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RETAIL BANKER INTERNATIONAL

FUTURE VISION

BANKING GEARS UP FOR ITS NEW INTERACTIVE FUTURE

FEATURE

News and views from the *RBI* Retail Banking Conference in Amsterdam

REGULATION

Dodd-Frank survives the first year of a turbulent Trump presidency

INSIGHT

Can the challenger banks pose a credible challenge to the high street?

THIS MONTH

NEWS

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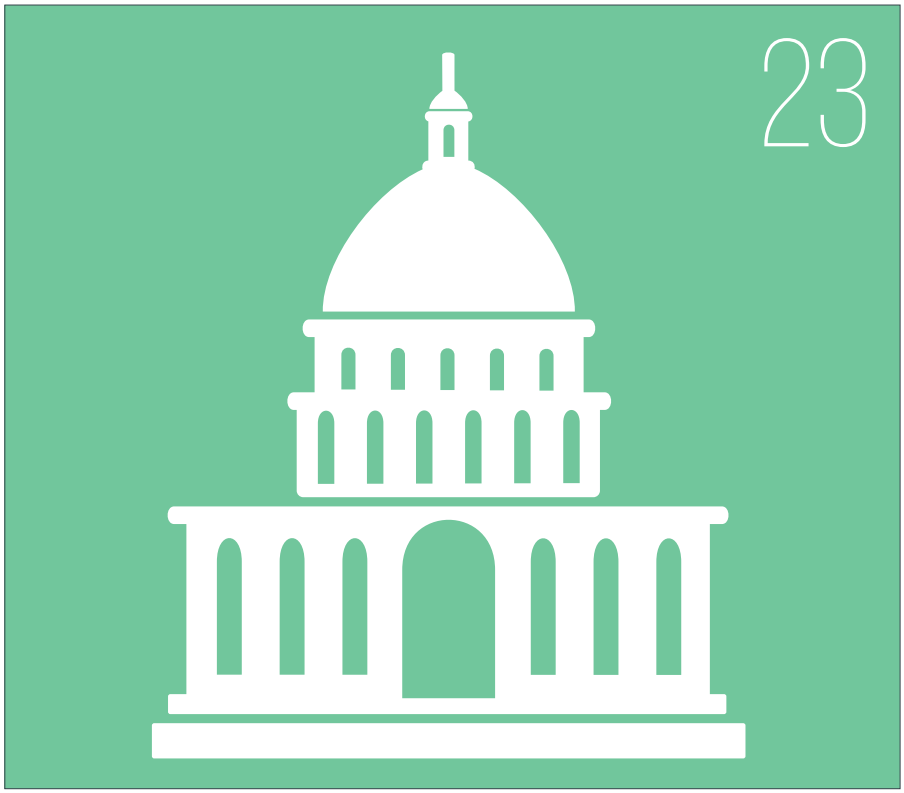

INDUSTRY INSIGHT

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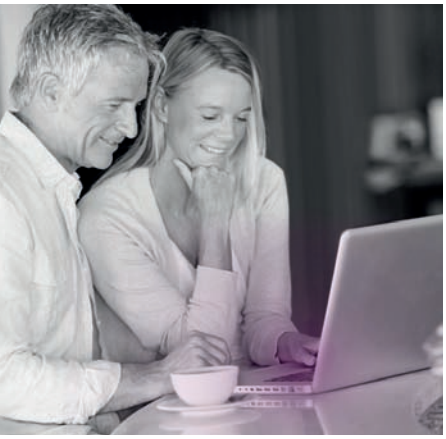
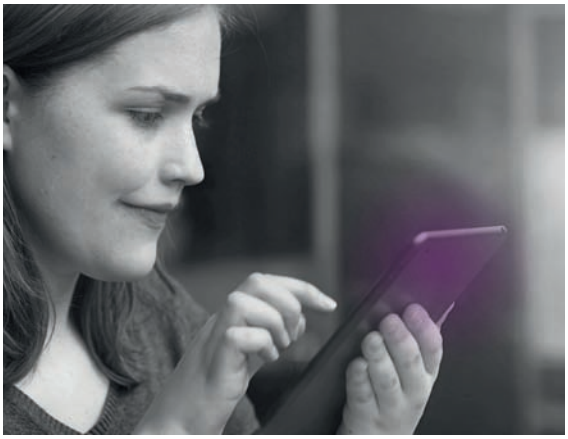




Intelligent Environments is an international provider of innovative financial services technology. Our mission is to enable our clients to deliver a simple, secure and effortless digital customer experience.

We do this through Interact®, our digital financial services platform, which enables secure customer acquisition, onboarding, engagement, transactions and servicing across any digital channel and device. Today these are predominantly focused on smartphones, PCs and tablets. However Interact® will support other devices, if and when

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

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

For many years we have been the digital heart of a diverse range of financial services providers including Generali Worldwide, HRG, Ikano Retail Finance, Lloyds Banking Group, MotoNovo Finance, Think Money Group and Toyota Financial Services.

2018 EDITORIAL FORECASTS

Douglas Blakey, Editor

If one's reading is focused on certain of the gloomier consumer newspapers, you would be forgiven for thinking that we live in crisis times.

Typical examples include Brexit woes, political uncertainty in Spain, the idiosyncrasies of the US president, and right-wing populist success in parts of Europe, to name just a few.

And if your reading tends to focus on the banking sector, one might be persuaded that we are about to witness the biggest revolution in retail banking in our lifetimes – certainly the biggest change in consumer behaviour since the launch of the ATM or the introduction of online banking.

For Open Banking evangelists in particular – of whom there are many – it almost seems sacrilegious to suggest to them that they calm down just a little. Their soundbites can generally be summarised thus: a raft of new entrants will teach the incumbents a lesson by offering a better, more personalised service. Fintechs will do to banks what Amazon has done to many established retailers; PSD2 in general and open banking in particular will, forever change the landscape.

I would respectfully suggest that both groups, the professional prophets of doom and gloom on *The Guardian* and the fintech-obsessed trendies will be proved wrong, at least in the short term.

Some of us have been around for more years than we care to admit and would respectfully suggest that history tends to repeat itself. The year ahead will be far better than the pessimists forecast, and not remotely as exciting as the fintech fanatics prophesy.

There is every chance that North American economic growth will hit 2.5%. Trump is eccentric, yes, but surely not so dumb as to mess up NAFTA negotiations. Employment rates and consumer confidence surveys remain strong.

For the banking sector, there is the near likelihood of the boost of further rate rises. Business investment will rise and Trump's tax amendments will be a net positive for the banking sector.

Economic growth in the eurozone in 2017 will exceed early-year analyst forecasts, and despite all the uncertainty in Catalonia and the likely economic own-goal for the UK of Brexit, unemployment rates across Europe are at their lowest level since 2009.

We might even witness banks in markets such as the UK tentatively, modestly, remembering their shareholders and reintroducing shares dividends – in recent years a policy almost exclusively the preserve of banks in countries such as Canada or, more recently, the US. It is also probably a safe-ish bet to suggest that a change of CEO at at least two of the UK's biggest four banking groups will take place in 2018.

On Open Banking – and this issue is full of 2018 forecasts referencing the subject – the market will remain fascinating to cover. Just as seven-day switching in the UK barely caused switching rates to increase above its dismal 2.5-3% range – consumer behaviour can at times be stubborn – customers are unlikely to embrace the fullest opportunities offered by Open Banking in its early days. From what we have seen to date, none of the new entrants will become the Uber or Google of banking – in reality they will do well to migrate their existing customer numbers, such as they are, from their launch of prepaid cards to full current accounts.

Banks will however continue to suffer some serious loss of the brightest and the best of their personnel to firms such as Google, Apple, Facebook and Microsoft, as well as to exciting startups.

A year from now, many of the 2019 forecasts will proclaim that the new year will be the year that Open Banking truly takes off, and the year that the startup banks begin to take market share from the incumbents – if of course in the interim they have not gone down the BPCE/Fidor or BBVA/Atom route.

Above all, the sector will remain hugely exciting to cover. A huge thank you to all subscribers, contributors, press officers, PRs and our events' sponsors for their help and support this year. Merry Christmas and here's to a healthy and prosperous 2018. ■

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

HONOURING THE ELITE: NOMINATIONS OPEN FOR THE 2018 RBI GLOBAL AWARDS

Sponsored by Fiserv, the Retail Banker International Global Awards, now in their 33rd year, recognise the best of the best in global retail banking. Winners are set to be announced at a ceremony at the Waldorf Hilton in London on 10 May

These prestigious awards, sponsored by Fiserv, are well regarded in the industry as a mark of quality, and represent immense achievement and success.

The awards honour outstanding and high-achieving retail banks, as well as individual awards for Retail Banker of the Year and Rising Star Retail Banker of the Year. Nominations are now open for all award categories (see below) and will stay open until the deadline of 9 March.

To find out more about the event and the awards, please go to www.verdict.co.uk/retail-banker-international/events/retail-banking-conference-awards-2018. ■

THE 2018 AWARD CATEGORIES:

- African Retail Bank of the Year
- North American Retail Bank of the Year
- European Retail Bank of the Year
- Middle East Retail Bank of the Year
- Latin American Retail Bank of the Year
- Asia Pacific Retail Bank of the Year
- IT Innovation of the Year
- Product Innovation of the Year
- Most Disruptive Innovation of the Year
- Security Innvation of the Year
- Best Payment Innovation
- Best Service Innovation
- Best Use of Data Analytics
- Best Use of Digital Marketing and Social Media
- Best Customer Facing Technology
- Excellence in Customer Centricity
- Best Non-bank Competitor
- Retail Banking Launch of the Year
- Best Branch Strategy
- Best Mobile Banking Strategy
- Best Digital Strategy
- Employment Investment
- Best Business Model Innovation
- Retail Banker of the Year
- Retail Banker Rising Star of the Year
- Global Retail Bank of the Year

DBS' NEW API PLATFORM: OPENING DIGITAL OPPORTUNITIES

Singapore-based DBS Bank has unveiled the world's largest API developer platform, encompassing 155 APIs across more than 20 categories, including fund transfers, rewards and real-time payments. *Briony Richter* writes

The DBS platform was launched on 2 November 2017. Recently, DBS has collaborated with fintechs and other industry players to make banking much quicker, simpler and more efficient through the use of APIs.

One cannot underestimate the critical role of APIs in Open Banking initiatives. The future of Open Banking and APIs is not limited to the platforms that already exist. In fact, the potential of open APIs extends far beyond traditional banking infrastructure and business models. APIs can be designed to include all the services and products a consumer wants in a digital world.

By developing secure API platforms, banks make it much simpler for third parties to work with them, opening up the possibilities for innovative and unique solutions for consumers. Consumers can then engage more creatively with their financial data.

Speaking to *RBI,* a DBS spokesperson explains the benefits of the API platform for consumers: "Customers can enjoy a wider array of innovative apps with better user experience, as well as faster and simpler payment processes."

Through embracing open APIs, banks and other financial organisations can appeal to existing customers with new, innovative services. Consequently, by launching its API developer platform, DBS is better equipped to retain existing customers and attract new ones.

Shee Tse Koon, MD and head of group strategy and planning at DBS, states: "The digital momentum that we see today is just the tip of the iceberg. By creating ecosystem partnerships – collaborating, creating and innovating together with partners – we believe that we can provide the best products, solutions and experiences.

"This launch is a bold move in the direction of shaping the future of banking, with the customer at the heart of the banking experience."

With this platform DBS can control the levels of access, detect abnormalities and identify threats in real time. In the age of constant digital developments, coupled with cyberthreats, banks desperately need a platform that can work as quickly as the threats arise.

COLLABORATION

APIs can support banks in pursuing new and unique distribution channels. By doing this, DBS will be able to discover new ways to improve the consumers' digital banking experience.

Furthermore, the platforms developed can process and respond swiftly to rapid changes in digital technology and capabilities.

The platform is already being adopted by 50 companies, including McDonald's, MSIG, PropertyGuru and several startups.

David Gledhill, group chief information officer at DBS, highlights: "DBS embarked on a journey to transform our tech infrastructure nine years ago. With that early start, we are now ahead of many others in being digital to the core.

"This has given us an edge – enabling us to operate with fintech-like agility and nimbleness, and also platform-like inclusiveness. This will be transformative in ways not imagined previously, both for the customer and the bank."

Another point was how collaboration is critically important for the banks in order to meet the needs of its customers. The spokesperson states: "To effectively meet customers' needs and exceed their expectations, we hope to collaborate with more businesses, from leading consumer brands, SMEs and large corps, to introduce better products and services.

"The face of banking is changing dramatically, precipitated by huge shifts in technology – mobile, the social and networked economy, Big Data, artificial intelligence, etc. The ubiquity of the smartphone renders the paradigm of going to a bank, or an ATM, or even interfacing with the desktop irrelevant," the spokesperson continues.

"With the smartphone, banking does not have to be an independent activity but is one that is embedded into customers' lives, integrated with everything they do."

APIs not only benefit banks in their current business model, but enable them to reach new market segments and expand their infrastructure. Businesses can now accept DBS points in exchange for their services, and those points can now be spent anywhere.

ProprtyGuru, Asia's leading online property business, uses the platform from DBS to receive affordability assessments in real time. Vivek Kumar, director of product consumer technology at PropertyGuru Group, says: "In Singapore, PropertyGuru helps more than five million people every month to find a home.

"We constantly deliver on our mission to empower property seekers to make confident property decisions, and are very excited to partner with DBS and launch Singapore's first home loan affordability check.

"Property seekers, while browsing for property options, now have real-time access to their home loan affordability, making their search process extremely effective."

Harnessing open APIs brings a wealth of strategic opportunities. Those platforms will give banks a much more in-depth understanding of which client segments need the services that APIs can provide.

The actionable data that DBS can gather through its API platform includes buying habits, financial information, social trends, interactions and much more.

API platforms are the foundation of digital transformation for the financial industry. By exposing the business infrastructure to APIs, the true potential of digital services can then be unlocked. ■

INDUSTRY INSIGHT: VIEWS ON THE YEAR AND 2018 IN FOCUS

Experts from the retail banking sector look back at the major talking points of 2017, and look ahead to the new year to discuss with *Douglas Blakey* and *Patrick Brusnahan* the industry's key priorities in 2018

OPEN BANKING: 2017 HIGHLIGHTS AND 2018 PREDICTIONS

Kanika Hope, strategic business development director, Temenos

Open Banking has been top of the agenda for banks across the world this year, and likely to gain even more momentum in 2018. It is a collaborative model in which banking data is shared through APIs between two or more unaffiliated parties to deliver enhanced capabilities to the end customer.

The use of APIs as opposed to non-standard ways such as screen-scraping or manual downloads, improves the speed, ease and security of collaborating with third parties.

Understandably, as custodians of customers' financial data, banks are worried about unauthorised data access risks. Then there are the additional costs of vetting third parties and of supporting the open APIs they publish.

However, as proprietary relationships and proprietary information become relegated to the past, and customers create their own virtual banking universe that is a portfolio of cherry-picked offerings from multiple providers, we believe that those banks that proactively position themselves at the centre of this universe rather than those that find themselves at the periphery, will be the winners.

Accelerated in Europe by PSD2 and related industry initiatives in countries like Germany and the UK, 2017 has already seen a number of banks embrace Open Banking. Nordea and BBVA launched open API platforms to attract third-party developers. HSBC in the UK recently test-launched its Open Banking app where customers can add accounts, loans and mortgages from up to 21 banks and access targeted spend analysis and advice.

A full launch is expected in early 2018. Even in Australia, Macquarie Bank has released an Open Banking platform for customers to securely transfer data to third-party budgeting apps or accounting software.

Going forward, we foresee that Open Banking will see the traditional full-service bank morph into new business models such as the 'aggregator or distributor' where the bank sells third-party products to its own customers, the 'manufacturer' where the bank sells its own products to other customer-facing institutions, or the B2B platform where the bank facilitates the exchange of financial products and services between multiple distributors and manufacturers.

The platform model

The platform model is being successfully adopted by online retail marketplaces. Amazon, Alibaba and Rakuten are merging value chains of various industries with banking to create digital ecosystems that deliver a wide range of products and services from a unified, customer-centric platform. Compared to banks, they are more central in their customers' lives and better able to exploit the data that they own.

However, banks have several historic advantages – rich transaction data, trusted client relationships, compliance prowess and capital – that they could exploit to create their own platforms. McKinsey estimates that banks that can capture a share of some non-banking markets through the platform model could elevate their ROE by around 5% above the current industry average.

By accessing and mining transactional data from multiple third-parties in addition to their own, banks could provide next-generation financial services not only to existing customers but also extend their reach to under-served or unbanked segments.

Once the end-customer sees tangible benefits – greater personalisation, more transparency, wider choice and more convenience – Open Banking will truly take off. ■

AS TIME MARCHES ON, SO DOES THE PROGRESS OF DIGITAL-FIRST

Simon Cadbury, director of strategy and innovation, Intelligent Environments

Just as time marches ever onwards, so too does the progress of digital-first technologies, and 2018 will be no different as banking – and the wider financial services sector – takes its first, tentative steps into the 'post-app era'.

Crucially, the mobile experience is no longer being driven by the evolution and launch of new devices, but by the ecosystems that run across them. Whether consumers pick up a tablet or laptop, smartphone or smartwatch, they now expect a single, unified experience. As such, the focus is moving away from the screen – in particular, touch of the screen – to interaction in two new ways: speech and sight.

The former, speech, refers to the use of a microphone – whether barking orders to a virtual assistant, or navigating automated systems, while the latter, sight, centres on the use of a camera – not simply to take pictures but to use augmented reality to enhance the search process, illustrating your requests to your device: "I want one of these" or "where can I find this?"

Huge leap forward for banks

This approach does, of course, represent a huge leap forward for banks, and in 2018 it is very unlikely that we will see many in the industry betting the farm on these new forms of engagement. Ultimately, the core customer experience will evolve more slowly, with smaller progressive steps in this direction. Nevertheless, these steps represent an important evolution in the relationship between banks and customers. While banks have traditionally relied on customers coming to find them, engaging via their channels and on their terms, customers are less willing to follow this method.

Now consumers are used to having things done their way, and with much of their time spent on social and retail platforms – from Facebook, Twitter, and Instagram, through to Apple, Amazon and Google – banks need to find engagement in these platforms. When attempting to plan for this transformation, banks can learn a valuable lesson from pizza – or, more specifically, one brand of pizza: Dominos. With a track record of embracing the latest and greatest technology, Dominos customers can now place their order through any number of channels, from Facebook Messenger to Twitter via their smart TV, through Amazon Alexa or their Apple Watch.

This commitment has led to significant success, generating an estimated $5.6bn in global digital sales in 2016 alone, while noting that 30.9% of its online orders were taken through a mobile device. What Dominos' triumph demonstrates is that consumers have an appetite for innovation. And the banking sector must take note, or risk missing out a substantial slice of the action. ■

HIGHLIGHTS AND PAYMENT TRENDS FOR 2018

Ralf Gladis, CEO, Computop

Instant payments and a cashless society have been talking points in 2017. We started to see evidence of the rising popularity of bank accounts for payments due to the introduction of Faster Payments in the US and UK and Instant Payments in Europe. These make it much faster, easier and more convenient for consumers to send money from account to account.

Historically in Europe, with 28 member states and just as many banking systems, it had been difficult, expensive and slow to transmit money between countries. However, with SEPA Instant Payments announced for 2018 it will be easy, fast and cost-effective to send money to any European account within 10 seconds, 365 days a year. Being able to process European payments instantly from account to account will be a big leap forward towards a cashless society. However, without complete consumer trust in data privacy, in 2018 and beyond, it will still prove impossible to replace cash altogether.

Cash reigns in regions where banks and governments are not trusted. Electronic payments require trust in data privacy because consumers can be tracked, and 2017 scandals around the NSA and GCHQ have not helped to build that trust. As long as consumers have reason to believe their privacy will be infringed, it will be impossible for politicians to introduce a cashless society. Trust comes first.

Without a doubt, the next 'killer app' in payments will be convenience. I know, technically, convenience cannot be an app. However, in my view, whoever best captures true consumer convenience will become the next significant disruptor of payments. We are already seeing usernames and passwords replaced with biometric authentication like fingerprints, face and voice recognition. Biometric technology is evolving all the time. It is becoming faster, more secure and reliable. We cannot forget a fingerprint and we will not have to type in complex passwords on small touchscreens anymore. That is a compelling offer for consumers, but we must ensure the technology is secure.

Finally, cryptocurrencies. These have existed for many years already; however, their lack of success in B2C payments is a result of a lack of trust and convenience. It does not help that criminals use Bitcoin for ransom payments. UK companies were recently reported to stockpile Bitcoins, mostly to pay ransoms to hackers.

Cryptocurrencies are global, secure and cost-effective. However, their reputation is still tarnished and conversion rates to other currencies are highly volatile. Bitcoin could build trust if it was regulated, and anonymity would have to be replaced by trustworthy relationships with consumers. That, however, is the opposite of what Bitcoin currently stands for; therefore, cryptocurrencies will probably not become popular among consumers for 10 years or so. ■

RETAIL CHANNEL STRATEGY 2017–2018 – INNOVATION AND CO-ORDINATION!

David Cavell, retail banking consultant

The news from GSMA in June 2017 that the global number of mobiles had exceeded five billion was a major milestone for retail financial services. The GSMA now projects a total of 5.7 billion by 2020, used by nearly three-quarters of the global population.

Recent developments introducing video and voice as mobile features exemplify the industry's heavy commitment to the strategically important smartphone. All channels continue to benefit from significant investment in a proliferation of digital innovation. This includes the rich dividends that are coming from an increasing respect and synergy between financial services players and fintechs.

Previously recognised by *Retail Banker International* as the world's most innovative bank, Caixabank in Spain released a powerful statement in 2017 reflecting its continuing broad omni-channel thinking.

Branches' future uncertain

The bank believes that "a higher number of branches is an indication of reach and client proximity – not a cost driver". Equally positive comments about the role of its branches came from Commonwealth Bank of Australia, another digital leader.

Despite much industry consolidation and some digital disintermediation, the number of branches operating globally had continued to grow, and entered 2017 at 1.08 million. However, the future of the branch remains uncertain.

The upward trend in the number of ATMs was forecast to continue beyond 2017, reaching four million globally by 2021 Despite this, there are now strengthening headwinds that will call into question further medium-term growth. Among these is the 'war on cash'. The closure of branches that host ATMs could also have a significant negative effect.

New rules on capital introduced through Basel III will sustain the pressure on the ROE of institutions in 2018. This will reinforce the need to be sure of a return from increasing digital investment.

Costly infrastructure such as digital labs and factories must be seen to offer worthwhile strategic advantages, and generate beneficial paradigm shifts in the business model. Legacy channel assets must be managed with rigour and objectivity to ensure that new network investment really does create value, and that closures do not destroy it.

Branches operating simply as transaction shops will be progressively disintermediated by digital, with consequential closure. Only the smarter banks that develop their branches as destinations will continue to enjoy a return.

In 2018, the ongoing flow of new digital opportunities will meet with significant financial strictures in many markets. This will demand disciplined and co-ordinated strategy development and execution, to ensure the most effective use of resources.

For the largest institutions, it may be difficult to achieve the standards and agility seen at smaller organisations like Bendigo Bank in Australia. Consumers still continue to reward those players – and their shareholders – that provide a wide range of channels.

Thus, as the savvy players continue to offer their customers a broad omni-channel experience, innovation is joined by co-ordination as a critical success factor. ■

LIGHT AT THE END OF THE TUNNEL

Tim Dimond-Brown, VP operations, Quadient

Throughout the course of 2017, we saw two big developments in the ongoing PPI saga. First came the results of the Plevin ruling, which meant the field of people able to claim was widened, but there was also the announcement of a final claims deadline, which has been set for 2019.

These news moments came against a backdrop of the financial services sector having already set aside huge pots of money to compensate for mis-sold PPI, but with many big players continuing to struggle to process the amount of claims that are being made.

The FCA recently announced that PPI complaints have risen 24% in six months, and that is only set to grow bigger as the final deadline begins to loom larger. At first glance, this may seem overwhelming for businesses, but by taking a strategic approach, they can start to see light at the end of the tunnel.

Specifically, they should be looking to deal with the huge amount of claims by ensuring they communicate using the Three P's: Process, Proactivity and Proof. This means placing a firm focus on internal processes, acting proactively when reaching out to customers, and being able to prove compliance will make it far easier for the industry to ride out the storm. Failing to follow this process will leave financial services firms running the risk of facing the FCA's wrath, while damaging valuable customer relationships.

The real winners to emerge from this saga next year will be the ones who treat it as a wake-up call. We live in turbulent political and economic times, so as a wider point, every stakeholder within the financial services sector must be confident they are laying the groundwork for full compliance and traceability. This will leave them perfectly placed to ride out future storms of a similar nature. ■

FINTECH AFTER A DECADE – BOOM OR BUST?

Grant Halverson, CEO, McLean Roche Consulting

2018 will mark 10 years since 'fintech', the buzz term for financial technology startups, entered the lexicon, threatening to totally upend banking as we know it. It has not done so yet, but will it?

Total fintech investment for 2008-2017 is $53.9bn, including venture capital (VC), private equity and crowdfunding, and represents 6.7% of total startup funding. The Davos Cluster of Innovation Model provides a helpful overview of fintech, breaking the market into 11 major sectors and then 33 market segments. The Cluster model divided by the total investment equates to $4.99bn per sector and $1.63bn per market segment over nine years.

The key question is whether this level of investment is sufficient for major disruption of banking. Uber, for example, has raised $11.5bn in funding and debt in 18 funding rounds since March 2009, and has success in a much smaller segment than financial services. Uber has raised the equivalent of 21% of total fintech funding. The total fintech investment by VCs during 2008-2017 is $41.3bn, which is only 7.4% of all VC investment – not a dominant category and well behind e-commerce.

A review of the major startup phases – including angel investing, VC startup investing, the 'unicorn' phase, and exits through IPO or M&A – indicates likely results. The main fintech angel investing and VC startup investment categories are:

- **Peer-to-peer lending:** Lending to consumers using online, mobile and social media that matches lenders directly with borrowers – total invested $6.24bn or 15%;
- **SME and business lending:** Mobile, online and social media lending services targeted at small to medium business – total invested $2.83bn or 7%;
- **Student loans:** Direct lending to tertiary students using mobile, online and social media – total invested $1.93bn or 4.6%;
- **POS/online payments:** Tech services targeting online and POS payments and related services – total invested $2.89bn or 7%;
- **Cyber or digital assets** designed to work as a currency or a value exchange – total invested $2.85bn or 7%;
- **Digital banking:** Retail banking using social media, mobile and web-based services, often supported by tools and rewards, for example budget tools – total invested $3.5bn or 8.5%;
- **Local and international remittances:** Remittance services for local person-to-person payments and international transfers using social media, mobile and the web – total invested $1.67bn or 4%;
- **Wealth/investment and related tech:** Investment and pension products using mobile, social media and the web – total invested $3.4bn or 8%, and
- **Insurances and tech:** Insurance and tech services using web, mobile and social media – total invested $2.24bn or 5.4%.

It is significant that these nine segments total 67% of VC fintech investment. It is likely, therefore, that any major disruptor will emerge from these segments. The leading segment is P2P lending, with $6.24bn.

Unicorns are startup companies with valuations of $1bn or more. The CB Insights index has 217 startups rated as unicorns with valuations of $752bn. Uber is the top-rated unicorn at $68bn. Fintech unicorn companies are considered the most successful and the nearest to an exit. There are 24 fintech unicorns with valuations of $75.95bn, 10% of the total. Of those, 20 are in the US and China, with one each in India, Netherlands, Sweden and the UK.

Fintech IPOs formed the smallest part of the fintech M&A sector. The McLean Roche Consulting review of M&As in 2014-2017 shows 87% of transactions are M&A acquisitions by other, often larger, players, with 8% unable to IPO or find a buyer – leaving 5% which IPO. The peak year for IPOs was 2010 with 18, followed by 2014 with 17 and 2015 with 12, while in the 2016-2017 year to date there have only been six, with a total of $1bn. This raises the question: Was 2010-2015 the high-water mark for fintech IPOs?

TRUE DISRUPTION OR HYPE?

Fintech's first decade is high on hype and spin, but low on delivering total disruption. There is no equivalent of Facebook, Google, Skype or Apple. However, that is not to say that fintechs will not be successful and build current ideas into growth-oriented startups.

The sector, however, faces some serious headwinds which will challenge the valuations that are currently 50-60% higher than other investment categories and will require faster delivery and increased performance. This is a significant challenge for fintechs, given the barriers to building scale quickly in financial services.

The modest level of investment to date at $53.9bn is not enough to create the next financial services giant – Facebook, founded in 2004, had 11 funding rounds with $2.3bn invested prior to its 2012 IPO. The largest fintech sector, P2P lending, has only S6.2bn in total investment over nine years, with a market cap today of $3.6bn.

The P2P example is salient. Launched when money was cheap, the sector has realised that it is not quite that easy to build a billion-dollar business. The incumbent banks are protected by considerable regulation, have vast resources and will not fall over easily: This is not the taxi industry.

Performance to date is subpar, with major scandals including the $7.6bn fraud by Ezubao in China, Lending Club and OnDecks stock being trashed due to doubtful lending practices, and Prosper's lending of $48,000 unsecured to the two San Bernardino terrorists months before the attack. These incidents feed the narrative that startup lenders do little that is new or innovative other than offering speed while falling back on existing industry tactics once they have some scale. The other segments – including digital banks, factoring companies, POS payments, online services and currency exchanges – are now a dime a dozen and lack scale. Most of the ideas are laser-focused on a small segment and will not build size quickly.

The enthusiastic startups' key challenge is the realisation that the world is changing and they have to modify their dreams of world domination and accept an M&A outcome and work for a bank. This in many cases will not work as the cultures are vastly different between the young freewheeling start-ups and banks with their size, structure, politics, regulation and conservative approach to risk and technology.

Previous aggressive, trend-oriented acquisitions by banks – including monoline mortgage and credit card companies in the 90s and mobile wallet companies in the early 2000s – all ended with faded dreams for all parties. Fintech in its current state could well repeat this experience! ■

THE THIRD WAVE OF BRANCH THINKING

David Martin, joint MD, M Worldwide

Retail banks around the world are rethinking branch strategies in response to online banking. This often results in fewer, more consolidated, smaller branches – towards a future that I like to call "the third wave of branch thinking".

In the first wave, all anyone talked about was: "Branches? Eh? Why would we have them at all in the future?". Then came the second wave, where the pervasive thinking was: "We just need to automate and digitise branches to take out the overhead as they die a slow death."

And now comes the third wave, with the realisation that, of course, we need branches. They are a critical part of the online/offline mix to provide customers with a range of ways to do business according to their needs.

Branches still matter

Physical branches still matter, but you cannot just see them in isolation. Retail banks need to stop thinking in online and offline silos, because customers just do not think that way – they are completely channel-agnostic.

2017 saw branches become more purposeful, and with that, more customer-focused. Fewer branches meant a closer eye on branch proposition, location, demographic and a more localised offer.

We are moving away from generic branches that just get bigger or smaller depending on location, and we are moving towards focused, innovative, flexible formats that can be repurposed throughout the day for a wide range of activities and events. Brick-and-mortar retail banking offers include flagships, megastores, lounges, micro-branches, community branches, mobile branches and pop-ups.

We also saw a change in content – historically the holy grail for retail branches. Content is often touted as the great missing link in retail banking, often due to abstract, complex financial products combined with staff focused around reactive processes and fulfilment.

But the new generation of third wave thinking provides customer need focused new formats, so at last we are seeing better content in the form of augmented reality, virtual reality, customer and community events, café and work hubs, digital studios, ideation and startup business areas.

Branches are also becoming more porous – linked via technology to experts based elsewhere. And many banks are becoming less territorial, open to sharing their retail spaces with other brands to generate footfall and engagement.

As we move into 2018, I hope to see more branch investment in design innovation and technology to further enable lasting customer relationships where ideas are shared, and where collaborations can support increasingly savvy customers, helping them do more with their ever-more-diverse, varied and unpredictable lives.

No longer saddled with big rollouts and scalability, this third wave can test, learn, experiment and have fun. We need to evolve, try out ideas, embrace change, and recognise that the occasional mistake may happen – all very refreshingly un-banklike! ■

BANKS NEED TO RE-EVALUATE DIFFERENTIATION

Pieter van Heck, manager EMEA, Dynatrace

Open Banking will change the way that consumers interact with their financial data in 2018, giving them greater flexibility and choice. This will usher in a whole new wave of financial service providers, offering better, more personalised deals to consumers in a bid to win market share from traditional banks.

As a result, banks will have to re-evaluate how they differentiate themselves, creating new digital services of their own using the data being exposed by other financial services providers.

As they pursue this new type of innovation in the coming year, banks will need to remember that there will not be any margin for error. Given the multitude of choice that did not exist before, the second that consumers become dissatisfied, they will simply switch to something else that offers a better experience.

As such, banks will need the ability to monitor the experience of every customer during every transaction more than ever in 2018. Without that, it will be impossible for banks to optimise their new digital services. It will also be very difficult to prove they are not at fault for any issues with the services of other providers that are relying on them to deliver their own services through open banking APIs.

Unfortunately, Open Banking will also add significant layers of complexity to an already complicated digital ecosystem. It will create a multitude of new IT dependencies, spanning internal applications and infrastructure, as well as those of other financial service providers that lie upstream or downstream in the delivery chain.

As a result, it will become increasingly difficult for banks to manage the quality of their customer experience and identify the root cause of any problems that arise using traditional, manual approaches to application performance monitoring. We will therefore likely see an increasing use of solutions that offer Artificial Intelligence and advanced automation capabilities to ease the burden on IT teams in 2018. ■

2018 SET TO BE AN EVENTFUL YEAR FOR RETAIL BANKING

Daoud Fakhri, principal analyst, GlobalData

The world of retail banking will be subject to significant change in 2018, with both regulatory and technological factors coming to the fore.

On the regulatory side, the era of PSD2 and Open Banking will commence on 13 January. Banks will be forced to relinquish the monopoly they hold on customer data, theoretically allowing third-party providers to compete on a more even playing field.

This has the potential to dramatically increase the level of innovation and competition in the market, which should benefit consumers and force the incumbents to up their game.

However, there is a risk that this new era could open with a whimper rather than a bang – there has been precious little effort made to educate the public about what is happening, and consumer awareness is consequently very low.

Unless an intensive effort is made to publicise Open Banking and clearly explain its benefits, consumer uptake of related services is likely to be slow, particularly given renewed concerns over data security highlighted by the recent Equifax breach.

On the technology front, AI will be one of the key buzzwords of the year. Banking will be profoundly affected by both customer-facing and back-office implementations of AI. Consumers will be confronted by a plethora of chatbots and virtual assistants that will allow them to communicate with their banks through natural language.

These assistants will also use sophisticated analytics to examine consumers' finances and offer high-quality insight and recommendations that will help consumers make the most of their money.

Bank of America will be one to watch: it has been testing its assistant, Erica, for over a year now, and sneak previews suggest that it will aim to offer proactive insight that goes beyond users' immediate expectations.

With pressures on wages and household budgets continuing to mount, these services could prove invaluable over the coming years. ■

INCREASED UPTAKE FROM NON-BANK ENTITIES, AND BRANCHLESS GROWTH

Sadiq Javeri, global head of planning and enablement for retail banking, Finastra

We expect new fintech services and payments offerings to hit mass-market acceptance in 2018 as customers look for greater convenience and services tailored to their needs.

We will see new, innovative services being launched to market capitalising on the potential of new technology such as AI and wearables – for example allowing customers to make payments while leaving cash and cards at home.

We expect banks to broaden the range of services offered through mobile and online channels, and incorporate sophisticated chatbot services that deliver fast and efficient responses to common enquiries. Younger generations are increasingly comfortable interacting in this way, though it will remain important to give customers of all ages the opportunity to escalate more complex issues or discussions to a human operator – offering the opportunity to switch to a video call or to book an appointment at the branch.

While banks will continue to reduce branches, we expect them to invest more in those that remain – making them a brand hub with automated services that provide a consistent experience to consumers, with staff taking on the role of advisors. Such an approach will help banks deliver an improved overall experience both online and via the branch.

AI will allow banks to be more targeted in their offerings

In 2018 banks will need to be much more proactive in embracing the potential of artificial intelligence to deliver greater value and insight to customers. Now, and over the next two to three years, the focus has to be on using AI to turn data that banks hold into recommendations and offers that are delivered to the customer at just the right time. The combination of transaction, personal, mobile location and social media data can help banks respond to and even pre-empt customer requirements based on actual needs.

Of course, to ensure a high level of trust with customers, and ensure full compliance with the upcoming requirements of GDPR, banks need to ensure they gain permission from customers to use their data to deliver a better and more personalised service. Machine learning will also bring automation and better operational efficiency, helping to better service the customer.

Greater collaboration between banks and fintechs

The implementation of PSD2 and the move to open banking will drive greater collaboration between banks and fintechs in 2018. There is a growing recognition that banks can deliver innovative products and services to market faster, and support customers more effectively in partnership with other third-party specialists.

They no longer need to develop everything in house, but can take advantage of a platform-as-a-service and open API approach to collaborate, develop and deploy services securely via the cloud. The implementation of PSD2 and the move to open banking will increase competitiveness, but create new business opportunities by enabling collaboration on a larger scale. ■

2017 HERALDED THE ARRIVAL OF THE FIRST 100% DIGITAL BANK

Rene Hendrikse, vice-president and MD for EMEA, Mitek

We have been talking about digital banking for a while, and we have made considerable progress towards creating a fully digital banking experience. However, applying for a current account online has proven rather difficult. You can only get so far before you are required to go to a branch to prove your identity. Clearly this does not sit alongside the vision for a connected, mobile society.

Starling Bank looks set to change all this. It is the only bank – traditional or challenger – to be able to allow for completely digital onboarding, including identity verification. It may well signal the arrival of wholly digital banking and, in combination with PSD2, could mean that 2018 is the year of the digital bank.

Regulation pushes identity up the agenda, the iPhone X sees it becomes mainstream

Over the last year, identity has become an increasing focus for many financial institutions. AMLD4 and SCA under PSD2, and eIDAS have brought in the necessity for new, stricter checks, the ability to verify new forms of identity and the requirement to make sure this does not impact the customer experience.

In the search for the killer identity app, mobile phone cameras have been employed to take fingerprints, photos of ID documents and now the user's face. Now, the inclusion of FaceID on the new iPhone X points the way towards a potential mass adoption of facial recognition tech. Countless services could now be accessed using your face, in the same way as with your fingerprint. Opening a bank account, applying for a mortgage or taking out a loan could be as simple as paying for your Uber journey.

Reports of the cheque's demise have been greatly exaggerated

2018 was to be the last year cheques were to be used in the UK, but as the deadline approached it was clear this was unlikely, even more so given the roll out of cheque imaging technology.

Despite the best efforts of some, cheques are still adding to their 350-plus year history, with 477 million still changing hands in the UK in 2016. In developing digital cheque imaging – effectively an entirely new system that may eventually precipitate a change in the law – banks have signalled that the cheque is nowhere near dead.

Many businesses still rely on cheques, as do charities and parts of the government. With such entrenched support for the cheque, it will be many years before we see the end of this venerable payment method.

2018 will be the year of the challenger bank

If 2017 was the year that the challenger banks solved the digital onboarding problem, then 2018 will be the year we see a mass migration of consumers to these banks.

In finding a solution to the onboarding problem, Starling Bank removed one of the last remaining hurdles to increasing market share, and with Monzo and Revolut the latest to begin to offer current accounts, the stage is set for an all-out assault on the dominance of traditional banks.

Traditional banks have begun to fight back, with some embracing digital transformation. However, challenger banks' agility and their willingness to collaborate with third parties under PSD2 looks set to provide the incumbents with more than just a challenge. ■

OPEN BANKING A CATALYST FOR A FUNDAMENTAL SHIFT

Steve Polsky, CEO and founder, Juvo

Transformations happen over a 50-year cycle – usually in 10-year increments – and the once obscure fintech industry is now entering its golden age. Juvo advisor and investor Ron Suber states that the "middle 10-20-year" period in a 50-year cycle can be regarded as a "golden age" and during this sweet spot, technologies are at the height of their disruptive potential and incur the most radical innovation."

Conversation has shifted from a celebration of fintech to an exploration of opportunities and challenges. It is forcing us to confront key economic and societal issues We will see increased investment in fintech that will help drive the financial inclusion agenda. Regulators and banks will need to be more trusting of the fintech community – inroads have been made, but more can be done.

The rise of crypto and blockchain

In 2018 cryptocurrency and blockchain will be the driving force of financial inclusion. As more financially underserved individuals gain access to entry-level smartphones capable of running apps that access blockchain systems, financial services based on this technology will be put into the hands of everyone with a mobile device.

Blockchain solutions will create more utility by providing interoperability between mobile-money and digital-money systems, providing the unbanked with a convenient and easy tool for store of wealth, person-to-person payments and remittances, and payments to merchants in-store and online.

Because of its portability, privacy and security, cryptocurrency protects individuals' wealth from social, political and economic instability, creating long-term stability and economic benefits to individuals and communities.

Advanced financial services such as investment portfolios, decentralised community-based lending, insurance pools (smart contracts), and asset registries will empower communities to create economic safety nets and financial growth vehicles that were previously available only to those with access to large amounts of capital. ■

2018: A NEW GAME AWAITS

Richard Carter, MD, Equiniti Credit Services

Lowest price wins

In the digitised age of credit price-comparison sites, brand loyalty equals bought loyalty. In 2018, lenders must earn their custom by delivering market-beating products.

As interest rates continue to rise, the lenders that can drive down the cost of credit stand to prosper the most. Simply reducing margins, however, makes little sense. Next year, automated and agile credit technologies will help lenders to drive down costs and enable savings to be passed on to the customer in the form of more competitive rates.

Lenders will adjust to curbing enthusiasm

It remains to be seen whether rising interest rates will have an impact on what borrowers use credit for. Will credit still be used to fund aspirational items at the same rate as in recent years?

It is likely that lenders will extend their repayment terms to allow monthly repayments to remain the same, despite an increase in cost overall.

Declined applications will no longer mean 'no'

Regardless, rate rises will have an impact on lenders' affordability assessments. Borderline candidates will inevitably be excluded from products they once qualified for, which will trigger an increase in declined credit applications.

In 2018, lenders will start to turn this to their advantage. Instead of abandoning the customer at the point of decline, they will use intelligent systems to automatically identify suitable alternatives, ideally from their own portfolio, or from other lenders. Doing so will enable them to protect the customer relationship, and also ensure that the customer does not tarnish their credit score from repeatedly declined applications.

Contact centres will need to be rethought

Equiniti's 2014 research report revealed that 61% of consumers preferred a telephone call or face-to-face meeting to explore a loan application. In 2017, that figure

dropped to just 48%. We can expect this trend to continue next year, reflecting a growing desire for self-service applications. In response, lenders will rethink their use of contact centre resources.

As most queries are resolved online, the role of contact centre staff will shift to the handling of more complex queries, and lenders will begin to outsource this function to a dedicated, specialist partner that can ensure all calls are handled by skilled, FCA-accredited individuals.

PSD2 will change everything

Driven by the advent of the Second Payment Services Directive (PSD2) in January, APIs are being opened up across the banking industry, enabling customer-permitted apps and services to access never-before-seen levels of transaction data.

Here, data is the new currency and the combination of customer-centricity and low cost is the key to attracting – and keeping – new customers.

The regulation amounts to EU-sponsored digital transformation in financial services, and outsourcers will play a crucial role in helping lenders keep up, stay relevant and harness their use of new data. ■

2018: ONE OF THE MOST AWAITED YEARS FOR RETAIL BANKING

Christian Ball, head of retail financial services, GFT

2018 is finally here, and it feels as though it has been one of the most-awaited years for UK retail banks. It is the year that I truly believe will see the high street banks put the customer at the centre of every move they make, primarily down to the implementation of PSD2 compliance – and the more stringent CMA rules in the UK – plus the rise of tangible use cases for emerging new technologies.

With PSD2 and the CMA rules serving as the most significant development the industry has seen, retail banks will need to take an Open Banking approach to embrace this change, utilising open APIs that power banking as a platform BaaP to provide meaningful added-value services that are both good for the customer and for the bank.

In promising news, our recent GFT research at the end of the 2017, found that this model is the primary approach for true digital transformation, with a staggering 77% of respondents saying that this methodology creates greater customer engagement, and 67% saying that it stimulates the development of new applications.

Banks know they are sitting on a wealth of information, especially unstructured customer data, which is not currently being used to its full capacity. Powered by open APIs, it is also likely that we will see the rise of AI solutions, such as chatbots, process automation and personalised interfaces that will ultimately be critical to the success of digital transformation projects in 2018. ■

WHAT TRENDS SHOULD BANKS BE AWARE OF AS WE MOVE INTO 2018?

Mark Aldred, head of international sales, Auriga

As 2017 comes to a close, we are looking forward to the year ahead at some of the key trends that will shape the banking industry in 2018, and how banks can prepare.

Branch networks may shrink, but branches will get smarter

Firstly, while the trend of branch closures is likely to accelerate, the role of the bank branch in customer engagement is going to become clearer. Branch networks will get smaller, but there is going to be investment in making the remaining branches much smarter and appealing to customers. Increased investment into automation and customer experience will drive convergence between different banking channels, helping to create a seamless customer journey.

Emergence of white-label financial hubs

The key thing for banks here is to strike the right balance between digital and physical service, by embracing new technology, but not at the expense of the human touch and personalisation.

This trend is taking off in many European countries already where the branch format is reoriented around a customer digital experience zone, where customers can do a wider variety of self-service tasks, while also being able to consult with trained bank staff. Expect more banks to think creatively about the space within their branches – we have already seen everything from coffee shops to community meeting spaces for hire.

Third-party ATM ownership and self-service offerings

More banks will also begin to consider new ways of sharing the costs of branch infrastructure. One trend that we forecast spreading more widely is banks co-locating within a white-label financial services hub instead of their own branded branches.

This ties into the new platform model of the economy, which values lower cost of ownership, collaboration and a deeper focus on the customer journey. To prepare, banks need to make sure that they are investing in innovative software and self-service tech that enhance and differentiate the customer experience at the point of interaction, as branch location is no longer a deciding factor when trying to drive customer loyalty.

This feeds a bigger trend that is about a change in ownership of ATM infrastructure. More banks are expected to pool and share out-of-branch technology to allow them to invest more heavily in branch ATMs. To prepare for this, banks should look to embrace cloud-based ATM and Assisted Self-Service Device software.

2018: the time to get use of data right

With the GDPR deadline fast approaching, 2018 is the crunch year for banks looking to get their use of personal data right. There is a risk of consumers feeling rightly empowered by the new data protection laws to challenge their banks on how their personal data is being used.

Banks are prepared for these changes but there is every likelihood that some will still find the advent of the laws a shock. How well their customer systems have been integrated and capable of gathering and reporting on data use will be crucial.

Challenger banks to continue generating a buzz

The hype around challenger banks is set to continue into 2018, and while these are not yet in a position to really threaten traditional banks, now is the time for banks to consider how to deal with them. So, as our final trend, we expect to see co-creation emerge as the winning strategy – banks have a lot to gain from partnering with innovative challenger banks and fintechs.

An overarching trend that links to all of the predictions above is the need for customer experience to be placed at the heart of bank strategy – as bank branches close and reliance on technology increases, it is critical that banks are able to create a deeply personalised customer experience that is seamless across all channels, including in-branch and via mobiles and apps. ■

CUSTOMER BEHAVIOUR CHANGES ACCELERATE

Scott Manson, head of payment strategy, Nationwide Building Society

Contactless cards have been around for more than a decade, but it is only in more recent years that they have become a mainstream payment method. Latest figures from UK Finance show that around 111 million contactless cards are now in use, a rise of 18.4% year on year.

This is largely driven by the sharp rise in the number of terminals available, with more than half a million in use in the UK, an increase of 28.8% on the same period last year. This sharp rise in adoption of the technology has been keenly felt at Nationwide, where during 2017 the society issued 5.4 million contactless cards, taking its total number of contactless cards in circulation to more than 10 million.

Today more than half (53%) of all debit card transactions are made using a contactless card, with Nationwide customers spending more than £35.5m ($47.9m) in October 2017 alone – an increase of 72% on the same period last year.

The cheque-clearing process has also received a modern makeover, with the phased roll-out of the cheque imaging process starting in November 2017. New legislation came into force earlier this year, which allowed for the image of a cheque to be exchanged rather than requiring the paper cheque to be sent to the issuing bank, which has reduced the clearing time from six days to next working weekday.

Historically the payment landscape has been dominated by banks and building societies, but increasingly we are seeing third parties entering the payments ecosystem. For example, Facebook now allows its users to make and accept payments in Messenger.

We have seen the rise of Apple in the payments ecosystem with its Apple pay mobile offering which has simplified a lot of mobile commerce journeys.

The current focus for the payments industry is Open Banking. The easy access to data – to help customers compare products, speed through application processes and take the friction out of transactions – is something both UK and European regulators are driving payment service providers and financial institutions to accelerate.

We will see the first instance of what is known as API technology providing new opportunities, and Nationwide is seeking the optimum ways in which members can benefit from these new developments.

The future of payments technology may also lie within biometric technology. Already today our customers are opening their phone and mobile banking apps using fingerprints, and across the industry trials are taking place using blood-flow technology and iris recognition. Who is to say that one day in the near future we cannot walk out of a shop and pay for our purchases by the system recognising the contours of our face, the swipe of our hand or the unique way we move?

Customer behaviours and expectations of their financial services providers are growing rapidly. Organisations must focus on the comparative value of products and personalised services, and determine how to best to integrate services and information seamlessly into customers' lifestyles, enabling quality digital experiences. ■

THE NEXT GENERATION OF FINANCIAL SERVICES PLAYERS

James Cope, head of strategy, Travelex

2017 was the year that next-generation financial services players like Revolut and Monzo grew up, raising eye-watering sums to fund expansion. These equity-funded upstarts have outgrown their initially narrow use cases; now they are attempting to monetise their models by partnering with other fintechs, giving users the ability to access other financial services, such as lending, through their app.

This aspiration to become curators of a range of financial products will have banks worried as it represents a direct challenge to the old school banking business model. It will be interesting to see how these providers fare in 2018 with the pressure of big valuations hanging round their necks.

Despite all the hype around ICOs and the rising value of cryptos, there wasn't much in 2017 to convince me that digital currencies are going to have a major impact on global payments infrastructure any time soon. Adoption is still very low and many challenges lie ahead, from Legal and Compliance barriers to privacy concerns and monetary policy impacts. Banks will continue to experiment with blockchain technology but cryptocurrencies are unlikely to become truly relevant for many years to come.

Consumer and merchant digital wallet adoption has been slower than expected over the past couple of years, but I expect this to really take off in 2018. Customers are cautious about adopting new behaviours at POS, as demonstrated by the protracted adoption of contactless cards.

However, providers are now identifying the rich features and experiences that will drive more widespread wallet adoption, such as self-service checkout, order-in-advance, and targeted discounts. Digital wallets will result not only in a superior payment experience, but a superior retail experience. The adoption tipping point cannot be far away.

In 2018 there will be more innovation from established players and fintechs in cross-border payments. International transactions – remittances and network-based – are a crucial source of revenue for financial services players; the average yield is typically 100 times the equivalent domestic transaction. There will be huge revenue opportunities created by the explosive growth in international commerce resulting from the 'Amazonification' of the global economy. This business will be increasingly targeted by digital players with focused, high-tech and added-value propositions. ■

OPEN BANKING A CATALYST FOR A FUNDAMENTAL SHIFT

Andrew Steadman, VP, product management and marketing, Fiserv

The Open Banking deadline in January 2018 is a catalyst for a fundamental shift in financial services. Beyond the obvious increase in third parties providing financial capabilities, we will see an acceleration of the digitisation of financial services, and financial service providers – including banks – partnering and building in ways they have not before.

Compliance with PSD2 is a check in the box for many banks, but as the regulation comes into effect we will see more banks considering how they can leverage this as an opportunity as they begin to craft business cases and understand consumer demand.

Driven by consumer expectations for speed, ease and convenience, a much broader range of financial services will become 'digital' beyond the current offerings there are today - you can already see that starting to happen, and established institutions and challengers alike are being relatively vocal about future strategy.

Open Banking will bring a tidal wave of data, leading to more actionable insights for consumers and a smarter, more relevant approach to lending, to name just two opportunities. Banks that have always operated in a certain way are going to need to think differently to build relationships with customers in this new landscape. Many banks have strong technical capabilities, and forward-looking banks will seek to offer greater access to services in more flexible ways that fit the ways consumers live their lives.

We will see banks employing more agile technology platforms, deploying services in the cloud and looking to partner to increase competitiveness. Partnerships with emerging fintechs will begin to crystallise, and I expect more banks to invest in and support new innovations to get into production at a faster pace.

Banks that find the right partners and deliver differentiated capabilities and experiences are the ones who will get ahead of the game.

We will also see a continued focus on fraud and risk management, with banks looking to 'wrap' their digital environments in virtual security blankets and verify that other players connected to the Open Banking ecosystem are not a weak link in overall security. ■

ABILITY TO MANAGE RISK WHILE INCREASING SALES BECOMING EVER MORE CRITICAL

Abe Smith, founder and CEO, Dealflo

Caught between demanding consumer expectations and the increasingly rapid pace of regulatory change, 2017 was a pivotal moment for the European retail banking industry.

Conservative and cautious by their very nature, retail banks have seen traditional processes challenged as regulators have sought to build greater stability into the sector, while offering consumers a fairer and more transparent deal.

Alongside this, technology-enabled new entrants to the market have continued to win over customers. With the introduction of regulations such as the GDPR and PSD2, 2018 will see both regulatory and technology factors change the world of banking faster than ever. Against this backdrop of increased competition, technological transformation and regulatory scrutiny, the ability to manage risk while increasing sales will become even more critical. With that in mind, here are my predictions for 2018:

PSD2 will create a more intense landscape to own the customer, with user experience playing a pivotal role in customer acquisition and retention. According to EY's 2017 *Fintech Adoption Index*, 42% of UK consumers have adopted fintech services, and four of the five reasons why UK customers would use a non-bank provider relate to improved user experience. As customers demand a faster, more accessible and seamless experience, processes that involve slow, manual elements will become unacceptable, and banks will have to catch up;

As non-sector-specific technologies such as basic e-signature become increasingly widespread, they may be tested more frequently in court. Indeed, 2018 could see an increase in challenges to the enforceability of electronically created agreements. Financial services firms need to ensure that processes are fair and compliant and create agreements that are enforceable in court, not just legal in principle.

More than ever, retail banks will need to develop technology solutions that drive down operating costs and improve the customer experience. However, this must be matched with managing risk. As the Bank for International Settlements said in a paper from its Basel Committee on Banking Supervision: "Such a balanced approach would promote the safety and soundness of banks, financial stability, consumer protection and compliance, without unnecessarily hampering beneficial innovations in financial services."

Banks that manage to develop a deeply digital end-to-end business, while meeting regulatory requirements and mitigating legal, compliance, fraud and enforceability risks, will gain a competitive advantage.

The banking sector will, like other industries, be required to do more with less. Continued competition from new providers not burdened with legacy IT systems will put serious pressure on banks to attract and retain customers. Banks will need to adopt technology solutions that enable them to reduce operating costs, drive down the cost of sale, maximise revenue, and keep customers happy. ■

2018 WILL BE MARKED BY THE SMELL OF RUBBER HITTING THE ROAD

Andrew Bud, CEO, iProov

2017 felt a lot like the year of fintech, with countless accelerators, conferences and hackathons vying to make almost any city in the world a fintech hub. Some of them, like the FCA's March TechSprint on Money and Mental Health, moved the industry forward in important ways.

Much of the excitement was driven by the imminence of Open Banking under PSD2, and the big news of the year was regulatory – the launch of Open Banking standards in the UK, and the publication of the European Banking Authority's Regulatory Technical Standard (RTS) on Strong Customer Authentication (SCA) for PSD2 in February.

This alphabet soup made for thrilling conversations in which non-fintech people soon lost the will to live, but represented an important starting gun for the restructuring of the payments industry.

The other big news was the September launch of the iPhoneX, with its FaceID technology based on controlled illumination anti-spoofing. At a stroke, this took face verification technology from the futurist fringe directly into the mainstream, and there is no doubt that it instantly redefined the future of authentication.

2018 will be marked by the smell of rubber hitting the road. PSD2 takes effect in January – although the SCA RTS will implement in 2019 – and the GDPR will kick off in May. I'm fond of Lampedusa's aphorism that sometimes "everything must change so that nothing will change", but this is not one of those moments – both of these regulations will profoundly change our industry.

Stronger customer identification and authentication will become a must, and 2018 looks to become the 'Year of Biometrics', when technology, regulation and user expectations converge on a sea change.

We will see the roll-out of some exciting and innovative biometric ways to identify users at onboarding in seconds rather than minutes, and to authenticate them useably yet securely to meet the stringent new requirements.

Faces will be at the centre of this change, and with controlled illumination anti-spoofing now the industry standard, I believe iProov will play a major part in this. ■

MOBILE WALLETS SET FOR BIG GROWTH IN 2018

Ray Brash, CEO, PrePay Solutions

With 2017 behind us, it is the ideal time to look back and to consider how last year's developments will impact on 2018.

One notable trend this year will be the continued growth of mobile wallets, which are predicted to reach a global value of $3.12trn by 2022, up from approximately $594m in 2016. At an annual increase of 32%, this startling growth will necessitate serious development and implementation of digital wallets over the next five years, a process that will begin in earnest in 2018. Why is that?

Research from ACI Worldwide shows that, in rapidly-growing economies like Asia and South America, mobile wallets have quickly become the dominant payment platform. For example, 51% of consumers in Thailand claim to regularly pay with a smartphone, while 47% do the same in Indonesia. This is a stark contrast to the UK, where just 14% of consumers regularly use mobile wallets, and the US, where only 7% regularly use their smartphone to pay.

This can partly be explained by the fact that markets like Asia have bypassed traditional card and payment infrastructures, and taken advantage of technological developments such as increased access to 3G and high in-country smartphone penetration to quickly enable mobile payments.

In the UK, however, existing contactless card-based payment structures have slowed the adoption of mobile wallets, with many consumers not seeing any benefit of using an equivalent technology on their phone. This could be set to change, however, with new research from WorldPay predicting that e-wallets will secure 34% of the payments market by 2021, overtaking established methods like debit cards and driving significant growth in the UK e-commerce and m-commerce markets.

Further, while 36% of US merchants currently accept Apple Pay, a further 22% have plans to accept it in the next 12 months, while 11% plan to do so within one to three years.

PrePay Solutions, in partnership with transactional solutions experts Edenred, has driven the migration of digital payment methods across Europe and beyond. We have already successfully deployed Apple Pay, Android Pay and Samsung Pay with customers in several European countries, including France, Spain and Sweden – with many more in the pipeline.

We predict that mobile wallets will continue to grow across Europe and beyond throughout 2018.

We have already seen the emergence of new wearable payment technologies like FitPay and payment rings at the Olympic Games.

This competition, coupled with new mobile wallet market entrants hoping to share in the success of Apple, Android and Samsung, will ensure that e-wallets continue to develop in terms of value proposition, adoption and deployment worldwide. ■

A MOMENTOUS YEAR

Oscar Nieboer, chief marketing officer, Paysafe Group

Without a doubt, 2017 has been another momentous year for payments. In the UK, we have seen Bitcoin soar to record values, and we have celebrated two significant birthdays: firstly, our beloved contactless cards turned 10 and secondly, we rejoiced at 50 years of using ATMs.

Most people can barely remember, or have never known, not having ATMs, or even contactless cards, and it is a good reminder of how much consumer behaviours have moved on in the payments sector over the decades, and still continue to evolve on a yearly basis.

For me, there were three notable consumer trends to pay attention to in 2017:

Alternative payments have grown exponentially

One of the key trends we have seen this year has been the rapid adoption of alternative payments. According to our recent *Lost in Transaction* research, we know 89% of consumers are using mobile wallets more than they were two years ago, while a surprisingly high 11% of consumers have experimented with cryptocurrencies.

With this new wave of innovative ways to pay, the industry has been posed with a dilemma: security versus convenience.

There is a mismatch between consumers and merchants on the dreaded fraud issue

Our research also shows that fraud awareness has continued to grow, which is illustrated by the 52% of UK consumers who told us they considered fraud an inevitable part of online shopping.

We are also seeing a mismatch between consumer and merchant perceptions of how to handle the issue. Some 36% of merchants fear that increasing fraud-prevention measures will weaken the customer experience and cause consumers to abandon transactions; in reality, 56% of consumers tell us they would accept heightened security measures to avoid fraud. Going forward, the industry will need to address this divide.

The role of Big Data has been more fully recognised

As online payment adoption accelerates, merchants are becoming more aware of the role that data and analytics has in enhancing security processes and the overall customer experience – whether that is identifying vulnerabilities or sticking points in the customer journey or expanding omnichannel capabilities securely.

Going into 2018, we can hope to see greater alignment between consumer and merchant attitudes to fraud – especially as new forms of fraud develop – and the implementation of more effective security measures.

For example, we are likely to observe a proliferation in more two-factor and three-factor authentication methods, and the roll-out of mainstream biometric authentication methods.

We will also continue to see more growth in alternative payments. The use of cryptocurrency is likely to take two to three years before it becomes mainstream but it will certainly continue to evolve next year and more people will experiment with it.

In 2018, the most successful merchants will be those who identify and embrace the plethora of payments opportunities that exist and take advantage of Big Data to improve their processes. The customer continues to be king, and has more places to shop and more payment methods than ever before. Building their complete trust will be key.

One thing that is for certain is that nothing stands still in this ever-evolving sector, and 2018 promises to be another exciting year. ■

THE YEAR FINTECHS CAME OF AGE

Ole Christian Olsson, VP sales and marketing, Signicat

One highlight of 2017 was seeing the emergence of the first digital identity service provider, run by Rabobank. The solution provides businesses with a simple way to identify customers online, and lets those customers apply for services 100% digitally.

This signifies more than just another bank product launch; it is the first real-world example of what the industry has been espousing for some time – that banks cannot do everything in house and that partnering with fintech firms to deliver solutions makes financial and strategic sense.

It marks a maturation point in the market, where some of the more vocal fintech companies' rhetoric of disintermediation has softened into industry-wide words of partnership and mutual benefit. This has huge potential to spur the development of truly innovative technology and solutions, and more flexible pricing models; with cloud technology, it also removes the need for legacy system integration.

When we look back, 2017 may well be remembered as a watershed in the development of financial services .

2018 and the hidden side of PSD2

Clearly PSD2 will be a major theme of 2018, as it has been in 2017, but while most are focused on the opportunities for new entrants and the threats to incumbents, there has been something of a collective blind spot around strong customer authentication (SCA).

Although the requirements come into force towards the end of 2018, they have the potential to undo all the work currently being done to create a smooth, hassle-free customer experience for any company transacting online.

By mandating two-factor authentication for any transaction over €30 ($35), the regulation seriously affects marketplace companies such as Amazon, gig-economy companies like Uber, and small independent e-commerce players.

A failure to successfully incorporate SCA into the customer journey will have huge impact on customer satisfaction, transaction volumes and, in extreme cases, profitability.

PSD2 to redefine the banking relationship in 2018

PSD2 forces banks to open up and provide access for third parties. With screen-scraping set to be outlawed, APIs seem to be the only way to make this a workable reality. Clearly this fills many banks with trepidation, and the likelihood is that these APIs will offer third parties the bare minimum of information.

These APIs present banks with an opportunity, however. If banks were to connect to each other through them, the banks could become a one-stop shop for customers. They would be able to have a complete customer view across multiple providers, act as the single portal through which consumers manage their financial lives and, thanks to the improved customer view, tailor services for the individual at a far more granular level than is currently possible.

2018 will see the start of movement towards this model by banks streamlining and rationalising authentication platforms so they are able to authenticate customers to a specific level. It is only through being able to establish a customer's identity between banks and other third parties that this strategy will work. ■

THE YEAR OF INSTANT PAYMENTS

Tom Hay, head of payments, Icon Solutions

2017 has been the year of instant payments, with regulators and industry bodies around the world launching more instant payment systems than ever before.

2016 saw five new systems launch; in 2017 this more than doubled to 11, including a number of high-profile initiatives such as SCT Inst in Europe and The Clearing House in the US. We also saw headline-grabbing instant payment service launches such as Zelle, which is competing with other major mobile P2P services such as Venmo.

This groundswell of adoption is being driven by one fundamental principle: archaic, batch-based payment processing can no longer support the ambitions of financial institutions globally, nor the customers they serve. Put simply, if consumers can monitor the progress of their Uber driver in real time today, they should be able to do the same with their payments.

PSD2 is still 18 months from reality

January will be a false dawn for PSD2. While the long-awaited regulatory technical standards that underpin PSD2 access to accounts will finally be ratified in October, there is still a lack of clarity around numerous areas of the regulation, making practical implementation near impossible.

I expect confusion will reign for at least 18 months and it will be mid-2019 before PSD2-compliant services are launched.

The industry is highly focused on this issue, it is all you hear about at events and all you read about in the media. The real danger with this regulatory incoherence around is not just the delay, it is the loss of momentum.

Without the ability to implement, many banks will take the opportunity to sit back and wait after three years spent getting them out of their chairs.

But this is a mistake. Pioneering banks, despite the technical challenges, are pushing ahead with implementation and laying the ground work for change under their own steam rather than waiting for the rest of the world to move forward. ■

OPEN BANKING: ENABLING BANKS TO EMBRACE DIGITAL

In the age of digitisation, developing high-value services is essential. An event organised by NetEvents, and hosted by Ondot Systems at the Royal Exchange in London, included experts discussing the challenges and opportunities of digital banking, reports *Briony Richter*

The continuing shift to digital technology means industries must change their business models to suit consumer desires.

The Ondot Systems event's panel was moderated by Georgie Frost, broadcaster and consumer champion, and Steve Walker, lead analyst, digital retail banking at GlobalData.

Opening the discussion, Walker spoke about digital innovations and the challenges that the financial industry faces. "We're closer to it than we've ever been, and we're in a position to see if what's coming is what we expected, and the open banking that we think customers need. At a minimum, we'd expect to see a change in buying behaviours.

"Open Banking is a difficult end state to engineer, and certainly a difficult one to maintain. We've still seen banks delay agreeing on the standards on the grounds of security and reliability. I think we're going to see, with Open Banking, a channel displacement that resembles what happened with mobile banking, and the banks that don't design and deliver services through APIs will see themselves becoming less and less relevant in customers' day-to-day activities."

Consumers want to be able to access online banking services any time and anywhere, using the channel of their choice. As well as deciding whether to fight or join the competition, banks must be able to protect themselves from cyberattacks and all forms of financial fraud.

It is inevitable that financial institutions will need to boost investment in their digital agendas. When consumers want to change how they conduct their banking affairs, so too must the financial institutions to gain and retain customer loyalty.

Scott Manson, head of payment strategy at Nationwide, stated: "We're in a stage of evolution within digital banking where we've gone from moving through from a statement, through to the online bank, to the mobile bank. We've done things ourselves, because we think we are better at doing it.

"Ultimately, I think what we're looking at in the future is partnership philosophies around different organisations. It's about being able to service the customer where they want to be serviced. If that's on Facebook, WhatsApp or Snapchat, having those partnerships where we have the ability for customers to do their digital banking in those areas, I think, is where the evolution moves to."

EFFECTIVE TOOLS

John James, head of digital product at first direct, agreed that there is still a long way to go before the industry can actually provide consumers with the most effective tools to effectively engage with digital services.

Vaduvur Bharghaven, CEO of Ondot, said: "So long as we are talking about banks offering the services, and not disintermediating that, I think it's really about digitising information."

Full digitisation comes with a wealth of opportunities. However, taking up these opportunities creates new challenges for financial institutions, such as meeting regulatory requirements, security threats and getting consumers to adopt the new systems.

One of the biggest hurdles for the industry to overcome will be getting consumers to trust these new developments and adopt them. There needs to be consistent and transparent communication between the industry and the public.

Used correctly, data can make all aspects of banking much simpler for the consumer, but there needs to be more guidance from banks and fintechs on how data will be used securely.

James stated: "From a customer perspective, until there's something they can touch and engage with, then the questions are quite academic. When you can get a proposition out there that they can use, then that's when you're going to get high levels of engagement."

Manson highlighted the importance of finding the best way to use data to make consumers' lives easier. To communicate the stages and advantages of digital and Open Banking clearly, it is essential that staff at the front desks or on the phone are aware of what open banking means to the consumer. This way, consumers can get straight answers to questions. It is essential to give control back to the consumer so they can decide where, when and how they conduct their banking affairs.

Open Banking does not come without conduct risks. A digital world where platforms are more open, although bringing more personalised services, also carries security risks.

Walker said: "With mobile banking adoption, of the people that don't use those services, 40% of them said security was the reason. These people want more security, not less, to be reassured. Bankers and the industry have got to deal with the actuality of security, and the perception."

Bharghavan agreed that verbally reassuring the consumer is not enough to convince them that their data will be safe. He stated: "It's important to make sure that the consumer makes sure they feel secure. I think explicitly giving consumers control gives them the feeling that they're secure, and this is based on direct research, as well as indirect research that we've done."

The panel all agreed that the digital era has plentiful opportunities for both consumers and the financial industry. By digitising services, there can be more time spent tailoring them to suit the consumer. Furthermore, it will improve operational efficiency for the businesses applying it.

There are security concerns, and the industry will have to be vigilant in combating threats as quickly as they arise. Trust is the cornerstone for any relationship, thus it is imperative to acquire that trust so consumers feel secure in the process of Open Banking.

Overall, digital banking is not something to fear. With strong security and the customer's needs put first, it could be a great success. ■

DODD-FRANK SURVIVES TRUMP'S FIRST 12 MONTHS AS US PRESIDENT

Donald Trump promised to lighten the regulatory burden on US financial institutions by dismantling Dodd-Frank. The fate of the Consumer Financial Protection Bureau, which the act created, therefore initially appeared uncertain. However, so far attempts to unravel the Obama administration's financial reforms have faltered, and any future initiatives are expected to happen slowly. *Robin Arnfield* reports

The Dodd-Frank Wall Street Reform and Consumer Protection Act was passed in 2010 following the 2008-2009 financial crisis.

A key element of its remit was tackling unscrupulous behaviour by financial institutions, such as credit card issuers forcing unsuspecting cardholders to accept overpriced insurance.

The Durbin Amendment to Dodd-Frank introduced caps on debit card interchange, and stipulated that merchants must be provided with a choice between at least two unaffiliated networks for debit card purchases.

According to an estimate cited by Yale Law School, just 20% of Dodd-Frank's required rulemakings had yet to be proposed or finalised as at November 2017.

THE CFPB

As previously there was little government oversight of consumer credit, the CFPB was created in 2010 to defend consumers.

Its reforms include rules requiring banks to evaluate consumers' ability to repay mortgages, reining in debt-collection agencies, and requiring issuers to pay compensation to credit cardholders for illegal practices such as deceptive marketing.

CFPB director Richard Cordray, a Democrat appointed by former president Barack Obama and unpopular with Republicans because of his aggressive moves to rein in banks, resigned in November 2017.

Press reports suggested he wants to run for Ohio Governor in 2018. Despite Republican calls for Trump to fire Cordray, the director of the CFPB can only be removed "for cause".

LEGISLATIVE ACTIVITY

Unsurprisingly, the Republican-dominated Congress has made several attempts to refashion Dodd-Frank's regulatory architecture.

In June 2017, the House of Representatives passed the Financial Choice Act, which revises several major Dodd-Frank provisions, including undoing the Volcker Rule's restrictions on bank activity and restructuring the CFPB. The act has yet to pass through the Senate.

In October 2017, the Senate overturned a CFPB ruling which would have prevented consumers going to arbitration in disputes with financial institutions. The banking industry lobbied against the ruling, which would have forced consumers to resort to class-action lawsuits.

The CFPB had contended that rules limiting arbitration are necessary because "pre-dispute arbitration agreements are being widely used to prevent consumers from seeking relief from legal violations on a class basis".

Brian Riley, Mercator Advisory Group's director, credit advisory service, wrote in a blog that the Senate vote "blocking class actions is an indication that CFPB is weakening as the Trump administration begins to take stride in Washington.

"CFPB unearthed many deceptive sales practices in the card industry, illustrating how over 100 million cardholders oversubscribed to credit card 'revenue enhancement' products. The ruling favours the credit card business."

ILCS

During 2017, online lender SoFi (Social Finance), mobile banking startup Varo Money, and Square Financial Services applied for Industrial Loan Company (ILC) charters.

These would give them banking licences and deposit insurance from the FDIC without being regulated as bank holding companies. ILCs, unlike banks, can offer non-financial services. SoFi subsequently withdrew its

application due a scandal involving its co-founder.

Square said it is the only financing source available to 67% of its merchant customers, which it defines as small businesses seeking loans under $250,000. The ILC charter would allow Square Capital to directly distribute its loans, instead of via a third party.

"Looking at Square's customers whom it makes loans to, they are largely the segment of small businesses struggling to find traditional financing," says Javelin Strategy and Research analyst Rachel Huber.

"At the end of 2016, 86% of its sellers processed under $500,000 in gross payment volume per year, with 58% under $125,000."

WALLETHUB

Personal finance site WalletHub conducted an August 2017 survey of US consumers' views of the CFPB. WalletHub said:

- 54% of those supporting cutting the CFPB's budget are Republicans;
- 40% of consumers think the Republicans want to cut the CFPB's funding to get favours from bank lobbyists;
- 49% of consumers would contact the CFPB if they had a serious complaint about a bank – versus 9% the Federal Trade Commission, and
- 71% think consumers need more protection – versus 5% wanting less.

Over 50% think banks and credit bureaux need more regulation.

FINTECH CHARTERS

In a move opposed by the Conference of State Bank Supervisors, the nationwide organisation of state banking regulators, the Office of the Comptroller of the Currency (OCC), proposes to offer limited-purpose national bank charters to fintechs.

The OCC claims this will provide a regular, consistent regulatory framework for chartered fintechs, and increased competition to develop cost-efficient, inclusive products and services.

In November 2017, the OCC's acting Comptroller of the Currency Keith Noreika called for an end to the separation of banking and commerce, under which Amazon or Walmart are banned from owning fully fledged banks, as opposed to ILCs. He also noted that the OCC's fintech bank charter proposal is at an early stage.

While depository institutions are largely exempt from state licensing, non-bank financial services firms such as fintechs or money transfer providers must seek authority to provide their services at state level, potentially in every US state or territory.

This imposes considerable cost and administrative overheads on these non-bank financial services firms. The Conference of State Bank Supervisors is calling for state licensing requirements to be streamlined and simplified.

OPEN BANKING

In early 2017, the CFPB requested comments on how consumers would share bank account data with third-party companies. US banks, in response, expressed concern about potential security breaches, while fintechs supported the right of consumers to access all their bank account data on third-party apps.

In October 2017, the CFPB announced a set of non-binding data-sharing principles. These would permit bank customers to access their data on the app of their choice, provided the process is secure and users have full control over what data is shared.

The CFPB said this data would include "any transaction, series of transactions, or other aspect of consumer usage" as well as "the terms of any account, such as a fee schedule, realised consumer costs such as fees or interest paid, and realised consumer benefits such as interest earned or rewards."

In addition, the CFPB said the data must be accurate. It adopted a flexible approach to implementation, avoiding mentioning specific technologies such as screen-scraping or APIs.

> "THERE WAS A STANDOFF BETWEEN FINTECHS AND BANKS, BUT BOTH SIDES HAVE CONVERGED AND SEE THE BENEFITS OF WORKING TOGETHER

INDUSTRY COMMENTS

Scott Talbott, senior vice-president of government affairs at the Electronic Transactions Association said: "The ETA supports the concept of fintechs offering financial services being able to apply for ILC licences. Most fintechs already work hand in hand with banks. As a result, we see ILC charters for these firms as a natural evolution of the fintech space.

"There was initially a standoff between fintechs and banks, but both sides have converged and now see the benefits of working together to serve customers.

"Regarding the CFPB, the ETA supports efforts to subject the agency to checks and balances similar to those applied to the three branches of our government, possibly through Congressional oversight of its budget and creation of a five-person board.

"We opposed the CFPB's rule abolishing the ability of consumers to use arbitration to settle disputes. Arbitration results in quicker processing of consumers' claims – a matter of months as opposed to several years with class-action lawsuits – with the prospect of higher payouts than class-action lawsuits and almost no fees for consumers.

"We believe regulations should be tailored to the risk profile of individual financial companies and that regulations applicable to a major bank should also apply to a startup, but to a different degree.

"Regulations should be tailored to the risk profile of the company, whether it's a fintech or a bank. There should be a sandbox regulatory environment for startups that applies lighter levels of regulations – once the startup matures, it should leave the sandbox and be subject to the force of all regulations based on their risk profile."

Brad Margol, principal of US consultancy AZ Payments Group, comments: "Regarding the OCC's proposal to regulate US fintechs, there's a question of whether the OCC actually has the authority to regulate them. It's interesting, because while some fintechs want to be banks, others just go about their business being unregulated. So who is pushing for the regulation, what will it look like, and

why is it necessary, since we have ILC and bank-licensing procedures set up? I think we would only need to regulate fintechs as banks if they are banks. If not, other regulations would apply outside the realm of the OCC.

"I do think the CFPB will continue to exist, but with different leadership and a less aggressive mandate. But it would be difficult for the Trump administration, or any administration for that matter, to eliminate a government agency, especially with events like the Equifax breach happening more and more.

"ILC applications are sent to the FDIC for approval. The CFPB would only get involved with an ILC if they weren't treating the public fairly. Community banks and others are upset that ILCs don't have to adhere to the Bank Holding Company Act's legal restrictions, but that isn't a CFPB issue at this time. More competition should be better for the consumer."

David Tente, executive director, USA, Latam at the ATM Industry Association, adds: "There is continued interest in the industrial bank charter concept, but I don't see too much real progress being made, especially as SoFi withdraw its ILC application. I don't think regulators quite have their arms around this animal yet, or have figured out what they want to do with it.

"I sense there is at least some support for ILCs and we may see another applicant give it a go soon. But there are a lot of wrinkles to iron out before anything gets finalised. It looks like Dodd-Frank will just get some tweaking here and there."

EQUIFAX BREACH

Srii Srinivasan, CEO of US-based chargeback and fraud-prevention firm Chargeback Gurus, says: "In the light of Equifax's handling of its recent breach, it's clear more oversight and guidelines are needed. Also, in this age of cryptocurrencies, there should be a way to secure the credit reporting system.

"I want to see a unique, secure identifier besides the SSN [US Social Security Number] to protect consumers, similar to two-factor authentication for passwords.

"The SSN has too much power in all areas of financial life – it was created when there was no internet and is too vulnerable today. There should be a mandate to stop using or storing SSNs," Srinivasan adds.

"I recommend assignment of a disposable long alpha-numeric code similar to a credit card number in place of the SSN. A separate agency must own the relationship of this alpha-numeric code, which could be cancelled and reissued like credit cards, to the associated SSN. Only the last four digits of the SSN should be used as verification."

Christopher Cole, the Independent Community Bankers of America's executive vice-president and senior regulatory counsel, notes: "The ICBA called for a two-year moratorium on ILC applications, and opposed Square and SoFi's ILC applications. The moratorium would give Congress a change to legislate, and we would lobby Congress to close the loopholes in ILC legislation.

"There are rumours Apple or Amazon might apply for ILC status. Were tech giants to apply for banking licences, there would be privacy concerns, as they already accumulate a lot of customer data.

"If Apple or Google were allowed to own a bank, this would become a repository of personal customer data. When very large commercial organisations get involved in banking, this poses difficulties for bank regulators – there would be inherent conflicts within the firm between its banking and commercial sides. Although the US banking system has controls, allowing commercial companies to become banks would make them too big to regulate.

"We would like to see more congressional oversight of the CFPB in terms of requisitions, and a lighter regulatory burden, but I don't think Durbin will be touched.

"The Financial Choice Act approved by the House, would change the CFPB in terms of appropriations and make a lot of reversals. But the Bill doesn't have a chance of passing the Senate before the Christmas recess. I would be hopeful for a modified Bill that could be maybe presented in Spring 2018."

PARTISAN BASIS

Kurt Helwig, president and CEO of the Electronic Funds Transfer Association, explains: "Congress had intended to repeal Dodd-Frank, but came up against the reality of a slim Republican majority. In order to get things done, they would have needed to get help from the Democrats, which largely has been lacking. Congress does things on a partisan basis.

"I don't think there will be wholesale changes to Dodd-Frank given the political makeup of Congress. But there may be changes to the margins of Dodd-Frank, like capital adequacy requirements to help community banks and some Democratic support to help smaller banks.

Helwig adds: "There have been unsuccessful attempts to address Durbin in this Congress, but it wasn't part of the Financial Choice Act. I don't think we'll see further action on Durbin in the near future. So Durbin is here to stay under its current terms.

> "IN THE LIGHT OF EQUIFAX'S HANDLING OF ITS RECENT BREACH, IT IS CLEAR THAT MORE OVERSIGHT AND GUIDELINES ARE NEEDED

"The EFTA supports Republican proposals in the Financial Choice Act to regulate the CFPB, which the Trump Administration also supports. This would change the CFPB's leadership structure from a one-person director to a five-person board.

"Republicans think that more voices and more diverse views in the CFPB would lead to better regulatory outcomes. The Financial Choice Act would also reform the funding and oversight of the CFPB, which currently comes from the Federal Reserve board. All other government agencies must present their funding requests to Congress, which gives Congress oversight of them.

"An issue we're really focused on is data security. There have been bills for a decade to address cybersecurity and nothing has happened.

"In the face of inaction from Congress, we're seeing states enact their own data breach notification and cybersecurity rules. This makes it difficult for the industry as it has to deal with multiple different state cybersecurity rules," Helwig continues.

"The Equifax breach could be the catalyst leading to action that gets through Congress. We would ask that any cybersecurity regulation would include federal pre-emption, so the federal standard would supersede the individual states' standards plus only one regulation on cybersecurity and breaches instead of 50 different state regulations." ■

RETAIL BANKING EUROPE: CHANGE IS THE ONLY CONSTANT

***RBI's* Retail Banking Europe conference in Amsterdam brought together a cross-section of the region's leading retail bankers and some of the sector's most innovative technology partners. *Douglas Blakey* chaired the event and in between sessions, canvassed the opinions of a number of the speakers and event sponsors**

Marc West, senior vice-president of technology development at Fiserv, headline sponsor of the RBI Retail Banking Europe conference, tells *RBI* there is always a tremendous amount of excitement in the market if you can create new customer experiences.

And, he adds, there are always clever ways of creating value for the banks, at scale while managing costs but change is the constant – recognise that and be clear about your outcomes.

"That is what matters most. Openness is the key trend. Banks are dealing with APIs every day – they have partnerships that they work through every day to achieve scale value for their customers, and that trend is only set to continue.

"Simplification of that is most important and how that works in an open banking way will create the most value for everyone."

At Nordea, simplification is enshrined in the job title of one of the bank's executives, Jukka Salonen.

Nordea COO and head of group simplification tells *RBI*: "In order to build up a true end-to-end digital bank that is able to operate in the fintech and Open Banking world, banks need to consider replacing their core banking system."

It is, he concedes, a big transformation, but he argues that many banks will have to be bold enough to make such decisions in order to build their organisations for future challenges.

The dramatic changes in consumer behaviour is a theme hammered home by Benoît Legrand, global head of fintech at ING.

He tells *RBI:* "Customers are taking power and banks have to adapt to this – banks must work very differently compared with how they have been used to working. Banks must be able to put the customer really at the core of their thinking and by using data personalise the relationship that they have with customers."

Says Legrand, banks can no longer work in isolation. "The world is opening up and everyone is interconnected with everyone. This is not a new development at ING – we disrupted ourselves 20 years ago with ING Direct. We have disruption in our genes – innovation is embedded in the bank's strategy."

Legrand's update on the development of ING's €300m ($357m) capital fund for fintech investment is of particular interest to the conference attendees. ING is currently working with 115 different fintech partners, having dropped 35 along the way.

Adds Legrand: "We are transforming the way we are working internally – we want to work the way firms such as Spotify operate. We need to make sure we can attract the most talented people; our biggest challenge is to transform our culture."

THREE PILLARS

Tapping best practice from outside the banking sector is a theme echoed by Edward Dillon, director of innovation at KBC Bank Ireland.

He tells *RBI* that when KBC set up in Ireland in 2013 the bank made a point of recruiting from non-bank sectors such as hospitality and retail. Says Dillon: "As a digital first challenger brand, the customer experience has to be benchmarked outside of our sector. Think retail and not bank; think outside the sector."

It is, he says, an incredibly exciting time to be setting up a new bank. "Displacement or disruption that we will experience is not from competitive forces, but will ultimately

Anne Dorst, Collinson Group


Benoît Legrand, ING


Edward Dillon, KBC Bank Ireland


Jukka Salonen, Nordea

be displacement by our customers. Customers will take control of their data and they will control their uses of data. The winning banks will be those that can offer customer experiences that are unique."

Echoing West, Dillon adds: "Simplicity is at the core of everything we do, such as the product proposition and the processes that support execution."

Dillon says that as the bank kicked off its Ireland launch, it did not want to target the mass market. Its marketing strategy was aimed at the segment of the market with the greatest propensity towards digital adoption.

The traditional channel is, however, part of the KBC channel proposition, with 15 physical hubs. "We are omnichannel – we must give customers the option to bank by any channel of their choice."

Optimising the account opening process has been a key priority for KBC. "In 2016, we launched mobile onboarding but it was still full of friction. Customers had to fill in 179 fields and that involved 26 separate steps. That meant many new customers, with the intention of opening an account, gave up.

"We have now cut the 26 steps down to five so that customers can open a new account and be banking in less than five minutes. For too long, we bankers thought that just by giving a customer an account number that meant they were onboarded.

"You need to activate that customer. As part of that, we launched a digital wallet while other innovations include KBC being the first bank in Ireland to roll out Android Pay and Apple Pay, and recently we were one of first to launch Fitbit Pay."

KBC has grown customer numbers since its Ireland launch, to 250,000 and Dillon says the bank is on target to hit its target of 500,000. "Three pillars are key to success: be instant, accessible, proactive."

Anne Dorst, strategy director at Collinson Group, tells *RBI* that banks have a great opportunity to take advantage of all the new technology and data-led decisions to make the customer experience much better.

"Sometimes it feels like a risky area but customers are more and more demanding these days.

"What we want to do is really encourage people to give them the experiences that they want and the rewards, protection and the assistance and seamless technological experience that they have in other areas of their life. Customers deserve and demand a better experience."

For Alastair Brown, vice-president, marketing at Dealflo, there is optimism that banks can improve the customer experience by accelerating adoption of agreement automation. He says: "Business benefits come about by automating financial agreements and in addition retail banks can take risks out of the process by automating end to end."

There does not have to be a customer experience trade-off with risk, and he tells *RBI:* "It is pleasing to see how retail banks are looking to fintech providers such as Dealflo with deep subject matter expertise to help them on that digital agenda."

The argument that increased risk protection need not come at a cost to the customer experience is also made by Omri Kletter, head of fraud and authentications solutions, at NICE Actimize.

He tells *RBI*: "It is essential that banks tackle fraud in real time. We do that mainly through analytics, and leverage additional data to prevent actionable risk .

"It is encouraging that the issue of analytics and real-time fraud monitoring is now on the main agenda for banks' boards of directors.

"We all want to keep the customer happy but the overall journey at the same time must also be safer." ■


Marc West, Fiserv

Omri Kletter, NICE Actimize

JANUARY NEWS

Caixa Bank, Global Payments, Samsung, Visa and Arval kick off Payment Innovation Hub

CaixaBank, Global Payments, Samsung, Visa and Arval have inaugurated the Payment Innovation Hub, Spain's first innovation hub specialising in merchant commerce and payment methods ,and one of the first anywhere to be backed by cross-industry leading businesses. The aim of the project is to establish a world-leading innovation hub in payment methods.

The Payment Innovation Hub is located at Barcelona's Pier01, a space set up by Barcelona Tech City to accommodate more than 100 digital and tech businesses and startups. An initial total investment of €5m ($5.97m) has been earmarked for the project over the next three years.

The centre will be staffed by a dedicated multidisciplinary team, although each project will have its own group of researchers, which also may include members of the Payment Innovation Hub, experts from partner companies, independent specialists, startups or other groups, and institutions interested in specific areas of research.

Ongoing areas of investigation range from biometrics to the Internet of Things, including the harnessing of new technologies such as blockchain and machine learning.

Projects at the Payment Innovation Hub will largely focus on customer experience and security, as well as exploring new models and business opportunities related to the world of payment methods.

In the first few months the centre plans to pursue four core projects:

- **Creating cashless spaces,** where all payments within a specific enclosure are digitised. The Payment Innovation Hub will develop cashless solutions for different environments;
- **Invisible payments** is a ground-breaking trend with real potential to shake up brick-and-mortar merchant commerce by eliminating lines at cashiers. Amazon and Google are already running projects in this area, with rapid progress anticipated over the coming years;
- The introduction of the PSD2 directive as of January 2018 will ramp up the potential for partnerships between financial institutions and **fintechs**. The Payment Innovation Hub will explore potential new services under the directive and the growing convergence between tech companies and banks, and
- The rise of the **connected car** has opened up possibilities such as motorists paying at service stations without leaving their vehicles, and new solutions for car parks and accessing events or enclosures. ■

CLYDESDALE, YORKSHIRE BANKS AGREE SEVEN-YEAR DEAL WITH MASTERCARD

CYBG, the owner of the Clydesdale Bank and Yorkshire Bank brands, has signed a seven-year deal to exclusively work with Mastercard. As part of the deal, all credit, debit and commercial cards from the two banks will be on the Mastercard network.

Mark Barnett, divisional president for Mastercard UK and Ireland, said: "CYBG is an exciting and diverse challenger bank, and already a valued Mastercard partner.

"Our renewed agreement will see us issuing even more Mastercard cards in the UK, as well as focusing on security and fraud solutions so that CYBG customers can benefit from some of our newest innovations."

The renewed partnership is set to focus on safety and security, with Mastercard innovations hoping to protect customers from fraud. Mastercard will also support CYBG's digital business, B, which launched last and now has over 100,000 customers.

Barnett said: "Earlier this year we partnered to create a technology showcase within the Clydesdale Bank's Edinburgh flagship store at the Edinburgh Fringe Festival, and we'll be bringing it to Studio B in London in 2018." ■

STARLING BANK PARTNERS WITH STARTUP YOYO


Anne Boden, Starling Bank

Starling Bank has launched its latest API partnership, with UK-based mobile payment and loyalty platform Yoyo Wallet.

The partnership will enable cardholders to link Starling Bank accounts to Yoyo Wallets. By doing this, the cardholders can automatically receive retailer loyalty points when paying at certain high street stores.

Yoyo uses Starling's open API platform to allow customers to scan their card and start collecting loyalty points when they pay with Starling.

Starling CEO Anne Boden said: "Together, Starling and Yoyo can demonstrate to the industry the importance of Open Banking that puts customers first.

"We are excited to be leading the changes in the industry ahead of the incoming regulations in the UK and Europe in 2018. The past four months have seen us launch our Marketplace and partner with such an array of innovators in fintech.

"Our partnership with Yoyo only serves to reinforce our core vision to empower consumers, reward our customers, and reduce the day-to-day burdens of personal finance."

Starling Bank has recently developed similar partnerships with money management app Yolt, digital receipt startup Flux, FitBit Pay, Transferwise, Moneybox, Houndify and Tail. ■

GLOBAL BANK SPENDING ON CONSULTANTS RISES

Banking, the largest consulting market in the global financial services industry, grew by 8.4% year on year to $13.6bn in 2016, according to the *Financial Services Consulting Market 2017* report by research and strategy business Source Global Research.

The report adds that with the perceived threat to banking revenue from fintechs and new challengers ramping up, the banking sector is expected to remain a lucrative market for the consultancy sector.

While the US, Germany, Austria, Switzerland and the UK remained the industry's largest markets, China and India grew more strongly.

The report says that uncertainty associated with Brexit and the US elections could not deter clients from investing in consulting support to help deliver projects ranging from compliance and cost-reduction to higher-value digital transformation.

Source also identified that investment in wide-scale digital transformation was greatest in insurance and banking, with the emergence of fintechs prompting immediate action. Source said this was the main reason why consulting revenues grew fastest in the insurance and banking sectors in 2016.

Zoë Stumpf, head analyst at Source, said: "One of the key drivers of demand for banks globally in 2016 was the continued emergence of non-traditional competitors, ranging from fintechs to challenger banks to niche lenders.

"With these challengers working in a more agile manner, and with customer propositions much more suited to the digital age, they represent both a threat and an opportunity for banks."

Colin Preston, consulting partner – financial services at Baringa Partners, added: "Larger banks know they need to replicate some of the cultural aspects of challenger banks, so they are trying to speed up the way they work."

The Source report also highlights that regulation remains a strong driver of consulting demand in financial services, particularly in Europe, where implementation deadlines loom for regulations such as MiFID II, Basel III, and GDPR.

The US is an exception in this regard, with a fear that consulting revenue growth around regulation is starting to plateau as the regulatory focus shifts from the largest players to mid-tiered organisations.

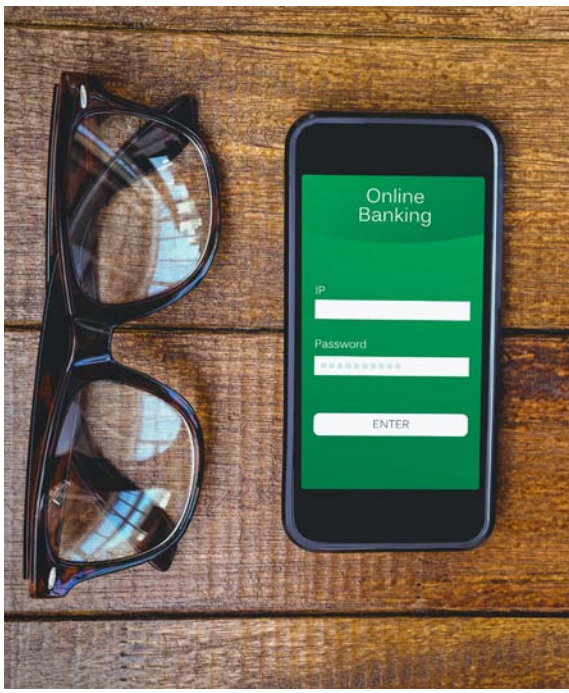
However, the report adds that there remains growing interest from clients across the world regarding regtech solutions, as well as reporting-as-a-service – a potentially lucrative and long-term play for consultants.

Brexit office relocation could drive a flurry of activity for consultants in 2018. Despite the invoking of Article 50, the financial services industry is no clearer about what Brexit will mean. Where there has been Brexit-related demand for consultants, many projects have focused on scenario planning.

However, this could be set to change with the possibility of a 'hard' Brexit, or no Brexit at all, becoming increasingly real, driving clients to act – with scenario planning and location strategy a key focus for clients in the past few months. Source believes this is likely to indicate a flurry of activity for clients and consultants in 2018.

Steven Culp, senior MD at Accenture, commented: "The impetus for significant change because of Brexit is not there yet, because none of the detail is clear. It will be really interesting as we hit 2018, as banks and entities are likely to have made some decisions to move things in one direction or the other." ■

UK TO EXPAND OPEN BANKING INITIATIVE



The UK's Open Banking project is to be expanded to include all payment account types, such as prepaid cards, credit cards and e-wallets.

The development comes after the Competition and Markets Authority told the nine largest current account providers in Great Britain and Northern Ireland last year to let customers share their financial data with non-bank providers.

The requirements are scheduled to come into operation in January. The expansion means bank customers using credit cards, e-wallets and prepaid cards will be able to take advantage of open banking opportunities.

Imran Gulamhuseinwala, trustee of the Open Banking Implementation Entity (OBIE), said: "Key to any innovation is the process of discovery, and it became clear through the second half of 2017 that there is much more the OBIE could do to drive adoption of Open Banking and create a richer environment for new services.

"These enhancements should give even greater confidence to the fintech community to seize the opportunity to participate fully in the financial services ecosystem.

"They will create standards for future dated, recurring and international payments as well as all the payment and product types covered by PSD2." ■

CAN THE CHALLENGERS: REALLY MAKE A CHALLENGE?

You have to hand it to the challenger banks: they have achieved some fantastic PR. It is difficult to open a newspaper or attend a financial services conference without at least one of them being lauded, writes *Anthony Duffy,* director of retail banking at Fujitsu UK and Ireland

Much of the positive PR comment relating to the challenger banks is justified. We are talking about new companies, with new ideas, entering a competitive but stuffy market and promising to shake it up.

And what ambition. Atom Bank has set itself the goal of "redefining what a bank should be", while Monzo aims to build "an alternative to the banking of the past" and has ambitions to be "a bank that improves the lives of a billion people around the world".

How easy will it be for the challengers to demonstrate that they are different? The newcomers see themselves as being innovators, determined to challenge the traditional banking model. And this is probably true of the way they are trying to engage with customers, through apps and underlying technology.

Monzo is proud to "own the full technology stack, giving us the flexibility to react to changes in customer behaviour and demands. Rolling out new functionality in a matter of hours and days, rather than weeks and months".

Starling has also developed its own in-house system, while Tandem Bank has turned to Fiserv and its Agiliti platform.

But are successful technological deployments a source of long-term competitive advantage, or will good ideas simply be copied by the market?

After all, the established banks – which have successfully developed and rolled out online and mobile banking for the mass market over the last 15 years or so – are unlikely to slow their own technology innovation programmes, despite – or because of? – the limitations of their legacy IT platforms.

With their large customer bases – although this means that innovation costs multiply – they enjoy an established market position. This provides funds for investment and, to some extent, the time to develop and deploy the best ideas, technology and products.

> "HOW EASY WILL IT BE FOR THE CHALLENGERS TO DEMONSTRATE THAT THEY ARE DIFFERENT?

But while the challengers' IT might be interesting to the technology-minded, will their banking model appeal enough to win them a new, large and loyal customer base from the wider market? Or will customers have to be wooed through the provision of old-fashioned value?

The challengers, rightly, think the answer is to provide a mixture of the two. Atom entered the market in April 2016 with two market-leading Fixed Saver accounts, while Monzo's offering is centred around a contactless prepaid Mastercard which initially offered free overseas ATM withdrawals.

But while these offerings were popular, they also proved to be expensive to provide – and that is the challenge. Like many banks competing in the savings market – especially at a time when affordable Bank of England funding is readily available – Atom's savings rates for new customers was a time-bound offer. And Monzo has ended free cash withdrawals from ATMs located overseas, after reportedly finding that the costs of providing the service in the past year rose to £16 ($21) per customer, from £6 in 2016.

Atom and Monzo have suggested that launching a current account is a strategic priority. Monzo sees current accounts as a way to reduce losses – its prepaid scheme loses around £50 per active customer per year – while another new entrant, Starling Bank has said that its route to making money lies in overdrafts. How might the established players respond to the newcomers' tanks being parked on what some might see as their lawn?

A review of statistics supplied by the Current Account Switching Service may provide an insight. They show that the established banks are currently more than holding their own when it comes to attracting customers who are moving between suppliers.

In 2016, Halifax opened more than 111,000 new current accounts; Nationwide opened almost as many, at over 109,000; while Santander sourced nearly 83,000 new accounts. How are they competing? Quite simply: the old-fashioned way, by buying market share. A quick look at the MoneySavingExpert.com website shows that, as of October 2017, some of the established players were offering significant incentives for customers to move to them.

So, incentives, together with the free-in-credit model that characterises UK current account banking may prove a further hurdle for newcomers to overcome.

While the challengers may be showing that they can master technology, it is too early to tell if their overall propositions are just as eye-catching. That may only become clear later, once it has become evident whether the new IT platforms can underpin a fundamental change in the nature of banking, whether sufficient numbers of new customers can be attracted to open and regularly use their accounts, and whether the cost, credit and risk profiles associated with the propositions can be managed so as to deliver financial success.

However, many have bigger ambitions than that. But, however the newcomers choose to define success, retail banking might yet prove to be a challenge for the challengers. ■

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