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BANKING FOR THE STARS

RBI SPEAKS TO RBC AND CITY NATIONAL

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Remote cheque deposits delay: a UK banking embarrassment

The next time a UK retail banker – especially if on the digital side – tells you just how innovative they are: three words come to mind as a response.

"Remote cheque deposit."

Actually, only one word comes to mind: pathetic.

It is not rocket science. Vendors' solutions that work, and are tried and tested, are out there. The facility has been proven to work in other markets – for what seems like ages.

I recall a roundtable with NCR and CIBC and Barclays on the very subject in 2014, for goodness sake.

But yet, where are we with remote cheque deposit in the UK?

In all of this, I excuse Barclays. And to be fair, Lloyds, to a lesser degree.

Barclays ran a pilot programme for retail customers in early 2015 and by all accounts, it worked well. Lloyds ran a smaller programme for SMEs and some of its staff.

But as for the rest?

It makes little sense to drag heels here as the savings for banks are self-evident.

Some of the benefits include fewer branch transactions, accelerated cheque processing times and a reduction in costs as a result of less paper.

The government and the regulators, in hindsight, ought to have insisted on a much speedier deadline for the UK roll out of remote cheque deposit.

There is no excuse for any further delay.

Meantime, some interesting research comes to hand from the clever guys at Nielsen about the prospects for the mobile-only banks set to launch in the UK this year and next.

In a 63-country survey, Nielsen finds that Britons are among the least likely in the world to use them.

Nearly two-thirds (63%) of Britons aren't likely to use mobile-only banks with customers in only four countries – France, Belgium, Hungary and New Zealand – less likely than Britons to use these types of banks, according to Nielsen.

People in India are the most likely to use mobile-only banks (46% say they're highly likely to do so) followed by Indonesians (37%). Despite the resistance to mobile-only banks among the British public, the 10% who say they're highly likely to use them gives mobile-only banks a potential customer base of about five million UK adults.

Despite the gloomy tone of the report, that is still a healthy potential customer base to target and it will grow. Champagne corks will be popping when any of the start-ups hit even 100,000 customers.

Lastly on a positive note: as *RBI* goes to press, two strong examples of welcome industry cooperation.

Positive news coming from Monitise is a rarity these days but news of the FINKit Partner Programme with founding partners MasterCard, BehavioSec, Currencycloud, Envestnet, Yodlee, Experian, fastacash, FICO, HID, iGeolise, LivePerson, MYPINPAD, Syniverse, and WorldFirst deserve mentions.

The partnering firms have agreed to make their APIs and services available together on Monitise's cloud-based FINKit platform, in order to accelerate industry-wide collaboration by developing new customer propositions.

Likewise, news that Fujitsu has launched Smart Origination, customer onboarding technology enabling financial institutions to collect, process and verify documents in less than five minute is interesting.

Fujitsu's cooperation with ImageWare Systems, InAuth, Intelligent Environments, Mitek, and Trunomi, operates across multiple channels in an attempt to increase conversation and reduce the cost of new customer acquisition and is among the more interesting news stories of the month.

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Yoma transformation accelerates

Myanmar's Yoma Bank has long enjoyed a local reputation for its investment in technology, resulting in an efficient branch network, remittances services and specialist SME services. As CEO Hal Bosher tells **Douglas Blakey**, its collaboration with Misys will expand its offerings and help the bank target new segments

First there was Royal Bank of Scotland, Starbucks and Booking.com – but to that list add at first glance an unlikely partner for Facebook's beta test of "Workplace by Facebook" – Myanmar's Yoma Bank.

Since the start of the year, Yoma has partnered with Facebook enabling bank staff to communicate directly with senior management, and each other, using defined working groups that can be accessed through a smartphone application.

"Workplace allows Yoma Bank to leverage the incredible penetration of smartphone technology in Myanmar to strengthen our corporate culture and improve our efficiency. Workplace turns a social into a professional platform. Our 3,000 employees now consume information, share their views, and have a voice," says Hal Bosher, Special Advisor to Chairman and CEO.

He adds that Workplace has improved the way the bank functions. Not only can branch staff interact with the management directly, it also promotes transparency from the top down and facilitates direct communication.

It's just the latest in a series of technology investments at Yoma. The biggest recent investment was Yoma selecting Misys' FusionBanking Essence for a complete front-to-back transformation of its core banking system to launch mobile and online banking.

The investment also enables the bank to venture into lucrative trade finance business.

"Myanmar is on the verge of a growth and development explosion; a new, modern and robust financial system is critical to support the economy and our people," says Bosher.

"Yoma Bank has always pioneered new technology. We were the first bank in the country to use a computerised accounting system and wireless communications.

"We're now transforming the bank to introduce new channels, new products and a new dimension to customer service which will cement our position as an innovative leader in Myanmar."

Bosher adds that the bank took the decision to keep customisation of the new core banking system to a minimum. Wherever possible, Yoma will modify its processes to match those of FusionBanking Essence and not other way around.

"It is important to us to adhere to international processes and best practices, which Misys delivers in the MAPS model bank approach."

Adds Bosher, there were a number of reasons for Yoma opting for Misys' solution.

"We required sustained attention from the vendor and needed the right level of support, from a technology partner prepared to offer customisation and localisation.

"The project remains on track with a full roll out planned for early 2017."

Wave Money

Yoma's most important ever IT project is however just one part of what amounts to a bank transformation. Bosher is positive to the point of being evangelical about the prospects offered by its Wave Money initiative.

Wave Money, a mobile financial services joint venture between Yoma and telco Telenor, is the first such project to be given a licence by the country's central bank.

Not only does the project expand the bank's range; it hugely expands the bank's distribution.

At launch, Wave Money will be available at more than 4,000 Wave shops.

"Currently, we have a branch network of 62 outlets and have been rolling out a disciplined 10 branches or so a year the past couple of years.

Our new digital channels combined with the agency network, Wave Money, will enable us to grow customer numbers in the mass market via the smartphone."

He says that building a strong distribution network is key to mobile financial service success and that a typical Wave Money customer will be a domestic migrant working in the city sending money back to their home.

In time, Wave Money will be on offer nationwide in around 15,000 Wave shops.

Initially, Wave Money launches in November with remittances and mobile phone top-ups and will expand to incorporate bill payments, savings and lending products.

Bosher is broadly positive about the banking sector's prospects.

"The new government is progressive and there is a general consensus that modernisation of the financial sector is a priority."

He says there is huge scope for growth of products such as consumer lending and retail mortgages while the unbanked sector offers massive potential. In the next 10 years, it is feasible that the current banked segment, a mere 10% of adults (five million) can treble to 30%-some 15 million adults.

"Most Burmese people are on the land. We are putting together a team, with expert assistance from Dutch agri lending experts Rabobank, to see how we can lend into the agriculture sector."

With combination of IT investments going live, a growing banked sector, huge growth in mobile phone penetration, expanded product ranges and new segments of the market to target, it is no surprise Bosher is so chipper. ■

A stroke of Jenius?

Indonesia-headquartered BTPN Bank has decided to bring its branches into the modern age with help from design consultancy allen international. The result is the Jenius Mobius Hub in Jakarta, specifically designed to be a physical manifestation of BTPN's mobile banking channel. **Patrick Brusnahan** writes

The Mobius hub is a physical extension of the Jenius mobile app. Basically, it is a pop-up concept which behaves as a marketing tool for acquisition, awareness, education and sector disruption.

Jerry Ng, president director of BTPN, says: "Our research shows that digitally savvy people want a banking experience that is simple, smart, and safe, whereby everything can be done via a smartphone.

"As a bank which has a vision of making a difference in the lives of millions of people throughout Indonesia, BTPN has answered these demands through Jenius."

The Mobius hub is designed to be a temporary structure that can be dropped into any environment and moved across the country to promote the Jenius service. There will also be two permanent locations within shopping malls.

Features of the hub include client sign-up and learning zones, card printing, a seminar area for financial education and expert sessions, and a chill-out zone with drinks and snacks.

Speaking to *RBI*, Nic Preece, design director at allen international, says: "Jenius is a new bank, created by the BTPN organisation, to serve tech-savvy, young Indonesian individuals, predominantly through mobile devices and the web.

"Whilst BTPN is a well-established and highly respected bank within the Indonesian market, Jenius is a completely new bank proposition, and started with no customers.

The branches, and the Jenius Mobius Hubs, are designed to be lean, dynamic client-acquisition centres."

Finding an audience

Who is interested in this new offering? The traditional outlook is that digital options are firmly aimed at younger consumers, but is that BTPN's strategy?

"The target audience are young, affluent individuals, tech-savvy and comfortable with transaction though non-traditional channels.

"Indonesians aged 18-35 years are well educated, and many have world experience with foreign education and extensive travel.

"Disposable income levels are reasonably high, and this audience is used to eating out with friends, going on shopping sprees or weekends away," Preece explains.

"The new Jenius concept is designed around their lifestyle and allows them to split bills, pay by mobile wallet, save instantly, receive rewards, and manage their finances in real time. The interface is very youthful and easy to use."

Plans are certainly not small in scale for the Jenius Mobius Hub as there is a lot of potential in the Indonesian market.

Preece adds: "Indonesia is a highly populated country, but is made up of an archipelago of islands.

"Jakarta is the capital, and is a large modern cosmopolitan city; however, across the rest of the country there are only a handful of developed city conurbations and trade centres.

"The distribution and expansion model for Jenius is to start in Jakarta with between four and six permanent branches, and bolstered by Mobile Mobius hub units that will pop-up in malls and high-density public areas, to attract new customers, sign them up, and educate them on the use of the Jenius banking app.

"The expansion to five other major cities will happen over time, with one or two permanent branches in each city, again supported by Mobile Mobius Hub units.

"Once a critical mass of clients has been gained, the Mobius Hub experience will be extended into a partnership with one of Indonesia's most popular coffee shop chains." ■

BTPN Bank

- It was founded in 1958 in Bandung, West Java.
- The bank was listed on the Jakarta Stock Exchange in 2008.
- Its net profit for 2015 was around \$134.6m. For comparison, Bank Mandiri, arguably Indonesia's biggest bank, earned \$1.6bn net profit in the same year.
- BTPN Bank employs 14,535 members of staff and operates 86 branches, as well 961 sub-branches. ■

RBC's light-touch approach to City National

In its biggest takeover to date, in 2015 RBC paid $5.4bn to snap up the iconic City National Bank, the so-called 'bank for the Hollywood stars'. The deal is already proving to be a winner for both the acquirer and the acquired. Douglas Blakey investigates on the strategy following this major deal

A few years after selling its US branch network to PNC in 2012, Royal Bank of Canada (RBC) began thinking about how it might re-enter the American banking market. The bank's first foray with Centura Bank had not been particularly successful, so RBC's new chief executive, Dave McKay, decided that this time it would look at potential acquisitions through a different strategic lens.

Using that lens, RBC established a model acquisition based on more than 20 criteria, including the quality of management, profitability, growth potential, existing footprint, and the compatibility of culture. Several companies made the final list, but one stood out above the rest – City National Bank in Los Angeles.

The early courtship was not an immediate success, with City National's chief executive Russell Goldsmith initially telling McKay his bank was not for sale. Mike Dobbins, an RBC executive vice-president who worked on the pitch to City National with McKay, recalls a late-night dinner in 2013 with Goldsmith at a Los Angeles restaurant which did not go as planned.

Nevertheless, a deal was eventually struck and announced in early 2015 following a weekend of final negotiations. Interestingly, those negotiations included far more than price – they also focused on how the combined capabilities should be structured to serve clients in a way that wasn't previously possible, and would create a powerful platform for long-term growth in the US market.

Learning from its past mistake, RBC decided to take a 'light-touch approach' with integration this time around in order to preserve City National's core value.

That process began with the creation of an integration committee with senior representatives from the key businesses and functions from both organisations.

"It all started with a conversation about what we wanted to achieve and how we could do it collaboratively," explains Dobbins, who served as a facilitator for the integration. "We were buying a great company with great people, so our objective was to make sure it stayed great."

Goldsmith of City National agrees: "We both saw this as a partnership that would allow City National and RBC in the US to go much farther, faster with more resources, expertise and opportunities than ever before," he says. "So from the start, we approached the integration from the perspective of what would make a more competitive value proposition for both companies."

Most of the integration issues were relatively straightforward. From day one, the key control functions were successfully aligned, and City National's general ledger was electronically linked to RBC just one week after the deal closed. Rather than pushing RBC products and capabilities onto City National, the bank just "opened the company store and said choose the capabilities that make sense for your business," adds Dobbins.

Even the biggest piece of the puzzle – how to structure the combined US wealth management capabilities – was quickly and amicably resolved. The investment management and advisory services that RBC wealth management offers were viewed as additive and complementary to the wealth management capabilities already in place at City National, so they were combined under Goldsmith's leadership.

In addition to resolving structural issues, there was also the question of how RBC could earn the desired return on the $5bn it was paying for City National.

To start discussions, RBC gave senior executives at City National a set of financials and goals based on when they expected the acquisition to become accretive to earnings. To their delight, City National executives came back with more aggressive plans on how they could do even better, and sooner.

The fact that teams of people representing both companies would come up with more optimistic plans did not surprise Dobbins. After all, RBC was bringing to City National an expanded balance sheet, a higher lending capacity, a capital markets capability and a national wealth management platform and a willingness to invest in growth. And RBC was gaining enhanced capabilities in private banking, commercial banking, core banking, and trust and planning from City National.

"By working together in a truly collaborative fashion, the teams came to the conclusion that they could make one and one equal three," explains Dobbins. "We gave them the ingredients, and they used them to make the plan better."

Indeed, the combination of RBC and City National has created a much more competitive value proposition that is generating more business with current clients and helping both entities win new business. To illustrate the early success, Goldsmith points to an example of how RBC's financial advisers are helping to generate new commercial banking business for City National.

"On the day of the merger closing, we got a call from financial advisers at RBC who had a personal investment relationship with the principals of a company in Southern California with about $100m in revenue," recalls Goldsmith. "But the company was not happy with their bank – a rather large, well-known US money-centre bank."

As a result of that introduction and a terrific team effort, City National booked a $15m commercial loan, and several million dollars in deposits. They also issued credit cards to the company's employees, and signed the firm up for a full suite of treasury management services.

"The client is happy because they've improved their banking situation," says Goldsmith. "The financial advisers are happy because they don't have this other bank pushing to get their investment assets away from RBC. And City National is thrilled because we were introduced to a new client."

The combination of City National with RBC has also enhanced their capabilities to serve commercial clients, including those who operate on both sides of the border.

Interestingly, over 90% of RBC's commercial clients that are globally active are already doing business in the US. Some of them need credit, cash management, or a variety of banking services in the US that RBC really hasn't been set up to fully provide until its hook-up with City National.

In turn, City National sees increased opportunity to help their clients who do business in Canada, especially those in the entertainment business, through RBC's Personal and Commercial Banking division. In the US, the bank also sees plenty of opportunity in the corporate and institutional sector.

Goldsmith explains that as clients of City National get bigger and want to go public or gain access to public debt markets, his bank can now offer them these capabilities through RBC Capital Markets, including complex financial solutions such as the ability to do IPOs or M&A and structured products. Indeed, partnering with capital markets has already enabled City National to take advantage of opportunities with several companies in the entertainment and technology sectors.

As an example, Goldsmith points to a client in the biotech area who was about to do a secondary offering. "We introduced them to RBC Capital Markets, who got a key position in the offering," he says. "RBC received a fee, but we also kept City National in the bank group going forward to preserve and protect what we think is a terrific relationship with a growing company. So, again, the merger has really been beneficial for everyone involved."

Opportunity: New York City is home to three times more high net worth individuals than all of Canada.

RBC's larger balance sheet has also enabled City National to increase its lending capacity, which has proven particularly useful with its most substantial clients.

So what has the impact of this early collaboration been to the bottom line?

In the first 180 days after closing, City National experienced balance sheet growth of $4.5bn. And there is plenty of potential for additional growth, especially in City National's existing footprint in New York and California, which represents more than $6trn of investable wealth.

Even though City National's assets have grown considerably over the past few years, its market share in key markets outside Los Angeles remains less than 1%.

By leveraging the strength of its brand and business model with RBC, Chris Carey, the bank's executive vice-president and chief financial officer, sees significant growth potential ahead.

One example is New York City, which is the largest market outside of California and home to three times more high net worth individuals than all of Canada. In 2002, City National opened its first office in Manhattan with a handful of colleagues largely to serve the entertainment industry and private banking. Today, they have three offices in New York with $5.5bn in loans and deposits and more than 200 colleagues in the city.

Including these and other new initiatives, and the many synergies that will continue to be realised from collaborative efforts and cross selling, the bank is forecasting significant future growth. By 2020, Carey expects City National will generate approximately $1bn of pre-tax income, which is more than double its 2015 results. This translates to a CAGR of over 20% over five years.

With the City National merger looking so bright so quickly, RBC executives have sent a clear signal that they have learned from past mistakes and now know how to successfully integrate a new acquisition.

"From the beginning, we created an atmosphere of transparency and collaboration," says Dobbins. "We took a light-touch to integration, and empowered our colleagues at City National to keep building an exceptional bank. And we never lost momentum."

The results of that approach were not lost on City National's colleagues and clients, many of whom heard positive success stories retold across the organisation, which helped maintain the firm's high levels of employee and customer satisfaction throughout the integration and beyond.

City National has been able to recruit a record level of talented employees who like the bank's entrepreneurial spirit combined with the resources of RBC. In fact, the bank is on a path to grow its employee base by over 15% in 2016 alone.

"The strategic vision that RBC's board and its management had when they purchased City National, appears to me today to be even more promising and more exciting than we thought," concludes Goldsmith. "And certainly more promising than when McKay and Dobbins asked me to dinner back in 2013." ■

Saving millennials' savings

In the UK, saving has seen a downfall in popularity, particularly among younger consumers. With low interest rates flooding the market, few millennial consumers feel that they can save well or even save at all. New mobile services are hoping to change that perception. Patrick Brusnahan investigates

It is a common, and possibly unfair, assumption that younger consumers are not interested in saving their money.

According to research from peer-to-peer lending platform RateSetter, 26% of young Britons – between the ages of 18 and 30, do not save or invest anything. In total, 59% prioritised spending on going out and other luxuries above saving.

In addition, 62% of respondents said that they were clueless about savings and investment options. Only 27% were financially planning for retirement, and just over one-third of Britons under 30 years of age said they could not imagine owning a house unless they inherit one.

However, a poll of 1,000 adults from Bankrate.com found that millennials saved more. In total, 191 millennial adults reported saving between 6% and 10% of their income while that number dropped to 169 people for adults aged between 30 and 40 years old, dropping even further for those aged between 50 and 64.

The common theme appears to be that younger consumers want to save, but they simply do not know how, nor do they see the point.

Newer services for newer savers

A number of new platforms are being released to help millennials save some of their income.

Chip is one of them. Chip is a mobile app that links to your bank account and monitors your expenditure. Through this, it calculates an average expenditure and how much the user can save. It sends these savings to a separate account, which can be accessed at any time.

In addition, the interest rate can be increased if you refer people to the service.

Speaking to *RBI*, founder and CEO of Chip Simon Rabin says: "We are focusing on the millennial market, people between the ages of 20 and 35. They notoriously have quite a negative relationship with their money.

"We know from our own experiences and our peers that we don't seem to have a great relationship with our money. We use our overdrafts a bit too much. We probably don't have a great awareness of where and why we're spending, which then gets us into trouble and leads us to feel negatively about money in general.

"The view with Chip is to help solve that by proving to people that it is possible to get some control and start saving. We see saving as the foundation to getting a grip with your financial life."

"It doesn't matter what you earn, how often you get paid, or how much you spend, Chip will identify, albeit small, savings opportunities for you and automatically moves that into a savings account for you," he adds.

Moneybox, another new facility for savings, not only wants to help consumers save, but helps them invest.

The app has three methods of collecting money for savings; one-off deposits, weekly deposits and the interesting round-up service. This last one asks consumers if they want to round up purchases to the nearest pound. At the end of the week, the app puts the excess from your bank account into a stock and shares ISA.

The ISA has three funds, a cash fund, a global shares fund, and a global property fund. Users can set up their investment preferences, from cautious to adventurous, which determine how much money goes into each fund.

Facebook Plum

Plum, an AI-powered personal savings Facebook chatbot, has raised $500,000 in a Seed round led by 500 Startups' microfund.

The round also drew support from a number of entrepreneurs, including Demetrios Zoppos, co-founder of One Fine Stay; and Roy Tuvey and Eldar Tuvey, who founded ScanSafe, which is now part of Cisco.

Primarily aimed at millennials, Plum is bank grade secure and able to connect to and analyse any UK current account. The smart algorithm understands spending patterns, identifies income and bills and creates a unique profile for each one of its users. Then, every few days, it will calculate a small and safe amount of money to save, which is transferred to an individual's Plum savings account. Users can talk with the Plum on Messenger, ask it to save more money or withdraw money from their savings instantly back to their current account.

As an early employee of the international money transfer platform TransferWise, Plum co-founder Victor Trokoudes saw first-hand how fintech startups can dramatically shake up an established industry. Plum is the first start-up of its kind to address the savings problem, using intelligent algorithms to take the onus out of saving money.

"Ultimately, our aim is to enable every person in the UK to put money aside, whether that's just enough for a rainy day, or for something substantial like a house deposit. We know that a lot of people, particularly millennials, feel either that they cannot commit to saving a specific amount, or are not motivated to do so, so we want to do it for them."

Trokoudes went on to say: "Behavioural science tells us humans are not wired to save; instead, we actually prioritize our current desires over future goals. Plum's intelligence sidesteps our pre-programmed human tendencies, ensuring our future selves are looked out for." ■

Ben Stanway, co-founder of Moneybox, tells *RBI*: "We're trying to address two issues that people told us they have with their personal financial lives. One is that people struggle to set money aside in any structured way and not being happy with the options available to invest in or to save. If you think about the issue, people are saving less than they could. We hope people can get saving every day.

"So far, our target market is people primarily between the ages of 25 and 35 who have money to save, but don't get around to doing it. Either that or people who know about the world of investing but consider it too complicated and think they don't have enough money to get started."

Making it easy

Saving money and investing is often seen as a complicated and arduous task. Both of these start-ups are attempting to wipe away this notion.

Stanway states: "[Moneybox] takes a minute to set up and you can withdraw at any time free of charge. The user sets up their investment preferences and we give three options, cautious, balanced and adventurous.

"The cautious option puts more into the cash fund and less into equities; the adventurous option puts more into equities and less into the cash. The user can make the decision where the money goes between those three and can customise allocations at any time."

Chip also focuses on ease of use and instant setup.

"All you have to do is connect Chip to your current account and it automatically starts saving for you. It looks at your monthly incomings, your fixed outgoings and identifies your discretionary spending, what your average spending should look like and monitors how you behave in accordance to that average. It even goes back three months," Rabin explains.

"Whenever you spend slightly less than that average, it takes that money away from you at arm's reach."

Through this simplicity, Rabin has high expectations for interest in the service, as well as consumers taking up the option.

He says: "There's 14 million millennials and, unbelievably, 30% of them use their overdraft every month. We think that is a number that is far too big and proves the point about those users having a negative experience with their money.

"We're going after them; we think Chip will be very useful for those users. 14 million, 30% of them using their overdraft, those are the people that we can help the most at the beginning."

Working with and against banks

To attract consumers to save with newer technology can be a difficult task. While consumers may not be happy with their banks, they certainly trust them with their money. Moving that to a newer, unknown company is regarded as an uphill struggle.

"We've done a lot to address the issue of trust in general," Stanway states.

"We're authorised by the FCA, which is a two year process. We have Tier 1 investors backing us. Charlie Mortimer (co-founder of Moneybox) and I are experienced and ran billions of dollars in money management for 10 years. We do a lot to address the issue and I think the uptake has been significantly ahead of what we expected."

Rabin sees Chip as part of the future landscape of banking; apps linking into banking infrastructure and offering services that the behemoths cannot.

He says: "There was the retail banking report from the CMA that spoke about open banking standards and API banking. We see ourselves as the first example of how this will work.

"We are a third-party provider targeting a particular demographic of people who are able to plug into a number of retail current accounts and offer those customers a different or value-added service.

"From an open banking point of view, what tAPI banking is going to look like, this is exactly it. You are going to see a marketplace of apps that will sit on top of current accounts and offer a range of interesting and useful services that the banks themselves have not provided or have not been innovative enough in providing."

In addition, Rabin claims that the tremendous advantage Chip had over a bank was its agility and not needing to make changes through a legacy system.

He concludes: "How are the banks going to react to this? Are they going to kick, scream, and resist? If they do, they will eventually lose because the regulator will impose it upon them.

"Or will they actually embrace it and, in doing so, will they either invest or own parts of companies like us?

"Or will the banks look for revenue models elsewhere and allow firms like us to actually own the relationship?

"Some are saying there's a comparison to what happened in the telco market. In the early 2000s, there were three mobile network companies, but the regulator stepped in and allowed other operators to come in without any infrastructure cost and onboard mobile customers and sell to them with a deal with the network operator.

"Are we going to see the same thing in banking?" ■

Adding digital ID verification to mobile payments

So far, digital identity credentials have been the missing piece in the mobile wallet puzzle, making mobile payments vulnerable to fraud involving stolen card accounts. Robin Arnfield profiles two US fintech firms that wish to fill this gap with technology storing ID documents on smartphones in digital form

Birmingham, Alabama-based Credntia provides an app to verify the identity of people using mobile wallets to make in store payments.

The app is available worldwide with the exception of Brazil, China, France, India, Russia and Turkey.

Mobile wallets are vulnerable to fraud if issuers do not institute effective verification processes for card on-boarding, as criminals can load card numbers stolen through database breaches into them.

Credntia

In early 2015, several US banks experienced an average of 600 basis points of fraud from Apple Pay card onboarding due to security gaps in their card registration process, according to Julie Conroy, research director at US-based consultancy Aite Group.

Credntia enables consumers to scan driver's licences, passports and health insurance cards into a Credntia-branded Android or iOS app, and use these digital credential as proof of identity in a bricks-and-mortar store.

"When you pay with a mobile wallet at the checkout, you can be asked for your physical driver's licence," says Credntia co-founder and CEO Cody Winton. "Apple Pay and Android Pay are incomplete as they are susceptible to the fraudulent onboarding of stolen card numbers, and just focus on payments. However, if you pair them with an ID solution like Credntia, they become more secure."

Credntia is seeking partnerships with retailers to accept its app in their stores. "Existing Credntia users can prove their identity just by showing a merchant their digital ID in their phone's Credntia app," Winton says. "But Credntia can interface with a merchant's payment system as well. In addition to face-to-face shopping, I envisage Credntia being used for verifying ID in card-not-present mobile commerce transactions."

Verification

Credntia's onboarding verification process is designed to prevent someone from scanning a stolen ID document such as an altered driver's license.

"Our OCR process scans the details on the front of the driver's license, and checks that data with the data stored in the barcode on the back, to see if the license has been tampered with," says Winton. "If that data doesn't add up, we won't accept the scan.

"We also check the format of the data – the textual data on the front and the barcode on the back – against different types of credential formats, such as standard formats for US driver's licenses. For example, the location of the issue date on the front of a Californian driver's license is different to a Hawaiian driver's licence."

Although several US States as well as countries such as the UK and Australia are experimenting with mobile driver's licenses, there is no universal standard for scanning digital forms.

"That's why our approach is to scan physical ID documents," says Winton. "We want to set up partnerships so we can tap into Department of Motor Vehicles (DMV) databases and use their digital driver's licences in our app. Currently, we aren't able to verify ID credentials against government agencies' databases, but we plan to add verification features over time."

Winton says Credntia uses military-standard AES 256 encryption to secure data in its app. All data is stored in the user's phone, and Credntia is compliant with PCI DSS and the Health Insurance Portability and Accountability Act – a US regulation governing the privacy and security of individually identifiable health information.

"Even if someone could hack into an iPhone, they wouldn't be able to access ID credentials stored in our app," Winton says.

The difficulties with proving that identification is valid

A key challenge with Credntia is how does a law enforcement officer determine that the credentials such as a driver's licence or passport which a consumer has loaded into the app, are valid and are issued by the appropriate authority.

Ben Knieff, a senior research analyst at US-based Aite Group, says that US law enforcement agencies are not yet ready to accept digital forms of ID such as driver's licenses and car insurance documents.

"Digital ID isn't yet well accepted, and there are a lot of questions about what forms of digital information is admissible in court, and how that information is obtained," he explains.

ShoCard

California-based ShoCard has developed technology that lets users scan government-issued ID documents into its app. Users then write their ID information to the public blockchain for validation by a government agency, bank, telco or KYC services provider.

ShoCard uses public/private key encryption and data hashing to securely store and exchange ID data, which can include biometrics such as users' fingerprints, voice recording or photos of their face or iris.

"ShoCard stores all the data fields on the blockchain in the form of a one-way hash using the private encryption key on the user's mobile device," says Ali Nazem, ShoCard's vice-president of business development.

"The information includes biometrics and all the various fields on a driver's licence, passport, or government ID, such as name, address, birth date, and ID number.

"A ShoCard app user can then access different types of services or travel on planes, without having to present physical documentation each time.

"They just present their ShoCard and authenticate themselves via Touch ID on their iPhone or other biometrics."

ShoCard says that its approach to identity is different from existing solutions, in that a ShoCard user owns and carries their personal data within their mobile app and decides with whom to share it and which pieces of ID to share.

"Our clients are enterprises in the fintech, air travel, government and IoT verticals," says Nazem.

"ShoCard's app can be used to verify a cardholder's identity and authority to use their credit card for CNP transactions; verify bank customers' identities when logging into their accounts without compromising their privacy; register for and log into websites; and register once and then travel through airports with simple facial recognition."

Digital identity schemes

"A digital identity platform based on public key infrastructure, preferably blockchain-based, can improve many aspects of digital commerce in many areas: P2P, B2C, B2B, C2B," says Knieff.

"The primary challenge today is that there are many digital identity schemes that attempt to connect an online and offline identity, and that these initiatives are at a very early stage."

One example is the Fast IDentity Online Alliance, which has developed specifications for open, interoperable biometric- and physical token-based digital authentication mechanisms that reduce the reliance on traditional passwords.

"The key nut to crack – and the weakest link in the chain – is how to reliably bind a physical person to a digital identity," says Knieff. "After that, there are many tasks in encryption key management, but the binding of physical and digital identity is the number one requirement to build trust in digital ID among consumers and governments."

ShoCard is one of several ID technology vendors that lets people manage their own digital information online. "ShoCard lets you assert and manage your digital ID," says Knieff. "There is a huge shift underway which will lead to individuals owning their ID data through the blockchain. The true owner of identity information will become in control of that identity information."

Moving to digital ID credentials

Acuity Market Intelligence predicts that 650 million (80%) of the world's passports are now ePassports, with 826 million (92%) of global passports in circulation set to incorporate RFID chips and biometrics by 2020.

The US consultancy says 611 million smart card-based electronic National Identity Cards (eIDs) will be issued globally in 2016, with the figure growing to 786 million issued annually by 2020.

By 2022, smart, biometric physical identity credentials – including ePassports, eIDs, and driver's licenses – will start to be replaced by next-generation virtual credentials stored in mobile devices and accessed via biometric authentication, according to Acuity.

"By 2030, today's standard identity credentials will be obsolete," it says.

Maxine Most, Acuity's principal and lead analyst, says biometrically enabled smartphones will drive the overall move towards digital ID.

"Over 220 biometrically enabled smartphone models are currently on the market," she says.

"By 2018, all smartphones will include biometrics and by 2020, feature phones will be obsolete.

"The global deployment of this platform is the tipping point for full-scale adoption of digital identity." ■

Fintech moving away from the fringes of the sector

A constant debate within financial services is whether the stampede of emerging fintech companies is mere hype or a true form of disruption. Are they here to help banks or to replace them? What cannot be denied is that the fintech sector has come in hot, but just how hot? Patrick Brusnahan reports

The *World Fintech Report*, compiled by Capgemini and LinkedIn in collaboration with Efma, surveyed over 8,000 financial services customers in 15 countries to examine 'the most over-hyped and underestimated term the industry has seen in decades'.

Two steps forward, two steps back

According to the report, very few startups have managed to use their agility or innovation to fill holes in the customer experience left by incumbent firms.

This is despite an extremely large amount of investment, a reduction in barriers to entry, and customers' digital expectations and wants increasing.

However, traditional firms have struggled with their overwhelming legacy infrastructures, regulatory pressure and leadership strained by the balance of short-term profitability and long-term viability.

Conversations at the upper levels are concerned with the need for customer-centricity and the importance of developing customer-centric, rather than product-centric, solutions.

Whether they are actually taking and implementing this approach is debatable.

There has been a plethora of investment in the fintech area as well as multiple innovation labs, 'hackathons', internal fintech teams and acquisition of startups.

However, most of these investments have failed to deliver notable outcomes. Too often, innovation investments are 'too disconnected from the business or too close to the business and handcuffed by legacy culture'.

The perfect storm

According to the report, traditional firms which were once central to all financial relationships have seen their relevance diluted by fintech firms.

This is due to complacency on the part of incumbent firms, increased customer expectations, lower barriers to entry, greater access to venture capital funding, and accelerated technology enhancements.

All these factors have allowed fintechs to grow their presence.

Giants such as Google, Amazon, Facebook, and Apple have raised the bar in what customers expect from their providers. Now customers expect that level of service in every part of their life, including their banks and financial firms.

Speed is a neccessity

Traditional firms have been slower to respond to rising customer expectations. The fast pace of technology, particularly on mobile, has made the banks look slow. In the meantime, fintech firms quickly identified the gaps in service and began filling them with compelling offerings brought on by the latest technology to deliver better value propositions. They have even enticed new customer segments.

While fintech firms have seen this window of opportunity, banks have had to face increasing regulations, inflexible legacy systems, and siloed channels, adding to operational costs.

At the same time, fintech firms do not need to worry about existing systems or cultures. Technology, such as the cloud, also saves on investment costs.

Regulators, such as the Financial Conduct Authority (FCA) in the UK, are actively encouraging fintech firms by involving them in the early stages of drafting regulations.

New regulations such as PSD2 in Europe will provide an opportunity for fintech firms to act intermediaries between banks and customers.

Regulators are increasingly seeing the importance of innovation, but not all are as quick on acting upon that.

Venture capital funding

Venture capital funding in fintech has increased to a wild degree over the last few years with worldwide investment reaching nearly $25bn in 2015.

Initial indications may suggest that this pace is slowing with fintech deal volumes dropping 11% in the second quarter of 2016 compared to the same period the previous year.

However, it is still a massive amount of investment.

One theory is that this amount of capital is only giving the fintech sector an artificial lift, masking the flaws in business models, and they may not be able to compete in the longer term.

Making their way forward

The dynamic going forward between banks and fintechs is not clear. While technology has been known to end industries, such as movie rentals, it has history with working alongside the incumbent, such as e-books with books.

Traditional firms have little option but to acknowledge that fintech firms are having an impact and have shifted the terms of customer engagement. Fintech firms provide a challenge with their ability to adapt quickly when delivering customer-focused solutions at a low cost, something that incumbent financial institutions struggle to offer.

Globally, 50.2% of customers say they use financial services from at least one non-traditional firm for banking, insurance, payments or investment management, with the percentage highest in the Asia-Pacific region, at 58.5%. ■

■ CUSTOMERS USING AT LEAST ONE NON-TRADITIONAL FIRM FOR FINANCIAL SERVICES

China	84.4%
India	76.9%
UAE	69.6%
Hong Kong	53.5%
Spain	53.3%
Singapore	53.0%
Turkey	51.6%
UK	48.8%
US	45.8%
Australia	42.8%
Japan	40.6%
Canada	39.6%
France	36.2%
Belgium	30.4%
Netherlands	29.8%

Source: Capgemini

How can the Internet of Things improve the banking experience?

The Digital Banking Club's latest debate, at the formidable Law Society HQ in London, honed in on the Internet of Things and how it could aid financial services. The discussion covered a number of trends, including payments, wearables and customer needs. **Patrick Brusnahan** reports

Before an enthusiastic full house and a high-level panel comprising the newly published Digital Banking Club Power 50 and Rising Stars, the Digital Banking Club's live debate focused on just how the Internet of Things (IoT) might benefit financial services.

While the IoT may seem to some as a concept straight out of science fiction, Simon Cadbury, director of strategy and innovation at Intelligent Environments, says the reality is closer than many think.

He states: "The IoT is not the future, it is the here and now. Banking was one of the first industries involved with the IoT, via the ATM. There are exciting opportunities out there that will be realised. Payments are obviously an area with a lot of opportunity."

Kate Frankish, head of payments strategy at Tesco Bank, agrees: "Payments are an essential part of the IoT."

Teppo Paavola, chief development officer and general manager of new digital businesses at BBVA and The Digital Banking Club Power 50's Personality of the Year 2016, comments: "In [BBVA's] open platform, one of the most popular APIs was payment stats. You can do a lot with data. Banking has always been about data. The analytics have changed and the IoT allows us to do the same things better as well as new things."

Frankish added: "Data is difficult because we have so much of it. It's about getting the right mix."

"What has worked in the IoT has been solving the problem of inconvenience. What if everything can be done with your thumbprint at home?"

Richard Rowntree, the outgoing head of specialist banking at RBS Williams & Glyn and shortly to assume the role of MD Mortgages at Bank of Ireland, says: "There's a generational issue. You need multiple channels for different customers. You need a wide service offering. To convince people, it's about what they miss if they don't have the IoT."

Rowntree continues on the benefits stating: "We will be the last generation to know so little about our health. And if every house was connected, burglary would be nearly impossible."

Shashi Bhat, head of EMEA digital banking at Citi, warns that banks should not get ahead of themselves when applying this technology.

"We need an air of caution. Success and failure are not based on certain use cases, but on standards. Mobile payments became competitive and never really got standards going," he says.

Cadbury concurs: "The biggest barrier will be if consumers don't trust the IoT."

Ankit Chhajer, digital lead – customer experience design and sales innovation – at Royal Bank of Scotland (RBS), says that it could be used for a multitude of applications.

"The fundamental truth is that it's about what customers want. The IoT collects a real-time view. It makes customer pinpointing better," Chhajer says.

Bhat adds: "The benefit of being a large company is being able to play in all spaces. There are some stunning use cases. We are all consumers of the IoT, if anything."

David Webber, managing director of Intelligent Environments

A chance to experiment?

In November of last year, BBVA agreed to purchase a 29.5% stake in digital-only UK start-up Atom Bank. The chair of the debate, Douglas Blakey, asks Paavola if Atom gave BBVA a chance to experiment with the IoT.

Paavola says: "I hope both BBVA and Atom have learned, and can learn, from each other. Every bank needs an opinion on open banking. But it wasn't just Atom that attracted us: it was the UK. The UK is digital friendly, digital adoption is quick."

The banking sector is often described as one of the most trusted industries, but how long will this last?

"In the UK, people hate the banks, but they also trust the banks. People do not really own their data. We'd like to, but this is a continuing discussion. How is all of this going to be controlled?" Paavola continues.

"It's too easy to sit back and assume we have the trust. When you work with all of the big technology companies, they will eventually be trusted. They've seen that.

"Also, don't think that banks are so much

better at security because the top technology companies are very good at security. Banks will eventually get their security from them. If they have this agility, and if our great security is just a perception, they will be trusted because they know so much about me and they do it in a nice way. It might be only a matter of time."

"Younger generations understand the pitfalls of data," explained Frankish. "Data protection could, however, become more complex than it already is."

Rowntree adds: "There will be privacy concerns that scare people. You'd be surprised the amount of information that people give away."

However, despite the risks, Rowntree fully believes that the IoT is something that banks needed to take up.

"There is a completely new opportunity out there. If we don't do this, competitors will," he argues.

The payments space

A comparison starts to grow between the IoT and payments: not only how their developments were similar, but how they could link.

Bhat summarises the argument: "A lot of non-bank players invaded the payments space first, but are working into the IoT now."

A lot of industries have embraced it. Cadbury says: "Insurance is the industry benefitting most from the IoT at the moment. Autofinance is ripe."

"I'd like to see more collaboration between fintech and medical technology," Rowntree adds.

Frankish says: "It will help with education, financial and otherwise."

However, Bhat believes that its full potential had not yet been realised.

"Payments appear to have the biggest use case for the IoT," he says.

"It would be arrogant to think that we can compete with the best technology companies out there. The best have cutting edge technology. The idea that banks have the best technology is long gone. We do offer challenges in terms of scale. That face does attract technology companies."

Have banks tried to hire experts from technology companies? Is that the way forward to make banks more like fintech start-ups?

Simon Cadbury states: "You can try to recruit specialists, but technology is changing so fast, it's better to find someone with the right mindset and the ability to learn, as they can adapt and move on."

"Over the last five years, we have noticed it has to be an amalgamation of different skills," Frankish adds.

Signing up for an account

One area the IoT would make drastically easier is identity verification or account sign-up.

Frankish says: "Imagine a world where a customer has a digital passport that tells people who you are. You can go onto an application and tick it and then it instantly knows it is that person. It'll save reams of paper trails. There is so much data out there, we expect banks to be clever about it."

"You've got so much. You've got device profiling, you've got geo-location, if you can somehow reach all that and add social media as well you can make everything much easier" Chhajer continues.

"Only 25% of our customers, maybe a maximum of 30%, will have a happy experience opening an account."

Rowntree added: "It gets interesting as utilising data and the IoT starts to remove barriers to switching. If the IoT simplifies the application process, it opens the door to account switching."

Will we be allowed to do this?

One of the final points revolved around consent – mainly users' consent in how banks and other companies use their data.

Frankish states: "Banks have to adhere to conduct regulations. Conduct is about how we treat these people and their data. It has opened up into a wider capability. We're not sure we need to change the way we do things, but we need to understand the wider implications of data and how that fits into conduct."

Rowntree jokes: "I don't think we need to think about it too much because the regulator thinks about it a lot."

Cadbury concludes: "It's a good point and it's a point that can get quite complicated. It'll take them time to work these things out though." ■

Simon Cadbury: the internet of billions

If you think that the IoT sounds like the future then you're not alone, but you are too late; it is already here and it is already twice the size of the global smartphone network.

There are more than 2.6bn smartphone subscribers in the world and, while growth in that market is levelling off, Gartner expects the IoT to grow by 30% in 2016 to 6.4bn 'smart' objects; with spending on IoT hardware exceeding $2.5m a minute.

That's 5.5m new connected things every day.

Analysts expect the size of the IoT to swell to 20 or even 30bn things by 2020, and contribute more than 10% of the data – some 4.4 zettabytes – in our digital universe.

Within 10 years it could create as much as "$11.1trn a year globally in economic value".

According to Forrester, 19% of organisations in the financial services and insurance sectors are already using or offering IoT applications, and another 27% are planning to." ■

The panel

Douglas Blakey
Douglas Blakey is group editor, consumer finance at Timetric, chief of judges for the annual Retail Banker International Awards and elad market advisor for Timetric's retail banking research division.

Timetric produces and maintains more than 50 market-leading research reports and has undertaken bespoke consultancy projects for banks, vendors and their advisors.

Blakey practiced as a solicitor in Scotland before moving into business information and analysis. He maintains an editorial advisory board of leading bank executives, and is a regular guest banking analyst with the *BBC*, the *New Statesman* and other leading media outlets.

Shashi Bhat, Citibank
Shashi is head of digital banking for Citibank in London and is responsible for digital functionality and customer engagement. He has worked extensively in the digital arena for over a decade in India, Germany, and the UK, across marketing, content and platforms for retail banking, launched apps, payment gateway products and next-generation internet banking solutions.

He has a background in sales which has given him extensive experience in process digitisation and the customer experience. He is Eeperienced in Program management, eBusiness, operations, business development and sales.

Ankit Chhajer, RBS
Ankit is digital lead – customer experience design and sales innovation – at Royal Bank of Scotland. He delivers compelling, sustainable digital experiences, propositions and proofs of concept. He also helps to inform and direct the future strategy for the bank.

He is an agile practitioner, transforming digital and mobile journeys, and an experienced omni-channel and user experience enabler.

Prior to RBS, Chhajer graduated from GECRC with a B.Eng. in engineering and was vice-president of operations – global graduate internship programme at AIESE.

Kate Frankish, Tesco Bank
Kate has worked in various financial services roles for over 20 years, and has been with Tesco Bank for the last five. She successfully managed the product development of Tesco Bank's personal current account, from its initial ideation stage through to delivery of the final customer proposition.

In the PCA programme, she led the development of the business case and managed the commercial team to deliver all aspects of the target operating model. Frankish now heads up the payment strategy and authorisations team. The optimisation of payment journeys is a key remit of her team and includes working closely with the fraud team to understand pain points for customers to enact positive change.

Teppo Paavola, BBVA
Teppo has been at BBVA since May 2015 and is head of investing and launching new digital businesses.

Before joining BBVA, he served as head of global businesses and mergers and acquisitions at PayPal. He served as vice-president and general manger of mobile financial services at Nokia, was director of Respect Ventures Group, and is an experiences finance specialist.

As a founder and CEO of five start-ups, his finance experience stems from different positions at GE Capital in London, Stockholm and Helsinki. He specialises in business development and general management and has lived in several countries.

Richard Rowntree, Future Williams & Glyn, RBS (Bank of Ireland from November 2016)
Richard is the outgoing head of specialist banking for Williams & Glyn.

Previously, he headed up the mortgage business across three major UK banks. Rowntree began his career with Halifax, before moving to Lloyds.

Prior to his current role, he was national director for Santander's mortgage business. An expert in Mortgage regulation and advice, Rowntree shapes thinking across the industry. He has built good relationships with regulators, trade bodies and the fintech sector.

In November, he will join Bank of Ireland as MD, UK Mortgages.

Brazilian banks embracing social media

Brazil is a huge market, and one with almost equally huge potential. With a population of over 200 million, there are still a startling 65 million people over the age of 15 that are still unbanked. One way Brazilian banks are looking to attract this market is through social media. **Patrick Brusnahan** takes a closer look

The internet is huge in Brazil. According to social media and digital agency We Are Social, Brazilians spend the most time of all countries on the internet – on average, 5.2 hours per day.

Brazilians also top the list for the amount of time spent using mobile internet per day – registering an average of 3.9 hours. The country has an impressive national internet penetration rate of 58%.

In terms of active social media accounts in a country, the global average is 31% but in Brazil that figure is 49%. In fact, Brazilian social media users spend on average 3.3 hours a day on social media sites, second only to the Philippines, where users spend 3.7 hours.

In total, 42% of Brazil's population look at social media through a mobile device as well as on a computer. To put that into some context, the global average is 27%. The country has 103 million active social media users, close to half of the entire population and a 7% rise from 2015.

According to *RBI*'s research, Brazilian banks have seen their market's attraction to social media and focused on it heavily. In *RBI*'s YouTube Top 40, three Brazilian banks featured in the top five. Brazilian banks were also rated highly in *RBI*'s Facebook Top 100 and Twitter Top 60.

BRAZILIAN BANKS ON YOUTUBE, 2016

Bank	Views	Subscribers	Most viewed video
Itaú	218,246,437	130,197	22,804,360
Santander Brazil	72,247,356	31,062	5,645,777
Bradesco	61,919,967	35,838	7,567,307

Source: YouTube

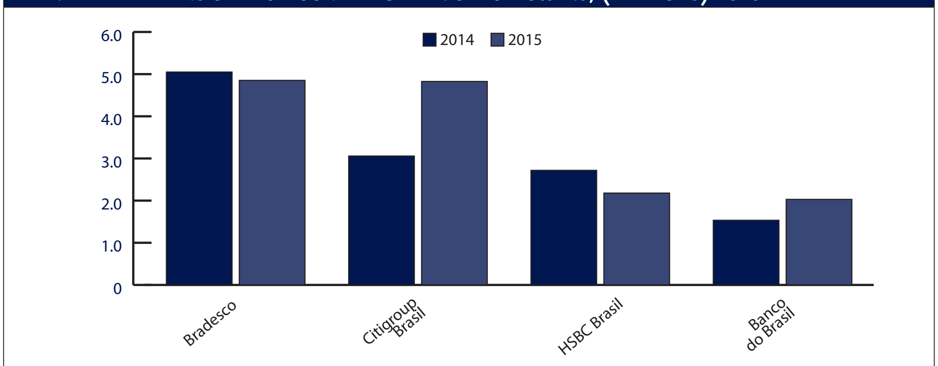
Itaú and YouTube

Brazil-based Itaú came first in *RBI*'s YouTube ranking of views attained, with close to 220 million, over double that of the second-placed figure.

An Itaú spokesperson tells *RBI*: "YouTube initially proved to be a hub for our content created for TV. Then we understood that digital was one of the most important ways to spread videos."

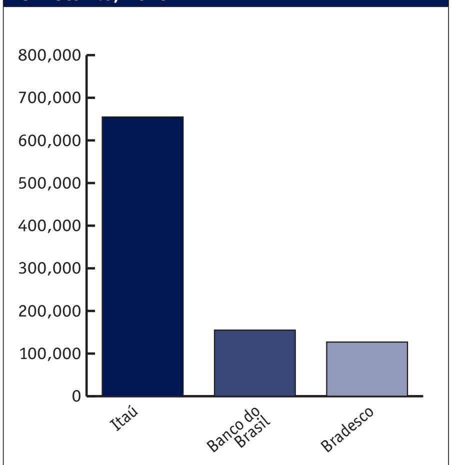
"Today, we create a variety of content, such as tutorials for our products, videos that pre-

BRAZILIAN BANKS ON FACEBOOK BY NUMBER OF FOLLOWERS, (MILLIONS) 2016



Source: Twitter

BRAZILIAN BANKS ON TWITTER BY NUMBER OF FOLLOWERS, 2016



Source: Twitter

mote financial education, and editorial content. All this helps us engage our audiences with the beliefs of the brand.

"The #issomudaomundo series, for example, brings a playful treatment to the views held by the brand. We have also launched two short films, one that supported the strategy of the 2014 Fifa World Cup, and more recently a short called DAD."

What prompted the use of a wide range of content?

"We gave less prominence to the logic of advertising and we thought more of the entertainment industry, in most cases using a documentary style.

Bradesco

Bradesco takes social media very seriously, no matter which form it takes.

Speaking to *RBI*, Luca Cavalcanti, Bradesco's digital channels director, says: "We believe that social networks make connections between people.

"Any action on these platforms seeks to expand and retain these connections, delivering an experience that makes sense to people's lives.

"One of Bradesco's missions is to be where people are generating conversations in the most appropriate speech for that channel and audience."

Bradesco attempts to do this through three pillars:

- Relationship – interacting with customers and non-customers, with answers usually delivered within five minutes over Twitter.
- Content – to generate engagement and promote a natural connection between people and Bradesco
- Digital PR – approach and involvement in a creators' ecosystem, such as bloggers, vloggers and web-celebrities.

With a diverse array of options on social media, it is hard to get any attention from the public. Bradesco realises this and offers as much as it can through its three pillars.

"On average, our engagement rate is 5%. The engagement depends on the post's goal. There is no magic formula," Cavalcanti explains.

"Much more important than selling a product or service is generating a relevant conversation the subject.

"If this is not the main goal, the chances of not achieving a good result are high."

But why does Brazil in general have such a love for social media?

Cavalcanti concludes: "Brazilians' behaviour on social networks is a cultural reflection. Culturally, the Brazilians are friendly; we are a very open and receptive people.

"We talk informally with those who we do not know and, in some cases, call someone we just met a friend.

"This behaviour is carried across into our digital reality." ■

SECURITY

Tesco Bank accounts hit by large-scale cyberattack

Tesco Bank, owned by the UK's largest retailer Tesco, has frozen accounts after an online heist that resulted in money being stolen from around 20,000 accounts. The bank launched a current account in June 2014.

Benny Higgins, the bank's CEO, said: "Tesco Bank can confirm that, over the weekend, some of its customers' current accounts have been subject to online criminal activity, in some cases resulting in money being withdrawn fraudulently.

"We apologise for the worry and inconvenience that this has caused customers, and can only stress that we are taking every step to protect our customers' accounts.

"As a precautionary measure, we took the decision on Sunday 6 November 2016 to temporarily stop online transactions from current accounts.

"This will only affect current account customers," Higgins added.

The bank, which manages 136,000 current accounts, said nearly 40,000 of the accounts had evidence of suspicious transactions.

However, the bank did not disclose the total amount of money looted by the fraudsters, or the nature of the fraud.

The bank has already started the process of refunding affected customer accounts.

The bank added that customers will be allowed to use cards for cash withdrawals and chip-and-PIN payments.

Bill payments and direct debits will continue as usual. ■

STRATEGY

ABN Amro Group names Van Dijkhuizen as CEO

Dutch banking major ABN Amro Group has promoted its CFO Kees Van Dijkhuizen to the role of CEO, replacing Gerrit Zalm.

Van Dijkhuizen, who joined ABN Amro in May 2013, supported the lender during its initial public offering (IPO) of shares in 2015.

ABN Amro said that as CEO, Van Dijkhuizen will be responsible for delivering the group's strategic targets announced to the market at the time of the bank's IPO in November 2015.

"He will, in consultation with NLFI, create the conditions for the Dutch government to further sell down the remaining shareholding," the Dutch lender said.

Van Dijkhuizen's appointment is subject to regulatory nod, which the bank anticipates to come in mid-February of 2017.

Van Dijkhuizen served as CFO of NIBC Bank from 2005 to 2013. He also held roles at the Dutch ministries of finance and economic affairs, including director general of the budget at the ministry of finance and treasurer general.

ABN Amro chairman of the supervisory board, Olga Zoutendijk, said: "Kees van Dijkhuizen has solid experience and a strong track record as CFO of ABN Amro, and has held multiple senior executive positions in the banking industry and the public domain. His experience, combined with his personal integrity and leadership style and extensive network, make him well-suited to lead ABN Amro."

In September 2016, the bank confirmed the departure of Zalm, who took charge of the bank during the financial crisis in 2009. ■

TECHNOLOGY

Denmark unveils Copenhagen Fintech hub

Denmark has opened its own fintech hub, Copenhagen Fintech, in collaboration with the Financial Services Union of Denmark, the City of Copenhagen and the Danish Bankers Association.

Billed as "Scandinavia's first co-working space dedicated to fintech entrepreneurs", the hub aims to support the country in the developing digital financial solutions.

The facility will be led by Thomas Krogh Jensen as CEO. He was previously development and digitisation director at Nordea Liv & Pension.

Financial Services Union Denmark's Vibeke Rittmann said: "With Thomas, we are getting a visionary and dynamic CEO with the right competences and the drive that is needed to realise Copenhagen fintech's ambitions of establishing strong ties between entrepreneurs, the financial sector and the research world."

The opening of the Denmark hub is the latest in the series of similar initiatives launched by different countries worldwide.

Earlier this month, Abu Dhabi Global Market launched a regulatory laboratory to support fintech innovation, while HSBC launched a research and development innovation laboratory for fintech in Hong Kong.

Last month, the US Office of the Comptroller of the Currency revealed detailed plans to launch a fintech innovation office. At the same time, the Ontario Securities Commission (OSC) set up a fintech innovation hub and regulatory sandbox.

During the same month, Japan's Mizuho Financial Group also unveiled plans to set up an innovation lab. ■

MOBILE

Citibank Citi Pay mobile wallet in 33 countries

Citibank has launched its own digital wallet, Citi Pay, to challenge similar offerings from Apple, Samsung Google and JPMorgan Chase.

The newly launched payment service is based on MasterCard's MasterPass platform, making the wallet available for use with numerous online merchants in 33 countries at launch.

The bank said the wallet service will enable customers with Android devices to make online and in-app purchases using the same online user ID and password that they currently use to manage their banking relationship.

The bank will launch Citi Pay to customers in Singapore, Australia and Mexico later this year.

It will be launched in the US only in early 2017, with online, in-app and tap and pay capabilities. The bank added that it intends to launch the service in additional markets at a later time.

Commenting on the launch, Citi head of global digital payments Barry Rodrigues said: "With more than 100 million customers in the fastest-growing cities in 19 countries, Citi is uniquely positioned to accelerate payment innovation on a global scale.

"With Citi Pay, we are offering our customers flexibility wherever and whenever they choose to make purchases."

Earlier this year in the US, Citi joined Early Warning's clearXchange network, which will enable Citi's online and mobile banking customers to send or receive real-time person-to-person (P2P) payments to or from customers of participating network banks. ■

M&A

Payment startup Affirm raises $100m from Morgan Stanley

Affirm, the company started by PayPal co-founder Max Levchin, has obtained a $100m lending facility from financial services giant Morgan Stanley.

The financial technology company said it will use the facility to continue its expansion of consumer-friendly point-of-sale financing at leading online and offline retailers.

Affirm offers consumers an alternative to traditional credit with a transparent loan product that enables customers to pay for purchases over time.

Affirm shows customers upfront exactly what they will owe – with no hidden fees and no surprises. Affirm also offers advanced technology and analytics that look beyond traditional FICO scores.

The fresh round of funding comes with the news that Affirm has tripled the volume of its loans in the last year.

Levchin co-founded PayPal with Peter Thiel, and was its chief technology officer for four years before it was bought by eBay in 2002. ■

M&A

Banco Popolare-BPM merger receives shareholders' nod

Shareholders of Banco Popolare and Banca Popolare di Milano (BPM) have given the go-ahead to a merger plan between the two Italian cooperative lenders.

Known as Banco BPM, the new combined bank will have €171bn ($188bn) in assets, making it Italy's third-largest bank. It will be headquartered in both Milan and Verona.

The merged entity will have 2,500 branches and over 25,000 employees. Banco Popolare shareholders will own 54% of the combined entity, while the remainder will be owned by shareholders of Banca Popolare di Milano.

The deal was announced by the banks in March 2016, and secured regulatory approval last month.

The merger was previously delayed as the two banks struggled to comply with higher capital requirements. However, in June 2016, Banco Popolare raised the €1bn it required to complete the merger with BPM. ■

STRATEGY

Deutsche Bank implements freeze on hiring

Deutsche Bank has implemented a company-wide hiring freeze in a bid to cut costs and boost profitability.

The bank will put new hires on hold at all its units, but will continue to make external hires for crucial functions such as compliance and anti-financial crime operations, according to media reports.

The latest move by the lender comes as it pushed forward a plan announced in October 2015 to lay off 9,000 employees and 6,000 external contractors.

Earlier this month, the bank announced plans to shed 1,000 jobs in Germany, on top of the 3,000 job cuts announced in June 2016.

Problems have increased for the bank recently, with the US Department of Justice's proposal of a $14bn settlement last month for the bank's handling of residential mortgage-backed securities and related transactions. ■

STRATEGY

UniCredit raises €552m from FinecoBank stake sale

Italian banking group UniCredit has raised €552m ($608m) by selling a 20% stake in its online bank FinecoBank as part of CEO Jean-Pierre Mustier's strategy to boost capital ratios.

The lender sold 121.4 million ordinary shares of Fineco at €4.55 per share, a discount of 5% to the last pre-announcement closing price.

UniCredit said that the stake sale will add around 12 basis points to its CET 1 ratio.

Following the completion of the placement, UniCredit is left with a 35% stake in Fineco.

The Italian lender added that it has agreed to a 360-day lockup period for its remaining holdings in the bank.

In July this year, UniCredit sold minority stakes in its Polish arm Bank Pekao and FinecoBank, as part of the strategic review. ■

RESEARCH

Consumers prefer traditional financial firms for digital services: CGI survey

CGI Group's latest consumer survey on digital financial services has revealed that over 75% of consumers want to acquire new digital financial services from their current financial institution or another traditional provider over a non-traditional provider.

The survey titled *Fintech Disruption in Financial Services* noted that 78% of consumers identified digital protection as a highly valued service, 83% said they are aware of this service and 52% said they intend to use it.

Of the 1,670 consumers surveyed, 61% identified personal financial management – including the ability to see all personal financial information in one place – as a highly valued service. Nearly two-thirds (63%) said they are aware of it and 37% said they intend to use it.

More than half (51%) of the respondents cited mobile payments as a valuable service, and 94% said they are aware of it with 53% intending to use this service.

The study found lack of trust to be the biggest obstacle to purchasing across all financial digital services, followed by perceived complexity and risk aversion.

CGI global lead for retail banking Kevin Poe said: "Work is needed to reduce the complexity of these digital services and aid purchase. New market entrants must find ways to overcome the hurdles of customer access and trust, and partnerships with banks provide a potential solution to these challenges." ■

RESEARCH

Remittances to developing nations expected to rise slowly in 2016

Amid a backdrop of weak global growth, remittances to developing nations are expected to increase at weak pace in 2016, according to a new report by the World Bank.

The Migration and Development: A Role for the World Bank Group report, said that remittances to low- and middle-income countries are expected to increase by 0.8% to $442bn this year.

The study found that modest recovery in 2016 was primarily driven by rise in remittances sent to Latin America and the Caribbean.

Low oil prices continued to be a factor in reduced remittance flows from Russia and the Gulf Cooperation Council countries. Structural factors also played a role. ■

PRODUCTS

Goldman Sachs launches online lending platform

Goldman Sachs has launched Marcus by Goldman Sachs, an online platform offering unsecured personal loans to consumers with credit-card debt.

The platform will allow borrowers to apply for no-fee personal loans of up to $30,000 and pay them off in two to six years. The loans will be offered at interest rates of between 5.99% and 22.99%.

The bank will not charge borrowers late or origination fees.

Initial loan applications will require a code mailed to pre-selected customers, the New York-based bank said.

Marcus by Goldman Sachs head Harit Talwar said: "For many who manage debt payments on high-interest rate credit cards, a straightforward personal loan is a better solution.

"Marcus offers an option for consumers who are searching for a simpler alternative to credit card borrowing, where rates can change and multiple fees can be charged."

Goldman Sachs is new to the consumer lending landscape. Earlier in 2016 the bank built its consumer banking business by acquiring GE Capital Bank's US online deposit platform, and eventually launched an online-only savings bank, GS Bank. ■

REGULATION

Wells Fargo CEO steps down amid sales scandal

Wells Fargo chairman and CEO John Stumpf has resigned, effective immediately, amid a scandal involving fraudulent sales tactics.

He will be replaced as CEO by the bank's president and COO Timothy Sloan.

Stumpf, who joined Wells Fargo in 1982, was appointed as CEO in June 2007 and chair in January 2010. His departure comes weeks after he was grilled by two congressional panels over the bank's abusive sales practices.

Last month, the bank was ordered to pay a $185m fine for the illegal sales practice of secretly opening unauthorised deposit and credit card accounts.

Following this scandal, the bank decided to eliminate all product sales goals in retail banking and dismissed 5,300 employees involved in the illegal sales practices.

Sloan, who will continue to be the company's president, joined Wells Fargo 29 years ago, holding various leadership roles in the company's wholesale and commercial banking unit such as head of commercial banking, real estate and specialised financial services.

Sloan was appointed president and COO in November 2015. At Wells Fargo he also led the wholesale banking group, and held positions as CFO and chief administrative officer.

Lead director Stephen Sanger will now take over as chair and independent director; Elizabeth Duke will become vice-chairman. Sanger has been a member of the Wells Fargo board since 2003, and its lead director since 2012, while Duke has been a member of the company's board since 2015.

"John Stumpf has dedicated his professional life to banking, successfully leading Wells Fargo through the financial crisis and the largest merger in banking history, and helping to create one of the strongest and most well-known financial services companies in the world.

"However, he believes new leadership at this time is appropriate to guide Wells Fargo through its current challenges and take the Company forward," Sanger said. ■

STRATEGY

Barclays to offload non-core Italian loan portfolio to IBL Banca

Barclays Bank has agreed to sell £260m ($319m) worth of its salary secured loans portfolio in Italy to IBL Banca for an undisclosed sum.

The sale is expected to reduce the bank's non-core risk weighted assets by about £170m, the British banking group said.

The deal is expected to be wrapped up in the first quarter of 2017, subject to regulatory approval.

The latest move is part of Barclays' strategy to boost profitability by disposing non-core assets.

In August 2016, Barclays completed the sale of its retail banking network in Italy to CheBanca!, although it retained its investment banking and corporate banking operations.

The bank is also planning to run down or exit its residual mortgage portfolio and other non-core retail, wealth and corporate loans in Italy over time.

Earlier this month, the bank agreed to sell its Egyptian retail and corporate banking operations to Morocco's Attijariwafa Bank. In May 2016, it sold a 12.2% stake in Barclays Africa.

Barclays Non-Core head Harry Harrison said: "Last week we announced agreements to sell our Egyptian bank and our UK Trust business.

"Today's announcement further highlights the momentum we have in Barclays non-core and the progress we're making." ■

PAYMENTS

Apple Pay arrives to ANZ customers in New Zealand

ANZ Bank New Zealand has announced that its customers with a Visa debit or personal ANZ Visa credit cards can now use Apple Pay to carry out transactions in the country.

When a consumer adds a credit card to Apple Pay, the actual card numbers are not stored on the device or on Apple servers. Instead, a unique device account number is assigned, encrypted and securely stored in the secure element on the device.

In stores, Apple Pay works with all of Apple's latest iPhones, including iPhone SE, iPhone 6 and later, iPad Pro, iPad Air 2, and iPad mini 3 and later, and Apple Watch.

ANZ CEO New Zealand David Hisco said: "More than 50% of ANZ Visa transactions are contactless and this number is steadily increasing as more retailers adopt contactless technology. Adding Apple Pay to our mobile payment offering will make it fast and convenient for more customers to securely make every day purchases wherever there is a contactless terminal.

"Following on from our highly successful goMoney mobile banking app, ANZ is pleased to continue leading the industry with innovative solutions for customers."

ANZ New Zealand head of digital and transformation Liz Maguire said: "Our customers asked us for Apple Pay and we're thrilled they can now use it, continuing our commitment to giving our customers innovative digital ways to do their banking. We're confident they will enjoy this easy, simple and secure way to pay without having to present cards or cash." ■

DISTRIBUTION

Lloyds axes a further 1,340 jobs

Lloyds Banking Group has announced a further reduction of 1,340 jobs, mainly branch staff, as part of an ongoing programme from the bank's chief executive, Antonio Horta-Osorio.

This follows plans announced in July to shed 3,000 jobs and 200 branches amid the uncertainty caused by the UK's decision to exit the EU. The cuts, expected to be effective by the end of 2017, aim to save the bank £400m ($493m).

Job cuts have been prevalent at Lloyds since the 2008 rescue of HBOS. That takeover led to 45,000 job cuts initially, followed by a further 9,000.

Union Unite branded the move 'horrific'. National officer Rob MacGregor said: "1,340 job losses within a taxpayer-backed institution is unacceptable." ■

SECURITY

UK financial fraud losses rose 25% in first half

Total financial fraud losses in the UK during the first half of 2016 increased by 25% to £399.5m ($490m), across payment cards, remote banking and cheques, reveals new data issued by the Financial Fraud Action UK (FFA UK).

Losses on payment cards including remote purchase fraud, lost and stolen cards, card-not-received, counterfeit card and card ID theft, grew by 31% to £321.5m, against £244.6m in the first half of 2015.

The FFA data shows that the prevented loss for cards stood at £475.7m.

Between January and June, remote purchase fraud increased by 31% to £224.1m, compared to £171.7m during the first half of 2015, the report said.

Banks' security systems continued to prevent the majority of fraud from taking place, with prevented fraud totalling £678.7m, according to FFA UK. This is equivalent to £6 in every £10 of attempted fraud being stopped.

There was a little boost in remote banking losses, up from £66.2m in the first half of 2015, to £70.6m, with a prevented loss of £103.2m.

FFA UK director Katy Worobec said: "Banks use a range of security systems to protect their customers but as these systems become more sophisticated, criminals have increasingly been turning to scams and exploiting data breaches to con victims out of their personal and security information, as well as money.

"Banks will continue to invest in advanced verification methods, including biometric validation and dynamic card security codes. We ask all consumers to be alert to scammers, which is why we recently launched the Take Five campaign.

"The industry takes its responsibility to combat fraud extremely seriously, but banks cannot stop all fraud on their own. It is essential all organisations with a role to play work together to better protect individuals and companies."

In order to prevent data breaches in future, the FFA UK has also requested all organisations that manage personal and financial data to improve their security systems, and urged customers to be careful of any unsolicited phone calls, text messages and emails to encourage customer responsibility. ■

REGULATION

RBI issues operating guidelines for payments banks

The Reserve Bank of India (RBI) has released operating guidelines for payments banks and small finance banks, players which aim to drive financial inclusion in the country.

In August 2015, RBI gave in-principle nod to 11 players for launching payments banks, while in September 2015 it gave approval to 10 for small finance banks.

Under the latest guidelines, the minimum capital requirement for both small finance banks and payment banks has been set at 15%, whereas the common equity tier I level for the two has been set at 6%.

Small finance banks and payments banks can open accounts without a wet signature, and instead rely on digital signatures and electronic verification.

Payment banks cannot lend and cannot accept deposits exceeding INR100,000 ($1,500). The payment banks can however, lend to their own employees from the bank's own funds.

"RBI will has no objection to payment banks making arrangements with any other scheduled commercial bank for amounts in excess of the prescribed limits. Such arrangement should be activated via written consent from the customer," RBI commented.

The regulator also said that payment banks could participate in the call money and collateralised borrowing and lending obligation market as both borrowers and lenders.

"These borrowings would, however, be subject to the limit on call money borrowings as applicable to scheduled commercial banks," the regulator said.

The banks will need to maintain a minimum investment of over 75% of demand deposit balances in government securities. ■

STRATEGY

Citi to sell consumer banking operations in Brazil and Argentina

Citi has agreed to offload its consumer banking business in Brazil and Argentina to Itau Unibanco and Banco Santander Rio respectively, for undisclosed sums.

The US lender will retain its corporate and investment bank, commercial and private bank operations in the country.

Citi Latin America CEO Jane Fraser said: "Brazil is a strategic market for Citi and is an essential part of our footprint and global network.

"We have been in Brazil for more than 100 years and we will continue to grow our market leading franchise serving our institutional and private bank clients, leveraging our global presence and generating better returns on our assets and capital for our shareholders."

"Argentina is one of Citi's most important markets in Latin America and its future is extraordinarily promising. We have been in Argentina for more than 100 years and are committed to supporting growth and progress in the country," Fraser added.

Both deals are subject to regulatory approval ■

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MasterCard looks to selfies for security

Biometric security is at the front of the financial sector's mind, and fingerprint recognition has been boosted by the technology already installed on some smartphones. However, every smartphone has a camera so photo recognition is taking off, and MasterCard just joined the fray. **Patrick Brusnahan** writes

Verification via a photo – or 'selfie' – is not a new concept. HSBC has just announced security verification via a selfie for certain customers. In addition, USAA Bank and Alibaba have previously announced plans. Lloyds Banking Group even announced a similar platform in 2015.

MasterCard has followed suit and rolled out Identity Check Mobile for European and North American customers, which implements selfie and fingerprint payment technology.

Having a payment giant such as MasterCard backing the technology can only boost its use, but why has it decided to integrate new biometric forms of security?

Speaking to *RBI*, Bob Reany, executive vice-president of identity solutions at MasterCard, says: "Why more than one modality? Because we're MasterCard."

With such a huge market in the physical world, it is a slight risk to move into the digital, particularly biometrics, which is not yet a mainstream method of security globally.

"What's driving us into this? There's a problem. In the old, physical world, which is still a huge amount of our business, people walk into a store with a chip card and they know what to do and the issuer gets a whole bunch of data.

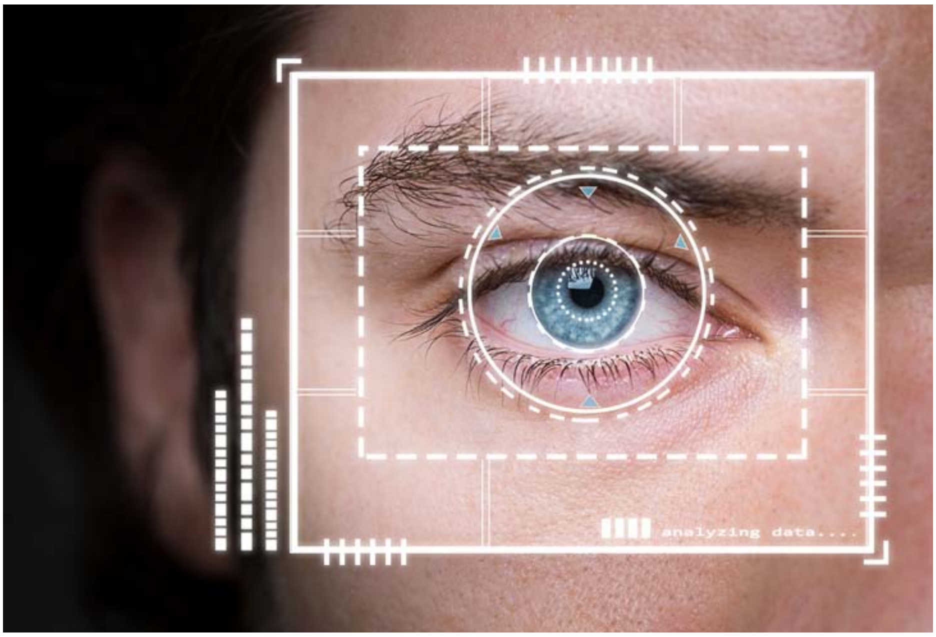
"Consumers use their PIN, we find that is very attractive – the approval rate is close to 96% – and fraud related to those transactions is very small. That's a good model and that's over 80% of our business most days," Reany explains.

"Digital is not the same: Approval rates are much lower because the issuers are not getting the data they want. The typical chain of trust in the physical world does not exist in the digital world.

"So what do you have to do? You have to take new technology and apply it to the digital world or you'll see people move away.

"The difference we're seeing is that the digital world didn't have the same tool set as the physical world. The digital world is growing so quickly, you better get going and make sure that people can authenticate themselves," Reany continues.

"When you have a card in your hand, we're pretty sure it's you. But a mobile device, we don't know it's you and that makes a huge difference to a consumer's ability to successfully transact."



Selfies

While selfie security is gaining prominence in the sector, it is not regarded as the most reliable solution, with false negatives and positives aplenty. Reany is adamant that it is the right choice though.

He says: "It is more pervasive; a lot of the devices have great cameras. Even the lowest in the price range. Even though it might just look like a selfie, there is a lot going on. We use geolocation, device ID and behavioural analytics.

"We're able to use more emerging types of biometric modality because we have a lot of other data in other things that we're considering when we're making decisions.

"There are standards on how well these things have to perform with regards to its false acceptance and false reject rates.

"We have found that facial recognition can meet those standards and is coming along quite nicely," Reany adds.

"There has been a lot of investment and innovation in biometrics. We are not just starting this; we have been working at it for a while."

While Identity Check Mobile is now also available in North America, it was originally launched in Europe. This was partly due to increased regulation in the region after the institution of PSD2.

"PSD2 has laid a problem on the banks' laps. There's a new standard called Strong Consumer Authentication that requires multiple factors, including your device, your location, and your biometrics.

"They're saying you must have multiple-factor authentication and you cannot get away with just a static password anymore," Reany explains.

"The regulation in markets like Europe, which is a leading market in terms of their thinking in this area, is going to drive the banks to say 'I need to change what I have'.

"Those markets are in the process of trying to absorb these regulatory changes. There's been a huge announcement put at their feet and we're trying to help solve it. That's why we aimed at Europe first."

Reany concludes: "I'm not too worried about the number of users. The main measure will be the number of successful transactions. It will be successful if we have a great user experience and people can use it to get what they want." ■

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