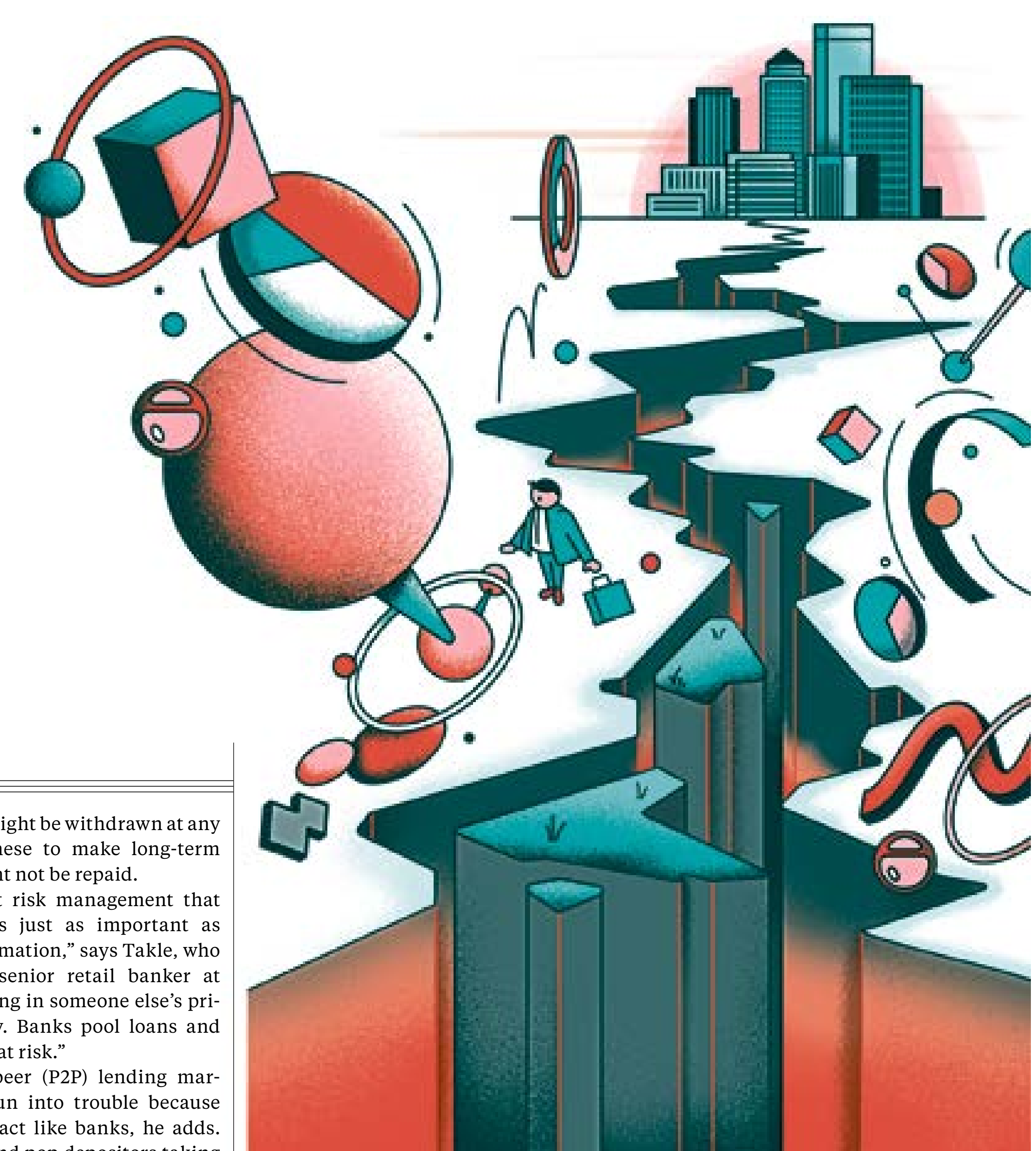
FUTURE OF FINTECH

DISRUPTION

Great shakes: are the big banks on borrowed time?

Fintech firms have yet to disrupt the incumbents' dominance, but the advent of open banking and the increasing availability of non-financial data mean that seismic change is inevitable



Ouida Taaffe

Over the past eight years, the Bank of England's Prudential Regulation Authority has authorised 61 new banks. Of these, it describes 28 as "really de novo UK banks", including challengers such as Starling Bank (established in 2014) and Monzo (2015). The wider fintech field has even more players. Deloitte, in its research for Ron Kalifa's recent government-commissioned review of the industry, found that about 2,500 fintech firms are operating in the UK.

But this busy sector has had little effect on how consumers and SMEs actually use banking services so far. The big-five high-street banking groups – Barclays, HSBC, Lloyds, NatWest and Santander UK – still dominate the market.

Consumers' growing reliance on online services during the early stages of the Covid crisis might have seemed like a silver lining for fintech challengers but, if anything, the pandemic has tightened the incumbents' grip. In particular, they have held sway in the market for state-guaranteed bounce-back loans to SMEs because few alternative providers can afford to lend at the low interest rate (2.5%) stipulated by the scheme, according to Innovate Finance.

The big players still rule the roost, then, but the Covid lockdowns have changed some financial habits. Until recently, open banking – in essence, the right to share current account data with fintech payment providers – has done little to boost competition. Yet the government now expects that 60% of the population will be using it by 2023. That matters, because what open banking does is tease apart 'banking' from payments, enabling fintech companies to become the first point of customer contact for essential everyday services.

> Once real balance-sheet disruption arrives, the minimum efficient scale for a retail bank will fall, probably to below 1 million customers

"The core reason that retail banks exist is to carry out maturity transformation. That's where they make their money," says Jeremy Takle, co-founder and CEO of fintech firm Pennyworth. By "maturity transformation", he means that they take deposits, which might be withdrawn at any time, and use these to make long-term loans, which might not be repaid.

"But the credit risk management that banks perform is just as important as maturity transformation," says Takle, who was formerly a senior retail banker at Barclays. "Investing in someone else's private debt is risky. Banks pool loans and thereby spread that risk."

Some peer-to-peer (P2P) lending marketplaces have run into trouble because they've failed to act like banks, he adds. "They left mom and pop depositors taking both credit and maturity risk on themselves. And the remaining spread on that business was too small for the P2P providers to sustain, which is why some have become banks."

David Birch, an author, consultant and investor in digital financial services, says: "We haven't yet had a fintech revolution or anything like one. The 'challenger banks' are simply more banks. They don't have a disruptive business model. The essential business model and the cost of intermediation – a key measure of productivity – have not changed for generations."

Despite this, both Birch and Takle believe that current banking business models won't survive.

Birch explains: "Most customer interactions with a bank occur through payments. That is where the main customer data is generated. So, if you're talking about the retail financial services business models of the future, which depend on data, you should be talking about payment companies such as Square, Stripe or PayPal."

Open banking is, arguably, the first real step towards that future. It means that banks no longer have a privileged position in payments – or in customer awareness. The current account can be treated like a jam jar into which, with the customer's consent, fintech payment providers can dip. And they can meld that account data with non-financial information to offer a new service.

Some banks – albeit not the market leaders – are closing their current accounts to focus on services such as lending. M&S Bank, for instance, announced in March that it would "expand its range of payment solutions" and continue to offer a credit card, loans, insuranc products and savings accounts. Some fintech firms, notably Atom Bank, may never offer a current account.

The meteoric rise of buy-now-pay-later credit services "shows how quickly a good fintech alternative can grow", Birch says. "The merchants are happy to pay not for a new payment mechanism but for new sales. I can envisage merchants starting to offer their own apps with embedded financial services. This is not a radical prediction. When JPMorgan killed off its Chase Pay wallet this year, it advised its customers to use 'their preferred merchant apps or PayPal' instead."

The potential changes are profound, therefore. The International Monetary Fund foresees potential for the "disintegration of the traditional bank business model. Specialised providers of financial services can chip away activities that do not rely on access to balance sheets, while platforms can interject themselves between banks and customers."

So what could the bank business model of the future look like?

"Turning savings into loans is where the margins are," Takle says. "For instance, credit card earnings are made mostly from the interest paid by borrowers. Yes, current account data is useful, but open banking enables customers to share their data in exchange for better services without having to switch accounts. This changes the attraction of managing current accounts. These accounts are costly to operate and customers seldom want to switch, which the first wave of non-banks learnt to their cost."

Removing that onerous cost base and boosting what a bank offers is, in Takle's view, where fintech firms need to focus. Software-as-a-service providers such as Thought Machine and 10x Future Technologies are making this possible.

"Once real balance-sheet disruption arrives, enabled by much lower platform costs, the minimum efficient scale for a retail bank will fall, probably to below 1 million customers," Takle predicts.

He adds that Pennyworth will focus on the "aspiring affluent": the top 20% of the retail market who have the largest account balances but are "getting poor value and impersonal service from their bank. We want to give them a personalised alternative by putting a digital bank manager in their pocket."

Open banking – then open finance and, eventually, open data – will enable financial service providers (including the big players) to curate a range of services for their customers without having to build or support these in house. Tech firms certainly seem happy to leave essential banking functions to the banks. Google, for instance, recently shelved plans to offer a current account with Citigroup to focus on "delivering digital enablement for banks and other financial services providers, rather than us serving as the provider".

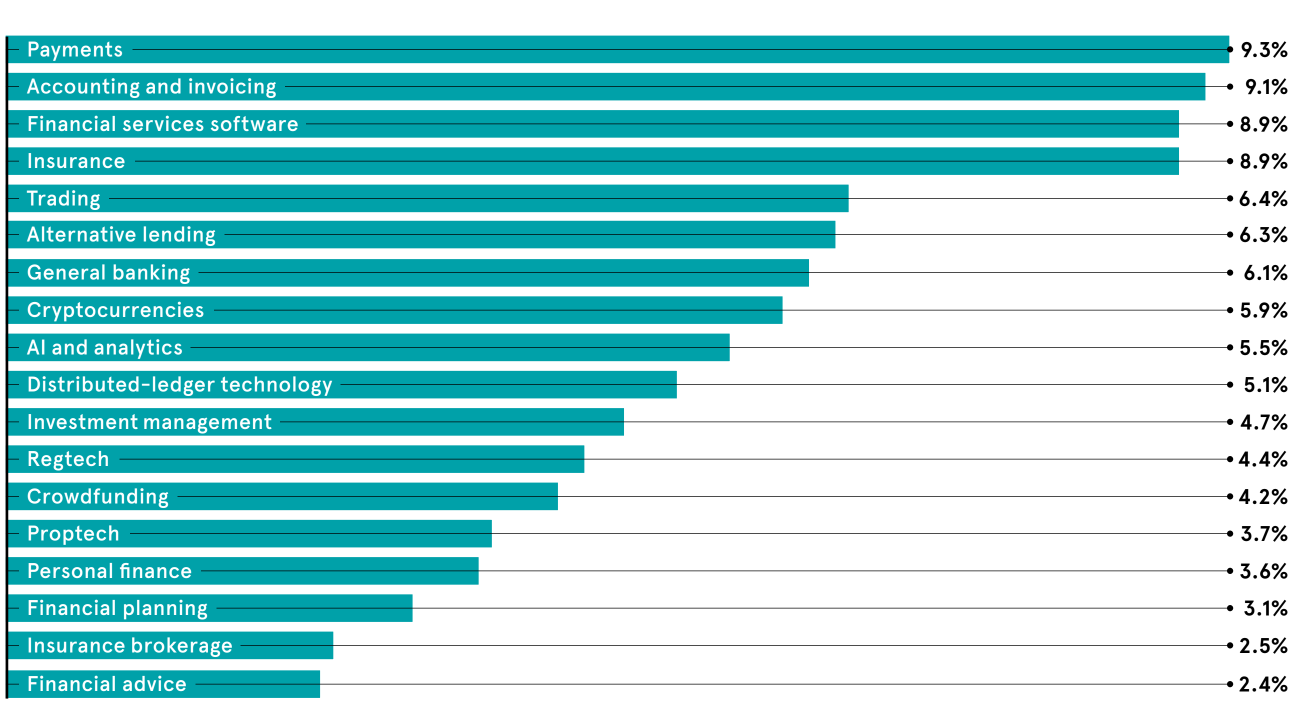
What other developments could shake up the sector? Birch would like the industry's regulators to instigate further disruption. One way of doing this would be "giving new forms of institutions access to central bank money – the world of decentralised finance", he suggests.

Such a move could, eventually, do away with commercial banks altogether.

THE FINTECH ECOSYSTEM

The shares of all segments of the European fintech market

Deloitte, 2020



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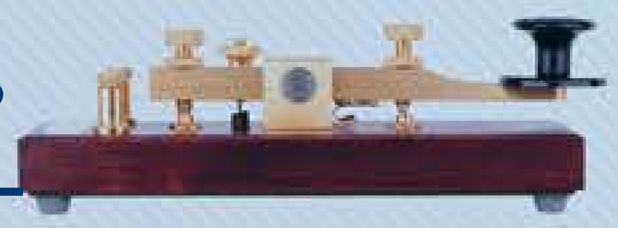
THE HISTORY OF FINTECH

Innovations in the financial sector have transformed how we save, spend and trade. Banking systems, which once relied on clerks to meet at the Six Bells tavern in the City of London each day to exchange cheques, are now at the cutting edge of technology. Customers have benefited greatly from the advances, with a raft of new fintech companies bringing the ease of digital banking to the masses. We trace the development of fintech, from Morse code transactions to Monzo



1918

In the US, the Federal Reserve banks establish a process for transferring funds through the telegraph network using Morse code. This rudimentary electronic system allows the banks to conduct financial transactions at far greater speed over large distances. Previously, inter-bank payments relied on the physical exchange of cash or gold.

1967

The first automated teller machine is installed at the Enfield branch of Barclays in north London. Comedy actor Reg Varney is the first person to use the machine, which requires customers to insert a paper cheque in exchange for cash. Later models improve security with the requirement for a multi-digit PIN.

1968

The Inter-Bank Computer Bureau replaces paper-based transactions between banks with an automated system that uses magnetic tape. This is later renamed the Bankers' Automated Clearing System, (Bacs). It is regarded as the oldest electronic payment system in operation in the UK.

1971

Nasdaq becomes the first electronic stock market, enabling people to buy and sell shares on a computer network as well as on a trading floor. It starts with 250 companies. Today, the Nasdaq lists 3,700 plcs with a total market capitalisation of $19tn.

1973

Founded in Brussels, the Society for Worldwide Interbank Financial Telecommunications (Swift) establishes a secure and reliable standard for financial institutions to send and receive information about transactions around the world.

1997

The UK's first internet banking service is introduced by the Nationwide Building Society, followed one month later by the Royal Bank of Scotland (RBS), ushering in a new age of online banking for British consumers.

1998

Originally founded under the name Confinity by Peter Thiel, Luke Nosek and Max Levchin, PayPal transforms how consumers send money and pay for goods and services online.

2001

US banks surpass 1 million online banking customers.

2004

Japanese mobile operator NTT Docomo creates the first mobile payments system, Osaifu-Keitai, which literally translates to 'wallet mobile', 10 years before Apple Pay.

2007

Barclay issues the first contactless cards in the UK. The Barclaycard OnePlus combines chip and PIN, contactless payment and Oyster functionality. The initial contactless spending limit is £10 per transaction.

2009

Bitcoin becomes the first decentralised digital currency, kicking off the crypto craze.

2011

RBS offers the world's first banking application for the iPhone, allowing users to check their balances and recent transactions on the move.

Meanwhile, Orange and Barclaycard team up to create Quick Tap, the UK's first contactless payments system for mobile phones. Purchases are limited to £15 and it can be used at 50,000 stores at launch.

2013

China's Alipay overtakes PayPal as the world's largest mobile payment platform after processing nearly $150bn of transactions.

2014

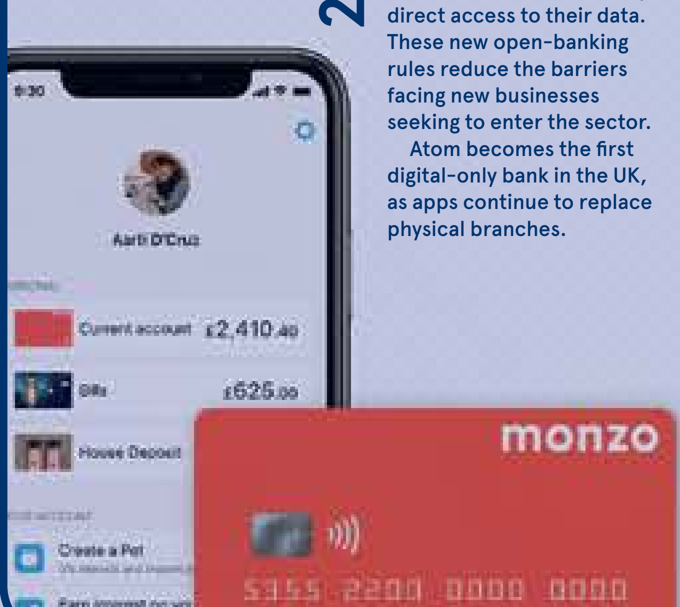
Apple introduces Apple Pay, bringing mobile payments to its customers. The service comes to the UK the following year and is now used by 507 million people worldwide.

Transport for London starts accepting contactless payments for travel. On average, about 2.5 million contactless journeys are made on the capital's bus, Tube and rail services daily.

2016

The Competition and Markets Authority issues an edict that the UK's nine biggest banks must allow licensed startups direct access to their data. These new open-banking rules reduce the barriers facing new businesses seeking to enter the sector.

Atom becomes the first digital-only bank in the UK, as apps continue to replace physical branches.



2018

Digital challenger bank Monzo reaches 1 million customers. The company attributes 80% of the growth in its client base to word of mouth and other referrals.

2020

Nikolay Storonsky, co-founder and CEO of digital bank Revolut, becomes the first UK tech startup billionaire.

2021

Market interest in fintech companies continues to grow. Fintech investments top $91bn (£68bn) and there are now 120 fintech unicorns (private startups valued at more than $1bn) globally.

Photos: Luke MacGregor / Bloomberg, Milan Jaros / Bloomberg, Tom King / Mirrorpix, ru3apr – all via Getty Images; Shutterstock; James Lee / Unsplash; Mc681 / Wikipedia; Nasdaq; Monzo

SUSTAINABILITY

How fintech can power up emerging markets

New facilities provided by fintech firms are leapfrogging traditional financial services in the developing world, supporting sustainable growth and accelerating financial inclusion

Ben Edwards

In the farmlands of Uganda, a new project is aiming to encourage more environmentally sustainable agricultural practices and protect biodiversity – with the help of fintech.

The scheme combines remote sensor technology and payments data to make credit decisions that reward the most sustainable farmers. It's led by the Green Digital Finance Alliance, which was established by Ant Financial Services and the United Nations Environment Programme to unite a range of organisations focused on sustainable finance.

Aiaze Mitha is a fintech consultant who has been advising the alliance on the Ugandan project. The effort combines a range of data sources, he notes, including scanners that indicate the intensity of soil use and whether it's being overexploited; satellite imagery to check for deforestation; and recordings of the sounds produced by human activity, fauna and the natural elements.

"By combining all of these data sources into your algorithmic processes, you can make a lending decision that will give preferential loans to farmers with the most sustainable practices," Mitha says.

This is just one example of how fintech is helping support sustainable development in emerging markets. Mitha is also advising the UN on the development of a fintech-powered sustainable infrastructure financing project in Bangladesh. The initiative, currently in its pilot phase, aggregates small amounts of cash from millions of digital wallet accounts and bundles them into a mega-fund that will be used to finance low-carbon infrastructure such as schools and hospitals.

"This is a way to tap into a growing pool of domestic savings to channel money towards financing sustainable developments at a much lower cost than would otherwise be the case in the international capital markets," he says.

Blockchain technology also has the potential to support conservation efforts in parts of the developing world where biodiversity is under threat.

"You can tokenise the amount of carbon sequestered by an elephant or the amount of oxygen produced by a tree, and that allows investors to contribute to reforestation or other conservation efforts through that particular token, so there is huge potential in that space," Mitha says.

Some fintech firms are embedding climate-related features into third-party apps to support sustainability efforts in emerging markets. Take Lune, for example. It provides software that enables banks to give customers information on the estimated carbon footprint of any product or service they buy. Customers can then opt to neutralise that footprint through carbon offsetting or removal programmes, such as reforestation projects in South America.

"Forward-thinking fintech firms are incredibly well positioned to take the lead when it comes to offering climate-friendly services," says Erik Stadigh, co-founder and CEO of Lune. "It's yet another gap that has been left wide open by the legacy banks, which don't have enough willpower and wouldn't move fast enough anyway."

> "It's a whole system shift that's needed... It's not just fintech companies alone

Other fintech companies are supporting sustainable developments in emerging markets by providing financial services to small and medium-sized businesses – a sector that traditional financial institutions have struggled to reach.

Payment service provider PayU, for instance, supplies online payment tech to help local merchants in high-growth developing economies to expand their ecommerce offerings. The company also provides credit at the point of sale by using its ecommerce data to help underwrite buy-now-pay-later loans to people with little or no credit history, thereby helping to boost financial inclusion.

"We operate in countries that are notoriously poor on data," says the CEO of PayU's operations in Latin America and EMEA, Mario Shiliashki. "Because we process so much payment data, we're able to capture some of it and use it to create better credit-scoring engines and make better lending decisions than is possible by using local credit bureau data."

The introduction of digital currencies could also help to extend financial services to people who have hitherto been excluded from the system. In October, for instance, Nigeria launched the enaira – a digital version of its currency – as a way to boost financial inclusion and make welfare payments easier.

"One of the big problems in emerging markets is that large sections of the population are excluded from mainstream financial services," observes Ola Oyetayo, co-founder and CEO of VertoFX, a peer-to-peer currency exchange and payments platform focused on emerging markets. "In places such as Nigeria, many people don't have bank accounts and don't live near a branch or an ATM, so initiatives such as the enaira help to resolve that by giving people a digital wallet that enables them to spend in a digital fashion. This ultimately aids financial inclusion."

While digital currencies such as the enaira can encourage the unbanked to enter the financial system, they'll gain traction only if the process is straightforward. If local merchants won't accept it, people may simply stick with cash.

"The biggest challenge is ensuring that the acceptance network is wide enough so that users can access it and start making payments through a mobile phone in different retail locations. Otherwise, they will still need a way to convert that digital money into physical naira," Mitha says. "There needs to be a whole ecosystem built around it. If that ecosystem is not ready, it could become a deterrent."

Those rolling out fintech products in emerging markets also face broader problems, he adds.

"First of all are the challenges concerning digital connectivity and access to smartphones just to be able to use fintech services," Mitha says. "Once you have the basics, you must then deal with issues concerning consumers' digital and financial literacy. And, once you're able to engage with fintech innovations, then there's a whole layer of extremely important aspects relating to consumer protection and data governance."

Consumers in developing nations may also lack the confidence to use fintech services because digital banks typically don't have branches.

"There's nobody for them to hold on to if something goes awry," Oyetayo explains. "So the ability of consumers to trust a digital platform is something that fintech providers in emerging markets must address."

Fintech alone won't solve sustainable problems in the developing world, of course, but it does have the potential to shift the needle in the right direction.

"Many things need to happen in conjunction, but fintech will play a part in bringing better payment and banking services to underserved populations, as well as in providing better and more affordable access to credit," Shiliashki says.

Emerging markets are typically unencumbered by legacy technology, enabling them to tap into fintech innovations that can help to accelerate access to finance and fast-track sustainable development. For example, Oyetayo points to Kenya's M-Pesa system, which enables users to send money through text messages. This has, in essence, leapfrogged bricks-and-mortar banking, he says. "In this way, fintech is disintermediating legacy financial players and helping to drive sustainability and financial inclusion in some of these markets."

Fintech also has the potential to change consumer behaviour and how people engage with the drive to improve sustainability and protect biodiversity.

"It can significantly change the game in terms of the kinds of choices that people are going to make. And by doing that, you redesign those markets," Mitha says.

While fintech firms are spearheading that change, traditional financial institutions will also need to play their part, especially from a funding perspective, he argues. "It's a whole system shift that's needed. It requires all members of the ecosystem, from the financiers to the actual businesses and the entire policy and regulatory space, to shift together. It's not just fintech companies alone that can create this massive change."

Against that backdrop, fintech firms and traditional financial institutions are increasingly cooperating to combine the former's tech expertise with the latter's customer reach. This trend stems from a realisation among the established institutions, especially banks, that "there's a gap that they need to fill, but they have neither the tools nor the capabilities to do it", Shiliashki says.

But the scale and reputation of traditional banks can give them a competitive advantage when building fintech products to attract the 2 billion or so adults who remain unbanked.

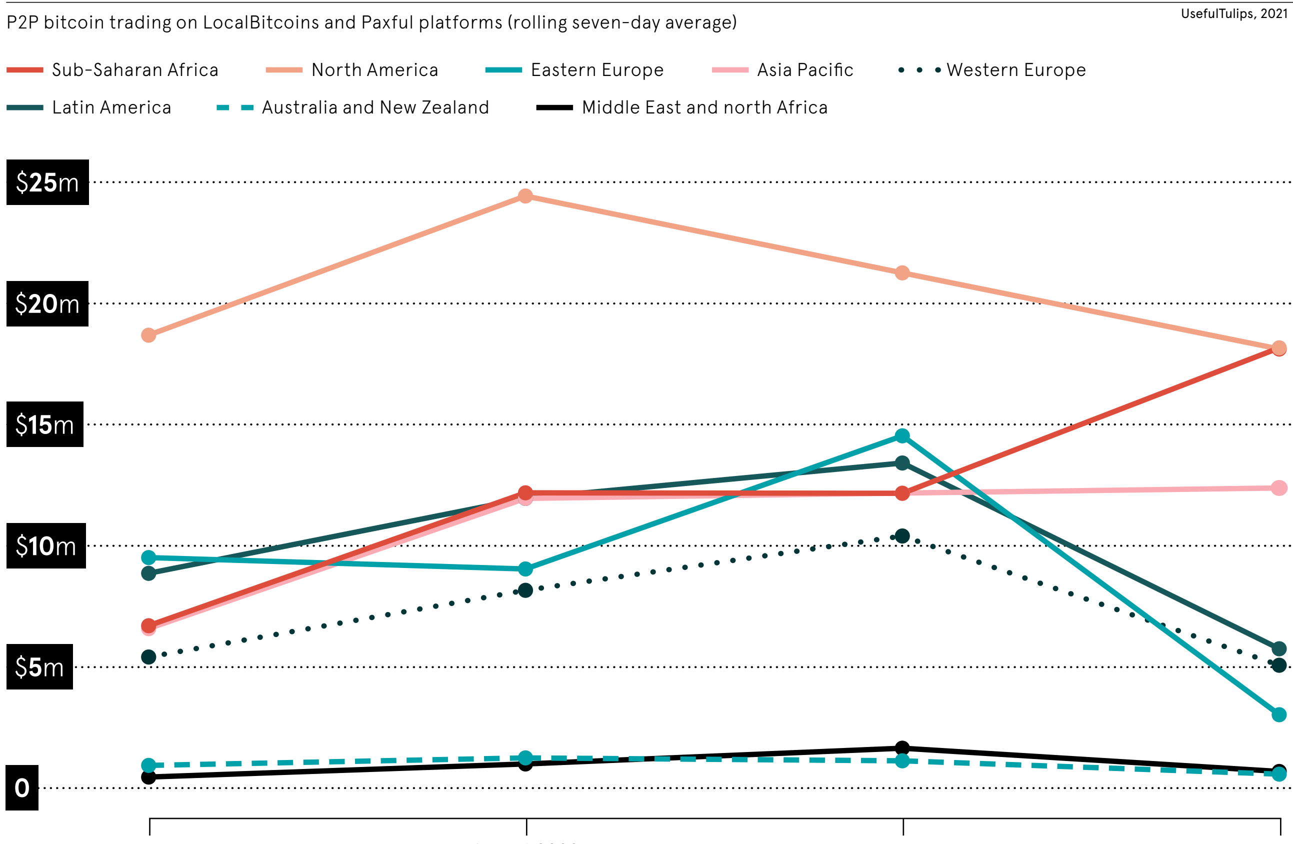
"With digitisation and fintech, we can reach those clients without a traditional bricks-and-mortar strategy. We can do it digitally with our app," says Alfonso de la Lastra, head of the sustainability strategy team at Spanish bank BBVA, which operates across emerging markets in Latin America. "That enables us to reach more customers and, because we have an asset-light business model, we can offer the same services at a very low cost, which is important when it comes to ensuring sustainability and inclusive growth."

In other words, fintech has become a game-changer in developing nations, improving access to finance while also aiding sustainable economic development.

PEER-TO-PEER CRYPTO TRADING IS BECOMING POPULAR IN DEVELOPING COUNTRIES

P2P bitcoin trading on LocalBitcoins and Paxful platforms (rolling seven-day average)

UsefulTulips, 2021



EMBEDDED FINANCE

Smooth operators: making friction-free finance part of the furniture

Thanks to fintech, any retailer could offer services such as loans at the point of sale. Given consumers' massive appetite for convenience, such a seamless model is a potential winner for all concerned

Sam Shaw

Department stores have been offering credit lines since JCPenney started to do so in the US in the late 1950s. And many supermarket chains have pegged a white-label banking service on to their back ends with varying degrees of success over the years. But now, with the aid of application programming interfaces, banking-as-a-service (BaaS) technology and so-called embedded-finance arrangements, everyone's favourite flat-pack furniture store can potentially offer a whole host of financial services.

In February, the investment division of Ingka – the Swedish holding company that owns Ikea – took a 49% stake in Ikano Bank, which already manages some of Ikea's credit products, such as its store card.

The furniture retailer has decided to offer "competitive and accessible financial services", which will enable "even more people to have better homes and, thereby, better lives", according to Ingka Investments' MD, Krister Mattsson. "As customers and retailers increasingly seek banking solutions with a strong digital foundation, our commitment to work even more closely with Ikano Bank during its digital transformation is a great opportunity for us to serve new and existing customers alike."

Ikano had actually started life as part of the Ingka group, but was spun off as an independent business in 1988. The bank has been operating in the UK since 1994, running other retailers' store cards and offering its own-brand accounts. When the deal was announced, the bank's CEO, Henrik Eklund said: "The closer partnership enables us to further accelerate our transformation to a fully digitalised bank."

Ingka has since bought a stake in fintech company Jifiti, with a view to installing the latter's point-of-sale buy-now-pay-later platform in Ikea stores.

Matthew Williamson, vice-president of global financial services at digital consultancy Mobiquity, describes these developments as the formation of a "collaborative ecosystem. In the past, you might have bought a sofa on credit from DFS, say, but the finance provider would be a third party. Ikea's increasing move into financial services makes sense, because it's about streamlining the customer's journey," he says.

Williamson explains that banks' strengths lie in data management and regulatory compliance, while Ikea's key attribute is its mass appeal. That, combined with consumers' mindset when furniture shopping, could naturally see the offering extend into home improvement loans, for instance.

Zoopla Property Group is developing a collaborative ecosystem along similar lines. This summer, RVU, part of the Zoopla group of companies that owns Uswitch, Confused.com and Money.co.uk, added online mortgage broker Mojo to its portfolio.

Bringing together property searches, mortgage lending, removal services and utility comparisons supports the group's plans to deliver an "end-to-end digital mortgage experience".

Explaining the acquisition, RVU's CEO, Tariq Syed, says: "Digitalisation has been sluggish in the mortgage sector, but we will have the teams and tools to supercharge the process and offer consumers the experience they deserve."

The logic behind the embedded-finance model is clear: it promises benefits for all concerned. The traditional finance institution gains credibility by piggybacking on a more trusted, popular brand, gaining access to that customer base in the process. The consumer brand can deliver a specific financial service to a captive audience without having to go through the pain of negotiating a banking licence. Each party plays to its strengths and the outcome is a slicker customer experience.

> Embedded finance is harder to see, but that's the way customers increasingly prefer it: so convenient that they don't have to think about it

One of Asia's leading ecommerce businesses, Bukalapak is an Indonesian online marketplace through which 13.5 million merchants and 100 million users have been enjoying the benefits of savings accounts and digital debit cards since 2020 through Standard Chartered Bank's BaaS platform. But the embedded-finance relationship can work both ways: Standard Chartered has also established an alliance with digital challenger bank Starling in opening its sustainable finance marketplace, Shoal, this month through innovation arm SC Ventures. This shows that even big banks can find BaaS a useful tool in certain circumstances.

Consumers are increasingly demanding the same high quality of digital experience from their financial service providers as they are accustomed to receiving elsewhere. Traditional banking institutions aren't yet best equipped to deliver this, but they do at least bring regulatory rigour.

Joan Medland co-founded Shoal on behalf of SC Ventures. She notes that, while Standard Chartered is based in London, the bank has no branch presence or operational infrastructure in the UK. Starling's technology, trusted relationship with the regulators and ability to attract skilled recruits meant that the venture could be up and running far more quickly than it would have been if built from scratch.

Apart from planned expansions into Europe and the Americas, the next steps for Shoal include adding selected "positive-impact partners" to offer other financial services, such as green investments and mortgages, Medland explains.

"We will demonstrate how we test their credentials and why they were chosen, making it simple for our users to understand. We would like to add products such as pensions in due course," she says. "We're also planning to build a retail space where customers can go into and save, invest or spend money. We'll be featuring sustainable brands there as well."

In September, consultancy OpenPayd reported the results of a large-scale survey of firms' attitudes to embedded finance. Nearly three-quarters (73%) of respondents said that they intended to start offering embedded financial services within the next two years.

In a recent blog, OpenPayd's founder, Dr Ozan Øzerk, described the financial element of these embedded services as "harder to see, but that's the way consumers and B2B customers increasingly prefer it: so convenient that they don't have to think about it."

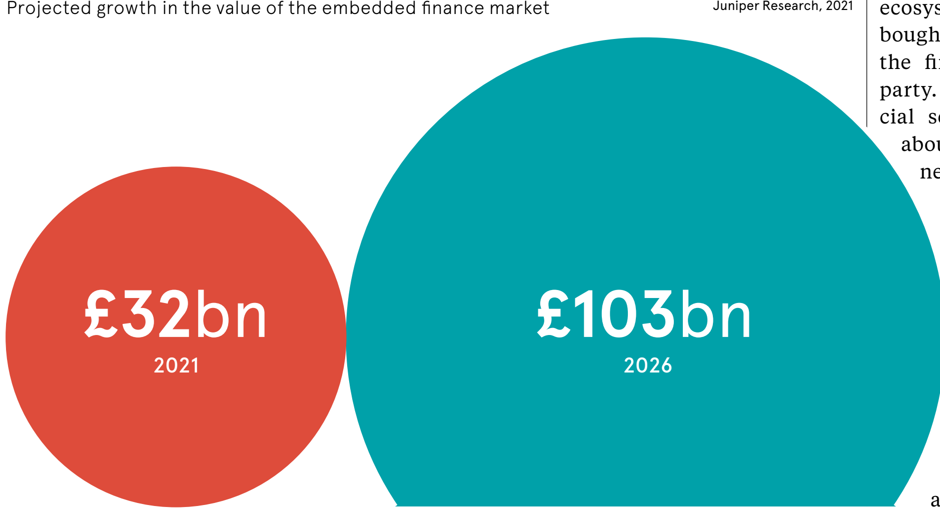
When Angela Strange, general partner at US venture capital firm Andreessen Horowitz, declared in 2019 that "any company could become a fintech company", Uber was one of the main examples that she cited. The business may have launched as a disruptor of the traditional taxi market, but the ride-hailing business now also offers credit cards, a digital wallet and an instant-payment service for its drivers.

"For Uber and Lyft, adding financial services has two benefits," Strange said in a conference presentation that's become highly influential in fintech circles. "These companies both spend hundreds of dollars acquiring drivers. Then they have to make up that cost through a margin on rides. It's much faster to make up that cost if they also have a margin on banking services. Furthermore, if I'm a driver, I am more likely to stay with a company that's also providing my financial services."

THE EMBEDDED FINANCE MARKET IS PROJECTED TO TRIPLE IN SIZE BY 2026

Projected growth in the value of the embedded finance market

Juniper Research, 2021



Commercial feature

Real-time payments saving real lives

Could real-time payments change the world? Throughout the Covid pandemic, FIS' RealNet platform has helped move money to those who desperately need it. In that way, real-time payments have literally saved lives

The resurgence of Covid-19 in 2021 was a sobering moment that saw the loss of thousands of human lives and left national healthcare systems overwhelmed.

In the spring, when that resurgence hit India, FIS leveraged its brand-new real-time payments platform, RealNet, to achieve something significant.

According to the World Health Organization, by 18 November 2021 India had recorded more than 35 million Covid cases, 500,000 deaths and healthcare bills mounting to 18,000 Rupees per day for those in need of a ventilator.

With the struggle playing out on global news outlets, it became clear that additional support would be needed to protect India's population of 1.3 billion. FIS took action using two of the tools in its armoury: its internal charity and its proprietary real-time payments system, RealNet.

Over half a million US dollars was sent by the FIS workforce through its internal charity – FIS Cares – set up to allow staff to make charitable donations directly from their monthly salaries to support vulnerable colleagues in India.

FIS was also able to contribute to healthcare costs, the construction of isolation facilities and the development of new healthcare solutions through its real-time payments system, RealNet. In this way, real-time payments literally saved lives in India.

Sending money to India would not have been as effective without RealNet, which utilises a full range of existing domestic and cross-border payment rails to simplify and speed up the processing, clearing and settlement of payments.

Traditionally, payment rails are very complex, with a network of approvals, compliance and logistical obstacles, meaning transactions will often take days to complete. Transferring money internationally is even more complicated, because direct connections between payers and recipients are not always available, so intermediaries such as wire services are used.

The kind of transaction that was enabled by RealNet would have taken between five and six days using traditional payment rails. But the situation in India required a speedier turnaround. By partnering with TransferMate, RealNet was able to deliver funds within 24 hours, which allowed FIS employees to afford medical bills and funeral services and support their families if a loved one lost employment due to the pandemic.

The pandemic proved that in times of crisis the ability to receive money instantaneously is essential. Of course, RealNet's applications extend far beyond providing assistance during crises. It can also be used by businesses and consumers on a day-to-day basis. As an example, companies using RealNet will be able to implement a system that pays employees for the day's work as soon as they clock out, thereby expediting workers' access to their wages. RealNet can also significantly improve the experience of refunds and disbursements, a continuing problem area for consumers and merchants alike, with card refunds usually taking at least a few days to process.

Despite all the benefits associated with a real-time payment infrastructure, it exists in only 56 countries. Some countries still lack a real-time payment scheme. In others, where the platform does exist, the traditional payment rails work like a patchwork system in need of an upgrade.

The upcoming launch of RealNet Central – a central infrastructure software that powers real-time payment clearing – will allow the implementation or improvement of real-time payment schemes across the globe, covering the complete process from initial infrastructure development right through to the transactional elements.

RealNet will connect all major payment schemes and infrastructures across the globe, but for this to work globally, all systems need to operate in unity. With the global real-time payment market set to grow to $26bn by 2023, it is clear to see the momentous change that RealNet will have on the future of real-time payment schemes. The practical success achieved by RealNet is a clear indication that getting money to those who really need it – in real time – could help change the world for the better.

For more information please visit www.fisglobal.com/realnet

OPINION

'The transition to net zero will be driven by finance and capital markets – and enabled by technology'

Fintech founders have always been purpose driven – motivated to make a difference, solve societal challenges and create a fairer and more democratic financial services sector.

Many point to the financial crash of 2008 as the catalyst for the fintech movement we see today. Startups and scaleups stepped in to respond to the needs of individuals and small businesses for affordable finance, helping to rebuild trust and resilience in the financial services system. Since then, fintech has played a key role in fostering greater financial wellness and financial inclusion in the UK and across the world.

In the face of an unprecedented global crisis, the Covid-19 pandemic, fintech has again stepped up to the challenge. It has played a key role in providing emergency funding for small firms. It has helped people manage their household finances, with a remarkable number of them doing this digitally, often for the first time. It has even played a part in getting food and goods to people in need.

Fintech firms are now focusing on tackling the planet's biggest challenge: averting a climate catastrophe. Across the UK, there are already dozens of sustainable fintechs helping consumers and businesses achieve net zero by funding green innovation, providing companies with better tools to measure and mitigate their climate impact, and by giving consumers the information they need to make better decisions.

The UK is quickly emerging as a worldwide leader in sustainable fintech – and for many reasons. In 2019, it became the first major economy to enshrine into law a net-zero emissions target. As for the country's private sector, almost half of the FTSE 100 companies have signed up to the UN's 'Race to Zero' campaign, which aims to achieve net zero carbon emissions by 2050.

Add to this the UK government's strong policy support the nation's position as a leading global financial centre – both in green finance and in technological innovation – and it is easy to see why many sustainable fintech firms are choosing the UK as their global base.

At Innovate Finance, my team and I are supporting net zero and sustainable development across the ecosystem, bringing together financial institutions and government to share insights and develop solutions. We are aiming to create the space for blue-sky thinking. The goal is to highlight existing innovation, champion policies that enable faster and more effective change and ultimately communicate best practice throughout the ecosystem.

Sustainability is no longer just about corporate social responsibility; it needs to be fully embedded into our everyday business models. Sustainability is fundamental to asset value, risk, regulation, customer demand, the preservation of markets and future growth. Our response to climate change must involve transforming the economy and transforming our current business models.

The good news is that transformation is what fintech is all about – providing solutions lies at the heart of the sector. The transition to net zero will be driven by finance and capital markets and it will be enabled by technology and data. Financial markets need to be transformed, and this is what fintech firms do: apply technology and data to transform financial markets in ways that meet societal needs.

The opportunity exists for the UK to be the global centre for net-zero financial innovation. We can lead the way in a rapidly growing global market by harnessing the expertise, the drive, and the technology of the financial innovation community to create a more sustainable and equal future for all.

Janine Hirt
chief executive
Innovate Finance

DIVERSITY AND INCLUSION

Closing the gender gap in fintech firms

The fintech sector has an equality problem. But some companies are making significant progress, raising the bar for the wider industry

MaryLou Costa

Fintech firms have a poor record when it comes to achieving gender equality at work. But the fast-growing sector has a unique opportunity to address the problem, with a number of companies seizing the moment.

The statistics make for grim reading. For example, women make up barely 11% of board members and 19% of senior executives, according to the *Fintech Diversity Radar 2021* report from Findexable. The finance industry as a whole suffers from a 25% average pay gap between men and women, with the fintech sector (31.5% in 2019) a particularly poor performer.

The main cause? Financial services have been "built on a historic system that isn't fit for purpose for a modern society", says Michaela Jeffery-Morrison, whose company, Ascend Global Media, hosted the recent Women of Silicon Roundabout conference. She believes that fintech firms have a unique opportunity: by addressing their own inequalities, they could help to develop a more equal society by creating wealth-building tools and services for a wider range of people.

"Addressing the talent pipeline is imperative to improving areas such as the gender pay gap," Jeffery-Morrison says. "While the industry needs to address the reasons why minority groups are disadvantaged in the workplace, it's also crucial for the future workforce to rebuild systems that they are kept out of in the first place."

A handful of companies are breaking the mould, demonstrating how tangible efforts can result in real change. For example, challenger bank Monzo has slashed its gender pay gap from more than 20% in 2017 to 4% today. It attributes its progress to numerous instrumental changes in the business.

> **Addressing the talent pipeline is imperative to improving areas such as the gender pay gap**

It's one of the reasons why Sujata Bhatia joined Monzo as chief operating officer in June 2020, aiming to drive that 4% down to zero as part of Monzo's commitments to HM Treasury's *Women in Finance Charter*. These included a target to increase the proportion of female members on the bank's board to 40%. It's now at 44%.

Monzo examines pay and promotion through a diversity and inclusion lens, Bhatia says, "looking at whether the right level of diversity is coming through".

While the bank has diverse hiring committees and runs a structured process, it's also willing to experiment, she adds.

"For example, our head of writing knew that he needed to improve the diversity of his team, so he made a personal commitment to doing so. One of the key actions he took was to rewrite job descriptions, taking away some of the classic filter criteria containing certain educational biases. He assembled a diverse interviewing panel and ended up making two diverse hires. The process took a bit more time, but it yielded positive results."

It's important for companies to encourage their employees to enact change in all of the areas they can feasibly influence, in terms of gender equality and more broadly. That's one factor behind the rise of employee resource groups (ERGs). These are employee-led voluntary bodies connecting people with similar backgrounds and experiences to help foster a more diverse and inclusive workplace by providing personal and/or career-related support. ERGs can be found in 40% of all firms, according to Sequoia's *Employee Experience Benchmarking Report 2021*.

Buy-now-pay-later company Clearpay has established two ERGs, one for women and one for the LGBTQI+ community, as part of its target for 40% of senior executives and directors to be women by 2023.

It's early days, says Clearpay's director of diversity and inclusion, Bindy Edelman. The first steps have been to attract interest; create planning teams to establish the groups' purposes and priorities; and build internal communications channels. So far, Clearpay's ERG for women has held a negotiation workshop, while its LGBTQI+ ERG has worked to raise awareness of events such as the Transgender Day of Remembrance, an annual commemoration of the victims of transphobic murders.

Sponsorship from senior directors helps to give ERGs visibility and credibility, engaging these leaders as active role models and champions of ERG causes, Edelman says. It also enables them to continue to develop themselves, learn from others and contribute to their success. They can also support the drive for greater diversity and inclusivity more broadly.

"Leaders who choose to be an ally of an ERG often appreciate the impact they can have by using their position in the organisation to bring issues to the fore and also engage with other leaders on that ERG's activities," she notes.

Bhatia believes that the combination of top-down policy-setting and empowerment at an individual level will "really move the needle. When I stand up in front of the company, I talk about our goals – and diversity and inclusion is a big headline within that message."

The other key factor is a "cottage industry of people coming up with their own solutions", she says. "Pushing from the top alone is never going to succeed if people don't really believe it and they're not able to find their own solutions and their own ways to contribute."

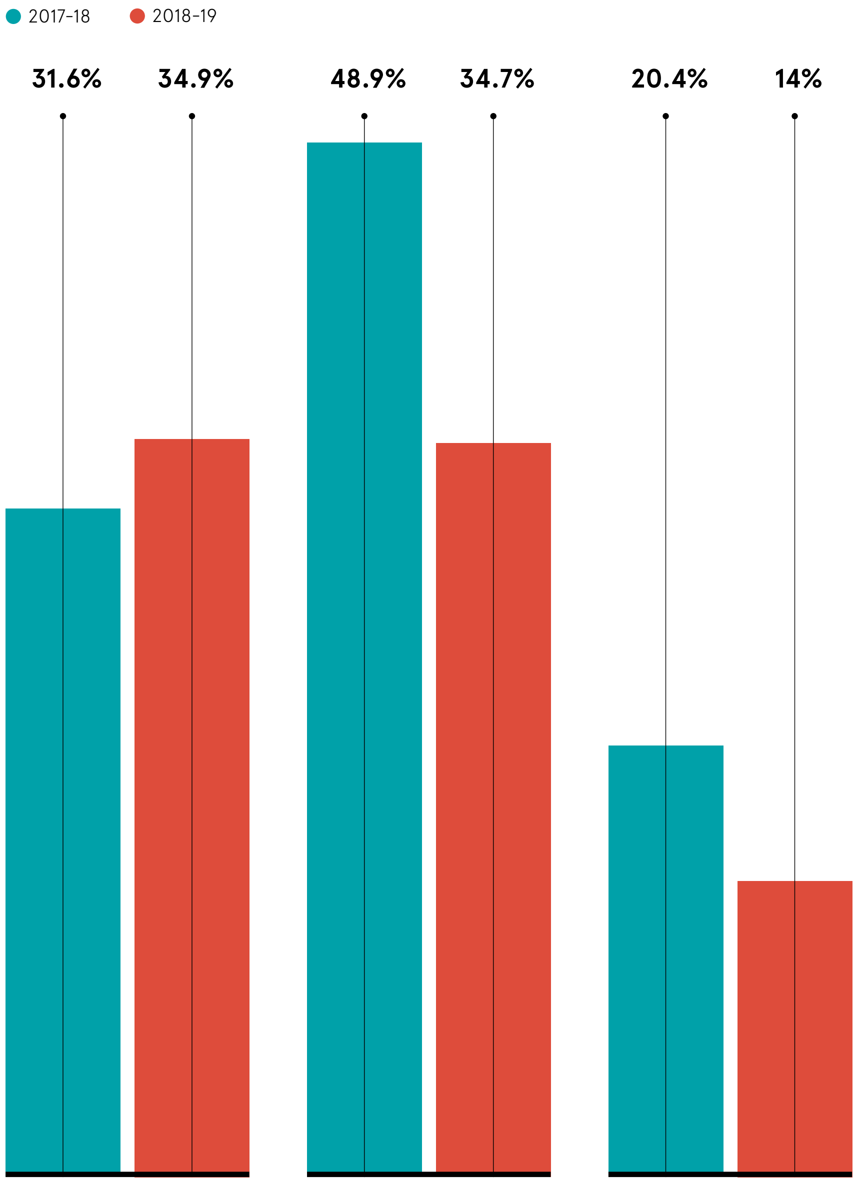
The "big, sweeping work" is under way according to Bhatia. It's now down to "nuances" in terms of refining internal action to further equalise gender representation and pay across Monzo – a good example for fintech firms at large.

MIND THE PAY GAP

Median gender pay gaps of selected disruptor banks in the UK between 2017 and 2019

Gov.uk, 2019

2017-18 | 2018-19



Commercial feature

AI-driven contact centres serve customers on their terms

Purpose-built, AI-based contact centres can help financial services firms overcome legacy challenges and better meet the evolving expectations of banking customers

Consumers have become more demanding of their financial services providers over the past decade, expecting banks to meet them where and when they want to interact through their preferred channel and device. When it comes to the interactions themselves, they expect to be served not only quickly but in a personalised and contextual way that doesn't require answering the same questions repeatedly while being passed through different channels and agents.

While these are firm expectations of contact centres across all industries in the digital age, customer emotions often run deeper when dealing with banks - the guardians of our money and day-to-day transactions. Consumers increasingly want banks to not just provide financial services but also advice, looking out for their overall financial wellbeing.

There's a lot at stake. The days of staying with a bank for life are dwindling, while digital-first banks have made the ability to switch between financial services institutions seamless and easy. In a recent global study by Talkdesk, almost two-thirds of financial services customers said a single poor customer service experience will negatively impact their brand loyalty, presenting a stark and immediate threat to incumbent banks.

"Banking customers today are no longer sticky," says Rahul Kumar, director of financial services strategy at customer experience solutions firm Talkdesk. "The proliferation of digital technology means our interactions with money are now constant; it's embedded in everything we do. And if something goes wrong, people ultimately expect their bank to be available, proactive and able to resolve issues promptly. If that experience is not delivered, they can very quickly take their business somewhere else, which is a real threat for banks."

Seven in 10 customers are more loyal to financial services companies that are actively investing in customer experience and accelerating their pace of innovation, the Talkdesk research found. However, expectations are failing to be met, in large part because banks are using traditional contact centre solutions not built specifically for financial services firms.

> **Consumers want everything now, but banks aren't able to deliver that experience through their current contact centres**

63%

of customers agree a single poor customer service experience will negatively impact my brand loyalty

7in10

customers agree they are more loyal to companies that invest in strengthening their customer experience

8-10x

higher estimated cost of servicing a customer with an agent than the cost of servicing a customer with AI

Given banks have complex ecosystems supporting complex banking processes, it has become increasingly difficult to adapt to customer expectations that evolve in real time. The instant gratification desired by consumers today cannot be delivered by legacy technology ecosystems, leaving incumbent banks struggling to keep pace with the customer experience offered by the nimble, digital-native upstarts that have emerged in recent years.

"Consumers want everything now, but banks aren't able to deliver that experience through their current contact centres," Kumar says. "Legacy technology is a key inhibitor to innovating quickly and delivering the contact centre experiences that customers expect."

To help financial institutions overcome these barriers, Talkdesk has created the first cloud contact centre solution built specifically for banks. Talkdesk Financial Services Experience Cloud for Banking simplifies the complex technology ecosystem that has been developed in large financial institutions over the years, offering a unified, modern, secure and intelligent platform that is purpose-built to support cross-channel customer journeys in banking today.

With the solution, banks can orchestrate a number of modern customer journeys. They can offer a white glove experience for lending using Talkdesk video chat and co-browse capabilities, for instance. They can use AI to not only automate simple interactions but also proactively engage customers in contextual interactions. They can also elevate the experience of their agents by providing a single pane of glass that provides them with all the tools and information they need to deliver the best customer experience, while driving productivity and efficiency for the banks.

"These are all facets of what the Talkdesk platform enables, purpose-built for banking," says Kumar. "And as we are a turnkey solution, offering all of these capabilities and integrations into back-end systems, we can significantly accelerate time to value for a contact centre investment by giving financial services companies everything they need in a single system."

AI is set to be a central enabler of the best customer experiences in banking. Contact centres are bogged down by thousands of routine queries and requests that are easy to deal with but dominate the valuable time of agents, such as questions about account balances, recent transactions or resetting passwords. Using AI technology to automate these simple interactions elevates the customer experience by facilitating fast self-service.

When more complex interactions are passed onto human agents, AI is there again to improve interactions through contextual analysis. This could involve giving agents tips and guidance, real-time prompts or access to relevant information based on the intent of the conversation. The result, again, is that issues and enquiries are dealt with much faster.

For banks, the value is not only in the improved customer experience and the knock-on impacts on customer churn, but driving cost efficiencies too. The cost of servicing a customer with an agent is estimated to be around eight to 10 times higher than the cost of servicing a customer with AI. Even when human agents are required, their ability to service people faster, supported by AI, reduces average handling times, and therefore costs, further.

"The future of banking is going to be more commoditised," says Kumar. "Newer business models are coming into play, such as banking as a service, embedded finance and marketplace offerings, which will only lead to even more complex ecosystems with multiple partners playing a role in orchestrating a single customer journey. Our goal is to help simplify and deliver the best customer experience, even in these complex ecosystems.

"We also believe the future of customer experience in banking is not just digital, it is hybrid. We expect a clever mix of technology and people to be the most prevalent interaction model for banks in the years ahead. Our ability to deliver a cohesive, connected experience in this hybrid model is key. We continue to make investments in AI to make it more predictive and improve the self-service experience, but we're also investing in ensuring the agent experience - delivering those customer conversations - is seamless, fast and secure."

For more information, visit talkdesk.com/banking

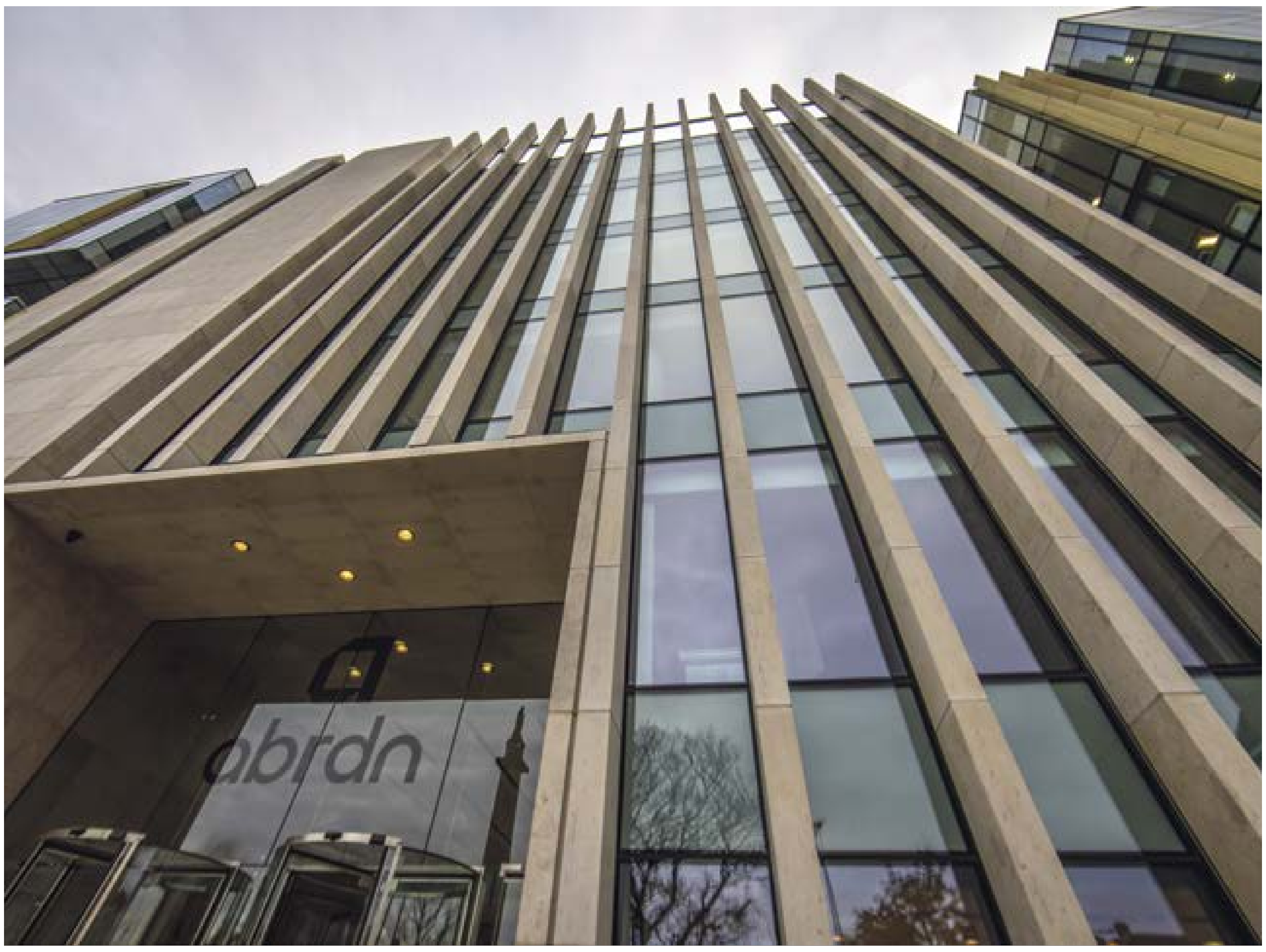
talkdesk®

CUSTOMER EXPERIENCE

Trustworthy tech – a big bank balancing act

With more branch closures on the horizon, retail banks are investing in data analytics and machine learning to personalise the increasingly remote customer experience

Virginia Matthews



Money may be the root of all evil but, as the public's negative reactions to the slew of high-street bank closures around the UK have shown, our relationship with it tends to be highly emotional. So, as banks embrace digitalisation, they would do well to keep consumers' perceptions, as well as their needs, at the heart of their approach.

In the 24 years since Nationwide started the country's first internet banking service, apps, video calls, passwords and bots have all but replaced cosy in-branch chats with human relationship managers.

Yet, while the Covid crisis has accelerated their adoption of digital technology, the banks' failure to regain the trust they enjoyed before the global financial crisis of 2007-08 weighs heavily on a sector that sees the personal touch as the holy grail.

Stung by the increasing popularity of the hi-tech, low-fee neobanks, particularly among young consumers, the so-called big four – Barclays, HSBC, Lloyds and NatWest – are resorting to fintech acquisitions and partnerships in an effort to catapult their businesses into the digital-first arena. But functionality alone, however impressive, is not enough when it comes to something as personal as our money. To remain relevant, the incumbents must match the speed and convenience offered by their challengers while simultaneously delivering a bespoke service that at least equals that offered by the local branch model.

> **The big four have problems with inertia and a lack of innovation**

Take-up of HSBC's mobile app has doubled over the past four years. More than 95% of the bank's transactions are now completed through digital channels. But tech-driven hyper-personalisation will not be a quick fix for retail banking, according to the bank's UK head of digital operations Matt Turner.

"Building loyalty and emotional connections is still in its infancy in our industry, particularly in mobile banking," he observes. "When it comes to delivering the types of personal, relevant experiences that generate loyalty and advocacy, we aren't even scratching the surface."

Turner believes that developments in personal financial management software – the features that give you a bird's-eye view of last month's spending, for example – will eventually help to plug the gap between the touchy-feely human service of the past and the digitally led bells-and-whistles delivery of the future.

"Whether we're talking about enabling customers to boost their savings or about raising people's financial literacy overall, the goal is to deliver experiences and messaging with genuine personal relevance. And, yes, we have much more work to do to make that happen," he says.

Short of offloading those customers who refuse to go digital, the big banks have little choice but to try to please everyone in an omnichannel world. Yet balancing the needs of early tech adopters with those of customers still yearning for counter service is proving a thorny problem.

Standard Life Aberdeen's relaunch in July as abrdn in a bid to create a "modern, agile, digitally enabled brand" prompted a clutch of mocking headlines about the asset management firm's attempts to get down with the kids.

Noting that the free publicity more than compensated for the negative coverage of abrdn's missing vowels, Charles Wright, global principal at branding agency Wolff Olins – which worked on the campaign but didn't come up with the name – believes that high-street banks need to tread even more carefully.

"Everyone recognises that the big four have problems with inertia and a lack of innovation," he says. "And, although swallowing fintechs like crazy – which some of them are certainly doing – looks like the obvious solution, that could stifle the fresh thinking that they'll require to satisfy their customers' increasing expectations."

> **The only real value that data has is in helping us to improve our customer service**

Describing the big banks' digital experience as "clunky", Wright focuses on their bureaucratic foot-dragging for particular criticism. "When you compare the one to two hours it typically takes to open an account at a challenger with the one to two weeks it can take with a traditional bank, you can see a clear disconnect," he says.

Muddled fee structures, excessive security protocols and "gimmicks" are also in his line of fire: "If the bricks-and-mortar players can start to give their customers the speed, flexibility and transparent fee structures they're demanding, I will actually start to believe all the stuff they are claiming about 'hyper-personalisation'."

Abrdn's investment director, Iain Pyle, takes a different view. He stoutly defends the big four's record on digital banking, adding that their tech-led transformation can only improve over time.

"Banking is a customer-service industry at heart and, while it may have been a little slow in getting to grips with some digital advances, it's clear that people do now trust the technology."

Pyle doesn't see "a great gap between what the traditional banks and the new banks are offering in the digital arena. And, while the big players are hampered by the network infrastructure, they have the capital and resources to get this right over the long term for all types of customer."

The *Edelman Trust Barometer 2021* report indicates that our trust in banks and

Commercial feature

Finding the news you need in a world of noise

News can distract and slow down decision-making if digested in the wrong way. Leveraging news to power faster, better informed decisions requires humans and machines to work in tandem

News has long been critical to business decision-making. Not only does it help inform decision-makers as to why markets are moving, but often it is the reason for market movement in itself. As a result, it is essential that business leaders are able to access accurate, up-to-date news content from trusted and reliable sources around the world.

The evolution of news over the last two decades has had both a positive and negative impact on this access. On the one hand, the internet has accelerated the pace of news, to the extent that news now unravels in real time, and it has democratised access. On the other hand, this has created a noisier and more confusing news environment, where it is hard to differentiate between valuable information and, at the extreme end, pure fabrication.

For business leaders who rely on news content, this has created significant challenges. Markets move fast and, as such, often require fast decision-making. While the internet will very quickly provide you with the information that search algorithms think you want, market participants have little time to decipher whether that information is relevant and accurate before needing to act.

"With news coming in every direction, users are often bombarded with information, opinions, speculation and sometimes misinformation," says Michael Salk, managing director at Moody's Analytics. "Where we used to have a small list of go-to sources, that has now expanded exponentially as users are getting news constantly streamed to their desktop and devices. There are so many sources of news, but how do you determine what's relevant?

> **Technology should speed up decision-making, but it's having the opposite effect**

"Technology should speed up decision-making, but it's having the opposite effect. And not only because of 'fake news' and the like, but because search and news aggregation algorithms don't tag intelligently enough. Consider articles written for a newspaper such as USA Today, for example. The newspaper is owned by Gannett and oftentimes its news stories are tagged on internet sites as being about Gannett, but clearly not every story bylined to USA Today is about its parent company. Yet we often see people will search for genuine news about Gannett Co., Inc. only to have to trudge through stories that have nothing to do with Gannett the company."

Advances in machine intelligence mean technologies such as artificial intelligence and machine learning can now not only rapidly acquire, aggregate and distribute news content, but also ingest and enrich it. However, relying on technology alone to push the most relevant and timely news content to decision-makers is risky. Instead, organisations are increasingly embracing a 'hybrid' approach which combines the capabilities of these technologies with human-driven curation to ensure content is objective and consistent.

Moody's Analytics is trailblazing this hybrid approach. Its NewsEdge solution, powered by AI and machine learning, ingests over 600,000 articles from real-time news sources, and the best of the business web and social media each day, to deliver relevant, trusted information to decision-makers in sub-seconds. The technology is supported by a team of library scientists and data scientists who monitor and enrich the process.

"We add value to the news by enriching the content with actionable signals so our users can anticipate and react to market-impacting events," says Salk. "We categorise and tag each story for entity, topic, sentiment and event-based indicators within sub-seconds for real-time decision-making. This process is continuously monitored using the latest AI and human insights to manage and enhance our solutions.

"Being part of the Moody's ecosystem means we can provide a 360-degree view. Our Master Data Management solutions cover over 400 million entities that can help firms reliably identify the entities with which they do business, and our news solutions provide insights about those entities spanning the past 20-plus years, enabling us to train models with a deep learning data set. Market participants will always look to news to inform their actions, and we combine news, data and models to provide insights that enable timely, high-quality decisions."

For more information, visit newsedge.com

MOODY'S ANALYTICS

other financial institutions has yet to recover from the global financial crisis. But, luckily for the big four, what we say and do often differ. Although neobanks enjoy comparatively high recommendation levels, relatively few customers have switched their main accounts to them, suggesting that, while they're fine for storing bitcoin or side-hustle earnings, say, we don't trust them with our salaries.

Some challengers are said to be operating on wafer-thin margins. The notion that they are likely to be swallowed by bigger players or simply go bust serves only to compound our reluctance to break away from more familiar names.

While trust may have dwindled, most people – aside from those who prefer to hoard their cash under a mattress – would probably agree that their bank can be relied on not to lose or misappropriate their money. Yet consumers' faith is no longer a given when it comes to the far more complex notion that banks can be trusted to actively protect their long-term financial wellbeing.

So says Fred Burt, founder and CEO of Olix Consulting, whose recent clients include a fintech firm and other financial services companies.

"We all need to feel in control when we are managing our money. When it comes to relinquishing that autonomy to algorithms, many people, even techies, have concerns about ethics as well as day-to-day security," Burt says. "If you happen to be the type of customer who feels that they're being shoved into using the latest app because the bank no longer wants to keep the well-used local branch open for reasons best known to itself, you're likely to feel anger and distrust."

In Turner's view, the surviving branches will ultimately be geared towards aiding more considered purchases, such as investments and mortgages, or handling events such as bereavements, which require more sensitive, face-to-face management.

Although access to a human assistant will, he says, continue to be an option for those who require it, the main factor influencing HSBC's drive towards hyper-personalisation will be wholly digital.

"I very much see banks being part of a broader financial marketplace in the future. It will be one in which a selection of third-party products and services will be made available across a far broader range of consumer needs," Turner says.

While he acknowledges that Facebook has serious trust problems of its own, Turner observes that the social media giant "has given us an idea of what can be done in terms of successfully personalising people's experiences of a platform".

From fully customised mobile alerts and in-app notifications to tailored prompts and nudges – perhaps to increase savings towards next year's holiday or switch to a better utility deal – the bank of the future, he believes, will take a far more proactive role in our financial lives.

"As long as all the necessary consents are sought and given, the service we offer will, through digitalisation, become more relevant to people's lives than ever before," Turner predicts.

In this brave new world, banks will have to ensure that their tech supports customers and doesn't pose problems. For example, they must guard against automated systems that encourage us to take on more debt than we can afford or to make investments that don't meet our needs.

"It's all too easy", Wright says, "for newly digitalised banks to fall into the trap of using their platforms and their access to vast amounts of personal data to indulge in mass cross-selling, but this would simply erode trust still further."

However all-encompassing the future business model proves, knowing that your bank can be trusted to act in your best interests is essential in rebuilding trust. But, when it comes to delivering that promise, humans are only one of the options, according to NatWest, which has more than 7.5 million personal customers.

The first banking chatbot to enter service in the UK, Cora is NatWest's "digital human". This AI-powered system deals with a large proportion of online queries, including requests for new PINs and loan payment holidays – tasks previously performed by human staff. Cora has been trained to recognise human emotion and can automatically transfer more complex questions to a human assistant through a feature known as deep linking. Yet the bank's approach to digitalisation overall is deliberately cautious, according to its chief digital information officer for retail banking, Wendy Redshaw.

"I know that some customers see beautiful digital products out there and they want their bank to replicate these, but everything we do digitally is based on human-centric design and is thoroughly researched and piloted with a range of customers before it's rolled out," she says.

Redshaw agrees that the competition to offer the best digital experience in the industry has become intense, in terms of both keeping pace with the other big players and seeing off challengers. But physical branches are an integral part of what NatWest offers, she stresses.

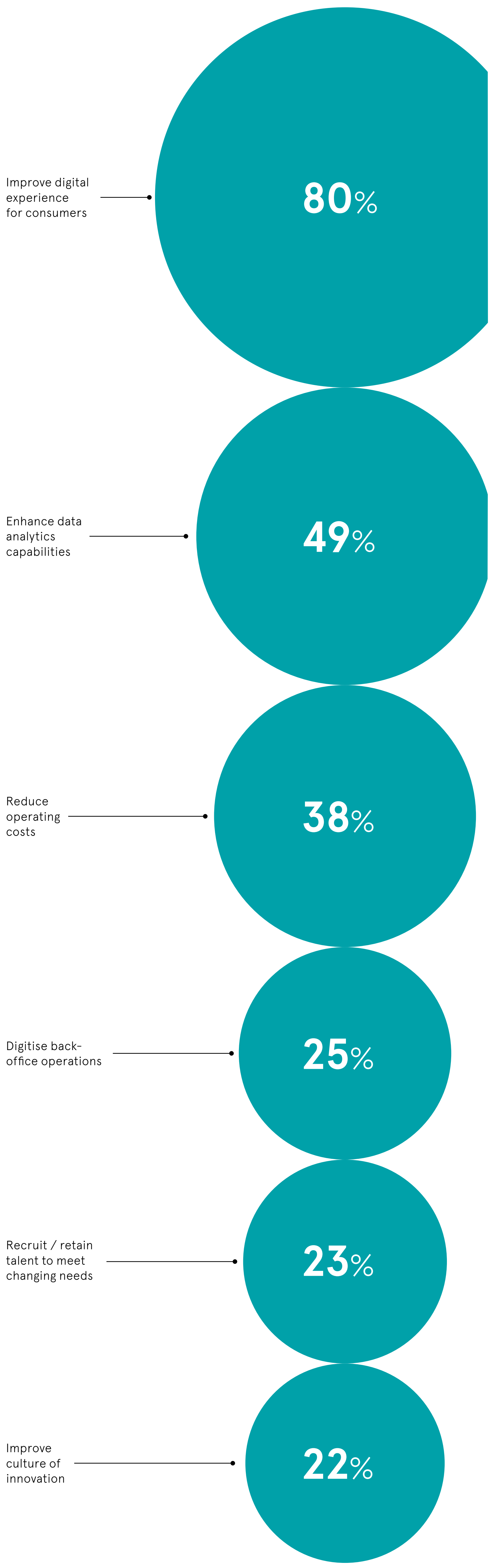
"We are very conscious of the need to offer a whole range of services to customers who have very different attitudes to digital banking. So we provide a continuum, from branches through to digital services, with both feeding cohesively into each other," Redshaw says.

Cora, she adds, "will become a genuinely trusted friend" over time. But, for now, "humans need humans". The bank handles 15,000 video calls every week, including on-demand conversations for when the matter is urgent.

Although the need to rebuild trust is a key priority for the banking community, Turner believes that engendering digital confidence is a more pressing concern.

BANKS FOCUS ON THE DIGITAL CUSTOMER EXPERIENCE

Strategic priorities for financial services organisations worldwide



The Financial Brand, 2020

"While more work needs to be done as regards trust, I think the problem is more to do with a lack of ease with using internet banking," he says. "Making people more comfortable using digital tech is something I can very much help with."

Ensuring that digital banking is as user-friendly as possible starts with good data, including that on behaviour across different platforms. But "the only real value that data has is in helping us to improve our customer service", Turner says.

The big banks have had many successes in modernising, but they still have much work to do to match the service and value for money offered by their digital-only rivals and are still playing catch-up with fintech firms, according to Wright.

"They'll weather the storm because they are big and old, but they must accept that they no longer set the customer experience benchmark, because that's being done by the likes of Netflix and Uber," he says.

If he were advising a big bank today, Wright would warn it to pay more attention to security procedures, particularly for customers logging in on their computers. The sheer number of passcodes and PINs involved often give the lie to banks' claims about accessibility.

"I'd advise it to make it as simple, affordable and convenient as possible – and to resist the urge to cross-sell," he says. "That is how you build trust."

96%

of consumers are aware of at least one fintech company

2 billion

unbanked people could be reached through mobile banking

2 in every 3

financial transactions are conducted online

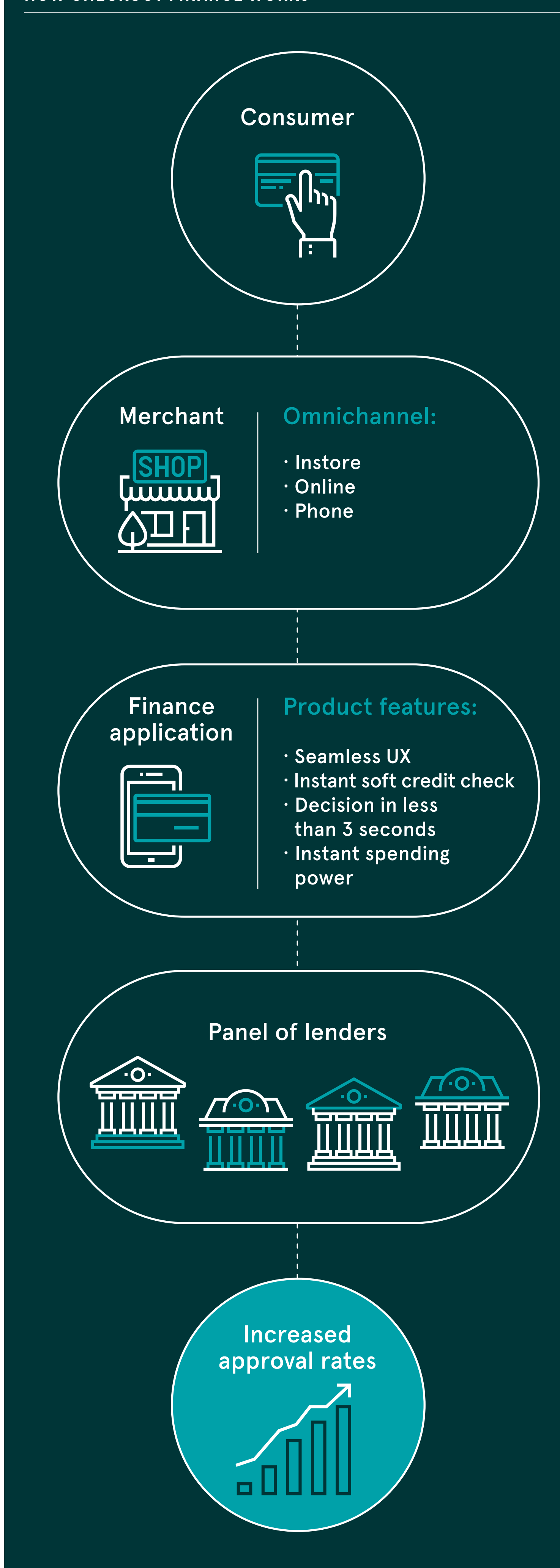
Intellias, 2020

Commercial feature

Retail finance solutions and the next wave of change in payments

In a fintech industry that is growing rapidly, checkout finance is innovating to improve the experience for both retailers and customers

HOW CHECKOUT FINANCE WORKS



Consumer payments are one of the most exciting and fast-moving areas in fintech today. Even by its own impressive standards, the sector, which is worth close to $2tn (£1.5tn), is experiencing radical change. This is driven by a range of factors including shifting retail habits, innovation, the adoption of digital commerce and, more recently, the Covid pandemic. Responding to these trends poses challenges but also creates opportunities that fintech firms, particularly in the checkout finance space, are moving swiftly to address.

The pace of change is truly unprecedented. As a recent McKinsey report put it: "What is most significant about this change is not so much the importance of the payments business or the kinds of trends transforming the market, but the speed at which the change is occurring. Change is taking place four or five times faster than before. This puts all actors on the payments landscape under pressure to transform and adapt."

Checkout finance represents among the most significant transformations to the payments landscape. This is likely to accelerate with the emergence of more convenient purchasing experiences and the rapid growth in ecommerce, which is predicted to increase up to 60% by 2024, reaching an estimated $7.3tr (£5.4tn) globally, according to forecasts from media agency GroupM. It is fair to say that checkout finance is one of the star players in this tectonic shift in the payments sector.

But for a service that unlocks incremental sales and can improve convenience, the one size fits all approach has its limitations. Early buy-now-pay-later (BNPL) offerings in the UK have made clear inroads into conversion using straightforward single lender products. But as in so many other areas of fintech, there will come a time when explosive growth is no substitute for further optimising underlying acceptance for long-term success.

Firms have embraced innovation to continually make things easier for consumers and, therefore, to increase checkout impact for merchants. But less attention has been paid to boosting flexibility and coverage of financial products to address different consumers and basket sizes, accelerating integration capability, broadening sector reach and making everything available through one platform.

Driven by innovation, mainstream BNPL payment products are realising the benefits not previously achieved with traditional cash and credit cards, potentially even shifting the distribution and mechanics of credit itself. In the UK alone, spending via this method is forecast to rise from £9.6bn in 2020 to £26.4bn in 2024, according to data from Worldpay. Checkout finance products are increasingly expected as standard; already almost 9.5 million UK consumers avoid retailers who do not offer BNPL at checkout, found research by personal finance comparison company Finder.

The next wave of innovation will offer whole-of-market aggregation across short-term BNPL, and higher value and longer-term instalment finance, as well as prime and near-prime lenders, and credit providers with different sector appetites. This will elevate conversion beyond experience alone, and into an 'every basket' promise. This is true of the platform offered by Deko and our vision to further transform the BNPL market, powered by innovative multi-lender, multi-product capability that unlocks buying power for consumers at the click of a button.

Deko's powerful multi-lender technology rapidly and automatically matches customers with a marketplace of lenders, increasing the rate of approval among applications for finance at the checkout. This boosts confidence and acceptance rates across a broad range of basket sizes.

In fact, Deko's offering gives retailers an average 24% boost to checkout conversion (versus single providers) and achieves more than 98% automated decision-making when matching customers with lenders. It also offers merchants integration within 24 hours.

Alongside a focus on simplicity is a commitment to flexibility. Deko's multi-product offering means that retailers across all sectors can choose finance options that are best suited to their individual operations, with basket sizes that range from £25 to £25,000. The platform is omnichannel, offering solutions for in-store, online and mobile payments.

> "Deko's offering gives retailers an average 24% boost to checkout conversion versus single providers

The payments industry is abuzz with creative energy. The phenomenon of checkout finance has marked a permanent change in the way both retailers and customers view payments. BNPL is a major shift in behaviour based around choice and flexibility. Faced with this challenge, it is clear that traditional payment methods no longer hold all the cards.

Now innovative platforms are striving for the ultimate alchemy – harnessing this buoyant new trend while optimising both customer experience and, for the first time, coverage and acceptance too. Checkout finance aggregation is poised to take fintech to a new level, providing a unique technology that offers tailored, conversion-focused solutions to retailers and consumers alike.

For more information visit dekopay.com

£9.6bn

the amount spent using BNPL services in the UK in 2020

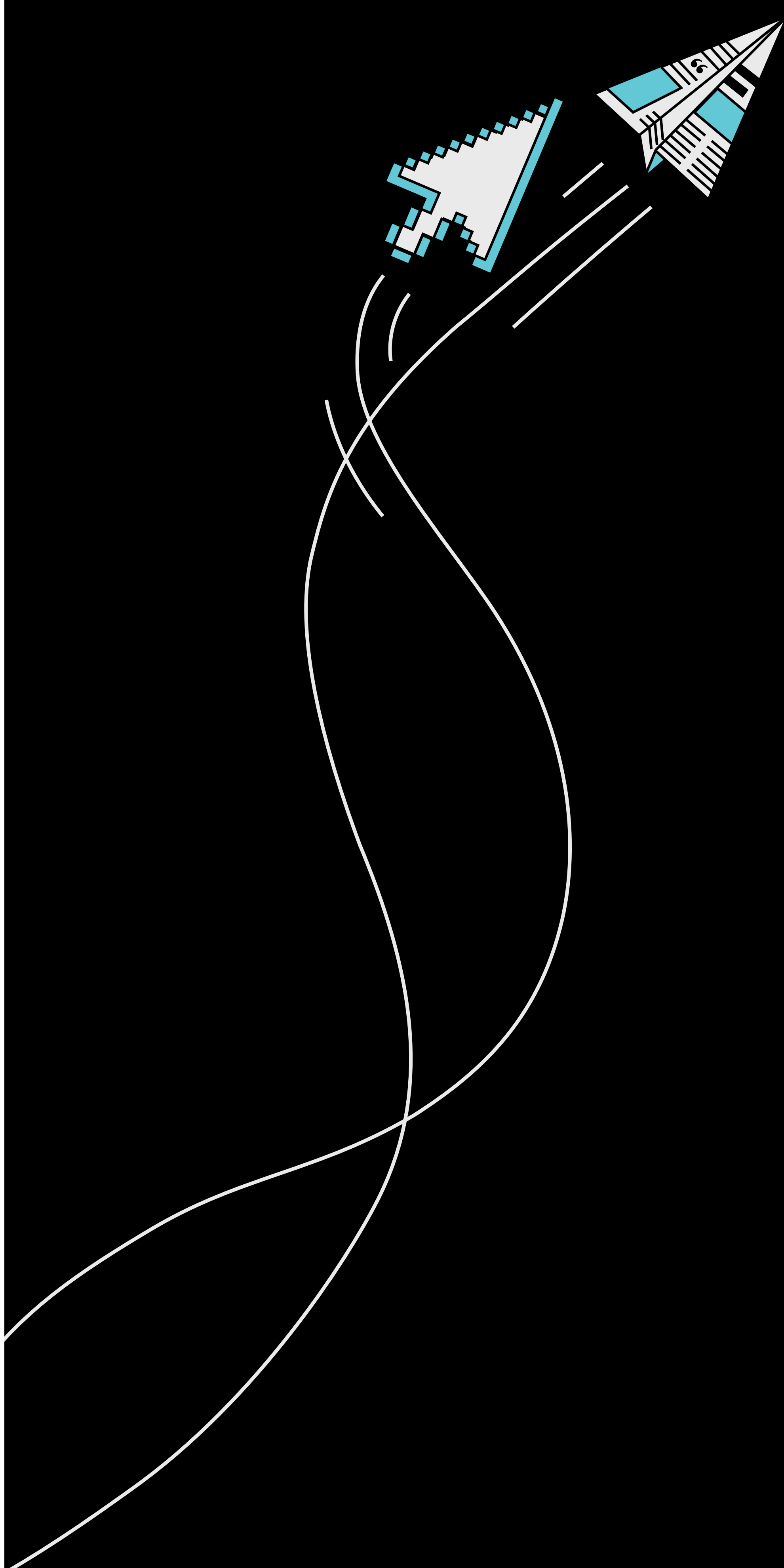
275%

the projected increase in annual spending via BNPL services by 2024

9.5million

UK consumers avoid retailers that do not offer BNPL services

Finder, 2021



STARTUPS

If you build it, will they come?

Creating a banking business from the ground up is, arguably, more straightforward than it's ever been, but plenty of challenges still await potential new entrants to this market

Finbarr Toesland

The financial services industry is becoming an increasingly welcoming place for challenger banks seeking to shake up the system. Reforms published in 2013 by the Bank of England and the then Financial Services Authority lowered entry barriers to the UK banking sector, encouraging dozens of newcomers to start trading.

Valentina Kristensen is the director of growth and communications at OakNorth, a bank established in 2013 to serve small and medium-sized enterprises.

"Our experience with the regulators has been very, very positive. They're forward-thinking and innovation-friendly," she says, citing open banking and regulatory sandboxes as key developments that have made the banking ecosystem a safer place for innovation.

A more conducive regulatory framework is not the only factor that's fuelled the upsurge in neobanks. Falling IT costs, owing to the advent of cloud computing, and the ever-increasing number of digital-native consumers have both played their part too. Unlike conventional banks, which have costly physical branches and legacy systems to maintain, challengers have been able to use the most effective technological tools to best serve their customers from the get-go. Putting the right systems in place can give a startup a crucial competitive advantage over incumbents that lack cutting-edge IT.

Even with the reforms that have made building a financial services business from scratch easier than ever, this process – from ensuring compliance to establishing the right strategic partnerships – is still far from straightforward, of course.

There is also an increased onus on new entrants to produce a realistic plan for breaking even and also demonstrate their longer-term viability, Kristensen notes.

"This was evident from a paper that the Prudential Regulation Authority published this April," she says. "The regulator stated its expectation that a new bank should have a very clear path to profitability from day one and become profitable within five years at most."

She adds that the importance of cybersecurity will only increase too. "It's an area in which many new banks that are seeking a licence must make strong investments."

> **We ended up submitting about 1,400 pages of documentation to the regulator. It literally took years for dozens of people to go through everything**

Virraj Jatania is the co-founder and CEO of fintech startup Pockit, a challenger bank that has been working since 2014 to offer financially underserved people a straightforward digital banking service. He notes that one of the basic, yet crucial, tasks that startups often overlook is to clearly define their target market and the needs it has that they're aiming to satisfy. These factors "will drive your product development as well as your communication strategy".

Startups must clearly also get to grips with all the compliance aspects of developing a banking product. Building effective relationships with the regulators is important in achieving this, Jatania notes.

"Several laws have been put in place to ensure that firms act in the best interests of consumers by treating them fairly and protecting their funds, especially from fraud. Without deep expertise in this area, it would be impossible to build an offering for consumers," he says, stressing the need to recruit skilled advisers.

Forging partnerships with established firms can lend startups some experience in navigating the complex banking ecosystem too, Jatania adds, while "guidance from expert investors is also fundamental in helping you to bring your idea to life and grow the business".

But attracting talent is one of the big challenges that new banks will encounter, warns Ali Niknam, CEO of Bunq, a bank that he founded in the Netherlands in 2012. Startups "have to ask themselves how difficult it's going to be to recruit skilled bankers and back-office staff", he says.

While many of the industry's big players have been established for hundreds of years, startups cannot rely on a storied history to attract talent, which can prove especially tough at a time when skilled people are in such high demand.

Niknam cites another significant hurdle that any new bank will need to surmount. Even though regulations have been rationalised across the wider European banking sector in recent years, some fundamental problems remain. Proving viability is difficult when the venture has zero revenue, for instance – as is offering sufficient guarantees against risk for a customer base that doesn't yet exist.

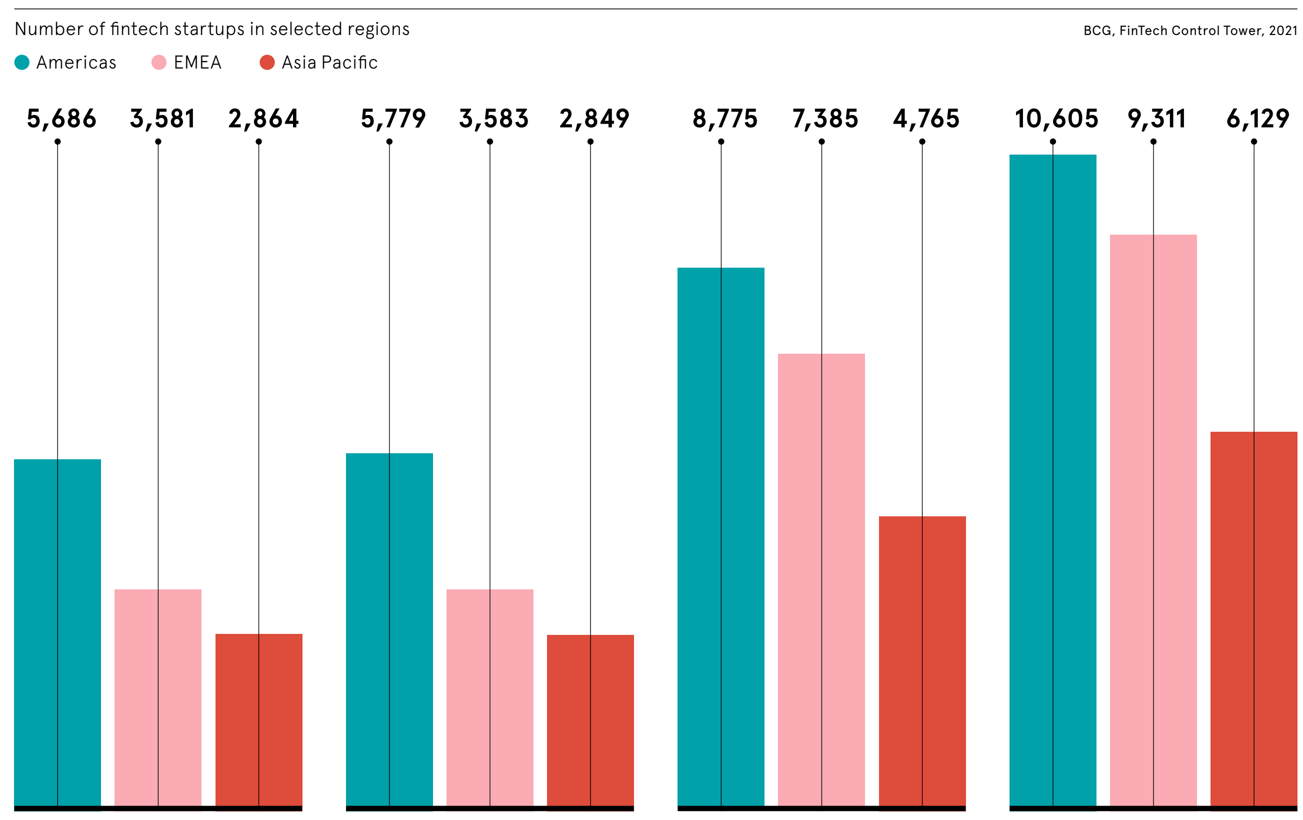
"When we were starting Bunq, we ended up submitting about 1,400 pages of documentation to the regulator. It literally took years for dozens of people to go through everything," says Niknam, who adds that the process imposed another layer of complexity, in that "by the time we got regulatory approval, the world had changed".

Rather than wondering why so many new banks have entered the market in recent years, people should instead be asking why "there's such a big gap between the conventional banking offering and what they expect", Niknam argues. "If a company in any unregulated sector even came close to the levels of process inefficiency and cost dissatisfaction achieved by many current banks, it would not survive."

THE RISE OF FINTECH STARTUPS

Number of fintech startups in selected regions

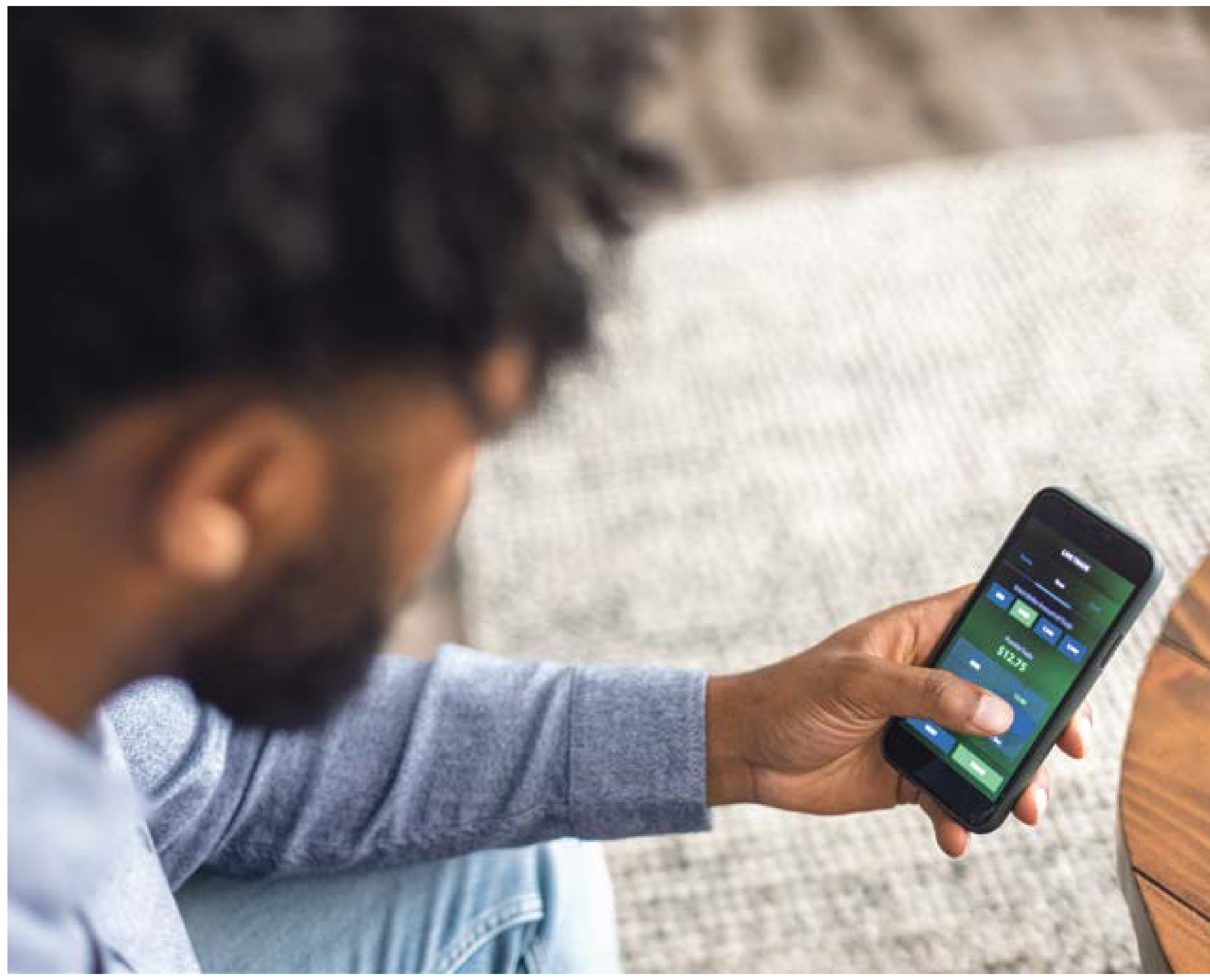
BCG, FinTech Control Tower, 2021



TRENDS

What 2022 has in store for the fintech sector

It's been a hectic period for the industry – and more change is yet to come. Here are some of the key developments the experts expect to see next year



Katie Byrne

The fintech sector has moved at breakneck speed over the past 20 months, making the pre-pandemic era feel like ancient history. But industry insiders expect the pace of change to be even faster in 2022.

The chaos caused by the Covid crisis prompted a range of responses, such as the raising of the limit on contactless transactions from £30 to £45 in March 2020. Today, even such recent developments seem to belong to another age.

This has been a record-breaking year for fintech growth, observes Dorel Blitz, vice-president of strategy and business development at artificial intelligence specialist Personetics. In the UK, fintech investment hit £17.7bn in H1, he notes, while 33% of all new unicorns – privately owned startups valued at more than $1bn – around the world have been fintech-focused over the past three months.

"We've also seen a huge number of fintech IPOs, as well as influential mergers and acquisitions," he adds.

Blitz believes that the coming year is likely to see advances in new ideas along with refinements to old ones. Critical functions such as mobile payments and user security will be upgraded, while issues such as sustainability and diversity will be given some overdue attention.

> The challenge for fintech firms in 2022 will be standing out and prioritising customers. Otherwise, they'll fall into a death zone

"The growth opportunity is greater than ever," he says. "But this is making market competition hotter. The challenge for fintech firms in 2022 will be standing out and prioritising customers. Otherwise, they'll fall into a death zone."

The impact of the Kalifa review will also be a key concern next year. This examination of the UK's fintech needs was commissioned by the chancellor in 2020 and led by Ron Kalifa, chair of payments company Network International.

Kalifa's recommendations included improving tech visas to make working in UK fintech more appealing to overseas talent; amending listing rules to encourage more IPOs; and introducing a Centre for Finance, Innovation and Technology to encourage industry-wide cohesion.

The Kalifa review has "delivered an ambitious roadmap for UK fintech", says Christian Faes, co-founder and executive chair of LendInvest and chair of industry group Fintech Founders. "Unfortunately, not many of its recommendations have been actioned yet. Those at the coalface of building the industry in this country are hopeful that the government will finally turn the talk into real action."

While debit and credit cards have effortlessly flipped over into the digital wallet world, that's not been true of the buy-now-pay-later sector (BNPL). But the opportunity is firmly there in 2022, according to Christer Holloman, fintech entrepreneur and author of *Transactional to Transformational: how banks innovate*.

He says that BNPL providers – which accounted for about £70bn of all global ecommerce transactions last year, according to Worldpay – should look for ways to incorporate their current processes into digital wallets.

"BNPL is, arguably, the fastest-growing, most popular form of payment," Holloman says. "Yet it's stuck in the pre-wallet era, which is the first threat to its long-term survival. Digital wallets are created to hold existing debit and credit cards, tickets and so on. By definition, BNPL is not an existing facility – the customer has to complete an application form. Digital wallets are not designed to support that type of user journey."

Unlocking this potential will be an arms race for BNPL providers in 2022, he argues.

"They have to follow their customers to remain relevant," Holloman says. "If they can spot this opportunity and make the most of it, it could be an exciting time for BNPL."

Payroll processes will also take a significant step forward in 2022, predicts Myles Stephenson, founder and CEO of Modulr, a payments platform for digital businesses. Payroll-synced payments, a move to Faster Payments over Bacs, and the increasing trend for SMEs to outsource payroll to their accountants and payroll bureaus will all dominate in the new year.

"Joining up two traditionally separate processes – payroll and payments – will have huge efficiency-gaining consequences on how businesses think about paying salaries," Stephenson says. "The ability to hold on to cash moments up to the payroll run will give the business more financial flexibility, while also giving its finance team more time to work on other critical activities. But the key to the success of payroll-synced payments is control."

Most payroll and payments integrations come with robust authentication approval processes if required, Stephenson notes. Businesses that opt to outsource payroll to their accountant or payroll bureau can request to be set as the final approver, he adds, and so "receive a notification to check all is well before hitting 'pay'."

With the UK already a recognised leader in open banking, the high level of innovation in this field is also set to continue in 2022. This is partly down to the Covid-driven acceleration in the adoption of digital banking services.

"Banks will continue to offer more comprehensive embedded services, with a focus on the increasing use of analytics and automation," Faes says. "The benefits of faster transactions and a more personalised experience across all areas of financial services are two key positives that we can expect within the next year or so."

Tailored customer journeys will become more prominent in 2022, with fintech firms embracing a Netflix-type approach in offering personalised recommendations.

"Modern consumers want an experience where banks and fintech firms can think on their behalf," Blitz explains. "The burden of finance is increasingly moving away from the customer to the latest tech, which can automate managing personal finances and actually help customers with their overall financial wellbeing."

As well as helping clients to tackle their financial stresses head-on, this will enable fintech companies and banks to analyse client activity. This will help small business owners in particular.

"Business owners have a lot on their minds and tend to think about their business operations in terms of workflows: order to cash, procure to pay, record to report," Blitz says. "If fintech firms and banks can think on behalf of businesses in this way, it will benefit both parties."

Holloman anticipates that more niche neobanks will enter the arena, created for people who are united by a common interest. This desire for a bespoke banking experience over a generic one could have roots stretching all the way back to our Stone Age past, he suggests.

"When we evolved from solitary hunters to living in communities, expressing ourselves and being understood became a survival necessity," Holloman says. "Over time, we have embraced the tools available to help us achieve that. It could be through our choice of clothing or music, for instance, and increasingly we will be able to also signal who we are and what we stand for through our choice of bank."

When it comes to the likely recruitment trends of 2022, designers and developers will be in great demand, predicts Alya Dikouchine, "people lead" of 3S Money, a UK fintech company that facilitates cross-border payments for corporate clients.

"Sales and marketing can also add huge value. Fintech firms shouldn't rule out creativity when hiring for these roles," she says. "Having a clear approach when it comes to promoting and selling the business will help firms remain competitive."

Dikouchine also predicts a significant uptick in recruitment for roles focused on anti-money-laundering and regulatory compliance, "particularly with financial institutions soon being expected to monitor fossil-fuel activity in line with the UK government's announcement at the COP26 climate summit. This is a function that will only get more complex."

Sustainable investing and green tech will be another key industry trend, suggests Devie Mohan, co-founder and CEO of fintech research company Burnmark.

"Whether we look at challenger banks, traditional banks, wealth management firms or insurers, this is a clear emerging trend, with products and processes heavily aligned towards global sustainability targets," she explains. "Many ESG funds and robo-investors have been outperforming traditional funds, while several challenger banks have also launched tools for tracking or reducing carbon emissions. This will be an interesting development."

Having faced up to incredible challenges throughout the pandemic, the charity sector should also feel the benefit of fintech.

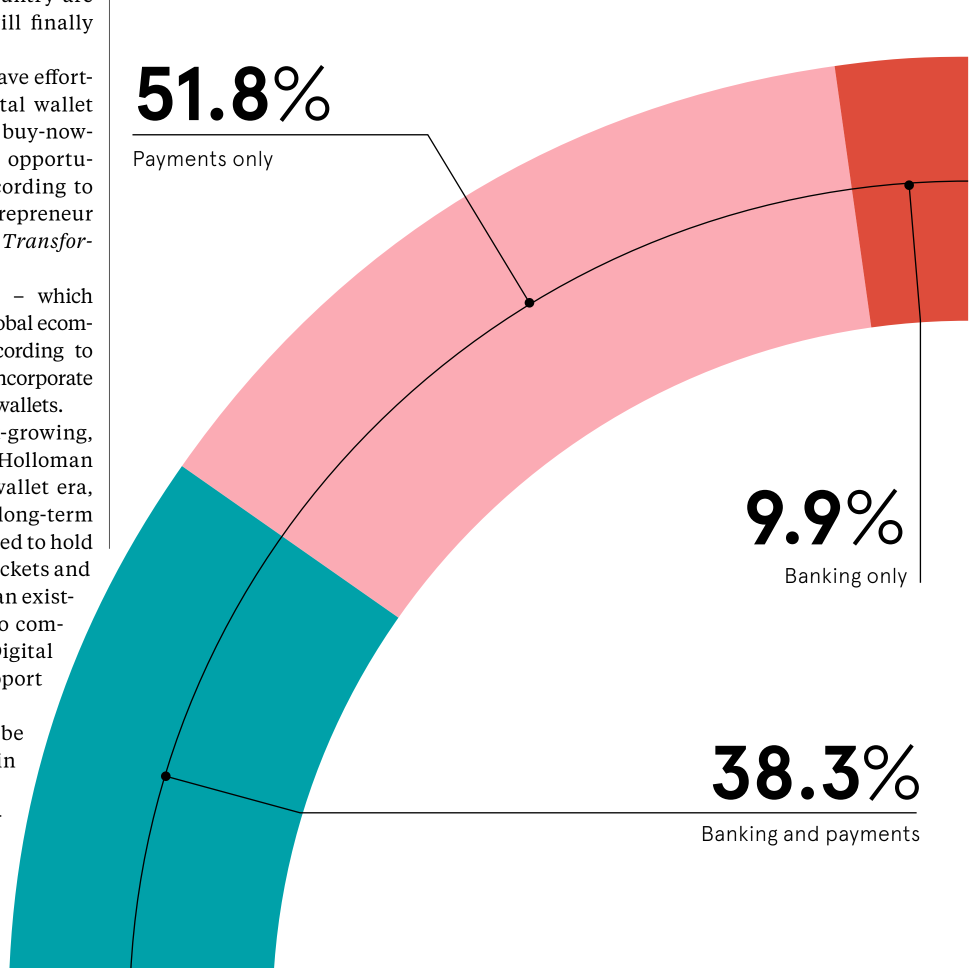
"The more we can promote 'fintech for good', the better," says Matt Crate, CEO of charity donation platform Toucan. "This is not necessarily about dispensing with the old ways of doing things. It's more about supplementing them with modern digital solutions and mobilising a community of people collectively doing good."

All but 9% of UK charities have been negatively affected by the Covid crisis so far, according to recent research from the Charity Commission. Fintech providers that focus on giving will be vital in helping such organisations to recover.

"Digital transformation is long overdue in the charitable sector," Crate notes, adding that there's still too much reliance on "old-school forms of giving, such as bucket-rattling, supermarket token boxes and web-based single transactions. Instead, 2022 will be about modernising the giving experience for digital-savvy donors who want to make a difference for the causes they care about."

HOW CONSUMERS USE FINTECH APPS

Share of fintech consumers using the following types of apps



Fintech Business Weekly, 2020

Commercial feature

How cloud orchestration will unlock payments

Soon there will be no difference between in-person and digital commerce, but first there are a number of infrastructure challenges to overcome

The payments landscape has evolved significantly in recent years, driven by the demanding expectations of younger consumers, increased competition and advances in technology. The Covid-19 pandemic has only served to amplify the impact of all three of these crucial areas.

Millennial and Gen Z consumers instinctively look for convenient, digital-first payment services activated through their phones. Regulation, as well as innovative technologies such as AI that automate processes and enable more seamless authentication, have reduced the barriers to entry for new payments players, which include big tech companies, fintechs and neo banks.

"Consumers expect omnichannel treatment and for companies to recognise them across channels," says Martin Herlinghaus, senior manager market insights at AEVI, offering a cloud-based payments platform. "Merchants have increasingly sought new partners on this journey to broaden their mindset and learn how to operate in a digital way. Smaller merchants especially want business enablement as a complete package, and they need someone to help them."

Cloud technology has also been a powerful enabler and while banks, fintech firms, acquirers and payment companies have been on a journey of acceptance around areas including security and compliance, there is now a high degree of confidence in such platforms. This has enabled organisations to take advantage of the speed, elasticity and resilience of the cloud, which accelerates the rate at which payment products and services can be brought to market and scaled globally.

"In the old days, if I had to bring a new product to market I would have to ensure I had adequate infrastructure, developers to code on the infrastructure and testers to test on the infrastructure," says Mark Westbrook, senior vice-president of technology and general manager UK at AEVI. "If you now build and run your applications cloud native, you can have a minimum

viable product operational in a very short period of time. With that, you can then see whether it is a viable market proposition and very quickly scale globally."

The pace of innovation on the digital side has not been mirrored on the in-person payments side, however, which is plagued by systemic challenges. In-person payments infrastructure was effectively developed back in the 1950s when the first credit card was launched and then electrified in the 1980s, but since then little has happened by way of innovation.

Payment terminals designed as analogue data fortresses now face challenges in a digital-first world, exacerbated by interdependencies between players in the payments ecosystem. The payment terminal is shipped by the acquirer. The payment terminal provider has its own payment app. A service provider then needs to integrate into that. It's an inflexible process, especially when it comes to checkout and introducing new payment flows and mechanisms.

"There are two ways to approach the challenge," says Herlinghaus. "Either, like companies such as Square, you develop your own terminals, services and service environment, and create a closed ecosystem, which is costly. Or you open up and invite all parts of the ecosystem to cooperate in a solution that benefits everybody, playing to their strengths and promoting better collaboration."

AEVI facilitates that collaboration via cloud orchestration. Through open standards and an open system, the cloud-based platform makes it far easier for all payments players, regardless of whether they compete, to cooperate in a positive way and ultimately create great digital experiences for merchants and consumers alike. Putting AEVI into the payment flow and joining data and security across all channels, helps to create a single unified commerce environment.

"Digitisation and the increasing flexibility of processes, as well as the growing value of data, are the future of payments," Herlinghaus says. "We already have far more digitally savvy consumers, while merchants are increasingly engaged with digital technology – you will see them embracing data and playing with new channels. Digital payment methods will come to the physical point-of-sale with no differentiation between in-person and digital commerce. It's all just commerce going forward."

> **Digitisation and the increasing flexibility of processes, as well as the growing value of data, are the future of payments**

For more information, visit AEVI.com

AEVI | DO MORE

INCLUSIVITY

Five ways to attract future finance customers

Fintech has the potential to bring a diverse range of consumers – many of whom have been overlooked by the wider industry – in from the cold. Here's how

Sue Omar

Fintech could help to diversify banking and finance, opening the field to a historically underserved client base. So how can firms make financial services more inclusive and what challenges do they face in doing so?

The fintech sector has already transformed the ways in which many of us make, manage and spend our money. According to industry publication *FinTech Futures*, there were 24% more fintech startups in June 2021 than there had been at the end of 2020, with the global sector expected to be worth £240bn by 2026.

Fintech has also helped the traditional banking industry to diversify its client base and advance towards a more innovative and inclusive financial ecosystem.

Diversity in fintech – from people to programming – is essential to create products and services that are accessible to all and meet the ever-evolving demands of a digital-first world.

"The risk of the lack of diversity in fintech is that companies will end up stuck inside their own echo chambers," says Nabilah Hussain, head of financial crime at global online banking service 3S Money. "Challenging the 'normal' way of thinking not only enables firms to question current and future strategies. It also provides a perfect catalyst for sector innovation."

Here are five ways in which fintech companies are diversifying and adapting their core business strategies to better serve their future customers.

1 Customer experience

The financial services industry has long been accused of favouring the wealthy and white, while excluding ethnic minorities who stereotypically face challenges when it comes to managing money. But access to financial services is vital for people from all backgrounds. That makes the next generation one of the fastest-growing client bases for fintech firms.

"The key to improving financial inclusion is to offer personalised products, services and adaptable customer experiences," says Sofia Nunes, co-founder and head of diversity, equity and inclusion at cloud banking platform Mambu. She points to Mambu's research from 2020, which found that 37% of 'banked' and 35% of 'unbanked' consumers globally relied more on online searches for information about the right products than they did on their banks.

But "both groups feel that their financial situation would be improved if their bank provided better education on how their finances worked", Nunes adds. "Enabled by technology, fintech players and neobanks are leading the market with personalised service models and a customer-centric approach. They're providing users with the tools and knowledge they need to manage their financial lives. They're also promoting a more inclusive experience for all."

2 Accessibility

As much as the fintech sector offers faster and more efficient financial services than traditional banking, there are still gaps when it comes to making it more inclusive, including accessibility.

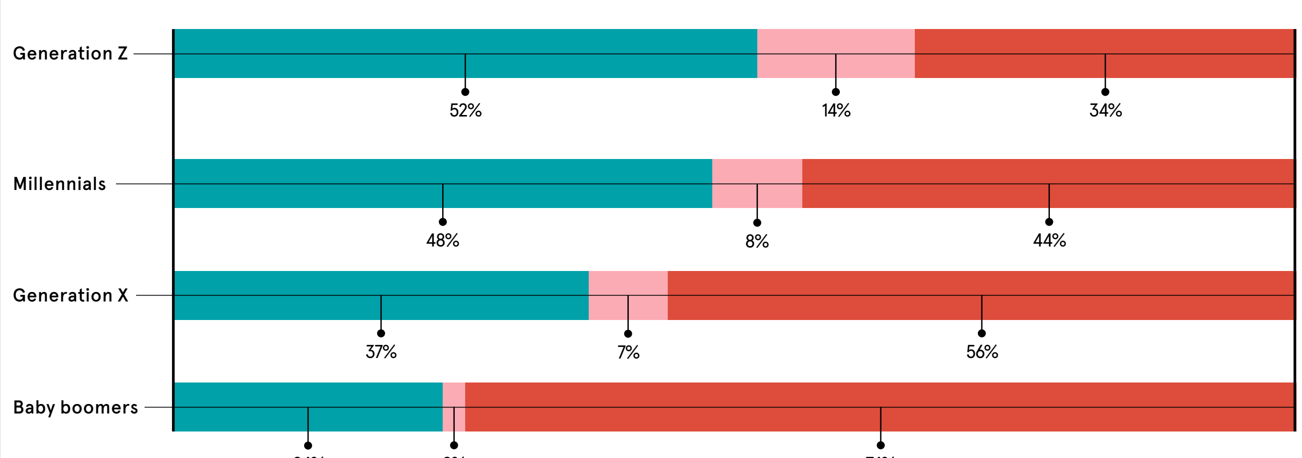
"Fintech, like many sectors, still has a way to go to improve the diversity of, and equity for, talent," says Dr Joanna Abeyie, founder and CEO of Blue Moon, an inclusion consultancy and executive search practice. "But I think there is a huge opportunity to create more accessible technology to ensure that finance is accessible to people with disabilities and neurodivergent individuals, for instance."

Since fintech is constantly advancing, updating and evolving into more advanced versions, fintech companies – both established and emerging – must acknowledge that today's ethically conscious consumers seek services that are suited to them and those around them. Consumers differ in identity, Abeyie notes. While you might have a customer profile and a target market segment in mind, failing to see them as more than one homogenous group will lead only to failure, she argues.

"Fintech firms must perform web and mobile accessibility audits across all platforms and ensure usability, tested by people with disabilities," Abeyie adds. "These processes will ensure that products are created through a lens of accessibility and inclusivity. They will also provide proof of concept to ensure that modifications and alternative processes are considered."

FINTECH IS GAINING TRACTION WITH ALL GENERATIONS

Share of respondents using financial technologies



McKinsey, 2020

3 AI and algorithms

Artificial intelligence and algorithms underpin the vast majority of fintech businesses. It's therefore vital for these firms to diversify the data their systems use to ensure that services are free of biases based on the racial or socioeconomic backgrounds of consumers. This could present problems for fintech firms that rely heavily on old data collected to predict the patterns and purchasing habits of future consumers.

"One way in which fintech companies can tackle the biases that exist in pre-programmed technology is by accepting and promoting diversity within their data science teams. The field can rise beyond stereotypes presented in these algorithms," suggests Kenneth Salas, co-founder and chief operating officer of Camino Financial.

From the start, new fintech firms must think about ways to improve their datasets and design models that account for any gaps in the data. Where they find shortcomings in their model, they must limit their use of it, Salas argues.

"Business and organisational leaders must ensure that the AI systems they use improve on human decision-making," he says. "They have a responsibility to encourage progress on research and standards that will reduce bias in AI."

4 Services and solutions

Fintech can be used for a wide array of financial services, from personal banking to buying digital money or managing investments. Although consumers can easily download numerous applications for functional purposes, there's a huge opportunity for fintech companies to diversify their products by offering a whole range of them in a single location.

Salas says: "Given the interconnectedness of products and services, a future customer is going to require a holistic product suite or one-stop platform to meet their financial needs."

Over the next few years, financial products will become an integral part of the "purchase journey", rather than a standalone service, says Nunes, who adds: "We will see a shift towards lifestyle banking as services are becoming more and more embedded into customers' lives through technology-enabled integrations."

> **The risk... is that companies will end up stuck inside their own echo chambers**

5 Customer communications

Once a fintech company has established a product or service that's ready to market to current or future consumers, it must consider the best ways to communicate with target audiences, ensuring that the marketing messages it sends will resonate with them. From digital advertising to social media and influencer marketing, there are various ways that fintech firms can create a buzz around their brands.

But the essential first step in this process is to research cultural differences. Companies can miss the mark if they attempt to capitalise from the masses rather than truly connecting with consumers, Salas warns.

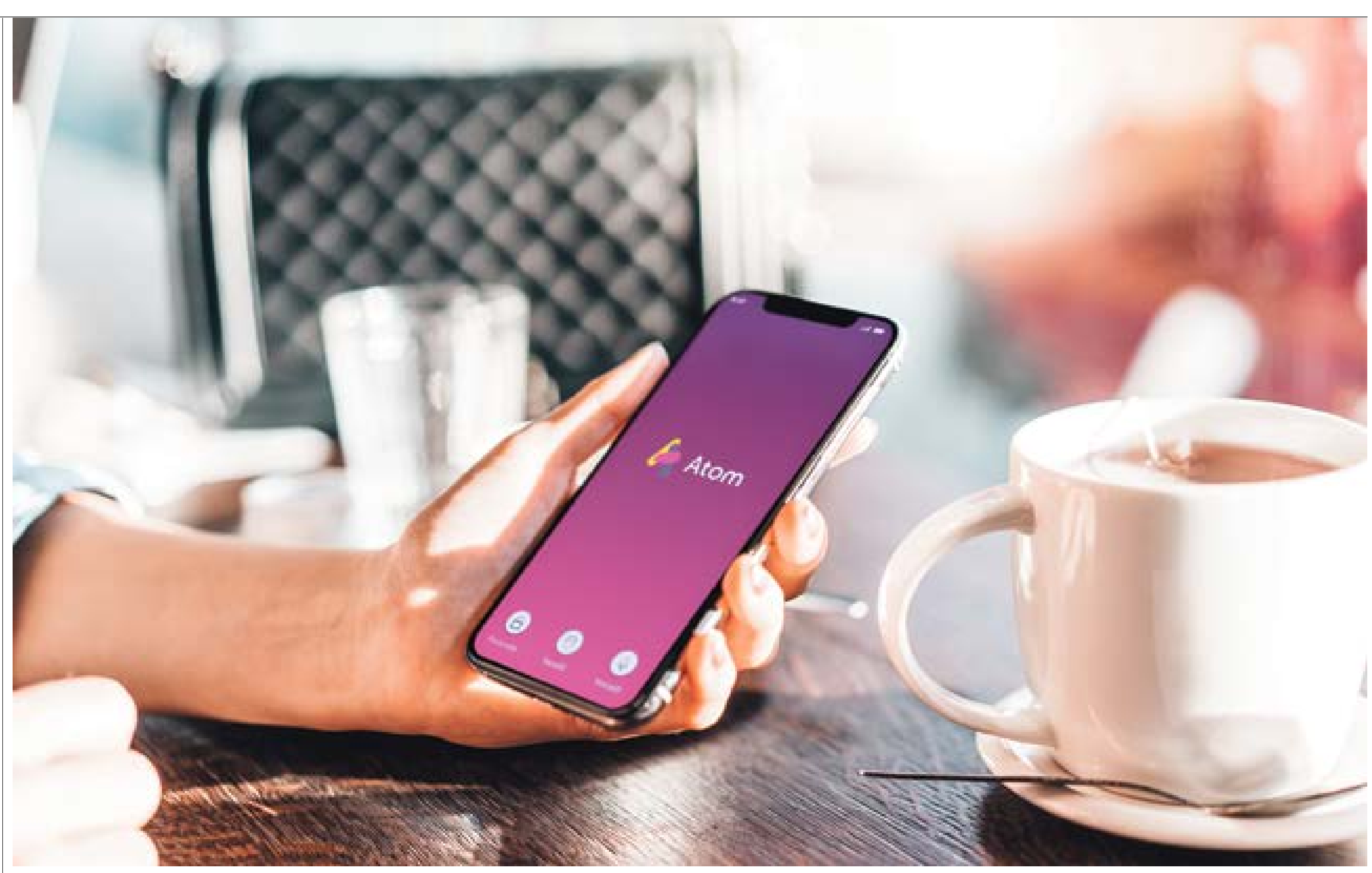
Language and tone of voice are often huge barriers, he notes, so adding multilingual content opens fintech system access to wider audiences.

"Having culturally relevant content will allow for deepening relationships across a more diverse audience," Salas says. "For example, if we are targeting a text-savvy audience as opposed to an email-savvy one, we should look towards adjusting our communication models accordingly." ●

Commercial feature

Why the future of banking lies with the fintechs

Banking is undergoing a digital disruption that will change the whole business model of the industry and that is a change fintech firms such as Atom are primed to take advantage of



If you're looking for a clue as to what the future of fintech could look like, the best place to start is the automotive industry. For more than 100 years, car makers have relied on the fossil-fuelled internal combustion engine to propel their vehicles. Consumers have grown up with 'forever brands' – behemoths such as Volkswagen, Ford, Toyota, Fiat and Mercedes. Not so long ago, the car manufacturing paradigm of global multi-brand owners making petrol and diesel cars seemed like it would last forever.

Enter climate change, however, and in little more than a decade car makers have been forced to confront a new and brutal reality. They need to move on from the internal to a future where the electric motor reigns supreme. And while it seemed inconceivable that a new car maker could challenge the might of the big car manufacturing brands, today Tesla is the world's largest automaker by market value.

Banks are much older than car makers – indeed banking is one of the world's oldest professions. This is so much so that from time to time some of the bigger banks like to remind us just how long they've been around, as if that was the only thing of merit they could legitimately claim. The banking paradigm has survived war, pestilence and social upheaval, but for more than a decade now, banks have been under constant and intense assault.

Tougher capital rules in the wake of the banking crisis, low interest rates, massive mis-selling fines and the impact of mobile technologies on customer behaviour have combined to make these years among the most difficult in the history of the industry. To add to the banks' woes, after almost 100 years without a newly authorised bank to offer competition, challenger banks, neobanks and fintechs firms have arrived on the scene, ready to do battle. Hundreds, if not thousands of new fintechs, have been purposefully invented to undermine bank revenues and to dislodge bank customers. They exist to disrupt banking.

The disrupters come in many forms. Some offer new current accounts, some focus on foreign exchange and travel money, some – like Atom – offer savings and loans, but all are looking to grow at the expense of the established banks.

For the majority of fintechs firms it has been a very tough slog. Established banks don't give up easily. Theirs is a business model that relies on customers who open a current account when they are teenagers and then stick with that same bank until the grim reaper arrives to gather his harvest. Theirs is a business model that appears to give services away free of charge, but all too often recovers the costs of doing so from those who are least capable of paying. Theirs is a business model that purports to offer all things to all people within a convenient one-stop-shop, but usually ends up delivering low levels of service and high levels of mistrust.

History is littered with previously untouchable businesses that have ultimately been disrupted – the business equivalent of getting cancelled. Flag-carrier airlines, high street fashion retailers and big-name supermarkets have fallen by the proverbial wayside. A new business that can do something better or that offers better value than an incumbent will do well. But a new business that can do both will thrive. Needless to say, that's our ambition for Atom.

> **In an increasingly digital economy, inefficiency is weakness to be exploited. The legacy banking brands, just like the legacy car manufacturers, really are ripe for disruption**

The future of fintech is the future of banking in much the same way that electric motors are the future of car propulsion; there is no meaningful distinction between the two. Established brands that can adapt might endure into the future but those who can't will almost certainly fade away.

The wholesale digitalisation of money and of banking has changed the rules of the game. The familiar universal banking model with its branches, contact centres, internet banking, mobile apps, and decades of technology and cultural legacy is horribly inefficient. In an increasingly digital economy, inefficiency is weakness to be exploited. The legacy banking brands, just like the legacy car manufacturers, really are ripe for disruption.

Specific brands might not be guaranteed to survive but banking itself has a long life ahead of it. The banking model is an efficient, rules-based construct – it's the bankers who turn that efficient construct into inefficient businesses. The relentless digitalisation of every aspect of the model, from how banks interact and provide information to their regulators through to how they use AI to optimise lending decisions, will inevitably transform them into software companies free of any residual physical manifestation. Fintech companies, however, are already there.

> **The future of fintech is the future of banking in much the same way that electric motors are the future of car propulsion**

Don't forget, Tesla builds cars because cars create value for customers – they want and value the convenience of personal transport – otherwise, Tesla might well have chosen to make trains or buses. However much they are unloved (and let's be honest there's more than enough 'unlove' to go around), banks also create value for customers. We have heard some very clever people declare that innovations such as cryptocurrencies will replace the currency and banking systems that exist today, but we should be cautious – it's hard to know in advance which disruptions will lead to better outcomes for customers and which to outright anarchy.

But nothing lasts forever. Right now, electric motors rely on a group of metals called 'rare earths' to provide the stored energy they need for power. The clue is in the name – these are scarce, finite and expensive, and there simply aren't enough to go round. And so we need to keep innovating. And we shall.

The same will be true for fintech firms.

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