of Canada is reviewing bank sales practices and will address any non-compliance. OFSI is conducting a concurrent review focused on risk culture, the governance of sales practices, and how banks manage the potential reputational risk that's inherent in sales activities. The results of the reviews will help inform whether further adjustments to the consumer protection framework are warranted."

In July 2017, the Department of Finance launched public consultations on a new oversight framework for retail payments. Its purpose is to extend the perimeter of Canadian retail payments supervision to cover companies not previously subject to oversight.

The framework currently focuses on Canada's core national payment clearing and settlement systems: the Large Value Transaction System (LVTS) and the Automated Clearing Settlement System (ACSS), which processes retail payments such as cheques, pre-authorised debits and credits, debit card payments and ATM withdrawals. These national payment systems are administered by Payments Canada. In addition, payments card companies and card networks are subject to the Government's Code of Conduct for the Credit and Debit Card Industry in Canada.

Other retail payment service providers (PSPs) such as non-bank PSPs are not subject to a comprehensive oversight framework. "Non-traditional PSPs aren't subject to operational requirements including mechanisms to safeguard consumer funds in the event of insolvency, specific disclosure rules or complaint handling procedures," the department's consultation report notes.

"This can create risks and confusion for payment service consumers who may expect similar levels of protections irrespective of the payment service provider they use," the department spokesperson says.

"The new framework's objective is to ensure the retail payments ecosystem evolves so payment services remain reliable and safe for consumers and merchants, and the ecosystem enables the development of faster, cheaper, more convenient payments methods."

The department's proposal includes a comprehensive national registration regime and, for the first time in Canada, a definition of payments industry players through a functional approach.

"The Competition Bureau believes periodic reviews of legislative frameworks are important to ensure laws remain relevant, and adapt to the new realities of the marketplace," a spokesperson for the Canadian competition regulator says. "In the case of open banking, we're pleased to see that the Department of Finance has emphasised competition and innovation. Regarding the Department's retail payments review, the bureau believes that the department's review of these issues can help pave the way for increased innovation and competition down the road."

In late 2017, the Competition Bureau plans to publish a draft report on the Canadian fintech market for public consultation.

"The Bank Act revision was postponed from 2017 to 2019, which is good due to the fast pace of fintech developments," says John Armstrong, head of KPMG Canada's financial service practice. "Canadian banks are currently constrained as to how they invest in fintechs due to the Bank Act's lack of clarity. We would like more clarity about their ability to invest in and partner with fintechs, especially with fintechs that offer technology for non-financial applications."

Armstrong also calls for clarity on open banking. "Canadian banks feel open banking causes privacy and security concerns," he says. "With open banking, if someone is hacked, it isn't clear who's liable once fintechs are injected into the mix with banks. The banks feel there needs to be clarity if they open their data to fintechs.

"They are talking about whitelisting, which involves specifying which platforms and fintechs meet their requirements for security. But fintechs are concerned as to what hoops they'll have to jump through to comply with banks' data security requirements."

Armstrong mentions Canadian banks' concerns, for sovereignty reasons, about using US-based cloud-hosting services. "Canadian banks and other businesses were reluctant to go to cloud when Amazon Web Services, Salesforce.com or Microsoft were just doing hosting in the US," he says. "But we'll see cloud take off in Canada now that these firms have started to do hosting in Canada."

A driver for open banking in the UK is consumer mistrust following the bank failures of the financial crisis, Armstrong says. "But Canadian banks survived the financial crisis magnificently, and there's a lot of trust in banks here," he adds. "When open banking arrives here, will Canadian consumers be willing to let their bank data be shared with non-banks and fintechs? I think there'll be slow adoption by Canadian consumers."

On the retail payments oversight review, Armstrong says of new payments players requires an overall framework. "As there aren't just banks any more but also fintechs and other new entrants, the regulation's scope must widen from banks to any organisations handling payment origination or receipt," he says. "It should move to regulating functions rather than specific entities. We'll see a lot happening in Canada due to players such as WeChat and Alipay."

Another driver for the overhaul of Canada's payments regulatory framework is Payments Canada's modernisation programme, Armstrong says. "Payments Canada wants to replace the LVTS with a real-time gross settlement (RTGS) system, move to real-time payment rails, and implement ISO 20022," he says. "Real-time payments require tighter regulations to prevent fraud, as real-time ups the ante in terms of fraud. Currently, Payments Canada is trying to decide what the timeframe is for real-time payments and what their priority is for the first item in their upgrade program to be actioned."

Armstrong says it is easier for Canada to move to real-time payments than the US because fewer banks are involved. "The Bank of Canada is very keen on replacing the LVTS with RTGS and, when it decides to move to real-time payments, the Canadian banks can do this as one program," he says.

AT-A-GLANCE STATISTICS

- Canada total bank branches: 6,190
- Number of banks in Canada: 87
- Bank-owned ATMs: 18,550
- Total transactions at bank-owned ATMs: 704 million
- Total online banking transactions completed at big 6 Canadian banks (2015): 614 million
- Total mobile banking transactions completed at big 6 Canadian banks (2015): 202 million
- Technology spend by big 6 Canadian banks in 2016: C$10.2bn
- Technology spend by big 6 Canadian banks 2007-2016: C$76.5bn

Source: The Canadian Bankers Association

Firoz Patel, CEO of Montreal-based payment services business Payza, says the Department of Finance needs to open up the fintech sector in Canada. "The Canadian MSB sector has been essentially shut down by the actions of the banks," he says.

Patel adds that Canadian banks have refused to provide bank accounts to legitimate MSBs as they claim to be concerned about money-laundering, but the real reason is that they see MSBs as competitors. "They argue that Canadian regulators want them to exclude risk," he says. "We need similar regulations in Canada to Europe's PSD2 which says that European MSBs that are fully regulated cannot be denied bank accounts after PSD2 comes into play. If Canada sorts this out, we could see more MSBs moving here."

In its Department of Finance submission, the Canadian Bankers Association (CBA) said many open banking initiatives in different jurisdictions "appear to be addressing concerns that may not be present in Canada. Additionally, there's a need to gauge consumer demand for third-party access, which may vary across jurisdictions.

"Protecting consumers' security and privacy will be key to any framework aimed at increasing third-party access to financial data and systems. Consideration must be given to the potential impacts on the safety, soundness and stability of the overall Canadian financial system, given the potential for third-party access to give rise to contagion, reputational and other risks with broad-ranging consequences."

"The CBA's concern about protecting customers' data and credentials is a red herring," says Christie Christelis, president of Canadian consultancy Technology Strategies International. "If Europe can do open banking, Canada can do it. Canadian banks are more afraid of fintechs being disruptive and 'eating their lunch' using open APIs."

One area where there is room for disruption is business payments, Christelis says. "While consumers have various alternatives for P2P payments, businesses don't have any real alternatives apart from the bank-operated systems. It's the regulations that are holding back business payments here."

While major Canadian banks already have partnerships with fintechs, this is a different dynamic from open banking, Christelis says. "These partnerships are mutually beneficial to banks and fintechs," he says. "But open banking means banks would have to open their APIs to any regulatory-compliant fintechs meeting certain criteria."

"Canada's thriving fintech ecosystem has partnered with traditional banks to deliver innovations to consumers and businesses," says Anne Butler, Payments Canada's vice-president of policy, research, legal and general counsel.

"The current regulatory regime places constraints on this collaboration that don't make sense. Revisions to legislation to enable Canadian banks to invest in and support financial technology development would be a catalyst enabling the fintech sector's true potential.

"Given our aim of reducing friction in payments and facilitating more fluid commerce and lower business costs, Payments Canada supports the Department of Finance's examination of open banking. But this initiative must maintain the high standards provided by our current framework."

Payments Canada is working with its members and stakeholders, the Department of Finance, and the Bank of Canada to review access to Canada's core payments systems.

"We expect our learnings from our modernisation review will contribute to the Department of Finance's study of open banking, particularly with respect to risk management criteria," Butler says.

Scott Talbot, senior vice-president of government affairs at the Electronic Transactions Association says: "Regulations applicable to a major bank should be very different to those applicable to a start-up. Regulations should be tailored to different categories of risk in terms of size of player and their risk profile." ■

DIGITISE SERVICES TO COMBAT COMPETITION

A new report from McKinsey highlights the need for the global banking industry to revamp its digital platforms to combat the growing threat from online retail marketplaces, writes *Briony Richter*

Competition in retail banking from fintechs has arguably receded as banks have made strategic partnerships to expand digital services, rather than compete with the startups.

The real threat is coming from companies such as Amazon, Alibaba and Japan's Rakuten Ichiba, which are swiftly staking positions as viable alternatives for traditional banks' customers, according to McKinsey's *Remaking the bank for an ecosystem world* report.

On the emerging digital threats, the report comments that new strategies adopted by these so-called 'platform companies' are even more challenging for incumbent banks. By creating a customer-centric, unified value proposition that extends beyond that which users could previously obtain, digital pioneers are bridging the value chains of various industries to create 'ecosystems'.

These strategic moves by platform companies are attractive to consumers, as the businesses are providing them with unique experiences, and also reducing customer costs. They are quickly becoming more central in financial decision-making for customers.

The rate of competition from these new entrants has increased much faster than anticipated, and companies such as Amazon and Rakuten are reshaping one industry after another, blurring sector boundaries as they seek to be all things to all people.

Amazon founder Jeff Bezos has been tapping into financial innovation to extend the company's reach into consumers' daily lives. Amazon continues to confound rivals with moves into the cloud, logistics, media, consumer electronics and even old-fashioned bricks-and-mortar retailing – and lending and factoring for small and medium-sized enterprises. It is hurdling through traditional industry territory by offering an ever-growing range of products and services.

Companies such as Amazon are becoming important to the financial industry as they move the data they have received into cloud storage and push further towards artificial intelligence.

CUSTOMERS AND PROFIT

Banks also risk losing customers and profit. The report predicts that if banks fail to digitise their business models, customers will move to other providers, such as platform companies, which already offer similar services.

By 2025 the global banking industry's return on equity (ROE) could reach 9.3%, but if consumers move to digitised companies as quickly as they are using emerging technologies, the ROE could fall to a dangerously low 5.2%.

Banks cannot afford to wait any longer to extract the potential of digital to industrialise their operations. As an essential first step, those that have not yet fully digitised must explore the new tools at their disposal and build the skills in digital marketing and analytics that they need to compete effectively.

This gain from digitisation would lift the average bank's ROE by around 2.5 percentage points – not enough to fully offset the 4.1-point drop forecast in McKinsey's worst-case scenario. But no bank can afford to forgo the benefits of digitisation, and individual banks can do much better than the average.

Amazon already has a foot in the payments industry, offering small businesses a payment-processing service. It is using the initiative to encourage more customers to buy from Amazon using debit cards.

Another serious competitor that is taking advantage of areas where banks are falling short is Japan's largest online retail marketplace, Rakuten Ichiba.

Rakuten – meaning optimism – was founded in 1997 by Hiroshi Mikitani. With a membership population that now exceeds one billion, Rakuten has extended its services beyond online shopping to online and offline services including credit cards, mortgages, travel and security brokerages. Using e-money and loyalty points, Rakuten customers can make purchases from thousands of stores.

By embracing digital innovation, Rakuten has created a unique ecosystem and strengthened its customer base. The company also runs instant-messaging app Viber, which has around 800 million users globally.

Chinese company Alibaba has also tapped into financial services, providing electronic payments and data-centric cloud services. Its aim is to fully transform how businesses operate by providing innovative technology to connect with consumers globally. Alibaba is no longer just an enormous e-commerce company; it is also a large asset manager, lender, payments company, B2B service and ride-hailing provider.

Losing customer loyalty to these companies is a real threat if banks do not respond quickly. The McKinsey report concludes that new digital entrants are impacting bank performance, particularly by threatening the customer relationship and creating margin erosion in retail segments.

Will banks join up with these companies like they have with certain fintechs, or do they aim to beat them? If it is the latter then banks will have to fully implement a digital platform. McKinsey argues that, for the time being at least, banks still hold higher trust among consumers than tech companies.

Although the report notes that the banking industry has shown improvements in capital, cost and liquidity, it also describes a string of lacklustre performances and concludes that if banks do not digitise their services, the threat from non-bank companies will only continue.

Banks must develop platforms to enable these emerging technologies and changes in trends among the customer base. What is more, the competitive nature of the banking industry will only be heightened with the implementation of open banking. ■

WILL OPEN BANKING BREATHE NEW LIFE INTO THE INDUSTRY?

With the deadline for PDS2 just around the corner, banks and fintechs must be prepared for the challenges it brings as well as the opportunities that come with it. *Briony Richter* reports from the latest Digital Banking Club debate

Will open banking really be transformational? The latest Digital Banking Club debate of 2017, powered by Intelligent Environments, discussed just that.

Hosted at the formidable Law Society in London, the debate featured an outstanding panel to debate the challenges and opportunities posed by the implementation of open banking.

Why is it a good time to be discussing open banking?

Simon Cadbury, director of strategy and innovation at Intelligent Environments, began the debate by expressing his thoughts on the introduction of open banking.

He said: "It is the topic on everyone's lips. The most interesting thing for me is that every article I read and everyone I speak to is incredibly positive about open banking.

"I agree that it is a very exciting time, but actually when you scratch beneath the surface there is a little reservation. Is it really going to live up to its promises? Do consumers really understand it and will they embrace it? It is quite a confusing time for a lot of people, and it needs to be carried out carefully.

"If customers allow it, licensed AISPs [Account Information Service Providers] and PISPs [Payment Initiation Service Providers] will enjoy unprecedented access to a platform on which they can develop entirely new kinds of products, services and experiences."


Hilda Jenkins, Barclays

Anne Boden, CEO of Starling Bank and the 2017 Digital Banking Club Power 50 Personality of the Year, added: "It could completely change retail banking forever – if it happens. There is a huge amount of opportunity out there but implementing it in traditional banks could prove difficult.

"The opportunities that PSD2 will open up are great; they are good for consumers, but those changes actually attack the heart of banking as it is at the moment."

Hilda Jenkins, digital experience and engagement director at Barclays, argued that it is the customer that should be the priority. "The way we go about it has to put the customer at the centre of everything. The big banks, the fintechs are all looking to come in and create new ways to excite our customers. If we do that then it can only be a good thing for all of us.

"At Barclays we put the trust of our customers first. If data is shared securely and open banking is approached in a mature way by all, then it could work."

Boden emphasised this point: "Customers should come first and they should own their data. It is up to the industry to educate consumers about the benefits of open banking and sharing data in a responsible way.

"Unless we do this, the customer interface will be hijacked by the social media companies. If we do this as an industry correctly then we will continue to own the interface. If we do not, it may go to Google, Facebook and the rest."

Roberto Ferrari, chief digital and innovation officer at Mediobanca group, said: "Open banking will force banks to use the data they have to its full potential."

In agreement with Ferrari was TSB Bank's digital innovation and transformation director, Pol Navarro, who argued: "Open banking and the introduction of PSD2 is pushing banks to become more oriented towards the customer. Customers seek good experiences from their banks."

Asked if TSB is approaching this from the mindset of an incumbent or challenger, Navarro said: "We are a challenger. We at TSB are making sure that we can take full advantage of the data we receive."

Jenkins argued that data is important, but customers must always come first. "Data is the fuel, but you have to think carefully about the customer experience and what their needs are. We need that creativeness coming into the industry to give our customers something of value. Often, customers are a little anxious about open banking.

"We need to ask ourselves, how are we going to get customers to trust us with their data as much as they trust us with their money?

"We have to answer this together. We have to think about putting the customer first. Some big banks may naturally want to hold onto their customer base, but collaboration is the way forward. If we do it securely with APIs then it really could be phenomenal. "

The panel were all agreed that open banking has great potential – if harnessed with the right tools.


Roberto Ferrari, Mediobanca

Will open banking live up to expectations?

On the topic of whether open banking is more exciting in business than in other sectors, Will Beeson, head of operations and innovation at Civilised Bank, stated: "It is very exciting. There is much broader competition. Banks are doing it because of the changing expectations from customers. Also, if you look across the industry you are seeing fewer and fewer standalone banks wanting to own 100% of customer services.

"It will be much faster to deliver with collaboration, and there will be more comprehensive services for customers."

Boden reiterated the need for collaboration, saying: "We envisage a world where people like us will provide the business current account, and then customers can use APIs to get access to other services. We can provide an alternative and different value chain to the traditional banks."

Customer expectations are at the heart of the debate; they are the main driver for implementing the changes needed.

Ferrari argued that the expectations of customers are clear: They want top service from their banks. Ferrari stated: "Banks are data companies, therefore money and banking is about data.

"There are very high expectations from customers. You can see this from the rapid uptake in mobile banking globally. In the end it is what you give to them."

As well as customer support, open banking will also be beneficial to banks and fintechs. Cadbury emphasised how the business banker has more to benefit from in the short term, but must look to the future in order to secure customer loyalty.

"The open banking component of PSD2 is nothing less than an invitation to rethink banking. The walled gardens that banks have built around their customers' data will start to crumble. The customer loyalty that banks have spent fortunes to build could be challenged.

"Traditional banks are in the driving seat, but if they hesitate, technology heavyweights like Google, Amazon, Facebook and Apple are well placed to take advantage of PSD2."

Navarro stated: "In the long run it will really change the banking industry. If you give good, trustworthy customer service then the customers will continue to come again."

PSD2 follows on from PSD, and could essentially revolutionise the banking and payments industry, affecting everything from the way we pay online to the information that can be seen when making a payment. Adapting to these new regulations will need significant levels of investment and commitment from the banking industry.

Boden talked about the differences that consumers will all see with PSD2. "With PSD we didn't have all these new players providing people with specialised services. PSD2 is going to do that. It has the infrastructure to join up new services to old services. It is going to link the incumbent and traditional banks in new and interesting ways."

For consumers who hold more than one bank account, the changes will allow businesses and providers to show all their account information in one place. Of course, along with these changes come much stronger security checks to ensure safe customer payment.

Who will be the winners and losers?

With high expectations for all players across the board, the panel were asked who will be the ones that stand up to the challenges and overcome the hurdles.

Jenkins stated: "This is the time to be in banking. These new laws are exciting for us and our customers. Of course the big banks will embrace it. We want to keep our customers and keep them satisfied.

"We need to innovate and take hold of the opportunities opening up. Barclays has been opening up to partner with small players to create different types of data. With these partnerships we can marry the data gained from them with the data we already hold."

Cadbury said: "I hope the challenges are overcome and there is success, but I do fear that the big brands have an advantage at this time."

Boden added: "The big banks will be pushed to be more creative and make more investments in things that make the customer happy. New entrants will drive innovation and creativity, and hopefully everyone will get a better deal if it works. We must, however, educate our customers in what all this will mean for them."

Navarro believed that it will be the customers that will benefit the most from open banking. Ferrari agreed, but emphasised that it is essential to have the right architecture from the top to the bottom of the bank.

Beeson said the winners will not necessarily be specific companies or individuals, but those who are prepared.

He stated: "Regardless of bank or non-bank, incumbent or new entrant, the winners will be those that have efficient, scalable, open architecture. The losers will be the ones that do not. There are so many factors that are changing and there will be pressure to make changes."

A question from the floor – again the DBC debate played to a full house – referenced seven-day switching and why, as customers, we should switch our accounts for, potentially, another average experience. What unique experience do the panel have to offer?

Beeson began by stating that Civilised Bank's unique experience would be "delivering a face-to-face human interface that would be the single point of contact for all of the bank's resources".

Boden added that when customers come to Starling Bank it is because they want that unique experience, and the mobile app it provides does just that.


IE's Jerry Mulle with Anne Boden

"We built all the functions into the mobile app. We did get an incredible number of people switching over in the first couple of weeks. People want something different and unique. I believe the seven-day switch works.

"By providing the right infrastructure, delivering interesting products and a number of relevant partners, we can gain new customers and keep the loyalty of our existing ones," Boden noted.

Risks and hurdles

Open banking does not come without conduct risks. In particular, many customers are very concerned about their security and data privacy.

Jenkins discussed the importance of guiding consumers through the process of open banking. "We want to embrace open banking in the right way, building APIs and encouraging customers not to share their log in details. Barclays has just launched a major campaign around being digitally safe, and that is to educate consumers that come into our bank on the right way to engage in this digital world.

"What has to be understood is that there are different types of customer, and we have to provide for everyone across the demographics. There are a lot of older customers who are more vulnerable, and a lot of young people and millennials that are more savvy but do not necessarily think about it on a day-to-day basis, so a bank has to be about protecting all of our customers."

Cadbury said that open banking does come with risks and, when speaking to clients about open banking, the advice given is to start off small and build from there; that way the customer will not be giving away more data than is necessary.

On the risks, he stated: "Because of its open-endedness, open banking comes with substantial risks. There is a risk of banks failing to embrace the opportunities of PSD2 and seeing other banks, retailers or tech companies eat their lunch.

"Equally, there is a risk of overestimating the impact of PSD2 and wasting resources on it, to the detriment of some other left-field advance such as machine learning."

Cadbury also highlighted that customers might not want PSD2. "Some customers like to compartmentalise their financial interests, particularly their debts.

"For some this is a matter of security or an insurance against fraud, for others it's simply because they don't want their bank to have a full picture of their financial lives. Services built on the back of PSD2 will have to overcome this to succeed."

Carrying on the importance of educating consumers, Boden stated: "I believe it comes down to education again. Using methods that are sophisticated will help customers connect with their data and systems.

"We must educate people that it is safer to have all their information stored in one place, with trusted institutions, and use those services to log on to other providers."

Ferrari agreed that it is important to let customers know how their data is being used, and from where it is being accessed. "We need to be much more transparent. The technology to prevent fraud and hacking will become much more relevant, and we need to be prepared for that."

Navarro also emphasised that an important part of it is down to communication. "Security in banks has been good, and it is all about the evolution of technology. What we do need to do is communicate to our customers that we are secure. We have not done that well, and so we must sell it better."

Killer features

A question from the audience asked, what will be the killer feature that attracts customers?

Boden believed it will not come from the banks. She said: "I don't think that the killer feature will come from the industry or incumbents. That killer feature will come from people who build applications upon our infrastructure. Banks cannot fail: If a project is started it must finish successfully.

"With open infrastructure, with the processes and procedures to vet people and the chance to use APIs with hundreds of people innovating, there will be breakthroughs. Those breakthroughs will come from someone using the possibility of putting data together to create good."

Cadbury said: "I'm very excited, potentially, to see all my money in one place and where it all fits together. If open banking can help in a way that is safe, secure, and does not abuse data, then I think it could be a very powerful thing."


Jerry Mulle with Will Beeson

Speaking about the opportunities of GDPR, Jenkins said: "It is a great opportunity – how we leverage the trust in our customer base and use the enhancement of privacy laws that GDPR is bringing. It is important to approach it responsibly and expose it to customers in a way that they can enjoy."

Cadbury concluded: "Open banking is a revolutionary concept in financial services, but not in the technology sector. Open APIs are the driving force behind the Internet of Things and an essential feature of almost all successful online platforms – from Twitter and Expedia to Amazon and Uber.

"As banking goes digital, an API-driven future is as inevitable as the internet-driven present that precedes it.

"It is the opinion of Intelligent Environments that PSD2 could sustain entirely new business models, but that regulation needs ultimately to go further – encompassing all account types and financial data – to make open banking the revolution it could be."

The panel all agreed that open banking is incredibly exciting and innovative. There are hurdles to overcome, but with the right amount of collaboration, security and creativity, open banking can be something to look forward to as the next step in banking and payments.

Following the Digital Banking Club debate, Power 50 winners were invited onto the stage to receive their awards, presented by Jerry Mulle, sales and marketing director at Intelligent Environments.

Categories for the awards were: Personality of the Year, Digital Financial Services Power 50, Digital Financial Services Rising Stars, Digital Innovation in Collections, and Digital Innovation in Vehicle Finance. ■

DECEMBER NEWS

N26 readies UK launch

German-headquartered neobank N26 is stepping up plans to launch in the UK.

It has placed an advertisement on its website for a UK general manager to take "charge of the market entry of N26 in the UK… responsible for the P+L of the UK market, and act as the main contact person for our local partners and service providers".

In February *The Times* reported that N26 was eyeing up market entry into the UK.

Founded in 2013 by Valentin Stalf and Maximilian Tayenthal, N26 has more than 300 employees and more than 500,000 customers in 17 countries.

It has raised more than $55m in capital, and earlier this year CFO Tayenthal told *Business Insider* that its aim was to make "traditional banks redundant".

N26 has grown its product range in the past year, and has spoken of plans to move into business banking. In September, N26 announced that it had signed up 100,000 customers in France since launching there at the start of the year.

N26 has partnership deals with TransferWise for remittances, Clark for insurance and Raisin for investment. It recently went live with Mambu's SaaS banking engine. ■

BANKING CONTRIBUTED £35.4BN TO UK FINANCES IN 2016-2017

Banks' total tax contribution to the UK treasury rose by 9.3% year on year to £35.4bn ($46.4bn) in fiscal year 2016-2017, according to a report from PwC.

The report also highlights the necessity for the UK government to achieve a post-Brexit deal that supports the banking sector, in particular international banks that are based in the UK. As a percentage of all UK government receipts, the banking sector contributed 5.4% in 2016-2017.

The report, *2017 Total Tax Contribution of the UK Banking Sector*, commissioned by trade body UK Finance and based on analysis by PwC, found that £18.1bn was contributed by UK banks. Internationally headquartered banks contributed almost as much, at around £17.3bn.

The survey included the impact of the bank surcharge, introduced in January 2016, which generated £1.1bn in payments from the sector. The introduction of the surcharge, along with an increase in corporation tax resulting from increased profitability, loss relief and compensation payment restrictions, drove an 11% increase in taxes borne in 2016-2017.

At a combined £8.9bn, receipts of corporation tax, the bank levy and the surcharge are 22% higher than corporation tax receipts before the financial crisis, which valued £7.3bn in 2007.

Employment taxes remained the largest tax for the banking sector, making up £18.4bn of the total contribution, up from £17.8bn last year. Of this, 53.7% was paid by foreign banks which employed 25.3% of the employees in the study.

The report found that the banking sector creates employment for 1.6% of the UK workforce and contributes 7.2% of all UK employment tax receipts. An estimated £4.5bn was paid by the UK banking sector in irrecoverable VAT.

Andrew Packman, tax transparency and total tax contribution partner at PwC, said: "This report shows that the banking sector makes a significant contribution to the UK's public finances. Tax contributions have recovered consistently since the financial crisis.

"While the sector is in a strong position to face future challenges, this report underlines the importance of the banking sector and the need to ensure that the UK retains its strong position as a leading financial centre." ■

HSBC HAUNTED BY HALLOWEEN GREMLIN

HSBC customers were left frustrated before the Halloween weekend as the banking giant's online banking service went down for part of Friday 27 October.

Problems were first detected at 8:30am, before customers took to social media to complain.

While the bank claimed that the service was up and running by 9:30am, some customers were still unable to access some banking facilities, leaving many on the last Friday of the month without access to their salaries.

Reports have stated the shutdown was due to an upgrade to the personal internet banking service, which suffered a glitch.

This is the second problem of this type that HSBC has suffered in 2017, the last being in January. ■

Brazil's Nubank readies digital banking launch

Brazilian fintech Nubank plans to launch a digital banking account that will enable users to make transfers, pay bills and maintain online savings accounts with market-leading interest rates.

Nubank currently has 2.5 million customers using its credit card services. The digital banking solution, which is in its beta phase, will be rolled out after completion of testing.

The new solution will enable Nubank to offer services to the around 60 million people who do not currently have access to banking facilities in Brazil.

Brazil's central bank has certified Nubank as a payment institution, allowing it to use customers' money to invest in public debt, and to offer customers improved rates of interest.

Nubank founder and CEO David Velez commented: "We're not trying to make money with these accounts, but we're also not trying to lose money.

"We're really looking to China as a country that shows the future of money – much more than the US or Europe." ■

HELLENIC BANK TO TRANSFORM PAYMENTS PLATFORM WITH FISERV'S DOVETAIL SOLUTION

Cyprus-headquartered Hellenic Bank has selected Fiserv to help further the bank's digital transformation through a new payments platform.

Hellenic will implement Fiserv's Dovetail payment solution as part of a wider digitisation strategy. It will enable Hellenic to offer new products and services more quickly to an expanding client base, and deliver on the bank's vision of being seen as a trusted innovative partner that provides "excellent service and understandable products". Fiserv boosted its real-time payments proposition by acquiring Dovetail in August.

"To build on our position as a modern and innovative bank, we needed a proven payments platform that could not only address our immediate needs, including the optimisation of our payments processes and resources, but also our future payment initiatives," said Phivos Leontiou, head of group operations at Hellenic Bank.

"Fiserv is the right choice given its best-in-class solutions, track record of delivery excellence, and long-term partnership approach."

Martin Coen, senior vice-president, billing and payments group at Fiserv, commented: "Banks across Europe are in a race to modernise to keep pace with changing market needs and customer demands.

"The Dovetail payment solution will provide Hellenic Bank with the agility and flexibility required to enhance customer offerings, enabling it to add new functionalities as the market evolves, while ensuring the operational resilience essential for payments."

Hellenic operates a network of around 60 outlets in Cyprus. It is currently in the process of implementing a turnaround programme, or as it terms it: "Fix" and "Build".

The "Fix" aspect predominantly relates to the resolution of non-performing exposures, while the "Build" aspect relates to focused growth through the expansion of the bank's franchise. ■

HSBC UK unveils new m-banking app

HSBC has launched a new mobile banking app on the iOS platform with an Android launch set to follow.

According to HSBC, the new app offers improved features and will benefit from regular updates that deliver new functionality to enhance the overall customer experience.

Since 2016 there has been over a 20% increase in the number of customers using the HSBC mobile banking app.

Following detailed customer research, HSBC says the new app has been designed with improved functionality, including the ability to add new payment recipients, and a 70% reduction in login time.

Raman Bhatia, head of digital, UK and Europe at HSBC said: "Customers tell us they want to be able to do their banking on the go seamlessly. Our new mobile banking app has been designed to improve that experience, with a quicker login time and the ability to add new payees.

"We will build on these features throughout the course of this year and next, introducing new services, such as Pay by Bank App, via a series of regular updates." ■

TEMENOS AND ABU DHABI COLLABORATE IN FINTECH SPACE

Temenos has teamed up with Abu Dhabi Global Market (ADGM), the International Financial Centre in Abu Dhabi, to collaborate and "strengthen the fintech ecosystem" in Abu Dhabi.

Temenos will support the ADGM FinTech Innovation Centre, a physical hub where fintech communities can come together to foster collaboration and innovation in financial services.

A key aspect of the collaboration will see Temenos provide a sandbox service to startups residing at the Innovation Centre. The sandbox, a non-production cloud-based version of Temenos core banking system, will enable start-ups to integrate solutions with banking data and functionality, and test them for scalability and robustness.

Jean-Paul Mergeai, Temenos's MD for the Middle East and Africa, commented: "We are excited to be working with the ADGM on its Innovation Centre. We passionately believe in supporting the communities around us, in promoting innovation and in fintech.

"The Temenos MarketPlace is founded on the notion that bringing together banks and fintechs is a win-win situation, and we hope that by working with ADGM we can foster the fintech scene in the UAE, as well as offer a route to market to the most successful startups."

Richard Teng, CEO of ADGM's Financial Services Regulatory Authority, added: "We are thrilled to partner with Temenos in the development of the fintech ecosystem for the region.

This will enable our RegLab and fintech firms to collaborate with banks to test and develop innovation in a wide spectrum of financial services that would benefit the UAE and the region." ■

REGIONS TAPS FISERV TO EXPAND DIGITAL MONEY OFFERING

Regions Bank is augmenting its digital offerings with the addition of person-to-person payment and account-to-account transfer solutions from Fiserv.

The addition of Turnkey Service for Zelle and TransferNow to the bank's current CheckFree RXP electronic billing and payment platform from Fiserv means the bank can offer a seamless experience in several payment types.

"From sending money to a kid in college to making sure there is enough money in your account to cover a bill payment, there are so many everyday tasks that involve moving money," said Andy Hernandez, head of eBusiness at Regions Bank.

"By enhancing the speed and convenience of person-to-person payments and account-to-account transfers, Regions can continue to make banking easier for our customers."

Zelle is a P2P network offered by Early Warning and allows funds to be sent from one bank account to another, typically in minutes when both parties are enrolled in Zelle, using only a recipient's email address or mobile number.

Fiserv's Turnkey Service for Zelle allows consumers to make fast, safe and easy P2P payments directly from their online banking sites and mobile banking apps. Fiserv's TransferNow facility offers customers a way to transfer funds to or from their own non-Regions Bank accounts, making overall funds management easier by eliminating the extra steps involved in withdrawing and depositing money at different banks.

"Consumer expectations for quick, simple and seamless money movement are advancing faster than ever before," said Tom Allanson, president, electronic payments at Fiserv.

"Regions Bank is delivering a holistic set of capabilities that makes it easy for its customers to move and manage their money in a way that fits their life."

Regions reported net income of $296m, down by 2.6% year on year for the third quarter of fiscal 2017.

Net interest income increased 8% year on year, while the bank's net interest margin improved by 30 basis points to 3.36%.

Alabama-headquartered Regions Bank continued its branch rightsizing strategy in the year to end June, closing a net 107 branches or 6.6% of its units. Its current network is 1,492 outlets, compared to a peak of 2,087 in 2007.

Regions Bank's has reported that its plan to eliminate $400m in expenses by the end of 2019 is on target, and it expects to achieve the majority of the planned savings by the end of 2018. ■

Postbank and Deutsche Bank merger plans take shape

Deutsche Bank acquired Deutsche Postbank in 2008, but the two firms have remained legally independent. Now, nine years on, the two banks will become one unit with a single head office.

The two brands will remain under a new umbrella, Deutsche Privat- und Firmenkundenbank, meaning 'German private and company clients' bank'. The merged bank will also unveil a new digital bank by the end of 2018 targeted at millennial clients. The combined entity will serve around 20 million customers and initially employ 30,000.

The merger is expected to provide substantial synergies of around €900m ($1.04bn) annually by 2022, eliminating duplicate services and sharing IT systems. Costs of around €1.9bn will be incurred in restructuring expenses.

Deutsche Privat- und Firmenkundenbank will maintain around 10,000 ATMs across Germany with a branch network of around 1,500 outlets.

Postbank CEO and Deutsche Bank co-head of private and commercial bank Frank Strauss said: "We are combining the strengths of Deutsche Bank and Postbank. There is no other private banking group in Germany today with as many online clients as Deutsche Bank und Postbank combined. Together, we can expand our lead in digital transformation even more quickly."

The merger is expected to close in the first quarter of 2018, subject to approval. ■

INDIA PLOTS $32BN CAPITALISATION PLAN

The Indian government has announced plans to recapitalise the country's public sector banks with INR2.11trn ($32.3bn) over the next two years.

State Bank of India shares rose by almost 20% on release of the news. The government's Financial Services Secretary said the move was designed to support a rise in credit and job creation.

The move was expected, but the scale of the recapitalisation surprised many. Analysts reacted positively, and forecast that a capital injection on such a scale would address the bank's weak capitalisation.

All the major public sector lenders recorded sharp rises in their share prices, with Punjab National Bank shares rising by 30%, Bank of Baroda up 26% and Bank of India and Union Bank of India both ahead by 24%. ■

ITAÚ FINALISES DEAL FOR CITI BRAZILIAN UNIT

Itaú Unibanco has received the remaining authorisation from the Central Bank of Brazil to acquire Citigroup's retail banking unit in Brazil for $220m.

The transaction includes loans, deposits, credit cards, branches, asset management and insurance brokerage, as well as the equity investments held by Citibank in Tecnologia Bancaria and in Companhia Brasileira de Securitizacao.

The US group operates 71 branches serving around 315,000 account holders; Itaú operates more than 4,000 branches and 44,000 ATMs across Brazil.

Citigroup announced in February 2016 that it was planning to cease retail operations in Brazil and Argentina. It will continue to serve clients of its corporate and investment bank, commercial and private bank businesses in the country. ■

Finn, Chase's new 'bank in an app', goes live

Chase has unveiled Finn by Chase, a new all-mobile bank designed to give consumers greater control of their everyday spending and saving and – it claims – happiness through a completely mobile experience.

Finn features include the ability for customers to open accounts digitally via their mobile phone. Finn will target the millennial segment of the market, in particular in the more than 20 US states where the bank currently does not have any branches.

According to Chase, the app was designed by working closely with millennials for more than a year to understand their unique money challenges and what influences their spending.

Chase's research found that emotions play a large part in millennials' decisions, but they did not have a way to fully understand the impact it had on their financial lives.

"When it comes to money, millennials told us they don't want to feel like they're being judged," said Bill Wallace, CEO of digital at Chase. "So, we designed Finn to put them in charge, no matter where or how they're spending."

Finn features include:

- **Rate purchases:** Customers can rate transactions as something they 'want' or 'need', and assign emojis for how those purchases made them feel;
- **Automatically build savings:** Customers save by setting personal autosave rules on their terms, such as saving $5 every time they go shopping, and
- **Stop overspending:** Finn only lets customers spend what they have.

"We continue to invest in technology that makes banking easier for our customers, and gives them the confidence they need for their financial future," said Thasunda Duckett, CEO of consumer banking at Chase.

"Finn is yet another way we're innovating for millennials by designing a product that lets them spend and save on their terms."

Chase says Finn provides the capabilities of a traditional checking and savings account, but it through a fully mobile experience. The Finn debit card gives customers fee-free access to more than 29,000 Chase and other ATMs.

Finn by Chase debuts for Apple users in St Louis, and will be extended to additional US cities and Android users next year. ■

EMIRATES NBD TEAMS UP WITH GEMALTO TO STRENGTHEN SECURITY

Emirates NBD has implemented Gemalto's Mobile Suite solution to enhance and protect its online and mobile channels in the Middle East.

The platform features the Smart Pass service to accelerate the authentication of digital banking transactions by removing the need for customers to wait for a one-time password.

The Dutch digital security business said the bank's customers in the UAE who opt to use Smart Pass just have to activate the service from their mobile device and then receive a unique four-digit PIN.

Emirates NBD group COO Abdulla Qassem commented: "Emirates NBD's continuous investment in cutting-edge security solutions reflects our commitment to customers to feel completely secure when they bank with us.

"The implementation of our Smart Pass solution leveraging Gemalto's Mobile suite helps us offer a new level of digital banking security for our customers, a crucial step forward in our digital transformation plan.

"This highly flexible, scalable solution reinforces our reputation as a trusted, secure, innovative and customer-focused bank in the region offering customers the ability to securely authorise transactions online and via their mobiles without having to depend on a SMS."

Gemalto's digital banking director for the CISMEA region, Marwan Elnakat, said: "Linking perfectly with wider initiatives such as the UAE's Smart City programme, the commitment to world-class digital banking further supports Emirates NBD's role as a regional ambassador for economic and social progress." ■

LIPETSKCOMBANK REVEALS NEW M-BANKING PLATFORM

Russian regional bank Lipetskcombank (LKB) has launched a new mobile banking app built on the Compass Plus TranzWare Mobile Banking platform.

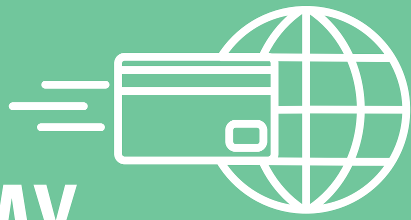
The LKB Online app will run on Android and iOS, and allow the lender to offer customers new services including remote payments and the ability to manage cards and accounts.

The vendor said the app will offer a user-friendly interface, a wide range of functionalities including geolocation services to identify ATMs, and visual illustrations of statements and expenditure.

LKB intends to include additional sets of functions to enhance the customer experience during transactions.

LKB has been associated with Compass Plus for 15 years, and its in-house processing centre is built on TranzWare products technology. ■

CASH DISPLACEMENT: THE GLOBAL STATE OF PLAY



Sweden, China and India are the world leaders when it comes to the use of digital payments. *Robin Arnfield* reports

"Sweden has reached the point where everyone uses digital payments, and paying in cash raises people's eyebrows," says Jeffrey Bower, principal of digital payments innovation consultancy Bower & Partners Consulting Services.

Sweden is one of the world's most digitised economies, and is ahead of other developed countries such as the UK, Canada and Australia in digital payments. The other global leaders are China and India, along with Kenya because of m-Pesa and Bangladesh because of B-Kash.

According to *The March Towards Digital Money, Bringing the Underbanked in from the Cold* by Citi and Imperial College, while Bangladesh is overwhelmingly a cash country, 90% of government-to-business payments have transitioned to digital channels. It says 69% of the value of payments made by the Bangladesh government are digital.

"The value of financial transactions via mobile grew 37% in 2016 to reach a yearly total of $24bn, an average of $67m per day, according to Bangladesh Bank," it says.

SWEDEN

Cash is now used in less than 20% of Swedish retail payment transactions, according to Sweden's central Riksbank. Most Swedish retailers and transport companies decline cash, with it now totalling 2% of total payment transactions. Around 900 of Sweden's 1,600 bank branches no longer hold cash or accept cash deposits, and many branches, especially in rural areas, do not offer ATMs.

There are several success factors in Sweden's move to digital payments – for example, the widespread adoption of Bank ID, a bank-based digital identification and signature system that currently has 7.5 million users in Sweden. Denmark and Norway have similar BankID coalition schemes used for e-commerce, banking and government transactions.

Sweden's major banks, including Nordea, Handelsbanken, SEB, Danske Bank and Swedbank, have developed Swish. The mobile P2P transfer service is used by nearly half the country's population and can be used for payments to businesses.

Across Scandinavia, another driver for heavy e-payments adoption is the existence of two pan-Nordic payment processors: Nets was created in 2010 from the merger of Danish and Norwegian payments firms, and Sweden-based Bambora.

INDIA

The Indian government's November 2016 demonetisation of INR500 and INR1,000 bank notes was intended to combat corruption, but it also benefited Indian digital payments firms. For example, mobile wallet provider Paytm, founded in 2010, now has over 250 million registered users in India.

"The demonetisation announcement led to huge consumer enrolment in digital payments and to merchants wanting to accept digital payments for a large proportion of their business for fear that demonetisation might happen again in India," Bower says.

According to *The March Towards Digital Money,* India's government has encouraged digital banking and payments with a holistic approach targeting unbanked and banked consumers. The government has introduced light banking licences for new banks such as Paytm's new Paytm Payment Bank that target the unbanked.

To resolve the problem of mobile payment scheme interoperability, India's National Payments Corp. launched the Unified Payments Interface (UPI) system in April 2016. UPI enables people to send money to friends or merchants at different banks using a single identifier via their mobile phone. All they require is the recipient's UPI identifier.

Apart from India's high smartphone penetration – 240 million of the country's one billion mobile subscribers have smartphones – another success factor is the Aadhaar biometric digital identity scheme, which in early 2017 had 1.1 billion citizens enrolled. Aadhaar cardholders can open zero-balance accounts, and also access their accounts and perform basic transactions using fingerprint authentication.

Singapore's DBS Bank, one of the world's most digitally advanced banks, is hoping to capitalise on India's appetite for digital with the April 2016 launch of Digibank in India. In June 2017, DBS said the digital-only bank had signed up one million customers and was targeting five million by 2021.

Digibank customers can open accounts at specific designated outlets, including coffee shops, with just their Aadhaar card. Digibank uses Kasisto's AI virtual assistant technology which understands natural language to answer customer questions.

CHINA

China has seen massive growth in digital payments in the last three years. "China has gone from being a cash-heavy economy during this timeframe to a cash-light economy," Bower says. "This is because payments have been integrated into Chinese consumers' social media chat experiences through Alipay and messaging app WeChat's payments capability.

"Chinese merchants now ask customers if they want to pay with WeChat or and Alipay. China has a problem with forged banknotes so there is a reluctance to accept cash in stores."

According to Bowers, payments are deeply integrated with Chinese consumers' social media experiences. "You can be in a messaging or chat application on your phone in a store, and can chat with the business to make the payment or to share money with your friends," he notes. "All these experiences are integrated with your chat application."

Chinese businesses, utilities and government bodies have created an alliance to drive cashless payments. In April 2017, Ant Financial Services Group, owner of Alipay, created the Cashless Alliance in partnership with United Nations agency UN Environment and a number of Chinese and international partners. Ant said in April 2017 that it was investing CNY3bn ($450m) per year during the next two years to make cashless payments a part of everyday life in China.

THE UK

"The UK is making major efforts to reduce its reliance on cash," says Bower.

As an example, cash cannot be used to buy tickets on London buses. The London Underground no longer allows travellers to pay in cash at ticket offices, although they can buy tickets at cash-accepting terminals. According to Transport for London, the UK capital's transit authority, on average, 12 million journeys each week are made using contactless EMV payments, accounting for around 40% of trips on the underground, commuter rail systems and buses.

In July 2017 Visa UK said it was considering offering UK small businesses financial incentives to go cashless, following a similar scheme in the US where it selected 50 US small companies to receive $10,000 if they only use or accept cards.

GERMANY

Germany is probably the most cash-dependent country in Europe, as there is a cultural mistrust of credit cards and concerns over data protection issues from digital payments, Bower says.

According to an August 2017 survey by Kantar TNS for Germany's Bundesverband Digitale Wirtschaft, 30% of German internet users refuse to use cards.

PERU

Bower previously worked for the Better than Cash Alliance, a UN affiliate organisation, and advised Peru's banks and telcos about their implementation of a national interoperable mobile payments scheme, BIM.

In February 2016, Peru's leading banks and mobile network operators launched a shared national digital financial services platform targeting the country's unbanked and underbanked consumers. Their goal is to sign up five million of Peru's 10 million unbanked by 2020, with two million active users by 2020. According to the GSM Association's *The Mobile Economy: Latin America and the Caribbean 2016* report, over 70% of the Peruvian population is financially excluded.

Under Peru's Electronic Money law, the cornerstone of BIM, non-FIs are eligible to participate in financial services and offer banking products. BIM users will be offered digital financial services such as prepaid accounts, P2P transfers, bill payments, tax payments, and point-of-sale purchases, irrespective of bank or telco, with mobile phone top-ups and cash-in or cash-out at registered agents.

"Existing mobile money programmes around the world are reaching the limit of what they can accomplish without participating in national interoperable mobile money platforms," Bower notes.

Following the example of Peru's national mobile wallet scheme, other countries are likely to create new digital payment platforms for the unbanked which work with these countries' existing banking and payment platforms and enable new payments players such as telcos and fintechs to participate.

"One example is Pakistan where various non-interoperable telco-based mobile money services are collaborating to build a national payments scheme which will have minimum standards and requirements for entry," Bowers says. "Another important trend has been the development of banking agent banking networks in Latin America and the Caribbean, which has enabled small shopkeepers to offer basic banking services like deposits and withdrawals," he notes.

MEXICO

The Mexican government has encouraged the formal economy by promoting both bancarisation and payments terminals in stores. In 2011, it introduced regulations allowing four levels of bank accounts, with different KYC requirements, maximum balances and transaction types.

In November 2014, Visa, the Mexican tax authority Sistema de Administración Tributaria, and the Confederación de Cámaras Nacionales de Comercio, Servicios y Turismo (the Confederation of National Chambers of Commerce, Services and Tourism) launched Tableta Concanaco, a scheme to provide micro-businesses and SMEs with tablet-based mPOS technology.

Separately, Mexican bakery Grupo Bimbo has rolled out the Red Qiubo banking agent network that enables Mexican 'mom and pop' stores to accept electronic payments using credit, debit and food-voucher cards, receive bill payments, and offer prepaid airtime. Red Quibo operates in partnership with Banamex, Citigroup's Mexican subsidiary, and prepaid airtime network operator Blue Label Mexico.

CANADA

"Canada is still cash-heavy compared to Northern Europe, as 50% of payments are still cash-based in Canada," says Bower. According to Payments Canada's *The Canadian Payment Methods and Trends* report, while cash remains the predominant retail payment method in Canada, cash and ATM transaction volumes both declined by at least 20% between 2011 and 2015. The report says cheque and paper payment items decreased by 25% in terms of volume during this period.

In 2015, contactless payments – predominantly cards rather than mobile payments – grew by 70% in both volume and value of transactions, due to Canadian retailers' extensive deployment of contactless POS technology and consumer enthusiasm for the convenience of contactless.

International retail banking delivery channel consultant David Cavell warns that the global decline in cash usage will impact the ATM market. "Over the next few years, ATM deployments will come under pressure, due to declining need for cash and because banks are closing a lot of branches that host ATMs," he says. "For example, 90% of Spanish ATMs are branch-based. Also, banks such as Spain's Caixa and Turkey's GarantiBank have deployed ATMs with multiple non-cash transaction functions.

"However, with the rise of mobile and tablet banking, there will be a reduction in requirement for non-cash transactions at ATMs. So in-branch ATMs will just become physical fulfilment devices."

According to *How Canadians Bank,* a report by the Canadian Bankers Association, more Canadians now identify online banking as their primary banking method (51%) compared to banking at ATMs (16%), while 42% say their use of in-branch banking has dropped. Canada's TD, for example, says 80% of its transactions are now digital.

SPAIN

Spain's BBVA, a world leader in digital banking, said in October 2017 that it had over 15 million active mobile customers worldwide, and that the number of customers using mobile as their favourite way to access its services had grown by over 40% in the last 12 months. BBVA uses biometric authentication to register new customers in Spain, with the process taking just five minutes, the bank says, adding that over 80% of its products and services are currently available on mobile channels – a number that will exceed 90% by the end of the year.

One in every four BBVA sales worldwide now takes place on its digital channels. ■

CHALLENGER BANKING: WAKING THE SLEEPING GIANT

While banking is still dominated by traditional players, a new wave of digital banks is disrupting the high street by offering a differentiated customer experience and an alternative value proposition, writes SAS's *Lee Thorpe*

With new channels and opportunities comes change, but the real threat to traditional banking lies in losing the customer relationship to new high-tech players.

While high-street banks retain a dominant position in consumer banking, the combination of a low-interest-rate environment resulting in lower margins and recent innovations by digital banks are chipping away at once-reliable revenue sources.

Consumer confidence in financial services has remained low since the banking crisis, leaving a yawning gap ready for an army of new entrants to fill. Additionally, in anticipation of increased competition from these challengers, traditional banks are focused on cutting costs by driving more consumers to digital channels through minimising bricks-and-mortar branches.

Yet, this strategy has only worked to encourage the more agile digital banks, unburdened by deep-rooted legacy systems, to innovate and define a new customer relationship in a bid to develop a differentiated business model.

The threat to familiar institutions does not come solely from digital banks. The payments industry has been completely transformed in recent years by tech firms that are pioneering the offer of mobile wallets and integrated payment services, cutting banks off from a potential source of additional revenue.

Through blockchain, distributed ledger and AI technologies, fintech companies have seriously disrupted the status quo in banking. They have also proven particularly innovative in their use of customer data.

Data collection on a massive scale has become a crucial way for banks to provide new value for their customers through personalised products and services. The more data to which customers grant banks access, the better they know them and the better they understand their needs and wants. Using this insight, banks can then offer the most relevant products and services to these customers, resulting in a more satisfying, personalised customer experience.

DEMAND AND RESPONSE

The strategic mining of big data can also help banks to make better business decisions. For example, if a bank is collecting data on how many customers are viewing a certain product, and can actively notice an uptick in the number of people viewing that product, it can respond immediately with more options in this area, at once providing more customer choice and responding cleverly to market demand.

Traditional banks, of course, have an immense amount of customer data at their fingertips. However, legacy IT and data infrastructures often prevent them from utilising it effectively. By contrast, challenger banks have generally benefited from modern, centralised systems where data is central to the decision-making process.

This has enabled them to develop a new model of engagement – a customer-centric approach to capitalise on the perceived inflexibility and lack of care and attention that the finance sector has been accused of.

In the era of the always-connected customer, challengers have benefited greatly from the ability to automate key processes and provide instantaneous customer services that are far more convenient than the interpersonal services offered by established high-street competitors.

Yet automation has its dangers. In an automated system, it is impossible for a bank's human employees to have visibility over all services at all times. While we have not yet encountered a significant failure of automation that has severely impacted the profitability or reputation of a bank, the more they rely on coding and software without adequate governance, the more likely that the process will suffer interference or downtime at some point during its lifecycle.

Increased automation means businesses are more reliant on data models and algorithms. At its core, banking remains a complex but deeply customer-focused enterprise. If something goes wrong due to a failure of automation while the customer is directly involved, it could significantly dampen the customer experience and damage their relationship with the bank.

Not only must banks seek to understand what went wrong for internal improvement, they will need to communicate that explanation to customers wondering why the system has failed them. Yet in an automated system, it will likely take the bank a great deal of time and effort to answer this question, all while its reputation suffers.

The technology that gives challengers their edge also poses a significant risk. The titans of retail banking have maintained their dominance so long for good reason. If disruptors wish to enjoy the same longevity in the future, their technology will need to be watertight and configured to provide the best possible customer service. Speed of service is one thing but, when it comes to a customer's personal wealth, reliability is all-important.

This, however, does not change the fact that disruptors are speaking to the needs of today's always-on customers. Unless they learn the lessons of the new entrants and can provide comparable convenient and personalised services, traditional retail banks are at risk of losing valuable market share to their agile challengers.

Perched atop a deep reservoir of customer data, traditional banks are well placed to re-evaluate their digital strategies. This means automating customer-facing services, as well as digitising and expanding their omnichannel approaches. Digitisation holds many benefits for retail banking, but only if it is grabbed by the horns. ■

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