

Financial institutions must adopt a startup mentality

The Digital Banking Club has established a high level Advisory Panel of digital financial services experts to offer their insights and expertise on policy issues that affect digital financial services providers in Europe. **Douglas Blakey** speaks with members of the panel in the first of a series of regular white papers

Next generation digital financial services means much more than simply migrating customer behaviour from traditional channels to the smartphone, tablet or PC. It means more than just increasing the products and services available digitally.

To succeed in the new age, financial services providers need to adopt a radical approach challenging and examining every aspect of their supply chain and business models.

For those that succeed, there will be scope to increase revenues and attract new revenue streams through a greater understanding of customer insights. There will also be scope to offer fundamentally superior services. The most satisfied customers in the sector are customers who use digital channels to consume financial services.

And for the providers that succeed in optimising the customer experience, there will be scope to attain leadership positions in quality, trust and reputation while obtaining recurring returns in excess of the cost of capital.

The above are just some of the key takeaways from the first round of discussions with members of The Digital Banking Club's Advisory Panel.

Innovation, security, partnerships and vendor selection, the future of mobile payments, wearables and the internet of things are recurring themes in RBI's discussions with panel members and resulted in broad areas of agreement.

At the opposite extreme, there is a lack of consensus with regards to legacy IT systems. Are such systems millstones around the necks of the traditional providers and a major inhibitor to digital transformation?

Indeed, can established financial services providers assess the tech landscape, identify the products and services that customers want now and in five years time and use cutting edge technologies such as the Cloud and build something truly transformational?

Deborah Davis, non-executive director at Intelligent Environments, the founders of The Digital Banking Club, points out

"Whether you are a traditional provider or a new entrant/disruptor with around 60% of Brits stating mobile and digital banking services are very important to them we all need to find ways to engage with our customers, stay abreast of developments in this ever changing space and continuously innovate with pace. None of us can rest on our laurels."

Innovation is key

David Urbano, head of mobile at Spain's LaCaixa, is at pains to stress the importance of constant innovation.

He says: "CaixaBank must take full advantage of its capacity to innovate in order to continue to be a leader in bank digitalisation and to expand its position in the multi-channel platform and mobility, with a proposal which offers customers greater comfort and better service."

His colleague, Benjamí Puigdevall, CEO of e-LaCaixa adds: "We are committed to innovation from our origins because it is allowing us to improve our products and services and make it available to our customers."

"The adoption of new technologies causes changes in customer habits while innovative use of information gathered from customer behaviour can anticipate new demands," says Puigdevall.

LaCaixa already offers more than 70 mobile apps. Each month, 2.2 million (and growing) LaCaixa customers access its mobile banking service, 300,000 of whom use the bank's app optimised for tablets.

By contrast, Puigdevall says that the bank has more than four million customers who use the bank's internet banking service every month.

Mobile banking adoption at LaCaixa is growing at double-digit rates, up 50% from 2012.

Puigdevall forecasts that it will be only a matter of time until most users are accustomed to more complex operations on their phone than just checking a balance or transferring funds from a savings account to their current account.

To promote its innovation strategy

LaCaixa has run a series of FinAppsParty hackathons, affording software developers the opportunity to compete to have their ideas developed by the bank.

At the last such event, the bank received over 40 proposals and Urbano says that four or five of the developers' projects are being taken forward into development.

"The day when we see the majority of banking done on the mobile channel is not as far in the future as some people seem to think. It is not 10 years into the future it will be much much less that," says Urbano.

Puigdevall forecasts that mobile use could overtake internet banking use in as short a time as a couple of years.

In contrast to an established player such as LaCaixa operating multi-channel, digital banking start-ups Starling Bank and Atom Bank have the advantage of starting with a clean slate.

Starling Bank Founder and CEO Anne Boden has bigger ambitions than just a desire to innovate – she talks of shaking up the banking establishment.

She argues that the big banks have added channels such as telephone and internet banking and more recently the smartphone but the model has not changed.

Digital banking is just like branch based banking on a screen. You're provided with what comes down to a self service terminal, which is a bit like playing radio on a TV, or putting sales brochures on the internet. It kind of works, but she argues banks can do so much better.

Starling aims to create a truly smart bank that applies modern technology directly to solving customer problems, with a simple easy to use interface.

Legacy issues

At Atom Bank, co-founder and CEO Mark Mullen argues that to be truly radical you need to have a blank sheet of paper and build something from scratch.

"Then, every decision you make can be aligned to your vision, and can be aligned to the competitive advantages that you're trying to create. Whereas if you are in a big established bank, every decision you make

is compromised by the need for it to connect to whatever is already on the table, by way of legacy or by way of existing customer or by way of existing products and services,” says Mullen.

He adds: “The established banks are coping with very complex archaic and expensive systems that are high risk. And who is to blame for that? Who is accountable for that having risen? One can only point to these institutions.

“They are trapped and I do have a huge amount of sympathy for them. It is a very difficult and expensive enterprise that they face.”

He says that they can and will spend huge amounts of money on investing in their digital platform – but when it comes to being radically different they will not succeed.

At Atom, Mullen says there will be scope to differentiate itself by not offering any product it does not believe in whereas the established players have to make sure all existing products can be distributed by all channels, whether they are new or not.

He says: “In the short term, do not expect us to be a big bank offering huge numbers of products and services. Expect us to be small and perfectly formed in so far as we can be. So what we will do we will try to do ingeniously and well.

“In the medium term we want to offer a full range of banking products and services because we do not think there is any reason why pretty much all of them cannot be delivered by the desktop, tablet and mobile.

“I genuinely believe it can be done in a better way than is currently being done in the majority of cases today. We can go further, faster.”

So Atom will potentially focus on a dif-

ferent set of customers as it does not have to be for everyone. It allows us the bank to narrow the range of things to focus upon.

“The existing banks have a very diverse and wide ranging customer range from ages 9 to 90. It is unreasonable to expect that all age groups and demographics will adopt new technology simultaneously.

“It is a huge challenge for our industry as we see financial exclusion and technological exclusion coming together. What the established banks have not done is bring customers with them on the digital journey.”

Until the end of March, panel member Terry Cordeiro was head of mobile at Royal Bank of Scotland (RBS). He is candid and realistic about the challenges a bank of the scale of RBS faces compared to the new banking kids on the block.

Cordeiro says: “We have legacy ways of operating and legacy IT systems that take years and years to rip out and replace and if you are building something from scratch like the new entrants, then clearly what you do is build it on the latest technology.

“That means you do not tie yourselves in knots like we do with our internal systems so the start-ups have certain advantages.

“On the other hand, they do not have legacy customers,” argues Cordeiro.

Cordeiro left RBS to take up an exciting and hugely influential role at the start of April as Head of Proposition Development - Digital, Transformation at Lloyds Banking Group.

The brief: to build a new bank for Lloyds, cloud-based, avoiding the plethora of legacy issues that affect established banks. Once up and running, the aim will be to migrate customers of the Lloyds, Halifax and Bank of Scotland brands over to the new bank.

At LaCaixa, Urbano stresses the importance of technology partner selection.

“We decided to work in the main with small partners. We have network agreements with more than 20 partners and that is just to service the mobile channel. The idea is not to work with very big companies. When LaCaixa rolled out its Google Glass and wearables apps the best ideas came from small companies.”

Cordeiro flags up changes in the way that RBS has gone about vendor selection.

“The focus is on solving problems and the aim is to solve them as a group via a more collaborative approach based on the nature of the problem rather than treating it as a siloed departmental problem. So we aim to solve problems and agree on vendors as a group.

“We are moving into a world where we should stop talking about banking and start talking about digital money and we see non-financial institutions move into the digital money space.

“The firms that really interest me are the innovative smaller start-ups in the tech sector that take small elements of the whole banking experience and focus in on building a brilliant customer experience.

“So Transferwise, for example, has taken international remittances which is a part of what banking is and turned it into a really slick experience,” says Cordeiro.

At Alior Bank in Poland, Katarzyna Rybicka, head of strategy, points to the stunning success of the bank’s partnership with T-Mobile.

Says Rybicka: “The aim of the joint venture was to create a comprehensive set of client-friendly, mobile-centric banking products and ensure multi-channel access

Advisory panel members

Mark Mullen (CEO, Atom Bank)

Mark is CEO of digital start-up bank Atom. Prior to heading up Atom, Mark served in a number of senior roles within HSBC Group.

Katarzyna Rybicka (Project Management Director, Alior Bank)

Katarzyna has served as Project Management Director at Alior Bank since 2010. She joined Alior from Bank BPH where she served as managing director.

Anne Boden (CEO, Starling Bank)

Anne Boden, previously chief operating officer at AIB, is now working on the launch of a new digital bank for the European market.

David Urbano (Director of Mobile Banking, La Caixa)

David Urbano is director of the mobile banking and digital networks at La Caixa, responsible for managing the mobile channel & social network strategies.

Terry Cordeiro (Head of Proposition Development, Digital, Lloyds)

Terry has over 15 years experience in the telecoms and mobile industry working in both the public and private sector before joining Lloyds in 2015.

Benjami Puigdevall (Head of Electronic Channels, La Caixa)

Benjami Puigdevall is head of electronic channels, managing director of La Caixa. Benjami is responsible for developing of all the electronic channels at Caixa.

Deborah Davis (Non-executive Director, Intelligent Environments)

Deborah joined the board of Intelligent Environments in 2013 bringing more than 25 years of technology and internet company experience.

Douglas Blakey (Head of consumer titles, Timetric)

Douglas Blakey is group editor, Consumer Finance at Timetric, chief of judges for the annual RBI Awards and a lead market advisor for Timetric.

Ahmet Ertan-Algan (ADC and Software Architecture Unit Head, Akbank)

Ahmet Ertan Algan has been the mobile banking application development manager at Akbank since May 2013.

Garvan Callan (Head of Direct Channels, Bank of Ireland)

Garvan Callan was appointed as head of direct channels for Bank of Ireland in September 2013 and is responsible for developing the performance of Bank of Ireland’s direct strategy across telephone, digital and social channels. ■

to them via mobile, internet and the physical branch.”

A combined team of 200 staff from Alior and T Mobile spent five months working on the project that went live in May 2014.

In terms of scale, it was the first project of its kind in Europe, covering design and delivery of product offers, across channels, sales and service processes.

“At the end of 2014, less than nine months after the launch of the T Mobile deal, Alior gained 145,000 new customers, 85% of whom had had no previous relationship with the bank,” says Rybicka.

Alior currently has 2.6 million customers of whom 400,000 are using the bank’s mobile channel every month; by contrast 750,000 customers use Alior’s internet banking service.

“Alior creates new value for customers by constant development of its unique services, such as the launch last year of Online Currency Exchange; this has already been used by more than 125,000 of our customers.

“At the end of 2014, Alior launched a dedicated mobile app for OCE customers; we have also launched new mobile apps for Alior Trader and Efx Trader, enabling quick and convenient investment on the Warsaw Stock Exchange.”

Comparative mobile usage stats at RBS are even more impressive.

“More than 3 million – about 25% of the total customer base is using the RBS mobile channel, compared to about 50% of customer using the internet channel.

“In the next few years RBS will look to push it well over a third,” says Cordeiro.

Security

Asked to identify the biggest themes that will dominate the digital banking debate in the next few years, Mullen highlights cyber security and cybercrime as huge areas of investment and concern.

“It will be an area of constant evolution and revolution. How the industry reacts and how can banks do it in the right way that finds the balance between usability and security versus customer acceptability

“There are big trade-offs to make. The customers want to have their cake and eat it too – they want to de-risk but they want banking to be easy and intuitive.

Mullen is cautious about banks collaborating to the extent of introducing standardised security protocols.

“This is a potential area for innovation and investment so therefore it is a legitimate competitive environment

“How you solve the security concerns of customer is an area for businesses to differentiate themselves,” concludes Mullen.

Deborah Davis argues that security and usability go hand in hand, and that security solutions with poor usability will never be successful in practice.

“According to research by ING, security concerns remain the number one barrier to greater adoption of mobile and digital banking. Our own research highlights that over half (51%) of UK banking customers expect their bank to introduce more innovative security measures.

“It’s why Intelligent Environments continues to look at new security frameworks, methods and tools such as Progressive Security, our attack-aware, AppSensorFS technology and FIDO, our single sign-on authentication framework that could help usher in the end of the password. As I keep saying continuous innovation is critical.”

At LaCaixa, Urbano is upbeat about the scope offered by biometrics, in particular voice, fingerprint technology and face recognition.

“We can already offer customers the option to navigate by voice to check their balance and make a transfer and we have had very good results.

“LaCaixa is also working on a voice tech solution to replace customers’ ID number and password as well as biometrics with fingerprint to validate electronic purchases,” says Urbano.

Benjamí Puigdevall is particularly excited about Línea Abierta Basic, the first European application to perform banking mediating voice commands.

“This service has been designed to explore the possibilities of biometrics to improve customer interaction with the financial channels.

“It also offers the possibility to check the status of accounts and transactions made on accounts and cards, as well as make transfers between accounts CaixaBank,” says Puigdevall.

Davis adds: “Many providers are already exploring the use of biometrics for authentication purposes. For example, HSBC has introduced iris scanners and Barclays has even been experimenting with voice verification.

“The reason biometrics are proving increasingly popular is because they fit in around the way in which consumers like to use their devices.”

Payments

Urbano and Cordeiro highlight payments as key areas to focus upon in the the next two to three years.

“Apple Pay is going to be going to be very important, as will the rival offering from Samsung and then you have banks using

HCE technology,” says Urbano.

“We have worked in mobile payments for the past four to five years in partnership with Telefonica but it is very difficult to communicate the service easily to customers.

“You need handset agreements with the MNO and mobiles with new SIM cards and the user experience has been difficult.

“Apple Pay is making it very easy for the customer to pay by mobile and its growing popularity and use will boost public awareness of the potential of mobile payments.

“I am very positive about the whole area and while it will cost us money to reach an agreement with Apple, the bottom line is that we must do a deal with Apple.”

Cordeiro meantime argues that banks will look to ramp up mobile payments adoption as they gain greater understanding of customers spending behaviour

“Payments are just a small part of the spending experience but for customers there needs to be additional value beyond plastic.”

Davis highlights the need for financial institutions to learn from tech innovators. She says: “We all need to acknowledge that customer expectations will continue to rise, shaped by non-financial services providers’ experiences delivered by the likes of Amazon and Google. As pitched by Forrester analyst Oliwia Berdak, not only can the industry learn from best practices in the tech space, there may also be opportunities to partner. For example, with the launch of a string of financial tools like mortgage calculators and digital wallets, Google may have an important role to play in the industry, not necessarily as a competing bank but as a facilitator/aggregator of financial services for consumers. The risk of course is that some players could end up being dis-intermediated.”

Wearables and the internet of things

LaCaixa claims another first as a result of a partnership with automaker Ford.

It is, says Puigdevall, a great example of banking extending to the internet of things.

Its voice control application for cars using Ford’s SYNCC intelligent system means car users can find the nearest bank branches and ATMs nearest to their location, in real time without leaving the car.

In addition, the application also provides basic contact information and opening hours of these offices and allows telephone contact with the office.

“This is the first in the world in the financial sector and follows the trend of offering a seat adapted to each connected device,” explains Puigdevall.

At Atom, Mullen says that wearables are

really exciting and audio is also interesting.

“I am interested in Google glass and believe that wearables will have wide gener-ic acceptance,” he says.

Cordeiro has mixed views as regards the scope for wearables.

He argues: “I do not believe that people will bank on their watches but people are looking for little snacks of financial information and this is where wearables can play a really good part in helping our customers understand their financial health.

“So for example, I can see us presenting you with snacks of info on a smart watch without you having to log in. Say you have £500 available to spend in your current account.

“I do not actually need to see a number. If I set a parameter of £500 and I look at my smart watch and the icon is green then all is fine and I do not need to know my balance. But if the icon is showing as amber I need to check and be cautious and if it is red I need to take action”

For Urbano, he remains concerned about issues that remain unsolved such as limited battery life on the smart watch.

“The wearable has to be in proximity with the handset and I am not sure wearables are going to be a market killer but we have to be prepared to offer this solution to our customers.”

Deborah Davis is particularly upbeat about the prospects for the Apple Watch but cautions that banks must rise to the challenge.

“Apple has an indisputable track record of success in the smartphones and tablets marketplace and its entry into the wearable market, stands a strong chance of being a hit with consumers.

“This is supported by our research: More than one in ten (12%) of Brits say they will buy the device as soon as it goes on sale in the UK.

“This presents banks with an exciting opportunity to improve digital banking, making it more convenient, mobile and effective than ever before.

Sources of inspiration

Asked to highlight non financial institutions that they admire and look to for sources of digital innovation, no member of the panel interviewed dared to mention a rival financial institution.

Says Mullen: “I do not believe the banks have exploited the opportunities of technology innovation compared to other industries - I do not look to banking as a source of inspiration.

“I still believe that some of the early pioneers have a lot to teach and from whom we

have a lot to learn such as Ebay and Amazon. We need to learn from them about the discipline of their models and the scale and scope of what they do and they have not stood still.

“Now they are extending that into content origination and content development – Amazon in particular. Netflix is another business I am interested in; I look way beyond the banking industry for ideas.”

For Cordeiro, he was flattering in the extreme about Airbnb, the US-headquartered online marketplace for holiday rentals that connects users with property to rent with users looking to rent the space.

“Airbnb as well as the likes of Uber are great inspirations because they offer an outstanding customer experience,” argues Cordeiro.

Looking ahead

“The key metric for RBS is and will remain customers Net Promoter Scores (NPS),” says Cordeiro.

NPS is the ultimate measure as higher NPS means greater loyalty and that means greater profitability.

“We know that customers that bank with us on mobile and tablet have the higher NPS and the bottom line is that as a bank, we need to make money.

“In my time at RBS we were not focused on acquiring other banks customers. The way to get to profitability is to service the existing customer base well and provide a great experience.

“I also believe there may be scope for banks to monetise digital. We see that Barclays have franchised Pingit and opened it up as an API and pushed it out to third parties.

“The ability to franchise out services to third parties is potentially exciting and we will see changes in perhaps the next three years.

“As a bank, we spend an awful lot of money just to know who you are. Take the government as an example. Why do I need a separate ID to log on to YouGov or complete a tax return?

“Why not ask us, the bank, to prove your identity? We know who you are,” argues Cordeiro.

For Urbano, as he looks ahead, he is at pains to differentiate LaCaixa from a number of major established banks that regard digital channels as offering the potential to scale back the branch network on a major scale.

“All parts of the bank understand the importance of digital; every employee understands innovation and digital; it is a part of the DNA of LaCaixa.

“I must stress that digital is not a threat to the established parts of the bank. We are not an internet bank and our customers are still encouraged to use the branch.

“We do not see digital as part of a strategy to drive branch closures. It must be the customer who decides which channel to use,” concludes Urbano.

And the measurement of the success of digital investment will evolve, as Cordeiro explains.

“The very success of digital at RBS resulted in unexpected and unintended additional expense.

“One of the key metrics we looked at was the monthly engagement rate – the number of times a customer would use the mobile app, whether to check a balance or make a transfer.

“When I left RBS, the monthly engagement rate for mobile customer had risen to 26. It is an interesting stat because it shows a change in customer behaviour.

“Future thinking is that this measurement is not necessarily such a good stat as what is happening is that customers look at their statement and if they do not understand something then they call us.

“The result is that we have inadvertently driven new cost into the business

“Customers use it and rely on it and that is good. We could get that stat down and would not be disappointed if it came down a little.”

Mullen ends on a positive note.

“We aren’t worrying about what other banks are doing; there is plenty of opportunity for new players in the industry. I absolutely believe in digital, and not just as an alternative channel. I’ve always believed in at as a fundamentally superior way of delivering banking services. The data doesn’t lie. The UK’s most satisfied customers are customers who use digital channels to consume banking services.”

The last word goes to Davis:

“There is a hugely exciting opportunity to improve digital financial services, making them more convenient, mobile and effective than ever before. Digital technologies will be key to driving top-line growth and innovation, additionally they are critical to strengthening customer engagement which in turn will deliver increasing revenues. At the end of the day digital delivers innovative solutions that will not only solve customer problems but is answering customer demand.

“But financial institutions must continue to invest and be prepared to adopt the innovative mindset of disruptors and tech start-ups. This in itself is an interesting challenge.” ■