FINANCIAL SERVICES INNOVATION

03 RESTORING BANKS TO THE HIGH STREET
12 OPEN FINANCE VERSUS THE NEED FOR PRIVACY
18 WHY 'BORING' INNOVATIONS MATTER

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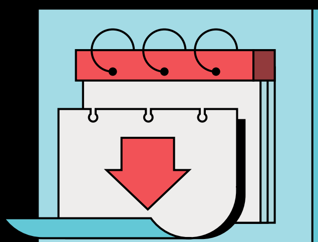

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FINANCIAL SERVICES INNOVATION

Distributed in THE TIMES

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LOCAL ACCESS

Special branch

An inventive pilot scheme has restored banks to neglected high streets around the UK, but it's due to end soon. Can the communities involved cling on to the change?

Andy Jones

We've all felt the agony of suddenly finding that we have no cash, whether it's for the takeaway delivery driver waiting expectantly at the door or a birthday card in need of a crisp £20. But a lack of cash can be disastrous for a business. For all the payment technologies that are propelling us towards a cashless future, readies still rule on the high street.

A poll published by *Which?* magazine in January 2021 indicated that more than 2.5 million people in the UK still relied primarily on cash, while well over a third of the adult population viewed it as an essential back-up to other payment methods. Despite this, *Which?* also discovered that 13,000 cash machines had disappeared over the preceding three years, while 4,300 bank branches had closed since 2015.

Combined with the Covid crisis, this factor has contributed to a sharp decline in footfall on many high streets. The loss of all bank branches from Cambuslang, Lanarkshire, in 2018 left shoppers and retailers alike facing inconvenient trips to Glasgow or neighbouring towns where banks still had a presence to withdraw or deposit money, where they would inevitably encounter long queues.

The absence of local banking facilities was also a security headache for retailers. Donna Stevenson, owner of The Loft therapy centre, agonised about whether to take her business's daily takings home with her or leave the cash on the premises overnight, while Angeline Coyle, owner of The Tea Bay café, found that she had to make a 90-minute round trip just to make a deposit.

"We had a TSB, an RBS and a Bank of Scotland branch here, but they all disappeared. There was a post office, but it was in an unpleasant location," Coyle recalls. "Suddenly, I couldn't just send my mum over the way with the takings. So, for me to reach the nearest bank [three miles away in Rutherglen], I had to pay someone to cover my absence from the shop. Losing all our banks created hassle, cost and a security risk for us."

Into the breach stepped Community Access To Cash Pilots (CACP), an independent initiative backed by a range of parties, including numerous banks, the Federation of Small Businesses and a consumer-rights group called Fairer Finance. Established in December 2020, CACP has taken the form of eight locally led networks, scattered widely around the country, providing free cash-withdrawal facilities and a range of other banking services, including business advice. Their success to date demonstrates how banks can continue to serve the UK's high streets as long as they're prepared to cooperate with their rivals and the communities they serve.

John Keeble/Contributor via GettyImages

Cambuslang, one of the pilot towns, opened a hub that's shared by five banks. Instead of each running its own commercially unsuccessful unit, all of them use the same premises in turn for one day a week. The hub is run by a husband-and-wife team who know the local clientele well and understand their particular needs.

These pilots have been a success by combining the latest tech with local knowledge, according to CACP's strategic leader, Chris Ashton.

"A high-street bank understands the local populace. In replacing that, you need to find the same level of knowledge. You cannot simply apply the same solution across every participating town; you let the town take the lead," he says. "For instance, in Rochford, Essex, we found an appropriate leader with local knowledge and gave him a budget to market the town's pilot to ensure that it reached the right people."

In other pilot towns, debt-relief charities such as Number 11 were invited to help get the word out and advise on how the lack of access to cash had affected local consumers and businesses. Trust was vital to the project, Ashton says, particularly for people who'd been obliged to pay £1.99 at an ATM every time they wanted to withdraw any cash – something that not only dented weekly budgets but also prompted people to take out more than they needed, increasing the risk of theft.

"Locals would ask us: 'Will you be here for the long term or are you just trying to make it look as though the banks are doing something?' We can never put 20 new branches on the high street, but we have helped to form a template from which banks can work pragmatically to create something useful for communities," he says.

Elsewhere, CACP has encouraged small shops to offer cashback on debit-card transactions – something that's boosted footfall and kept money circulating – with localised mobile apps indicating which stores are offering the services at any one time. The Shrap app has also enabled shoppers in isolated communities to take any change from cash purchases in local stores as digital currency that they can then spend elsewhere, meaning that these businesses also got to keep coins in their tills.

Lloyds, a participating bank in Cambuslang and Rochford, even created a 'trusted persons card'. This enables the user to grant a relative or friend the ability to withdraw cash or make a payment on their behalf in a secure way.

But other high streets are being left behind. The Lloyds Banking Group has announced 100 branch closures this year alone, for instance. This means that CACP is being undermined by the fact that so many other small towns are losing their banks, according to Gareth Shaw, head of *Which?* magazine's money section.

"A patchwork of disjointed schemes won't be enough to help those being left behind by the transition to digital banking," he says. "The government has to legislate to support the millions of people who rely on cash. Given the alarming rate at which branches and ATMs are closing, this can't happen quickly enough."

CACP is at pains to stress on its website the schemes are "pilots and not permanent new services". They were originally due to close after six months in operation, but they have been extended to at least October. It adds that all of the sponsoring partners "are keen to find solutions that can be rolled out nationally, but whether or not they are will depend on a variety of factors, including how successful the pilots are".

In Cambuslang, Coyle is in no doubt that the shared banking hub has been a success. During the Covid crisis, it has provided crucial life support for the high street.

"With no bank in the town, people had stopped visiting the high street at all. They had no reason to do so," she says. "Today, people not only come in; they also have cash in their pockets and so are more likely to buy a cup of tea and cake here when they collect their pensions."

2.5m people in the UK rely primarily on cash but...

13,000 cash machines have disappeared from UK high streets in three years

44% of all UK bank branches have closed since 2015

Which?, 2021

Optimising risk management in the financial services industry

By far the biggest operational risk for business leaders is cyber risk and data security – according to a recent Riskonnect report – but better management of employees will help organisations reduce their exposure in the digital age, says our expert panel

Oliver Pickup

Q What are the current top operational risks in financial services in the US?

AB Riskonnect works with over 60 financial institutions across the US, and consistently cyber risk definitely drives the risk exposure. Improving operational risk and operational risk is as much about people as it is about technology. For example, people working from home due to the pandemic has increased security exposure. Organisations are struggling, and the solution is an integrated operation approach to risk, starting back from the customer.

KD Everyone's now transforming to the cloud or embracing artificial intelligence. And because we're moving at the speed of lightning, people forget about the old code. Many of the cyber issues stem from either code left behind or gaps in the old infrastructure. This is how people are getting infiltrated. Careful planning and removal are essential, and the board, management and even customers should be asking how data is being protected as the business goes through this migration.

JS Third-party cyber risk is a big challenge. At Periculus we are looking at assessing the cyber risk exposure for small- and medium-sized enterprises and mitigating that risk through a stack of technical products, such as firewalls, antivirus software, dark-web monitoring tools, and more. Additionally, we allow businesses to transfer their risk through our insurance partners. Additionally, I feel it's important to stress that human capital is cyber risk. An informed employee is critical when it comes to cybersecurity. Insider threat is real. Ensuring your employees are screened and monitored is the first step in protecting your business.

TP By definition, operational risk is the risk of inadequate people, processes, systems and external threats – but top of the list is people. Over the last year, like many organisations, Affinity underwent a significant transformation and, as an 85-year-old credit union, human capital continues to be a hot button for us. Because of technology, we have been able to bolster our talent and increase our human capital, but it is a top risk.

HL In my experience, a lot of the most mature organisations integrate operational risk and, specifically, risk management into their daily processes. For companies with lower data privacy and security hygiene, some new regulations such as the General Data Protection Regulation or the California Consumer Privacy Act might be massive disruptors to their business. More mature organisations consider the risks of new legislation coming in and have baked those privacy-by-design principles into their culture and DNA.

JT Reputational risk is so important, and while it is broad, it is basically about brand exposure. It's crucial to understand your operation, work out the inherent risks, and take a good look at the controls. The risk analysis for large businesses will be different to smaller organisations. Still, regardless of size you have to take a very proactive approach to reviewing the reputational risk.

Q How is the shift to hybrid working likely to affect operational risk?

JS Many organisations have introduced a bring-your-own-device (BYOD) policy, and people use their smartphones or tablets to have virtual meetings and communicate with customers. Not many businesses have a mature BYOD policy for today's environment, which is an important operational risk.

HL Leaders must lead by example, accept this new reality, and not yearn for life in the office like it was in 2019. There are many different new threats as well as new risks associated with this new reality. Also, we are going through the 'great resignation' – it's easy to ditch and switch your job. Talent attraction and retention are the most significant operational risks because you have to have the right players on the team to win when it comes to limiting risks and combatting threats.

KD This is an opportunity risk for organisations to get the right human capital. We have to plan for remote working and drive awareness and education. Cost savings can be made by not having buildings. More than that, organisations can catapult into the future and act on ESG strategies.

TP This new environment has made us more aware of what we can do, and it's up to the leaders to be accountable and lead a remote working team as best as we can. We have moved to 100% remote, and we're not going back. I meet up with my team in person periodically, and we will catch up over lunch. I do the same with my vendors. Having emotional intelligence is so vital now.

JT As people are working at home, there is less separation between work and between the office and home. There is more of a bleed. Strong and caring management is critical. There is a supervision and visibility issue, but there has to be an element of trust and autonomy. As a manager, you have to focus on what the team is doing, not what they are not doing, because people are working around their home lives more now.

AB I think leaders are discarding a rear-view mirror approach. Organisations are focusing on business resiliency and critical vulnerabilities – things like mandating the need to expand to include second-line oversight to support operational excellence. Clearly, human factor risks will have to be better monitored and assessed.

Q What technology and tools should financial services organisations use to limit the impact of future crises?

KD It is now just over 20 years since the 9/11 attacks, and unfortunately, organisations haven't necessarily learnt from that. If your technology falls over – as it did a few weeks ago with the Akamai issue – what are you going to do? You need to go back to basics.

HL A lot of businesses don't do enough risk assessment. I would argue that enterprise risk assessment is a daily task. Risk assessments will happen every day if you succeed at embedding risk and customer-centricity into your organisational DNA.

JS Regulations and standards are not moving as fast as the digitisation of organisations. It's important for the enterprise to decide how fast they want to move when assessing their risk. With continuous assessment through products – like Riskonnect and Mastercard Cyberquant – a business can evaluate the risk by domain and compartmentalise it, so that each department owns their own risk domain and then combined that for an aggregated risk view for the organisation.

TP Again, emotional intelligence is so crucial for delivering these messages to the board. Because of our line of work, we have to deliver bad news, and there's a skill in doing that. That's why, in this time of uncertainty, I seek out the best talent with this skill set.

> It is now just over 20 years since the 9/11 attacks, and unfortunately, organisations haven't necessarily learnt from that. If your technology falls over what are you going to do? You need to go back to basics

Roundtable attendees

Andrea Brody, chief marketing officer, Riskonnect

Kristen Drobnis, chief risk officer, Commonwealth Financial Network

Hung Lee, CISO, Kasasa

Terrance Phillips, head of enterprise risk management, Affinity Federal Credit Union

Joe Scarlato, chief strategy officer, Lowers Risk Group

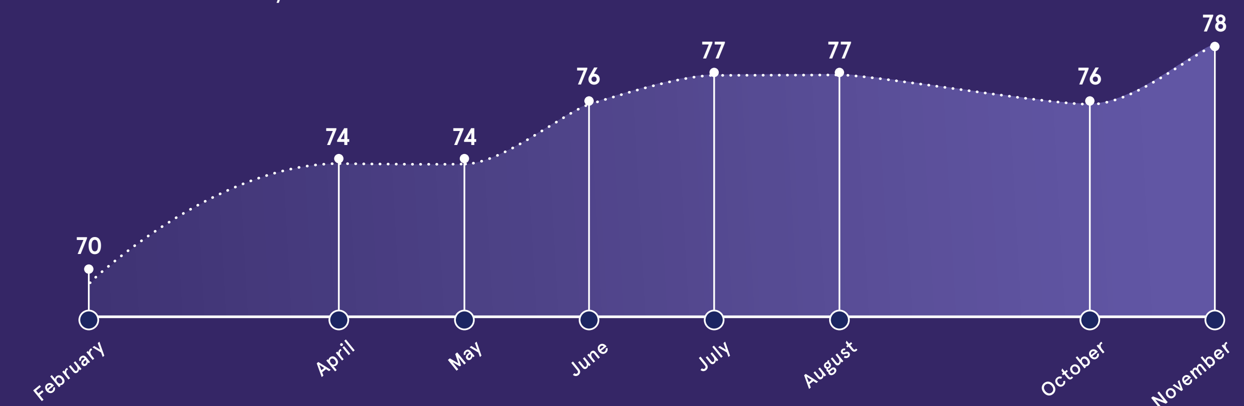
Jean Tien, executive director, business controls department, Mizuho

For more information please visit riskonnect.com

REGULATION OF THE INDUSTRY NOW EXTENDS BEYOND TRADITIONAL BANKS

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

Open Banking



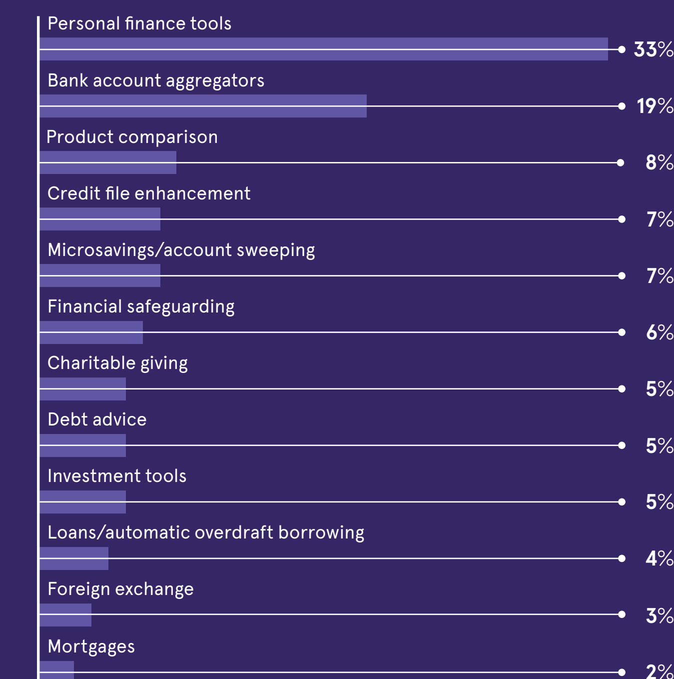
TOP OPERATIONAL RISKS FOR 2021 IN ORDER OF PRIORITY

Percentage of companies in financial services

Riskonnect, 2021

OPEN BANKING'S CONTINUED EVOLUTION

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



Building resilience: what are the top five operational risks for financial services firms?

A new StrategicRISK global survey commissioned by Riskonnect finds that cyber risk and post-pandemic trauma to operations and people are the top ongoing threats

The coronavirus crisis has forced businesses of all shapes and sizes to reflect and rethink how to improve and update processes for the digital age. At the heart of this reevaluation is operational resilience: a topic that has become increasingly prominent in recent years – particularly within the financial services sector – according to a StrategicRISK global survey commissioned by Riskonnect and published in June.

"Growing regulatory pressures, a continued shift towards intangible assets, digitisation and the Covid-19 pandemic are just some of the reasons why [operational resilience has grown in importance for business leaders]," states the report.

The research paper, 'Eyes wide open', explains how operational resilience is built and offers organisations tips on how to be ready for anything. Further, it argues that while there has been a shift in thinking about resilience more broadly since the pandemic began, the more significant catalyst was the global financial crash of 2008.

"In part, it is a reaction to the feeling that government, business and society were all taken by surprise by something they should have seen coming in their rear-view mirror," it says. Analysis by Howden indicates that nearly 70% of total business value for the world's largest 50 corporations now emanates from intangibles, equating to roughly $11tn.

"From a supervisory perspective, surviving and thriving in the face of a major shock requires a holistic framework, with top management setting the tone from the top," the report continues. "Operational resilience is the start of a journey, they argue. It is not a destination."

Jim Wetekamp, chief executive of Riskonnect, suggests that while boardrooms discuss this subject, taking action is more important. "The most well-used term at the moment is operational resilience in risk management," he says. "You can go to any organisation that touches risk right now, and they are talking about operational resilience, which is great. But it is a merging of worlds that are enterprise risk, operational risk and continuity together.

"Now, that doesn't necessarily mean that you should think of operational resilience as a superset of all that functionality. It's this idea that I need to describe my critical business services, understand my tolerance for interruption and define risk impact analysis and response plan. And I need to be prepared for different scenarios of activating that. That is very much an operational resilience topic."

This concept was built on the foundations of traditional business continuity management strategies, he says. But, "the reason it's called operational resilience is that it starts from the other end. It's about the outcome and the quantification of critical business services and the impact financially if different risks cause them to fail."

The report lists the top five operational risks for business leaders, based on survey responses. By far the top-ranked answer, with 88%, is cyber risk and data security. Given how cybercriminals are taking advantage of the security challenges posed by the new environment, this is not a surprise. "A more dispersed workforce has allowed malicious actors to evolve their social engineering and brute force hacking techniques to find new, more targeted methods to compromise network systems and defraud organisations," the report posits.

Second on the operational risk register for 2021 is staff wellbeing and people risk, selected by 74% of respondents. And the third most concerning operational risk, with 52%, is organisational change.

In light of these risks, Riskonnect's CEO says there needs to be internal change management. "Risk professionals need to continue to demonstrate the benefits of having risk at the front of the decision process," he adds. "They need to explain why this supports the move from monitoring to continuous improvement, from watching to orchestrating – that's how risk will work collaboratively across the organisation."

> Risk professionals need to continue to demonstrate the benefits of having risk at the front of the decision process

PREPARATION LEVEL FOR ORGANISATIONS IN RESPONDING TO FUTURE OPERATIONAL RISKS

Percentage of companies in financial services

21% feel very prepared

59% prepared

18% somewhat prepared

2% poorly prepared

Riskonnect, 2021

To find out more about operational risk download the 'Eyes wide open' report

Thomas Barwick via Getty Images

CULTURE

Finance looks to the post-Covid workplace

Working at home used to be a no-go for the industry. What can it learn from its experiences of pandemic-enforced remote operation?

Jonathan Weinberg

For an industry with such a hardcore office culture, banking and finance adapted more quickly than most to the Covid crisis. As the sector races back to 'normal', can it retain some of the benefits of flexible working?

The leaders of several financial institutions have made clear their belief that remote working is not optimal for their enterprises. Some have voiced their intention to have most employees back at their desks most of the time.

In May this year, Jamie Dimon, chairman and CEO of JPMorgan Chase, pronounced that working at home "doesn't work for those who want to hustle". The chancellor, Rishi Sunak – a former employee of Goldman Sachs – suggested that young people in particular could damage their careers by continuing to work remotely from HQ.

But many US banks are pushing back their return-to-office dates to limit the spread of Covid-19's particularly contagious Delta variant, while some UK institutions are moving more slowly than they had originally planned, given that the pandemic is far from over.

Antony Jenkins is the founder and CEO of fintech company 10x Technologies and a former group CEO at Barclays. He believes that the sector's "skilful leaders" need to acknowledge a number of facts to benefit from their experience of the past 18 months.

"First, accept that the world has changed. Listen to what your colleagues say and identify what is critically important for each part of your business," he advises. "This is a learning experience for everyone, so we need to be prepared to modify as we go."

Jenkins observes that the concept of work/life balance was often discussed in his industry before the pandemic, but he suggests that the situation is different now that everyone has experienced a new way of working. Employees want to spend "less time commuting and they want more flexibility. As economies rebound, employers will see the employment market becoming more competitive. Those that offer flexibility will have the edge over those that don't."

Finastra has put such thoughts into action. The financial software company's 9,000 employees worldwide can now choose to work two days in the office and two days at home, with the remaining workday spent in whichever location they prefer, reports Sharon Doherty, its chief people and places officer.

> Firms will need to give hybrid working every opportunity, as those who perfect this way of working will have an advantage

But studies suggest that a lack of time at HQ may have a harmful effect on junior workers. They often learn on the job from more experienced colleagues and have been forced in some cases to work in cramped home-sharing conditions.

Research published by financial recruitment consultancy Robert Walters Group suggests that 75% of workers aged 18 to 26 see the workplace as their number-one source of meaning and social connection. Most gen-Z workers (54%) say that they would probably leave their employer within a year if a workplace culture doesn't return.

Lamar Dallas, 27, has been at M&A consultancy PCB Partners for two years. He was working at home two days a week before the pandemic but is now fully remote. Dallas believes that this has been a positive thing so far: making good use of the 10 hours he saves on commuting each week is helping him to reach his career goals faster. But he adds that eventually returning to his previous regimen would be better.

"Nothing can beat going into an office, seeing my colleagues, building relationships with them and meeting clients. That's how business should be conducted," he says.

Many younger people have told Simon Roderick, MD at financial recruiter Fram Search, that they want to be back in an office setting. That's especially true for those just starting out in their careers.

Roderick believes hybrid working has the potential to be "confusing and slightly chaotic" when it comes to scheduling meetings and collaborating. Nonetheless, "firms will need to give hybrid working every chance, as those that perfect it will gain an advantage. They will be able to look further afield for skills and it may help employees with childcare responsibilities to better balance their work and home lives."

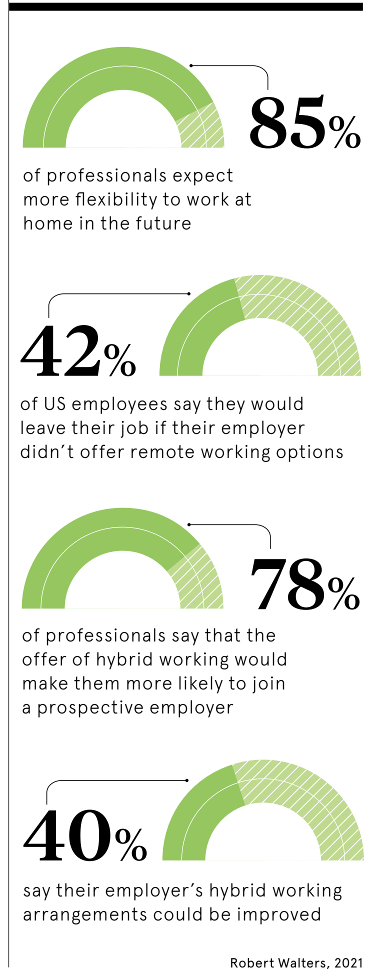
Roderick, who has two decades of experience as a financial recruiter, says that employers will need to deliver a good office experience to attract the most talented job candidates. They must also give careful thought to balancing the interests of all team members.

"Days in the office will need real purpose. We'll see them being used for teams to bond," he predicts. "Perhaps lunches will take on more meaning. Equally, workplaces will need to be more informal and comfortable. Some sites will offer more lifestyle-enhancing services."

A lack of flexible working could adversely affect recruitment and retention, some insiders suggest, while many believe that banking's reputation for excessive workloads and burnout must now change. Recent research for Koa Health has found that 36% of employers in the UK finance industry still don't consider the mental health of their staff to be a cultural priority.

The industry has used draconian working practices for far too long, says Kevin von Neuschatz, CEO of the Stanhope Financial Group, who notes that the pandemic has forced through some overdue changes.

"The rise of challenger brands, fintech firms and flexible working is already ushering in an era where graduates can develop without being chained to an office desk for 14 hours a day," he says. "The old burn-and-churn culture is completely out of step with the modern world and at odds with attracting and retaining genuine talent."



85% of professionals expect more flexibility to work at home in the future

42% of US employees say they would leave their job if their employer didn't offer remote working options

78% of professionals say that the offer of hybrid working would make them more likely to join a prospective employer

40% say their employer's hybrid working arrangements could be improved

Robert Walters, 2021

Commercial feature

The new horizon for risk and resilience

On the brink of regulatory change, the financial services industry is reshaping its own future by putting risk, resilience and reputation at the heart of corporate strategy

Brittany Golob

The Prudential Regulation Authority, the Financial Conduct Authority and the Bank of England jointly issued a paper outlining a stronger regulatory framework to promote operational resilience across the financial services sector. It determined that resilient organisations are those able to respond effectively to disruption, adapt their systems and learn from crises.

Meeting that standard is a tall order indeed. But for banks operating both within the UK and globally, operational resilience is achievable.

"It seems to me, that the focus of the regulators is absolutely right," says HSBC UK's chief compliance officer Ralph Nash. He adds that the interest of regulators in operational resilience is inherently linked to the industry's ability to continue operating through disruption. If companies are unable to do so, the risks begin to crystallise. "This isn't a phantom risk; this is a real risk. And we've seen it. We've seen it damage franchises. And we've seen it damage reputation."

Nash joined a panel of compliance and risk leaders at a recent roundtable examining risk, resilience and reputation in the financial services industry. "Operational resilience is the ability to fulfil your promise to your customers and the ability for you to actually deliver on what you say you're going to deliver," says Rich Cooper, global head of financial service go-to-market at operational resilience consultancy and software company Fusion Risk Management.

The panel agreed with Cooper and Nash, while also discussing the difference between resilience and disaster recovery. Covid-19 was a crisis that few could have expected. But the ability of banks to not only survive, but thrive, during the pandemic is an indication they had strategically considered where their risks were and developed plans to address them, regardless of the landscape. Doing so allows an organisation to protect its reputation, thereby ensuring resilience in the future.

Achieving this, however relies on the alignment of internal processes. Long has the sector been plagued by internal silos where data – and potential risks – are segregated by team or stakeholder. Cooper says that Fusion Risk Management's technology helps companies gain insight into risks across the business, and across the sector more broadly, in order to build a more robust picture of risk. The integrated nature of modern reputation means financial services institutions are breaking down these silos to analyse the organisation's overall resilience.

Paul Barrett, chief risk officer at AIG UK likens this to 'reversing the telescope' to examine the organisation from the customer's point of view. "Our internal processes will always support the customer, but the prioritisation may actually look different if you're coming at it from the customer's point of view, rather than just thinking about the which are the biggest internal departments or where the biggest costs are. That may not be the same metric that the customer would use," he says.

The customer focus means reputation matters more than it has ever done before. Nash adds that social media means a simple app outage – for example – can appear on social media within minutes, turning a lack of resilience into a reputational issue for the bank and a service and potential conduct issue for customers.

Toby Mason, chief operating officer at Allica Bank, a younger company catering to SMEs, agrees: "We're drastically impacted a lot more than the big banks if we get things wrong, in particular, if we get things wrong for our customers. Resilience for us is a life and death matter." He adds that resilience relies on agility. "We're a speedboat in a world of super-tankers. Although a large super-tanker could theoretically crush us, we are able to turn quickly and adjust our course. That ability to react very quickly helps to build resilience and competitive advantage."

Even for the larger banks, agility resonates as a strategy toward achieving operational resilience. The challenges posed by the pandemic proved this time and time again. "Historically, banks have been worried about keys and cash. What they should also be worried about is data and systems," says Nash. "To be resilient, you're solving for your current and future business model, not your past one."

Cooper similarly says the pandemic has heightened the need for resilience. Because Covid touched every element of the organisation's operations and strategy, companies had to consider their people, their systems and their digital strategies cohesively. That has in turn accelerated operational resilience and risk management.

"Risk, resilience and reputation are clearly connected," says Barrett. When considering operational resilience, as an insurer, AIG has to consider the impact third-parties may have, what matters most to the customer, and above all, focus on the critical services that customers rely on. Ensuring risk is mitigated and the company is resilient has helped it maintain its reputation throughout the pandemic; a sentiment shared by the panel.

> If we've learned nothing else in the last few years it's that these black swan events are going to happen. Agility is the only chance that we have to respond to some of these things. We're going to need to respond in real time and make decisions on the fly

But it's not just the organisation itself that is in control of its own destiny. Relationships with third parties, customers and regulators all shape an organisation's strategy around operational resilience. David Glendinning, UK head of risk, Société Générale, says: "The way our stakeholders look at it, including regulators, proves that financial services is a process chain… Unfortunately resilience is one of those areas where you won't get much credit for doing well, but you will attract scrutiny if you get it wrong. For this reason, we don't have an appetite for this risk in a business sense, but must determine our tolerance level."

However, the challenge still lies in committing to change. For organisations large and small across the sector, resilience relies on a level of strategic foresight that has been challenging to implement. "Future resilience requires deep technological investment and innovation. That goes beyond the typical three-year planning cycle," says Blair McAuliffe, VP regional chief risk officer EMEA at Metlife. "It can conflict with more immediate business priorities. But, what I'm seeing, particularly since the pandemic is stakeholders talking about a much longer-term view. And that's reflected in what many companies are now doing in terms of digital investment and innovation."

Mason adds: "If we've learned nothing else in the last few years it's that these black swan events are going to happen. Agility is the only chance that we have to respond to some of these things. We're going to need to respond in real time and make decisions on the fly."

Cooper echoes that commitment to agile decision making and says that informed decisions are crucial to operational resilience, particularly during times of change. Data and insights helps companies make these fact-based decisions and mitigate risks.

As the new regulations come into place around operational resilience, it seems the financial services industry is well-equipped to meet new challenges. Companies that remain agile in the face of change will ensure that operational resilience truly becomes the new horizon in risk and reputation management.

67% of companies are integrating or plan to integrate risk and resilience

75% of companies have an internal operational resilience decision-making committee

Fusion Risk Management and OCEG, 2021

For more information please visit fusionrm.com

SUSTAINABILITY

To B or not to B?

The financial services industry has started to play its part in mitigating the climate crisis, but experts believe that it can go much further – and faster

Memuna Konteh

In July, private bank Coutts & Co joined a very select band of financial institutions in the UK by becoming a B Corporation. This means that Coutts (often referred to as the Queen's bank, having served the Crown for three centuries) has committed to upholding the highest standards in its dealings with staff, customers, the community and the environment.

Some observers may see the bank's attainment of B Corp certification as a bid to restore its image after it was dragged into the recent corruption scandal concerning 1MDB, the now-insolvent Malaysian state fund. But it can be argued that becoming a B Corp is too stringent a process to be a mere PR stunt. What's more, according to its CEO, Peter Flavel, certification is only the start of a concerted effort by the bank to help tackle the climate crisis.

"Having an answer to 'what next?' is what we feel matters the most," he says. "While this certification is absolutely important to us, it's what we do from here to improve ourselves, support others and ensure that more businesses are thinking sustainably and responsibly that will make the difference. We want to be an active part of the B Corp community, help to build it and drive positive change."

After Charity Bank and Triodos, Coutts is the third bank operating in the UK to achieve B Corp certification, which requires a business to prove that it values profit and purpose equally. This is far easier said than done in an industry renowned for its focus on the bottom line.

Chris Turner is executive director of the awarding body, B Lab, in the UK. He says that, for banks to obtain and maintain B Corp status (they are reassessed every three years), they must "disclose their level of investment in potentially sensitive industries and the management practices in place to ensure the sustainability of their approach".

This is likely to be significantly harder for a large multinational bank to achieve than it would be for a relatively small concern such as Coutts (which is part of the NatWest Group). Despite this, Turner believes that the financial services industry "is crucial in tackling the climate emergency. It is not only feasible for publicly traded banks and other big financial institutions to become B Corps; it is also looking increasingly likely, as the markets develop their understanding of the importance of sustainability and increasingly recognise the certification's value."

> It's what we do to improve ourselves, support others and ensure that more businesses are thinking sustainably and responsibly that will make the difference

Jenny Davis-Peccoud is head of Bain & Company's global sustainability and responsibility practice. She says that she has noticed "a big move across the financial services sector to embrace sustainability in a really meaningful way now. That includes banks, asset managers, insurers and private equity firms."

But she observes that many of these businesses are struggling to surmount obstacles to achieving their sustainability goals. "This is an emerging space, so it's not at all clear how the regulation of various issues will play out across different regions, for instance. There is also a barrier regarding mindset: if you've had a lot of success making choices based on one set of parameters, it takes people a while to be convinced by an approach that looks to inject new parameters into the decision-making process."

Davis-Peccoud adds that a lack of sustainability data and tools is also a limiting factor for many organisations at the moment. She believes that, while large banking groups will have more enabling resources at their disposal, such barriers to sustainability are more easily negotiated by smaller players.

"If you're operating mostly in one market, it will be easier from a change management perspective because you'll have only one set of variables to wrap your head around," Davis-Peccoud says. "By contrast, if you're operating across continents, you have to deal with the fact that these markets are moving at very different speeds. And, if you're offering a broad selection of services, ranging from commercial banking to investment management for high-net-worth individuals, then your sustainability strategy would need to play out differently in each of those cases."

Financial institutions have more incentive than ever to improve their records on sustainability, argues Davis-Peccoud, who adds that it's no longer simply a case of doing what's right for the environment.

"People in the industry are also seeing that there is value to be created in tapping into new segments and helping clients to achieve their sustainability goals through the right financing on the right terms," she says. "They're also starting to see that there are benefits to this that cut the cost of managing risk in the investment portfolio."

There is arguably no greater long-term risk to the economy than the climate crisis. As much as it is commendable that Coutts and its ilk are getting deeply involved in initiatives such as the B Corp movement, the rate of change is, unfortunately, still dangerously slow, according to Davis-Peccoud.

A massive amount of money that's "at work in the market has yet to be connected with the sustainability push", she observes. "Of course, within that total there's a range of motion, some of which will be just fine and some of which will be damaging – part of the problem is that it's not clear. We've had some early steps in the right direction, but the bulk of the work is still to come."

How far does the sector need to go?

Coutts has set itself a target of ensuring that at least half of the properties bought using its mortgages have an energy performance certificate rating of at least C by 2030. Any mortgage-holder who improves their home's rating to C or above could be eligible for an interest-rate discount.

The bank also supports the Green Finance Institute's home retrofitting principles, which ensure that loans are given only to energy-efficiency work that meets industry standards.

Such initiatives are "a positive start, but to have a real impact they need to go further and become more mainstream", says Sarah Gilby, technical director at sustainability consultancy Anthesis.

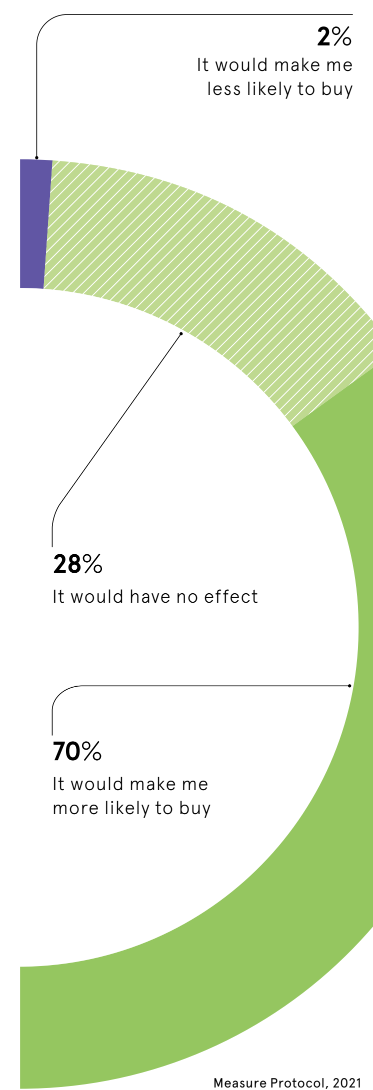
While she believes that financiers have a vital role to play in mitigating the climate crisis, she questions whether a "mortgage rate reduction is enough of an incentive for a consumer to invest in a more energy-efficient home or it's merely a bonus for something that they would be doing in any case". Gilby adds that financial institutions can "evolve to provide education and awareness of the climate change crisis and the impacts on businesses".

She adds that the industry is "becoming far more aware of the financial implications of doing nothing, as well as the benefits of doing good business. This can be seen in the explosion in the number of times it has referred to 'environmental, social and corporate governance' over the past year or so."

Gilby believes that the industry's movement towards sustainable finance will "continue at pace, as more technologies are developed and seen as positive investments. Another connected way in which financial services can help is by avoiding investments in sectors that contribute to climate change. We're seeing an incredible shift in divestment from assets that do harm in this way, which is amplifying the message."

THE POWER OF CERTIFICATION

Percentage of Britons who gave the following answers when asked how their decision to buy from a firm would be affected if they found it was a B Corp

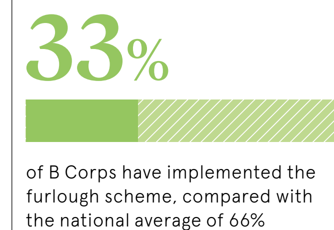


Measure Protocol, 2021

> There is value to be created in helping clients to achieve their sustainability goals through the right financing on the right terms

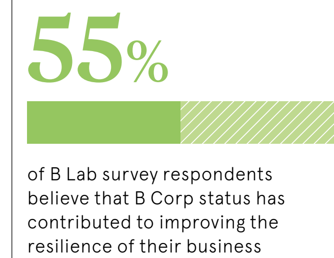
HOW BRITISH B CORPS HAVE FARED IN THE COVID CRISIS

33%



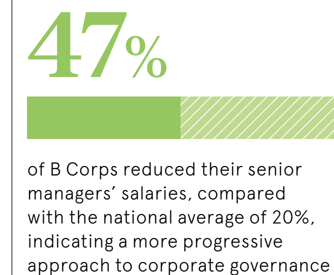
of B Corps have implemented the furlough scheme, compared with the national average of 66%

55%



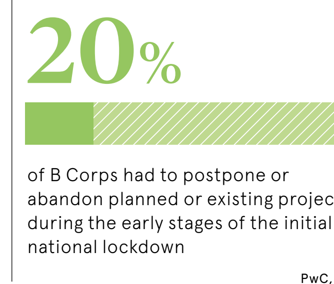
of B Lab survey respondents believe that B Corp status has contributed to improving the resilience of their business

47%



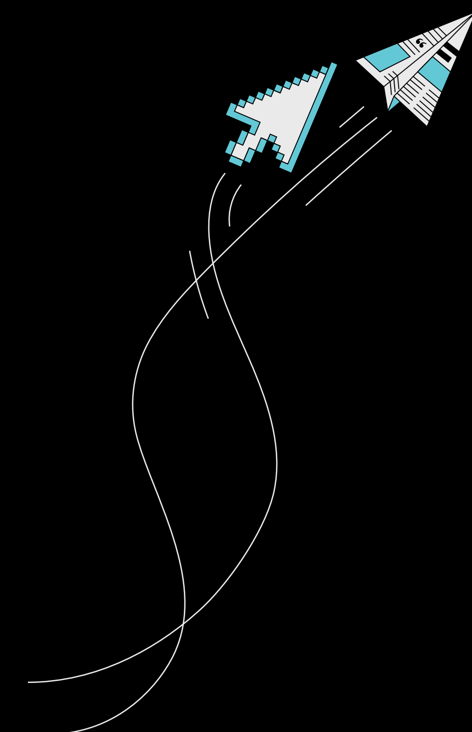
of B Corps reduced their senior managers' salaries, compared with the national average of 20%, indicating a more progressive approach to corporate governance

20%



of B Corps had to postpone or abandon planned or existing projects during the early stages of the initial national lockdown

PwC, 2020



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RACONTEUR

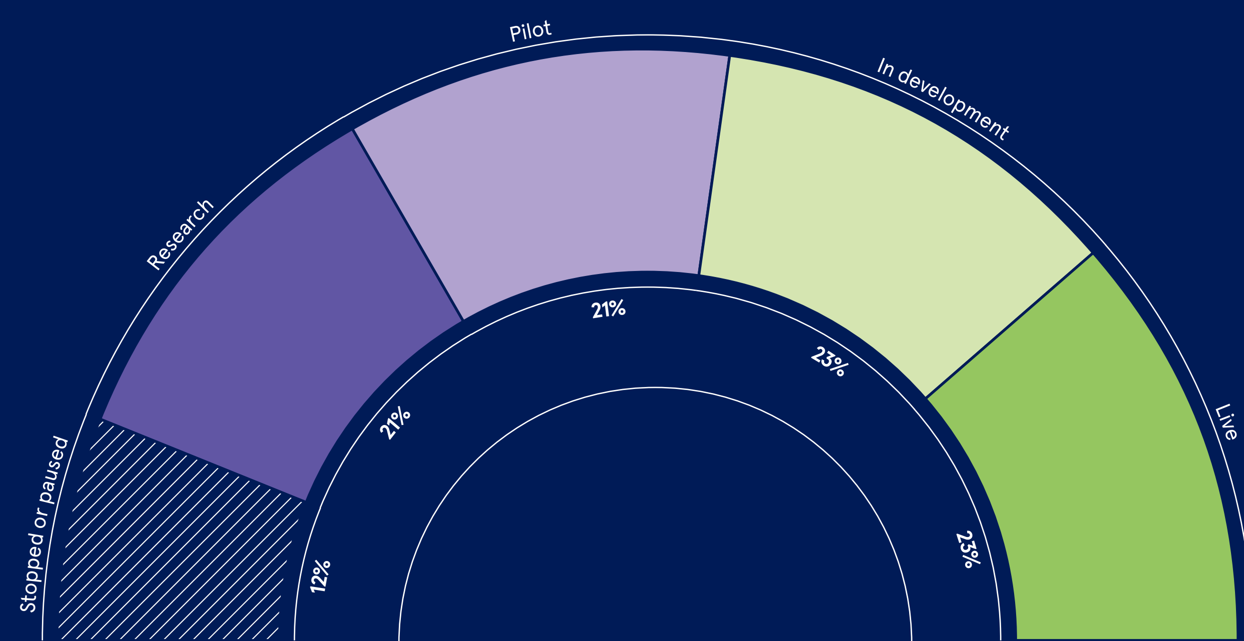
HOW AI IS FUELLING INNOVATION IN FINANCIAL SERVICES

The global financial services industry is undergoing a profound digital transformation, driven chiefly by advances in artificial intelligence (AI). Most companies in the sector have implemented AI in some way to upgrade their practices, processes, infrastructure and even their business models. Many are using it to enhance their risk management capabilities and improve customer service. They are also increasingly applying the technology to both supercharge their existing offerings and create new products and services. But how do AI adoption rates compare between fintech firms and the companies they are challenging – and what barriers must they overcome to maximise the technology's potential?

PRESSING PAUSE? THE PROGRESS OF AI PROJECTS WORLDWIDE

Percentage of global financial services professionals reporting that their AI projects are at the following stages

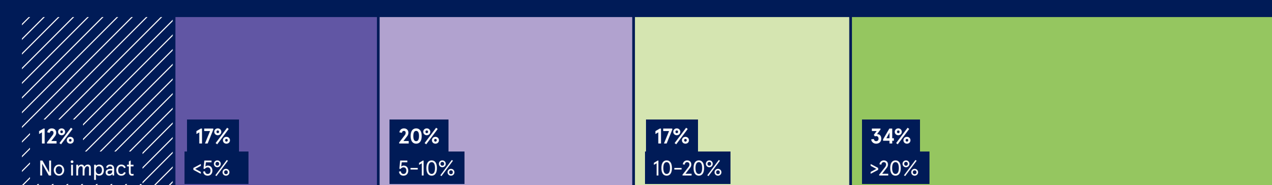
PwC, 2020



MONEY MATTERS: AI'S BOOST TO THE BOTTOM LINE

Percentage revenue gains resulting from AI implementations in financial services firms worldwide

NVIDIA, 2021



GREAT BARRIERS: THE TOP FIVE OBSTACLES TO ACHIEVING AI OBJECTIVES

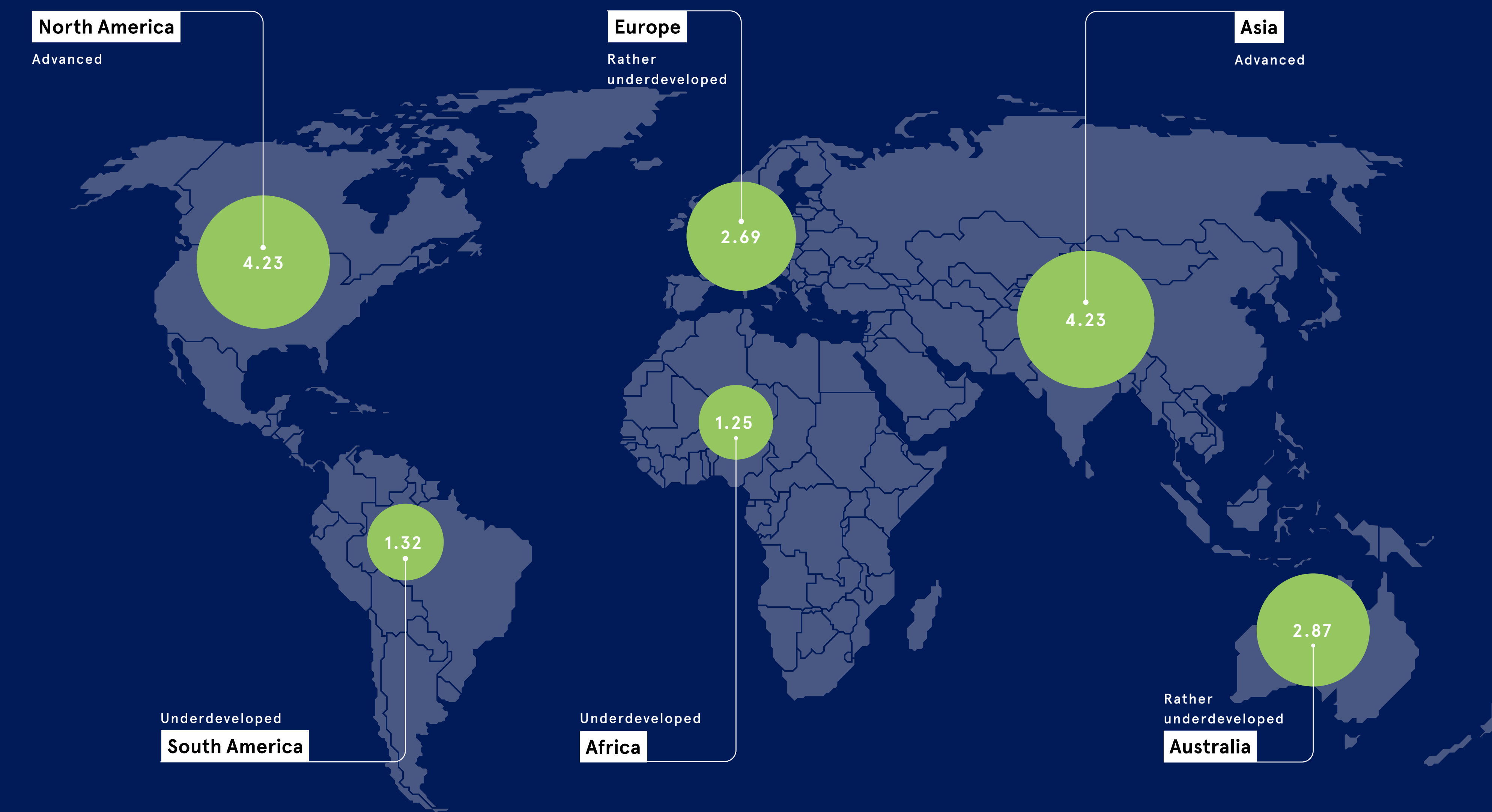
Percentage of global fintech and banking professionals who say the following are their main reasons for failing to maximise the potential of AI

NVIDIA, 2021

WHICH REGIONS ARE LEADING WHEN IT COMES TO DEVELOPING AI APPLICATIONS?

Ranking showing how advanced certain territories are in deploying and developing AI in the financial services sector. Ranking is out of five, where one is "underdeveloped" and five is "pioneer"

PwC, 2020



CASE FOR THE DEFENCE: THE TOP THREE APPLICATIONS OF AI IN RISK MANAGEMENT

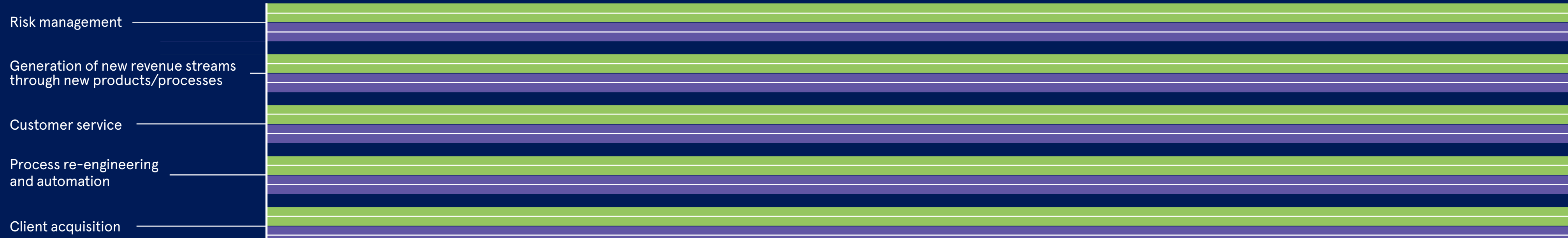
Percentage of global financial services institutions that say the following are their top three use cases for AI

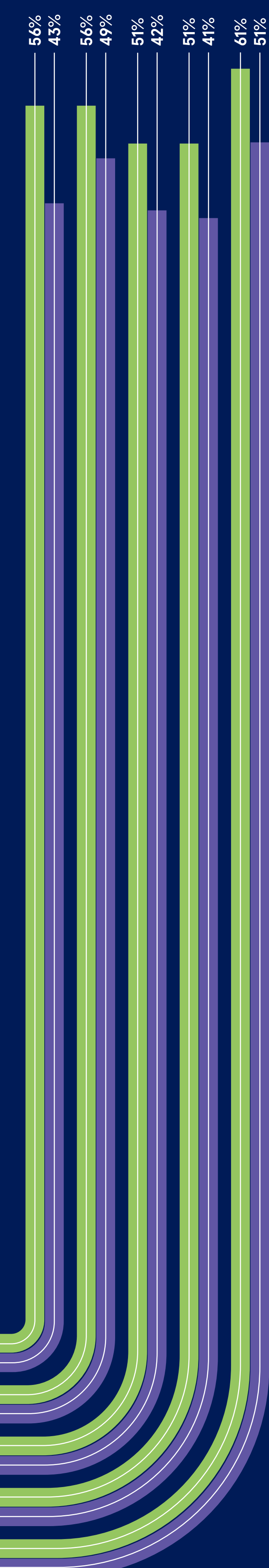
World Economic Forum, 2020

CHALLENGING TIMES: FINTECH COMPANIES ARE MAKING MORE USE OF AI THAN THE SECTOR'S ESTABLISHED PLAYERS

Percentage of global financial services institutions that are using AI in the following areas

World Economic Forum, 2020





Cybersecurity must become the UK finance sector's priority

The financial services industry is calling for all employees to prioritise organisational security. IT decision-makers also indicate a greater desire for industry-wide regulation regarding cybersecurity preparedness

The UK finance sector is on edge. Attracted to the lucrative results of a successful breach, cybercriminals are persistently electing to target businesses within the sector. The numbers speak for themselves; in the last year alone, UK finance organisations experienced, on average, 60 different cyberattacks – more than one per week.

Although the immediate consequences of a cyberattack are well documented, the long-term effects are even more alarming. One data breach can leave businesses reeling for months after costing an organisation valuable time and money. The HSE, Ireland's health service, is testament to this; almost half a year after a crippling attack, it has still only managed to restore 95% of all servers and devices, highlighting the long-lasting fallout of these incidents that can cripple organisations for many months, if not years.

A large majority of businesses within the finance sector believe that the situation will only deteriorate within the next 12 months. Unfortunately, no company will ever be entirely safe. However, by putting the right measures in place now, UK finance organisations can at least mitigate the risk of being breached and prevent losing invaluable digital assets.

> **Business leaders often overlook the power of their organisation's first and most fundamental line of defence: its employees and their passwords**

No threat, no problem?

It can often be difficult to discern where exactly the risk lies within a company's cybersecurity defences. However, the threat is most certainly there, and many businesses are aware that they are underprepared for the next attack. In fact, according to Keeper's 2021 *UK Cybersecurity Census* report, only 42% of IT decision-makers in the finance industry actually feel their company is very well prepared against cyberattacks, while just 22% feel that UK businesses in general are very well prepared.

Achieving a high level of preparedness can be a costly affair, and without a tangible threat on the horizon, business leaders are still reluctant to allocate a budget big enough to protect their organisations from complex, well-financed attacks. It is therefore crucial that IT decision-makers ensure they cover the basics and put simple, yet effective cybersecurity best practices in place that don't need to cost the world.

One of the easiest ways a company can avoid the catastrophic consequences of a data breach is through formal education. By training employees – across all levels of the organisation – to manage their own security practices, businesses can prevent data breaches that affect the whole company. By handing responsibility over to each individual employee, IT decision-makers can also share the burden of protecting the business, making their job that little bit less stressful.

Business leaders also often overlook the power of their organisation's first and most fundamental line of defence: its employees and their passwords. Password security issues account for more than 80% of all data breaches globally, so good password hygiene is crucial to ensuring that digital assets are kept safe from cybercriminals.

Businesses can facilitate better password hygiene within the organisation by introducing a centralised password management platform that keeps credentials safe from bad actors, without the need for lists of unmemorable passwords. These platforms encrypt login details to ensure that an organisation's digital assets are kept safe, significantly reducing the risk of being exposed to a password-related data breach.

A call for regulation

In theory, it seems logical that every UK finance organisation should want to put the right measures in place to protect themselves against cyberthreats. However, many CIOs and CISOs argue that unless there exists a legal incentive to push business leaders to change, they won't.

The majority of the UK's IT decision-makers therefore agree that an official cybersecurity regulatory body would keep the finance sector safer from attacks by holding businesses accountable for their security policies. Many even believe that it should be a legal requirement for businesses to have basic cybersecurity protections in place before being allowed to operate or trade.

Regulation may also help to build a culture of transparency within the industry, which has also become a prevalent issue, even among those designing IT policy. More than two in five IT decision-makers have kept a cybersecurity attack affecting their business to themselves, which is even more concerning given that four in five IT decision-makers have done at least one thing to compromise their own company's security in the last 12 months.

The UK's financial sector must look to improve if it hopes to deal with the onslaught of attacks set to ramp up in the coming years. A regulatory body may encourage companies to make important adjustments to their cybersecurity defenses. However, the responsibility ultimately lies with business leaders to give UK IT decision-makers the freedom and resources they need to protect their organisations. By reacting now, businesses will be left in a better position to cope with modern cybersecurity pressures in the future.

Keeper Security, 2021

How can cybersecurity support innovation in the financial services sector?

Keeper Security's UK Cybersecurity Census Report shows finance firms suffered an average of 60 cyberattacks over the last year and 81% of IT leaders expect an increased number in the next 12 months. More knowledge sharing, partnering and education is required, according to our expert panel

Oliver Pickup

Q What does the cybersecurity landscape look like for the financial services sector in 2021?

DG Everyone transacts with the financial sector. Covid-19 has been a catalytic event with migration to distributed remote work and it has triggered an exponential increase in the number of endpoints to protect. As a result, CISOs have to put controls and safeguards outside the normal perimeter and think differently.

JM The cybercriminals don't stand still and the threats are evolving. It's critical to address this operational risk, which has grown because of remote working induced by the pandemic. As an ecosystem, the financial services sector needs to work together and keep re-evaluating threats. It's often hard to explain the challenge to various parts of the business, so I like to use the analogy of building a house from scratch and forgetting the electricity. We must embed security from the outset. Of course, it's more expensive to knock the house around after it is built to make fixes, but this is the issue organisations with legacy challenges face.

JS When I joined Metro Bank as CISO in 2019, I had two key areas of focus: ensuring our systems and platforms were in a defendable state, through patching and controls; and improving the visibility of the network. A new security operations centre provides visibility in one place of our endpoints, our network and on our boundary points. We're gradually layering into this application-level feeds so we can see the business results. That gives us a much better ability to spot and react correctly to suspected cyber events.

JP There is no doubt the cyber arms race is accelerating. Cybersecurity has moved from a very opaque topic to a conventional business challenge for boards now. There is a tripartite negotiation between consumers, firms, and regulators and the government sector to understand what's acceptable. Given the tsunami of recent headlines, people are becoming accustomed to it, but we have to work out together what "good" cybersecurity looks like. I sense we have started a more mature conversation about breaches and that's an encouraging sign.

Q What are the leading cyber threats for the financial services sector and the best tools to combat cybercrime?

DG It's worth bearing in mind 80% of breaches are a result of weak passwords or stolen credentials. So it is crucial to improve cyber hygiene, secrets management and visibility over the endpoints. Also if you're using an identity platform, which every bank does, cybersecurity defence is not a silver bullet. It requires a comprehensive strategy. It's like having spokes on a bike wheel, things like two-factor authentication, enterprise password management, single sign-on solutions and endpoint security all must feature. The key to better protecting the organisation is to link all these products.

JM We have to deal with third-party and supply chain cyber risks and as a sector this is probably one of the least mature areas and where innovation is needed. The criminals are smart and they will go for your weakest point. However, working with smaller business vendors, who might not have significant cybersecurity, is essential. We must be proactive and work to protect the whole ecosystem. We should move away from the term cyber "basics"; I prefer to call them "fundamentals" because they are not easy but critical. You have to have a layered approach to the controls and work with other CISOs in the sector to keep pace with the threat landscape in which we operate.

JS We are moving to a cloud-first policy because it provides flexibility, enables us to innovate at speed and has greater scalability, while offering good security. More than that, it is possible to tap into anonymously shared cyber threat data in the cloud, which is massively powerful. Comparing our environment with what is going on in other banks is a step-change for cybersecurity.

JP The underlying question is: does the business have the capability to spot threats, prevent them where we can, and detect and respond to everything else? The response piece has come to the fore recently and here crisis exercises are game-changing. They can help bring to life the cyber threats for businesses. With ethical hacking tests, you see visceral responses from non-technical employees. As a CISO, I have to help people join together all the dots to form a pattern that boosts cybersecurity.

Q What should financial services do to innovate and digitise securely?

JM As a sector, we need to eliminate the idea that the IT department is full of security dinosaurs who say "no" to everything. We are enablers, not blockers. The role of the CISO isn't just to find security loopholes; it's about how you can manage risk to an acceptable level.

JP To reduce information asymmetry and make our customers better understand the risk, I would love to see us all work more with the cyber-rating agencies that make cyber threats visible and understandable. There is an obligation to continue working towards that and finding ways to articulate an organisation's risk appetite as a sector. We have to govern the gap between where we want to be in terms of security and where we are. Bridging this with reliable and transparent information will help me sleep better.

JS I think there needs to be innovation around API security. Financial services is definitely one of the sectors where that balance between security and opening up data is vital. Those of us in retail banking or wealth management deal with areas of people's lives that are intensely private for them and we need to respect this in the way we look after their data. But equally, we can make people's lives easier if we're sharing information between one product line and another, and we can offer them products and services that better suit their requirements. So again, we can manage risk and fraud across the sector better if we share that kind of information.

DG It's imperative to make sure you understand how your vendors are transacting with your systems and the libraries that are included when you talk about technology and firmware updates. Because we've seen a lot more in terms of supply chain attacks and accessed library files. When I speak with CISOs in the financial services sector, a common thread is around identity and access management. Now CISOs in this sector and others are dealing with a lot of threats and disparate solutions. For those looking to improve cybersecurity, one word commonly comes up and it's "visibility".

Roundtable attendees

Darren Guccione, chief executive officer and co-founder, Keeper Security

Jason Mallinder, group chief information security officer (CISO), managing director, Credit Suisse

Jon Pumfleet, group CISO, Close Brothers

John Skipper, CISO, Metro Bank

> **If you're using an identity platform, which every bank does, cybersecurity defence is not a silver bullet. It requires a comprehensive strategy**

For more information please visit keeper.io/protect

DATA PRIVACY

Open finance: the next level for data sharing

This extension of open banking could, in theory, spur greater innovation and competition in financial services, ultimately benefiting the consumer. But will it deliver on its promises?

Michelle Perry

It's unlikely that many consumers are familiar with the concept of open banking, let alone that of open finance, but the industry's regulators have been working hard behind the scenes to design new infrastructure, models and standards that will oblige banks to share their customers' data with third-party providers such as fintech companies.

Their aim is for open finance – the logical next step in open banking – to stimulate innovation and competition in the sector by reducing some of the control that banks have over this valuable information.

The scope of open banking in the UK has so far been restricted to payment accounts. But the open finance regime will force banks to make data available to third parties (with the explicit consent of customers) in a wider range of fields, including savings accounts, mortgages and insurance products. All this will be achieved through the use of application programming interfaces (APIs), which establish an online link between the provider of the data and the end user.

Open finance is one element of the government's "smart data" initiative, which is considering ways of unlocking data's value for consumers and the wider economy, while ensuring that it's used in the right ways. The Financial Conduct Authority is working with the government to design appropriate legislation. It also supports industry-led efforts to design common standards for open finance.

More than 3 million people and businesses in the UK already use open-banking products, according to the Open Banking Implementation Entity (OBIE), which is governed by the Competition and Markets Authority. It expects open finance to be implemented in a "proportionate, phased" manner.

Open banking itself is still being implemented. The OBIE estimates that it could lead to annual cost savings of £12bn for UK consumers and £6bn for small businesses. It expects that consumers will enjoy a comparable benefit from open finance.

As with any digital transformation, there are concerns about data privacy and security. Experts insist that all open-finance consent requests must be transparent, comprehensive and made in plain English. But, as has already become clear with the implementation of the General Data Protection Regulation and the data tracked by companies through web cookies, cookie consent has become long and complex. Requests have tended to become so convoluted that consumers rarely read them in full before clicking the consent button.

> **For open finance to succeed, we need to ensure that customer consents are clear and simple to understand**

"For open finance to succeed, we need to ensure that consents are clear and simple to understand. They should be able to be tracked by consumers and also provide flexibility, so that consumers can opt out of sharing non-critical data at their own discretion," says Nick Raper, director at open-banking payments pioneer Nuapay UK.

Jocelyn Paulley, a partner at law firm Gowlings, is more sanguine about open finance: "From the point of view of privacy, the sharing of data is happening only when a consumer says: 'Yes, I want to engage with the service.' From my privacy practitioner's point of view, this is all happening the right way round."

Banks are some of the most regulated businesses in the world, so they are accustomed to controls, checks and legislation such as GDPR. This is why the regulators want them to be the gatekeepers of open finance for the time being.

"Ensuring that users know what apps have access to what data, and what they need it for, is critical," says Nick Maynard, lead analyst at Juniper Research. "If users are fully aware of what's being shared and when, the risks are minimal. Outside of this, banks and other parties must have substantial controls in place from a cybersecurity point of view. Banks are already well established in this regard."

The threat of cybercrime is widely viewed as one of the biggest risks when it comes to sharing customer data. Despite this, "it is rare for banks to suffer ransomware attacks" because their IT systems are so advanced. So says Hans Tesselaar, executive director of the Banking Industry Architecture Network, a not-for-profit organisation working on a common framework to enable interoperability in banking.

But Professor Markos Zachariadis, chair in financial technology and information systems at the University of Manchester, can see some hypothetical security drawbacks. This is because data openness in any sector "may mean that fraudsters may find a way to intervene somehow. But I do think that using APIs is a major advance. Many of the open standards used as part of the infrastructure are quite sophisticated."

Zachariadis says most of the risks concern "the use cases where the data demands aren't matched by sufficient consumer benefits. Think, for example, of the benefits you get from Facebook in response to the data you're sharing on the network."

It's clear that robust data management, such as time limits on data usage and the ability to revoke access, must be in place to protect consumers and ensure that the promised benefits of open finance actually reach them.

"We have all been giving access to data generously, without really thinking about the implications," Zachariadis says. "Ways to control access have only recently come into play with certain court cases. With open banking and finance, you need to have a sophisticated control system of data."

The rate of uptake of open-finance products and services will depend on the industry, which must provide a clear explanation of the concept's benefits and risks to the public, according to Tesselaar. He adds that "banks should educate consumers about open finance. They should be the engine for adoption."

There are concerns that open finance may leave the many thousands of people who are financially excluded in the UK even further behind. But several experts consider these criticisms to be exaggerated. Open finance, they say, will be all about giving consumers choice and enabling them to benefit from sharing their data. If they don't want to share their data, it's simple: they won't reap the benefits.

Digitisation is in fact aiding financial inclusion around the globe. Digital payments have accelerated since the arrival of Covid-19, with digital finance already becoming a force for inclusion in nations such as Brazil, Kenya and Singapore.

"We see open finance as a chance to bring greater financial inclusion to the marketplace, especially after the pandemic has caused financial stress for a significant proportion of the population," Raper says.

Another concern is that open finance will simply shift power from big banks to big tech – the likes of Amazon, Facebook and Google.

In theory, a big tech company could become an account servicing provider (ASP) or payment service provider (PSP) through the open-banking infrastructure. Big tech companies are digital natives, better at handling data and using it strategically, as well as creating algorithms and narratives about artificial intelligence. Some, such as Apple, already have digital wallets.

Zachariadis is slightly surprised that no big tech giant has yet registered to become an ASP or PSP in the UK. But he says the tech giants may already be creating their own proprietary products, given that "they are equipped with enough financial data – more than the banks have – so there's no need for more."

Tesselar doesn't foresee big tech moving into this space any time soon, because the companies would have to comply with stringent financial regulations, which would be "too much of a restraint for them".

As open finance is phased in, the main entry point is likely to be social media, where big tech already has the monopoly. The challenge for banks will be luring consumers to their own platforms where they can sell their open-finance offerings.

"By enabling open APIs, any intermediary can start to offer aggregation or payment-initiation services, once it's appropriately licensed," Maynard says. "Such a move can threaten to disintermediate banks, but they can manage this risk if they are able to offer strong services based on open finance."

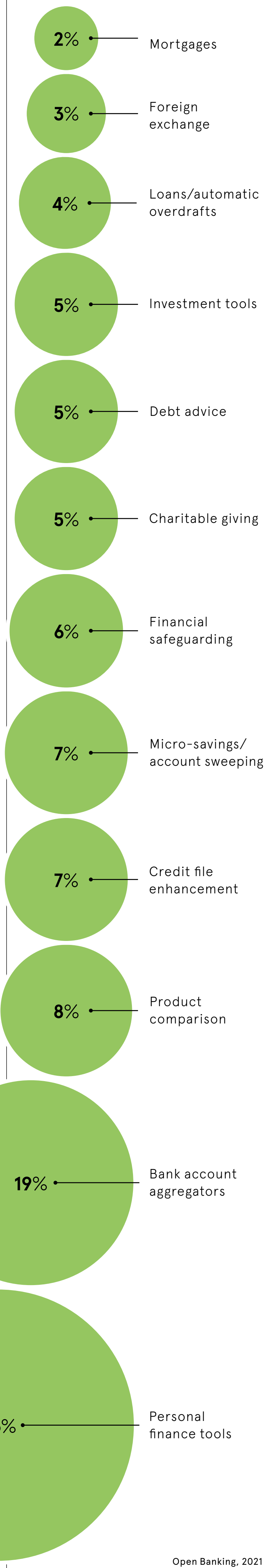
Tesselaar says it's likely there "could be different entry points for different age groups, because young people share so much on social media. It will depend on where you are in maturity as a person."

As with any industry transformation, open finance promises a new world of opportunity, but it also presents risks. A lot is at stake. But data is here to stay. Unless all parts of society find ways to benefit, the commercialisation of data will continue – without actually helping consumers.

There are many issues that need to be ironed out first. The security, privacy and management of data will have to be watertight before regulators and the public can get comfortable with data-sharing. But the transformation of financial services is already under way, promising exciting benefits for all.

WHAT ARE CONSUMERS USING OPEN BANKING FOR?

Open-banking-based apps, by product type, downloaded in the UK to February 2021 (figures do not add up to 100 because of rounding)



Open Banking, 2021

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BANKING TECH

Stuck in the pasta: a legacy IT challenge

Fintech companies tend to update their software in a blizzard of improvements known as continuous integration and continuous deployment (CI/CD). Why are banks so reluctant to follow their example?

Charles Orton-Jones

'Spaghetti systems' is a catchy name for a terrible problem. The technology behind the scenes at most tier-one banks is a tangled mess. Thousands of applications are patched together, with some of the most critical platforms dating back to the 1980s. ATMs still run on Cobol, a programming language that was created in 1959.

This spaghetti leads to disasters. IT teams are terrified of updating ancient applications: systems go down; errors creep in. In one case, the Financial Conduct Authority identified that 750,000 mortgage customers were repaying the wrong amounts – calamitous for those involved. The cost of bank systems is mind-blowing: Bank of America allocated $10bn (£7.3bn) in a single year to its systems, while JPMorgan Chase spent $11.4bn.

But why are banks stuck with outmoded software? It's not down to a lack of desire – they talk a great game about the need to modernise. There's even an agreed methodology: instead of running applications with a monolithic code base, banks should chop these up into pieces called microservices. Each of these can run autonomously, operated by a team focused exclusively on its own sub-domain. This enables upgrades to be completed much more quickly.

And then there's continuous integration and continuous deployment (CI/CD). This means that code is updated regularly in a blizzard of tiny improvements, instead of a big upgrade every six months. Amazon, for instance, updates its code every 11 seconds. Each tweak can be tested individually. If it works, it's retained. If not, the version is rolled back.

If banks were to embrace CI/CD, their software would always be at the cutting edge because it would be improving constantly, according to Prema Varadhan, deputy chief product officer at banking software provider Temenos.

"It's a much quicker and more efficient way of rolling out products and services," she says. "The benefits are numerous and vast. CI/CD enables banks to innovate at a much quicker pace and respond far more rapidly to fast-changing customer needs. This in turn gives customers a much better experience and makes them a lot 'stickier', which clearly presents financial benefits."

Varadhan adds that CI/CD can end the crippling financial burden of software. "Banks can make changes in this manner at a fraction of the cost of trying to achieve the same results on legacy systems," she says.

John Lamb via GettyImages

> CI/CD enables banks to innovate at a much quicker pace and respond far more rapidly to fast-changing customer needs

"And, as the innovation becomes frequent, banks can fail fast, fix and improve. This in turn will reduce accumulating technical costs and debt in the longer run."

And the disadvantages of CI/CD? "The benefits far outweigh any of the costs or complications of adopting this approach," Varadhan says.

So why is CI/CD so under-used? Regulations are restrictive. Whereas a retail business can experiment with the stack, risking downtime in a worst-case scenario, bank regulators forbid any cavalier behaviour. This means that even fintech firms, which promote CI/CD as a practice, are ultra-cautious when they use it.

Such prudence is well founded, according to Mark Holt, chief product and engineering officer at 10x Future Technologies.

"It's important to recognise that context is everything in business," he says. "While continuous production releases – and roll-backs where features don't work – constitute the best approach for some companies, a failing feature in banking simply isn't appropriate. A failing feature being in production for only 30 seconds may be the difference between a customer's payment success and payment failure, which could mean the difference between them safely getting home that evening or not."

The answer for his firm is to retain a CI/CD philosophy, but to delay the release pattern until testing is complete and partners are prepared.

"Because of this, we balance risk by releasing and testing continuously within our development and test environments. Then we perform monthly releases into client banking environments to ensure that they have the robustness to deliver for end customers," Holt explains.

Then there's the human element. The archaic nature of bank software means that IT teams may struggle to understand newer practices.

Gaetano Ziri, a software engineer at banking software provider Auriga, says that the broad range of skills required by CI/CD is one of the main reasons why banks have been so slow to adopt the approach. He says that CI/CD specialists need: the ability to manage cloud providers such as Amazon Web Services and Google Cloud; familiarity with software packing tools (Docker, .exe, .deb, and .rpm); familiarity with version-control tools (Git, Subversion and Mercurial); and expertise in security, monitoring and code-coverage tools. And that's before the organisational culture is taken into account.

"Many businesses still prefer to use traditional methodologies when it comes to software development," Ziri says. "Implementing continuous integration means that they would have to retrain their staff and also change existing operations. Most companies want to meet their objectives quickly and may be resistant to change."

In some cases, banks are just too old to implement CI/CD effectively. Varadhan says that automated testing may not be possible in the context of a spaghetti system. "Testing modernisation requires access to consistent and quality data to be able to replicate real production-like scenarios," she says. "Yet, in many organisations, data provisioning is still a very manual process, which is both slow and unreliable, and it results in out-of-date data."

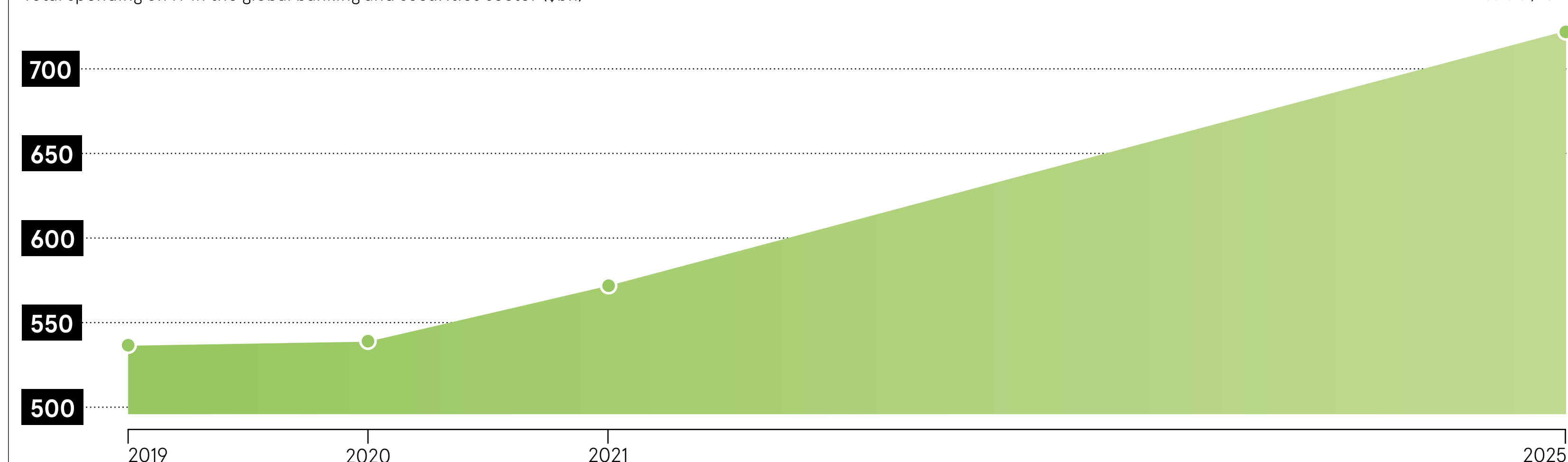
CI/CD is clearly the future for banks. Just like Amazon, Spotify Uber and other tech pioneers, they'll be able to upgrade their software element by element. It will make them more agile, able to implement improvements with minimal fuss. Digital banks are already enjoying the benefits of CI/CD. Starling Bank, for instance, is a big beneficiary. But larger banks are behind the curve. They may have neither the right skills nor the right culture to adopt CI/CD, while strict regulations preclude its rapid deployment. And the prospect of ripping out spaghetti systems is intimidating.

It's a useful issue to understand. Banks want to leave the era of spaghetti systems behind – their desire to modernise is not in doubt. But, when customers, partners and commentators scratch their heads and wonder why they don't do it immediately, it's worth remembering that there are good reasons for this.

BANKS' TECH SPENDING IS SET TO SOAR

Total spending on IT in the global banking and securities sector ($bn)

Gartner, 2021



Commercial feature

How can financial services innovate and build trust in the digital age?

The pandemic has provided a unique opportunity for the sector to both strengthen relationships with customers and better serve society. But with data privacy and cybersecurity increasingly hot topics, strategic partnerships are critical, according to an expert panel

Oliver Pickup

Q How has the pandemic affected trust in financial services?

KP KP: Before the global financial crisis in 2008, a sales-first culture had permeated the financial services sector. The implications of the crash, most notably the plummet of trust, triggered a reorientation back to a customer-centric and purpose-driven approach. Because of the culture change and regulatory work in the last decade, organisations were in a very different position when the coronavirus crisis hit. Highly capitalised banks in particular have had the opportunity to become the 'white knights' of the pandemic.

JT We have learnt a lot since the financial crash. Banks, in particular, have stepped up and supported their customers through this health crisis and demonstrated the important role they play in society. NatWest champions the potential of individuals, families and businesses – of which we bank one in four in the UK – helping them to thrive. The bank lent more than £14bn as part of government schemes, and we supported customers with mortgage and capital payment holidays. There have been softer ways we have helped people during the pandemic, such as turning an office building into a vaccine centre and our Edinburgh head office into a food bank. The pandemic has reinforced the purpose of financial services, but with the end of the furlough scheme and as the economy starts to recover, we need to redouble efforts to help the customers and communities we serve to thrive. Because when they thrive, so do we.

FH Metro Bank was founded in 2010, at the end of the financial crisis, to reach the high street market. Considering the digital-first direction others were heading, it was a bold decision, but human interaction helped establish trust. That initial concentration on stores gave us good credibility, and now, in response to customer needs, we are adopting a bricks and clicks strategy. During the pandemic there was a significant need to be always available for customers, hence why digital has become critical. By offering fast, stable, and secure products and services, we have maintained trust. People talk about an omnichannel approach to provide better customer journeys, but I think there are different levels of trust between chatbots and in-person services.

APS The starting point for trust is purpose, why you exist. Trust is now the number-one facet for customers in the market, above value for money Today customers are looking for proof points, and in the last 18 months, many financial services have moved from talking to taking action with their ESG strategies. We gave our customers refunds as thanks and also supported key workers. As an insurer, we deal with serious incidents and distressing circumstances, so our agents, empowered by the data at their fingertips, provide exceptional customer service.

Q How are trusted partners being embraced to drive innovation?

APS Figuring out who the right partners are comes back to understanding customer needs. You have to be relentlessly obsessed with the customer experience, and data must be the beating heart. Data helps you create beautiful, personalised experiences, and – because DIY solutions no longer make business sense – an ecosystem of strategic partners is crucial. The customer experience is the tip of the iceberg as it only happens because 90% of the underwater technology is working smoothly.

KP Over the last 10 years, financial services organisations have been forced to evolve for the digital age but now often suffer from a fragmented technology environment. With improving the customer journey in mind, challenges include integrating and inter-connecting solutions while scaling at speed. Many digital transformation programmes fail because of culture and a lack of effective partnership; you have to select the right partners, and once you do, be open and transparent in your interactions.

JT People often think that large organisations are not agile enough to change at pace, but in the last 18 months, we have been able to respond very quickly to meet customer demands, in part because of our technology partners. For instance, we built a fully automated platform that has enabled over £8bn of loans through the government scheme in only six days. The service that we provide customers is increasingly reliant on multiple channels and how they integrate. We need to leverage the best technology to deliver seamless customer service and deepen relationships in the digital world. That means we have to pick expert partners. But it's a two-way relationship, and the openness of the infrastructure that we're building, through APIs, makes this collaboration possible. For example, we have partnered with fintechs to verify customers quicker using selfie technology.

FH I love the open-source mindset when it comes to partnering. While products or services are not perfect immediately, iterative evolution is possible in a collaborative ecosystem of trusted partners. This approach is a departure from the old ways financial services innovated. Suppliers can no longer come to your door and ask you your requirements and offer to build it. Instead, partners are leaning in, being more proactive. Also, with the rise of cybercrime and fraud, we have to share knowledge across the financial services community, as without adequate security, trust evaporates.

Q What are the upcoming challenges and opportunities for the financial services sector?

APS The US military phrase 'vuca' – an acronym for volatility, uncertainty, complexity and ambiguity – captures the world in which we now operate. Everyone has their favourite worry. The east is leading the way in financial services. Super apps – a central application from which customers can buy most products and services – are made possible thanks to the dynamic over there. We haven't seen super apps in the west yet, but it would quickly disrupt the market if they were introduced.

FH For me, there are worries and opportunities around APIs. By design, they open us up, make our data move faster, provide quicker authentication. But as soon as they unlock that data, it is exposed. If we don't manage that security, it will be hard to maintain trust, and disruptors could take advantage. Additionally, I firmly believe that the financial services sector needs to educate people, young and old, to enable greater financial freedom.

JT I am optimistic about the future and see a huge opportunity to use data and technology to build on the good work in the last year and a half. However, financial services firms must continue evolving and adapting to the digital age and meet their customers' preferred channels. For example, before the pandemic, we had fewer than 800 video banking calls a week. Now we regularly do over 13,000 video calls a week. And we are looking into marketing on TikTok. Ultimately, we are seeking to develop deeper relationships with customers and using data to be their proactive, supportive partner.

KP The impressive way the financial services sector has supported customers during the pandemic shows that we have come full circle: firms are again genuinely passionate about helping customers and doing the right thing by their employees as well. People see straight through a lack of authenticity and transparency and, with ESG topics rising in importance, financial services must be useful to humanity. It's a hugely exciting time to work in this sector.

> Highly capitalised banks in particular have had the opportunity to become the 'white knights' of the pandemic

Roundtable attendees

- **FH** **Faisal Hussain,** CTO and CDO, Metro Bank
- **APS** **Alan Patefield-Smith,** CIO, Admiral Group
- **KP** **Keith Pearson,** head of financial services go to market, ServiceNow
- **JT** **Jen Tippin,** chief transformation officer, NatWest Group

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CUSTOMER SERVICE

Why boring is the new sexy

For all the industry's talk of future technological leaps, some of its recent innovations, while seemingly prosaic by comparison, are proving vital to many customers in need right now

Sam Shaw

Lofty predictions about technologies such as artificial intelligence and blockchain have been echoing around conference halls worldwide in recent years. Futurologists have had a field day telling us all how advances in these fields will transform how we – or, more realistically, our children – will engage with financial services.

But what about some of the less sexy innovations in the industry that are already streamlining processes, cutting costs and cementing customer relationships?

One of the UK's original challenger banks, Metro Bank, boldly ended the status quo back in 2010 by opening on Sundays. At the time, it also introduced the novel idea of photographing new customers when they visited a branch to open an account. Whenever they came to a counter thereafter, their photos would be uploaded to the clerk's screen for ID verification purposes, helping to protect against fraud.

Such innovations, which appear mundane compared with the promise of AI, have benefited institution and customer in equal measure. In his speech at the UK FinTech Week event in April, the chancellor, Rishi Sunak, shared his "vision for a more open, greener and more technologically advanced financial services sector", yet we must beware of innovation for its own sake.

Many digital advances achieved in the financial services sector during the pandemic haven't been earth-shattering ideas. Rather, they have been necessary, pragmatic solutions at a time of crisis. In putting human need before technological ambition, several businesses accepted a loss of profitability because it was the right thing to do ethically.

At TSB, plans that were already in place for a partnership with software giant Adobe were accelerated by the pandemic, reports Jason Wilkinson Brown, the bank's head of digital propositions, partnerships and open banking.

TSB made 18 application forms available online through this partnership. These have supported several new pandemic-related services, such as emergency repayment holidays on mortgages and bounce-back loans for struggling businesses. In the first two months of the initial lockdown, the bank handled 80,000 interactions based on these forms.

"More crucially, we saved about 15,000 customers from endangering their health, because they didn't need to visit a branch to make an application," Wilkinson Brown says. "The pressure of a situation such as the one we've all been experiencing naturally coerces everyone to solve problems."

The pandemic has accentuated the UK's stark economic divide. A report published in June by the research charity Centre for Cities identified that urban households in the south of England had tended to make "Covid savings" during the pandemic, whereas their equivalents in the rest of the country were more likely to have been pushed into debt.

Wilkinson Brown says that TSB's new, if admittedly simple, solutions were designed to help all customers, whether the Covid crisis has proved to be a financial blessing or a curse to them. The bank's partnership with investment platform Wealthify has handled more than £10m of funds since it started in November 2020, for instance, whereas its bill-switching service, launched in conjunction with AptTap, has helped each customer to save £150 on average since April 2021.

Not all recent innovations have been inspired by the pandemic, of course. The so-called pension freedoms that the then chancellor, George Osborne, enacted in 2015 have proved a particularly significant development over the past six years, for instance. These have granted savers greater access to their pension pots, without the prohibitive taxes that had previously been imposed. Yet such freedoms have served to complicate the situation for many defined-contribution scheme members with life-defining decisions to make.

According to research published by the Pension and Lifetime Savings Association in 2019, more than three-quarters (77%) of savers do not know how much money they will need to last them in retirement. Unclear about the optimum rates of withdrawal, the tax implications and how to counter inflation, many savers would benefit from comprehensive financial advice. But, at an average hourly cost of £150, such guidance is often out of reach.

Ian McKenna, the founder and director of the Financial Technology Research Centre, offers some context to this situation. "The Man from the Pru was the archetypal person who ensured that everyone made the modest level of savings that they could afford," he says, referring to the army of agents that the Prudential insurance company once employed to visit customers' homes nationwide and collect premiums. "In reality, that was an incredibly expensive way to serve consumers."

Years of consumer lobbying, stricter regulation and improved professional standards – all good things, McKenna stresses – have pushed up the cost of financial advice since then, making it a luxury that only about 3% of the population can afford regularly.

One of the industry's responses to this trend in recent years has been the development of robo-advisers. These automated systems, designed to address what the Finance Conduct Authority refers to as the advice gap, guide consumers towards the options that best match their stated financial goals. Yet doubts about their quality, trustworthiness and commercial viability have proved barriers to their success in many cases to date.

Perhaps representing the natural evolution from the Man from the Pru, M&G Wealth is starting a hybrid financial advice business that enables modestly wealthy clients or those with simpler financial needs to access a service that combines digital processes with the knowledge of a qualified professional.

The deputy CEO of this new operation, Richard Caldicott, explains that many consumers are willing to do some of the work themselves but would also like to have a financial adviser on hand as a sounding board.

Similarly, many people wouldn't necessarily want that person to be sitting in their living rooms two or three times a year, he says. Under the hybrid model, they can compile and input the relevant information themselves, which is then digitised, automating client recommendations and reporting, eradicating the need for any onerous data re-entry.

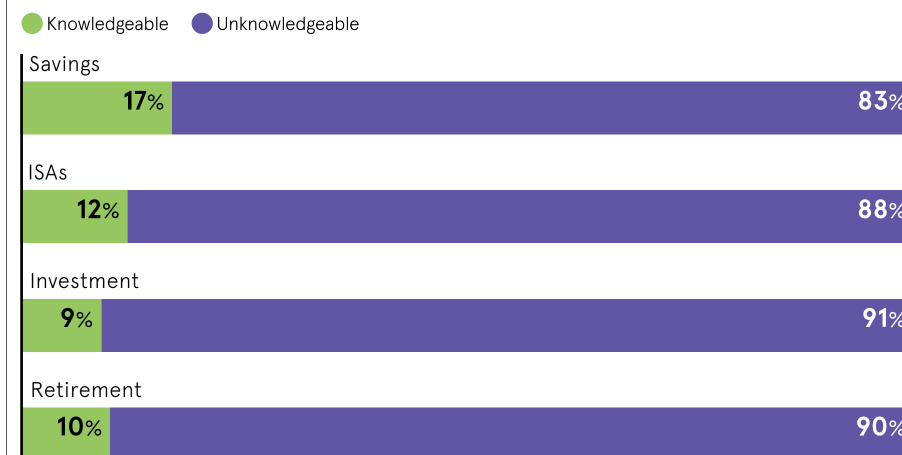
The approach is designed to break through the wall of confusing jargon that's endemic in financial services. The uninitiated are unlikely to know exactly what their 'capacity for loss' might be, for instance.

"We've built different games into the system to make it more engaging to users than having to answer fairly obtuse questions – for instance: 'Would you rather have £25 today or £28 tomorrow?'" Caldicott says.

Sexy? Not really? Meeting a desperately dull, yet hugely important financial need? Absolutely.

FINANCIAL ADVICE: INNOVATION THAT CAN REALLY HELP CONSUMERS

Percentage of Britons feeling well informed about financial matters



Freetrade, 2021

> The pressure of a situation such as the one we've all just experienced naturally coerces everyone to solve problems

Alexander Spatari via GettyImages

INNOVATION

Kindergarten cop

The Financial Conduct Authority is aiming to encourage a more cohesive fintech ecosystem with its new brainchild: the regulatory nursery

Uneesa Zaman

Building on the momentum created by Ron Kalifa's independent review of the fintech industry in February, the Financial Conduct Authority (FCA) is set to open what it's calling a regulatory nursery before the end of the year. The aim of this scheme is to better equip fintech companies in their infancy by offering them mentoring and other guidance, while promoting competition and effective regulation in the sector.

Since its creation in 2015, the so-called sandbox licence awarded by the FCA has enabled fintech enterprises to test potential new products and services on a small group of consumers in a controlled environment before releasing these on a commercial scale.

There is evidence to suggest that it has been successful. According to research published last year by the Bank for International Settlements, firms using the sandbox system raise on average 15% more capital thereafter than those that don't, while "their probability of raising more capital increases by 50%".

But the sandbox's one-size-fits-all approach to licence approvals subjected both callow and experienced fintech companies to the same rigorous regulatory protocols. This left many of the former out of their depth. Indeed, of the 24-company cohort that entered the sandbox in 2018, nine went on to fail.

In creating the regulatory nursery, the FCA aims to address this problem by equipping the participants with bespoke guidance that stresses how important it is for them to meet regulatory standards.

The head of the FCA's innovation division is Maha El Dimachki. She explains that the regulator's aim is to "ensure that fintech companies have the tools to succeed and consumers have as much choice as possible. By setting standards earlier on in the fintech 'journey', we can work collaboratively in building a stronger sector."

It's not only the nursery that's paving the way for more robust and sustainable new fintech offerings. Understanding the vital role that innovation plays, the FCA has permitted startups to enter the sandbox at any point of their choosing, rather than at a set time each year.

Zeeshan Uppal is a co-founder and non-executive director at Yielders, the first Islamic fintech firm to be regulated by the FCA. He recalls that a "great aspect of the sandbox for us was the level of transparency awarded by the FCA. We were assigned a caseworker who was able to give us honest feedback."

But Uppal adds that there were also barriers to overcome. "It was a meticulous and lengthy process that lasted two years. Although we gained crucial experience throughout this period, we found the timelines hard to work with. And it can be hard to become operational without getting the rubber stamp from the FCA."

Since obtaining such approval, the six-year-old investment platform has gone on to serve more than 8,000 users in 45 countries, settling investments worth £12.5m to date.

Uppal and co-founder Irfan Khan, who is now heading another fintech firm, Mmob, had accumulated a combined 10 years of experience in the financial services sector before establishing Yielders.

"We were lucky to have regulatory and banking experience, but it was still difficult to navigate through the process, because the regulatory standards that governed Yielders were geared towards a traditional banking system at the time," Uppal says. "It's great to hear that the regulatory nursery will be providing dedicated guidance and mentoring to infant fintechs who may lack operational experience."

While it's incumbent on the FCA to remain impartial, it is likely that the regulatory nursery will help to level the playing field for emerging fintech firms. El Dimachki stresses that the initiative is about ensuring "the right balance of regulation to support innovation, competition and economic growth".

Although this may be true, future developments cannot be ignored. Online challenger bank Monzo, for instance, has just launched a buy-now-pay-later (BNPL) offering, competing with the likes of ClearPay, Klarna and Revolut. This seems a strong move, given that a review of the unsecured credit market conducted for the FCA in February estimated that 5 million people in the UK had used BNPL services in 2020, Monzo could profit substantially as BNPL becomes even more popular.

The rapid growth of a 'marketplace' approach to banking that has occurred during the Covid crisis has certainly improved competition and choice, democratising finance for retail consumers. But, while product offerings are crucial for healthy competition, financial literacy is not. In a recent survey of 2,000 UK consumers by investment app Freetrade, nearly half couldn't answer simple questions about personal finance correctly. This lack of knowledge means that, while fintech firms continue to innovate, effective regulation remains crucial in protecting consumers.

In creating its regulatory nursery, the FCA hopes to establish regulation as a core operational point for infant fintech firms, embedding the importance of sustainability in the sector. Consumer trust is a contentious point, as concerns about data collection play a huge role in people's misgivings about digital tech. Despite this, the mass adoption of fintech across the UK indicates a positive trend. But it is up to fintech firms to build trust into their operational models – with approval from the FCA serving as a secure way in.

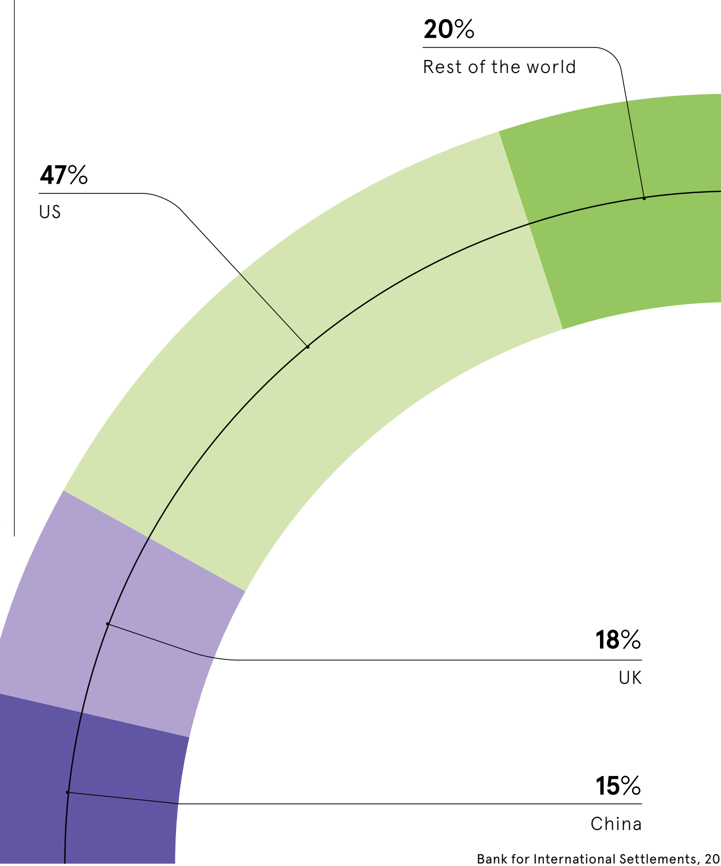
As fintech companies continue to evolve and expand their range of products and services, the intention of the regulatory nursery is to offer them assistance, giving rise to innovation via the provision of regulatory support. In this way, the nursery will play a key role in enabling fintech enterprises to develop new offerings.

Any fintech company seeking to grow into a full-service bank has to remember that consumers are truly in the driving seat. Ultimately, it is their needs that fuel the sector's creativity. This shows that, when it comes to innovation and regulation, the consumer remains on top.

> By setting standards earlier on in the fintech 'journey', we can work collaboratively in building a stronger sector

HAS THE SANDBOX HELPED THE UK BECOME A MAJOR FINTECH PLAYER?

Share of total funding raised by fintech startups worldwide in 2010-19



Bank for International Settlements, 2020

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