FUTURE OF BANKING & CAPITAL INVESTMENT

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CORONAVIRUS

Society demands that banks step up

Coronavirus has shaken the UK's personal finances and customers are calling on banks to play a role in economic recovery, but how well placed are they to do so?

Joe McGrath

Twelve years on from the global financial crisis, you might anticipate bankers have developed higher levels of empathy with the British public. After all, in 2008, it was the taxpayer who footed the bill for propping up fallen giants such as Royal Bank of Scotland and Lloyds Banking Group.

In early-2020, as coronavirus started to wreak havoc on the UK economy, many were seeking payback. They wanted to see banks undertake a moral duty to support society and help industrial sectors that had been hit by the pandemic.

"The UK government bailed out the banks to the tune of £500 billion in the 2008 financial crisis. The UK taxpayer took the brunt of this and arguably is still paying for it today," says Richard Skellett, founder of charity Digital Anthropology.

"Despite this support, I would argue the banks have little or no relationship with their customers. Banks have lost their way, starting with removing authority from bank managers."

The view that banks owe something to the British people has undoubtedly become more widespread over the past decade. Benedict Ireland, head of experience at Splendid Unlimited, is among them.

Having worked with HSBC extensively, he believes the banks that have invested in digital tools in the years leading up to the pandemic are ultimately those able to help the most, particularly given the increased digital migration of customers since the start of the outbreak.

"Banks should have a moral obligation to help customers cope financially," says Skellett. "They need to have a 'human understanding' approach. This means enabling people to budget better, manage their bills and maintain their mortgages."

Despite this, those who have been working in partnership with the banks in recent years say while attitudes within these organisations have shifted – they do want to help – their systems and technologies have limited their ability to respond adequately to the issues presented by the pandemic.

> **Banks have lost their way, starting with removing authority from bank managers**

"Banks have a generational opportunity to truly support customers through an unprecedented crisis, but years of inaction on creaking infrastructure is thwarting best intentions to protect lives and livelihoods," says from Simon Wilson, director of global payments solutions at Icon Solutions, which has been working with HSBC and Lloyds Banking Group, among other well-known European banking giants.

Wilson says the banks are doing everything they can to support people who have been hit financially by COVID-19, but the speed of their response has been undermined by lacklustre digital innovation in the years leading up to the pandemic.

"At a time where customers have necessarily embraced digital platforms and need personalised, immediate and reliable services to meet their unique and rapidly changing circumstances, legacy systems that are inflexible, expensive and inhibit innovation just no longer cut it," he says.

Transformation must be a priority, but this is easier said than done. "With customers needing support now and internal resources under pressure, transformations that have historically been risky and take years are a hard sell," says Wilson.

So why are banks so slow to embrace digital transformation? And has this lack of transformation in the years prior to COVID-19 harmed their ability to help society now?

Fabrice Gouttebroze, managing director of Sirma Group's S&G Technology Services, says the industry is "notoriously change averse" because of its laser-like focus on trend analysis and modelling.

"The entire ethos of the industry is predicated on the assumption that analysis, and modelling based on experience, are key success factors for a bank," says Gouttebroze. "This, by far, trumps innovation and change. As a result, it tends to get caught and paralysed by unforeseen events."

Given the widespread criticism of the banks for not translating innovation into social action, it is easy to forget that three years ago the Competition and Markets Authority outlined the Open Banking programme. The project was designed to free up the data held by banks to stimulate innovation, enhance competition and allow new challengers into the market. It was also supposed to lead to an explosion of new services.

There is some evidence that this has worked, however. Non-bank entities, which compete with the legacy high street banking cohort, have stepped up during the pandemic, offering individuals and businesses speedy access to loans, new accounts and payment services. But, crucially, there has been limited help for those with the greatest need.

"There has been no shortage of new money management and investment apps, but precious little for other business sectors or people who aren't already affluent, sophisticated investors," says Sara Korchmaros, chief commercial officer at retail technology platform Recash.

"As a result, the original vision for Open Banking – to extend the benefits to other sectors – has remained largely unfulfilled."

While this assessment of Open Banking's success may be justified, it does not tell the full story of innovation across the UK banking sector more broadly. In reality, banks have been helping society in dozens of other ways.

"There have been some great examples of banks supporting their customers during the pandemic, offering multiple mortgage holidays, removing overdraft fees, keeping branches open and even providing helplines to provide expert help," says Kam Chana, product innovation director at Temenos. "These are all valuable, but more can be done."

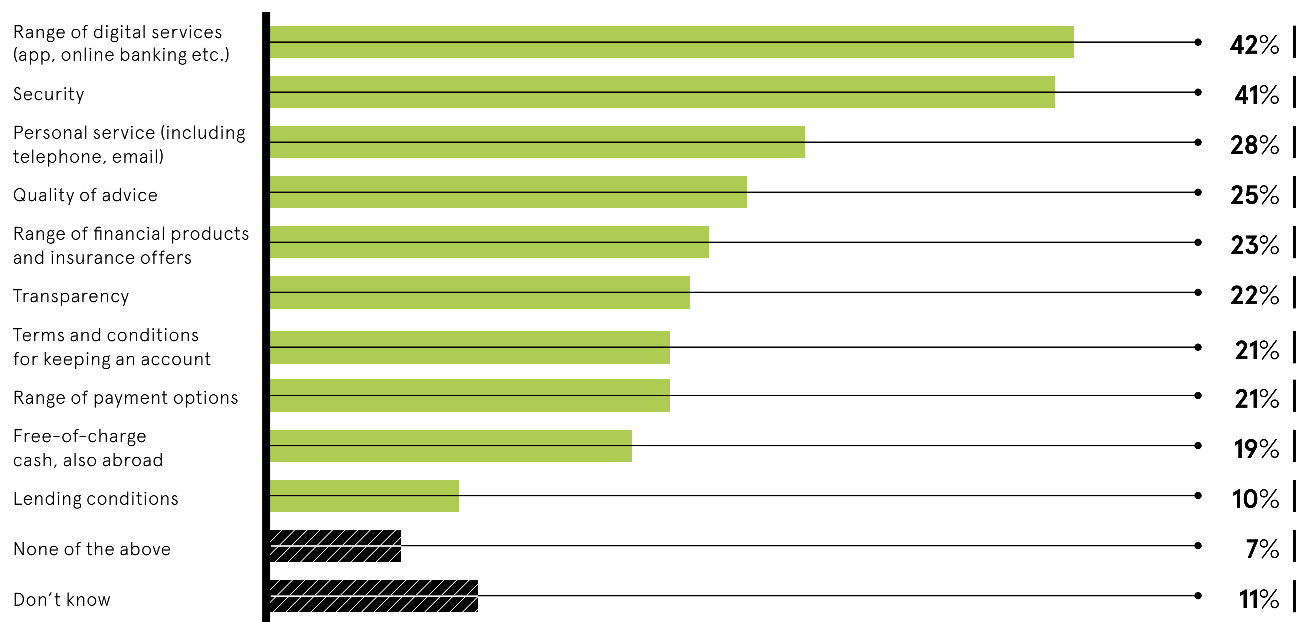
Gretel, a company that specialises in reuniting individuals with cash in accounts they have forgotten about, says one step would be to raise awareness about the £50 billion in assets that is currently scattered throughout the financial services industry unclaimed.

"Over 20 million people aren't aware of the dormant assets they have sitting in forgotten accounts and investments," says Duncan Stevens, the company's chief executive. "Imagine the impact if people could be reunited with that money."

While there is a "moral imperative on banks to support the global economy", Stevens says the requirement should be broader. "The responsibility to support lies with all financial services providers to make accessibility to this money as quick and simple as possible in light of the financial impact of the pandemic," he says.

PUBLIC FEELING TOWARDS THEIR BANKS HAS YET TO RECOVER FULLY

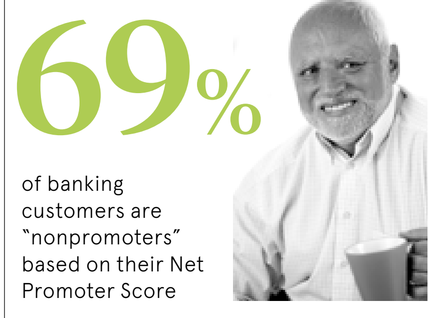
UK adults were asked to rate the services they felt their primarily-used bank was especially good at, but results were underwhelming.



Statista 2020

97% of banks say the customer experience is a focus

69% of banking customers are "nonpromoters" based on their Net Promoter Score



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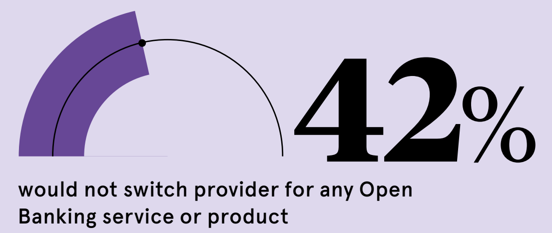
REALISING OPEN BANKING'S POTENTIAL

Open Banking has long been hailed as one of the major trends shaping the future of banking. Adoption rates have been sluggish at best, but it looks as though things have begun to change over the last two years. So is 2020 the year Open Banking comes into its own? Or is there still a way to go before this revolutionary model is fully embraced?

IN 2018, WILLINGNESS FOR ADOPTION OF OPEN BANKING WAS LOW

44% of SMEs won't pay for any Open Banking service

25% will not share data with other financial providers under any circumstance

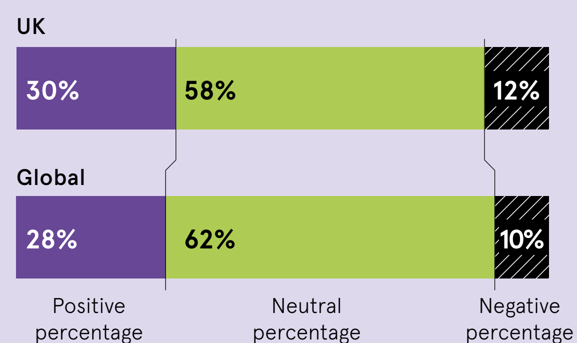


42% would not switch provider for any Open Banking service or product

KPMG 2018

UK CONSUMERS STILL NOT FULLY ON BOARD IN 2019

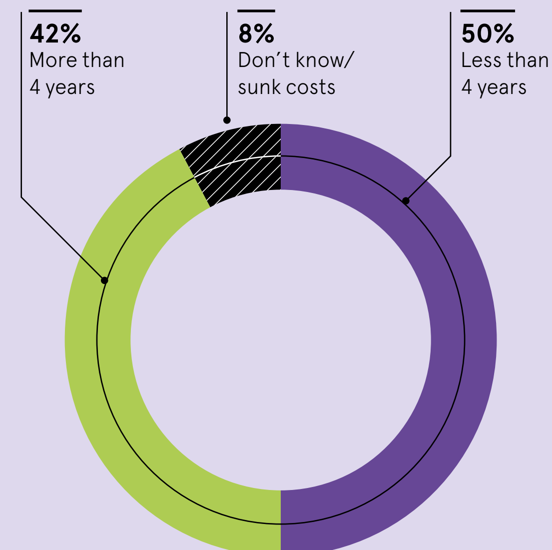
Consumer sentiment (measured by analysing discussion posts sourced from Twitter, Weibo, WeChat, forums and blogs) showed that consumers still weren't ready to embrace open banking.



EY 2019

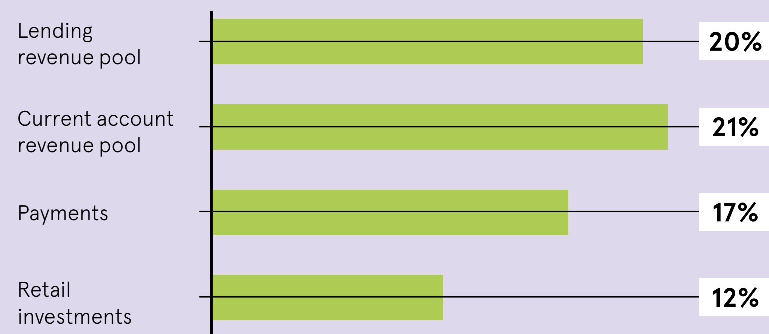
BANKS EXPECT TO SEE A RETURN ON THAT INVESTMENT SOONER RATHER THAN LATER

Half of financial institutions are optimistic about the payback period of their Open Banking investments.



Tink 2020

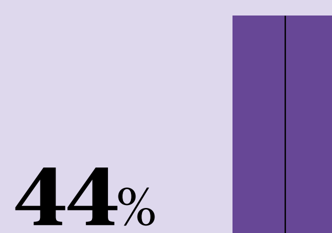
ALTHOUGH CONSUMERS AND BUSINESSES WERE SLOW TO EMBRACE IT, EUROPEAN BANKS BELIEVED THAT THOSE AMONG THEM WHO EXPLOITED OPEN BANKING BY 2020 MIGHT GENERATE...



Accenture 2018

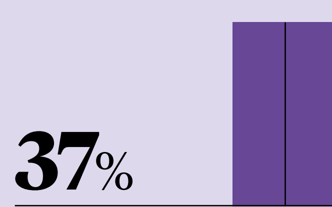
BUT HOW ARE BANKS MEASURING OPEN BANKING SUCCESS IN 2020?

Financial institutions rated the top Key Performance Indicators for their investments in Open Banking.

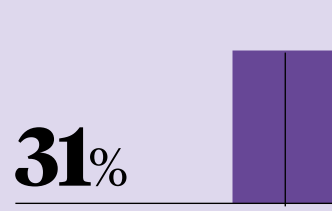


44% Revenue growth from new customers

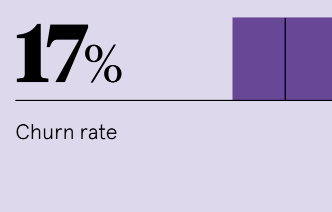
39% Revenue growth from new financial service or products



37% Revenue growth from new developer services or APIs



31% Market share growth



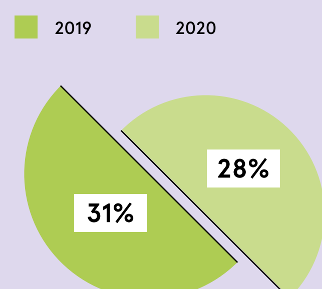
17% Churn rate

Tink 2020

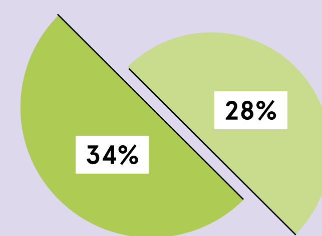
AND SOME BANKS ARE ALREADY REAPING THE REWARDS

Global banks were asked what the impact of Open Banking has been on their organisation in the last 12 months.

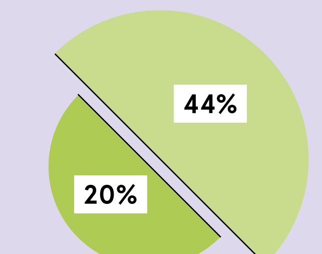
2019 2020



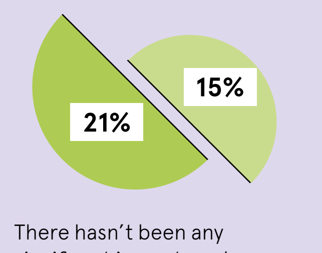
Has allowed us to improve customer service



Has allowed us to deliver new services



We are still in the early stages of adoption so difficult to establish

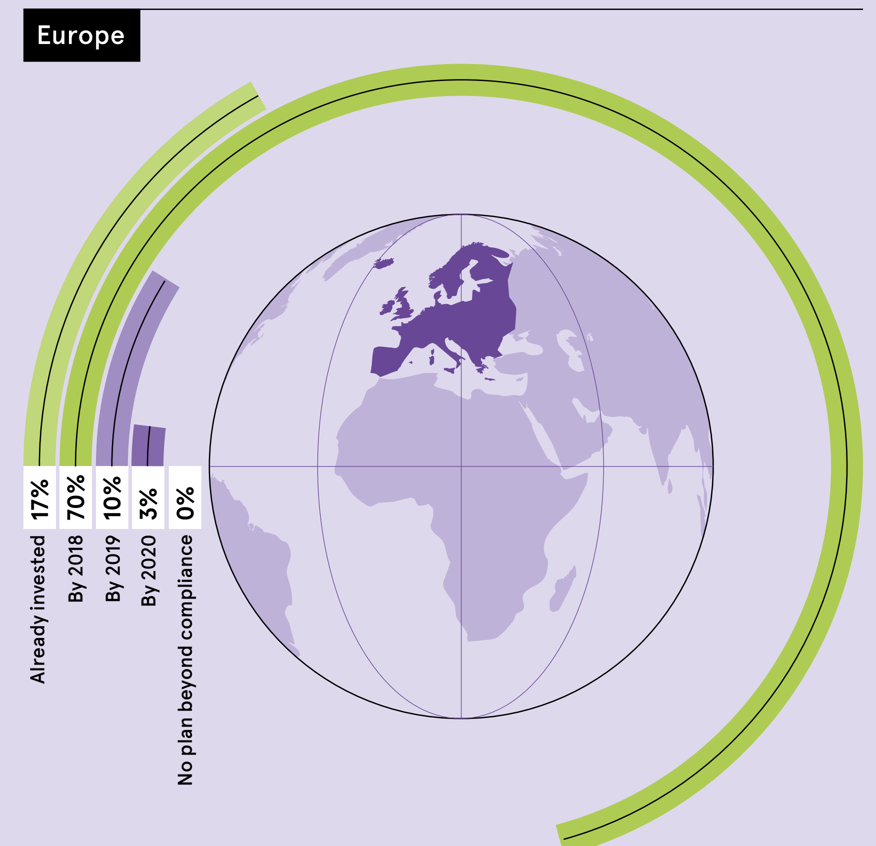


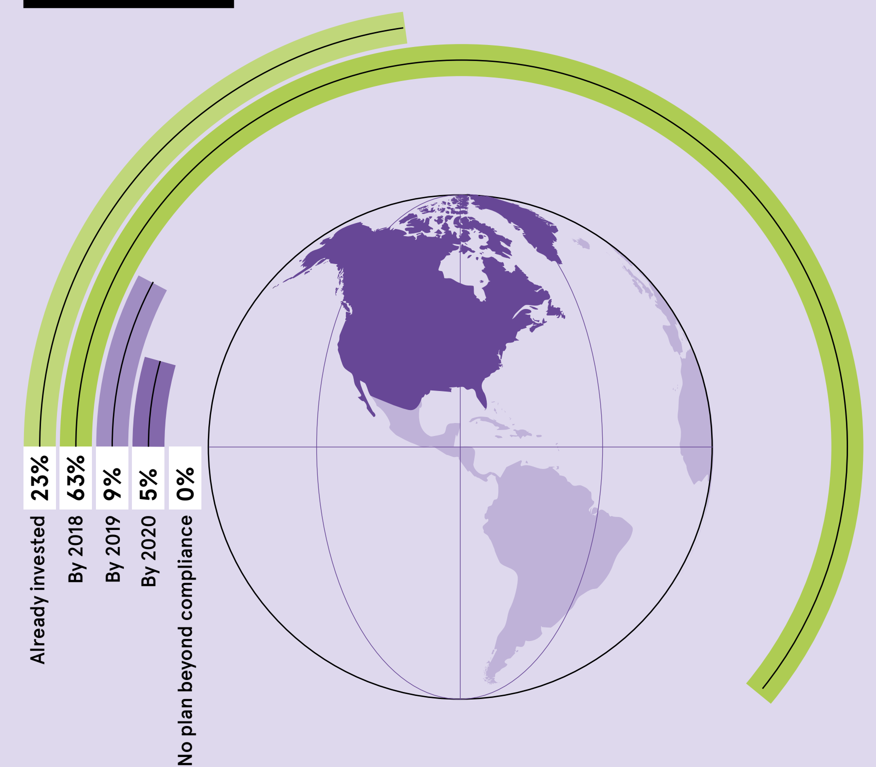
There hasn't been any significant impact or change

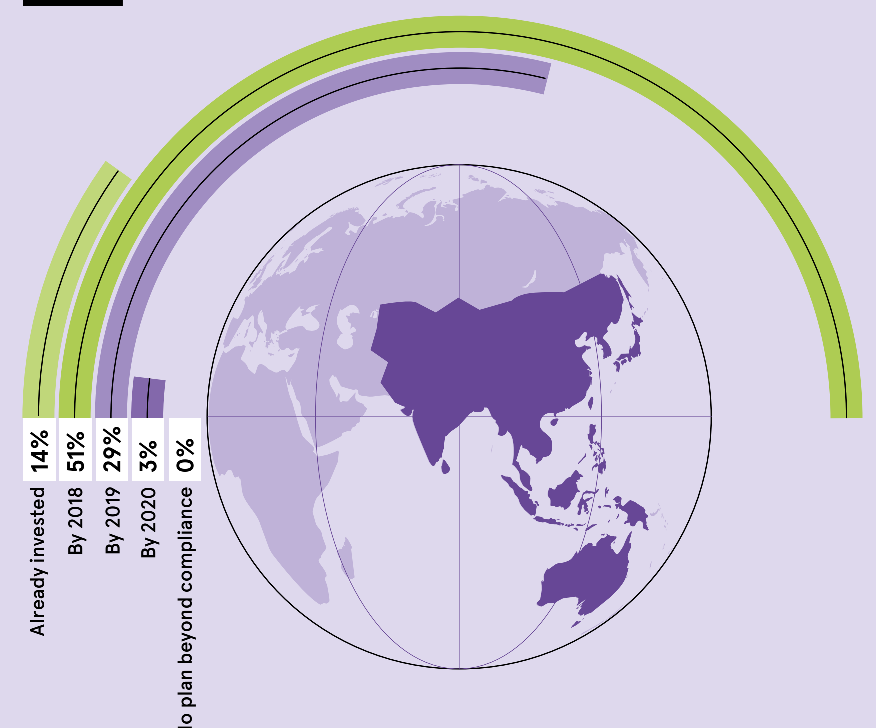
Finastra 2020

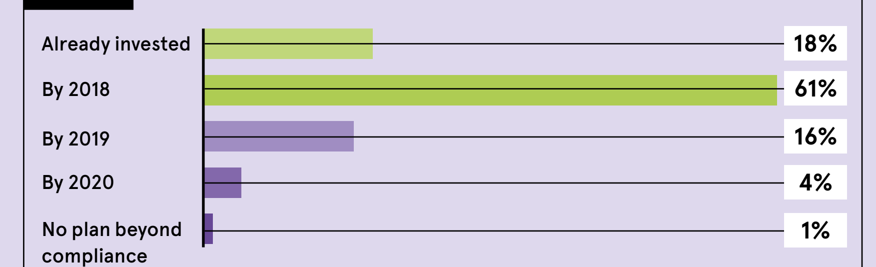
FORWARD-THINKING BANKS STARTED INVESTING EARLY

When banks stated they planned to make their major investments in Open Banking initiatives.





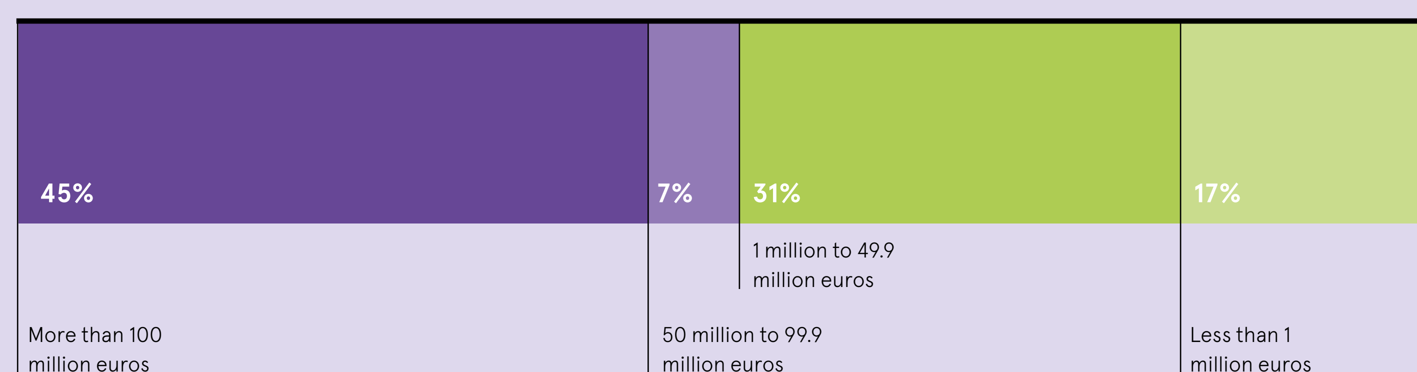




Accenture 2018

IN 2020, SPENDING ON OPEN BANKING INITIATIVES HAS REACHED NEW HEIGHTS

63 per cent of financial executives say their organisation's Open Banking spending has increased since 2019.



Tink 2020

Commercial feature

Paul Harrald
Head of Curve Credit

Cristina Alba Ochoa
Chief financial officer, OakNorth

Charlotte Crosswell
Chief executive, Innovate Finance

Andy Maguire
Chair of Thought Machine, former chief operating officer of HSBC

ROUNDTABLE

Meeting the challenge of a digital future

The coronavirus pandemic has given added impetus to digital finance. A virtual roundtable of five experts discusses lessons to be learnt, unmet consumer needs and the opportunity of "embedded" finance

Paul Taylor
Chief executive, Thought Machine

Gren Manuel

Q What are the lessons from the pandemic so far?

CAO What COVID-19 has made banks realise is lending decisions have typically been based on backward-looking, historical models. At OakNorth, we specialise in commercial lending and there was no model predicting what would happen to credit in a pandemic, especially to small and medium-sized enterprises (SMEs). So banks are now having to start building forward-looking models.

CC Obviously, we weren't prepared to distribute funds to SMEs quickly enough. When the Coronavirus Business Interruption Loan Scheme was put together, they didn't have the best fintech brains around the table, which would have helped to get distribution going. The traditional banks can't possibly supply all the demand for loans coming from SMEs in the next year, so it's a time for fintech, in the broadest sense, to shine. We have an opportunity to pull together the best of technology, the best of finance, the best of alternative lending and really help the economic recovery.

PT Thought Machine is an infrastructure company, we don't deal with consumers directly, but of course everything we do is built so the customer gets a better experience. But what does that mean in this particular context? Some traditional banks thought speed is something for the impatient millennial generation and that there's nothing wrong with making people wait, but this isn't the case. Unexpected events happen all the time and the pandemic exposes that you need to be able to move quickly to service consumers.

PH Banks like DBS in Singapore didn't just offer interesting types of loan forbearance; they provided an instant education programme about managing through a crisis and accessing their products and other peoples'. This shows banking and finance need not be purely technology and efficiency; it makes both human and financial sense to treat this thing as a relationship. A good example is credit scoring. In my opinion, an event like COVID-19 should change no one's credit score; it's a random, macro-economic event, creditworthiness has not changed although affordability may have.

> "The pandemic exposes that you need to be able to move quickly to service consumers

Q Is the shift to digital channels permanent?

AM Digital is great for some things, but there are limitations and I think it will swing back; the question is how far. Look at business loans: if you upload your accounts and you don't like the answer, ultimately you need to talk to a human. There's a lot of issues around the resilience of our financial system; the solutions need great technology, but also great people.

Q Apart from the move to digital, have other consumer behaviours changed?

CAO We have seen an explosion in savings despite much lower rates. We've done some surveys with depositors, who say they don't want to put their savings in shares or bonds that are perceived to be riskier, which indicates people have become more risk averse.

AM It's too soon to tell. Some people say we have become a nation of savers; I don't think we have. We have been a nation unable to do retail shopping for a while.

PH One of the most interesting effects has been a startling shift away from credit cards as a payment instrument towards debit cards. When consumers borrow, they are doing more with a Klarna or Curve Credit-style short-term instalment loan. This is a global phenomenon, I suspect driven by a sense of responsibility and a disaffection with the blurred distinction between paying and borrowing that can create persistent debt.

Q Andy, you had a long career at a global bank. How many of these changes are expected in a recession?

AM We've seen some of these changes, sadly, before. You do see people become more financially conservative and paying more attention to stuff like debt. And then people forget pretty quickly, and then it all goes back to the way it used to be - at a macro level at least.

Q Banks have accelerated their internal digital processes over the last six months. Do they still need to partner with fintechs?

CC Every financial institution we have been speaking to, not just banks but also asset managers and insurers, is expediting their digital transformation and I think that will continue quite aggressively. In the short term it will result in partnerships as it's incredibly hard to bring that in at speed. But over time they will learn from that. They will move from partnerships, to investment, to acquisition, then building it themselves.

> "Banks will move from partnerships, to investment, to acquisition, then building it themselves

CAO If you look at the traditional banks, their fully integrated systems are great for some things, but they are not agile. They can't change their upstream and downstream processes as fast as someone like us. So we do believe partnerships are the future.

Q What are the unmet needs?

AM There's not a long list of services that don't exist. Banking is not a recreational activity; it is a facilitator of the things people want to do in their life. And more or less, it serves them reasonably well, although it could be less clunky in all sorts of ways. It just needs to be as frictionless as possible and as human as it needs to be.

PT I'm a recent joiner to the finance world, having worked for 20 years in artificial intelligence, which is really at the forefront of innovation. I think there are good ideas in banking, but I remain to be convinced there are going to be any fundamental shifts in the products offered to customers. But there are huge shifts in how well we can do it. When things are working well, the customer journey for most banks is fine, but when you get off that path, the level of pain can be astonishing.

CC The unmet need is simplicity. Think how easy it is to change energy provider. Changing a mortgage provider, however, can take three months as the new provider goes through the paperwork and you prove who you are. Because of this complexity, people often re-fix with their current provider. We expect resistance from some financial institutions to change this, but it would be on my wish list for regulators.

AM We have to be careful about romanticising simplification. Financial products are not commodities and they are not all the same. Under open banking, you can do price optimisation, but people choose and use products for different emotional reasons. Some people may buy a car with a loan even though they could pay for it with cash. It doesn't make sense rationally, but it's a mixture of emotions to do with big decisions in your life.

CAO For SMEs, we believe there is a significant funding gap. We have quantified this globally, with external international banks, and we think worldwide it is $1.3 trillion to $1.5 trillion. It means many entrepreneurs are in growth mode, they need more than £1 million and there is no optimised debt financing that is not super expensive or super time consuming.

PH I agree that people would like their financial lives to be simpler. There is potential frustration in trying to manage multiple relationships in a more competitive environment. Also, I think there is clearly an appetite for people to have slightly more racy personal savings. People quite like retail brokerages, they are very interested in things like cryptocurrencies, but the conduct regulators are of the view that this is perhaps not a thing for everybody.

Q There is a lot of interest in so-called embedded finance, creating products or services that integrate financial with non-financial elements, often driven by data. A car dealer, for instance, could sell a car with not only financing but also insurance, which would reduce in price if the car's sensors established you are a cautious driver. Is this a major opportunity?

PT From the technology industry point of view, doing this well has proved to be incredibly hard for a variety of reasons. You need it all to integrate so it appears seamless. Also, companies generally want to own the whole product stack, just like Netflix wants to own its own stack from customer experience to creating movies. If we're going to do it, we have to do it exceptionally well.

AM Yes, we have to do it really well, but also securely, with the right protection, no fraud and no exploitation. How do you make it frictionless if you're building in all these protections?

CC We have to think about where Big Tech fits into this discussion and the data advantages they have already. For instance, people who have all this smart tech in their house, they are not thinking about the data which they are then providing on the back of that. This could have an impact on the future. We also need to understand how people are changing their buying behaviour, with millennials more likely to want to lease than buy, and think about the financial products they need.

> "The solutions need great technology, but also great people

CAO I imagine it's hard to get a good commercial agreement on an embedded finance partnership and it would be even harder if services are integrated. Whoever has the bigger access to the customer or to that service is best placed to do it and may try to take advantage of someone smaller.

Q Do embedded finance products suffer from an inherent lack of transparency?

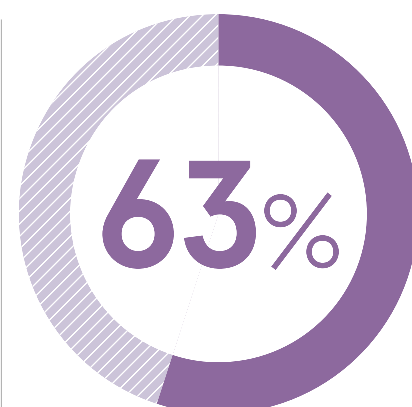
AM As Cristina said, there is a risk that when you get two institutions together, they will talk about how big they can make the pie, then argue about the size of the slice they each get. It's not necessarily about making things better for consumers.

PH Once you start to embed things like credit, there is only a particular level of complexity that can be disclosed. A cynic like me might argue that one of the purposes of complexity is to make price comparisons deliberately difficult because companies don't want to be compared solely on a single number. The other issue is these products blur the distinction between one part of your life and another, for instance blurring the distinction between deciding to buy something and financing it.

Q But isn't it the blurring that generates the convenience?

PT There is more subtlety than that. Having everything in one place generates confusion. If you look at the social media world, you might use one app for photo-sharing and another for video-sharing. It's the way we work psychologically; it's how we understand and partition. I think technology often works best when it reflects the objects in the real world rather than being necessarily super efficient.

PH When people talk about simplification, what they are not saying is take a bunch of very different things and put a wrapper over them and somehow the world will be a less complicated place. Mixing your electricity bills with your pension would just add to complexity. Providing a wrapper of similar activities provides immense convenience and promotes competition. When finances become embedded, it may be difficult or inconvenient to switch, and it's a shame when profits accrue because of this mere fact.



of UK consumers have reduced or stopped using bank branches during the pandemic

Bain & Company, September 2020

projected value that will eventually be created by embedded finance businesses

Bain Capital, 2019

Q Under embedded finance, financial services become a hidden part of a product. What does this do to the value of financial brands?

PH I suspect brands will continue to be very important, especially in the retail world, where people simply cannot do due diligence with every potential counterparty. Research suggests people are more open to handing their financial life over to different types of brands. The interesting question is whether they would be happy putting their money in the hands of a tech company. But they will still want to deal with a company with a brand presence. And that brand may well be a bank.

For more information please visit thoughtmachine.net

OPEN BANKING

A slow, 'gentle nudge' in the right direction

Open Banking was meant to revolutionise the UK banking sector, but a complete transformation of the industry has yet to materialise

Getty, Jacobs Stock Photography Ltd

Jonathan Weinberg

It has been nearly three years since the Second Payment Services Directive (PSD2) came into force. A much heralded move, has this piece of European legislation enabled the UK's traditional financial services sector to digitally transform or is it yet to fully embrace the potential of Open Banking?

The UK's Competition and Markets Authority (CMA) had hoped PSD2, which arrived in January 2018, would level the playing field between incumbent legacy banks and smaller fintech challengers.

Enabling newcomers to get a foothold for growth in the market was an issue highlighted in 2016 by the CMA which went on to set up the Open Banking Implementation Entity (OBIE) to "create software standards and industry guidelines that drive competition and innovation".

However, experts are divided on whether this has been achieved. Many highlight slow movement by some of the incumbents, despite the new arrangements for secure sharing of current account information with third-party providers, offering transformative tools for personal customers and smaller businesses.

Using new apps and websites, customers can see a single clear view of their finances to deliver more effective budgeting, gain easy access to the best deals, services and credit options from the whole market and spot fraud faster.

Official figures out in September do appear to be promising. Users of Open Banking-enabled products exceeded two million, a doubling in just over six months. Imran Gulamhuseinwala, trustee of OBIE, which is funded by the UK's nine largest banks and building societies, says Open Banking is "rebalancing the market in favour of consumers and small businesses".

But others are less sure. Luc Gueriane, chief commercial officer at payment solutions company Moorwand, believes Open Banking is failing. "Beyond the reluctance from banks, low-consumer awareness and the limited number of services are also key to its failing," he says.

"The products that are there are often overshadowed by the reliability and security which is associated with incumbent players.

"It must become both easier and cheaper for new players to build Open Banking APIs [application programming interfaces] and propel their services into the mainstream. Making infrastructure readily available will be key."

Adam Bialy, chief product officer at OpenPayd, adds: "The APIs are being built and the infrastructure is in place, but few banks are meeting PSD2 requirements.

"Open Banking has been less of a catalyst and more of a 'gentle nudge', with consumer-facing applications being limited to chiefly account aggregation services."

And while Mike Hampson, chief executive of Bishopsgate Financial, feels the slowness was due to the difficulty of "adapting API legacy architecture to be flexible and responsive, rather than a deliberate attempt to stifle the competition", he says: "But now, banks can use the competitive data held by other providers, to expand and rebundle their services, while improving their bottom line."

One suggestion for such innovation is to take more advantage of account-based payments within the retail sector, as this would cut the cost of commerce, but Bialy explains this is being hindered by "clunky user authentication flows that are different for each bank".

This is still the right leap forward, according to Jonathan Hughes, chief executive of payment and banking experts Pollinate Horizons. "For merchants, there are significant economic advantages to accepting payment through an Open Banking transaction, rather than on the card rails," he says. "The large enterprises that adopted Open Banking early on have forecast huge savings when compared to using cards, which in turn could result in savings for small and medium-sized enterprises."

However, on the other side of the virtual coin, Open Banking is solving existing problems and defining new ways of doing things, from targeting recommendations for restaurants, attractions and activities based on previous financial behaviour, to Open Banking Excellence, an awareness-raising group, joining forces with Moneyhub Enterprise and Streeva to power charity donations by scanning a QR code with a phone. It then pays directly from the user's bank account to the charity's account with automated Gift Aid.

Freddy Kelly, co-founder and chief executive of Open Banking credit reference agency Credit Kudos, is another seeing the benefits, this time for loans. He says: "A growing number of lenders, including banks, are embracing Open Banking as it helps them better understand a customer's behaviour in a rapidly changing world. By a borrower securely sharing their bank transaction data through Open Banking, the lender is able to detect a customer's recent loss of, or significant change in, income as well as identify new borrowing behaviour."

Ada Westerinen, Europe, Middle East and Africa director of solutions consulting for partners at MuleSoft, is also upbeat. "Open Banking is a huge opportunity for banks to unlock new sources of revenue if they can build highly personalised customer experiences in collaboration with other banks and service providers," she says.

"Banks have taken steps towards becoming curators of financial services, establishing marketplaces in which customers and providers can come to select the best products at the right price.

"By embracing this mindset, traditional banks can behave more like Silicon Valley startups, creating new revenue channels by sharing their core banking capabilities and customer base with authorised innovation partners."

One such innovator is Victor Trokoudes, co-founder and chief executive of free money management app Plum. He estimates Plum can make the average person £186,000 better off over their lifetime. "The kind of financial resilience this brings has been more important than ever in 2020 as the world responds to the COVID-19 pandemic," he says.

"We're looking forward to seeing more people than ever before use their banking data to empower themselves and break down financial barriers. When this happens, we'll see the true impact: no more companies that overcharge people, better financial literacy and engagement, and true wealth for all."

2M+

users of Open Banking-enabled products, double the number there was 6 months ago

Open Banking Implementation Entity 2020

1 IN 5

adults started using online banking apps during lockdown

54%

now use them regularly

Unsplash, Oleg Magni

Are these four Open Banking apps a sign of the future?

Open Banking is being used in many different ways to aggregate bank account information, provide access to credit, manage debts, apply for loans or mortgages and make saving easier. The app store run by the Open Banking Implementation Entity (OBIE) currently has 89 different Open Banking mobile applications and online products across consumer, business and technical services.

But as a sign of what could be possible, you only have to look at the winners of this year's Open Up 2020 Challenge from innovation foundation Nesta. The contest attracted 107 applicants, which resulted in 15 finalists. Each of the four winners will now get a £150,000 grant, on top of £50,000 awarded at the finalist stage, to grow their solution to help more people manage their money.

1 Mojo Mortgages MortgageScore combines credit and Open Banking data to determine if a customer is mortgage ready while the MortgageCoach feature provides personalised advice on how they could improve their score.

2 Moneybox is an app that helps customers save and invest by setting money aside through round-ups, one-off or regular deposits with the option to put the money into stocks and shares ISAs, lifetime ISAs, savings accounts and pensions.

3 Plum is a free money management app that automatically sets aside small amounts every few days and can invest the money. It also finds better deals on bills and offers spending insights.

4 Wagestream enables employees to stream a proportion of their income as it is earned, save directly from their salary, track their wages and bank balance, and set smart payment reminders in real time.

Lubaina Manji, senior programme manager of Open Up 2020 Challenge, Nesta Challenges, says: "Open Banking has revolutionised the way people manage their money and put them in control of their financial data. Despite its huge potential, it had a slightly slow start with many people initially unsure about sharing their financial data or the benefits it would offer them.

"The £1.5-million challenge, run in partnership with OBIE, was designed to boost people's awareness, trust and adoption of Open Banking-enabled finance apps."

New research from Open Up 2020 of 2,000 adults across the UK has found 82 per cent of people who already used Open Banking-enabled apps said they helped them improve how they manage their money with four in ten happy to share their data with apps like this to get personalised guidance or to save money.

Commercial feature

Rise of the 'cognitive bank'

Increasing customer expectations, including shifts due to the coronavirus pandemic, are accelerating the drive towards next-generation banking platforms and systems, supported by hybrid cloud infrastructure, that are ushering in the era of the "cognitive bank"

Banks have faced numerous challenges over the last decade in the hunt for both efficiency and a customer experience that meets fast-evolving expectations in the digital age. The coronavirus pandemic has accelerated the need for banks to transform. Achieving this kind of speed and agility is tough in legacy operations.

Often banks will appoint a chief transformation or chief digital officer who will work across the organisation to improve service and overall customer experience. They will tend to take a customer journey approach to, for example, opening an account, understanding the customer painpoints, and then working out how to make it better through the use of technology.

On the face of it, banking apps and websites have made significant strides. A loan can often now be approved in hours, instead of weeks, and digital onboarding of customers can be completed in minutes. But the systems that underpin them are up to 40 years old and are expensive and time consuming to change.

"Every established bank has transformed their processes, but there is a limit to how far they can go with their existing technology," says Simon Ward, lead partner in the Global Thought Machine Practice at IBM.

"Before COVID-19, established banks were thinking about how they could get to anything near the agility and customer experience of their neo rivals. The pandemic has intensified the desire for transformation and cost efficiency. Previously, a small number of banks were thinking about radical transformation, now many more of them are and they're speeding up."

What they are accelerating towards is the next generation of banking platforms. Built on cloud-native technology, they're faster and cheaper to build and operate, but remain secure. They're also open by design and therefore able to connect easily to other companies and service providers.

These new systems are based on hybrid cloud infrastructure, easing the flow of data and allowing the use of artificial intelligence (AI). IBM believes these cognitive banks, which infuse AI throughout all their operations and processes, are the future of banking.

"IBM believes these cognitive banks, which infuse AI throughout all their operations and processes, are the future of banking

"Banks will become more like software companies," says Ward. "They will have engineers and data scientists. People will spend less time doing clerical activities, freeing them up to focus on helping customers with complex financial transactions. When you contact your bank, you will talk to a virtual agent which will be powered by AI and only if your query falls out of certain boundaries will you be connected to a human agent.

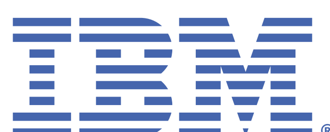
"The AI will monitor regulation changes and then relay exactly what changes are needed to the bank's processes. Cognitive banks will use biometrics in onboarding, so they know who is on the phone without having to authenticate in the traditional ways."

IBM helps clients transform into cognitive banks in three ways. Firstly, IBM is the only organisation with a secure financial services cloud, allowing banks the benefits of public cloud, but with controls that mean they can feel confident their data is secure. Secondly, the company has substantial depth and breadth of skills to support banking transformations. And finally, IBM partners with an ecosystem of companies that develop key cloud-based software applications, which further assist banks in their transformation.

"We are building a services organisation across 110 countries," says Paul Briscoe, senior partner in IBM's Core Banking and Payments Practice. "We construct something unique for each customer. We know that each specific product might not fit every financial institution and combinations of solutions might be unique each time. These are complex, multi-year digital journeys.

"IBM's global knowledge means we can make sure what we construct and help banks build is compliant with regulations in each individual country. IBM Cloud for Financial Services allows banks to understand what they're doing with their data and what controls they have put in, and therefore how they can evidence that to the regulator in their particular location."

For more information please contact Paul Briscoe, senior partner at pbriscoe@uk.ibm.com



Shutterstock, IR Stone

BANKING MODELS

Why bigger isn't always better

Is it possible to build a tier-1 bank from scratch to compete with the biggest high street players and would anyone even want to?

Daniel Thomas

If anyone knows about the failings of big banks, it's George Magnus, who was one of the few economists to predict the financial crisis of 2007-8.

A key lesson from that debacle is that bigger is usually not better when it comes to banks, says the former senior economic adviser to UBS. "I'm not sure you can or should want to build a new tier-1 bank today to compete with say Goldman Sachs, J.P. Morgan or HSBC," says Magnus. "These are the models we should be trying to move away from."

Critics feel big banks have done too little to change their ways since the crisis, offer poor customer service and have failed to serve marginalised people shut out of the system. Some have also seen their profits languish in the last decade due to tougher regulation and intense competition.

Still, it is not hard to imagine that a newer, tech-based challenger could one day reach the tier-1 scale and, if they do, customers and investors alike will ask the same thing: can they avoid the mistakes of the past?

Magnus, who worked at UBS from 1995 to 2012, says the banking world is safer than in 2008, but not safe enough. Lawmakers missed an opportunity after the crisis to draw "thicker lines" between low-risk retail banking and higher-risk investment banking, and so many lenders continue to engage in both activities.

"Too big to fail is still a problem if there's a systemic crisis," he says, suggesting taxpayers might still be on the hook in the event of another meltdown.

"I could see creditors and shareholders having to carry the cross for a single bank that got into trouble, but if we were hit by a crisis that undermined the financial system as a whole and deposits were to flee, I suspect the 'hit' would be too big and sudden to allow."

This won't cheer a small lender dreaming of entering the big league, particularly given the other financial hurdles they are likely to face.

Banking markets such as the UK's are saturated and interest rates are at record lows, says Thorsten Beck, professor of banking and finance at Cass Business School in London. That has left margins stretched and profits under pressure, something reflected in the large numbers of job cuts being made by the likes of HSBC and Deutsche Bank.

Smaller players must also overcome regulations that require them to hold a higher ratio of capital in reserve, along with trust issues due to their less well-known brands.

In such a tough set of circumstances, Beck says it would be tempting to try and expand quickly by buying up "bad legacy banks", but he suggests organic growth, while much slower, is preferable.

"They should also look for niches where they can get a higher return using technology [to cut costs]. So do less small and medium-sized enterprise lending, which is high cost as you need to deeply assess the risk, and focus more on mortgage lending where you can automate the risk assessment process," he says.

Big banks have a patchy reputation when it comes to customer service and innovation, unlike their more nimble fintech rivals that are gaining market share. So any new tier-1 bank would have to have innovation and good user experience at its core, particularly as tech giants like Apple and Facebook make further inroads into the sector.

"These Big Tech firms have the advantages of big data; they know so much more about us than any bank does and can offer much more tailored products," says Beck.

Tech-based providers have also started to tap into a market traditionally overlooked by the biggest banks: people shut out of the system who cannot open a bank account. When Facebook last year unveiled Libra, its blockchain-based payment system, it said one of its most important markets would be the billions unable to access traditional banking services in the developing world.

Charity Turn2Us notes that around 1.3 million people don't have bank accounts in the UK. "This is highly problematic for so many reasons; it makes claiming benefits much harder, it reduces options for getting decent deals with phone contracts, utility providers and broadband companies, and it makes getting any sort of credit incredibly difficult," a spokesman says.

He adds the flexible measures put in place by banks during the pandemic could also provide ideas for other products. "Mortgage holidays, payment freezes and interest-freeze overdrafts should be available to anyone experiencing a life-changing event. Life events often cause financial hardship," Turn2Us points out.

Beck doubts big banks will rush to change as there simply is not enough profit in serving the unbanked. It would take a change in regulations to enable lenders to open accounts with less than the usual amount of paperwork, at which point a viable market could emerge.

By contrast, he thinks the biggest banks will always take risks deemed unethical because it's so lucrative. "There will always be ways for bankers to get around certain rules on speculative activities because that is where the money is. Any new bank would get involved too, otherwise you would leave money on the table," he says.

For this reason Beck agrees with Magnus that "biggest is best" is not the right mantra. "I actually think the banking system needs to shrink. If there were fewer players, they would find it easier to make better returns and that would be better for both customer service and investors," says Beck.

Magnus thinks the only way we'll avoid a rerun of 2007-8 is to bring in two distinct models for tier-1 banks. On the one hand, there would be low-risk retail banks subject to looser oversight; on the other, higher-risk investment banks facing tougher rules.

"I can see newer banks can present models in which costs, profitability and funding risks are better addressed, but I don't see any new banking models that pass the 'would they be OK in a systemic crisis?' test. For that, I think we'd still need to break them up and redefine their functions and risk profiles," Magnus concludes.

THE REAL POTENTIAL OF DIGITAL-FIRST BANKS

From the power to promote widespread financial inclusion, to their magnet-like ability to attract investment, here are some ways nimble new fintechs are making Tier-1 banks look redundant.

$50BN
Invested in fintechs every year

500+
New fintechs created each year

40%
Existing banking roles will be disrupted by machine-learning

Atos 2020

> "I'm not sure you can or should want to build a new tier-1 bank today to compete with, say, Goldman Sachs

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Commercial feature

Banking during the pandemic and beyond

An expert panel, meeting around a virtual roundtable, discuss the changing face of banking and customers' needs

Steven Cochran
Head of products and growth platforms
Allied Irish Bank

Angela Byrne
Managing director
Shared experience and digital transformation
NatWest Group

Philip Garner
Innovation Lead
Lloyds Banking Group

Kevin Trilli
Chief product officer
Onfido

Q What types of emerging technology are helping the financial services industry to meet changing customer needs?

AB Throughout the pandemic it's been really clear that customers wanted to get in touch with us a lot. The use of artificial intelligence (AI) as an emerging technology has aided us hugely in helping to solve customers' needs, be that through chatbots or in implementing technology to try to make things more safe and secure for customers.

PG Firstly, there was an almost overnight change in how different customers needed to interact with us and so those different channels had to adapt. There were a number of technologies underpinning our ability to manage those volumes up and down such as the use of automation, AI and cloud.

KT In some cases, a lot of banks have made it so good on the frontend they're actually piled up on the backend trying to process things. The user experience is so good, the technology is so available, the inbound request of all these transactions has really challenged the ability to process some of the queues in some cases. It's a good problem to solve.

SC The move to the back office and being able to process loan requests and those payment holidays in a paperless way was a huge step forward. The bank could have planned for that for 12 months and we still wouldn't have landed it on time, yet we had to do it in weeks. The customer-interface technology has been crucial. But the back-office architecture required to deliver that has been equally important.

> "The use of artificial intelligence (AI) as an emerging technology has aided us hugely in helping to solve customers' needs

Q In terms of interaction, how can banks find a balance between digital and the human touch?

SC It does need both, we see that from our customers and, up until now, it was almost seen as a convenient opportunity for banks to close branches. Actually, this has shown we have to move the branch to the customer, into their living rooms, into their phones, and that's worked really well.

AB Customers will expect a seamless customer experience, so combining digital where they can self-serve should they want to do so and then also integrating that with the human support experience seamlessly, is important. If it is not seamless, it will create friction. So there has to be a concerted effort to integrate that and to make the experience joined up, whether it's starting in digital, then handing off to human support, or continuing digital straight through.

Q How important is feedback along the customer journey for banks to improve their levels of service?

AB That ongoing feedback is imperative and also helps us with fixing pain-points and with research. In a digital world, feedback is instant, whether it be on social media or as part of the journey, and it's imperative we continue to leverage that.

PG You have that real-time performance data throughout your various journeys. If you can see there are problems within that – users getting stuck at some point in the journey – you can get in there and address it; you don't need to wait for feedback to find its way through the organisation.

KT Everything we do here needs to be tested, so we're getting lots of feedback all the time through live behaviour. This tried-and-true approach of A/B testing, all these different things are important because you always have happy paths and unhappy paths, and people stuck in the middle. How do you think through that? Having a design-first approach to designing these flows is critical, especially when you introduce different types of security that might be right turns or left turns for the user.

Q How can partnerships between the incumbent banks and fintechs help to deliver change?

PG I think it's been an approach that we, at Lloyds, are seeing as increasingly important to parts of our transformation agenda, particularly as the maturity of the fintech sector has grown so much over the past few years.

SC It can be a tense relationship at times. But we both do want the same thing and I think fintech partnerships for banks are absolutely critical because that is where most of the innovation will come.

KT It's very important to find areas you can trust third parties to work on. In addition to being able to focus and specialise, we also have an aggregate knowledge of all our customers we can bring. You need to find those extra benefits for partnerships to work. Potentially, working with a vendor, even part time for a few years, can bring something to market faster than the build side of it.

Q Has the pandemic prioritised the development of products that are able to respond and adapt easily to changing customer needs?

SC We used to build a product, and you took a loan and you repaid it over five years or 25 years, and we saw you at the end and that was it. That's all changed now. This is going to become a really emerging area for us in the next 12 months.

AB Also, through the pandemic, we've shown that we can do it, so we can be nimble and we can react quickly. Being nimble and flexible, and able to respond to those expectations quickly, is going to be a competitive advantage.

Q Where do you see the banking industry in five years' time?

KT It's clearly becoming a mobile experience. The brands will continue; they are going to be looked at in the future as trusted repositories of our information.

PG If you think how many internet-enabled devices there will be, some elements of banking may become more embedded in our daily activities. That will just make people's lives better and easier. But I also think that other aspects of banking will, in turn, become more visible such as engaging with customers to give them a better picture of their financial health and helping them plan for the longer term.

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REGTECH

Competition in the 'control room'

The global financial crisis of 2008 had a profound effect on how policymakers manage risk, which has led to major changes in the way banks insulate themselves against major shocks

Stephanie Baxter

The years since the financial crash have seen banks introduce internal controls to improve transparency and accountability, but they still have much more to do to stay on top of risk.

Banks now have more processes to run and more data to manage, and regulators are trying to prevent problems before they even happen.

"In the past, regulators would audit, but never really get involved," says Gary Wright, chief executive of B.I.S.S. Research. "Nowadays, the banking community doesn't invest in or build new systems and processes without the regulator. The regulator is close by so they're kept informed of what's going on."

The growth in regulation has had a large impact on the "control room", a compliance and monitoring function in banks.

Lisa Quest, head of Oliver Wyman's public sector and policy practice for the UK and Ireland, says: "Banks have invested a lot in compliance and risk management following the financial crisis, in terms of both conduct risks and prudential risks. More recently there's been a huge focus on non-financial risk compliance such as anti-money laundering and counter-terrorist financing and cyber."

Banks have invested not just in human resources, but also in systems and technology, realising that regulatory compliance can be part of their digital transformation.

David Gurlé, founder and chief executive of Symphony, a cloud technology provider, says much has changed. "In the past, there was an army of people making all the checks and balances to make sure the finance transaction goes through; nowadays the computer is doing a lot of this. Once you introduce a human being in any process, there is the potential for error and eliminating that creates less friction in the cogs," he says.

Control rooms have vastly improved by integrating technology to increase monitoring of business risks and return relative to capital usage, according to Dr Nadia Kappou, associate professor of finance and programme director at Henley Business School.

"This combined with a much more rigorous approach to staff conduct has resulted in a safer and more efficient financial system for the end-user," she says.

Regulatory technology, known as regtech, can help banks oversee issues that occur very quickly, such as a liquidity squeeze or compliance.

One of the more recent post-financial crisis regulations is a UK regime introduced in 2016 to make senior managers in financial services firms accountable for their decisions.

Mark Turner, a managing director at Duff & Phelps' compliance and regulatory practice, says technology helps senior managers meet their responsibilities. "When overseeing complex organisations through manual processes and email or verbal communications, it's very difficult for management to ensure that when there are red flags, they know where to look. Technology cannot fix all that, but it can help to see the wood from the trees," he adds.

Once you introduce a human being in any process, there is the potential for error

There is now a whole range of technologies to help banks manage their risks and comply with regulation, while also giving them a competitive advantage.

Mark Hepsworth, chief executive of Asset Control, says: "Whenever banks do something that's driven by a regulatory mandate, they always try and get something else out of it as well, such as make the business more productive or improve operational efficiency and take costs out."

Banks can use the money saved to reinvest in other areas for future growth and development of the business.

OPINION

'We must draw down the full potential of technology and move from soundbites, research rooms and lightbulb moments to brave steps of action'

Imagine a sales and trading desk being able to process data and information rapidly to not only recommend a decision but, using data analytics and artificial intelligence (AI), anticipate the likely outcome and consequences of such a step.

It's not quite seeing into the future, but certainly reduces the risk of loss, with the chances of successful decision-making, as well as trade volumes, growing as each AI decision is made.

We may not be able to predict the future per se, but this is certainly the future of the banking and finance industry, and where many of the major international capital markets firms are headed. They are investing time and resources in the better use of technology to achieve primary goals of revenue growth, sustainability and overall customer improvements.

The frequency of discourse where finance and technology intersect has grown exponentially over the last several years. You cannot attend a finance-related conference, virtual or otherwise, without a panel session or roundtable featuring fintech; governments want to attract it and investors want to invest in it.

Generally speaking, when we hear the term fintech, we automatically think of new emoney lenders: the original, successful fintech disruptors dominating the hearts and minds of this hastily evolving debate.

Blockchain, distributed ledger technology, and cloud are now common themes in the fintech debate, but the capital markets and wholesale space has yet to see the full-scale benefits and success akin to their retail banking counterparts.

Investment banking is in a state of flux. Its business model, largely built upon international markets and the ease of movement of capital and liquidity cross-border, is being disrupted by global market fragmentation.

Already weakening profits for European firms are being exacerbated by a confluence of global issues, notably Brexit, US-China trade wars, cyber-risk, coronavirus and a fragile global economy that analysts expect to decline further in 2021.

These evolving global issues, on top of a constantly growing regulatory rulebook, are pushing financial service institutions to research, develop and innovate in the technology arena to drive efficiency and growth.

But what does innovation in capital markets technology look like? It means automation, being data led, more agile and reducing the burden that large and legacy infrastructure can have on effective change. The latter is highlighted by the success of the more nimble and agile boutique advisory firms over the past ten years when their profits and market share have grown materially.

There is no doubt banks are investing and innovating in technology and we are already seeing more practical uses of AI in supervision and compliance where behaviour patterns suggesting potential fraud or market abuse can be detected.

But to really change the fate of this corner of the industry, we must draw down the full potential of technology and move from soundbites, research rooms and lightbulb moments to brave steps of implementation and action before those ideas, and business models, become redundant and stale.

We must move from local test sites to national implementation where all parts of the business benefit from investment in technology. Industry will also need to invest in agile and fluid business models resourced with the right talent to navigate a new and complex landscape of technology upon which we have only begun to scratch the surface.

And we must be prepared to accept that stationary operating models are fading and an era of fluid and constantly evolving business models, underpinned by fast-moving technology, is not dawning, but already here.

Regulators have a role here too, not only to facilitate but to benefit. The technology that enables banks to trade with more accuracy and pace, and to identify and prevent market abuse, can also support regulatory authorities and supervisors in foreseeing market risk and predicting economic turbulence with greater levels of certainty. It can also bolster defences against cyberattacks, an issue that many businesses and regulatory authorities have identified as one of their top operational risks.

It is time technology in capital markets leaves the sandbox and becomes not only mainstream and constant, but visible with investment and trust in that technology bearing fruit.

Conor Lawlor
Director of Brexit, Capital Markets and Wholesale, UK Finance

Asset Control aggregates, cleanses and validates the data that is fed into bank risk models. Hepsworth says failures of banks such as Lehman Brothers led to a lot more scrutiny around the quality of the data used to understand capital risk positions.

Banks have also adopted cloud and open source technologies. "Up until about two years ago, banks were pretty nervous about open source technology, but that's since changed," says Hepsworth.

Symphony helps reduce compliance risk associated with increased digital information-sharing by using cloud technology. This is now used by many banks and has been a game-changer for working from home during the coronavirus pandemic, according to Gurlé.

New technologies driven by artificial intelligence (AI) and machine-learning are being used in risk management processes such as anti-money laundering and fraud.

"These technologies help enhance transaction monitoring, client onboarding and investigation processes, which lower the cost and time to check and acquire new customers and monitor ongoing activity," says Quest at Oliver Wyman. "This can bring a competitive advantage, for example through faster more streamlined onboarding of new clients."

When the digital-first neobanks entered the UK market, they could onboard customers in a fraction of the time on their mobile devices.

"By introducing sophisticated regulation technology to automate compliance checking, incumbent banks have likewise expedited their processes to innovate and improve customer experience," says Quest.

MirrorWeb is a startup which enables financial firms to capture records of their website and social media communications. "One of the key areas of concern, even pre-COVID, was digital compliance and staying accountable of everything being published online and via social media. This has now become an even bigger challenge due to the pandemic," according to its co-founder and chief executive David Clee.

Some banks are going further than others in using technology to their competitive advantage. HSBC is often called a leader in embracing new technology, while American banks which bounced back faster from the 2008 crash have had bigger war chests to invest in new technologies.

Clee says HSBC and J.P. Morgan have taken "significant steps forward" by adopting AI and regtech solutions to help reduce financial crime and meet regulatory requirements.

Standard Chartered Bank is "focusing a lot on its infrastructure and the importance of data within its risk management process," Hepsworth adds.

Banks have tended to bolt new tech solutions like AI or blockchain onto their legacy systems without taking a holistic approach, but the COVID-19 pandemic has spurred banks to re-evaluate all their systems and technology tools.

"Banks need to have a development strategy or plan of what they want to be going forward, while keeping the existing business going. These issues are now starting to be tackled and COVID-19 is helping to drive this," says Wright of B.I.S.S. Research.

Technology is revolutionising the banking sector. Banks that use it, not just for compliance and meeting regulation, but also to improve their businesses for the benefit of their customers, will thrive in the future.

$1.9BN

global investment in regtech in the first half of 2020. Total investment is on pace to exceed 2019's investment

KPMG 2020

$76.3BN

firms' projected regtech spending by 2022

Capgemini 2019

OPINION

'Fintech was born in the last crisis and it is primed to help in the current crisis'

Fintech was born in the wake of the last economic crisis. It is ready to help in the present crisis and to power lasting growth.

The global economic crisis caused by coronavirus is already drawing comparisons with the 2008 recession. Though the causes are very different, we can foresee the same fallout: credit drying up, small and medium-sized enterprises (SMEs) struggling and the most vulnerable in society put in a precarious position.

Happily, we have made progress in our ability to handle these issues. The advent of fintech is a particular highlight. The fintech sector, which finds its roots in the 2008 Great Recession, has grown with a stated aim of tackling those very problems which headlined that crisis. Since then, fintech has flourished and is now delivering innovation across the full spectrum of financial services.

Current accounts, savings, investments, insurance, foreign exchange and payments have all been disrupted by fintech providers. So too have the core infrastructure of banks and banking systems, helping to improve efficiency across the sectors players, old and new. There is a strong base on which the sector can build. Fintech was born in the last crisis and it is primed to help in the current crisis.

An area in which fintech has seen particularly strong growth, and one where it stands to make a big impact in the recovery, is SME financing. Protecting the future of SMEs has been front of mind for government and business alike. Fintech lenders have certainly played their part in disbursing the lifelines of CBILS (Coronavirus Business Interruption Loan Scheme) and BBLS (Bounce Back Loan Scheme) to small businesses.

They have an equally important role in providing the capital to keep SMEs, the very backbone of the UK economy, growing and succeeding. SME financing has been an issue for many years. A lack of access to credit for small businesses is endemic in the UK and it has held back the ambitions of entrepreneurs.

Recognising this, a cadre of innovators have built new digital-first businesses designed to meet the financing needs of SMEs. Challenger banks and alternative lenders, such as Starling, iwoca, Funding Circle, OakNorth, Tide, Capital on Tap and Atom Bank, have all started since 2010 with the aim of disrupting the SME lending market.

This new breed of lenders are smaller and more flexible than bigger banks, which means they can cater to SMEs more readily and are armed with new technology to allow speedier decision-making. Their use of new data analysis technology combined with machine-learning and artificial intelligence means they can process large volumes of requests from SMEs much faster than traditional players.

Fintech lenders already have relationships with more than 500,000 SMEs in the UK and it's clear they have a huge role in supporting small-business financing. The speed and flexibility of these innovative lenders is what sets them apart. The way they can support SMEs in need now, and power those who are looking to take advantage of growth or starting a business in the wake of COVID, will be absolutely vital for the long-term strength of the economy.

The speed of our recovery will in a large part be determined by the fortunes of SMEs. The more tools and the more options they have at their disposal to support their financial situation and to achieve their goals, the better.

We have seen the potential for fintech to power growth for a number of years. Now is the time for it to really make its mark and to show it is a critical part of our economy.

500K+

SMEs in the UK currently have relationships with fintech lenders

Charlotte Crosswell
CEO,
Innovate Finance

Commercial feature

Seizing the moment in a bold new world for banking

Having played a positive role in the response to the coronavirus pandemic, banks are now presented with a one-off opportunity finally to fix their broken business model

Coronavirus has triggered a very different crisis than the global financial crash of 2007-8 and banks have found themselves playing a contrasting role. They have responded well in their own right, overcoming significant technical and operational barriers to maintain continuity of service to their customers through lockdown, including keeping branches accessible and contact centres going. But they have also been fundamental in facilitating the government's emergency loan schemes and mortgage payment holidays.

Where banks will find common ground between the global financial crisis over a decade ago and the pandemic is in the inflexion point each one signalled in the need to overhaul their business model. Banks knew after the 2008 market crash that they had to rebuild their balance sheets and embrace technology to transform how they interact with consumers.

Having put the foundations in place since then, the pandemic now creates the imperative to accelerate their business model and digital transition.

"The pandemic has presented banks with an opportunity to be part of the solution and they have truly grasped it," says Isabelle Jenkins, partner and UK banking leader at PwC. "They deserve credit for the role they've played and the speed with which they put in place the various government support mechanisms, providing crucial breathing space for customers and small businesses."

"Their efforts should go a long way towards helping to further restore trust and the reputation of banks. That doesn't, however, mean they're not facing challenges."

Given banks are much better capitalised than before the 2007-8 financial crash, they are well placed to cope with the immediate impact of this crisis in terms of impairments and falling revenues.

What the pandemic has done, however, is diminish any hope of an end to ultra-low base rates and even raises the prospect of negative rates. Low interest rates have placed a significant drag on their profit margins over the last decade, and the business model they've relied on – monetising the spread between what they pay on deposits versus what they charge for loans – is no longer viable.

Without substantial change, retail banks will struggle to deliver a return above their cost of capital. The required change will manifest itself in numerous ways. Banks will evolve their business model by seeking to diversify their income away from net interest income to generate more fee-based income, not only driving them into new areas, such as insurance, but also seeing them introduce more fees for existing products, particularly current accounts.

Banks will also seek to reduce their costs further and ramp up their digital transformations. This is likely to accelerate what has already been seen in recent years in terms of branch closures, job losses, more automation and the continued demise of cash and cheques. Customers will interact with their banks differently, characterised by an even greater shift to digital channels, such as video, mobile apps and live chatbots.

"The pandemic has crystallised the fact that the traditional retail banking business model in the UK just doesn't work anymore," says Simon Westcott, partner in PwC's Strategy& practice. "Retail banks are now in a structurally low-margin industry. They need to accept that reality and look to operate and think in a different way."

> **The pandemic has crystallised the fact that the traditional retail banking business model in the UK just doesn't work anymore**

With margins low and growth prospects limited, economies of scale also become more important. A wave of consolidation is expected to undo much of the fragmentation that took place after the last financial crisis. This has already begun to be evident elsewhere in Europe, where regulators are taking more of an enabling than obstructing stance.

"As the business model strength of digital-only neobanks is put to the test, big banks will spot acquisition opportunities, and we are also likely to see mergers that deliver those economies of scale," says Westcott. "Meanwhile, big banks need to consider the threat posed by Big Tech players, such as Google and Amazon, which have largely prospered through the pandemic and are now looking to play a greater role in financial services. The industry must prepare for a financial services world that includes Big Tech."

Online banking usage grew by a fifth during lockdown, while mobile banking and video chat usage increased by 21 per cent and 19 per cent respectively, according to research by PwC, which also anticipates an acceleration in the shift to digital payments. In the next 18 months, cash payments will decline by 21 per cent, PwC predicts, offset by a 25 per cent uplift in mobile payments and 16 per cent in customers paying by an digital wallet.

Government and regulators have previously discouraged banks from closing branches, particularly to maintain a strong customer experience for elderly, rural or vulnerable customers who may struggle with the transition to digital. COVID-19 has the potential to change that.

Attending a branch is now a much less attractive proposition for anybody, not least vulnerable people who, as we enter winter, will potentially have to leave their homes in the cold weather to line up outside the bank, due to social distancing measures, and withdraw cash that has been widely handled.

Such a customer experience is poor even before considering the risk of virus transmission, flipping on its head the notion that banks must not leave vulnerable customers behind by closing branches. The sheer necessity of the moment presents a window of opportunity for banks to accelerate the shift to digital platforms and channels at a time when people are most receptive and in need of these changes.

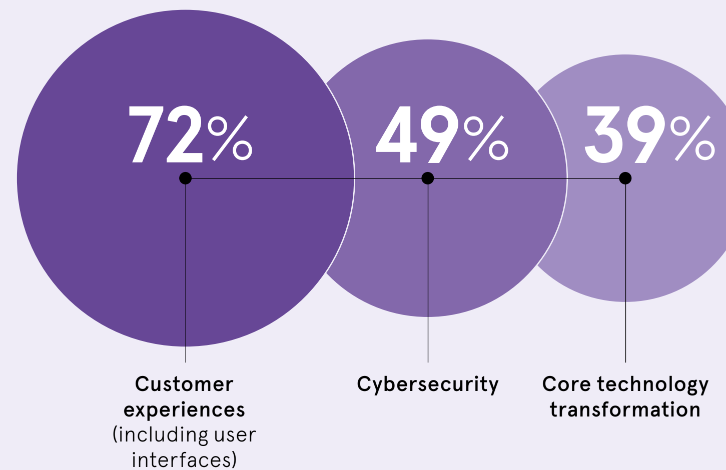
"Banks must seize the moment and go further and faster in their digital transformation than they might otherwise have been brave enough to do," says Westcott. "They know they still need to have some person-to-person contact with consumers, particularly the vulnerable, but a much better customer experience would be providing a tablet, training customers on how to use it and broadcasting an agent into their home via video to carry out their banking services.

"If banks are slow to respond, and on the other side of the crisis things return to a previous status quo, they'll have missed the chance.

"Meanwhile, rather than hinder banks in that transition, government and regulators need to support them and see the positives. Once customers get through the transition, which may be difficult for some, we can look forward to a much better and safer customer experience, and a more sustainable banking sector because its cost base has been right-sized for the economics of retail banking as it exists now and into the future."

BANKING AND CAPITAL MARKETS TRENDS 2020

COVID 19 has acted as an accelerator to many existing priorities for Banks. When asked in PwC's 23rd Annual Global CEO Survey which of the following opportunities in the financial services industry will you be prioritising and/or investing in over the next 12 months B&CM CEO's responded as follows:



Source: PwC, 23rd Annual Global CEO Survey

www.pwc.co.uk/industries/banking-capital-markets.html

Commercial feature

Financial institutions embrace multi-cloud to accelerate innovation

Pressure is mounting on financial services firms to adopt new business models, but doing so requires a customer experience that can only be powered by true agility and innovation

Established financial services companies have long had to balance the running and operating of legacy systems, some of which still run code originally developed 40 years ago, with the digital transformation of their IT estate and wider business. Coronavirus may have accelerated acceptance and development of net new digital, but many organisations have still had to rethink their tools, processes and operational models.

The pressure to modernise and improve customer experience has been exacerbated by the rise of neo-financial institutions born into a cloud environment that gives them a natural advantage when it comes to agility, scalability and innovating at speed. Some incumbents have responded faster than others, creating digital islands or even new operating companies to own innovation and drive the shift to new ways of working and more continuous delivery of updates and features.

New research by Reply and Imperial College London, based on interviews with executives at financial institutions, cloud services providers and regulators, found that though cloud adoption is evolving rapidly, the deployment models and extent of adoption are influenced, broadly, by four key factors.

"Firstly, they vary geographically," says Freddy Gielen, executive partner at Reply, which supports industries including financial services in designing and implementing innovative solutions and developing new business models. "For example, the UK's regulatory stance is more cloud friendly than, say, countries in the Middle East, so the location where an institution resides majorly impacts acceptance."

The second factor is defined by the sub-segments of the financial industry. Asset management firms, for example, generally find it easier to adopt the cloud than those in wealth management where there are stronger concerns about data privacy.

Thirdly, banking incumbents will naturally approach it differently than neobanks that were built in the cloud. And finally, idiosyncratic factors also have an influence. Though two financial services companies may say they adopted cloud technology, one may have done so only for development and testing while the other migrated core applications.

"Size also plays a big role," says Professor Nelson Phillips of Imperial College Business School. "If you're a large incumbent bank with several clouds, public and private, dealing with different providers, you're much further along because the drivers in terms of efficiency and scale are really important. If you're more of a regional bank in a single European country, the drivers are less straightforward.

"Just moving things to the cloud is not entirely sensible. You first have to clean up the data and think about your software and how you're going to do it. It's not just lift and shift; it's lift, fix and shift."

Scalability and cost efficiencies are principal motivators of cloud adoption, but as companies become more sophisticated they also see the value around innovation. The likes of Starling Bank and Monzo have been able to innovate at speed due to their cloud foundations. And with Microsoft Azure providing cutting-edge technologies such as artificial intelligence, machine-learning and the internet of things, coupled with the Azure Cloud Migration Framework, cloud is also fuelling powerful innovation for others in the financial services sector too.

The pandemic has all but confirmed that interest rates, having been near zero since the 2008 global financial crisis, will not be anything other than ultra-low in the medium or even longer term. This means the traditional business model of retail banks, their net interest margin, is hardly viable if they do not search for additional revenue streams.

While retail banks will continue to lend, they also urgently need to find new ways to create customer value. In this age of social media and interconnected application programming interfaces, or APIs, neobanks that have spent the last few years creating an excellent user experience for customers online are already now testing and even releasing new kinds of products they can generate revenue from.

> **Reply helps companies get the best out of each cloud product, but also maximises the benefits of everything wrapped around a multi-cloud environment, including automation, performance and security**

To compete, incumbent banks must also create an agile and innovative environment that enables their people to find new ways of making money.

"One way of tapping into new business models is to grow the premium customer base, who pay monthly fees, but to deliver new services and a pristine customer experience, incumbent financial institutions need to be able to match the cloud-driven agility of their neobank rivals," says Gielen. "Modernising the mainframe is a common roadmap item that enables incumbents to compete. It can be a multi-year undertaking, but technologies such as AWS Serverless are providing organisations with a portfolio of services to deliver on this, as fast as the bank can adopt change."

The model emerging as the technical environment of choice in this new world of banking is multi-cloud. While hybrid cloud typically meant a workload that could run in many places, a multi-cloud model allows workloads to be moved between any clouds in an environment, depending on what is the most optimum platform at any given time. This could be influenced by technical functionality, but also a commercial relationship.

Across processes, applications and technologies, Reply addresses the main core issues of the financial services sector, fostering success through the introduction of innovation along the whole economic digital chain. In the area of multi-cloud IT environments specifically, financial services organisations benefit from the deep relationships that Reply has developed at the highest levels with the leading cloud vendors and platforms.

Though multi-cloud is an enabler of agility and innovation for financial institutions, particularly those seeking new business models, it does also introduce a number of challenges around how to migrate to, operate and govern such an environment. Companies with large legacy estates will run into common challenges, including billing, costing, availability, disaster recovery, security classifications and data locations.

"Manoeuvrability is very important, but managing a multi-cloud environment, for a short-term business initiative or as part of a longer, multi-vendor strategy, still has its headaches and pitfalls," says Gielen. "As a premier partner with Google Cloud, Reply's clients can leverage the value of open standards like Kubernetes and TensorFlow along with multi-cloud management products such as Google Anthos.

"Reply helps companies get the best out of each cloud product, but also maximises the benefits of everything wrapped around a multi-cloud environment, including automation, performance and security. With a number of our clients, we've iterated that forward into a cloud management platform that can essentially manage from one place what's happening across multiple cloud vendors. Our commitment to open source and being able to build portable applications that can run on any of those clouds is also very strong, as well as supporting where each of the cloud vendors might specialise."

For more information please visit reply.com/cloud-fs

CAPITAL MARKETS

Volatility on the path to innovation

Coronavirus has disrupted all sectors of the economy, not least capital markets, but it has also created opportunities for innovation and growth

Oliver Pickup

If you were to create a word cloud to describe capital markets in 2020, most prominent, in large, emphatic capital letters, would be VOLATILE.

At the start of the year, the most concerning aspect for those involved in capital markets was the UK's exit from the European Union. There remains an uncomfortable amount of doubt about how Brexit will play out, with traders and business leaders alike looking longingly towards Brussels in the hope of a favourable outcome of negotiations before the transition period ends on January 1.

November's American presidential election had long been circled as a time when the capital markets might play bull or bear. But then, in March, came the worldwide spread of coronavirus. The pandemic has touched every aspect of our lives and infected all sectors and their markets.

This extreme volatility has accelerated innovation to reduce risk, maximise returns and improve resilience for governments, large financial institutions and traders. And driving the necessary evolution of the architecture of capital markets is technology.

"Capital markets have had a tough year in 2020, mainly as a result of the coronavirus pandemic, with COVID-19 rates rising and the prospect of a third shutdown across the world now apparent," says Sankar Krishnan, executive vice president of capital markets and banking at Capgemini. "Looming fiscal cliffs caused by shutdown, continued virus uncertainty and the US election impacting global politics are all added to the mix."

Against this backdrop, though, several key trends have emerged and they might remain for some time. For one, there are new products and terminology. "We never before heard of terms such as 'COVID stocks', 'work-from-home stocks', 'return-to-work stocks' and few people had come across special purpose acquisition companies or SPACs," says Krishnan.

There has been substantial growth in SPACs, whose main objective is to raise capital through an initial public offering to acquire companies. In September, SPACInsider reported there had been $36.2 billion in SPAC proceeds so far in 2020, almost three times greater than the whole of last year at $13.6 billion.

However, private equity firms closed around 30 per cent of deals in the first half of 2020 compared to the same period last year, says Krishnan. "This is expected to continue for the rest of the year," he says. "That said, mergers and acquisitions activity continued to be strong as valuations dropped.

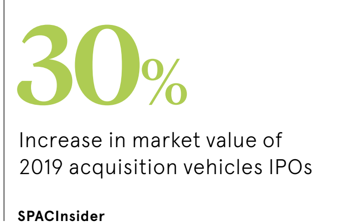
"On the sell side, broker-dealers and investment banks have seen significant volume decline, mainly due to obsolete legacy systems that were driving down margins. Almost all large investment banks are investing in digital, mainly for improving customer and employee productivity, cybersecurity and rethinking talent."

Predicting more development in this area, he adds: "It is widely anticipated traditional investment banking will get broken down to specialist investment banks that focus on deal origination and utilities that will perform middle and back-office functions."

Another trend identified by Krishnan is the evolution of data providers, who play a "critical part of our capital market activity as we know it". He says: "Traditional buyers rely on the likes of Slack and Bloomberg for trader communications and buyers are directly sourcing data from the market or boutique providers. A variety of capital markets-focused fintechs are also coming of age and establishing niche models in the field of Libor [London inter-bank offered rate] pricing, artificial intelli-

50+
Acquisition vehicles over the last 5 years

Raised by acquisition vehicles since 2017



Increase in market value of 2019 acquisition vehicles IPOs

SPACInsider

gence-driven bond pricing, fixed income analytics and so on."

Michael Voisin, global head of capital markets practice at law firm Linklaters, says: "Capital markets are in a good state, both globally and regionally. They are doing what they are designed to do: providing cost-effective financing to businesses in need of it.

"The enduring benefit of the capital markets is their ability to provide deep liquidity for large fundraisings at the most competitive rates." As an example, he points to the European Commission's recent bond issues, which raised €17 billion and carried negative interest rates, so investors were willing to lose a small return on their investment in return for capital protection. "There was investor demand for €233 billion, so they could have sold almost 14 times more bonds at that price than they were seeking to raise," says Voisin.

This year he has spotted a jump in financing for environmental, social and governance (ESG) purposes, and is pleased governments are helping in this area. "Fundraising for the pandemic has included government-supported schemes, such as the Bank of England's COVID Corporate Financing Facility, as well as longer-term financings," he says. "And we have seen a raft of ESG issuance across the world, such as blue bonds in Asia to support ocean-related environmental programmes."

> **What is clear is we can't stay as we are**

Angie Walker, global head of capital markets and banking at software firm R3, believes blockchain technology and digital assets "will play a fundamental part in collateral optimisation, risk mitigation and driving much greater efficiency through vast simplification of otherwise over-engineered and unnecessarily complex processes".

Suggesting that capital markets are "in a transformational state", she sounds a note of caution. "It is evident that much has to change and the growing tide of regulatory obligations around risk, capital adequacy and reporting is going to continue to fuel that," she says.

When assessing the characteristics of global capital markets that demand unique technical architecture, Walker says: "Remote working combined with a significant shift towards capital formation within the private sector have driven a need for new architectures that allow for the facilitation and global accessibility of asset types not accessible through traditional central market infrastructures."

And it is here where blockchain, the immutable ledger underpinning bitcoin and hundreds of other cryptoassets, can play a pivotal role. "The digitalisation of such assets and representation of those assets on distributed ledger-based technology is vital to allowing this to grow exponentially, in a way that centralised infrastructures, such as regional stock exchanges, would not have addressed," she says.

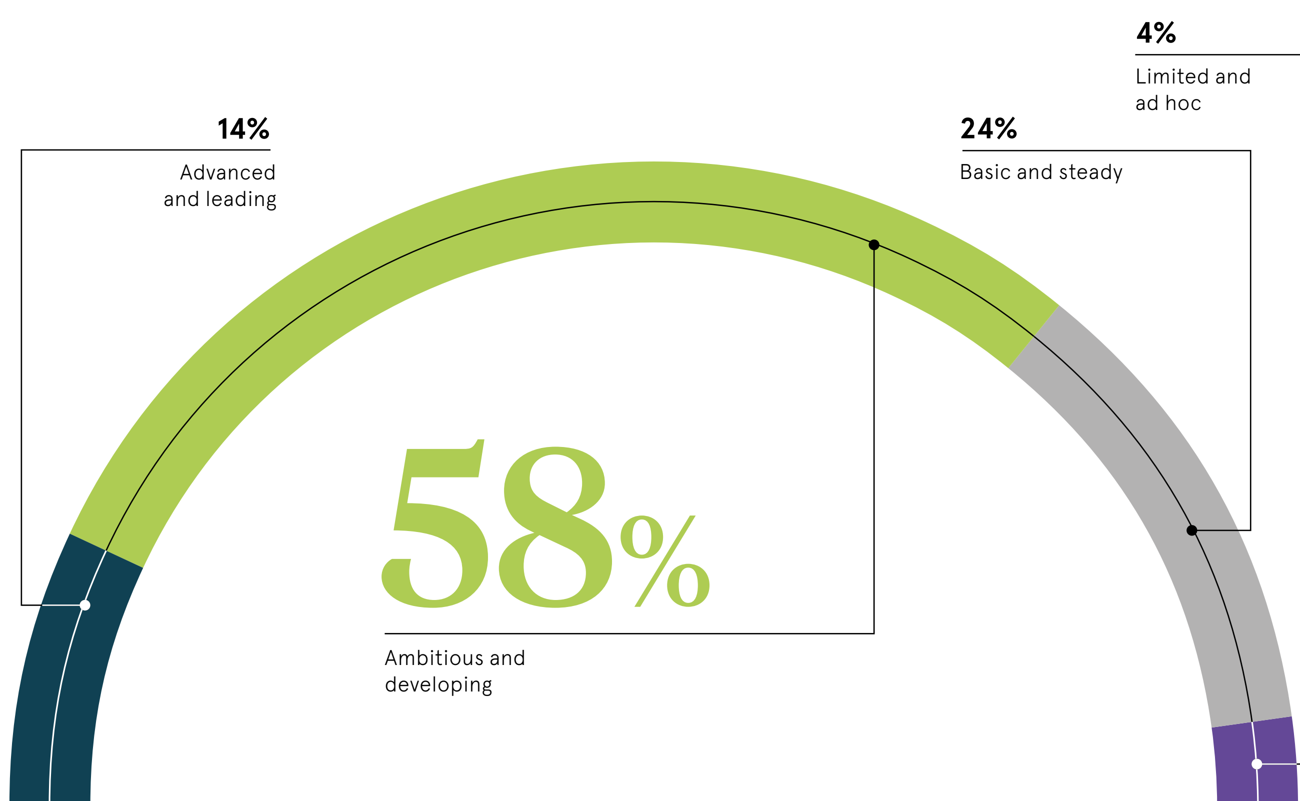
Offing a final piece of advice to those operating in capital markets, Walker adds: "What is clear is we can't stay as we are. Yet for the braver, nimbler and more pioneering industry providers, the opportunity to leverage digital innovation to drive true greenfield growth is immeasurably large."

In such uncertain and volatile times, these words envisioning a brighter, tech-powered future serve as a welcome balm.

CAPITAL MARKETS ASSESS THEIR APPROACH TO ADOPTING NEW TECH

Statista 2020

Investment banking professionals rate their approach to the adoption of data and analytics, cloud computing, Artificial Intelligence, and Distributed Ledger Technology over the next 5 years.



Commercial feature

A revolution in open finance

Approximately two million individuals already use open banking-based services, which are available from over 200 providers. As customers' digital expectations grow, there is a powerful opportunity for businesses to deliver a much broader set of connected financial services

User experience has been at the heart of recent progress in how financial services are delivered. Open banking allows account holders to share financial data securely with, and initiate payments through a range of useful apps and personalised services through application programming interfaces (APIs), and since its launch in 2018 expectations of what can be delivered have heightened.

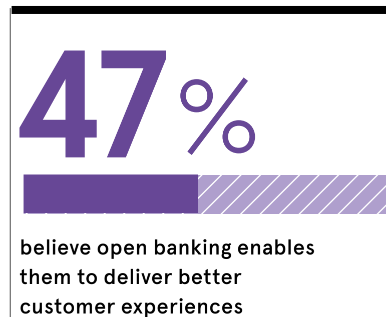
While open banking has already transformed what banks and financial technology companies can offer, customers now expect more: they want a powerful experience that puts them at the centre and reflects their entire financial life.

Given the vast societal impacts of the Covid-19 pandemic, such an experience will need to be delivered digitally, and financial services providers must offer reliable, useful, relevant and easy experiences at all times.

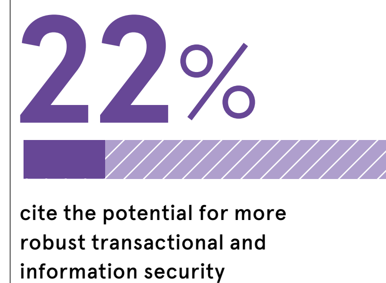
These pressures mean there is a need not just for open banking, but for open finance. This will address the complete picture of a person's use of money, from pensions and investments, to insurance, mortgages and beyond. Customers will expect these services to be delivered instantly, on the web and on mobile apps.

"Open finance will allow customers to manage all of their personal finances in one place, giving them a complete and holistic view of their entire financial footprint, as well as access to faster, cheaper credit and personalised advice," explains Leon Muis, chief business officer at Yolt Technology Services (YTS). In practice, open finance could mean customers rapidly accessing more relevant and affordable products, or better managing the portfolio of their investments and debts, for example.

For the financial services industry, the opportunities are abundant. A survey of over 1,000 sector professionals by YTS found that 47 per cent believe open banking enables them to deliver better customer experiences, in part from the powerful insights derived. Almost the same number are seeing improved efficiency, while a



believe open banking enables them to deliver better customer experiences



cite the potential for more robust transactional and information security

third expect increased revenue, and 27 per cent cite the potential for more robust transactional and information security. These benefits are set to be turbocharged when the scope of open banking widens to include the whole financial system.

The research also confirms that the pressures brought by Covid-19 to deliver a new level of digital services mean most institutions already offering open banking will continue to do so, with a significant number of others looking to enter the arena.

But for open banking to progress properly into open finance, there remains a technology development and integration challenge ahead, Muis warns. "Financial services providers in all areas are trying to find the best way to create such a service so they can reap the promised rewards," he notes. However, for most companies, building an open finance service from scratch would be extremely costly and take several years.

"Faced with such a project in these conditions, most financial services companies will have to look for another route, turning to third party providers that have the scalable and efficient systems to quickly make open finance a profitable reality for them, no matter the size of their business," says Muis. "This will be no surprise as it goes to the heart of open finance, with its imperative of using powerfully-interfaced technology to deliver all-round benefits."

> **Open finance will allow customers to manage all of their personal finances in one place, giving them a complete and holistic view of their entire financial footprint**

A proper ecosystem between providers will be needed if open finance is to become an efficient reality. The dedicated progress of finance firms and technology companies is expected to go a long way towards achieving this, but will not be enough on its own.

"Financial industry regulators around the world will need to play an equally active role in enabling and encouraging the development of this new landscape," says Muis. "They have empowered massive change in open banking and now is the time to engage widely on open finance. There will need to be further consultation and testing, and the right framework, so the ground is laid for quick progress - especially given consumers' pressing needs and expectations that have arisen during the pandemic."

A key strand of regulators' efforts, Muis explains, will be empowering third party open finance providers such as YTS to build and test solutions, engaging with them as a core part of ensuring the necessary conditions are in place for the ecosystem. "Given the costs and time needed for developing open finance systems, it is essential that third parties can progress and share their experiences as a priority, so the technology is made available more quickly for customers and the entire industry," he adds.

In the UK, such change is moving ahead. In October 2020, the Financial Conduct Authority (FCA) closed its broad call for input around open finance - having attracted detailed comments from myriad finance and technology providers. There are likely to be some areas where foundational steps will be required: the YTS survey has shown already that a quarter of industry executives do not yet understand that open banking gives consumers complete control on data access. In addition, there are problems around aligning information from different businesses in multiple formats, and around sluggish update times by some providers on their system interfaces.

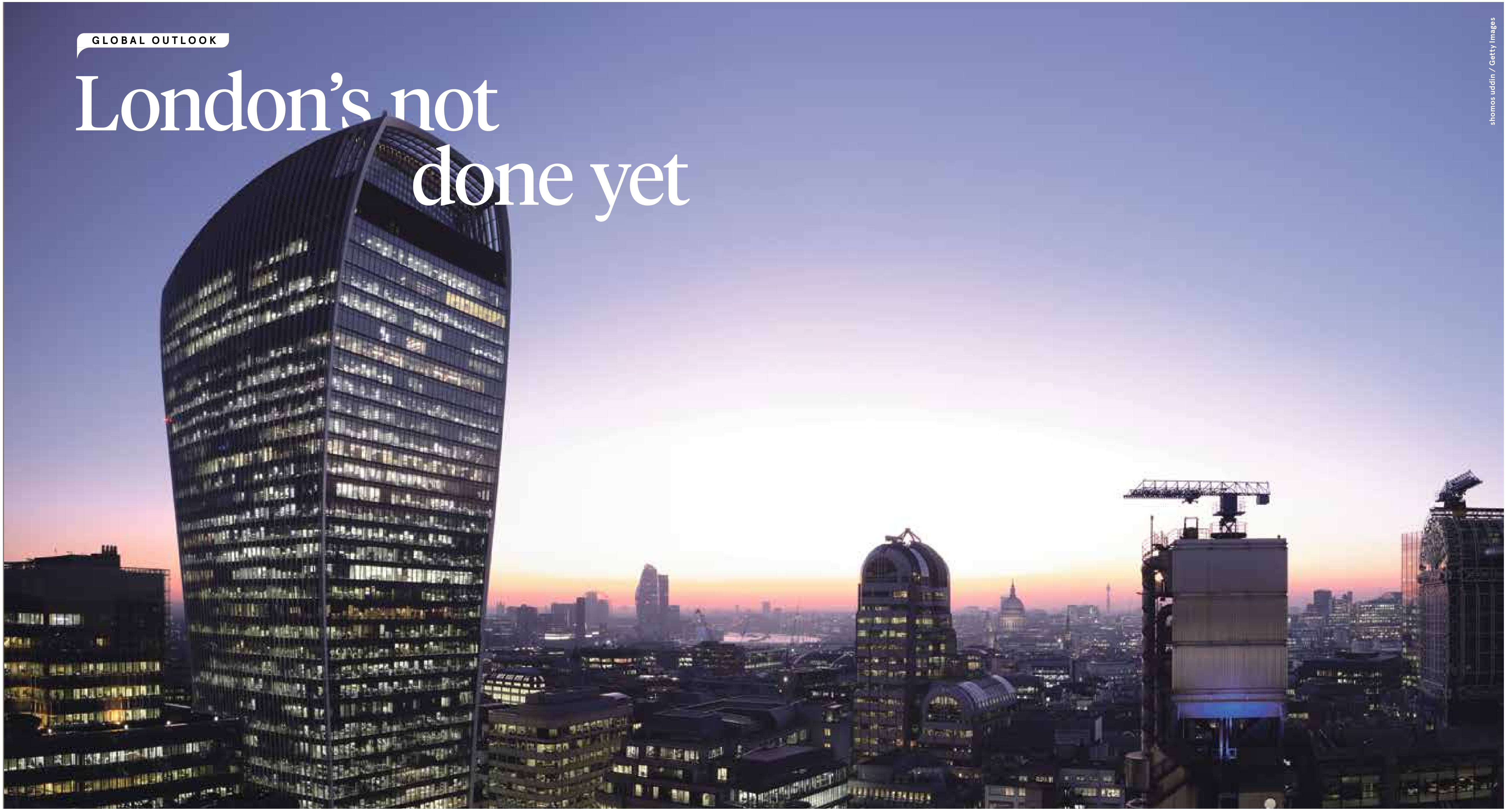
"It is important that regulators help with some of these foundational aspects, creating a clear definition of open finance and its security, and establishing a set of principles to ensure data alignment and excellent interfaces between all the finance firms and technology companies," explains Muis. "Getting this right is extremely achievable considering the strong will of the industry and the existing foundation of open banking, and is imperative considering the needs of customers."

Given the success of open banking, as open finance goes ahead there is enormous potential for financial and technology businesses to transform their growth, while revolutionising the services they provide.

To find out more about the open finance revolution, visit yts.yolt.com

GLOBAL OUTLOOK

London's not done yet



The EU referendum may be a distant memory, but as the end of the transition period approaches, global banking hubs are gearing up for a post-Brexit world

Oliver Pickup

Will it be a happy new year for the UK banking sector? When the transition period of Britain's exit from the European Union ends on January 1, business leaders and bankers alike will tiptoe into a post-Brexit reality. Enmeshed by confusing and in some cases yet-to-be-determined rules, they will enter a new global banking landscape.

But given that financial institutions inside and outside Europe have been preparing for this day since the EU referendum on June 23, 2016, will things be markedly different?

Whatever happens, British banks and their European counterparts have had enough time to ready themselves for post-Brexit life. Admittedly, some details still need to be finalised, though Bank of England governor Andrew Bailey has been warning the largest UK lenders to plan for a no-deal Brexit since June.

Legally, there will be changes on a global scale. "As of January 1, banks located in the EU and the UK will have to operate in two separate regulatory and supervisory environments," says Yves Mersch, a member of the European Central Bank's executive board. "Providers of financial services between the EU and the UK will no longer enjoy the benefits of the single market.

"Many euro-area banks doing business across the Channel, as well as UK banks operating in the euro area, have made considerable progress in view of this event." Mersch adds that most are "on track to finish their preparations" this year, but others "have much work to do".

For the latter, the coronavirus fallout has disrupted post-Brexit plans. "Broadly speaking, the main priority for banks over the past few months has been tackling the multi-faceted consequences of the pandemic," he says.

Indeed, the "C" word has obscured the "B" word since March, and although COVID-19 may be a reason for the sluggish progress of Brexit negotiations, it is not an excuse for banks to be ill-equipped. Many big players lined up their moves long ago.

EY calculates that banks and fund managers have committed to moving £1 trillion of assets out of the UK and into the EU because of Brexit. US lender JPMorgan Chase & Co., for instance, is expected to shift around £180 million in assets to Germany. Further, it has ordered 200 staff to move out of London to other European cities including Paris, Milan, Madrid and Frankfurt, in the expectation that the UK and the EU will not firm up an agreement on financial services.

Considering the UK exports more than £26 billion in financial services to the EU, according to the Office for National Statistics, perhaps the global post-Brexit banking landscape may transform quicker if no deal is reached.

However, James Butland, vice president of global banking at cross-border fintech Airwallex, argues the "mass exodus" from London "has not happened to the extent so many were sure it would". He says: "London remains an attractive place where people want to live and work. Equally, the ecosystem in London is truly global, like New York or Hong Kong, and has always been regarded as a crucial financial hub.

"The UK has always been, and continues to be at least for now, a world leader in financial services, eclipsing many of its EU rivals across the sector. And despite uncertainty around Brexit, one thing is clear: Europe will remain a leader within the global banking industry, mainly due to the strength of the euro as a currency."

Commercial feature

Erin Platts
Head of EMEA and president of the UK branch
Silicon Valley Bank

Bradley Riss
Chief commercial officer
Checkout.com

Nicole Sandler
Head of digital policy
Barclays

Fintech's next chapter: innovation through collaboration

Bryony Widdup
Partner
DLA Piper

As the relationship between fintechs and incumbent banks becomes increasingly collaborative, four experts from the financial services industry meet around a virtual roundtable to discuss the evolution of the sector

Q What trajectory have fintechs been on and what impact has the coronavirus pandemic had on them?

BW Fintechs have evolved over a long period, but the global 2008 financial crisis really kicked off the transformation of the financial services sector by allowing outsiders in. More recently we have seen fintechs shift from being outsiders to more mature companies engaged with all aspects of financial services. There's been huge growth and a lot of learning along the way.

EP The diversity of fintech companies being produced and scaled in the UK has evolved substantially. The support in terms of both domestic and international capital funding has created huge momentum. Even with the COVID-19 headwinds, there has been phenomenal performance, though it has driven some bifurcation, with capital and liquidity harder to come by for certain businesses.

NS COVID-19 has definitely shown how important digital is, but it is really important not to have a knee-jerk reaction. Financial uncertainty has the potential to change habits across all society in looking for technological "safe havens". While this may hasten some of the debate and support for certain technological use-cases, there still needs to be a measured and strategic response.

BR Customer centricity is really important. More broadly, there's a generational change. Big banks were viewed as incredibly trusted going back 30 years, but the global financial crisis opened the door to new entrants into what were traditionally very protected spaces based on the perception of consumer trust. There's also been a convergence with technology enabling these new business models to flourish.

Q How has the relationship between fintechs and more traditional players in the financial services ecosystem evolved?

BR In payments, companies like Visa and Mastercard have approached innovation as an ecosystem. They don't necessarily have to own innovation themselves, so long as they can help foster it, and some banks are starting to emulate that approach. It's best to look at it as how to facilitate the journey you want to create for the end-customer. Sometimes it might be by flying solo, but more often than not it's through collaboration.

EP When thinking about the integration between fintech and financial services, we often defer to the consumer angle, but there is also a huge infrastructure and efficiency play. I think sometimes we underestimate the impact fintech can have on infrastructure transformation for large institutions, keeping them compliant and reducing costs.

BW It's really important for value creation, throughout the whole of the financial services sector, that the architecture and structural piece can be improved, replaced in parts and brought forward, both for cost and time efficiencies, but also in terms of the risk angle. There can be real improvements made through collaboration.

NS People often ask, why is it so difficult for some firms, including incumbents, to collaborate? Legacy systems would have been a key reason in the past, but often, nowadays, startups will find solutions for that. For me, it's been more about thinking, though that is changing too. People have, in their mind, ways they should do things and who they should partner with. We have to collaborate because many of our challenges impact the industry as a whole.

Q The regulatory landscape in many ways has helped fuel the rise of fintechs, but how are we now seeing this change?

NS You always have to ask, is your regulation fit for purpose? If certain players are not regulated, we know what could happen down the line. Regulation should follow a very simple principle: if you do the same activity and you have the same risk, you should follow the same regulation. If everyone had the same regulation proportionately, it would help the ecosystem, financial stability, competition and, ultimately, the consumers and investors.

EP One of the big drivers of fintech in the UK has been the regulatory sandbox. Now other jurisdictions are increasingly innovative, how can we ensure we stay at the leading-edge so we're not just attractive locally, but also supporting companies that start here to compete globally? I do buy into this concept of proportionality. If we can get it right, we will create better consumer outcomes and more of a level playing field.

BR There is great value in a balanced approach. The Monetary Authority of Singapore and the UK's Financial Conduct Authority alike have been very encouraging to fintechs and they're being rewarded by attracting some of the best companies in the world. But equally there are some jurisdictions where the standards are too low. This creates distrust and a lack of willingness from other actors in the ecosystem to work with organisations that don't have a hygiene factor.

BW The fintech industry has generally sought standards, including in a self-certified manner when external standards are not available or regulation has not adapted sufficiently. There is a need for industry bodies to develop standards in those scenarios. We're getting to a point now where we're beginning to see better support by more centralised regulation, which should move the industry forward.

Q As we look to a post-COVID world and a Brexit Britain, what is the future of fintech?

EP We have all the ingredients in the UK around access to talent and we need to make sure that's front of mind with respect to Brexit. We have increasing levels of domestic capital and huge amounts of interest internationally in terms of scale. Success between fintechs and the larger established financial institutions is about creating the bridge of talent both ways and removing friction from the process of partnering.

BR COVID is a stress test and markets are cyclical. The UK is very well positioned. I don't think Brexit necessarily is going to impact that at all. From a cultural perspective, people like the UK. It has that existing talent base and it now has an existing hub of fintechs. There's so much innovation already in place. There's a reason why we chose the UK and why a lot of other leading fintechs do too.

NS Access to talent is super important. We may have a lot of talent now, but we have to make sure we hold on to it and foster it, and that our market can work with other markets. We don't want the UK to be a great place to do business, but solely in the UK and not other jurisdictions. If we want to grow talent within the UK, we have to start at the grassroots level.

BW There are a number of initiatives now around STEM [science, technology, engineering and maths] and pushing people towards more employment in technology, but there is a lot of catch-up work to do. I'd also like to see much more done around ensuring that home-grown pool of talent at the very early stages is truly diverse. Then, when they come through the education system in the next five to ten years, we have ever-increasing diversity in the financial services sector.

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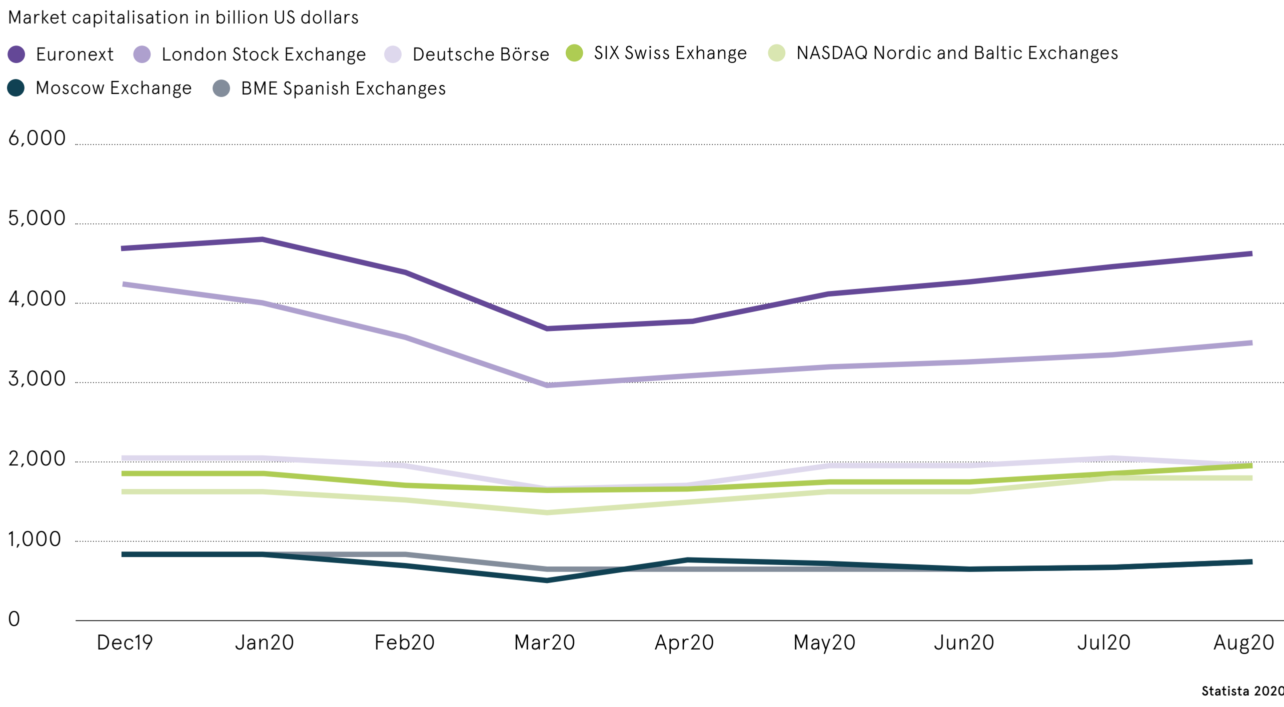
MONTHLY MARKET CAPITAL VALUE OF EUROPEAN STOCK EXCHANGES SINCE THE CORONAVIRUS OUTBREAK



But Butland says "a new leader needs to take London's crown" within the region. He continues: "The European banking community may start to face geographical fragmentation, as the position to become the epicentre of the eurozone opens up. The race to become the financial capital of the EU seems to be between Paris, Frankfurt, Brussels and Amsterdam, with no winner yet in sight. Wherever this location may be, it should look to London to continue Europe's legacy as a leader within the global banking economy."

> **The UK has always been, and continues to be at least for now, a world leader in financial services**

Alastair Holt, financial regulations partner at global law firm Linklaters, agrees. "Other European cities will not be as influential as London, at least in the short to medium term," he adds. "London can play a critical role in bridging the East and the West, particularly given the increasing tensions we have seen between the world superpowers in those regions.

"The UK will still be a leading global financial centre, boosted by its language, time zone, the legal system, and the pre-existing ecosystem of financial institutions and suppliers, the vast majority of which will remain in the UK."

Professor Brian Scott-Quinn, director of banking programmes at Henley Business School, is more cautious and believes the global banking landscape has been fragmented since the 2008 financial crash.

"Just as trading relationships between the major blocs – the US, Europe and China – have been damaged in recent years, as well as the relationship between the UK and the rest of Europe, so globalisation of banking and finance has been in low gear now since the financial crisis," he says. "Most UK banks that had plans for internationalisation or for building up their investment banking capabilities have since abandoned such plans."

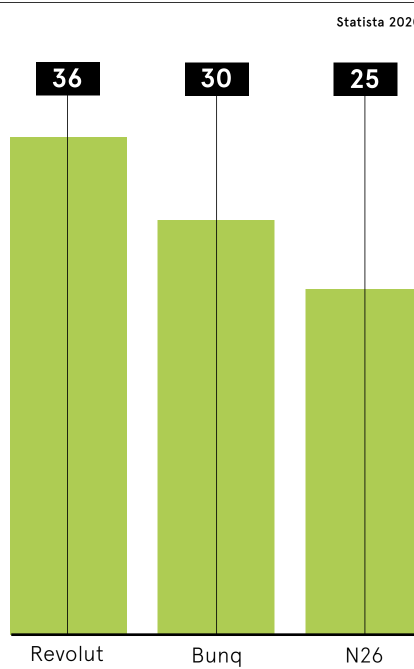
Regardless, Holt argues the pandemic is more of a threat to the sector's future. "COVID-19 is clearly a worry, more so than Brexit," he says.

Chris Ganje, chief executive and co-founder of Cardiff-based fintech AMPLYFI, which focuses on developing artificial intelligence for banking, expands upon this theme. "The banking sector should have already dealt with Brexit over the past two years with robust models in place to move on," he says. "The fallout of COVID-19 is a major unknown. For example, any FCA Section 166 notice into how a bank handled crisis-related loan applications could cost it tens of millions of pounds to review."

Additionally, Alessandro Hatami, co-author of Reinventing Banking and Finance, says it is hard to quantify the effect of Brexit right now. He points out: "The impact of leaving the EU financial passporting scheme, making it harder for UK fintechs to serve European customers from the UK, is also not clear and won't be until the final deal is negotiated."

Butland concurs that 2021 will be pivotal in shaping the global banking landscape. "The next 12 months will certainly be interesting, as both the pandemic continues and the repercussions of a potential Brexit deal loom ahead," he concludes. "Whatever happens over the coming year, disruption lies ahead. Financial institutions will be making contingency plans for every possible eventuality."

NUMBER OF COUNTRIES OF OPERATION FOR SELECT EUROPEAN ONLINE ONLY BANKS WORLDWIDE



Brexit and COVID-19 accelerate move to digital

The UK European Union membership referendum was inevitable when David Cameron won the 2015 general election, having promised a plebiscite during his campaign. Coincidentally, 2015 was when branchless challenger banks Monzo and Revolut were founded, with Starling Bank launching a year earlier.

While the direction of travel was established five years ago, the combination of Brexit and now coronavirus has quickened the drive for older financial institutions to transform their business and operating models, because it's clear the future is digital.

Technology is enabling fintechs to enter the banking market and thrive. Experts predict traditional banks will have to partner with tech firms to keep pace with developments.

A study of 200 UK and European banking executives by Marqeta, an open application programming interface card-issuing and processing platform which Mastercard has recently invested in, found that in the wake of the pandemic, more than three quarters (78 per cent) of banks had been forced to change their future banking strategy.

Some 72 per cent of those surveyed are planning to grow the number of in-branch digital services and two-thirds will invest more in digital banking and services. Further, one in nine respondents said COVID-19 had "drastically increased" the speed of change in banking from years to months.

Max Chuard, chief executive of Geneva-based banking software fintech Temenos, says: "Uncertainty is a catalyst for innovation. The 2020s were already set to be the decade for digital banking transformation, but now the coronavirus crisis has accelerated this process. It has made the need for advanced banking technologies, like artificial intelligence, cloud and software as a service, even greater."

He points to his organisation's global survey in which almost half of the respondents (45 per cent) said their strategic response to the rapidly changing banking landscape is to build a "true digital ecosystem". He adds: "It's a defining moment for the banking industry and those who can harness the potential of digital technology will shape the future."

Lee Edwards, vice-president in Northern Europe, the Middle East and Africa for Adobe, says: "Banks have to ensure they keep pace with digital-first challenger banks, such as Monzo and Starling, to deliver new experiences that both enhance and complement their bricks-and-mortar branches. This has included implementing new technologies within apps and websites that enable customers to perform tasks previously exclusive to the branch, like cashing cheques or remote meetings with advisers."

This need to evolve banking operations provides an opportunity to streamline typically time-intensive tasks, such as setting up an account or applying for a loan. Edwards says: "As an example, TSB implemented digital signature technologies using Adobe Sign to allow customers to carry out important processes from their own home, moving over 15,000 account sign-ups that would normally require a trip to the branch."

That convenience will be central to winning customers, says Aaron Archer, founder and chief executive of London-headquartered challenger bank Finndon. "Digital banks will see a major increase in their market share compared to high street banks, due to the latters' lack of flexibility to adapt to market conditions, and customers will be seeking greater opportunities to save," says Archer.

He wouldn't be surprised if Big Tech firms, including Apple and Google, begin to "offer banking products to their customer base to create a robust ecosystem". Archer adds: "You will see an increase in mergers and acquisitions between tech firms and traditional banks looking to stay relevant."

Sophia Le Vesconte, fintech lawyer at Linklaters, agrees: "With increasing digitalisation, we are likely to see a growth in outsourcing arrangements between the financial sector and technology service providers." However, she warns: "Regulators across the globe are quite concerned about the sector becoming overly dependent on a small number of unregulated technology companies."

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FINTECH

Fintech still has room to grow

Nimble and innovative, its importance has been recognised by public and government alike, but fintech has some hurdles to overcome yet

Liz Lumley

When he was chancellor of the exchequer in 2014, George Osborne pronounced that the UK would become the global capital of fintech. The industry concerned – the digital-first, innovative technology companies serving the financial services industry – thereby secured a place on the Conservative party's policy agenda.

Osborne then launched independent membership organisation Innovate Finance to represent the UK fintech community at Canary Wharf's Level 39 co-working space in London's Docklands.

The Treasury began to host leading regulators from the Financial Conduct Authority and chief innovation officers from Britain's largest banks to mingle at 11 Downing Street with the founders and chief executives of what are now well-known UK fintech brands, such as Starling Bank and Monzo.

However, this was a world before Brexit directed the UK government's attention elsewhere and coronavirus became a pandemic to throw personal lives and the viability of businesses all around the world into turmoil.

Fintech as a concept is about using innovative business models and emerging technology to provide progressive financial products to help support personal lives and businesses. In 2020, with COVID-19 subjecting most of the country to lockdown, the UK government launched a six-month independent review of the country's financial technology sector, citing it as "vital" to the UK's economic recovery.

Announced in chancellor Rishi Sunak's debut budget in March, but launched in July due to COVD-related delays, the Fintech Strategic Review is being led by Ron Kalifa, a former chief executive of international payment processing company Worldpay. It aims to identify priorities for regulators and policymakers, as well as for the industry itself.

The review has five workstreams: skills and talent; capital funding and investment; national connectivity; policy and regulation; and international attractiveness and competitiveness.

Its report will provide recommendations on each workstream and address three objectives of ensuring UK fintech has "the resources to grow and succeed", encouraging "widespread adoption of fintech solutions" and "maintaining and advancing the UK's international reputation".

Anne Boden, founder and chief executive of UK challenger bank Starling, is participating in the review's national connectivity workstream, which will make recommendations for supporting the growth of regional fintech initiatives through improvement of regional connectivity and leveraging the strengths of other fintech hubs.

"The review provides the sector with a crucial opportunity to be heard at the highest levels. I really hope the government is listening. At a time of great economic uncertainty, the UK's thriving fintech sector is driving innovation and economic activity. My hope is that the review will ensure fintech is front and centre of the government's thinking on business and trade policies," says Boden.

UK fintech unicorn OakNorth is a bank for small and medium-sized companies that provides business and property loans. It is participating in four of the five pillars of the review. Head of regulatory affairs Nick Lee says: "The UK fintech sector has been very successful over the last five years, but it is imperative that we don't rest on our laurels and instead work to ensure we can remain a world leader for the next decade and beyond.

"COVID-19 has highlighted the strength of the fintech sector as the world economy increasingly makes a structural shift to become more digitalised. There have been countless examples over the last several months of fintechs providing the solutions to many of the challenges arising from the pandemic."

Jamie Campbell, co-founder of Fronted, a recently founded UK fintech aimed at the UK rental market, is equally bullish on the industry's role in financial services and the wider UK economy.

"The fintech industry is solely responsible for the improvements in the UK's banking and financial services sector since 2008," says Campbell. "It is, in a lot of ways, a metaphor for a new generation of finance, without it an already over-burdened crop of young people would be far worse off than their parents and excluded from a finance system not built for them."

However, more established sector companies caution the review not to ignore the wider fintech ecosystem and ensure voices are heard beyond the cohort of startups and entrants that have appeared in the UK over the past decade.

Samir Pandiri, president of Broadridge International, which has been operating in London for more than 20 years, says: "What's vital is that the crucial response to COVID doesn't crowd out longer-term policy-making for economic competitiveness, and we are confident that the chancellor and the City minister understand that well. What's critical is that clients of fintechs, large and small, make their voices heard, so it's not just fintech firms making their own case."

The importance of talent and growth outside of the capital features prominently among leading players in the fintech sector.

Jeppe Rindom, chief executive of fintech Pleo, a Danish provider of company cards to automate expense reports, with offices in London, says: "The most valuable thing this review should offer is a strategy for national connectivity to help our approach spread out of its organic hubs, which tend to be focused around existing tech hotspots in capital cities.

"There's no point in a product that works in Shoreditch, but not in Sheffield or Manchester. If we can truly engage with audiences outside London, then I expect to see even more talent emerge, which will drive more innovation and in turn more funding and investment."

Rosie Turner, co-founder and co-chief executive of InChorus, which provides tools for human resources and employees to ensure inclusive work environments, adds: "Recent stats from Sifted show that only 17 per cent of fintech execs in the UK are women and there is a significant lack of ethnic diversity too. We consequently believe there is a firm need for the review to focus heavily on skills and talent, and to ensure greater diversity within the sector."

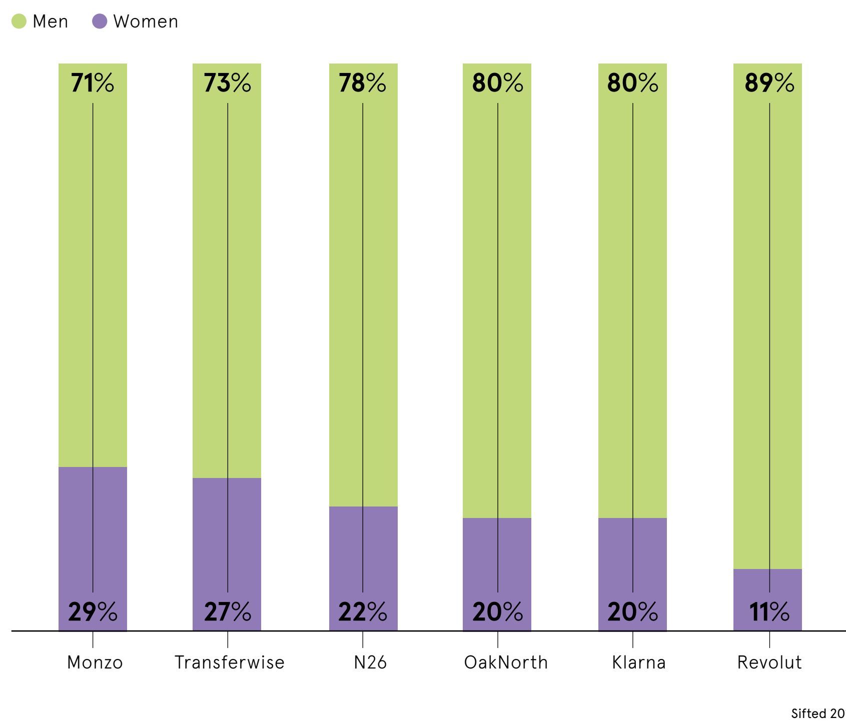
> COVID-19 has highlighted the strength of the fintech sector as the world economy increasingly becomes more digitalised

OakNorth's Lee concludes: "We must work together, government, regulators and the industry, to ensure we remove barriers to growth and create the conditions in which our fintech sector can continue to innovate, bring fresh ideas and compete effectively. If by the middle of this decade we have examples of UK fintechs that have scaled up, demonstrated consistent profitability and competed globally, we will know the strategic review has been a success."

The Fintech Strategic Review is due to report to the Treasury at the start of 2021.

FINTECH STILL HAS A GENDER IMBALANCE TO ADDRESS

Examining the number of female executives at Europe's fintech unicorns



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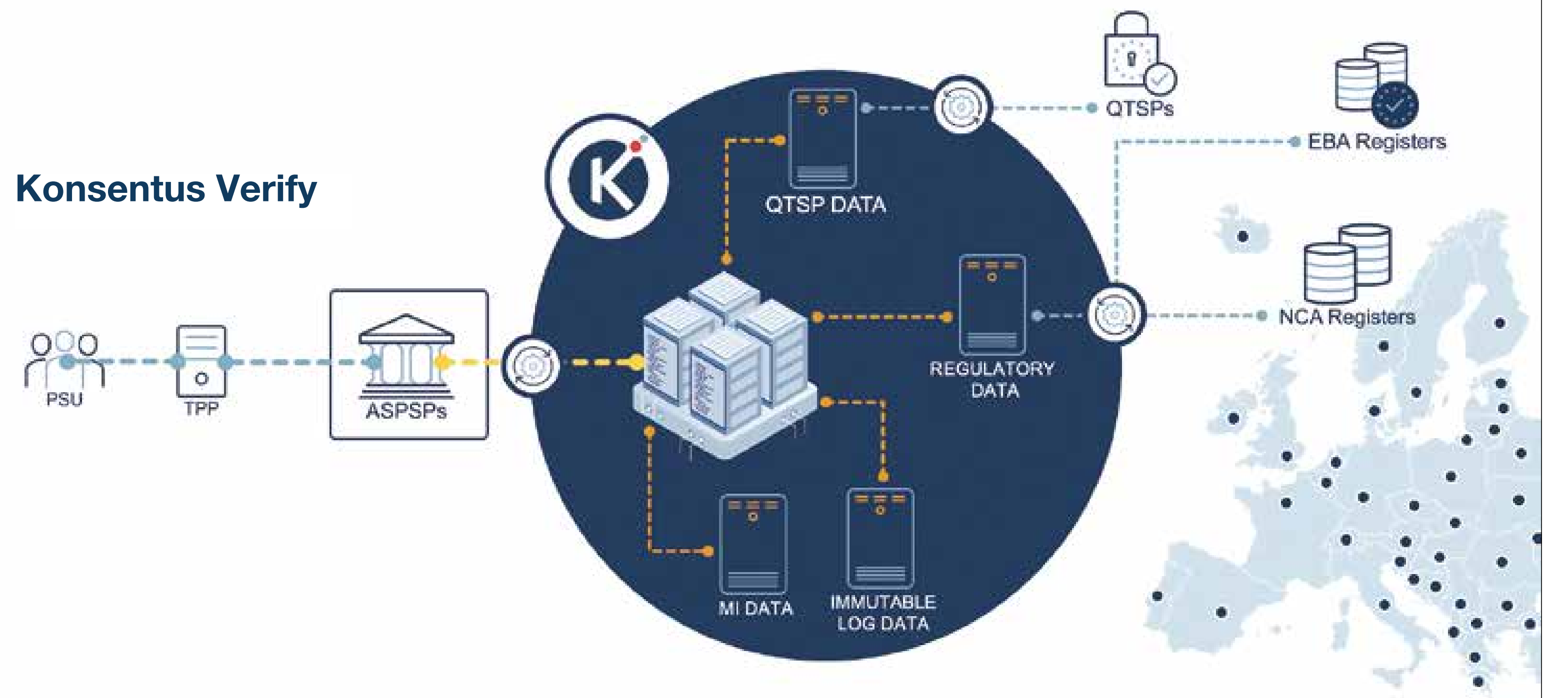

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