FUTURE OF BANKING

HIGH STREET

What we lose when bank branches disappear

During COVID-19 we became accustomed to the sight of shuttered bank branches. Now, as lockdown eases, what a bank is for and who it serves has come under greater scrutiny than ever before

Chris Stokel-Walker

The UK high street has come out of the coronavirus pandemic looking a little different. One of the starkest changes, typifying city-centre shopping in recent years, has been the disappearance of banks. Barely a week goes by without news of another casualty to closure and the abandonment of city centres due to COVID-19 has only exacerbated the trend.

Almost 4,200 bank branches have closed since 2015, according to consumer watchdog Which? That's around 50 every month. Most recently, Santander announced 111 branch closures across the country by the end of August, which is one in five of its bank network. For the bank, like many, reality is biting.

"More and more people have gone digital and banks are running quite expensive physical bank infrastructure for a dwindling number of people," says Natalie Ceeney, chair of Innovate Finance and head of the Access to Cash Review, which tracks how we use money and where we need support.

But, for the overwhelming majority of people, physical banks are still an important facilitator of access to cash. While the pandemic shifted our shopping habits so much that one in three pounds was spent online in 2020, according to the Office for National Statistics, that still means two in three were spent on high streets.

"A lot of people who are most dependent on cash are the poorest, often the most rural, and they are more likely to have disabilities than people who are happy with digital," says Ceeney.

Joel Lewis, policy manager for consumer and financial services at Age UK, says: "Whether you're working or getting a pension, not having access to a bank means you're excluded from society. It means you can't access your money, or make decisions about new or existing products or services."

For some, the physical bank branch is somewhere they go to conduct every single banking transaction. This could be because they don't like the idea of technology, worry about cash being lost in the ether or can't afford to bank through some ATMs.

According to Ceeney, the average counter transaction has half the value of the average ATM one: some people can only afford to take out £10 from their account and many ATMs don't offer anything less than a £20 note.

> **More and more people have gone digital and banks are running quite expensive physical bank infrastructure for a dwindling number of people**

But for others, a physical branch and a human being on the other side of the counter offers an assurance for big life decisions.

"There is a much broader church of people who, at certain moments of truth – someone's died, or getting a mortgage or fraud on your account – still want to see a human person," says Kat Robinson, customer experience director at Metro Bank, which opens a handful of what they call "stores" every year. "We are human and there's something about face-to-face human contact in terms of empathy and accountability," she says.

It's for that reason that Metro Bank offers customers a cup of tea or coffee when they enter a store or branch. Banks offer lifelines, comfort and support to people who are often at their most vulnerable. And, after a year of turmoil, the bank's role at the hub of a community is more important than ever.

Bank staff are trained to spot signs of fraud, abuse and coercion, and to step in and gently support people they suspect are falling victim to a scam.

"If you limit these face-to-face interactions with people, it limits the ability of trained staff to spot people being in the midst of scams or someone being vulnerable and doing with extra support," says Lewis. "That's tangible information you can't pick up from an online banking transaction or potentially even from a customer who can use telephone banking support."

It's also important to maintain a physical presence to support representation for all a bank's customers. "There are a wide variety of reasons people might want to go indoors and use a counter with a real human being," says Ceeney, citing people with visual impairments who may not feel comfortable counting their cash out on the street after an ATM transaction.

But banks don't just support people, they also support businesses. Metro Bank looks at the number of small businesses in an area when deciding where to locate its stores. That's because a bank does more than serve its retail customers. It also provides a place for businesses to store cash takings every night.

"If you think back a decade, retailers would take their cash at the end of the day, pop over to their bank branch and deposit it," says Ceeney. If the bank branch doesn't exist, they have a dilemma.

"Do they leave money in the till overnight? That breaks their insurance rules," she explains. "Do they drive somewhere to pay in the money? That loses them valuable time." If businesses can't bank, they can't accept cash and if they can't accept cash, they shut off access to a whole raft of customers.

It's for such reasons that banks need to maintain access to physical branches, even as the financial incentives to do so disappear, because banks are more than a place where people keep money: they're a community hub as vital as any charity.

THE BRITISH BANKS CLOSING THEIR DOORS

The number of bank branch closures and scheduled closures in the UK, between 2019 and 2021

TSB	260
Barclays	260
Santander	193
HSBC	116
Lloyds	110
RBS	54
Nationwide	34
Halifax	33
Virgin	31
M&S Bank	29
Yorkshire	27
Bank of Scotland	23
Co-op	18
Bank of Ireland	15
Clydesdale	12
Danske	4
Coventry	2

Which 2021

Designing the modern high street bank

The modern bank needs to change. Here's what it could look like.

01 Customer centric: Metro Bank offers its customers a cup of tea or coffee when they arrive, to show they care. Small touches ease the challenge of negotiating difficult financial decisions.

02 Service oriented: Small counter offerings, where people can deposit and withdraw money, are still needed, but people look for personal support in making big financial choices such as mortgages.

03 Speedy: One of the main users of bank branches are businesses looking to deposit their takings every night. For this, banks could have a dedicated reverse ATM to count money quickly.

04 Partnerships: High street banks located their branches before digital banking, with costly city-centre rents. To make ends meet, banks can partner with other businesses to share the load. Natalie Ceeney, chair of Innovate Finance and head of the Access to Cash Review, is developing a pilot with the Post Office to offer a counter service for banks in post offices.

05 Working together: Traditionally fiercely independent, banks may have to start working together in order to survive. "What people need is a safe indoor space where they can get help making transactions and the most cost-efficient way of doing that is for banks to share services," says Ceeney.

Distributed in THE SUNDAY TIMES

Published in association with MONEY 20/20 AN ASCENTIAL COMPANY, INNOVATE FINANCE

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BANKING ON TRUST

After the 2008 financial crisis, banks have been slowly rebuilding trust among consumers, and many had gone a long way to redeeming themselves when the pandemic struck. Now, to restore confidence in financial institutions once again, it is crucial that banks take the time to understand their customers and start delivering on what really matters to them

CONFIDENCE IN BANKS TAKES A TUMBLE

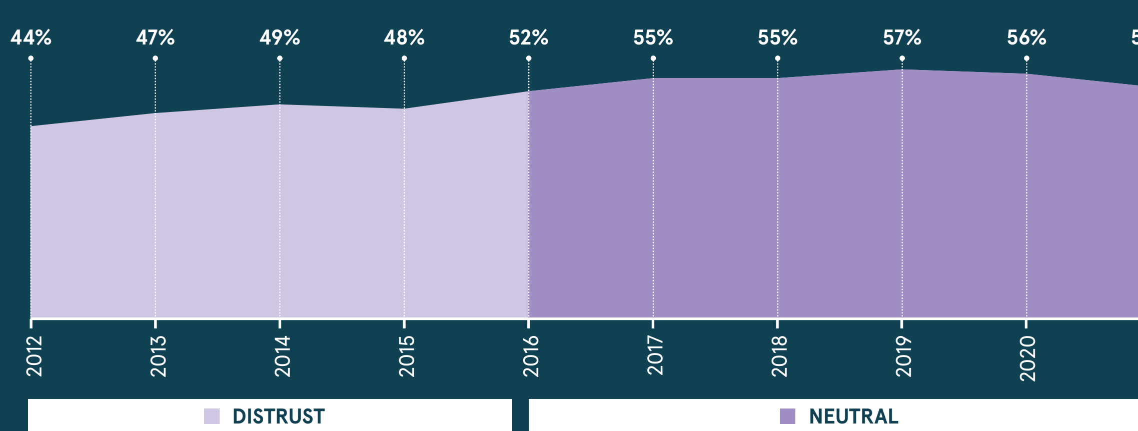
Edelman 2021

Trust is declining across sectors, with financial services down 5 percentage points since last year

BUT BUILDING TRUST TAKES TIME

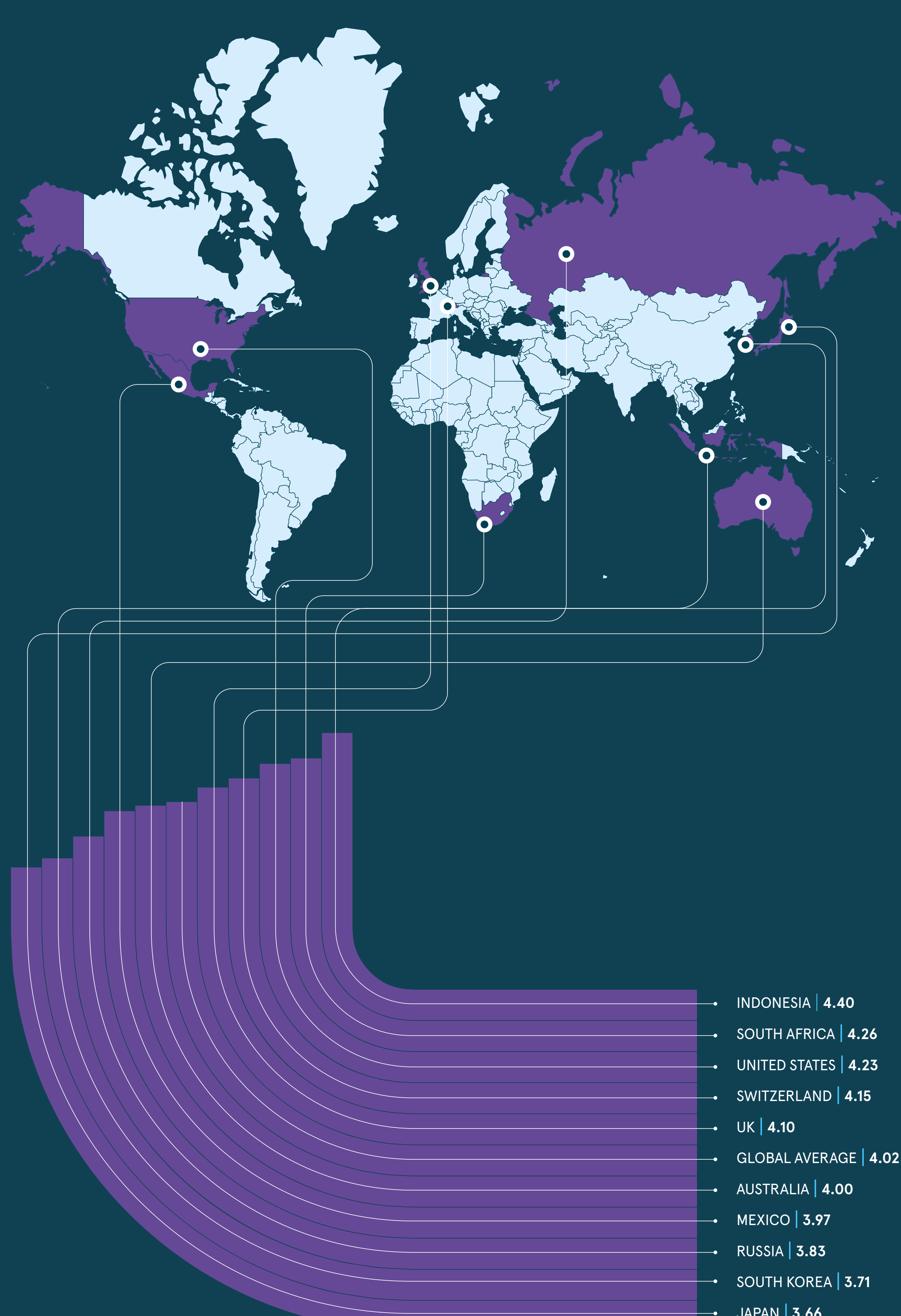
Edelman 2021

Financial services is one of the lowest-scoring sectors in terms of the percentage of people who say they trust it, though this has improved over the last decade



WHERE ARE THE WORLD'S MOST TRUSTED BANKS?

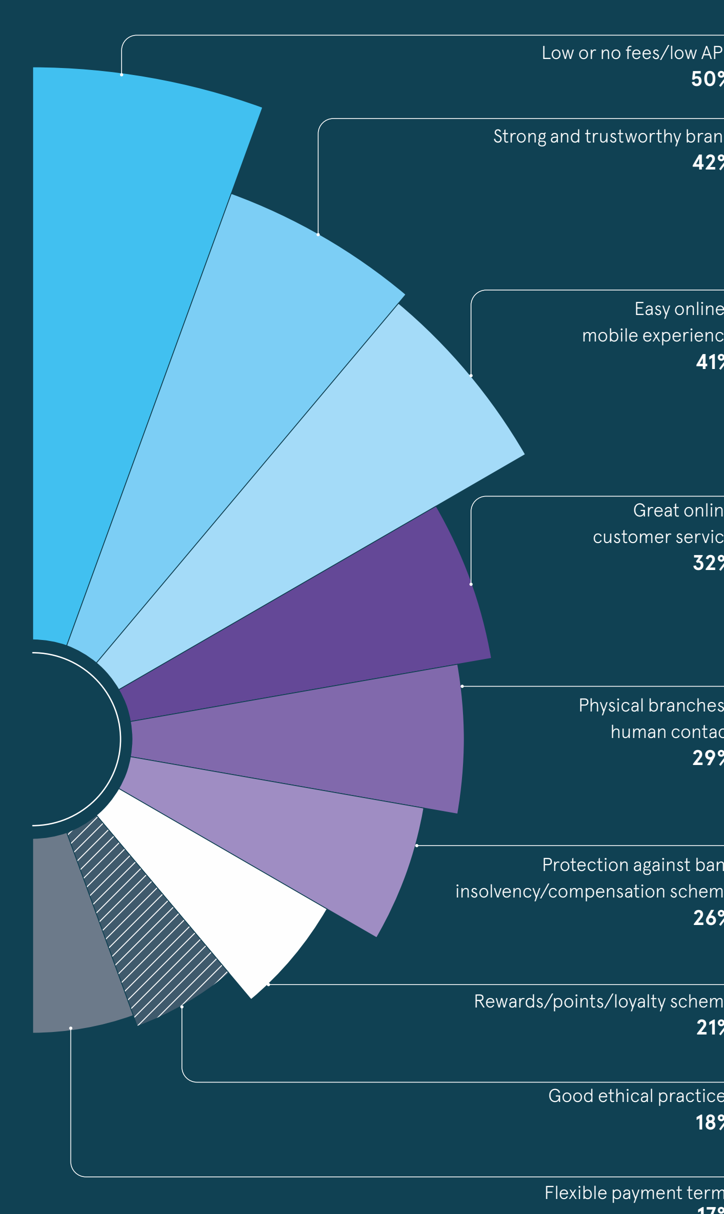
Bank consumer trust worldwide 2021, by country, according to Statista's trust index, where the highest score is 5



Statista 2021

HOW CUSTOMERS CHOOSE BANKING SERVICES

Global banking consumers share the three most important factors to them when choosing a debit or credit service provider



Trustpilot 2021

BANKS MISSING A CX TRICK

70%

banks do not leverage third-party consulting expertise to understand customer dynamics

61%

firms lack a dedicated customer experience management team

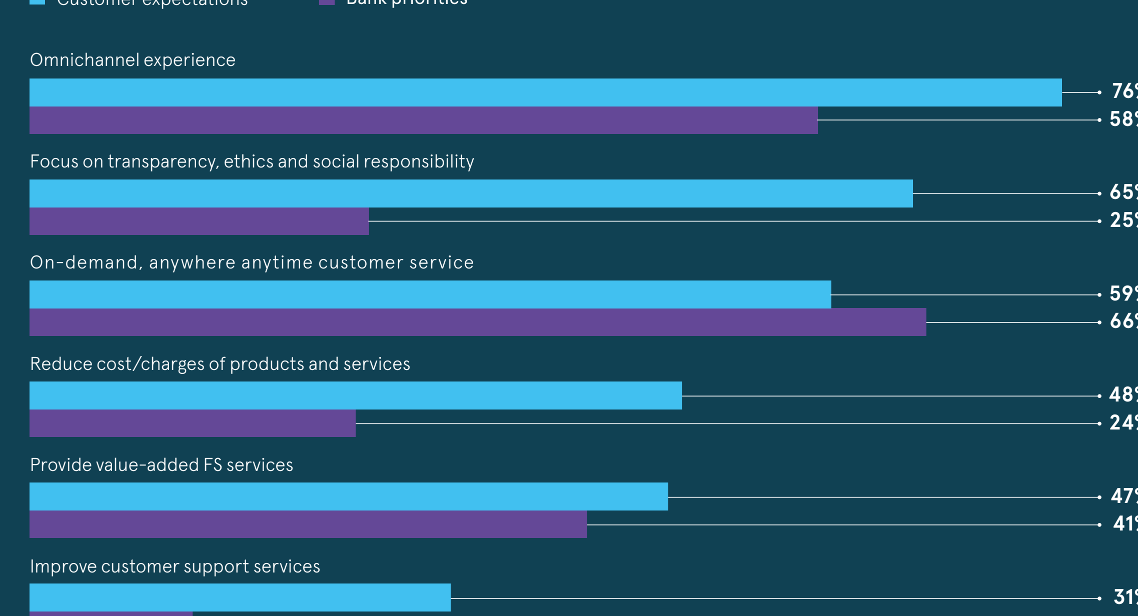
51%

incumbents fail to map and visualise end-to-end customer journeys

Capgemini and Efma 2021

GAP IN EXPECTATIONS COULD SPELL TROUBLE

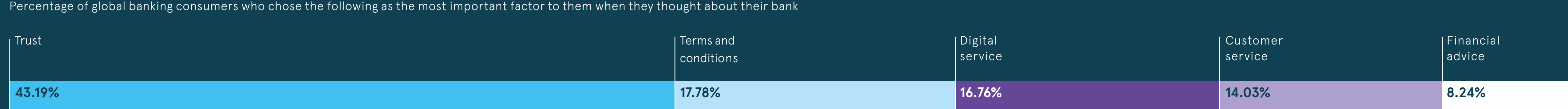
Expectations and priorities differ between global customers and banking executives



Capgemini and Efma 2021

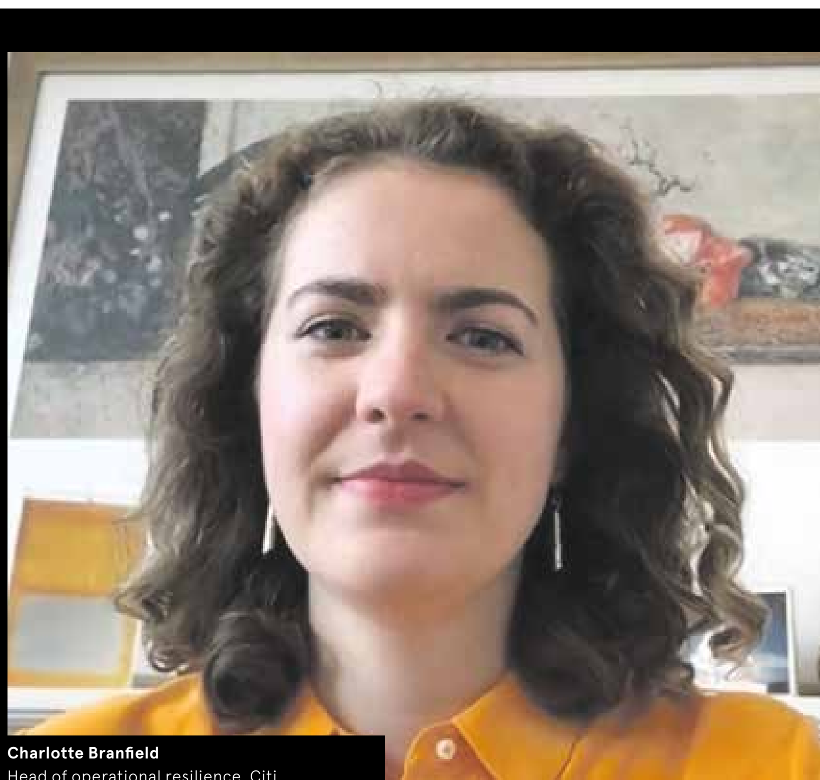
WHAT CONSUMERS VALUE IN THEIR BANK

Percentage of global banking consumers who chose the following as the most important factor to them when they thought about their bank

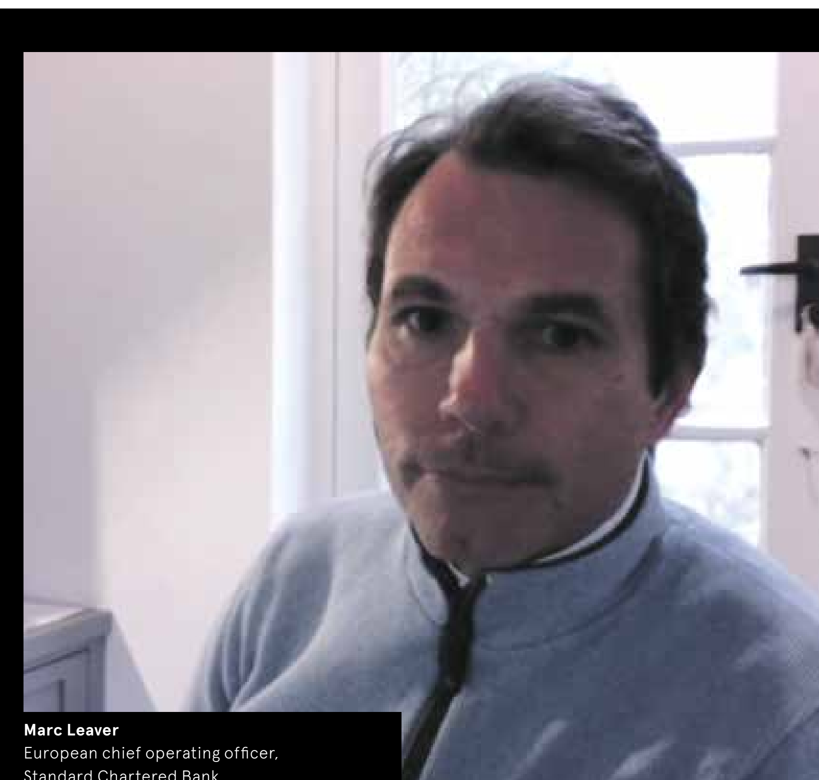


Statista 2021

Commercial feature


Charlotte Branfield
Head of operational resilience, Citi


Andrea Brody
Chief marketing officer, Riskonnect


Marc Leaver
European chief operating officer, Standard Chartered Bank


Jason Maude
Chief technology advocate, Starling Bank


Ralph Nash
Chief compliance officer, HSBC UK


Suresh Viswanathan
Chief operating officer, TSB

Banking in the near future: optimising risk management and resilience in the digital age

Technology may be the great enabler for banks and their customers, but to achieve holistic risk management, culture change and education are equally important

Oliver Pickup

Q What is the current state of personalisation in banking in the UK and around the world?

RN Last year's events have accelerated some of the trends already emerging in banking. These include the increased use of automation and digitalisation and the concept of "the bank in your pocket". Branch networks will remain important, but increasingly we see demand-led interaction around digital and that's something we need to satisfy. A greater digital focus creates both risk and opportunity from a stability and resilience perspective. There are some risks, both technical and ethical, but if we get it right, it could be a win-win scenario for the bank and the customer. We are at an exciting juncture.

JM In the next decade, affording customers immediate and secure access to their data in the same way they have access to their money will become a requirement, rather than a "nice to have". If you, as a bank, cannot offer that connectivity or application programming interface (API) capability, you will be like a town the railroad missed out, and you will weaken and die. Customers, including small and medium-sized enterprises, are not going to do business with a bank that relies on paper processes.

CB What makes a good bank is how fast they reach the customer, to solve their problems and provide financial services conveniently, efficiently and responsively. Therefore, the concept of a bank is evolving from the traditional bricks-and-mortar bank to an "embedded finance" model. Driven by the demand for high-quality seamless customer experience and fintech partnerships, banks will become hubs where products can be plugged in and out. When you think about banks' business models, that's pretty revolutionary. The whole system is changing and it's an exciting time to be involved in operational resilience.

ML I agree that we are at an inflexion point in banking: if we don't change the traditional way of delivering products and services to clients, we will be redundant in the digital age. We see ourselves as a bank that connects clients, products and markets. To do this we utilise digital offerings to tap into the digital needs of our clients. Three pillars to build this: innovative partnerships exploring disruptive business models; investment in fintechs; and, arguably the most challenging element, greater internal innovation.

SV The definition of where a bank starts and finishes is transforming. Previously we have been constrained by physical infrastructure and analogue systems. As we emerge from a post-pandemic world, the march to digital is inevitable. However, as we move towards a world driven by open banking and APIs, you lose control of when demand hits. People trust banks and I think now it is obligatory to ensure we deliver more value to customers than just a current account, a loan, a mortgage and a card. It's a unique position to be custodians of customer data and leverage that trust, and it means we, as banks, can offer them more connectivity.

AB We talk with our financial services customers all the time. The same topics are discussed; the drive for greater automation and data analytics is taking centre stage because of the need for connectivity. It's imperative to leverage technology, but improved risk management in corporate strategy is required and the pandemic has exacerbated the need for better reporting.

Q What are banks' biggest operational challenges in 2021 and what problems are on the horizon?

RN The last year emphasised the importance of banks as a transmission mechanism of government policy to support individuals and businesses through the coronavirus crisis. We have effectively done years of lending in a few months, at an unprecedented level. Managing the exit from government support schemes will be a significant operational challenge for HSBC and the industry, this year and next, particularly in the UK. Customers' payment holidays will end, but some will be unable to resume repayment on their debt. Historically banks have been worried about cash and keys, and now they should treat data and systems as crown jewels and focus on building resilience for the latter. The operating model and technologies need to support that, as well as meeting regulatory and societal expectations.

JM To keep pace with those expectations, it's essential to have the architecture to operate faster. It's often thought that for banks there is a seesaw-like balance between security and reliability on the one side and speed of delivery on the other. At Starling Bank, we have constructed a system that makes these two things mutually reinforcing. We rapidly deploy feature changes, new products and services, and seek bugs daily to increase resilience. This system will be vital as we look to enter new markets globally in 2021.

ML Standard Chartered Bank has moved to a cloud-first strategy and we are looking to shift our core banking platform into the cloud by 2025, subject to regulatory approvals. Regulators are beginning to become more comfortable with banks' evolution to digital and familiar with safe data storage. Certainly, the strides made by Starling Bank and others are fabulous for the industry and the customers we serve. Partnerships with technology specialists are critical to our strategy because we know clunky platforms and traditional banking methods are not sustainable, frankly.

SV Today, 90 per cent of TSB's customer services are digital, as is 70 per cent of our sales. In terms of operational resilience, it is very important to have a multichannel approach because you want to comfort and support customers and be readily available. We are marching to the cloud and, as networks become much smarter and 5G is more widespread, we can push more content through the pipes into the hands of devices customers hold. That capability gives us the ability to educate customers and improve financial literacy. A key imperative, though, is to become more holistic in our management of risk.

CB I agree that banks need to embrace holistic risk management and think about processes differently. At Citi, our priorities lie in better understanding our clients' experience of using our services and improving upon it. As an industry, we have to move away from the mindset that cybersecurity, for example, is only a tech expert's responsibility. That approach causes a disconnect concerning operational risk because, in today's digital economy, the fundamental commodities at risk are trust, data and connectivity, not just money. If we want to manage cyber risk properly, we are going to have to have far greater engagement from the client relationship managers, the user experience designers, and the product sales and development teams, and not just within banking, but in the public sector as well.

AB Considering the customer's viewpoint is a perfect way to look at risk holistically. Every department in a bank is responsible for risk. Thus, silos need to be broken and communication between the different functions improved, and this can now be enabled by technology.

Q How can technology help optimise risk management?

RN Increasingly, we feel there are some challenges in using data from an ethical perspective. How do we ensure we don't end up with unintended consequences due to modelling our customers' data? For instance, if we become more sophisticated at modelling the propensity of a customer to commit financial crime, or pose a compliance risk, do we end up inadvertently becoming less inclusive and less able to target the unbanked at a time when probably we should be trying to do the complete opposite? There is also the question of staff surveillance; what is legal but fails on the "creepiness" test?

ML The debate about vaccine passports has dominated the news recently, showing that the ethics of handling customer data is no longer a horizon risk. As banks, we are grappling with the same challenges: we know if we use data-driven insights, we can make better business decisions and we can improve the way we serve our clients. But what is the tipping point? While customer data protection has long been part of the design of a bank's processes and systems, with increasing digitalisation, data management best practice needs to be embedded into its DNA. Ultimately, the customer's data is a gift and we must keep it secure.

JM We think of cybercriminals as competitors who are trying to steal our business, so we combat them by making it too expensive for them to spend time trying to hack our systems. A security bug is a big draw because it allows you to hit multiple people all at once and in banks no one has coded everything from scratch. Chaos engineering is going to become more prevalent in our industry. We deliberately attack our systems in a controlled manner to test and prove we are resilient.

SV There is a lot of artificial intelligence (AI) and machine learning in the banking industry, though some applications are more mature than others. Smart partnerships that drive innovation will be vital to delivering super specialisation, for example if you want to optimise the noise-to-signal ratio in ATM fraud. It's about adding value to the customer, but not at the cost of impacting operational resilience. For this reason, we need to be bold, be innovative, fail fast and move on.

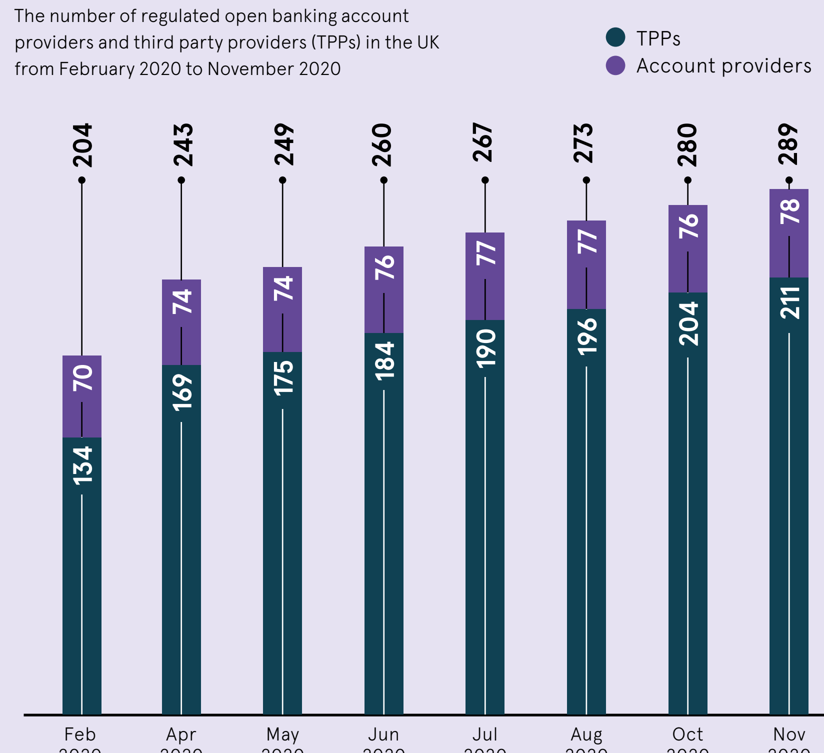
CB There are so many shiny new tech toys and it's easy to think a bank has to have the latest gadgets and be deploying the latest piece of AI, but without actually understanding why. It's critical to go back to basics and back to your first principles. Ask yourself, "What benefit is this bringing to either the business or my customers?" It's an exciting time to be involved in resilience and risk management because it means looking carefully at your organisational structure and culture.

AB It is indeed an exciting time and there is clearly a real focus on operational resilience in the digital age from those in the financial services space. There are many challenges, but a bank's technology stack must support the desired outcomes. It will be fascinating to see how the ethics and compliance concerns evolve in the coming years.

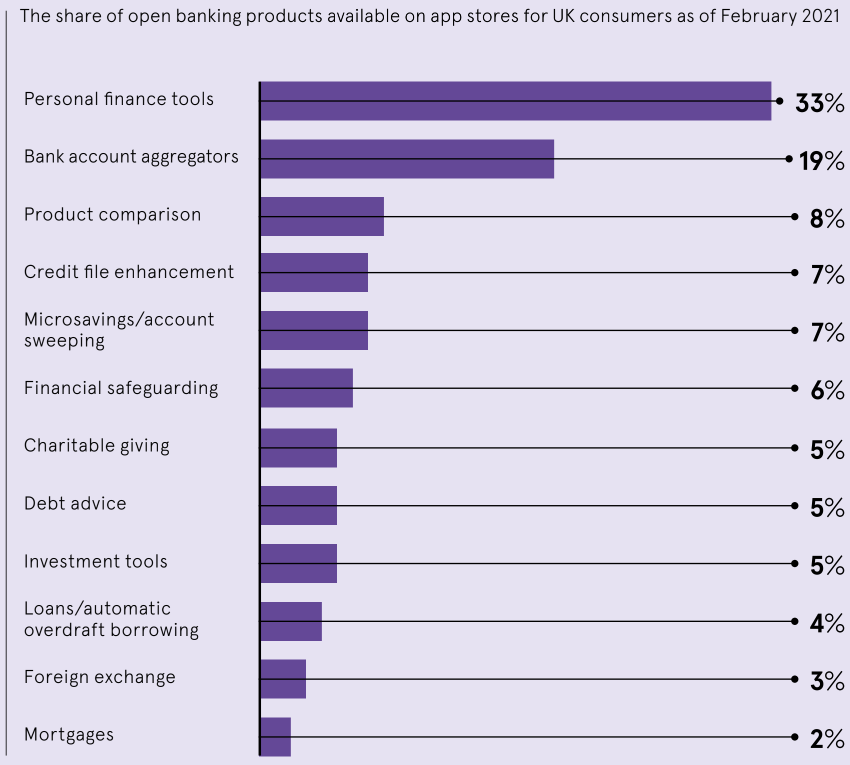
“There is clearly a real focus on operational resilience in the digital age from those in the financial services space

THE CURRENT USE OF OPEN BANKING PLATFORMS IN THE UK IS GROWING EACH MONTH, OFFERING OPPORTUNITIES AND CHALLENGES ALIKE FOR COMPANIES IN THE FINANCIAL SERVICES INDUSTRY

The number of regulated open banking account providers and third party providers (TPPs) in the UK from February 2020 to November 2020



The share of open banking products available on app stores for UK consumers as of February 2021



APIS & GLOBAL BANKING

How APIs can transform global banking

Business-to-business application programming interfaces are moving banks closer to clients on the value chain, but there are a host of hurdles that must be overcome first

Alex Wright

J.P. Morgan, Goldman Sachs and Bank of America are three of the banks who have taken the lead on using APIs for global banking

With companies expanding into new regions and doing more trade with the rest of the world than ever before, global transaction banking has become critical to their success.

Traditionally, major banks have provided these essential services, covering everything from transfers, payments, and cash and asset management, to financing and global trade.

It's a money spinner that generates almost $1 trillion in global annual revenues and is expected to grow to $7.2 trillion in ten years, according to industry estimates.

Previously, banks had relied on legacy systems and technologies, such as host-to-host file transfer, to integrate their services with clients' systems. However, while working well for single-step transactions, they struggle with more complicated real-time functionalities such as reconciliation, trade services, collections and supply chain finance.

In the face of increasing competition from more nimble rivals, notably fintechs and digital banks, banking institutions have had to up their game. Enter business-to-business (B2B) application programming interfaces (APIs), which enable banks to simplify transactions and provide clients with a seamless service.

But what are the key challenges involved in migrating to this new technology and how can banks overcome them? What has been the effect of regulation? And how can they capitalise on the biggest growth areas?

APIs work in closed networks that integrate banks' services with their clients' enterprise systems and workflows. They allow banks to scale complex operations and eliminate the need for brokers or service bureaus.

Banks including Goldman Sachs, J.P. Morgan and the Bank of America have already taken the lead. Yet, as a technology, it's still in its relative infancy, with a lack of clearly defined industry standards, and is restricted by clunky infrastructure and governance protocols.

The biggest challenge is in developing a platform that is both user friendly and compatible with clients' systems. Too many APIs, however, are let down by poor or overcomplicated designs, due to lack of development expertise.

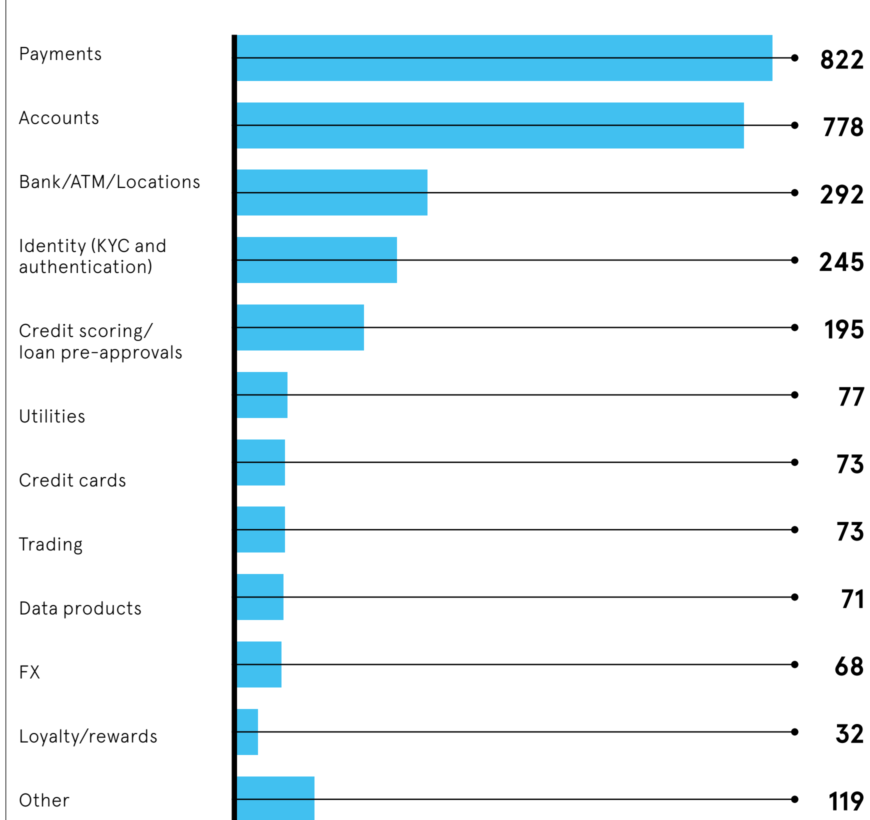
"API banking is a product with unique design constraints and challenges in the same way mobile or web banking are," says David Jarvis, co-founder and chief executive of Griffin, a banking-as-a-service provider. "You need to build out that expertise internally and none of the banks have invested in this to date."

They also need to be fully secure, well documented and meet ever-evolving regulatory changes. Then there is the considerable cost involved too, as well as overhaul of existing systems and processes.

To overcome these issues, banks must embrace technology and change, with a dedicated team focused on developing a strategy and rigorously testing their APIs. They should also collaborate with clients and partners, including fintechs, thus spreading the cost of innovation and reducing time to market.

WHAT ARE APIS BEING USED FOR?

Number of open banking APIs by product category globally



Axway 2020

As an absolute basic first step, banks need to invest in a digital banking platform that links their gateway and product processors and functions to enable their APIs. That platform informs all the modification, authentication, authorisation and consent-management capabilities, as well as connecting multiple information sources.

Société Générale has achieved this by building its B2B SG Markets platform. It provides everything from cash management, financing and security services to global markets and private banking.

"By implementing machine learning and combining our cash management and FX [foreign exchange] within our platform, we have created a one-stop shop," says Société Générale's head of execution platforms and UK chief digital officer Sohail Raja. "It enables clients to do everything from managing their transactions to taking cash positions on different currencies."

Citi, meanwhile, has partnered with treasury software providers including FIS, Kyriba, Oracle and SAP to embed its API functionalities into their core products. This month, its CitiConnect platform reached one billion calls from corporate clients since its launch in 2017, while API volume grew 60 per cent in 2020.

"APIs are great for real-time treasury services to enable our clients to have the most optimal digital banking experience," says Mayank Mishra, managing director and global head of digital channels at Citi treasury and trade solutions. "Open banking is an extension of this, but one that helps enable an entire market or industry vertical."

> You need to build out that expertise internally and none of the banks have invested in this to date

UniCredit has also teamed up with FinDynamic to build its platform, which allows clients to automatically view invoices through a web-based or mobile platform and approve invoices for payment. In September 2020, it launched the first open banking API with an IBAN check to enable clients to verify their customers' account details.

The move to APIs is being fuelled by open banking regulations, such as the European Union's Revised Payment Services Directive (PSD2), and the introduction of the United Payments Interface in India. PSD2 has required banks to release their data in a secure, standardised form, so it can be readily shared between authorised parties online.

"Industry needs, like smart personalisation and corporate banking, are driving the conversation beyond banking directives now," says Vikram Gupta, global vice president at Oracle Financial Services. "These capabilities need access to premium information beyond regulatory mandates that give banks an opportunity to tap into new revenue streams and provide better services to their customers as well maintain customer stickiness."

Simultaneously, artificial intelligence (AI) and automation have vastly improved risk and liquidity analytics and forecasting in treasury management systems. Blockchain and distributed ledger technologies have also driven the digitalisation of trade and supply chain finance.

"Banks need to accept that the future of finance is decentralised and integrate blockchain and AI into their overall digital transformation strategy," says Inpay's head of financial institutions Stan Cole. "They can remain a central part of society by capitalising on the tremendous opportunities technology brings in terms of an incomparably higher speed and lower cost."

The biggest growth areas over the next three years will be cash management and trade finance. More than 85 per cent of respondents to a McKinsey survey plan to invest in cash management APIs in the next three years and almost 50 per cent want to expand their trade finance APIs.

Banks can support this by upgrading their API capabilities to allow clients to initiate self-service transactions directly. They can also cater to clients in different time zones with real-time payment processing, liquidity, risk and fraud management, cash-flow forecasting, reporting and pricing.

Commercial feature

Banking enters its era of openness

Open finance is enabling big banks to innovate and adapt at greater speed, and facilitating a new banking ecosystem, powered by APIs, that will transform the customer experience

The banking sector has had to evolve significantly over the last decade, but the pace of change is only accelerating. The global financial crisis signalled a need for something different, which combined with the emergence of powerful digital innovation triggered a surge in small upstarts seeking to disrupt incumbents with niche, differentiated services across the banking spectrum.

Spoiled by slick experiences from the likes of Amazon, Uber and Deliveroo, consumers desire instant gratification and personalised services from their banks too. Their expectations, however, are more likely to be met by the newer market entrants that, unburdened by legacy infrastructure or vendor lock-in, can innovate and adapt to trends in a faster, more agile way.

"Technology enables banks to deepen their relationships with consumers and create a stickier, more customer-centric service, but they need to find a way to deal with legacy," says Liad Bokovsky, open finance specialist at Axway, a tech company which gives heritage IT infrastructure new life to help organisations to digitally transform. "With lots of new competitors focusing on products like mortgages, insurance, banking or foreign exchange, big banks have to figure out how to deal with that, viewing technology as a symbiotic relationship."

> We are going to see all sorts of companies implementing different APIs in the open finance ecosystem

The key to innovating fast enough to keep up with customer expectations is through open finance, which is about using and sharing customer data in a holistic way to enable a better service. Open finance is a vision for a much bigger ecosystem that includes more information about the financial status of an individual, but also connects with other platforms and companies. A smartwatch, for instance, can tell you about both your health status and your spending status.

Nationwide Building Society has created an incubator programme, Open Banking for Good, to help people avoid getting into debt. By utilising data and embracing the principles of open finance, which is about achieving a 360-degree customer view, the programme enables people to better see if buying something or taking money out the bank might get them into trouble, by using tooling that can help them avoid financial traps and pitfalls.

Axway powers digital transformation by integrating all the legacy and modern technology applications in banks, with application programming interface (API) management that allows them to build marketplaces and ecosystems, which help them to grow. The company also removes complexity for developers of banking applications by automating their processes so they can concentrate on transformational frontend tasks rather than legacy integration at the backend.

"Customer churn is a very expensive cost for banks. Providing a better customer experience keeps people loyal and reduces that churn," says Anthony Badger, financial services lead at Axway. "But it is very hard for big banks to introduce new innovative financial products. Many of them are not going to change their backend, those systems of records. We provide a way to integrate with them so they can adapt and respond more quickly to new trends and customer expectations. Our middleware is an innovation layer that exposes this data to consumers."

The sheer breadth of the open finance ecosystem is exemplified by Axway's work with a leading automotive manufacturer resulting in financial integration, which means when somebody purchases a car they can simply press a button to get insurance for their first seven days, without having to provide any more information.

In the future, these drivers will also be able to subscribe to a service whereby their car can find, choose and pay for their parking space, or order and pay on their behalf when going to coffee drive-throughs. The financial ecosystem will be such that, for some customers, it might not even begin with an interaction with a financial services organisation.

"We are going to see all sorts of companies implementing different APIs in the open finance ecosystem," says Badger. "Banks will invite companies to be part of their ecosystem – a co-creation of APIs – and there will be a unified catalogue of all APIs available. But banks won't be like an island, they will also be part of other ecosystems. There will be more integrations between organisations and more offers available to consumers.

"Axway will help organisations create those catalogues and co-creation capabilities, and expose these assets in a secure way. We are part of the core journey for both the customer and the financial services companies."

For more information please visit https://blog.axway.com/industries/banking-insurance

axway

Commercial feature


Rafa Plantier
Head of UK and Ireland, Tink


Matt Hammerstein
Chief executive, Barclays UK


Pella Frost
Director of everyday banking products, TSB

Personalisation in banking can better serve society


Philip Watson
Global head of the investment lab and chief information officer, Citigroup


Chirag Patel
Executive vice president and global head of digital payments, Santander

The direction of travel in financial services is clear. Consumer super apps and portals for smaller businesses are on the horizon, and technology and data-driven insights will shape the customer journey, but education is required to sustain trust

Oliver Pickup

Q What is the current state of personalisation in banking in the UK and around the world?

RP We are at the dawn of an exciting new age. Until now personalisation was based on a customer's engagement with their financial institution. Today people and businesses have a bank that genuinely partners with them and can assist with remittances, online payments, pensions, mortgages and more. Now greater personalisation and richer experiences can be driven by all those data insights.

MH For personalisation in banking to work, trust is essential. Whether £5 or £5 million, if you're going to give your money to somebody else to protect it, you have to trust that they have your best interests at heart. We are seeing an interesting trend with younger people, where they rely on technology and expect instant gratification, but also they are self-aware that the way they pay for things doesn't give them a sense of control. They can wave their phone in front of a terminal or touch a button on their smartphone and suddenly the money disappears. For them, part of the personalisation is digital notification, at the very least.

PF Personalisation is a lot about having control. Customers want to have confidence with their money. We saw considerable shifts in consumer behaviour during the pandemic around payments and digital and app-based banking.

PW The pace of change is accelerating and, to increase personalisation in banking, education is vital. We help Citi clients understand unstoppable trends: artificial intelligence, cloud, internet of things and more. These multi-year, secular long-term trends create tremendous opportunities. However, they also require us, as an industry, to inform and share with our clients how they and parts of the community, including the unbanked and underbanked, can derive benefits.

CP There are a lot of pitfalls with the personalisation trajectory that everyone's on. Because a bank's traditional customer base goes from 18 to 80 year olds, broadly, there is a tendency to load up a banking app with as many features as possible. But depending on their age, customers will want different experiences. Be obsessed with improving your customers' experiences, but keep it simple, is my advice.

How are technology and data-driven insights delivering better services for banking customers?

RP The combination of technology and open banking provides a fantastic opportunity for the industry to innovate and create sophisticated digital products that would previously not have been available to customers walking into a branch, while also running fraud out of the market. A lot of complex mapping is possible now, bridging a journey from high-end, white-gloved corporate finance products, so they are available, as microservices, to anyone with a smartphone.

PF As an example, at TSB, we have recently trialled a product created in partnership with ApTap that suggests to customers ways they could be saving money. We have found that customers can save hundreds of pounds in minutes by switching broadband providers, for instance. It's a no-brainer to help our customers use their data to drive insight and get a sweeter deal.

MH For a long time, the banking industry used technology poorly. There was a centralised system that disempowered local teams who needed to support customers. Decisions and authority were taken out of their hands by tech. Now, with technological advances and the availability of data, the situation is totally different. Local teams are re-empowered and better informed, and therefore make better decisions. But the big and important issue that sits across everything we've talked about is people feeling like they have the ability to not just have the technology available, but know how to use it effectively.

CP Open banking is built on the premise that banks have to open up the customer data to anyone and everyone, but then the data and experiences the customer uses with fintechs are closed to the banks. That doesn't make sense to me. Everybody should have access to that data to create a thriving, innovative environment.

What does the future of banking look and feel like for customers?

PF There is a cultural shift happening in financial institutions about how we think about our products, our services, our customers. There's a real growth in curiosity when we think about our customers' lives, what they're trying to achieve, the data our customers share with us and what we can observe from that to help them manage their money better.

RP I think we're going to see more financial institutions investing in creating their path towards building their own ecosystems, becoming "super apps". And I would bet a lot of that will be achieved through partnerships.

CP Partnership is about complementing the skills and capabilities you have. When you have found that customer pain-point, it's not necessarily the latest technology that solves it. Often banks can get a much faster path to market by partnering, rather than building in-house. This approach allows you to do something with more incredible speed, with lower costs, potentially, and it enables you to test and see if these are the right solutions quicker. It's essential to get it in front of the customers and see if it works or not.

PW Partnership addresses our collective challenges that are too big for any one of us to handle. At Citi Ventures, for example, we partner with leading companies with cutting-edge solutions to explore, incubate and co-create solutions to best support clients. By working backwards and thinking about the roles we all play, we can encourage wide-ranging collaboration and deliver a more equitable and sustainable society.

MH There's still a lot to do in terms of supporting individuals, as lots of people still rely on cash to help manage their lives. Solving this is a social issue because we can't leave people who are reliant on cash behind, so we all have an interest in playing a part on cash access. When it comes to small businesses, I do think the next wave on working with banks is already building. Small-business owners want to spend their time running their business, not doing banking. Finding ways to take the effort and the admin out of their banking is critical to helping them, and you can find a way to bring all that together in particular through partnerships.

For more information, please visit tink.com

tink

EMBEDDED FINANCE

Making borrowing simpler than ever

Consumers and smaller businesses no longer need to rely on overdrafts or credit card debt to access short-term finance as companies start embedding loan offers into their digital platforms

Ben Edwards

Ezra Bailey via GettyImages

When Jet's Pizza store owner Nick Woods had finished refurbishing his new restaurant in Hartland in the US state of Michigan, he was strapped for cash. Worried he wouldn't be able to pay for any emergencies, such as an oven breakdown, say, he noticed his credit card processor Worldpay was offering him a working capital loan through its online portal.

The loan was, in fact, being provided by small business lender Liberis. This was an example of embedded finance, a way for businesses to seamlessly integrate financial services products into their own platforms as if they were providing the products themselves.

"We bring business finance to our partners by integrating into their ecosystems, so we do the onboarding of customers through their own platform, under their own brand, and we do the underwriting and we do the lending as well," says Rob Straathof, chief executive of Liberis.

In the case of Jet's Pizza, the loan did cover an emergency, the coronavirus pandemic, giving Woods a financial cushion to keep his business afloat until he received a COVID loan from the US government.

Liberis provides so-called revenue-based financing for small businesses like Jet's Pizza, pre-approving borrowers for short-term loans based on their transactional data and allowing that money to be repaid as a percentage of future cash flows.

"Because you're pre-approved, you don't need to go through a whole underwriting cycle because we've already done that based on all the data we get from our partners like Worldpay and, in as little as ten minutes, the money hits your bank account. So it's fully integrated and completely frictionless," says Straathof.

Such embedded finance tools could potentially reshape how small and medium-sized enterprises (SMEs) access short-term finance, for instance by replacing the need for overdrafts.

"Overdrafts are a blunt instrument that lend money on a short-term basis at a fixed rate, but if you actually know what somebody needs that money for – buying machinery or computers or paying salaries – they are all specific financing needs with different risk profiles," says Nigel Verdon, co-founder and chief executive of Railsbank, which provides the tech that enables companies to embed financial products into their own platforms.

"Buying a computer can be asset-backed lending, so why use an overdraft that is priced at unsecured lending rates when it could be priced as secured lending?"

By working with merchants and embracing embedded finance, lenders can get real-time data on those transactions and offer credit that is priced accordingly at the point of purchase, enabling SMEs to borrow at more flexible rates.

But it is not just SMEs that can benefit from embedded finance, other platforms are also providing buy-now, pay-later products for consumers. Kuba Zmuda, chief strategy officer at Modulr, says a good example is Butter, an app that allows shoppers to buy from major high street brands using a virtual card and then spread the cost of the purchase through an instalment plan.

"For consumers, it offers a new and convenient way to access credit, while for the lenders, this increases their understanding of their clients and their needs," he says.

Miriam Wohlfarth, co-founder of Banxware, a German embedded finance platform that acts as a bridge between banks and ecommerce and payments platforms, says embedded finance could mean banks have a less customer-facing role in the future, instead acting as an infrastructure and finance provider behind the scenes. This could also change the traditional narrative about fintechs competing with banks.

"A lot of press in the past has been about fintechs versus banks, but embedded finance is much more about banks and fintechs working together," says Wohlfarth.

This backdrop is creating opportunities for banks that are willing to innovate. Silvia Mensdorff-Pouilly, head of banking solutions for Europe at FIS, says banks could use embedded finance to develop smarter budgeting tools that help customers make more informed credit decisions at the point of purchase.

"As a consumer or an SME, it's not that useful just to see my current balance; it could be that tomorrow I have a direct debit that will wipe out my balance, but my bank knows that and they also know what's coming in," she says. "If you're a forward-thinking bank, you can provide your customer with a budgeting tool to help make a decision on whether they can buy something with available funds and, if the answer is no, offer them an alternative way to buy."

> **A lot of press in the past has been about fintechs versus banks, but embedded finance is much more about banks and fintechs working together**

However, developing more frictionless ways to borrow money is making regulators uneasy. Currently if borrowed funds are repayable within 12 months, and they are free of interest and fees to the consumer, they currently fall outside the Financial Conduct Authority's regulatory remit, says Nikki Worden, partner at law firm Osborne Clarke.

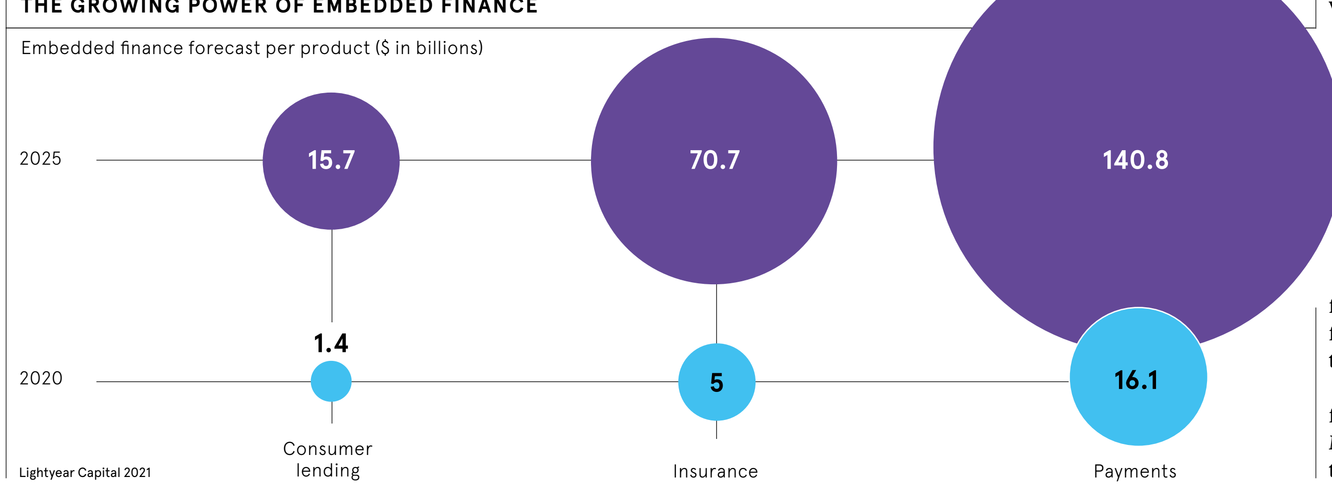
"Because these products are not regulated these lenders have been able to embed themselves and make these customer journeys really frictionless and smooth," she says.

As a result, such products are likely to be regulated in the future. "The Financial Conduct Authority is concerned that if you make credit too easy to apply for, then people will. So the FCA wants friction to be introduced into these journeys," says Worden.

Those concerns might have become more acute during the coronavirus pandemic given the pressure on consumer finances and the ease with which such platforms can provide credit, but lenders, whether it is for consumers or SMEs, are still committed to lending responsibly, Wohlfarth adds. "We don't offer loans where the business is going down; we only want good loans," she says.

THE GROWING POWER OF EMBEDDED FINANCE

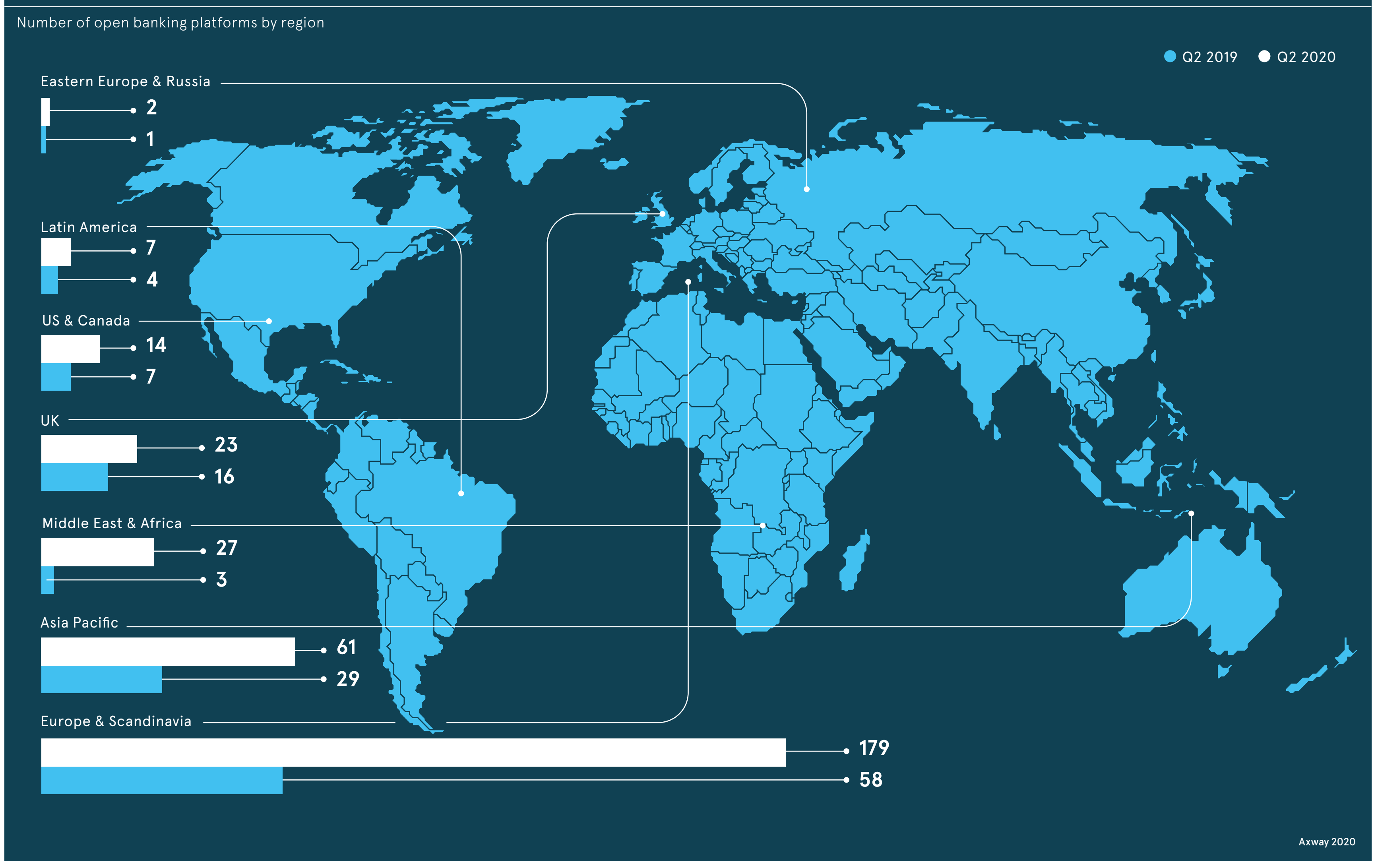
Embedded finance forecast per product ($ in billions)



Lightyear Capital 2021

WHERE IS OPEN BANKING TAKING OFF?

Number of open banking platforms by region



Axway 2020

OPEN BANKING

Open banking momentum hints at more exciting future

As user numbers pick up, open banking advocates its aim to transform financial services

Tim Cooper

After a plodding start, open banking is finally gaining speed in the UK. Users grew from 1 million in January 2020 to 2.5 million this year. It's still way off target and lags behind countries such as South Korea, which has 20 million open banking users. But it is encouraging given open banking's potential to revolutionise financial services.

The revised payment services directive (PSD2) that initially drove open banking is three years old. Its goal was to level the playing field for customers by giving third parties digital access to bank infrastructure.

Despite the lumbering start, UK banks and fintechs are excited about what open banking can do in future.

Some say it has achieved much already, especially in helping thousands of struggling companies and individuals find credit during the coronavirus pandemic. It did this by allowing credit providers to make more informed and timely decisions using real-time current account data.

But open banking can go much further, for example in enabling instant mortgages and open access to savings, pensions and other financial products.

Dan Weaver, open banking expert at Equifax UK, says the industry should capitalise on this momentum and drive further innovation. In particular, for mortgage applications, he thinks real-time access to bank account information and payments data could support ID verification, and provide more timely and accurate views of complex affordability cases compared to current methods. It could also make processes safer, fairer, quicker and less susceptible to fraud, says Weaver.

"Given the right platform, open banking can improve financial services greatly and make feats such as instant mortgages a reality," he says. "But it is vital that more credit providers, including banks, utilities, insurance, auto-finance and telecommunication companies, accelerate its adoption."

There are 102 offerings already available in the UK open banking ecosystem. But we are only starting to see where this technology can take us.

Dan Globerson, head of open banking at NatWest, says consumers have already benefited from open banking via reduced costs and consumer protection built into payment cards. Card schemes are also evolving to integrate loyalty points and faster payments to merchants.

"But we have only scratched the surface," he says. "In the medium term, we will be able to obtain more products and services outside bank channels, perhaps during ecommerce, sales or accounting journeys. Accounting platform integration with banks, particularly for startups, is improving.

"We haven't disrupted payments yet, though it was in PSD2's crosshairs. But I can see that happening and embedding something bigger than just payments, for example electronic contracts."

Globerson agrees that instant mortgages are possible, as open banking can quickly enable banks to obtain income verification, affordability and credit data. Only the land registry confirmation would slow it down, but perhaps that too could be more integrated.

In the longer term, shared customer data will also speed up and reduce the cost of onboarding other products such as pensions, he says.

Dr Oliver Prill, chief executive of business banking platform Tide, agrees the biggest current impacts for open banking are in linking credit, payments and accounting solutions with bank accounts and, in the future, that will include savings and investments.

Open banking has already allowed savings platforms like Plum to grow to more than a million users. Plum estimates that automatic, real-time optimisation of utility bills, savings and investments could save the average user £186,000 over 40 years.

One reason for open banking's slow initial uptake was the focus, for many banks, on compliance with PSD2 instead of commercial opportunity. Prill blames the regulators for obliging banks to open their data for free.

"No one would expect a credit rating agency to provide their data for free," he says. "Why would you want banks to? The big banks, therefore, do the minimum possible to comply.

"Open banking needs to become market-led and allow banks to offer premium services for a charge. When their data becomes a profit line, resources will flow to improve services. We only need the regulator to stop oligopolies and abusive pricing."

> Given the right platform, open banking can improve financial services greatly and make feats such as instant mortgages a reality, but it is vital that more credit providers accelerate its adoption

Post-Brexit, the UK government can gain an advantage by introducing such a market-led system, adds Prill.

Another big barrier to take-up has been public trust in the security of data. In other industries, customers will share data if they can see the benefits. So adoption rates could accelerate further if providers can communicate benefits better.

Stephen Noakes, chief digital and transformation officer retail, at Lloyds Banking Group, says: "Longer term, open banking will create a more diverse, innovative market with more complex, higher-value products.

"The challenges to this include potential risks to customers, particularly where third parties are enabled to transact on their behalf. But more complex open banking propositions can succeed if banks and third parties work together to highlight benefits.

"We agree open banking will best flourish if firms have the right incentives to participate. The infrastructure supporting open banking should also be fair and encourage firms to work collaboratively."

Ricky Knox, chief executive of Tandem Bank, says another exciting development is that open banking will help providers segregate risk types by understanding credit, fraud and anti-money laundering information. This will lead to much more streamlined services.

"It could also help provide automated, insightful real-time advice on all your finances," says Knox. "Open banking has some detractors, so one question is how much appetite the UK government has for this. But, ultimately, innovative startups will drive further developments."

If they get it right, the cantering pace of the last year could grow to a gallop.

OPINION

'Knowledge is power: the more consumers know about their financial lives, the more empowered they will be to control and manage them'

Digital technologies have driven rapid growth in the amount of choice open to consumers for managing their personal finances. In the last decade, new fintech players have emerged, offering a slicker user experience based on their digital and mobile app-first approach.

Looking after your personal finances is complicated. With so many products and options for managing money, you could argue it's harder than ever to understand your financial life.

Consumer demand, combined with a new wave of technology, is driving the next big change in money management, one which promises to make taking control of our financial lives a genuine prospect. It will be underpinned by three innovations: artificial intelligence (AI), big data and open finance.

Before getting into these trends, it's worth understanding how coronavirus shifted the way we interact with our money. Lockdown gave us more time, but less opportunity to spend money. Combine this with interest rates reaching fresh lows, it is little surprise that we looked at our bank accounts and wondered how we could make our money work harder.

Consumers are more open to shopping around and willing to try new players. Some of the most well-known, such as challenger banks Monzo, Revolut and Starling, are providing a genuine point of difference to the current accounts offered by traditional banks.

However, fintech providers go far beyond current accounts. There are digital wealth managers, foreign exchange, money transfer services and insurance providers. Add to this the plethora of platforms to help manage and amalgamate your pension, build or improve your credit score and support those previously excluded from the banking system, and you start to appreciate the momentum behind this exciting innovation.

Traditional players are rapidly moving to a digital-first approach too, with some even joining forces with fintech players.

The upshot of money management being digital is the exponential growth of easily accessible data. This data has two major uses. First, if properly assembled, analysed and explained, it can tell us huge amounts about our financial lives. Second, when fed into sophisticated AI programs, it can start to give us ideas about how we might manage our money more efficiently. This use of data can increase access to financial products tailor-made to suit our individual circumstances and goals.

Sharing data is at the heart of open finance. A brainchild of UK financial regulators, governments and the financial services industry, open finance will give consumers the option to share information securely with financial services providers.

The first step towards open finance, known as open banking, exists already. Consumers are using it right now to get a better picture of their bank balances and financial transactions.

Open banking has given rise to a host of new services that help people see their financial situation in one place. Companies such as Moneyhub and Yolt are helping people with saving, budgeting and achieving financial goals. It is working too: 82 per cent of people who are using open banking-enabled apps say it has helped them improve how they manage their money.

Regulators now want to take the next logical step from open banking to open finance. This will see financial players beyond banks, including insurers, investment managers, lenders and consumer credit companies, engage in this data-sharing with consumers.

We can then see how basic financial advice, which so few have access to, can be delivered to the consumer. With a true and complete picture of their financial situation, AI-powered services can start to nudge consumers to make their money work harder. That advice could be to switch to a better deal, to invest a little more to take advantage of tax-efficient schemes or basic retirement planning.

Knowledge is power: the more consumers know about their financial lives, the more empowered they will be to control and manage them. The combination of data, AI and open finance are starting to bring better, more personalised and more inclusive financial services to us all.

Charlotte Crosswell
Chief executive,
Innovate Finance

NEOBANKS

The magic of Monzo: leading a challenger bank in times of crisis

Monzo boss **TS Anil** believes the spirit of neobanks is their emphasis on the customer, which has stood them in good stead during the pandemic

Meera Navlakha

What is abundantly clear about TS Anil, global chief executive of Monzo, is his pride in the UK challenger bank and its distinctive culture. Discussing the hurdles facing the business this year, Anil attributes its subsequent success to the strength of his staff, the bank's mission and what he describes as "the magic of Monzo". His passion for the company cannot be overstated. "Our pride comes from the fact that we are doing the right things for our customers," he says.

Born in India, Anil attended the prestigious Indian Institute of Management Ahmedabad. To Monzo, he brings more than twenty-five years of banking experience, with roles at Visa, Citibank, Standard Chartered and Capital One. The veteran banker replaced Monzo's co-founder Tom Blomfield in May 2020 after a stint as chief executive of Monzo US.

Now Anil faces the crucial task of setting Monzo on track to be both profitable and sustainable. A goal which, he says, is not new to the business.

"The reason to be profitable is so you can continue to service millions of customers and continue to grow. If you're not profitable, you simply can't do that. We aren't building something for the short term; we want Monzo to be around forever," he says.

Anil stresses that this profitability should not come at the expense of customers, through penalty fees, for example. Instead, Monzo is aiming to build a model that meets the needs of consumers and in providing "products that truly delight them".

The fintech made good headway with this goal during the pandemic, relaunching Monzo Plus in July 2020 and introducing Monzo Premium the following October. Across these schemes, the neobank garnered more than 130,000 customers between September 2020 and February 2021.

So what is driving this extraordinary success? One possible answer is all too obvious: the undeniable competitive advantage of being digital-first. Comparing neobanks to traditional banking structures is like "comparing night and day", says Anil. "For banking services, to not have been digitalised is to have been lagging.

"We get the balance right in continuing to be a fast-paced technology company while also operating at scale and being a regulated bank."

Traditional banks have, however, recognised the competition in fintechs such as Monzo. JPMorgan Chase recently announced the opening of a digital-only bank in 2021, hot on the heels of Goldman Sachs which launched Marcus, an online savings account, in 2018.

> **"The reason to be profitable is so that you can continue to service millions of customers and continue to grow. If you're not profitable, you simply can't do that**

Monzo sits alongside several UK challengers, including Revolut and Starling Bank, each of which Anil believes have "shaken up and disrupted the incumbent banking industry". When it comes to these potential rivals, he welcomes the competition, believing their presence pushes each company to raise their own standards of service.

"If someone tells me a bank is doing something similar to Monzo, I actually applaud it because that means our strategy is working. We set out to make money work for everyone. It raises the bar for the whole industry," he says.

This year, however, has brought challenges for challenger banks. The coronavirus pandemic placed Monzo's ability to continue operating in peril. Worldwide lockdowns led to a lack of travel and less customer expenditure abroad.

In mid-2020, like many of its peers, Monzo furloughed some 300 employees. Harder still, their Las Vegas customer support office was shut down in April 2020, resulting in the loss of 165 jobs.

In spite of this, Anil believes they are a stronger bank for all the tests that COVID-19 has thrown their way. "The COVID crisis tested us and we've come out significantly stronger. That is super exciting to see," he says, remaining optimistic about the bank's future.

"In the time of COVID, we launched three new products, with each of them doing better than we expected them to. Our revenues are now 30 per cent higher than they were at pre-pandemic peaks, despite the fact that there are enormous headwinds from a revenue perspective."

Concurrent to the turbulence caused by the pandemic, Monzo's valuation fell by 40 per cent. At the discounted rate, the bank raised around £60 million in funding in June 2020. That December a further £60 million was raised, placing its value at more than £1.2 billion, with new backers including Novator, Kaiser and TED Global.

The onslaught of funding is said to have been raised due to the performance of the bank despite the COVID challenges. The increase in customers even during the pandemic meant investors felt confident enough in the bank to part with vast sums.

What Anil believes truly sets Monzo apart is the bank's steadfast emphasis on the people they serve: their customers. "Coronavirus poses a difficult environment for our customers," he says. "We had to ensure to be there for our vulnerable customers and make sure we were there through their time of pain."

5+ million

customers currently use Monzo

32

is the average customer age, demonstrating the brand's undeniable millennial appeal

Monzo 2021

This commitment to customers, and the financial issues that can plague them, can be seen very clearly in Monzo's "gambling block". This feature, of which Anil is tremendously proud, allows users to self-exclude from gambling, in a time when this particular addiction is on the rise. Since its launch in 2018, a quarter of a million Monzo customers have enabled it.

Not content with features on its platform, Monzo is now lobbying the government to require all UK banks to enable customers to block betting transactions. So far eight other banks currently offer some form of a gambling block or similar tools, but Monzo is urging the industry as a whole to follow suit.

Anil says Monzo is seeing a steady increase in people choosing it as their primary account. Many customers get a Monzo card as a trial, later finding themselves switching to the bank permanently.

Before the pandemic, many were reluctant to join Monzo due to the lack of physical branches, a reservation that has since been largely swept away. The digitalisation of customers' lives increased, Anil explains, and this now applies to their financial preferences too. "During the pandemic, people worldwide experienced a truly digital life," he says.

All in all, the future looks promising for the global chief executive. "I feel very blessed to be at a company where the customer is always at the heart of what we do," says Anil. "We are at a stage where we are large enough to matter to all constituents and that comes with responsibility. It's not something we take for granted."

OPINION

'Risk is in the eye of the beholder and those who don't see it, don't see it'

Risk used to be a simple thing. A guard at the door and a lock on the vault. In financial services, and its offshoot fintech, the risks have changed as consumer behaviour has changed.

It is fundamentally impossible for services designed to be rendered in minutes or seconds to be executed by anything other than an algorithm. Programming services and products have expanded their reach and made them easier to use. However, anything that can be coded and connected to the internet can, in theory, and all too often in practice, be hacked.

You only have to look at the SolarWinds breach, Facebook's latest data leak or the Hafnium attack on Microsoft's Exchange service to see the danger is real.

And the size of the larder is drawing more wolves to the door. According to data from payments firm ACI, more than 70.3 billion real-time payments transactions were processed globally in 2020, a surge of 41 per cent compared to 2019. These transactions totalled $92 trillion, up 32.8 per cent from 2019.

Efforts by regulators, such as the UK's Financial Conduct Authority, to establish operational resilience requirements are a step in the right direction. So too is the work being done on security standards for financial-grade application programming interfaces (APIs) by the Open Banking Implementation Entity. Also, much of the financial services industry is rewired to be accessible via APIs and JSON Web Tokens further secure API-based financial services.

But it hasn't been enough. Cloud-computing provider VMWare reported a 238 per cent increase in cyberattacks against financial institutions in the first two months of the coronavirus pandemic in the United States. The FBI's *2020 Internet Crime Report* showed a 69 per cent increase in complaints filed compared to 2019, with losses exceeding $4.1 billion.

Part of this is because, as more people – the FBI report highlights older people specifically – are conducting their financial business online because of lockdown restrictions, they have yet to learn proper security behaviours.

It is also due to an automation of the tools available to hackers. Finding and exploiting a vulnerability in a system has often been directed by and dependent on human insight. Fuzzing, as it is known within the cybersecurity industry, requires hackers to generate multiple inputs to identify an exploitable vulnerability. Traditionally, this was time- and labour-intensive, limiting its usefulness for attackers seeking quick wins. The addition of machine learning to fuzzing has changed that calculus.

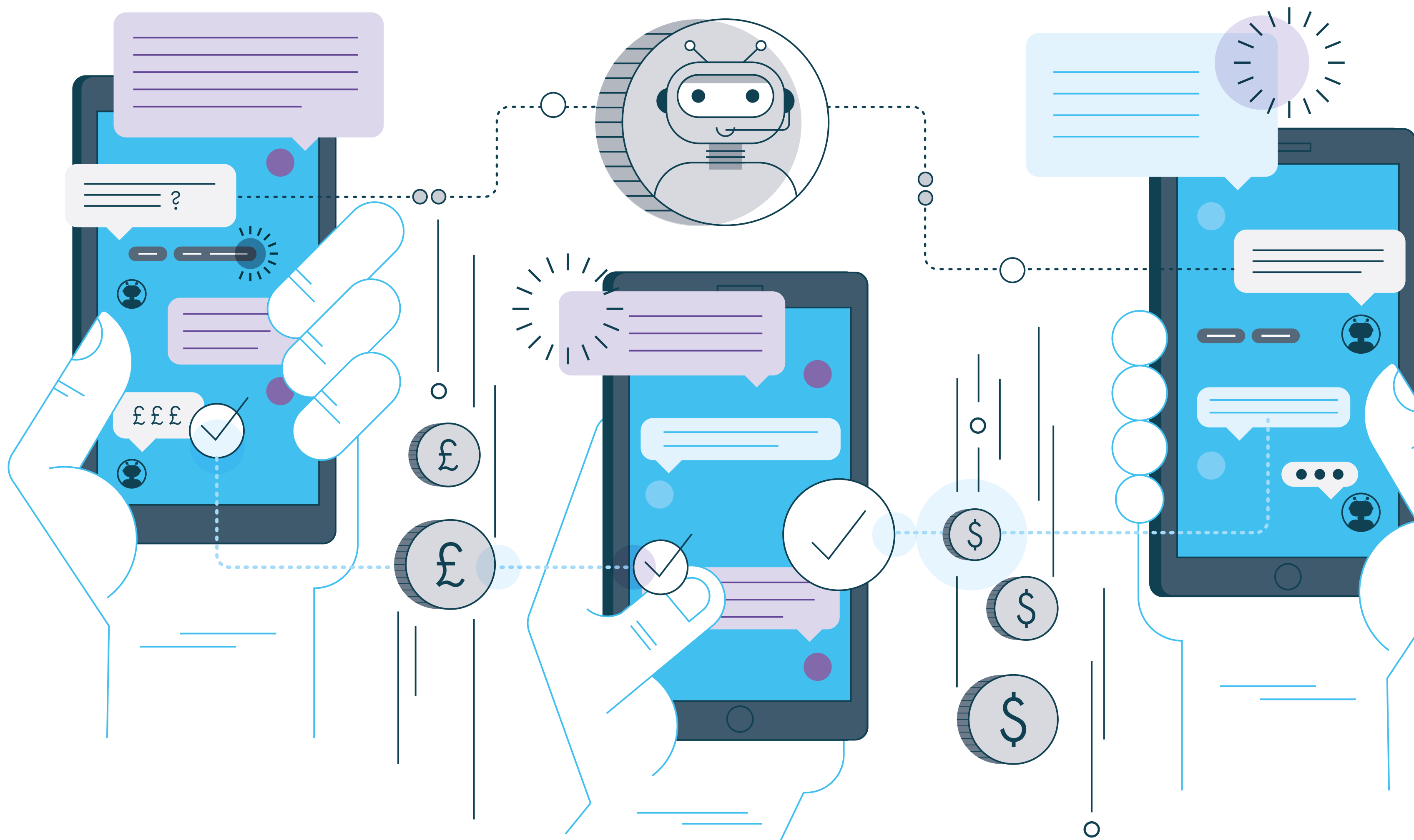
Attackers can now automate the scanning of a financial service's code for vulnerabilities and train the machine-learning programme to identify, prioritise and test vulnerabilities for their potential value. Such automated sourcing increases the likelihood that vulnerabilities are exploited, and quickly.

Making financial services secure is harder than ever. Even now, Deloitte reports financial institutions spent an average of 10 per cent of their IT budgets on cybersecurity in 2019, equal to 0.2 to 0.9 per cent of company revenue, or between $1,300 and $3,000 on cybersecurity per employee.

Nothing less than a proactive posture is required to secure an increasing volume of digital transactions. Long pursued as a means of earning revenue on a lower cost base, digitalisation requires those cost-savings to be reinvested in proactive cybersecurity efforts. And where many financial firms begin by securing systems, products and then staff, this extension must continue to customers.

As populations age in the UK and other developed countries, investments must be made in protecting and securing older customers, out of moral obligation, but also to strengthen the weakest link in the chain.

Will Haskins
Content director,
Money20/20



DIGITAL BANKING

What are the opportunities in messenger-based banking?

High street banks are pouring all their digital investments into self-made apps, but what about those which already hold customers' attention?

Ruby Hinchliffe

With the majority of high street banks' digital transformation well underway, customer engagement metrics centre firmly on the mobile apps they continue to iterate and not the branches being shut down. In January, HSBC revealed just 10 per cent of customer contact happens through its branches.

But driving customer engagement on a banking app isn't easy. It's a hurdle both incumbents and digital disruptors face on a daily basis. As Silvia Mensdorff-Pouilly, banking solutions head for Europe at FIS, points out: "Ninety-five per cent of the population globally just doesn't want to think about banking."

But what if banks didn't only offer their services to customers through a closed-loop app? Messenger services is one communication channel a small, but growing, number of banks and fintechs are exploring. And the technology is already taking a number of forms.

French banking challenger Zelf integrates with the likes of Facebook-owned Messenger and WhatsApp, displaying "balance" and "send money" buttons at the bottom of the apps. Meanwhile, Israeli fintech PayKey embeds banks' services into consumers' keyboards, working a lot like a GIF (graphics interchange format) or emoji keyboard.

Other players have introduced the two services side by side, as opposed to blending them. Japanese messenger service LINE, as well as Russian digital bank Tinkoff, have divided messenger and banking services between different tabs in their apps.

Unlike banking apps, messenger services own much larger portions of people's attention spans. Sheila Kagan, PayKey's chief executive, estimates that "a user spends up to 30 minutes in a banking app each month versus up to three hours a day within mobile-messaging environments".

According to Facebook, 100 billion WhatsApp messages were being sent each day by the third quarter of 2020. That's equal to 69 million a minute. In the UK, regulator Ofcom's data from 2019 found 49 per cent of the population use instant messaging communications weekly.

"Messenger-based banking gives you an opportunity to challenge the consumer," says Mensdorff-Pouilly. "Banks can use messenger-based banking interactions to really trigger customers to think about the banking aspect of what they're doing at that point." If a customer used a keyword, such as "owe" or "broke", banks could use this as an entry point to suggest how their services could help.

Currently, the technology isn't enjoying huge investments from incumbent banks in the UK, beyond in-app chatbots designed to replace customer service call centres. Experts, instead, point further afield to Southeast Asia, Latin America and Spain as areas exploiting the potential of messenger-based banking innovation.

Despite still being in the embryonic stages of development, early movers in the messenger-based banking industry have already managed to collect insights on which services customers are using. PayKey, which licenses its technology to banks, including Standard Chartered Korea, lists payment transfers as the most used feature, shortly followed by account balance checks and then billing.

LINE, which launched its digital bank LINE BK in Thailand, with the help of Kasikornbank in October 2020, now receives 20,000 personal loan applications a day. The Japanese messenger giant has persuaded two million of its Taiwanese users to interact with the integrated banking services so far. For approximately 30 per cent of its approved loan applicants, this is their first credit line from a financial institution.

Digital banking challenger Zelf, which is live in France and gearing up to launch in Spain, currently facilitates transactions between the £15 and £20 range. "Users are exchanging money through the same medium they discuss their gigs," says Zelf's chief executive Elliot Goykhman, pointing to the ease of paying invoices via messenger platforms. He suggests the technology offers a route into business customer demographics, as well as peer-to-peer spaces.

For Tinkoff, its messenger feature, launched through its banking app last year, serves as an indirect marketing channel. "I don't think anyone at Tinkoff thinks we have the next WhatsApp," says Neri Tollardo, the Russian neobank's strategy director. "We see it as a viral mechanism through which customers can recommend products to each other." Currently 1.3 million customers use Tinkoff's messenger service, some 10 per cent of its overall customer base.

As Zelf's offering proves, messenger-based banking isn't necessarily a suitable solution for higher transaction-based services. "At some point, you have to step out of it and take it seriously," says Mensdorff-Pouilly. "I can't imagine, you know, agreeing to a mortgage on messenger-based banking."

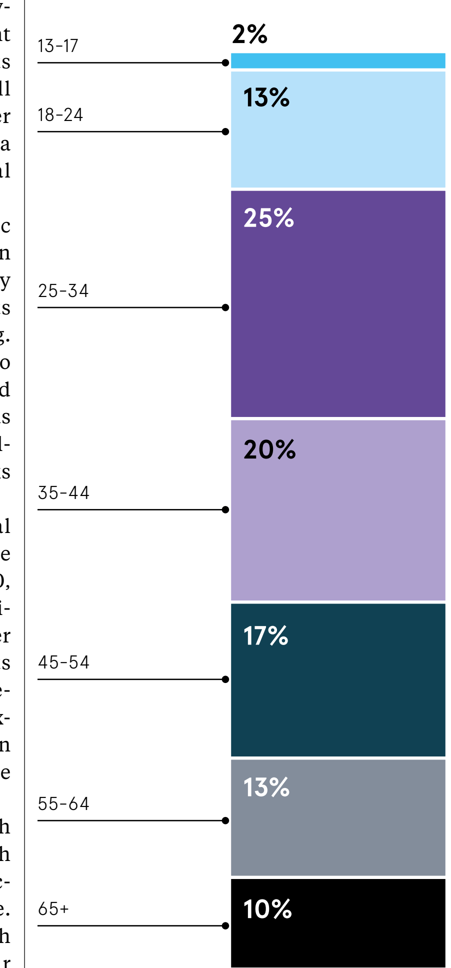
Connecting banking services with messenger apps also fuels concerns around customer privacy. Back in May 2020, Chinese messenger giant WeChat announced its intention to offer credit scoring to its 600 million users. It raised concerns over how users' messages might be used. For example, if a user sends something "anti-state", can WeChat use this to negatively impact a credit score?

More generally, the linkage between Big Tech platforms and banks sparks worries around trust. "If only Facebook manages it [independent of the banks], there would be a problem," says Kagan. In July 2019, the US Big Tech paid a record $5 billion fine to settle privacy concerns. In the same breath, Kagan acknowledges "banks need to be in front of customers, regardless of the platform".

Ultimately, it seems banks will have to weigh up the potential for increased profit against the likelihood of new data risks. As LINE BK's chief executive Tana Pothikamjorn explains: "The potential of social banking is the ability to analyse financial and social activities in a symbiosis." This, in turn, enables banks to get more personalised lending, investment and insurance products right in front of the customer. Privacy issues aside, the business case of messenger-based banking is compelling.

A SAVVY WAY TO REACH YOUNG CUSTOMERS?

Share of Facebook Messenger's 35,510,000 users who fall into each age group



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