Chartered Banker

Winter 2019

The future of banking

Open mic:
FinTechs v incumbents – and the winner is?

Davidson column:
The Lord Mayor of London shares his views on a bright future.

Country spotlight:
Australia's banking sector in focus.

Consumer debt:
Educating the next generation of customers.

Fighting financial fraud

What more can be done to help stem the tide?

Who pays?
Is the bank or customer to blame when financial fraud takes place?

Supporting vulnerable customers
Examining how banks can protect them.

Fraud prevention
Stopping customers from being duped.

Global action, local impact
Exploring fraud measures being adopted in other countries.

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EDITIONS FINANCIAL

Chartered Banker
The future of banking

The front line

A new look – and a new institute - for the new year

Simon Thompson, Chief Executive

The Institute of Bankers in Scotland was born in 1875 – the first professional institute of bankers in the world. To mark our centenary in 1975, we received our first Royal Charter and became the Chartered Institute of Bankers in Scotland. As we enter 2019, we celebrate receiving our new Royal Charter and becoming the Chartered Banker Institute, the UK's professional body for bankers with growing global impact and influence.

The award of our new Charter recognises our collective efforts and considerable successes in enhancing and sustaining professionalism in banking over the past 10 years. We remain extremely proud of our heritage, and of the "Scottish principles" of banking on which we were founded and continue to promulgate. Becoming the Chartered Banker Institute ensures we are relevant to bankers across the UK and beyond, and gives our growing membership a new, global identity linked by the commitment to high standards of professionalism we all share.

The New Year also brings in a new-look Chartered Banker magazine, now to be published quarterly and supported by much more digital content. There are many familiar features as well as exciting new ones. And, for our inaugural edition, we are privileged to have the Lord Mayor of London contributing our 'Davidson' column – named after the first President of our Institute.

We are always keen to hear the opinions of our members and those involved in the wider financial sector. Another addition, 'Open Mic', does just that and we hope it will help to spark further debate on social media as to whether the future of our industry belongs to incumbents or FinTechs, or indeed neither.

> "As we enter 2019, we celebrate receiving our new Royal Charter and becoming the Chartered Banker Institute."

Our industry continues to evolve at pace and the Institute is at the forefront of providing the right qualifications and skills required for current and future generations of bankers to adapt and thrive. And as we ease ourselves into another calendar year, it's with much anticipation and excitement that I announce our Young Banker of the Year competition is now open for submissions.

The standard of entries received every year is truly inspiring. In this issue we hear from Alistair Gilfillan, 2018's winner, on the impact the competition has had on his career and how he continues to develop his excellent idea to help low-income households establish a savings buffer.

Finally, I would like to take this opportunity to wish all members of the Chartered Banker Institute a happy, healthy and prosperous 2019. CB

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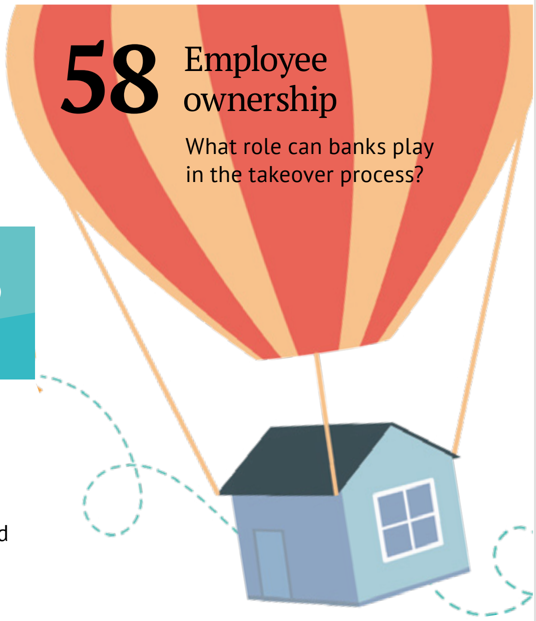
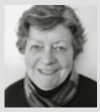


The professionals in this issue

Caroline Wayman is Chief Ombudsman and Chief Executive of the Financial Ombudsman Service, which resolves over 400,000 complaints a year. She is also a member of the board of the Claims Management Regulator and the board of the Crown Prosecution Service. p15

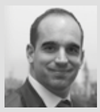
Jonathan Fisher QC is a leading barrister and financial crime expert who is Visiting Professor in Practice at the London School of Economics. His specialisms include fraud, money laundering and proceeds of crime. p20

Gregor Mowat is the Chief Financial Officer and co-founder of LOQBOX, a FinTech start-up that helps people build their credit history by saving instead of spending. He is a former partner of global audit and advisory firm KPMG. p40



Elizabeth Isele is Associate Fellow, Global Economy and Finance, at Chatham House, the Royal Institute of International Affairs, and founded The Global Institute for Experienced Entrepreneurship, which supports cross-generational experience and entrepreneurship. p47

Joanna Elson OBE is Chief Executive of the Money Advice Trust, the charity that runs National Debtline and Business Debtline. She was previously Executive Director at the British Bankers’ Association and in 2010, was awarded an OBE for services to people in debt. p53



Simon Harrington is Senior Policy Adviser – Public Policy at The Personal Investment Management and Financial Advice Association (PIMFA), a trade association for the personal investment management and financial advice sector in the UK. p60

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People & numbers

The cost of poor customer onboarding

MoneyLIVE's 'The Future of Retail Banking Report 2018/19' was produced in association with the Chartered Banker Institute. The report found that customer onboarding is ripe for transformation using artificial intelligence (AI).

Organisations invest a lot of time and money in attracting new customers. However, the onboarding process can be a major pain point:

- 40% of consumers have abandoned bank applications
- 39% of those did so because they took too long to complete
- 34% left the process as they were asked for too much personal information.

The average time it takes for an incumbent bank to onboard a new customer is 26 days, while for some online-only banks, the process can take a matter of minutes.

93% of the 600 senior banking figures surveyed agreed that it is more crucial than ever before for banks to cut the application process to a minimum.

2019 – the year biometrics replace pins and passwords?

GlobalData's 2018 Consumer Payments Insight Survey suggested that biometrics will replace or supplement banking PINs and passwords this year. The survey revealed that 67% of banking customers either agreed or strongly agreed that they'd be happy to use their fingerprints or other biometric information to secure their payments.

One of the key findings was that 16% of consumers globally have been victims of payment fraud over the past four years. Could this be the year that biometric-based protection in the form of finger vein technology, facial recognition and fingerprints becomes more mainstream in a bid to reduce friction and fraud in the payments system?

Facts & Figures

16%

of consumers globally have been victims of payment fraud over the past four years

£20m

the government's investment in the Clean Growth Fund

32%

of people in the UK are not saving any money each month

Christmas debts set to run and run...

A recent survey by MoneySuperMarket found that 31% of people expected to spend more than they could afford on Christmas 2018. And these subsequent debts using payment methods such as credit and store cards would still not be paid off by the end of March 2019 by 28% of those who had overspent. The festive spending spree pushed up the average credit card debt in the UK to £740. And according to analysis by the TUC, household debt in the UK totalled £428bn in 2018.

Reducing authorised push payments scams

From summer 2019, name checks will be introduced on bank payments in a bid to reduce the amount of money lost by bank customers to authorised push payment (APP) scams. In the first six months of 2018, £145m was stolen by fraudsters who duped customers into transferring money into their accounts. It is hoped that introducing Confirmation of Payee, in addition to the sort code and account number matching, will help to prevent money reaching the criminals. It should also provide more peace of mind to potentially vulnerable customers.

The UK's Green Finance Strategy for 2019 and beyond

This Spring, the government will publish the UK's first ever Green Finance Strategy. One of the strategy's main aims will be to integrate green principles across the financial services sector as well as outlining plans to maintain the UK's position as a global leader in green finance.

In addition, a new Green Finance Institute will be established through co-funding from the government and City of London. And the government will further demonstrate its commitment by investing up to £20m in a venture capital fund called the Clean Growth Fund. This investment will be boosted by at least the same amount from private investors.

And finally, the government will host a national conference followed by a number of regional workshops this year to bring together stakeholders to start delivering the various green finance projects currently in the pipeline.

The Department for Business, Energy and Industrial Strategy has further demonstrated its commitment to green finance through the new UK PACT (Partnering for Accelerated Climate Transitions). This £60m technical assistance programme is designed to share the country's skills in this area with partners across the world. China has been chosen as the first partner, with a particular emphasis on harmonised green bond standards and green asset performance analysis.

Payments across the pond

An article by the American Bankers Association (ABA) highlighted that creating a more engaging digital banking experience will be a key focus for organisations in 2019. As well as making life easier for customers, quoted research by Fiserv found that this is likely to also boost the bottom line, with those who used multiple digital applications from their bank generating an additional 16% revenue on average. The findings also stated other benefits including a 10% increase in digital engagement compared with face-to-face transactions and a 41% rise in bill payment use.

Meet two of our newest qualified members

Marco Rubli
Certificated member and Relationship Manager at Bank J. Safra Sarasin in Switzerland. First member to complete our Certificate in Green Finance.

The Green Finance Certificate is the world's first benchmark qualification for Green Finance. Developing financial services professionals' knowledge of the science behind, and the principles and practice of Green Finance.

Thomas Martin
Chartered Member and Regional Director, Lloyds Banking Group. First individual to complete our Chartered Banker by Experience qualification.

The Advanced Diploma in Banking and Leadership in a Digital Age (formerly known as the Chartered Banker Diploma) is the Institute's gold-standard qualification. Leading to Chartered status, it is recognised globally in setting the standard for individuals and firms who seek to achieve the highest level of excellence and professionalism in banking.

People & numbers

New faces at the FPC

BANK OF ENGLAND

The Bank of England has announced that Dame Jayne-Anne Gadhia and Dame Colette Bowe are to join its Financial Policy Committee as external members this year. They will replace Richard Sharp and Martin Taylor, who are stepping down stepping down at the end of Q1 2019 and Q2 2019 respectively.

Announcing the news, Chancellor of the Exchequer, Philip Hammond said: “The Financial Policy Committee’s importance to the protection and resilience of our economy cannot be overstated, which is why we have some of the finest talent in finance on it. The insight and experience that both Dame Colette and Dame Jayne-Anne bring will be valuable assets to the Committee’s vital work. I would like to thank Richard Sharp and Martin Taylor for their significant contributions to the Committee over their terms, and I wish them all the best for the future.”


Dame Colette Bowe


Dame Jayne-Anne Gadhia

Coconut smashes crowdfunding target

Coconut is a business current account that uses Open Banking technology to combine banking and accounting in one simple product. One of the main benefits is the automation of accounting and tax using rich, real-time payments data.

At the end of 2018, Coconut launched its new combined Limited Company current account and invoicing tool after raising over £2m through crowdfunding, exceeding its original target of £500,000. The automating of bookkeeping and tax tasks will make it easier for directors of small companies to get on with the day-to-day running of their businesses. With 5,000 businesses pre-registering for the account in 2018, this year looks set to be a busy one for the innovative company as it looks to build upon its sole trader and freelancer customer base of approximately 4,500 account holders.

Coconut.


Sam O’Connor, CEO, Coconut

One third of people still aren’t saving

Research published at the end of last year by specialist bank Aldermore found that 32% of people in the UK aren’t saving any money. And of those who are doing so, the largest number (31%) were doing so for their retirement.

Three quarters of those surveyed believe it’s important to save, however, between 2017 and 2018, the percentage of pre-tax income people put aside fell from 8% to 7% last year.

There were certain long-term savings goals that also saw a year-on-year reduction in the percentage of savers, with buying a house (20% to 16%), university fees (8% to 5%) and a wedding (6% to 4%) all seeing a decrease.

For many savers, there is an ongoing battle between putting money aside for short-term and long-term goals at the same time. Of those surveyed, 36% stated this was the case.

Institute agenda

IIBF 90th Anniversary

The Indian Institute of Banking and Finance (IIBF) celebrated its 90th anniversary in 2018. Over the years IIBF, which started as an examination body in 1928, has expanded its activities into education, training, research, and consultancy to become an educational body focusing on professional excellence.

"This journey of 90 years has been filled with remarkable success as well as challenges and obstacles. It has been a journey of creating history, venturing into new areas, only to emerge as leaders, capitalising on its vision and professional spirit," says Dr J.N. Misra, CEO of the Institute.

The Chartered Banker Institute signed a mutual recognition agreement with IIBF in 2017 with the aim of improving the international education and career opportunities for bankers and financial services professionals worldwide. Under the agreement Certified Associates of the Indian Institute of Bankers (CAIIB) have their qualifications recognised by the Institute and are able to become Chartered Bankers by completing our Professionalism, Ethics & Regulation module.

Institute Managing Director, Giles Cuthbert, spoke at the IIBF 90th Anniversary Conference on 25 September 2018 in Mumbai. He took the opportunity to meet with IIBF colleagues and we look forward to further opportunities for collaboration.

The new look *Chartered Banker* magazine has launched

Following feedback from our members and to make the most of our new website at www.charteredbanker.com, we are moving towards a more integrated approach between our magazine content and the articles and information published online by the Institute.

In order to facilitate this change, from this issue we have moved to a 64-page quarterly magazine. As part of this change we will have additional magazine features and a stronger online presence that's 'always on', including regular blog posts and 'Readymag' formats of each magazine's special report. You can take a look at the Readymag reports by visiting https://digital.charteredbanker.com with all other content available from within the Knowledge Hub on the main website.

You'll find the new magazine retains all of your favourite features and we'll also be introducing new ones, including more international features, opinion pieces and regular contributions from Institute members.

You'll have spotted that it's not just the content that's changing; we also consulted with members on developing a new look and feel for the magazine. Opinion was divided between those who loved the existing design and those looking for a more dramatic change. We've tried to strike a balance with a clean, elegant design that reflects the Institute brand but remains warm and inviting for readers.

One other new feature will be the introduction of a quarterly e-newsletter with highlights from the magazine. We hope it will encourage those members who don't receive a hard copy to take a look online. And don't forget, we also record an audio magazine so you can listen to Chartered Banker while you're on the move.

We look forward to sharing this new content with you in 2019 and we'll be seeking your feedback soon.

WEBCAST:

Career Development – Nudge your way to a mentor network

Presenter: Darryl Howes Msc
Thursday 21 February, 1pm (GMT)

Success takes teamwork. No one can do it all on their own and interacting with new people is important. We never know who we might meet and the effect they may have on our professional life and career.

Nurturing key relationships that can facilitate career and personal development is something that all successful people do. And they build this network continually and consistently.

How can you build a network of mentors, advisers and contacts and what's the best way to go about doing this? Business psychologist Darryl Howes MSc will provide practical tips and advice, with insight drawn from social science and a 30-year career in financial services.

For more information or to book go to: www.charteredbanker.com/event

EVENT:

Managing Millennials:

Understanding how to get the best out of your workforce

Research suggests that a significant generational divide exists between millennials and their older colleagues, including attitudinal differences around flexibility, recognising achievement, business ethics and management styles. Organised jointly with ICAEW Manchester and Manchester Metropolitan University, this session will highlight why millennials are an asset to your business, and how adapting to their needs is the key to success in attracting and retaining them.

Date: 12 March 2019
Venue
Clock Tower 5
Principal Manchester
Oxford Road
Manchester
M60 7HA

Schedule
08:00 Registration and light breakfast
08:30 Presentation
09:30 End of presentation and Q&A
09:45 – 10.30 Networking
10:30 Close

EVENT:

Emerging Banking Leaders Programme

1–5 April 2019
University of Cambridge, Judge Business School

The programme is organised by the Asian Banking School and the University of Cambridge, Judge Business School and supported by the Chartered Banker Institute. It has been designed to help participants address the strategic requirements to drive the change necessary for their organisation's digital banking transformation. It has been designed specifically for high-potential talent on a fast track to a leadership position with the hope that these Emerging Banking Leaders will be the ones who will carry the change forward for their financial institutions over the coming years.

For more information go to: www.charteredbanker.com/event or visit the Asian Banking School at https://bit.ly/2SerOAa

SPECIAL REPORT

Fighting financial fraud

Bank transfer fraud is Britain's fastest-growing crime and scams of all kinds are hitting customers and banks hard in the pocket. This Special Report looks at financial crime from a range of perspectives including ethics, supporting vulnerable customers and examines how other countries are tackling the fight against financial fraud. We hear from a range of experts to provide a balanced view of the state of scams in banking today.

"Bank transfer fraud is Britain's fastest-growing crime, with victims losing £145.4m in the first six months of last year – 44% higher than the same period in 2017."

SPECIAL REPORT

Who pays?

When a customer unwittingly authorises a payment to a fraudster, who should pick up the bill?

Bank transfer fraud is one of Britain's fastest-growing crimes, with victims losing £145.4m in the first six months of last year – 44% higher than the same period in 2017.

Known as 'authorised push payment' (APP) fraud, this type of scam involves the genuine account holder being tricked into making the payment to a fraudster. Part of the rise is down to increased identification and reporting of this type of fraud during 2018, according to trade body UK Finance. It began collating and publishing data on APP scams in 2017, when victims lost £236m – an average of £3,000 each – across 43,875 cases.

Criminals use a range of 'social engineering' tactics to commit this crime – in other words, psychological manipulation – such as deception and impersonation. "In an impersonation scam, fraudsters contact customers by phone, text message or email pretending to represent a trusted organisation, such as a bank, the police, a utility company or a government department," UK Finance explains in its 2018 *Fraud the Facts* report.

The report continues: "Often the approach claims there has been suspicious activity on an account, account details need to be 'updated' or 'verified', or a refund is due. Criminals use these fraudulent approaches to trick the victim into authorising a payment to them. Other common scripts include impersonating bank staff or police officials and claiming the customer's local branch is under investigation and that money needs to be transferred to a 'safe account'."

Sending fake invoices to businesses, offering bogus investment opportunities and online auction scams are other tactics. Romance scams – where the victim is convinced to make a payment to someone they've met, often online through social media or dating websites – also accounted for 4% of APP losses in the first half of 2018, with £5.3m lost across 571 cases.

Customer protection

If a customer authorises the payment themselves, current legislation means they have no legal protection to cover them for losses – which is different from an unauthorised transaction. So, who pays?

UK Finance says £30.9m of the £145m lost through APP scams in the first half of last year has been returned to customers. But the industry recognises more needs to be done and this year a new industry code is being launched to reimburse the victims of authorised push payment scams.

SPECIAL REPORT

The Payment Systems Regulator, the economic regulator for the UK's £75 trillion payment systems industry, has led this work through the creation in February 2018 of the APP Scams Steering Group. This comprises industry and consumer group representatives and has been consulting on the new voluntary code, known as the Contingent Reimbursement Model. The voluntary code, due to be published early this year, aims to make it harder for criminals to commit this type of fraud. It also sets out ways in which consumers can be vigilant and take reasonable steps to protect themselves, while giving them greater levels of protection and support from their banks. Importantly, the code proposes the principle that where a consumer has met their requisite level of care, they should be reimbursed.

Ruth Evans, Independent Chair, the APP Scams Steering Group, says: "This is a unique initiative bringing together the industry and consumer groups to set out how best we can tackle this issue – and really help those people who've become victims of these devastating crimes. Importantly, the code asks banks to hold themselves to account and for consumers to take steps to protect themselves."

New measures

Under the draft code, banks and other payment service providers would take measures to tackle APP scams, including using analytics, employee training and other tools for detection. Providing customers with effective warnings that they're at risk could help prevent APP scams from taking place. Responding to APP scams – for instance by delaying a payment while an investigation is conducted – and if necessary, carrying out timely reimbursement, are also key elements of the draft code.

On the question of who pays and how, the steering group has proposed a number of options, but remains open to suggestions.

In September 2018, when the group published the draft code, it stated: "The Steering Group has identified that there may be instances where a victim of an APP scam has met their requisite level of care, and so should be reimbursed, but no bank or other payment service provider involved in the payment journey has breached their own level of care. The Steering Group has not been able, so far, to resolve the question of who should meet the cost of reimbursements in these circumstances.

"The code asks banks to hold themselves to account and for consumers to take steps to protect themselves."
Ruth Evans, APP Scams Steering Group

"The Steering Group will continue to work hard during the consultation period to consider and identify a sustainable funding mechanism through which to reimburse consumers in such a scenario. In addition, the Steering Group will continue work to consider the evidential approach that underpins the code, agree a mechanism for how disputes between banks and other payment service providers can be resolved, and agree the governance of the code once it is finalised."

Payment scenarios

Possible scenarios outlined in the consultation document include:

- Creating a contribution mechanism across all parties with an ability to prevent APP scams from occurring (for example, firms, telecoms companies, data handlers)
- A transaction charge on higher risk and higher-value payments to be directed into a fund
- Creating different types of firm accounts, with those able to conduct higher-risk and higher-value transactions charged a fee
- Allowing customers to obtain an insurance policy, either compulsory or voluntary, to insure against the no-blame scenario
- Imposing a fine on a firm in a 'shared-blame' scenario, where an equivalent amount to the value of the scam is transferred into a fund
- Continuing to explore the possibility of legislative changes to unlock dormant funds or redirect funding from relevant regulatory fines (for example from data loss and control weaknesses)
- The possibility of a government-run scheme similar to the Criminal Injuries Compensation Scheme, which administers a compensation scheme for injuries caused to victims of violent crime in England, Scotland and Wales.

The Payment Systems Regulator is also consulting on the introduction of confirmation of payee – an important tool for preventing APP scams.

This would require banks and payment service providers that are participants in the Faster Payments System to be capable of receiving and responding to confirmation of payee requests from other payment service providers by 1 April 2019. They would also be required to send confirmation of payee requests and present responses to their customers by 1 July 2019.

Complaints rules

The Financial Conduct Authority is also involved in the fight against APP fraud and announced new rules in December 2018 on the complaints procedure in these cases.

Where their own bank is not at fault, victims of APP fraud previously couldn't complain to the bank receiving their payment. Following consultation, the FCA announced that firms receiving these payments must handle complaints about them in line with complaints handling rules in the FCA Handbook. The FCA says its work in this area seeks to reduce the harm experienced by victims of push payment fraud where they believe the bank who received the money did not do enough to prevent it.

Christopher Woolard, Executive Director of Strategy and Competition, FCA, says: "The FCA takes APP fraud and the harm it causes to consumers very seriously. Now victims of APP fraud can make a complaint to the payment services provider receiving their payment and, if they're not satisfied with the outcome, can refer their complaint to the Financial Ombudsman Service."

The FCA has also introduced new requirements for payment services providers to report data on the complaints about alleged APP fraud that they receive, which take effect from 1 July 2019. This data will be used to inform FCA supervisory work.

Rising trend

While authorised push payment fraud is rising, UK Finance says unauthorised fraudulent transactions made using payment cards, online and telephone banking and cheques, fell 5% in 2017 to £731.8m.

However, the Financial Ombudsman, which was set up in 2000 to independently resolve complaints between consumers and companies, is seeing a rising trend in overall fraud, with technology helping to drive criminal activity.

It received more than 8,500 fraud and scam complaints in the last financial year, up 17% on the previous year. The figure includes all types of fraud including chip and PIN disputes, cash not dispensed from ATMs, identity theft and online transfers.

Caroline Wayman, Chief Ombudsman and Chief Executive, the Financial Ombudsman Service, says: "It's often loopholes in new technologies, rather than in old ones, that fraudsters are using to their advantage. The scams we're seeing are getting more sophisticated and often involve the use of complicated techniques that enable a fraudster to take control or manipulate a consumer's personal computer or phone. For example, the first step towards being scammed may be putting details into an identical, but fake, banking website – or responding to a text message that, on the face of it, looks like it's from your bank."

In unauthorised fraud cases, the current payment services regulations state that, unless the customer has deliberately or with gross negligence failed to comply with their obligations, then banks are legally obliged to refund unauthorised payment fraud within 24 hours. There is no similar legal protection in cases of authorised fraud. In either case, the real person responsible for the crime is the fraudster – and not the consumer or the business.

"Often the approach claims there has been suspicious activity on an account, account details need to be 'updated' or 'verified', or a refund is due."
UK Finance

"The FCA takes APP fraud and the harm it causes to consumers very seriously."
Christopher Woolard, Financial Conduct Authority

"Complaints about fraud and scams involve – whether it's accepted or suspected – the actions of a criminal third party," Wayman says. "So it's understandable that, in many cases, both the bank and their customer tells us in strong terms that they're not responsible for what happened. And this makes it much harder to reach an answer that both sides are happy with. In these types of cases, we'll consider whether the payment was authorised, what steps each party took and how much information the customer gave to the scammers. We'll expect to see clear evidence that banks have thoroughly investigated the complaint – and to give careful thought on what else they could do to protect their customers and their money." CB

SPECIAL REPORT

Supporting vulnerable customers

With 50% of Britain's adult population potentially at risk at any one time, it's vital that the financial sector puts systems in place to protect them.

Vulnerable customers are particularly at risk from financial fraud and are a key focus for the banking industry this year as the Financial Conduct Authority (FCA) consults on new guidance to better protect consumers. "Any consumer can become vulnerable at any time in their life, for example through serious illness, bereavement or loss of income, the regulator states in its discussion paper, Our Future Approach to Consumers. The FCA expects firms to pay attention to possible indicators of vulnerability and have policies in place to deal with consumers where those indicators suggest they may be at greater risk of harm."

Nisha Arora, Director of Consumer & Retail Policy, the FCA, believes the industry has made significant progress regarding the treatment of vulnerable consumers in recent years, with many instances of good practice. "For example, introducing firm-wide policies on vulnerability, appointing Vulnerability Champions to raise internal awareness of work the firm is doing, and reworking staff incentives towards consumer outcomes rather than call times, and other measures that could result in inadequate consumer support," Arora says.

"Many firms have also worked with charities, such as the Alzheimer's Society and Macmillan Cancer Support, to help design products and policies for specific vulnerabilities. We want to see consistent, good standards across the industry, with these examples of good practice being widely adopted."

Industry consultation

The FCA plans to consult early this year on guidance for firms on the identification and treatment of vulnerable consumers. It follows consultation on a new Duty of Care to be placed on firms to enhance good conduct and culture in financial services, and ensure consumers are protected.

"As well as providing greater clarity to firms and promoting best practice across the sector, this guidance will give us a basis to monitor and assess firm practices," Arora explains.

"Vulnerability is a complex subject. As we found in our Financial Lives Survey (2017), 50% of the adult population is potentially vulnerable at any one time, which means they are at greater risk of harm occurring or of suffering harm if things go wrong. We know that vulnerability can be transient; that many different circumstances could make someone vulnerable; and that many vulnerabilities can be hidden and it can be difficult to identify when people are in vulnerable circumstances.

"Vulnerability is a complex subject. 50% of the adult population is potentially vulnerable at any one time."
Nisha Arora, Financial Conduct Authority

"There has been good progress and practice adopted across the industry and our guidance will continue to build on the progress already made, helping to ensure a consistent level of good practice with all of the firms we regulate. We want our guidance to be useful for firms, and for consumers to benefit from positive outcomes and interactions with their financial service providers."

The FCA defines a vulnerable consumer as: "Someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care."

Financial crime

But in cases of financial fraud, any victim is potentially vulnerable. Arora continues: "We require all authorised firms to have systems and controls in place to mitigate the risk that they might be used to commit financial crime. Any customer who has fallen victim to a scam is potentially vulnerable at that time, and we expect firms to take reasonable steps to treat all customers fairly."

To help consumers avoid falling victim to scams, the FCA recently launched a public education campaign called ScamSmart. This includes materials designed to raise awareness of situations when consumers might have been targeted by an illegal or fraudulent activity and how to avoid falling victim to such schemes. Government-backed financial advice service the Money Advice Service has also published a beginner's guide to scams, alongside more detailed information on what to look for and how people can protect themselves.

Part of the FCA's work on consumer protection includes an occasional paper on the policy implications of an ageing population and how to better support older people. "While older consumers are not necessarily vulnerable, they are more likely than other groups to experience transient or permanent vulnerability," the FCA says. "There is scope for financial services firms to do more."

Potential approaches include training staff to notice when a customer is experiencing difficulties and ensuring that, if appropriate, they're quickly referred to a specialist team. Firms and advisory bodies could also be encouraged to help older people understand a range of issues, including dispelling myths and highlighting the risks of PIN and password sharing.

Older people

Age UK, the UK's largest charity working with older people, notes that some scams particularly affect the elderly, such as postal mass-marketing scams, impersonation fraud, courier fraud, doorstep scams, pension and investment fraud.

Phil Mawhinney, Policy Manager, Age UK, says: "In some cases, fraudsters deliberately target older people because they live alone or are socially isolated. Older people can also be targets due to being ill or living with cognitive impairment."

In the UK, an estimated 850,000 people are living with dementia, while half of people aged 75 or over live alone. But with scams becoming increasingly sophisticated, it's not just older people who can find them hard to spot.

"Any consumer can become vulnerable at any time in their life, for example through serious illness, bereavement or loss of income."
Financial Conduct Authority

"For example, those using technology to make it appear as though a text message or phone call is from a person's bank," Mawhinney explains. "When questioned, a senior banker recently said he wouldn't be able to tell a real text from a fraudulent one. These impersonation scams particularly affect older people, with an average loss of £11,000."

Age UK is calling for banks to do more to prevent fraud and is part of the steering group set up by the Payment Systems Regulator to introduce a voluntary scam reimbursement code. "Banks are in a stronger position than customers, particularly vulnerable ones, to spot suspicious activity, effectively warn customers, delay risky payments and weed out fraudsters who bank with them," Mawhinney argues. "In addition to helping to spot and stop scams, banks should also provide greater reimbursement for victims, particularly those who are vulnerable."

Support should also include referring victims to other organisations that can help deal with the huge financial and health impacts fraud can have. Age UK believes bank branch closures are heightening fraud risk by channelling customers into online, telephone and mobile banking channels that they may be less confident using or may feel are not as secure as in-branch banking.

Age UK has produced two free information guides, Avoiding Scams and Staying Safe, with practical steps to help older people protect themselves against fraud. These include not buying from doorstep sellers; using an answerphone to screen your calls; keeping passwords and PIN numbers safe and making sure you're using a secure website before entering any personal details. CB

SPECIAL REPORT

Preventing fraud

Is enough being done by banks and customers at the first line of defence?

The UK's financial services industry stopped £1.46bn of unauthorised fraud in 2017, according to trade body UK Finance. That's equivalent to £2 in every £3 of attempted unauthorised fraud across payment cards, remote banking and cheques.

Industry-wide efforts to tackle fraud include the national government-backed awareness campaign Take Five To Stop Fraud, which offers straightforward, impartial advice to help people protect themselves. The banking industry also sponsors a specialist police unit, the Dedicated Card and Payment Crime Unit, which tackles the organised criminal groups responsible for financial fraud and scams.

Banks themselves are investing millions of pounds in advanced security systems and awareness-raising initiatives to protect their customers. Lloyds Banking Group says it has sophisticated, multi-layered defences in place to help protect customers from scammers, including real-time fraud detection systems to decide whether activity on an account is the customer or a fraudster.

"If we see activity on their account that may be suspicious, we'll ask them to call our fraud department to confirm it's really them," explains Paul Davis, Retail Fraud Director, Lloyds Banking Group. "If it's really the customer making the payment, it will take them a few extra minutes, but this means that we're able to stop most fraud attempts and protect the account. We'll also send a text message and display a message in their internet banking account overview to confirm recent requests that might be suspicious."

> **"We have developed a number of new techniques to rapidly analyse data, spotting telltale signs, patterns and behaviour to halt fraudsters in their tracks."**
> Paul Davis, Retail Fraud Director, Lloyds Banking Group

Technology and training

Biometric technology that analyses customer behaviour helps Lloyds make sure it's a real customer giving instructions in their online bank account.

"This technology builds a detailed profile of how a customer uses internet banking – in other words, what's 'normal' for them – which is very difficult for a fraudster to mimic," Davis says.

Lloyds was also the first organisation in Europe to introduce Pindrop, a patented technology that analyses 147 different factors in the audio of a phone call to create a unique signature, enabling contact centres to authenticate callers and detect fraud.

Aside from technology, staff are crucial in disrupting fraudulent activity. Lloyds is one of more than 50 financial organisations signed up to the Banking Protocol, a scheme that enables branch staff to alert local police to suspected fraud, with an immediate response to the branch. At least £25m of fraud has been prevented and around 200 arrests made since the introduction of the scheme, which was piloted in London before the start of a national roll-out in 2017.

Davis continues: "Branch colleagues receive regular training to identify and take action when they see suspicious activity on an account. For example, large, one-off withdrawals, multiple withdrawals out of keeping with the usual account activity or if a customer appears ill at ease when making a withdrawal."

Spotting money mules

'Money mules' – people who are tricked by fraudsters into receiving and transferring cash – are the focus of another Lloyds initiative designed to prevent fraud. The mule-hunter scheme was piloted in Leeds as a collaboration between the bank's fraud, anti-money laundering, IT and innovation teams. Mule hunters have stopped more than £1m being transferred to fraudsters' accounts since the beginning of 2018.

"We have developed a number of new techniques to rapidly analyse data, spotting telltale signs, patterns and behaviour to halt fraudsters in their tracks," Davis explains. "It can identify mule accounts and block them using the new defences. We've been successful because we haven't just been looking out for large credits arriving into accounts and blocking this money. It's much more complicated than techniques focused solely on amounts – as these often relate to genuine purposes – such as buying a house or paying for medical costs, car, weddings or holidays."

At Royal Bank of Scotland, keeping customers safe and secure is a bank-wide priority. "We believe that knowledge is power and that's why we have invested, and continue to invest, in awareness campaigns," says Julie McArdle, Customer Security Manager, RBS.

"For example, our community bankers are working locally in branches, libraries and coffee shops to inform the public about fraud and scams we are seeing. Our social media messaging helps update users on the latest scams. We also deliver awareness sessions by webinar and in person to business customers, from small microbusinesses to large, corporate organisations. And we've run PR and marketing campaigns specifically to raise awareness of fraud and scams."

The bank asks customers to take sensible precautions, and to trust their instincts. This includes using strong passwords and taking time out before responding to a request for personal or financial information. RBS customers can also download free IBM Rapport security software. This shields their online banking details and also protects their card and personal details when shopping online.

Spotting the signs

In another step to help customers spot the warning signs, RBS has committed to providing Friends Against Scams training to one million people by 2020 and 40,000 colleagues across the bank. Friends Against Scams was set up by National Trading Standards, which gathers intelligence from around the UK to combat rogue traders and internet scams. It aims to protect and prevent people from becoming victims of scams by working with communities to raise awareness and cascade messages about scam prevention and protection.

Technology can help banks identify fraud – but it can also help criminals perpetrate it. McArdle continues: "With new technology comes new opportunities for everyone, including criminals. We ask customers to look out for any suspicious approaches; be it by email, phone call, text message or even in person, and to report these to us.

"We know that the victims of financial crime not only suffer a financial impact but often they'll experience a strain on their mental and emotional well-being too, so we use systems that help us to identify, protect and inform customers if we think their account is at risk."

"Our community bankers are working locally in branches, libraries and coffee shops to inform the public about fraud and scams we are seeing."
Julie McArdle, Customer Security Manager, RBS

RBS group subsidiary NatWest sponsored the development of the British Standards Institution's new code of practice on protecting customers from financial harm as a result of fraud or financial abuse. The code, PAS 17271, gives guidance on how to recognise customers who might be at particular risk from fraud and financial abuse and how to assess the potential risks to the individual. This can include those in vulnerable circumstances, either temporarily or permanently, which can affect their ability to communicate, understand, make decisions, or take actions that are in their best interests.

McArdle added: "We take protecting our customers seriously, which is why we were delighted to be involved with and sponsor the British Standards Institution's new code of practice on protecting customers from financial harm as a result of fraud or financial abuse." CB

SPECIAL REPORT

Global action, local impact

What action is the UK taking to combat the ever-rising tide of cybercrime – and what can we learn from other countries' strategies?

The UK's biggest financial fraud challenges, in global terms, are cybercrime and compliance. For the first time, cybercrime has risen to be the number one fraud risk faced by UK businesses, experienced by nearly half (49%) compared with 31% globally, according to the latest edition of PwC's Global Economic Crime and Fraud Survey.

Organisations in the UK are also spending more than ever on compliance – more than half (54%) saw an increase in their compliance spend over the past two years, compared with 42% globally. International efforts to tackle financial crime include the creation of new public-private partnerships to share information between governments, law enforcement agencies and businesses.

Last September the UK government opened a new National Economic Crime Centre, which aims to reduce the impact of economic crime – including fraud, money laundering, international corruption and counterfeit currency – on the UK's society and economy. It draws together expertise from across law enforcement agencies, government and the private sector.

Collaboration is key

This is the kind of collaborative approach to tackling fraud that the UK excels at, says Jonathan Fisher QC, a leading barrister and financial crime expert who is Visiting Professor in Practice at the London School of Economics.

"There are enormous efforts in this country to work together in private and public sector partnerships," Fisher says. "There are very strong initiatives, for example, on credit card fraud, where the big banks are very busy co-operating with the police on investigating this type of fraud."

If there's one thing that European countries do slightly better than the UK, it's their court system, Fisher adds. "A number of countries have a court that can deal with both civil and criminal processes at the same time," he explains. "So, if a victim has lost money and sues for alleged fraud, the court is able to compensate the individual – and also move towards criminal procedures. We can't do that in the UK because we have this rigid distinction between criminal and civil process. It can be clumsy, particularly if you look at compensating victims for their losses."

Stretched resources

National agencies such as the Serious Fraud Office are key protagonists in the UK's battle against fraud, in collaboration with local police forces. But resources are stretched.

"I think we do our best," Fisher says. "But one common denominator you'll see is that the fraud-fighting authorities are cash-starved. They're limited in what they can deliver, so I do think there's a gap in our attack of fraud. In reality, politicians don't see fraud as being as important as it is. There's a saying that there are no votes in fraud, so why would politicians spend more money investing in it? If the processes for recovering money that is fraudulently taken were better and more sustainable, we'd find economically that the investment in fighting fraud would start to pay off. But we don't seem to be at that stage yet. What really needs to be done is more resource needs to be invested in the prosecution of fraud at all levels."

Relationship risks

In its poll of 7,200 respondents across 123 different territories, PwC's 2018 Global Economic Crime and Fraud Survey found only 49% of global organisations said they'd been a victim of fraud and economic crime – though the actual number is suspected to be much higher.

While there is growing awareness of the perils of economic crime, too few companies are fully aware of the individual risks they face. One of these is 'customer friction' – the risk of alienating customers with frequent fraud alerts.

PwC says: "As a customer, it can be reassuring – at first – to know a company is continuously monitoring fraud in the services it provides. But if that monitoring leads to frequent or repetitive alerts, that reassurance can quickly turn to irritation. This is known as customer friction. And it is a growing challenge for organisations as they seek to strike the right balance between acting appropriately to fraud red flags and being overzealous in alerting their customers." CB

"More resource needs to be invested in the prosecution of fraud at all levels."
Jonathan Fisher QC, London School of Economics

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OPEN MIC

Does the future lie with FinTechs or incumbents?

In the first of our new Open Mic features, 17 finance professionals offer their insights on this burning industry question.

SIMON THOMPSON
Chief Executive,
the Chartered Banker Institute.

"If you'll excuse the pun, it's not a binary choice. Incumbents are already some of the largest FinTechs, utilising FinTech ideas and ethos to serve customers better. FinTechs are trying to scale, or partner with incumbents, to better reach a larger market. And incumbent tech firms are offering an ever-wider array of financial services. Choice is good for customers - the future belongs to them."

ALISTAIR GILFILLAN
Chartered Banker Institute Young Banker of the Year 2018 and Manager, Market Risk Reporting, Lloyds Banking Group.

"Challengers are bringing innovation and new ideas into an established industry. We may see one or two emerge as established household names, however incumbents are adjusting, becoming better at innovation, more agile and adapting at an increasing pace. Face-to-face banking will still be important in the medium term, for example when customers take out a mortgage, making the incumbent's branch networks valuable. Trust and reputation remain central to banking; there are also benefits of scale, with big banks more able to manage their balance sheets to reduce risk and generate superior returns ultimately benefiting shareholders and customers.

"While there could be disruption and consolidation in the industry, the future lies with incumbents reinventing themselves to meet evolving customer needs."

BERNARDO BATIZ-LAZO
Professor of Business History,
Bangor University (Wales).

"A combination of technological change and regulatory innovations have opened growth opportunities around transactions previously within incumbent organisations established in retail financial markets. Many participants in these markets can draw a direct line to activities all the way back to the early stages of capitalism in the 18th century. Meanwhile, the activities of new participants or so-called FinTech start-ups, date back to a handful of years or even months. One would be mistaken to think that all the long-established incumbents will continue to exist unchanged. By the same token, it is naive to think of disruptive innovations or obtuse to believe that FinTechs will rise to dominate these markets. The most likely scenario will be combination of current incumbents and FinTechs, resulting from a process of mergers, acquisitions and bankruptcies."

"Incumbents are already some of the largest FinTechs, utilising FinTech ideas and ethos to serve customers better."
Simon Thompson

CHRIS WHITEHEAD
CEO & Managing Director,
Financial Services Institute of Australasia (FINSIA).

“Banking income comes from a customer base and balance sheet built up over many previous years – a huge advantage for incumbents. Subject to regulation, less agile incumbents are vulnerable to consolidation.

“Agile, well-capitalised FinTechs will attack the most attractive parts of the value chain, but will consolidate into larger players.

“Who else will thrive in this climate? Banking niches? Social media firms, technology providers and retailers? Global payments entrants e.g. Paypal and Union Pay? They will disintermediate incumbents and commoditise core banking functions.

“Will incumbents, trusted to be secure, re-establish trust in their motives? Will those who can innovate establish transactional trust? We will see an acceleration in change – and changed players.”

DARA ALBRIGHT,
FinTech Influencer,
adviser and investor.

“I think that this is best answered with the following questions:

- In 1998, did the future lie with Blockbuster or Netflix?
- In 1999, did the future lie with Excite or Google?
- In 2007, did the future lie with MySpace or Facebook?

If history is any guide, I wouldn’t bet the future on an incumbent.

Change is the only thing we can ever truly bank on, yet it’s the one thing that people most fear betting against.”

FAISAL HUSSAIN
Director Academic Operations,
The Institute of Bankers, Pakistan.

“The financial model of the future will be derived from user needs and requirements, rather than the devised plan. If we review the recent disruption by technology in the business models of the hospitality industry by Airbnb and in urban transportation by Uber, it will be evident that technology has created ease of operations and a flexible model suited to the masses, largely responsible for their popularity.

Similarly, FinTechs across the globe are working to come up with flexible features that suit the masses. Cryptocurrency or online token-based payments, also create ease of operations and flexibility, which is the need of the hour for the financial model, therefore this mode of payment should be regulated rather than ignored.”

“The financial model of the future will be derived from user needs and requirements, rather than the devised plan.”
Faisal Hussain

HELENE PANZARINO
Managing Director, FinTech,
Rainmaking.

“For a few years, as FinTech matured from infant disruptors to adolescent competitors, incumbents failed to see or accept the changing financial landscape. As we entered the dawn of young adulthood for FinTechs – which now saw a need for genuine collaboration with their erstwhile enemies – incumbents had to be nudged along by government policies.

“Instead of dismissing the FinTech players as a fad or just a few upstarts taking crumbs from their table, the traditional banks have now started to realise that, if they are to stay relevant and competitive, they should be partnering and embracing new technologies.

“It is tricky to bring genuine innovation to a big corporate organisation, but it is where success lies – at least for the foreseeable future.”

JOSH GREENWAY
Founder/CEO of BIZL.co,
the business finance comparison platform.

“The answer lies with product-market fit.

“A FinTech’s USP is moving at pace and building from the ground up. They are building today’s solutions to today’s problems, and don’t have legacy infrastructure limiting them. But unless they solve a real market problem, they’ll flop.

“On the flip side, an incumbent bank’s USP is market share and a proven value proposition. They have real customers and rich client data to inform their decisions. But unless they adapt to market changes they’ll die off.

“Who’ll win the long game? I’d say the odds are that FinTechs will revolutionise the market from how we see it today. Give it a generation. About 80/90% won’t gain traction, but many will. And they’ll just keep coming.”

OPEN MIC

JUDE COOK
CEO and Co-Founder,
ShareIn.

"The future belongs to those that can innovate, be it FinTechs or incumbents. A strength of FinTech start-ups is their ability to move fast and execute on new ideas. They don't have legacy systems to negotiate and can bring ideas to fruition more quickly than might be possible with established businesses.

"Conversely, one big advantage incumbents have over FinTechs is established market presence. I see a lot of opportunity for incumbents to partner with FinTechs to bring new customer-focused products to market, and we are experiencing this first hand at ShareIn. Working together like this necessitates a collaborative approach, leaving the 'Not Invented Here' syndrome at the door. With a pragmatic mindset, I believe the future can belong to both."

LUCIAN CAMP
Principal,
Lucian Camp Consulting.

"When it comes to the battle for consumer engagement, it's difficult to call the outcome. The FinTechs' major weakness is, very simply, that they haven't got any money. Most have written their business plans and achieved their funding on the assumption that they can acquire customers at little or no cost, and almost all of these are in for a nasty surprise.

"The incumbents have money and indeed customers, but are hamstrung by product-centric, siloed structures and processes that make it virtually impossible to maximise the value of all those existing relationships. It's probably marginally easier for the latter to restructure than for the former to find a magic money tree – but it isn't easy for either."

MATTHEW DOVE
Digital Editor,
The Fintech Times

"Increasingly, consumers are more likely to trust tech giants such as Amazon and Microsoft than they are their own high-street bank. The breakdown of our relationship with legacy banking, post-2008, has left the door wide open for FinTech companies to enter the market and stake their claim on a new breed of financial services consumer, a consumer who is active, alert and, most importantly, demanding.

"Now the race is on to see who can reach the new breed first. My money (and my livelihood!) is on the FinTechs. They're small, agile, eager and exciting, while the incumbents are still largely burdened by the distrust and resentment they fostered in the dark days of the credit crunch."

NIR VULKAN
Professor, Business Economics at the Saïd Business School, Oxford, and Director, the Oxford Online Programmes on FinTech and Algorithmic Trading.

"The short answer is that the future lies with both. In the short term we will continue to see innovation and new technology coming from the FinTechs. But as these technologies are tried and tested, I believe we will see banks adopting and incorporating these technologies. The Nudge app from HSBC is a good example. Santander InnoVentures not only invests in FinTechs but specifically is seeking to include the more successful ones into its own operations.

"In the past year alone, Barclays, BBVA, and BNP Paribas are some of the banks which have acquired FinTech companies. The real FinTech 'revolution' will come when the mass public adopt these new technologies. The banks are the gatekeepers to the public. Expect more."

DR PAOLO TASCA,
Executive Director,
UCL Centre for Blockchain Technologies.

"Emergent technologies have been a driver of financial innovation for decades. The advent of microprocessors first, then mainframes and PC terminals later, are just few examples of how technology changed financial markets. In this respect, banking has been going digital for some time, but now the challenger banks and FinTech start-ups have fully arrived.

"They are leaner than traditional banks, and hungry for customers. They are online-only, free to invest capital in smartphone apps instead of high-street leases. They know that millennials especially are loath to pay intermediaries to do what they themselves could do."

"This Schumpeterian innovation is desirable and signals a healthy growing ecosystem.

"Traditional banks must adapt quickly to keep their market share. Size may be on their side, for now. Thus, accelerating or acquiring innovative start-ups will serve as pathfinder into a new area."

PAUL RISEBOROUGH
Chief Commercial Officer,
Metro Bank.

“The future will care little for incumbents or FinTechs. That’s missing the point. The future unquestionably lies with the customer. Customers will be more empowered than ever to take control of their finances, more enabled to leverage the best the market has to offer in terms of products and services – and better able to understand their own financial behaviours. If we can predict one thing, it’s this: the brands that stay close to the customer – the ones that really take the time to understand what they want and need – will win.”

RAV HAYER
Banking Digital,
Data and Analytics Partner, PwC.

“The future lies with both.

“FinTechs will continue to bring disruption and change the way we do business. They will undoubtedly set the pace and direction of innovation in years to come.

“However, incumbents will challenge back. Incumbents are already forming their own innovation functions and developing solutions, which they can deploy at pace. Theory is turning into practice – we’ve already seen one UK retail institution announce the launch of a digital bank.

“While FinTechs are closer to consumer needs, nimbler and more agile in making change happen, incumbents have the ability to absorb costs involved, they have the reputation and client network.

“To accelerate innovation and provide the best customer outcomes, we will need FinTechs and incumbents and an environment that supports competition between the two.”

REBECCA SKITT
Group Managing Director,
10x Banking.

“The future will be shaped by those who make people’s lives much easier. These may be incumbents which choose to transform themselves, enabled by technology, or technology firms which bring their expertise to financial services, or new players claiming a fresh approach. The future belongs to those who have an unwavering focus on the customer and are able to harness the right technology and deep expertise to make banking much better for customers and society.”

SHIVVY JERVIS
Tech Futurist and Adviser.

“In the near term, it may appear that the dizzying pace of growth of the FinTechs mean they’re ahead. However, the position of incumbents isn’t being usurped… yet. The overwhelming majority of active financial infrastructure, captive customer base and influence on industry policy making is still ‘owned’ by the incumbents.

“In the more medium to long term however, consumer uptake of the products from FinTechs – such as mobile-only banking, AI avatar-powered personal finance platforms and tools that bank the unbanked – will achieve critical mass and create real competition.

“The goal might lie in a hybrid or partner model. For start-ups, this would counter having to work against institutional inertia – conversely for incumbents, this affords them the chance to adopt the rapid prototyping and flexible pivoting of proposition so characteristic of many FinTechs.”

“The future will care little for incumbents or FinTechs. That’s missing the point. The future unquestionably lies with the customer.”
Paul Riseborough

Chartered Banker Institute Professional Framework

Building Professional Expertise

Our flexible framework of professional qualifications and accredited pathways ensure we partner with employers to achieve long-term objectives and build organisational capability.

Our professional qualifications

- Professional Banker Certificate
- Professional Banker Diploma
- Associate Chartered Banker Diploma

Advanced Diploma in Banking and Leadership in a Digital Age*

- Bank Strategy, Operations & Technology Certificate
- Bank Risk Management Certificate

- The world's first Green Finance Certificate

- Chartered Banker by Experience*

- Bespoke Qualifications
- Choose your pathway through Accredited Route

Our qualifications and accredited pathways reflect the constantly changing architecture of banking in a digital age. Built in collaboration with industry and the latest technical expertise, they equip today's bankers to ask tomorrow's questions.

* Leads to Chartered Banker status.

Maintaining Professionalism

The Chartered Banker Institute plays a leading role in rebuilding the banking profession in the UK and internationally. Setting the professional standards of competence and conduct we believe all bankers should aspire to and customers expect.

Comply with code of professional conduct

+

Enhance professional knowledge and expertise (CPD)

=

Achieve Professional Standard

- Professional conduct and judgement supported through annual ethics assessment.
- Minimum standard of conduct is incorporated to support behaviour and compliance in banks.
- Enhancing expertise by following CPD requirements relevant to the seniority of your role.

Demonstrating Professionalism

There are many benefits to individuals and employers in committing to the work of the Chartered Banker Institute:

- **Professional recognition:** restoring confidence and trust in individuals and valuing the contribution the professional body makes to lifelong learning in banking.
- **Thought leadership:** working with industry experts to raise professional standards and prepare for the future.
- **Building the professional banking community:** members of the Institute feel greater levels of pride and resilience than those who do not hold professional body membership.
- **Professional development:** individuals take personal responsibility for building their professional expertise and judgement.
- **Professional standards:** organisations are recognised for their commitment to raising professional standards.

Our continuing professional development (CPD) scheme reflects the many different career paths in banking. The Institute works flexibly with employers in recognising relevant in-house programmes.

- Reference books
- Webinars
- Articles
- Events
- Videos
- Podcasts
- E-Learning

Use professional designations to demonstrate professionalism to customers and colleagues.

Setting Global Standards

International Presence

- Over **140 years** of professional expertise, setting a global framework for professionalism in banking.
- Our members are based in **87 countries** and meet our internationally recognised standards of professionalism on an annual basis.
- We actively collaborate with other banking institutes, banks, regulators and policymakers, training providers and others to enhance and sustain professional standards in banking on a global basis.

Centres of Excellence

- Formally recognising the high standards of degree education available for banking and related topics.
- Working to enhance the links between the Chartered Banker Institute and academic Institutions.
- Developing thought leadership and future initiatives.

CB:PSB

- Improving customer confidence in individual bankers through achieving a common framework of industry-set professional standards.
- The Foundation Standard sets a minimum standard of competence and behaviour in the UK and internationally.

Apprenticeships

- Working alongside banks, training providers and others to support the development of apprenticeship frameworks and suitable qualifications.
- The Institute sets the benchmark in End Point Assessment for those working in the banking profession.

Chartered Banker

GREEN FINANCE CERTIFICATE

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- Key concepts in green finance, including stranded assets
- Green finance principles, including the UN Sustainable Development Goals
- Risk management in green finance
- Green finance products and services (banking, insurance and investment).

MORE INFORMATION

For further information
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Alternatively please contact the Institute's Membership Engagement Team
via: info@charteredbanker.com or +44 (0) 131 473 7777.

THE DAVIDSON COLUMN

Building a bright future for banking

In our inaugural 'Davidson' column – named after the Institute's first president, we hear from the Rt. Hon. The Lord Mayor of London Peter Estlin on his 'Shaping Tomorrow's City Today' programme.

As the 691st Lord Mayor of the City of London, I follow a long continuum dating back to 1189 before Magna Carta. The Chartered Banker Institute also has a distinguished history going back all the way to 1875 as the oldest banking institute in the world. These traditions are important, but over the next 12 months our focus will be on how the City can help shape the future.

I will be promoting innovation and technology, championing digital skills and addressing digital and social inclusion as part of my 'Shaping Tomorrow's City Today' programme.

In the 18th and 19th centuries, British innovations such as railways, cotton mills and coal fuelled the Industrial Revolution. Today, the UK is again at the forefront of a global revolution: the Digital Revolution. Big data, artificial intelligence and quantum computing are transforming the way that we live and the way that businesses operate across the globe.

The banking sector has been through a challenging decade since the financial crisis, but I firmly believe that the future is bright.

As part of my programme, we will promote the UK's world-leading financial and professional services both domestically and internationally across around 30 markets.

This will include showcasing fast-growing sectors such as FinTech and green finance in my role as an ambassador for the sector. We will also be taking advantage of opportunities to promote digital innovations in other areas such as education and cybersecurity as the boundaries between industries become ever-more blurred.

We will also champion digital skills to ensure that the UK has a sufficiently prepared workforce. It is vital that those not yet in work – as well as those who are – have the right expertise to thrive in our increasingly digital economy. Specifically, we will promote digital intelligence (DQ) as the emerging global standard for digital skills, endorsed by the World Economic Forum and the Organisation for Economic Co-operation and Development (OECD).

Finally, we will push forward our work on digital and social inclusion. The speed of change means that several million people in this country are at risk of being 'left behind'. The elderly, the poor and the disabled are particularly vulnerable to digital exclusion. One part of the solution lies in partnerships between companies, colleges and communities to build a new model of digital citizenship. This should be designed to protect the susceptible to enable equal access to online services, and enhance quality of life in the digital age for everyone.

I am delighted to see that my 'Shaping Tomorrow's City Today' programme chimes well with the Institute's own 'The Future of Banking' agenda. Having spent the majority of my career in banking, I am well versed in the challenges the sector faces when it comes to the Digital Revolution as well as attracting and developing new talent.

That is why I welcome the Chartered Banker 2025 Foundation's commitment to raise funds to identify and support talented individuals looking to pursue a career in banking. Young people can bring new ideas to shake up any industry. It is important, therefore, that banks attract ambitious young professionals from all backgrounds in order to innovate and remain at the cutting edge.

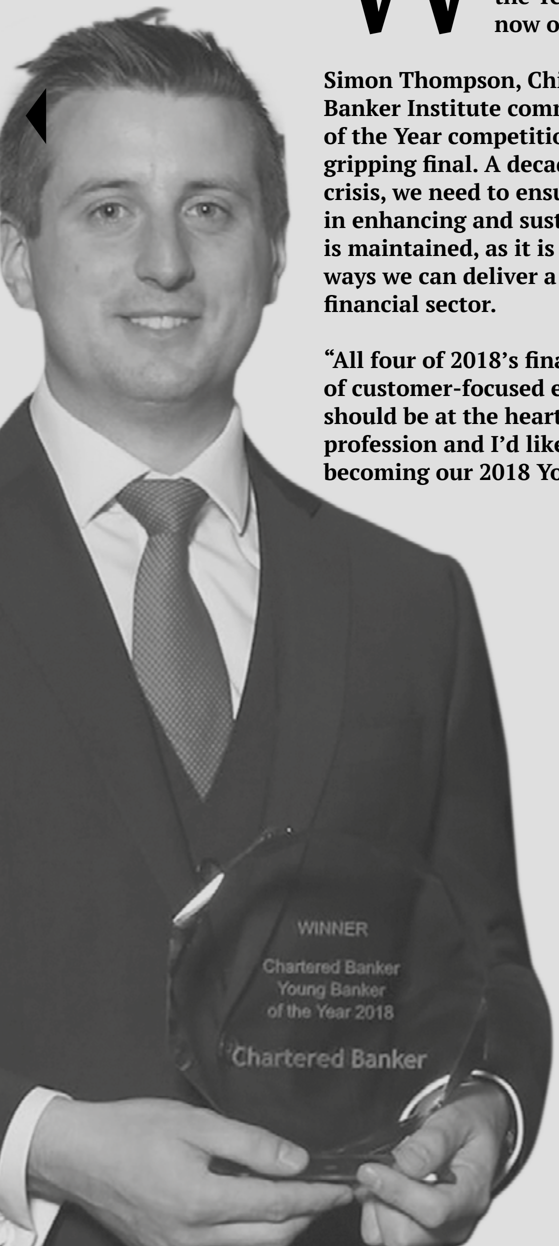
The Chartered Banker Young Banker of the Year competition is another important way of recognising the efforts of those individuals who will become the future leaders of the sector and encouraging a strong professional culture.

The banking sector has been through a challenging decade since the financial crisis, but I firmly believe that the future is bright. Together we can all play a vital role in delivering a vision of the UK as an innovative and inclusive digital nation. CB

YOUNG BANKER OF THE YEAR

Create a future we can bank on

Entries are now invited for the Young Banker of the Year competition 2019. Learn more about the process and hear from 2018's winner.



WITH Alistair Gilfillan's 2018 triumph still fresh in the memory, entries for the Young Banker of the Year competition 2019 are now officially open.

Simon Thompson, Chief Executive, the Chartered Banker Institute commented: "Our Young Banker of the Year competition once again provided a gripping final. A decade on from the financial crisis, we need to ensure that the improvement in enhancing and sustaining professionalism is maintained, as it is one of the most effective ways we can deliver a sustainable and successful financial sector.

"All four of 2018's finalists displayed the qualities of customer-focused ethical professionalism that should be at the heart of a revitalised banking profession and I'd like to congratulate Alistair on becoming our 2018 Young Banker of the Year."

A winner's tale

It's certainly been a busy few months for Alistair Gilfillan. Here, our Young Banker of the Year reflects on his accolade and how his Split the Difference idea, designed to help low-income families build a nest egg, is progressing.

"After being announced the winner, the rest of the evening flew by. It was an honour to be given the award and, as I see it, a seal of approval for the idea that I think could improve the lives of millions of low-income households across the country.
I celebrated with my family (including calling a very sleepy Granny in Edinburgh), who were all very proud. I arrived back to the office with a full inbox, some bunting on my desk and a balloon that hadn't made it past security (don't ask). Some senior figures across the bank have congratulated me, including our CFO, which has boosted my profile, as well as that of the competition and the Institute.

"I hope my win, as with Bernard Adjei's (2016 winner also from Lloyds Banking Group) before me, will encourage colleagues from the bank to enter this year. As the competition encourages innovation, improving customer outcomes and raising standards and professionalism in banking, there's a clear fit with our vision as an organisation. It provides an avenue for new ideas to originate from any area of the bank."

A growing network

Gilfillan continues: "Winning the competition has also expanded my network across functions, with the award being a great calling card to meet people across the bank. Lloyds also recognised the achievements of a handful of young professionals, inviting us to attend an external networking event. There's also been some media interest, giving me a chance to share my experiences more broadly, with a Desert-Island-Discs-style interview on Share Radio and a feature in Business Quarter.

"The idea continues to progress, with my network in our Group Transformation division being strengthened through the competition. I've visited 'Labs' that have implemented Save the Change in Halifax and are working on another proposition that has potential synergy with my idea. It's been fascinating to see the various ideas being considered in the bank, and encouraging that Split the Difference is part of these conversations."

It's time to enter

The Young Banker of the Year competition is the most challenging and rewarding event in the banking industry. The Chartered Banker Institute is seeking young bankers with innovative ideas that could help shape the future of UK banking.

If you, or one of your colleagues, is a high-potential future leader and is keen to make, or already is making, a significant contribution to rebuilding the UK banking industry, we would like to hear from you. We're looking for people who reflect the very best qualities of customer-focused, ethical professionalism values that are shared by the Chartered Banker Institute.

The challenge set for our entrants is designed to test their capacity to generate new ideas, to drive innovation and to deliver sustainable growth. Contestants will be asked to develop a proposal in response to the following question:

Q ***What idea would you implement in your own organisation to improve outcomes for some or all of the following groups: customers, colleagues, counterparties, communities and the organisation you work for?***

A *Your idea should place customers and their needs at the heart of the business and reflect your vision for the future of banking based on sustainable and/or green finance principles.*

We are looking for young bankers to provide evidence of original and inventive thinking in making their proposal.

Sheriff Neil Redcliffe presenting Alistair Gilfillian with the award for Young Banker of the Year.

The Competition Process

In the first round of the competition, candidates are asked to submit their proposals to be considered by a panel of judges drawn from the Chartered Banker Institute. Each proposal must be supported by an executive sponsor.

Please download the entry form at charteredbanker.com/youngbanker

Once completed, email the form to youngbanker@charteredbanker.com. The form should be accompanied by the nominee's CV, and a Word document outlining the proposal in response to the challenge. This should highlight how the outcomes of your idea will improve the experience of the group(s) identified. The submission should be no longer than two A4 pages (approx. 700 words) with no appendices.

The best candidates will then be invited to discuss their proposal via Skype with an Institute judge. Following this process, eight entrants will be selected to present their idea at the live semi-finals.

There are two live semi-finals; 12 June in Birmingham and 26 June in Edinburgh. Semi-finalists will be invited to present their proposals to a panel of judges. Each semi-finalist will have eight minutes to present, followed by questions from the judges panel. Four finalists will then be selected from the two semi-finals to present their proposals at the live final in London in September 2019 where this year's winner will be announced live. CB

Competition Timeline

7 January

2019 - Entries opened

5 April 2019

Competition Closes

April 2019

Skype Interviews with Chartered Banker Institute

12 June 2019

Semi-Final Birmingham

26 June 2019

Semi-Final Edinburgh

September 2019

Final London

COUNTRY SPOTLIGHT

New era dawns for Australian financial services

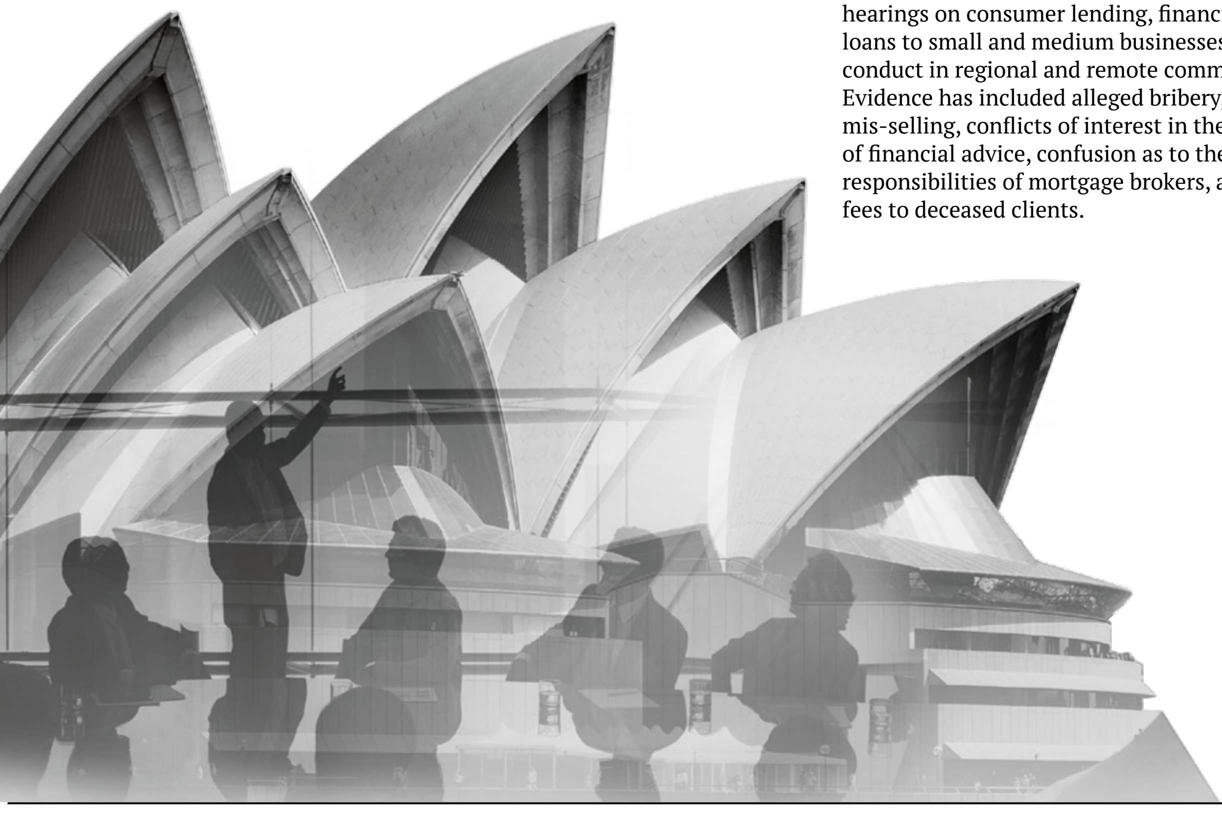
In the first of our country spotlights, we visit Australia as the nation's financial services sector enters a new era of unprecedented change.

AUSTRALIA'S financial services sector is the country's most significant contributor to the economy. The industry employs around 450,000 people and boasts credentials including being the world's fourth-largest pool of investment fund assets.

The banking sector has enjoyed a long run of growth, but unprecedented regulatory changes and intense scrutiny on governance has damaged trust and is expected to lead to billions of Australian dollars in settlement charges.

In February 2019, the Australian Government's Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry is due to publish its final report, known as the Hayne inquiry. The interim report, published on September 28 2018, was damning, with Commissioner Kenneth Hayne attacking both banks and regulators for failing to end practices that have repeatedly failed customers.

"The banks have gone to the edge of what is permitted, and too often beyond that limit, in pursuit of profit," Hayne said. "And they have gone beyond the limit because they can and because they profit from the misconduct described in this report."
The interim report covers the first four rounds of hearings on consumer lending, financial advice, loans to small and medium businesses, and banking conduct in regional and remote communities. Evidence has included alleged bribery, insurance mis-selling, conflicts of interest in the delivery of financial advice, confusion as to the roles and responsibilities of mortgage brokers, and charging fees to deceased clients.



COUNTRY SPOTLIGHT

Accounting for failure

The Australian Banking Association (ABA), which represents 24 member banks, said the report marked 'a day of shame' for the country's banks.
The ABA said: "There are no excuses for the behaviour that has been exposed by the Royal Commission. Banks accept responsibility for their failures and right now they are working day and night to make things right for their customers. We will fix these problems and make them right without delay, to earn back the trust of the Australian public."

At Australia's biggest bank, the Commonwealth Bank of Australia, Chief Executive Matt Comyn said: "The Commission has highlighted the need for significant changes, particularly to systems, processes and culture. I am committed to making sure that we learn from the failures detailed in this report to fix what went wrong and put things right for our customers.

"We have already made a number of changes and will make more to meet the community's expectations and earn trust."

Many changes are already under way across the industry. Australia's banks are changing the Banking Code of Practice to overhaul the way they manage a customer's estate when they have died and end 'fees for no service' across the industry. Once notified of a customer's death, banks will proactively identify fees that are for products and services that can no longer be provided in the circumstances, stop charging those fees and refund any paid.

The banks are also seeking new legislation to end two types of payments made to financial advisers. Grandfathered payments relate to commissions paid by customers to their advisers on products that are no longer sold. Trail commissions are the annual fees paid to financial advisers by their customers over the lifetime of a product.

Positive fallout

Dante De Gori, Chief Executive, the Financial Planning Association of Australia (FPA), admits: "The Royal Commission into Misconduct in the Banking, Superannuation and Financial Service industries has uncovered some very poor behaviour."

The FPA is the Australia's leading professional association for financial planners, representing the interests of its 14,000 members and of the general public.

De Gori continues: "However, the fallout is proving positive, with industries reviewing practice and education standards. It's also brought to the fore a reminder of why we need compliance and the enforcement of strict regulations, set to prevent malpractice.

"The Royal Commission has inspired us to create a clearer direction, enabling the profession to evolve and improve upon the quality of financial advice."

"The banks have gone to the edge of what is permitted, and too often beyond that limit, in pursuit of profit."
Kenneth Hayne, The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry

De Gori says the FPA had been calling for reform of the industry for many years and welcomed moves to improve standards. The Australian Government's Financial Adviser Standards and Ethics Authority (FASEA) has been charged with developing a new framework for financial planners – covering a degree standard, education pathways, examination, ethics and continuing professional development.

"The FPA supports FASEA's mandate to lift education standards. While the principles guiding FASEA's proposed framework are sound, the FPA is calling for a sensible approach to the implementation," De Gori explains.

"For example, the FPA is strongly advocating for all Bachelor degrees to be treated the same and is calling for FASEA to give appropriate recognition to those who have undertaken specific financial planning study, such as the CFP Certification Program." This is the Certified Financial Planner program, recognised as the benchmark for excellence in financial planning globally. It is administered by the Denver, Colorado-based Financial Planning Standards Board alongside 26 non-profit organisations.

De Gori continues: "FASEA has put forward its proposals for the future of financial planning, however we're awaiting final confirmation of the new framework. Understandably, this major regulatory change is causing some uncertainty for financial planners and not everyone who is a planner today will make the transition to the next level. However, a large majority of planners are extremely supportive of the situation and look forward to the day when financial planning is recognised as a true profession."

New standards

With the introduction of Open Banking, the promise of improved financial capability and the implementation of enhanced finance-specific technology, De Gori says the future of the financial industry would enable Australians to take more control and "find resolve" in their financial position.

The Financial Services Institute of Australasia (FINSIA) is the professional membership body in Australia and New Zealand for the financial services sector. Its submission to the Hayne inquiry calls for uniform standards of conduct and competence for individuals, combined with consistent monitoring and enforcement by an independent body.

Chris Whitehead, Chief Executive, FINSIA, says: "Regulation can only go so far, and we need to enable competent individuals to apply sound and ethical judgement to ensure customer interests are put first. We also need to empower individuals to push back if they are concerned that the actions requested of them are in breach of the code of individual conduct.

"The required competence includes ethical decision-making that will enable individuals to feel confident and capable of applying judgement. Common standards of conduct and competence need to be embedded in each institution's individual culture programme to ensure they incorporate standards into day-to-day practice and behaviour.

"Having an independently monitored, sector-led standards body that will provide support empowers the individual to speak up if they see something is wrong in their institution.

"Institutions also need to focus on the importance of individual pride. People in the financial services sector need to feel proud about what they are doing, and that pride ultimately motivates them to do the right thing."

Compliance focus

Dean Carrigan, Sydney-based Partner at international law firm Clyde & Co, suggests that in many respects, Australia has led the world in banking and financial services regulation. It was one of the first jurisdictions to introduce risk-based capital requirements for banks and insurers. This was driven to some extent by the collapse of the HIH Insurance Group in the early 2000s, which at the time was the largest corporate collapse in Australia – and had a profound effect on the financial services regulatory landscape.

Despite the HIH collapse and the extensive patchwork of federal and state legislation, Carrigan acknowledges the evidence of widespread misconduct heard during the Royal Commission's public hearings.

"The Commissioner posed the question as to why it all happened," Carrigan says. "Too often, the Commissioner noted the answer seems to have been greed – the pursuit of short-term profit at the expense of basic standards of honesty.

"Significant legislative and regulatory changes are already in train as a result of the Commission's work to date. Further, and likely far more extensive, changes will follow based on the recommendations and findings that will be made in the Commission's final report which is due to be publicly released early this year. The current Liberal coalition Australian Federal Government has committed to implement change based on those findings. With an Australian general election due this year, and the potential for a change of government, a newly incumbent Labour administration can be expected to push the extent and nature of change in the sector even further, given its vociferous criticism of the sector in the period leading up to, and during, the Commission hearings."

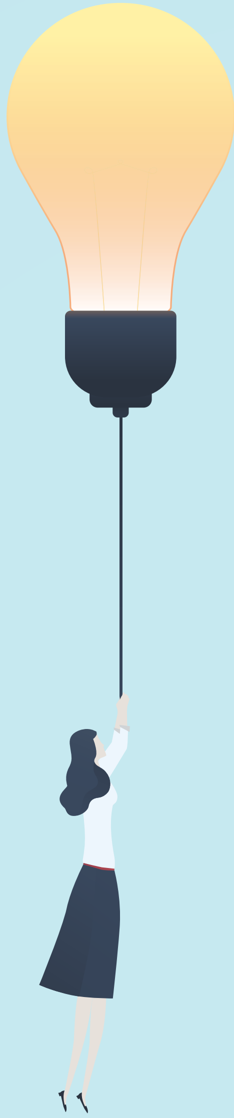
There will be a greater focus on culture, accountability, and compliance in the sector, Carrigan says. Certain sales and distribution channels, such as the direct sale by telephone of life insurance products that are perceived to cultivate and encourage pressure sales, will effectively be prohibited. Good faith and best interests obligations owed to customers will be increasingly ratcheted up, as will conflict of interest provisions. Regulators will be better resourced and funded to monitor, implement and enforce the law.

Carrigan adds: "The key challenge for the Australian financial services sector is to regain lost community, regulator and political trust. That won't be easily, or quickly won back. And it won't be achieved merely by complying doggedly and slavishly with the extensive new legal regimes that will be steadily rolled out after the Commission delivers its final report – and which will be designed to keep the financial sector honest and focused on customer outcomes.

"The key is to truly embrace and adopt a customer-first culture, coupled with a longer-term view of the business and profitability." CB

APPRENTICESHIPS

Aiming higher: professional apprenticeships



With the development of higher and degree apprenticeships, *Chartered Banker* looks at the future of apprenticeships in the banking sector.

THE UK's first Master's-level apprenticeship aimed specifically at senior banking professionals is now training its first cohort of recruits in a collaboration between the Chartered Banker Institute and Cranfield School of Management.

Thirty-one Metro Bank apprentices are enrolled in Cranfield's MSc in Retail and Digital Banking, which has been formally accredited by the Institute. This means graduates will be awarded the Chartered Banker Diploma and Chartered Banker status with the Institute.

Ongoing Chartered Banker status is subject to adherence to the Chartered Banker Institute's rules and regulations, including the Code of Conduct, and completion of annual Continuing Professional Development as appropriate to the membership grade. Chartered Banker is the gold standard for professionals working in the banking sector and is recognised globally as a measure of enhanced standards of excellence and professionalism.

"At a time when banks and banking are being shaped by new technology, the launch of Cranfield's new MSc, in partnership with Metro Bank and the Chartered Banker Institute, couldn't be timelier," says Simon Thompson, Chief Executive, the Chartered Banker Institute. "Future generations of banking leaders need to develop their professional expertise in a wider range of fields than ever before, including banking, technology, management and leadership."

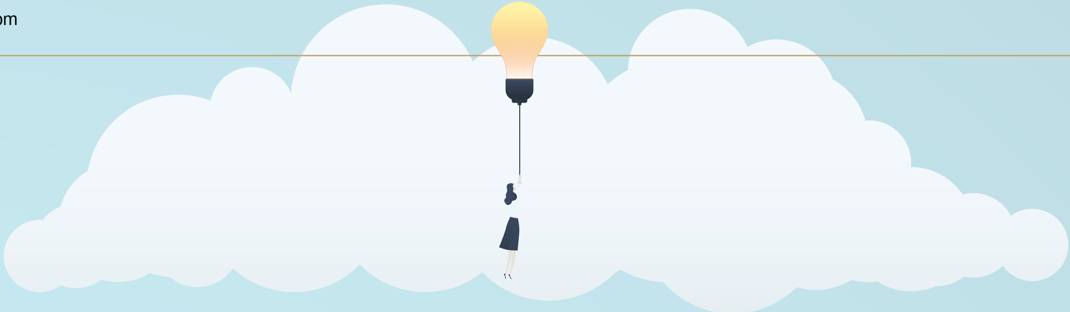
The new MSc has been designed specifically for banking in a digital age and is one of a new generation of higher and degree apprenticeships for senior professional and senior specialist roles. These mean students can achieve a full bachelor's or Master's degree as part of their apprenticeship. Higher and degree apprenticeships were introduced as part of a UK government drive to create 3 million apprenticeships by 2020 – and to put employers rather than educators in the driving seat.

Blazing a trail

In the banking sector, the Chartered Banker Institute has been involved in developing these so-called 'trailblazer' apprenticeships from stage one.

"Through the industry groups, we've helped the sector shape the standards and identify apprenticeship assessment methods and supporting qualifications," explains Mark Roberts, Head of Learning Parterships Strategy, the Chartered Banker Institute. "We have supported banks and financial services employers in developing their apprenticeship strategies. As a professional body, we have aligned our qualifications framework where appropriate with apprenticeship standards."

The Institute has also been appointed as End Point Assessor (EPA) for a number of core banking standards. The EPA is the final check that the apprentice has attained the required standards to complete the apprentice. Looking ahead, the Institute sees apprenticeships as critical to the future of the banking industry and describes itself as a 'huge and enthusiastic supporter.'



"We see the massive potential that apprenticeships hold both in terms of opportunities for individuals wanting to enter the banking sector and for the banks themselves," Roberts says. "But there are also benefits for wider society in terms of driving greater inclusivity in recruitment patterns and offering opportunities at a number of stages in an individual's career. They can benefit from a learning experience that combines the best elements of studying a qualification, combined with practical application in the workplace."

Key skills

A number of key skills and competencies are important to anyone working in a bank. "Key knowledge areas include regulation of financial services; law related to financial services; ethical principles; risk; management of credit and banking operations," Roberts explains. Banking operations isn't just about understanding how banks look after people's money, he adds, but it's also the technological angle, principally digital banking.

"In terms of skill sets, young bankers need to be able to understand and anticipate problems and issues; identify ethical considerations; operate technically complex and innovative customer service systems – and they need to be flexible and welcoming of change and innovation."

The Institute recently published an 'Insights' whitepaper into apprenticeships in financial services and banking after gathering feedback from more than 35 stakeholders. Its recommendations include greater consistency across apprenticeships and professional standards and the need for employers to be able to review apprenticeships to ensure they continue meeting industry's needs.

"We do have some concerns," Roberts says. "Firstly, do the existing apprenticeship standards fully reflect the future needs of the banking industry? Secondly, does the banking sector have adequate strategic overview of the standards? One of our bigger concerns is commercial bias."

Fit for the future

This concern relates to the UK government's Apprenticeship Levy, through which large companies pay 0.5% of their wage bill into an Apprenticeship Service Account each month. Employers can get this money back, but only by setting up apprenticeships with training providers within two years.

"The incentive is you can get your money out as long as you have enough apprenticeships," Roberts says. "So there's been a bit of a gold rush with businesses setting up as many apprenticeships as possible.

"Our question is – are apprenticeships being driven in the right way? Are organisations really looking to the skills and competencies that need to be developed in their staff? Or are they following the lowest common denominator route? An example would be the use of generic standards such as customer services or management, which contain no banking specific content."

Other concerns include the lack of alignment between apprenticeship frameworks across the UK – for example between Scotland and England – and the lack of take-up of by universities of degree-level apprenticeships.

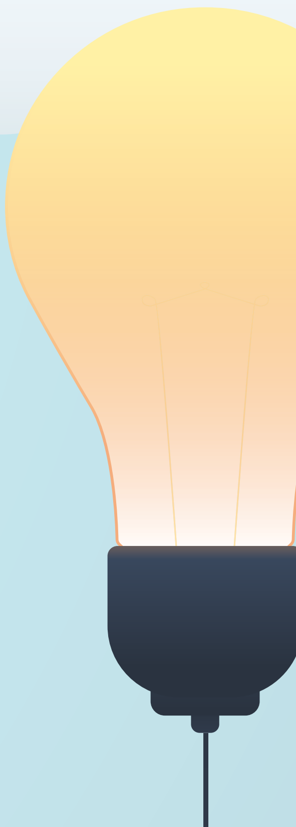
"A lot of UK universities have considerable specialisms in banking at Level 7 and it's a real pity that existing expertise and innovative development by a number of universities is not currently reflected as apprenticeship opportunities," Roberts says.

The Institute also supports young bankers through its 2025 Foundation, which was set up in anticipation of the Chartered Banker Institute's 150th anniversary in 2025. It aims to identify and support talented young people who would benefit from financial and other support to start to pursue a career in banking.

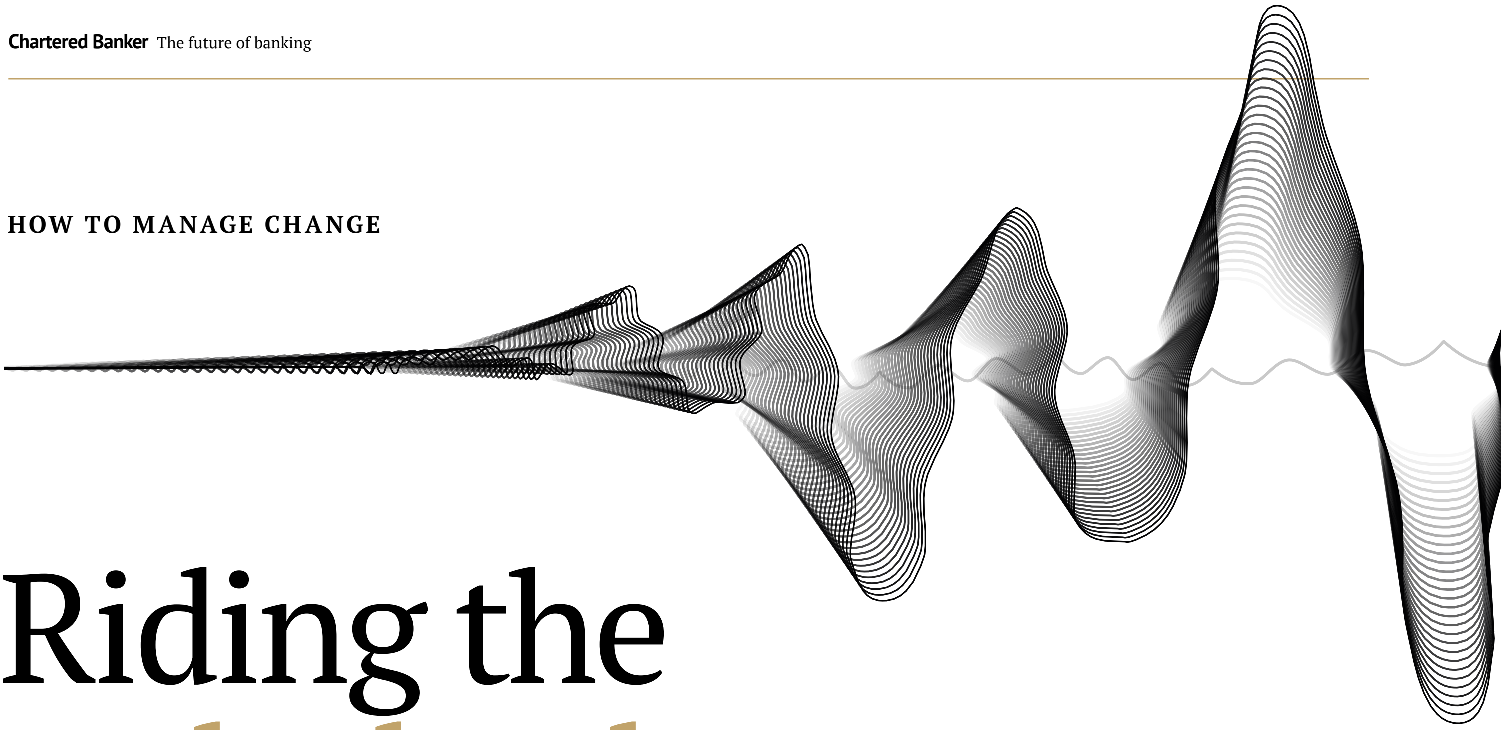
In a collaboration with Bangor University, ranked one of world's top 25 institutions for banking research, the Chartered Banker Institute also offers a groundbreaking dual award banking qualification – the Chartered Banker MBA. This enables graduates to gain a top MBA in banking and finance and alongside Chartered Banker status. CB

"We see the massive potential that apprenticeships hold both in terms of opportunities for individuals wanting to enter the banking sector and for the banks themselves."

Mark Roberts, the Chartered Banker Institute



HOW TO MANAGE CHANGE



Riding the tech shockwaves

Technology is driving a continual change in the banking industry. To help staff cope, managers must show empathy, foster resilience and celebrate small successes.

CHANGE is an enduring feature of the banking industry. With Open Banking, artificial intelligence, blockchain and other new technologies disrupting the way things are done and accelerating this change, how do people and managers cope?

"It's almost like a shockwave that's hitting industry," says Alistair Newton, Research Vice President in Banking and Investment Services, Gartner. "People are running around, scratching their heads and trying to devise new frameworks. But a lot of these technologies are relatively immature and will take time to kick in. They're not necessarily going to immediately wipe away tens of thousands banking jobs. So there's a mix of hype and short- to medium-term practical implications."

Banking especially is an industry predicated on consistency, security, standards and frameworks. So this process of change will be incredibly difficult for many people.

Newton explains: "Everything in the industry is built to enhance security and continuity – and we've now started to break down these barriers and ask people to do things differently to what we were asking them to do 10, 15 or 20 years ago. They're having to learn new skills, work with new people and work in ways they've never done before."

Fear of change

Some banks that 'stared over the precipice' during the financial crisis and had to make difficult decisions may find it easier to change and adapt. Others will need to help their people manage a mix of fear, confusion and even incredulity.

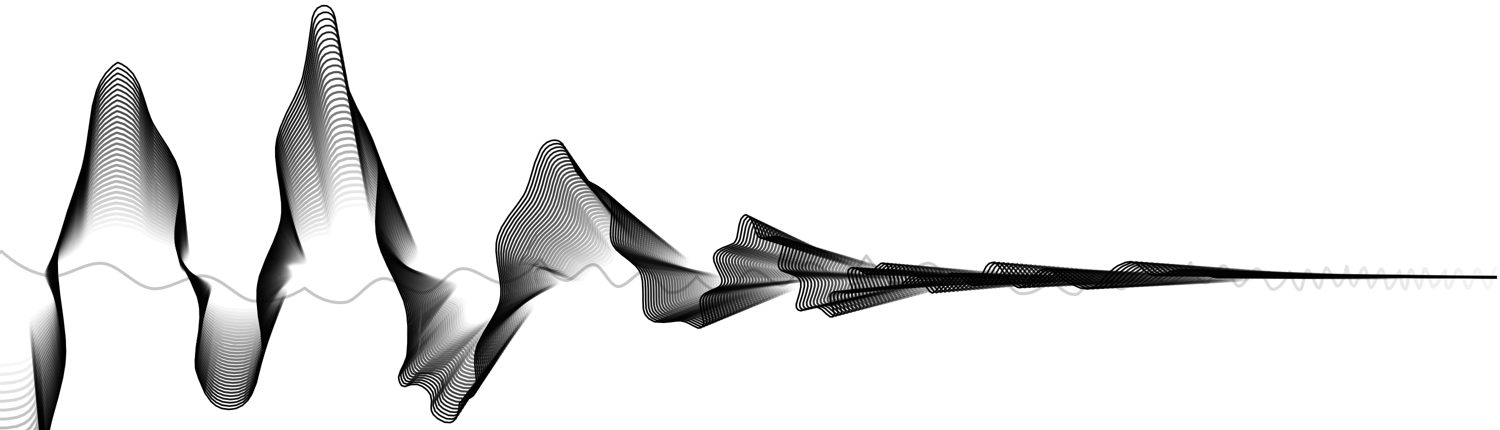
Newton continues: "It's not easy and it's not a simple process, but it's about managing fear of change. There needs to be clear messaging from management that you understand the complexities and difficulties of the change you're going to ask people to go through – so it then becomes an empathetic process.

"It's a case of saying, 'We understand you did this for the last 10 years, and we're now going to ask you to do it differently. We'll understand if you make mistakes or need more time. And we understand the gravity of what we're asking you to do. But we are going to change, and we will help you change.' Front and centre, that has to be the process. Next to certainty, you have empathy."

People working in the industry can develop their own resilience by taking a step back to look around, understand what's happening outside their immediate vicinity and understand the context in which decisions are being taken.

"Sometimes we become myopic and too embedded in our daily lives," Newton says. "But if we're able to step back and recognise that change in the digital environment isn't something we can control – it would be like trying to get the rain to stop – it can put things in context."

> **"It's not easy and it's not a simple process, but it's about managing fear of change."**
> Alistair Newton, Gartner



Gartner has recently completed some analysis on digital dexterity in the workplace and found that millennials (those aged around 18 to 35) were not necessarily the most adaptive to technological change.

"Some of the most digitally dextrous employees are older folks at 45 or above who may have moved from other organisations," Newton explains. "So often it's tenure in an organisation that defines people's inability to change. Just because someone's of a certain age, it doesn't mean they can't be dextrous enough to work in highly digital environment."

Eight steps to change

In its online expert banking portal, BankingHub, German management consultancy zeb puts its own spin on an established eight-step process for leading change created by Harvard Professor and bestselling author John Kotter.

Kotter's eight steps begin with creating a sense of urgency; building the right team to guide the change and setting out a strategic vision and plan. Steps four to six involve starting with one, or a few, smaller teams to develop and implement initial changes; enabling action by removing barriers and generating short-term wins. The seventh step is about sustaining acceleration to reach the final goal of instituting change.

Zeb argues that the speed of technological change in banking can mean that the reality is sometimes messier and less self-contained.

"Neither change management nor digitalisation are new phenomena," says zeb Senior Manager Markus Schuderer. "But what is new is the variety of technical changes, possibilities and innovations, their demand for extremely high implementation speed and their extensive spillover effects for the entire organisation.

"This combination can mean that various change processes overlap, single-change processes are interrupted, modified or restarted – and as a result, the organisation finds itself in a continuous process of change." Zeb's experience is that change managers need to keep their teams multidisciplined and their targets fluid.

"Unfortunately, management boards often lack the knowledge and experience to effectively exploit the current possibilities of digitalisation," Schuderer says. "Our project experience shows that traditional leadership teams often reach their limits here. Interdisciplinary teams with sufficient skills and a systematic market observation process can be a first step in the right direction."

"Corporate structures that resist change must be broken down."
Markus Schuderer, zeb

Flexible targets

The speed of development makes it barely possible to define one specific end target. "Today's apps will be obsolete tomorrow," Schuderer says. "Products for tomorrow are already from yesterday. Visions must now be developed and pursued differently." In tandem with this, employees need to accept change as an integral part of the industry they work in, and be open to new ideas.

"Corporate structures that resist change must be broken down," Schuderer suggests. "Our experience shows that agile project management, interdisciplinary teams and a high level of freedom can even contribute to asserting new ideas across department borders."

Traditional project management involves establishing a detailed plan and goals at the outset and then attempting to follow that plan. Agile project management starts with a rough idea of what's needed and delivers work in short bursts with the aim of 'getting perfect later' as the project rolls out and its needs become clearer. A vital component of any change management journey is to celebrate short-term successes.

"The dedication of participants suffers if the 'small' successes are seen as less important than the overall strategy," Schuderer says. "Also, waiting for the major digital turnaround is usually neither realistic nor desirable. Communicating small improvements to productivity and processes has a positive effect on the dedication and commitment of participants." CB

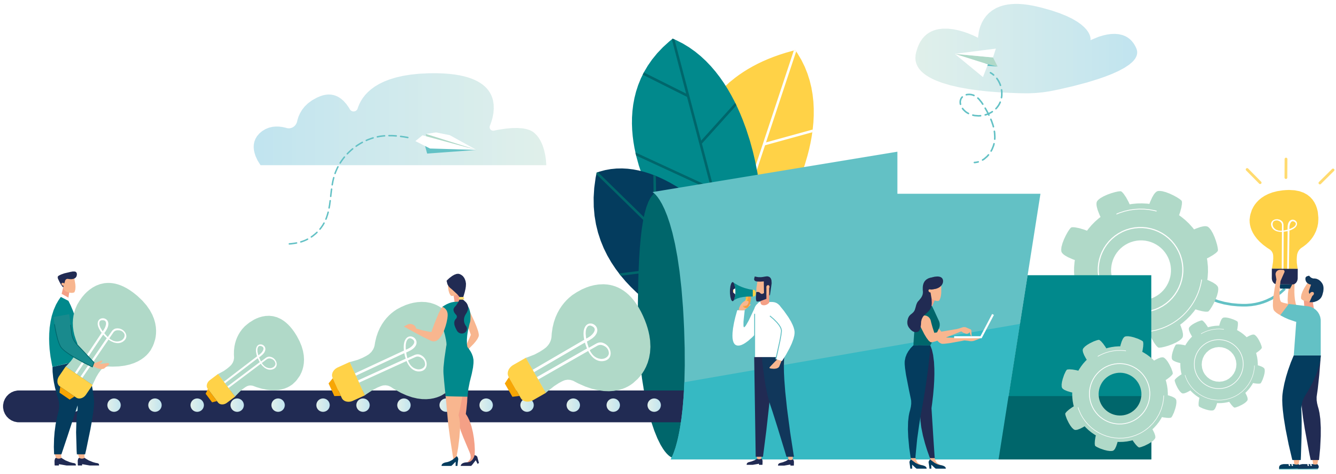
The CHARTERED BANKER INSTITUTE has produced webcasts on personal resilience and change and offers essential leadership, management and development resources through its e-CPD Toolkit.

www.charteredbanker.com/resource_listing/cpd-resources/the-e-cpd-toolkit

FINTECH FOCUS

Culture clash: how to forge lasting FinTech friendships

When FinTechs and banks get together, what are the relationship dynamics?



RELATIONSHIPS can be tough. Sometimes there are disagreements, culture clashes or different outlooks. Creating a lasting bond can take time and involve hard work, patience and compromise. It's no different when FinTechs get together with traditional banks.

When TSB partnered with LOQBOX, a FinTech start-up that helps people build their credit history by saving instead of spending, there were pros and cons on both sides. Thanks to a tireless internal advocate at TSB, many of the cons were successfully avoided or dealt with, says LOQBOX Chief Financial Officer Gregor Mowat, who co-founded the business with Chief Executive Tom Eyre in 2017.

"Different cultures and ways of working present huge challenges," Mowat says."Most institutions have not fully worked out how to address these when dealing with smaller organisations. FinTechs are flexible and innovative, whereas incumbents can be hierarchical, complex and resistant to change.

"For traditional banks, FinTechs can quickly achieve an agile result as they are less impacted by layers of governance and a mindset often resistant to change. For the FinTechs, the stability, regulatory management and a large network from traditional bank partners can be very helpful.

"Traditional bank partners also offer a large client base and huge amount of reflected trust, to which the FinTechs can introduce an improved or more agile product. Also incumbents offer FinTechs an opportunity to enter a market that they're unlikely to penetrate due to lack of capital."

Taming tensions

The negatives include FinTechs potentially finding traditional banks slow and intrusive. And traditional banks being terrified of compliance risks and potential lack of experience.

"FinTechs can be very early-stage and often have untested leadership, bringing potential reputational risk to the bank." Mowat says. "Onboarding can be slow and due diligence can be complicated for young companies. Partnering with one large institution can also bring concentration risk for a small FinTech."

That said, both parties approach the partnership with mutually beneficial objectives in mind, and there are tools and processes that can help. Mowat likes Trello, the free organisation app, and suggests approaches including 'daily stand-up' meetings, where the whole team meets every day for a quick status update, and mixing teams and areas of work. In the early stages, learning how to talk to each other is often the first relationship hurdle.

Michal Gromek, a FinTech expert at the Stockholm School of Economics, Forbes Magazine contributor and author of the Stockholm FinTech Report, says: "There's a communication issue. The banking industry would like to work with FinTechs, but is not explaining to FinTechs how to approach them. And FinTechs would like to work with the banks, but they don't understand how banks work.

"For example, the banks could say, 'Please don't come to us at the ideas stage. Come to us once you're registered or licensed with the financial services authority.' Or, 'Please approach us when you solve a particular process that banks have.' "

Opposite outlooks

Once banks and FinTechs master the initial courtship, differing cultures and attitudes towards compliance can cause issues. Gromek's Stockholm FinTech Report quotes Stig Johansson, Head of FinTech at Sweden's financial regulator, the Swedish Financial Supervisory Authority.

Johansson said: "Instead of speaking to experienced compliance teams of bank employees in sharp suits, with FinTechs we are speaking to the representatives of financial companies dressed in T-shirts, representing a different compliance structure with a different angle of view and lingo."

This has been a particular challenge for the entire ecosystem, Gromek says. Clashing computer systems and programming languages also present integration issues.

"Historically, when the IT systems of banks were built in the 1970s, 1980s and beginning of the 1990s, they were created with outdated programming languages such as Turbo Pascal and HTML," Gromek explains. "You are building programming languages on top of other programming languages. When I've spoken to my banking colleagues, changing the IT systems is always a priority.

"For example, to erase a fax number in an invoice that you send out to customers might cost €450,000. It's a small part of the document to erase, but all the different programming languages make it complex."

Lost in translation

Newer programming languages created in the past one to five years have not been incorporated into banking IT systems because of legacy technology. Gromek suggests: "This means that the banks and FinTechs have to think about the possibility of working together outside of the IT system; to work on their ideas without being heavily focused on IT capability."

A potential hurdle here is that banks are afraid to let FinTechs into their IT system because of trust and reputation issues.

"Banks are afraid that FinTech systems are not proven enough and might create some kind of security leak from the bank," Gromek says.

But there are areas of compatibility. One is that the age gap between FinTech founders and banking professionals is not as wide as perceived. And the two partners may often know each other from previous lives.

"The banking industry would like to work with FinTechs, but is not explaining to FinTechs how to approach them."
Michal Gromek, Stockholm School of Economics

Gromek explains: "At the Stockholm School of Economics, we've reviewed 3,000 LinkedIn profiles of individuals working for FinTechs – where they come from, what type of education they have and where they've worked in the past.

"There's a misperception that FinTech founders are young guys who have just finished university and go to crowdfunders to raise funds. But we've found the average age of a FinTech venture creator or founder is 42. Some are in their 50s.

"To start a FinTech, you have to have this extensive knowledge about financial systems; how they work and what works or doesn't work. It's then about making it simpler or more efficient."

FinTech friends

Every time there are redundancies at one of the big banks, and after the 2008 financial crisis, there has been a trend of individuals transferring from banks to FinTechs – but not the other way around, Gromek notes.

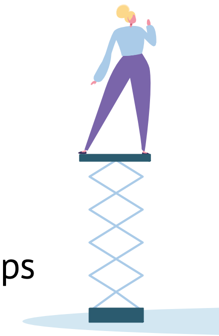
He adds: "When you change your job, the knowledge you've gathered travels with you. So if you're affected by big lay-offs, you might think, 'I could do things by myself.' So sometimes FinTech and banking professionals speak the same language – and may have worked together in the past."

Innovate Finance is an independent not-for-profit membership association representing the UK's global FinTech community. Chief Executive Charlotte Crosswell believes these new collaborations and partnerships are the shape of things to come.

"The rise of FinTech in the past few years has enabled banks to look inwardly and assess whether legacy systems and processes are still applicable and viable," Crosswell says. "We've seen some incredible examples of banks investing, acquiring and partnering with FinTechs in the last year throughout the ecosystem, including between HSBC and TSB with our members Bud (an Open Banking platform) and LOQBOX. As collaborations continue, and as start-ups mature their offerings, the new face of finance will require a realignment – not only of values adhering to transparency, good governance and flexibility – but we'll also see incumbents integrating old expertise with a start-up mindset." CB

CHARTERED BODY ALLIANCE

Call for an enhanced FCA Directory



Members of the public will soon be able to check the probity of financial services professionals listed in a new directory. And professional accreditations, memberships and standards should also be included, argues the Chartered Body Alliance.

A **NEW** directory of financial services professionals that will enable consumers to check key details of professionals working in the financial services sector is due to be launched by the Financial Conduct Authority.

The directory, which is being created by the FCA in consultation with industry bodies, will mean members of the public can check that financial services professionals – including mortgage and investment advisers – are suitably qualified for the job.

Jonathan Davidson, Executive Director of Supervision (Retail and Authorisations), the FCA, says: "We've listened to feedback from firms and consumers about the importance of being able to check the status of financial services staff. Introducing the directory will make it easier for people to be confident they can find the right professionals to deal with."

Davidson said the aim of the directory was to give consumers confidence in the financial services professionals listed. The directory will also set out clear standards for professionals' behaviour and make available information as to their propriety.

Professional standing

The Chartered Body Alliance, which represents 200,000 finance professionals globally, has campaigned for the proposed directory to list an individual's professional affiliations, such as professional body membership and standing, or achievement of a professional standard.

In its submission to the FCA's consultation on the new directory, the Alliance also called for the register to reference whether an individual holds a valid Statement of Professional Standing (SPS) and, if so, with which accredited body.

An SPS confirms that an adviser holds the required qualifications for the activities they undertake; has completed appropriate continuing professional development and complied with APER (Statements of Principle and Code of Practice for Approved Persons). A financial adviser in the retail investment market must hold an SPS in order to offer advice to customers.

The Alliance aims to enhance and sustain professionalism in financial services and was set up by the Chartered Insurance Institute, the Chartered Institute for Securities & Investment and the Chartered Banker Institute in March 2017.

Shona Matthews, Head of Regulation and Policy, the Chartered Banker Institute, says: "The FCA's intention is to make it easier for the public to be confident in finding the right people to deal with. We go further in our recommendations, in that we want it to be easier for the public to find the right professionals, with the right skills, knowledge and behaviours to address their customers' needs."

Clear language

It is vital that the directory explains in clear language who is directly authorised by the FCA and who is 'approved' by their employer under the FCA's rules, the Alliance argues.

The Alliance says: "This information should explain clearly who is required to have a qualification, who sets the standards of these qualifications and how the professional bodies accredited by the FCA ensure that the standards of retail advisers are achieved, monitored and maintained."

As part of the same body of work, the FCA is extending its Senior Managers and Certification Regime (SM&CR), which sets clear standards for the conduct that consumers and regulators expect from all financial services staff. The regulation was first

> **"The certification regime pushes some responsibility back onto the individual for the data held about them."**
> Shona Matthews, the Chartered Banker Institute

"The public interest lies in knowing that the directory person is authorised to do their role, and suitably qualified to do so."
Sian Fisher,
Chartered Insurance Institute

introduced for banks and was extended to insurers in December 2018. It will apply to the rest of the UK's financial services sector from December 2019. The aim is to reduce harm to consumers by making senior people and risk takers in firms more responsible and accountable for their actions.

Matthews explains: "The certification regime pushes some responsibility back onto the individual for the data held about them – in that an individual's employer is responsible for assessing their fitness and propriety. Let's not forget that all of this falls within the regulators' introduction of remedies to increase individual accountability within banks, and as SM&CR is extended, the wider financial services sector.

"So it's important that individuals themselves, and those supporting them, such as training providers, ensure there is sufficient evidence to maintain and retain their certification for the role they perform."

Public interest

Members of the Chartered Banker Institute can register their continuing professional development details on the Institute's online CPD log, which provides a secure method of documenting professional certification.

Matthews continues: "In our response, we've also argued that data about professional membership and accreditations – such as attaining a professional standard or holding a Statement of Professional Standing – should be included in the new directory."

Simon Culhane, Chief Executive, the Chartered Institute for Securities & Investment, says: "Details about professional body membership, and whether the individual is a Statement of Professional Standing holder, is, in my view, materially relevant information. Being a member of a chartered professional body is an achievement signifying an ongoing personal commitment to high levels of knowledge, skills and behaviour that go beyond the minimum standards required by regulators. I believe the public should be able to differentiate between those that have made such a personal commitment to higher standards, and that the new directory should highlight this."

Boosting confidence

Sian Fisher, Chief Executive, the Chartered Insurance Institute, adds: "We believe that predominantly the public interest lies in knowing that the directory person is authorised to do their role, and suitably qualified to do so. Both of these are important factors for consumers to evaluate when considering their options for the provision of financial services. This would give them a clear indication as to the adviser's ability to practise and also offer a clear signpost to further information about the individual from the professional body itself. For example, information about further qualifications and specialisms on the professional body's website.

The Alliance welcomes the extension of the SM&CR, but notes that calls for the inclusion of details about an individual's professional standing were not fully included in the FCA's proposals.

Shona Matthews from the Chartered Banker Institute concludes: "We acknowledge there's regard to individuals holding a relevant qualification, and that this demonstrates a certain level of technical skill and knowledge. But one might argue that the public's confidence will be further supported if the listing also included details about individuals who have made a personal commitment to exceeding the baseline requirements set out by regulation – and who are subject to independent monitoring by chartered bodies, such as ours."

The FCA said it had received a high volume of responses from professionals, including calls to show an individual's professional affiliations, and would consider this feedback before outlining a clear approach in its policy statement. CB

BANGOR BUSINESS SCHOOL

By Bernardo Bátiz-Lazo, Professor in Business History, Bangor Business School, Bangor University and David Cavell, Retail Banking Consultant and Fellow, the Chartered Banker Institute.

The branch as a destination

Goodbye to sterile, commoditised transaction shops and hello to community entertainment and student information as retail banks rethink their brand image.

THE reason we so frequently ask what the future will bring for retail bank branches is down to the demonstrable shift we're witnessing in consumer behaviour. The real question is – how should the banking industry respond?

Consumer research isn't always very helpful. Much was published in 2018 that confirms the growing consumer preference for day-to-day digital banking. But many surveys in the USA have also told us that the most ardent digital banking users also want the availability of a branch for both opening accounts and those more complicated transactions in life.

Recent announcements by Bank of America and Chase have also shown that branch banking still has a role to play in new markets and through new retail formats.

Back in the UK, we have observed a continuing trend of closures reflected in the many headlines of local and national newspapers. Post Office branches are, for the moment and in some locations, handling the transactions that went through dwindling retail branches. As my co-writer Bernardo Bátiz-Lazo has argued in this space before, banks still need channels to finalise certain transactions. And these must be channels that have proven security, reliability and convenience – such as retail branches and ATMs.

Going, going, gone?

Banks have been redesigning the branch space for decades in pursuit of its greater effectiveness. But they've also found that the costs to acquire and serve customers through digital channels are far more economic than in-person interaction – and have encouraged this trend. At the same time, customers have been glad of the ability to remove the need to visit the sterile, commoditised transaction shops that many branches have become. So, the success of digital channels has meant less traffic to retail bank branches, and in turn, fewer opportunities to engage customers in long-term relationships and in turn, generate sales opportunities.

But if closures continue to be justified by the migration of transactions to lower-cost digital channels, banks will increasingly overlook the principal, longstanding, and continuing objectives of its branch network – namely, to represent the bank's brand and cultivate profitable, long-term customer relationships.

But there are also dissenting voices. Think of Spanish giant Caixabank, which is among the world leaders in the exploitation of digital channels. It also understands the value of the branch, as noted in a statement made by the bank in 2016: "A high number of branches is an indication of reach and client proximity – not a cost driver."

Building a programme

Taking inspiration from this view, we believe what's needed is not only to transform the physical space of branches, but also to redesign the interaction with customers. This calls for a rethink of the branch. It also means abandoning the view of branches being an inconvenient stop towards something else. Just as the purpose of visiting an ATM is not about discovering its qualities or features – but getting cash to purchase, say, a late-night snack. Instead we propose looking at the branch as a destination.

This implies using approaches that give a purpose to the in-person transaction, in a way that sustains and enhances the role of the branch as a brand ambassador. There are many ways to create 'destination branch' programmes and community outreach. Among the earliest of these was the introduction of coffee shops and other non-competitive retailing propositions such as telecoms outlets. One UK bank provided a full specialist walk-in advice service for anybody looking to move into the area, to buy or improve a house. Today, many bankers across the world have built on these early initiatives with tactics to create or enhance the gravity proposition of branches – large and small. They include measures that offer:

Student facilities and happenings, identification with the community, community facilities, community entertainment, community education and partnering with the community.

The playbook already includes nearly 100 different approaches, based on the location or target segment.

The bottom line

Any bank adopting this destination approach should be tailoring its programme to achieve three key beneficial objectives. The first of these is to ensure that customer contact levels are sustained. A principal objective of branches has always been to protect and develop its established customer portfolio. Tactics adopted in this new approach need to sustain the dialogue that underpins successful relationship development.

Second, the programme's activities must ensure that the people and organisations of each community come to value the branch. And a third objective must be to develop in a way that, as far as possible, provides opportunities to make new contacts that could lead to new business.

The most successful destination programmes are focused on creating value for customers and building the business brand rather than making immediate hard sales. In turn, customers are more likely to add you to their shopping list the next time they need financial products and services.

> **"Customers who use two or more channels are significantly more profitable than those who use only one."**

In short, the future is bright for banks which can think creatively and engage customers in new ways. Both Lloyds Banking Group and Wells Fargo Bank have published insights that show customers who use two or more channels are significantly more profitable than those who use only one. There's also some evidence that digital banking clients are less satisfied than those who use branches. We don't yet have long-term evidence on how digital banking will impact customer loyalty and profitability. But there are likely to be fewer banks taking a more positive view of the branch. Most others will be content to seek 'cost savings', and the closure of branches will continue – driven by industry consolidation as much as by digital disintermediation. CB

ANNOUNCEMENT

New Royal Charter

We're delighted to report that we have now received a new Royal Charter, establishing us as the Chartered Banker Institute.

Our Institute – the first institute of bankers in the world - was founded one hundred and forty-four years ago, in 1875, as the Institute of Bankers in Scotland. To mark our centenary in 1975, we received our first Royal Charter and became the Chartered Institute of Bankers in Scotland. We are delighted to be able to tell you that we have just received a new Royal Charter, establishing our Institute as the Chartered Banker Institute, the UK's professional body for bankers with growing global impact and influence.

The award of the Institute's new Royal Charter recognises the collective efforts of our Council, staff, supporting banks and, in particular, our 33,000 members to enhance and sustain professionalism in banking in recent years. We remain extremely proud of our heritage, and of the "Scottish principles" of banking on which we were founded and continue to promulgate. Becoming the Chartered Banker Institute ensures we are relevant to bankers across the UK and beyond, and gives our growing membership a new, global identity linked by a common commitment to high standards of professionalism in banking.

Governance changes

In June, 2019, council will be replaced by a new Board of Trustees, for which recruitment is currently ongoing, and further details are available on page 32. We have also just completed recruitment for our new Membership Forum, responsible for ensuring that members' views are reflected in the direction and activities of the Institute. There will be many opportunities to get involved with the Institute in the coming months and years and we hope you will do so.

We hope you will agree that this is an exciting and very important development for our Institute, helping us to begin 2019 with a renewed sense of pride in our collective efforts to enhance and sustain professionalism in banking.

What does this mean for me?

On a practical basis, our new Royal Charter means that you should now refer to yourself as a member of the Chartered Banker Institute and the designatory letters awarded to members are changing to reflect this. Whilst you will still be able to use the existing designatory letters e.g. MCIBS, you are entitled to use the new ones set out below and we strongly encourage you to do so:

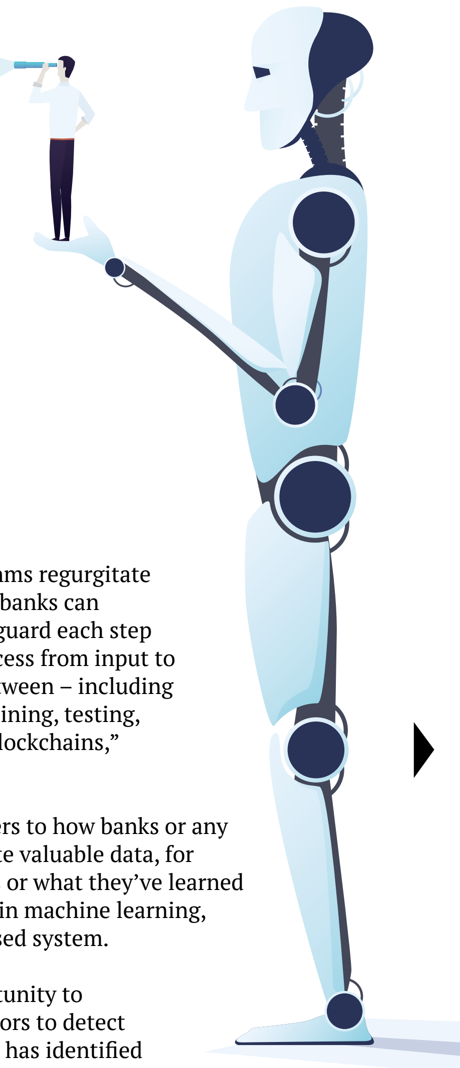
Previously	Now	New designatory letters
Fellow of the Chartered Institute of Bankers in Scotland	**Fellow of the Chartered Banker Institute** Fellows who are also Chartered Bankers may use Chartered Fellow of the Chartered Banker Institute	FCBI
Member of the Chartered Institute of Bankers in Scotland	**Chartered Member of the Chartered Banker Institute**	MCBI
Associate of the Chartered Institute of Bankers in Scotland	**Associate of the Chartered Banker Institute**	ACBI
Certificated member of the Chartered Institute of Bankers in Scotland	**Certificated member of the Chartered Banker Institute**	CCBI

We will be issuing members with new designation certificates over the course of the year but the new designatory letters are effective immediately.

Please note that there are no changes to the following professional designations: Chartered Banker, Associate Chartered Banker, Certificated Professional Banker, Professional Financial Adviser and Professional Mortgage Adviser.

BANKING BIAS

AI: blindsiding prejudice



Machine bias is bad for business – and customers. Banks must ensure AI is an opportunity and not a threat.

ALGORITHMS have an increasing amount of power over our lives, from what we see online, from how much our insurance costs to how likely we are to become victims or instigators of crime. So, what happens if human bias has accidentally been built into these computer programmes? News headlines have been telling this story ever-more loudly: 'Women less likely to be shown ads for high-paid jobs…' 'When an algorithm helps send you to prison…' 'Same-day delivery less likely in black areas…'

Scientists have defined more than 180 human biases, any one of which can affect our decision-making. If artificial intelligence (AI) is trained with 'bad data' containing implicit racial, gender, or ideological biases, it can mean the decisions made by organisations, including government and business, are both unfair and bad for business.

How can banks use AI in a way that avoids these accidental biases, while making decisions more objective in areas including hiring, operations and customer service – and ensuring that lending decisions that are genuinely in customers' best interests, regardless of short-term P&L impact?

"As today's digital transformation is accelerating at warp speed through AI and machine learning, it's imperative we crack open AI's so-called 'black box' to examine its algorithms and understand how it arrives at a decision," says Elizabeth Isele, an entrepreneurship and AI expert who is Associate Fellow in Global Economics and Finance at Chatham House, the independent policy institute. "But bias is not just in the algorithms. It lies within the outcomes – predictions and recommendations – powered by the algorithms.

"Banks and other financial institutions have an opportunity to take proactive steps to mitigate bias built into AI and algorithms. As AI goes full steam ahead, it's critical to ask the right questions while still in early stages: who is building and shaping this important technology that is impacting the future of banking – internally and externally – and economies worldwide?"

Auditing AI

Transparency is essential to prevent society from hard-coding all manner of historical discrimination into our future, Isele believes.

"Since we know that algorithms regurgitate what is being fed into them, banks can scrutinise, monitor and safeguard each step of the machine learning process from input to output and everything in between – including data, algorithms, models, training, testing, predictions and data value blockchains," she suggests.

'Data value blockchains' refers to how banks or any other operators can distribute valuable data, for example, their best practices or what they've learned about how to eliminate bias in machine learning, through an open, decentralised system.

"Banks have a unique opportunity to create teams of AI bias auditors to detect flaws," Isele continues. "IBM has identified 180 biases, but hundreds more exist on a subliminal or unconscious level that requires human intervention. Technological expertise is not enough. Auditor teams must question each stage of the process, and every question requires the perspective of a diverse, cross-disciplinary

> **"Machine learning models are increasingly used to inform high-stakes decisions about people."**
> Kush Varshney, IBM Research

BANKING BIAS

team, inclusive of race, gender, culture, education, age and socioeconomic status, to audit and monitor the system and what it generates.

"They don't need to know the answers – just how to ask the questions and make recommendations for adjustments to build accuracy and trust. Even more important than having an opportunity to evaluate bias in the 'black box' is having the freedom to correct the biases discovered."

Bottom-line benefits

Proactively addressing bias in banks' AI systems and programs would have a huge impact, Isele says. It would lead to more equitable fairness in hiring and lending – as well as positively impacting the bank's bottom line.

"The benefits would include increasing the opportunity to hire more innovative talent who might not have fit the 'traditional' banking mode," Isele suggests. "The banks could also develop new programs that would increase employee engagement and retention. Another bottom-line benefit would be identifying viable new loan applicants who might have been screened out earlier because of biases such as gender or age – to name just two detrimental biases."

A proactive approach to AI also opens new intergenerational opportunities in the workforce, which is important given that many corporations are seeing up to five generations in their workplaces, Isele adds. "Catalysing the experience of younger, tech-savvy employees with the life and work experience of older workers creates a deeper sense of purpose for employees and boosts productivity and return on investment," she says.

In an insight article on bias in artificial intelligence titled AI: Bias in – bias out, professional services firm KPMG notes a number of examples of built-in machine bias. These include the first ever beauty contest judged by an AI system. Of thousands of photos submitted by the public and fed into a deep learning network, only one of the 44 winners had dark skin.

In another example, an organisation adopts a 'blind CVs' system in an effort to avoid prejudice. But the change made no difference to diversity, because it was at the face-to-face interview that the unconscious bias came in.

Built-in bias

Ingrid Waterfield, Director, KPMG UK, specialises in diversity and workforce issues. She says: "At present, AI is only as good as the data you put into it and most of the data we have collated to date are based on historic biases.

"For example, historic pay bands will be vastly different for men and women. Data is also dependent on people feeling confident that they can answer truthfully. Your employee data might tell you that 2% of your workforce has a disability, but there probably are more, but employees don't want to disclose it."

More and more research suggests that diverse companies are more successful. Yet measures such as gender pay gap reporting and the diversity of UK FTSE boards suggest that senior leadership within most UK companies, banks included, are not reflective of society at large, Waterfield says. This suggests that businesses don't yet have their systems and processes, on which decisions are made, free of bias.

"Artificial intelligence has the potential to change that," Waterfield adds. "It's not going to change the culture, but it has the potential to enable an organisation to be more inclusive in its approach to talent. Machines do not discriminate, so whether it's using AI for recruitment, funding or customer checks, in time, technology will make sure decisions are based purely on relevant facts."

Banks need to be aware that the health warning on biases already built into data is a large one and that these anomalies will feed through into any new cognitive systems that are introduced.

"AI will learn and improve over time, but if the data put in is biased or incorrect, the data coming out will be too," Waterfield explains. "However, a lot of work and investment is going into solving this problem. There are already projects under way designed to assess data for evidence of discrimination. At this point though, objective review is still required to ensure decisions made move businesses to being more diverse and inclusive."

Training the trainer

Researchers at computing giant IBM are developing ways to reduce bias in the datasets used to train AI in an effort to avoid discrimination in decisions and behaviour. This includes a ratings system that ranks the relative fairness of an AI system, so the user can consider the system's level of bias, before deciding whether to trust it.

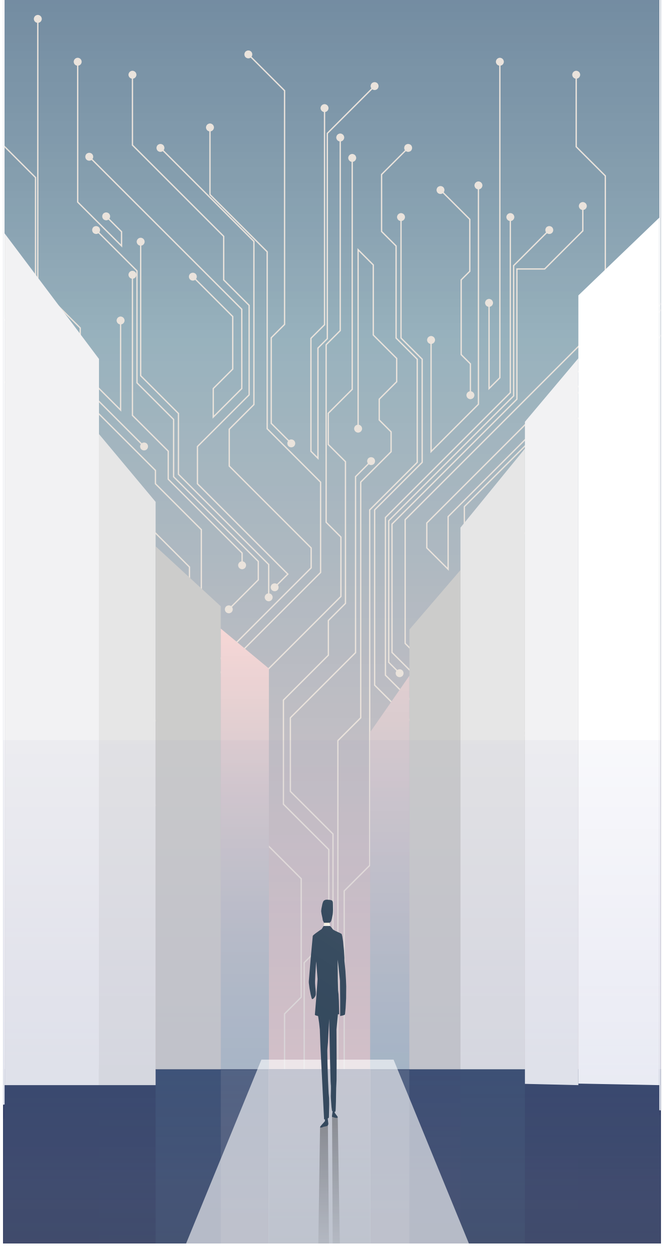
Kush Varshney, Principal Research Staff Member and Manager, IBM Research, explains: "Machine learning models are increasingly used to inform high-stakes decisions about people. Although machine learning, by its very nature, is always a form of statistical discrimination, the discrimination becomes objectionable when it places certain privileged groups at systematic advantage and certain unprivileged groups at systematic disadvantage. Bias in training data, due to either prejudice in labels or under-/over-sampling, yields models with unwanted bias."

IBM has recently launched AI Fairness 360, a comprehensive open-source toolkit of metrics to check for unwanted bias in datasets and machine learning models, and state-of-the-art algorithms to mitigate such bias.

In a whitepaper, IBM researchers have also proposed voluntary 'factsheets' for AI systems that would answer questions, including how the system was trained.

> **"AI will learn and improve over time, but if the data put in is biased or incorrect, the data coming out will be too."**
> Ingrid Waterfield, KPMG

"Banks and other financial institutions have an opportunity to take proactive steps to mitigate bias built into AI and algorithms."
Elizabeth Isele, Chatham House



Aleksandra Mojsilovic, Head of AI Foundations, IBM Research, explains: "Like nutrition labels for foods or information sheets for appliances, factsheets for AI services would provide information about the product's important characteristics."

Big Tech as an industry has sharpened its focus on machine bias, and other players taking action include Facebook, which last year announced Fairness Flow, an automated bias-catching service for data scientists. Similar tools have been released by Microsoft and Accenture.

Diversity focus

In the UK, Parliament's Artificial Intelligence Committee, chaired by Liberal Democrat digital spokesperson, Lord Clement-Jones, published a wide-ranging report last year to consider the economic, ethical and social implications of advances in AI. It acknowledges the AI bias issue and makes a number of recommendations, including pre-processing data to ensure it is as balanced and representative as possible.

"Alongside questions of data bias, researchers and developers need to consider biases embedded in the algorithms themselves – human developers set the parameters for machine learning algorithms, and the choices they make will intrinsically reflect the developers' beliefs, assumptions and prejudices," the committee says in its report, entitled AI in the UK: ready, willing and able?

"The main ways to address these kinds of biases are to ensure that developers are drawn from diverse gender, ethnic and socio-economic backgrounds, and are aware of, and adhere to, ethical codes of conduct."

The committee also recommends the creation of a specific challenge as part of the UK government's Industrial Strategy Challenge Fund, which offers research and development funding to help organisations address big industrial and societal challenges.

The aim would be to stimulate the creation of authoritative tools and systems for auditing and testing training datasets to ensure "they are representative of diverse populations, and to ensure that, when used to train AI systems, they are unlikely to lead to prejudicial decisions". CB

PERSONAL DEVELOPMENT

The plight of the 'mortgage prisoners'

A poorly performing endowment policy has left a middle-aged couple feeling disgusted that their adviser put profits before people – and they face downsizing or rethinking their financial future.

The scenario

Anna was one of the callers during a recent radio show focusing on personal finances. She spoke passionately of how her decisions more than 20 years earlier could now force her and her husband Joseph to sell their home. It was clear they were both upset and angry about their situation. They had taken out an endowment mortgage in 1992, paying interest to a bank and endowment premiums of £70 per month to one of the UK's largest and oldest life assurance companies. The scheduled maturity date corresponded with the 30-year term of the mortgage.

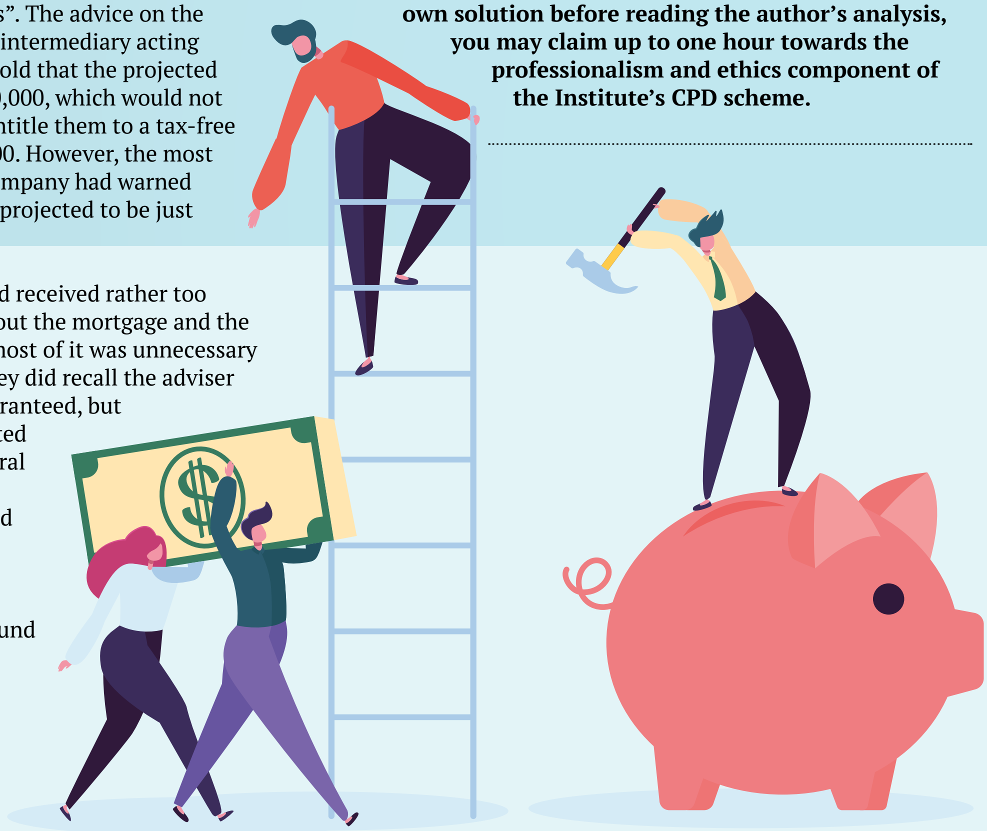
Anna said that they were steered towards an endowment mortgage by the bank, because at the time they were told "that is what most people take out nowadays". The advice on the endowment policy was provided by an intermediary acting on behalf of one company. They were told that the projected maturity value would be just over £110,000, which would not only pay off the mortgage but would entitle them to a tax-free cash sum, as they had borrowed £65,000. However, the most recent letter from the life assurance company had warned them that the maturity value was now projected to be just £27,000.

Anna and Joseph said they felt they had received rather too much documentation when they took out the mortgage and the endowment policy, and believed that most of it was unnecessary 'small print' and 'wealth warnings'. They did recall the adviser mentioning that bonuses were not guaranteed, but he had seemed optimistic and committed to the product. Besides, they said, several members of their family had taken out endowment mortgages in the 1970s and had been delighted with the cash sums they received.

They were faced with a shortfall of around £38,000, but had only about £10,000 in personal savings. Anna and Joseph were too old to be considered for a conventional 25-year mortgage, and a shorter term would make repayments very expensive. Both Anna and Joseph were self-employed and believed that their financial statements would show inadequate net profits to raise a mortgage of any significant value.

Ultimately, Anna and Joseph conceded that it was likely they would have to sell their home and downsize. They were disgusted that this was down to the fact that they were steered towards the wrong product by people who put profits and product commissions before the best interests of customers.

By working through this scenario and developing your own solution before reading the author's analysis, you may claim up to one hour towards the professionalism and ethics component of the Institute's CPD scheme.



"Anna and Joseph said they had received rather too much documentation when they took out the mortgage and the endowment policy."

The analysis

Shortfalls on endowment mortgages have been in the news for several years, but what are the ethical issues in such unfortunate cases?

Anna and Joseph took out their mortgage at the end of the interest-only boom years. It is not surprising that they knew people who had done well out of taking out endowment mortgages, as many thousands of borrowers received tax-free cash sums that were sufficient to pay back the capital borrowed and provide them with a few thousand pounds to use at their discretion.

This was clearly one influence on the decision by Anna and Joseph to buy an endowment mortgage, and it was acknowledged by the Financial Conduct Authority (FCA) that influences of others can actually be a driver of conduct risk. The FCA referred to this as "mental shortcuts and rules of thumb", Financial Risk Outlook, 2013.

It should also be noted that the buying process is (or was) more complex for endowment mortgages than for capital repayment mortgages. Applicants would receive an initial disclosure document, a key features document, a suitability letter (then called a 'reasons why' letter) and copious information, including projections, from the life assurance company.

The reality is that there would be no question of mis-selling if it could be guaranteed that every customer would read every page of every document. The warnings were there. Reversionary bonuses are not guaranteed until declared. Terminal bonuses are not guaranteed. Even a low-cost 'with profits' policy can only guarantee to cover about 30% of the capital borrowed. Investments can go down as well as up. All of these warnings would have been given. But customers do not read every word of every document. One reason for this is that there is too much information, but another reason might be that customers have become so acutely aware of standard warnings that they become transient and pass before their eyes. There is a big difference between seeing something and understanding it.

The root of the ethical issue in this case study is the duty owed by the adviser to the customer. This should be based on mutual trust and understanding between the parties. In the 1980s and 1990s, the advice given may have been factual, but also tinged with an optimism that all was well. It was similar unfounded optimism that accelerated the onset of the global financial crisis in 2008.

Mortgage lenders such as banks and building societies were roundly criticised for borrowers' predicaments, and deservedly so. Yet it was life assurance companies which produced the numbers, offered the projections, paid the lucrative commissions and did not see the clouds on the horizon until it was too late. Compared with the banks and building societies, they escaped lightly from the public's wrath.

If Anna and Joseph do nothing, they will still owe a substantial capital sum on the maturity date, with little prospect of raising a new mortgage. They have a similar problem with raising a mortgage now, as they are effectively 'mortgage prisoners', trapped by the current suitability and affordability rules that did not exist in 1992.

One relatively new option that may be open to them is the retirement interest-only mortgage, which was introduced in 2018 by the government as a means of helping older borrowers deal with difficulties arising from mortgage shortfalls. These mortgages facilitate borrowing but with repayment deferred until the borrower dies or has to move into full-time care. Affordability rules apply, but applicants have to demonstrate that they can afford the interest payments.

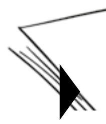
An alternative option would be to consider an equity-release product such as a lifetime mortgage, which could be taken out without the need to make repayments, but runs the risk of diluting the equity in their estate if they live to a great age. CB

Bob Souster is Module Director, Professional Ethics, Chartered Banker MBA at Bangor University. Share your views on Bob's verdict about this ethical dilemma by joining the Chartered Banker LinkedIn discussion forum.

CONSUMER DEBT

Teaching children the true colour of money

With personal debt in the UK at crisis levels, the time is ripe to put budgeting on school timetables.



IF schoolchildren were better educated about finance, would it help create more financially savvy adults – and potentially help tackle the UK's personal debt problem? According to the Financial Conduct Authority, 18-to-24-year-olds have average unsecured debts of £1,460 and are the UK's fastest growing group of debtors. With student loans, mobile phone contracts, music downloads, online gaming, store cards and gadgets – to name but a few – young people are under huge pressure to spend.

Meanwhile, personal debt in the UK has climbed to around £1.6bn, with the average UK resident owing 114% of typical annual earnings for the UK, according to The Money Charity, the national financial capability non-profit organisation.

Financial education was introduced to secondary schools through the national curriculum in 2014. But take-up has been patchy and inconsistent. There is also a growing campaign to make financial education compulsory in primary schools, led by protagonists including the Archbishop of Canterbury, Justin Welby. Just 40% of young people are taught money management, according to the government-funded Money Advice Service.

"Only around half of seven-to-17-year-olds get some basic form of financial education at school or at home in the UK," says Mike Dailly, Solicitor Advocate and Principal Solicitor, the Govan Law Centre in Glasgow. "Yet all of the behavioural psychology evidence from across the world tells us that children form their approach to money management from the age of five and onwards. Giving kids pocket money – it doesn't matter how much – really matters. It begins the process of thinking about whether to save or spend, and how to budget for things. I don't believe we are doing enough. Good things are happening, but teachers and parents don't get enough support."

Struggling with debt

Dailly is a board member of the UK government's new Single Financial Guidance Body, which aims to provide free and impartial help on money matters and replaces the three existing providers of government-sponsored financial guidance: the Money Advice Service, the Pensions Advisory Service and Pension Wise. The new body is due to start operating in January 2019 and one of its key remits is to work with the financial services industry, devolved authorities and the public and voluntary sectors to develop a national strategy to improve people's financial capability and ability to manage debt – and to give children and young people financial education.

"It matters because about a quarter of people in the UK are 'struggling', another quarter are 'squeezed' and the remaining half are 'cushioned' with savings," Dailly says.

"There are things we don't control, such as not having enough money to live on. But what we know is that many people end up having to struggle because they pay over the odds for financial

"Banks and other firms in the financial sector already work in close partnership with debt advice charities."
Richard Lane, StepChange

"Financial education has a role to play and it must start in primary school, as research shows that adult financial habits can be established as early as seven years old."
Joanna Elson OBE,
Chief Executive,
the Money Advice Trust

services. They get bad deals, make bad choices and pay more. They lose out on good protection products. That is fixable. People need to make the most of their money and financial education is the place to start."

Dailly believes all banks have a corporate and social responsibility to contribute to empowering people from an early age to make informed choices – and the industry needs to collaborate and invest in what works. There are good examples of financial education initiatives in the banking sector. The Money Advice Service has also funded innovative projects across Wales called 'Talk, Learn, Do'.

"This is where parents use storytelling to teach their kids about financial capability and the results have been truly amazing," Dailly enthuses.

"We know personal indebtedness has increased in the UK and there are some macroeconomic factors for that. A lack of pay rises, inflation, bills have increased for households and income has remained static for too many people. Some people have run down their savings to make ends meet. For those with no savings, consumer credit has been the solution. Sadly for some, [this is] at the ultra-high-cost credit end of the market, which can trap people in a cycle of debt.

"While we can't control all of these factors, what we can do is ensure that when people are squeezed and struggling, they have the financial capability tools and skills to make the best choices. Plan ahead if possible. Avoid paying over the odds. Avoid paying for things they don't need. Ensure they make the most of their money."

Rising demand

The Money Advice Trust, the charity that runs National Debtline and Business Debtline, is handling record numbers of enquiries and expects demand for debt advice to continue rising.

Joanna Elson OBE, Chief Executive, the Money Advice Trust, warns: "We are expecting the number of calls to National Debtline to reach a five-year high as more people struggle with smaller but trickier debts, often caused by 'broken budgets', where the money coming in isn't enough to cover essential household spending. Government, regulators, creditors and the advice sector need to work together to tackle the underlying issues before the number of people needing help grows further."

Understanding how to manage your money, such as calculating a budget and working out what you have coming in and going out on a regular basis, are important skills.

Elson continues: "Financial education has a role to play and it must start in primary school, as research shows that adult financial habits can be established as early as seven years old. While financial education's presence in the national curriculum for secondary schools is a start, with a substantial number of schools, and now academies, able to set their own curricula, a more consistent and co-ordinated approach is needed."

Many financial service firms have taken the initiative to support financial education good practice projects, Elson adds. These include MoneySense, the Royal Bank of Scotland's free financial education programme for those aged five to 18 and LifeSkills, created with Barclays, to help young people obtain the skills and experiences they need to enter the world of work.

The My Skills and Future project (formerly the Financial Education Partnership) is an initiative that offers free workshops in financial capability and other related topics in schools, colleges and community groups across Scotland. It is administered and funded by the Chartered Banker Institute.

The aim of the My Skills and Future project is to benefit students, teachers and the wider social and economic society as a whole. It provides direct classroom support to teachers for meeting financial education 'Curriculum for Excellence' (C4E) objectives while providing a high-quality interactive learning experience for pupils.

CONSUMER DEBT

Lloyds Banking Group also funds Money for Life, a three-year programme to help those between 16 and 25 manage their money. And building society Nationwide runs Nationwide Education, which offers free teaching resources around the themes of finance and numeracy.

"It is crucial that firms continue to support and build on these long-standing initiatives," Elson says.

"Nevertheless, this only goes so far as it does not address many of the reasons that lead people into financial difficulty, such as job loss, physical ill health or mental health problems."

Calls to National Debtline saw a peak of 305,000 calls in 2010 in the aftermath of the financial crisis. Demand then fell back again as the economy recovered – but call volumes have now been rising every year since 2015.

Expert advice

StepChange Debt Charity has been offering free expert debt advice and debt management services across the UK for 25 years and helps at least 600,000 people a year deal with debt problems. The charity says financial education for young people has been something of a 'holy grail' in the UK. The Financial Conduct Authority's predecessor, the Financial Services Authority, attempted to make inroads into establishing financial education and published an assessment of the subject in schools as long ago as 2006.

Richard Lane, the charity's Director of External Affairs, explains: "Some of the perceived challenges in financial education include the 'fit' within the national curriculum, the difficulty in ensuring that teachers themselves are well equipped to provide meaningful teaching, and the lack of an evaluation framework to establish whether financial education is effective.

"At StepChange, we support the goal of increasing financial capability and building financial resilience, and will be looking at how we can best develop a meaningful and effective service, including to young adults – who are disproportionately represented among our own client base."

StepChange was contacted by around 620,000 new clients in 2017 and has recently published a new four-year strategy built on the assumption that it needs to be helping twice as many people by 2022. This is based on a sector-wide assessment of need and demand produced as part of an independent review for the government's Money Advice Service.

Early intervention

Financial services providers will play a key role in meeting this demand by identifying and intervening in potential debt issues at an earlier stage.

Lane continues: "Banks and other firms in the financial sector already work in close partnership with debt advice charities, but at present most of the referrals and collaboration occur at the later stages of a customer's journey into debt, when problems have already become acute.

"Only around half of seven-to-17-year-olds get some basic form of financial education at school or at home in the UK."
Mike Dailly, Govan Law Centre

"A likely scenario for the evolution of how personal debt is managed is that there will be closer collaboration between financial firms and debt-advice providers at an earlier stage, to interrupt people's journeys into debt earlier and help to prevent problems worsening."

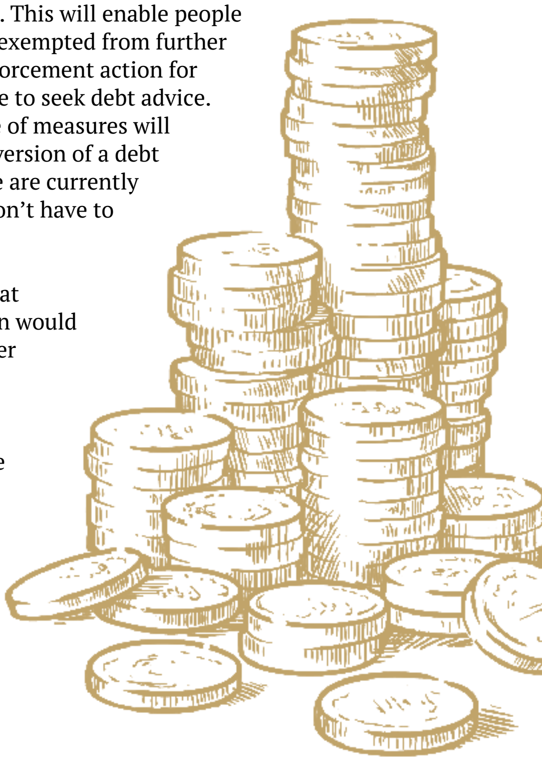
Managing customer relationships with empathy will be vital, as will a recognition that the situation for most people facing financial difficulty involves multiple creditors.

"An enlightened approach recognises that for any debt management to be sustainable, the competing liabilities to different creditors need to be considered in the round, prioritised and payments apportioned appropriately – which is where a credible third party, such as one of the reputable debt advice charities, comes in," Lane adds.

This will become even more crucial for creditors when the UK government's proposed Breathing Space scheme comes into force. This will enable people with problem debt to be exempted from further interest, charges and enforcement action for 60 days to give them time to seek debt advice. Part of the same package of measures will include a new statutory version of a debt management plan. These are currently voluntary, so creditors don't have to agree to them.

However, Lane doubts that better financial education would ultimately equate to fewer debt problems.

He concludes: "For most of our clients, it's income shocks and changes in circumstances that are the underlying cause of their debt problem, rather than financial mismanagement." CB



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A QUESTION OF LOYALTY

Laughing all the way to the bank

With big tech firms such as Amazon and Apple muscling in on the financial services market, the customer-retention game has never been more competitive.

HOW can UK banks foster loyalty at a time when they're still trying to rebuild trust? MoneyLIVE's The Future of Retail Banking Report 2018/19 published in association with the Chartered Banker Institute, surveyed 600 senior figures from across the banking sector. It found that more than one third of customers plan to use non-traditional financial services firms within two years, rising to just over half in five years and 70% in 10 years.

With Amazon, Apple and other global brands developing their own financial services, what products or approaches could help banks win customers and traction?

Shep Hyken is a Missouri-based customer service and experience expert, a New York Times bestselling author and award-winning keynote speaker. He says the key to building trust and loyalty is creating consistent, predictable and positive experiences that inspire customer confidence.

"Doing business needs to be easy, and if you can make things convenient for your customer, provide them a good-quality product and deliver a consistent, predictable, positive customer experience, you will start to regain trust," Hyken says.

"There's one word to describe what Amazon does better: they're convenient. They're open 24 hours a day, seven days a week. They use technology to drive that convenience. They've created a self-service solution where the customer is in total control. They deliver."

Technology is already being used in financial services to provide this level of convenience. For example, PayPal-owned app Venmo enables the transfer of cash and bank cheques by text.

Hyken continues: "You can now use a camera to take picture of a cheque and send it to your bank. You couldn't do that before. And you can do it at two in the morning or two in the afternoon. All businesses need to become more convenient to their customers like this."

Breaking down barriers

Sometimes there might be regulation or compliance issues that mean banks can't be as convenient as they would like. While this is outside the industry's control, providers should be focused on removing all other barriers to doing business with them. For example, Ohio-based Huntington Bank, one of the largest banks in the US with around 1,000 branches, disrupted the industry by staying open after their competitors had closed.

Hyken explains: "They stayed open so people could come to the bank after work, and come to the bank on Saturday morning. A lot of banks don't do that. And as a result, they gained market share."

His top tips include educating customers and sharing content, including articles and videos, that are helpful and engaging.

"Customer education is very powerful," he says. "For example, why are there data breaches and what is your bank doing to prevent that? It needs to be done in a way that's engaging and entertaining to the customer. If it's just a report you put out, who's going to read that?

“It’s not that everybody will read your content, but the ones that do are your fans...” Shep Hyken, customer service expert

“Sometimes a good content marketing strategy will engage. It’s not that everybody will read your content, but the ones that do are your fans, and they’ll talk about you. It’s not blatant commercialism, but good, helpful written and video content that people want to read and watch.”

Being creative

Imaginative approaches to content are also important. “Why always deliver content in a serious way?” Hyken asks. “Let’s do a comic book instead. I don’t mean funny, but using an interesting, graphical style to talk about an interesting topic. Make it simple and put it in comic book. Comic books are read 7.2 times on average and are held onto.”

Engaging with the local community is another loyalty-boosting activity. Hyken explains: “What do you do for your community that will make people say, ‘Wow! I love what you do for my community and want to do more business with you?’ It’s easier for smaller banks to be local, but plenty of big banks get involved too. It shouldn’t be large corporate sponsorships. What can you do at local, community level that makes the customer feel you’re part of them – and not just this big institution?”

Martin Lindstrom is a Danish author and branding expert who has advised Fortune 100 brands including Coca-Cola, Nestlé and Red Bull. He says banks are still trusted more than social media companies, but have been more focused on compliance than learning about their customers’ needs and adjusting accordingly.

Customer first

Lindstrom says: “Perhaps most importantly, banks know us very well. They just haven’t used the insight they have about us to form a more fulfilled and informed relationship. In theory, they know our entire financial situation, they also know our purchase patterns, our dreams, our crises and our work life. Yet due to their complex legacy systems and convoluted compliance and regulation issues, they’ve placed themselves in a straightjacket.

“If I was in the shoes of a bank, I’d first of all truly learn what today’s customers want. Yes, they want convenience – but there’s much more to it. They also want to be recognised, feel safe, feel they can reach out to someone when they’re in a crisis. They want to experience a flawless and intuitive interaction with their bank, rather than be bombarded with tons of information. Few banks today are able to offer this.”

Lindstrom suggests banks need to ‘re-mine’ their customer data to build more detailed customer profiles. This would enable them to begin making highly informed interactions with customers.

“Banks should become intermediaries between the customer and the customer’s world,” Lindstrom suggests. “They should be the negotiator for good deals, planning, education, data protection. In short, they should be my ‘go-to person’ whenever I want to make important decisions in my life. Today they’re not – because they’re more focused on seeing themselves as a money-lending or savings institution. Those days are long gone. They need to see themselves as a personal guardian.” CB

MONEYLIVE REPORT FINDINGS

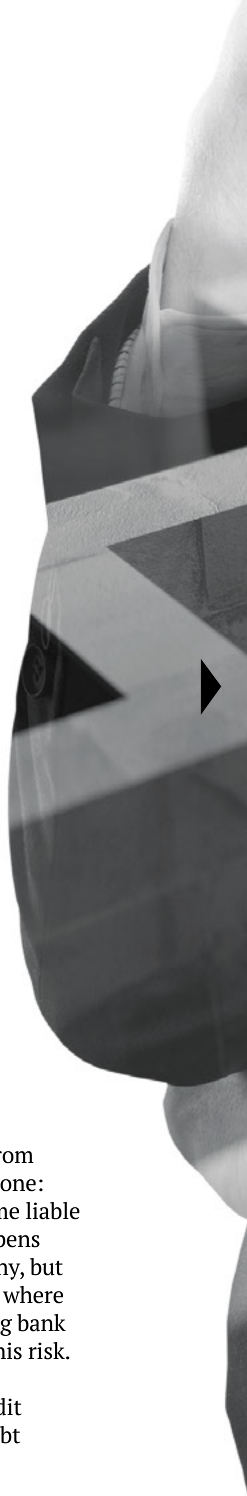
- **59%** of the bankers surveyed perceive new intermediaries to be a significant threat to their relationship with their customers
- **81%** believe the consumer is driven less by trust in large institutions and more by convenience and quality of experience
- **71%** believe that banks’ brand messaging has not kept pace with consumer priorities for speed, simplicity and convenience
- **79%** agree that FinTechs are not intrinsically better than banks in terms of customer outcomes, but their brands are more engaging.

“Banks should become intermediaries between the customer and the customer’s world.” Martin Lindstrom, author and branding expert

EMPLOYEE OWNERSHIP

Working towards financial freedom

Employee ownership can bring benefits to businesses, staff and customers. Banks have a role to play in this exciting restructuring process, which one CEO describes as making him and his staff 'the true masters' of their own destiny.



EMPLOYEE ownership is not new to the UK – in fact, retailer the John Lewis Partnership and global engineering firm Arup have clocked up around 160 years of employee ownership between them. However, there is now substantial growth in this ownership structure among many smaller, regional businesses, following the introduction of the Employee Ownership Trust (EOT).

What is employee ownership?

The Ownership Dividend, launched recently by the Employee Ownership Association (EOA), shows that transitions to an employee holding structure are especially popular with those seeking an alternative to a trade sale or a management buyout (MBO).

For many owners, a trade sale is often not the most desirable exit route. It doesn't secure the future of the business in its current location for both employees and customers. But employee ownership enables a firm to exit on its own terms and timescale while achieving full financial value.

The evidence in the report The Ownership Dividend published in June 2018 shows that in addition to providing owners with the exit they want, employee-owned businesses are proven to engage their workforce in a more meaningful way, via their ownership stake. This stake, delivered via direct shares, a trust, or a hybrid, along with the accompanying influence exercised through a structure of representation, drives more individual discretional effort. This then directly results in higher levels of financial performance, with new employee-owned businesses reporting an immediate increase in profits in the year after transition. The evidence also shows that these businesses have more formal corporate governance structures, take a long-term view of investment and are subsequently more resilient.

Financing the transition

The EOT was introduced in the Finance Bill 2014 and allows for complete exemption from capital gains tax on the proceeds of a sale to owners who sell a minimum of 51% of the equity of the business to the EOT. There is also an additional benefit to employees, where bonus payments made via the EOT can be paid tax free up to the sum of £3,600 per employee per annum.

Employee-owned companies offer banks similar financing opportunities to other private companies but, with an EOT, there is an additional opportunity for banks to lend to the EOT for the acquisition of shares on behalf of employees.

Banks typically share the EOT lending role with selling shareholders (vendors) whose loans are fully subordinated to those of the bank. However, because vendors (usually the founder) often continue to be involved in the business, providing continuity, this is often an attractive credit proposition for banks.

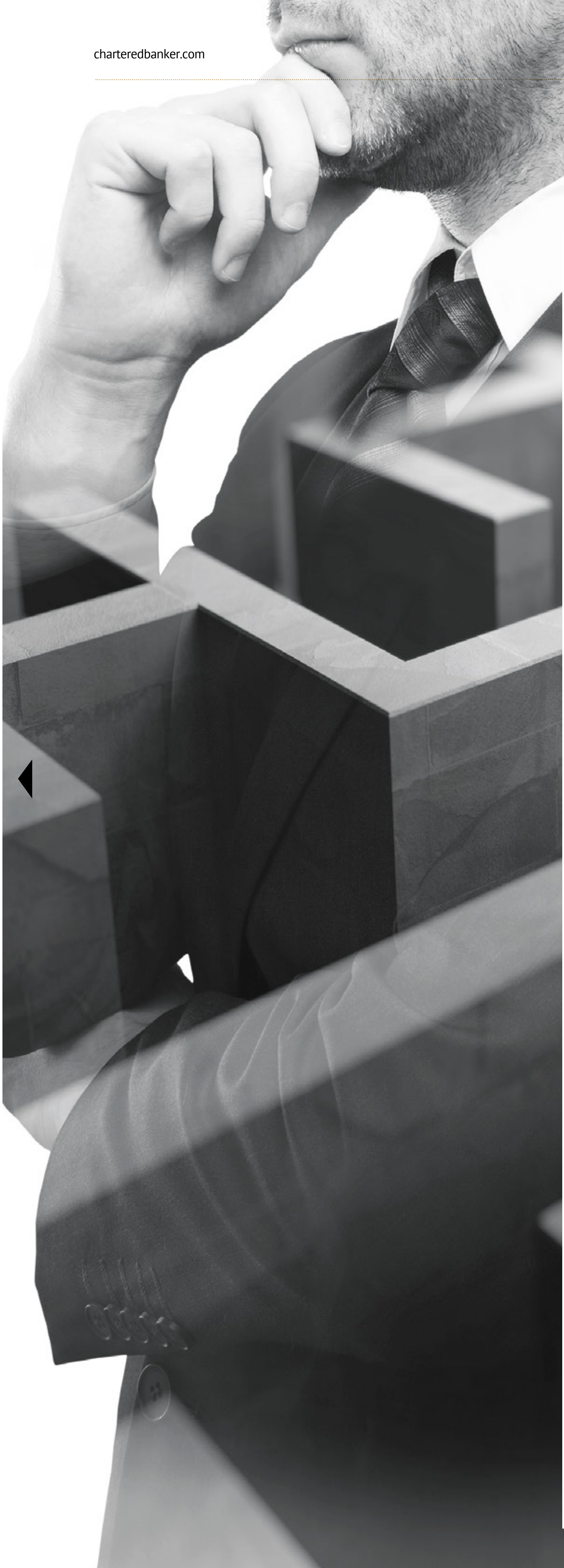
Some banks are establishing specialist EOT financing units to attract this type of business. Finally, it is important for banks to be satisfied that an EOT is not paying more than fair market value for its shares as well as the loan from the bank being prioritised over the vendor loans to the EOT.

Red flags

When considering any risk that would prevent banks from lending for this purpose, the biggest risk is a technical one: if the EOT's shareholding falls below 50%, it will become liable to pay capital gains tax. This is not an issue if this happens for good reasons, such as an onward sale of the company, but it could create an unwelcome tax liability in situations where the EOT is not in funds to meet the tax bill. The lending bank would seek an indemnity from the company to cover this risk.

Any existing business debt would form part of the credit appraisal process and may constrain the amount of debt available to finance for an EOT transaction. CB

"If the EOT's shareholding falls below 50%, it will become liable to pay capital gains tax."



Case Study - Cambridge Weight Plan

Corby-based Cambridge Weight Plan Ltd (CWP) employs around 220 staff and has a turnover of £40m per annum derived from the manufacture of the diet products. In the UK CWP sells and markets the brand through 3,000 independent CWP consultants and exports to independent distributors globally.

The first commercial version launched in the UK as The Cambridge Diet in 1984. A management buy-out took place in 2005, however, despite driving excellent results, the subject of succession soon came around again. This time the owners were looking for a longer-term, more sustainable solution that could convert share certificates into cash while preserving the successful business model that had been created. In 2009 the options considered were: to pass on the business within the family, a next-generation MBO, a trade sale, to float or to move to employee ownership.

The employee-ownership option was chosen with the business moving to an EOT, delivered via a two-stage transaction. In autumn 2010, there was a 49% sale via a £14m bank loan, followed by a further 51% sale in autumn 2014 using a £20m bank loan, both financed by Lloyds. CWP engaged its bank at the start of the planning process and the firm also took legal advice and support to effectively manage the process and the potential divergence of interest between the company, the EOT, the retiring owners and the continuing management.
There was an independent valuation of the business and consideration of management incentives, which was key for the bank in order to lock in the team responsible for repayment of the loan.

Chris McDermott, CEO, comments: "One of the big impacts employee ownership has had on the business is to do with our long-term thinking and strategic planning. We are able to take a much longer view now because we do not have external shareholders expecting annual dividends or considering a sale within the next few years. We have instigated a complete brand review process that looks at a five-to-10-year time horizon (rather than three to five years) – the results of which we are about to launch to the UK market.

"We are a profitable business; our employee stakeholders experience regular profit-share bonuses of between 12-15% of salary each year. We have created 'Voice Groups' across the company enabling stakeholders to have input into the running of the business, including how the company should share with them any residue profits it might make in the future. We did this because in July 2018 we paid off (in full) the outstanding loans used to purchase the company purchase the company – two years early – enabling us to declare 'Financial Freedom Day' on national Employee Ownership Day 2018. And to celebrate, the company gave £1,500 to each stakeholder. It was at that moment that it felt we all became the true masters of our own destiny."

Article by the Employee Ownership Association, the membership body for the sector, with support from RM2, an independent corporate finance advisory company specialising in structuring and financing EOT transactions and in converting private companies to employee ownership.

PERSONAL FINANCIAL ADVICE

Millennials and money

With lifestyles and attitudes changing, we explore how financial advisers can stay relevant to younger generations.

Millennials – those aged between 18 and 36 – now represent the largest working generational group in the UK and are predicted to make up 75% of the global workforce by 2025. How can wealth managers, financial planners and advisers customise their approach to this generation, particularly in the light of changing lifestyles and attitudes towards money, work and family?

"The more obvious changes in millennial attitudes centre on work and living arrangements," says Simon Harrington, Senior Policy Adviser – Public Policy, The Personal Investment Management and Financial Advice Association (PIMFA).

"Millennials are increasingly values-driven and more likely to choose employers which they believe reflect those values. In line with their increasingly entrepreneurial spirit, this can often mean eschewing 'traditional' career paths, which in turn impacts on their ability to save and accumulate wealth, live independently and, as a result, this could have direct impacts on their ability to get married and have children."

PIMFA is the UK's trade association for the investment management and financial advice sector and has conducted extensive research into millennial demand for advice, their investment preferences and motivations for saving. The association's Millennial Report 2017 looks at how the industry can engage with a generation that faces more financial hurdles, such as high property prices and less lucrative retirement benefits, but still needs advice and products that are relevant, attractive and affordable.

"The biggest determinant on whether or not an individual seeks to access financial advice is ultimately the amount of wealth that they have, rather than their age," Harrington continues.

"Saving levels are the lowest they have been on record. Wages are still lower in real terms than they were before the financial crisis. While employment is higher than it's been for decades, after housing costs, income for low- and middle-income families is where it was in 2003/04."

Late start

The biggest challenge for advisers is that the initial point of engagement for a millennial client will almost certainly be later than with previous generations.

"Financial advice is as much about trust and support as it is about the way in which a client's money is managed," Harrington says. "Client relationships are often fostered over decades. If the point of engagement for clients and advisers is much later, it follows that this relationship becomes more transactional and, as a result, clients become more pragmatic about assessing the adviser's value to them.

"Going forward, to this end, the most obvious and pressing areas in which the industry will need to adapt will be value and price. It's impossible to communicate the value of something to somebody who has never experienced it and doesn't understand it. Without this understanding, value is interpreted in simplistic terms: through price."

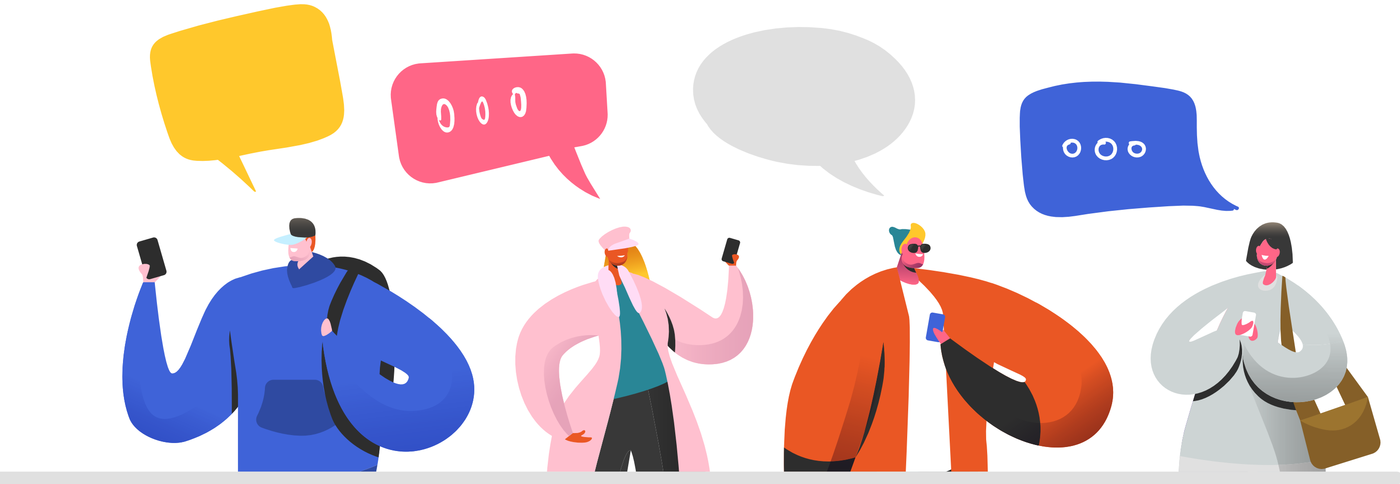
There are firms in the sector which have £100,000 as a minimum for engagement, Harrington adds. The cost of regulatory compliance has been a major driver. Many have a much lower limit or are looking for alternative, low-cost solutions.

"Our research suggests that to engender the trust and loyalty of the client in the future, this needs to be addressed," Harrington continues. "Clients with less wealth to start with are no less capable or intelligent and they will have long memories. Clients treated well at £5,000 or £500,000 will be 'sticky', especially if the relationship is based on the client and not the assets under management. Patience is, and will be, a virtue here, as in most situations."

Big changes

In its report Millennials & Money: The Millennial Investor Becomes a Force, management consulting and professional services firm Accenture finds a sense of distrust among millennials towards big brands. This is reflected in their attitude to wealth management, with 57% of millennials believing advisers are motivated only to make money for themselves.

James Alexander, Senior Manager, UK Wealth and Asset Management, Accenture, says: "We are seeing big changes in



how millennials treat money that differ from generations before them. The conversation is shifting from, 'How can I make more money?' to 'How can I make most out of life with my money?' Conversations are changing from profits to outcomes, and that requires a big shift in how wealth managers relate to their clients, particularly millennial clients coming through.

"Millennials, in particular, often want to be see their investments being a driver for good in the society and world in which they live, as well as delivering investment growth. This is driving significant growth in a range of socially responsible investment, ESG (environmental, social and governance) and impact investing strategies. In the future, we expect a minimum level of ESG analysis to be integrated into every firm's investment process, with specialist propositions around specific themes and impact investing also growing in importance."

Almost two thirds of millennials feel they understand their holdings and investments as well as a professional does. Only 20% say they work with an adviser exclusively, and then generally for only four to five years. As the most digitally savvy investor group, millennials want cutting-edge technology as standard, including robo-advice, mobile platforms, self-directed investment portals, tracking software and social media integration."

Hybrid advice

Alexander continues: "Thanks to the digital revolution, millennials expect fast, reliable, personalised experiences, and the wealth management sector is no exception. Millennials, being digital natives, are forcing wealth managers to re-examine their client service models. Appetite for digital is growing among all generations, with baby boomers adopting new methods with money almost as rapidly as millennials are now."

"Millennials are increasingly values-driven and more likely to choose employers which they believe reflect those values."
Simon Harrington, PIMFA

"We are seeing big changes in how millennials treat money that differ from generations before them."
James Alexander, Accenture

But face-to-face advice has a valued role to play as millennials age and life events become more complex.

Accenture's report states: "Whether marriage, the birth of a business, inheritance or planning for children, the investing scenario becomes more nuanced. This is where a human adviser could really add value. Robo-advice, while efficient and cost-effective, cannot help clients sort through the maze of emotions when planning for a parent's long-term care or starting a business with savings."

Wealth managers need to focus on creating this 'hybrid' model of advising their clients – where a human adviser could add value when combined with the analytics and algorithms of robo-advice.

Accenture's report also found seven out of 10 women were primarily responsible for the investments in their household, with having enough money in retirement a major concern.

"Given women overall are more interested in an adviser who can work with them based on life pictures versus product stables, wise wealth managers will change their approach to address the unique needs—and investing style— of millennial women," Accenture says. CB

LESSONS LEARNED

Where's the Amazon of banking?

The blockchain was meant to make traditional banks obsolete in the same way as Uber has transformed the way we call a cab. So, asks Ian Henderson, why are we still waiting?

Why hasn't the banking sector been turned upside down in the way we've been told it would be, like so many others?

Sure, there is plenty of innovation going on. We've talked before about how blockchain technology is making banking transactions faster and more efficient. New app-based banks such as Atom are showing up the deficiencies in traditional banks' legacy systems. Revolut's new 'metal' card is so cool Apple should have made it; consumers want it before they even know what it does. Monzo is demonstrating that it is not only possible to build a strong bank brand without massive investment, but to build a bank brand that consumers actually love (not just tolerate).

"There are regulatory barriers, an extraordinarily high level of customer inertia, and banks have the cash to buy up potential threats."

Even established players such as Santander are doing a much better job of engaging with consumers by actually providing what they want, and connecting with them through smart marketing including the Black Mirror style sci-fi movie that recruited more Spanish millennials as customers than any other campaign. But however innovative, smart and cool bank brands become, they're still banks. They're not the game-changing idea that makes every existing provider (even the good ones) look irrelevant.

Imagine you're a retailer. It's a family firm that's been serving a loyal local following for years. You have relatively high fixed costs, but customers are willing to pay them because you give them what they want, you're on the high street and frankly, there's not many alternatives. Everyone's happy. Then along comes Amazon. From Jeff Bezos' garage in Seattle (and a loan from his mum and dad) Amazon has become the world's biggest retailer, accounting for half of everything sold on the internet in the USA. The customer experience is so good, and the prices so low, that your family firm simply can't compete. Like Woolworths, Blockbuster, Toys R Us and the rest, you decide to put up the shutters for good.

You can fill in the rest for yourself. You're a minicab operator. A hotel owner. A sandwich-shop proprietor. A movie studio. And while you may be able to survive with a strong brand, outstanding product, an ownable niche or by working within an aggregator's network, control of your market has passed to someone else. To Uber, to AirBnB, to Deliveroo, to Netflix. So where's the banking aggregator? It must be coming. It's long overdue.

One of the key learnings from other sectors is that when it happens, it will happen fast and quite possibly from an unexpected direction. Many movie studio execs never thought TV streaming service Netflix would beat them at their own game in such a short time, including winning major awards for creativity.

Deloitte is reporting (Banking Industry Outlook 2018) that banks are working hard on customer centricity, regulatory recalibration and better technology. They're managing cyber-risk, trend-spotting among the FinTechs and reimagining their workforce. But if the banking version of Uber or Amazon does come along, will that all be wasted effort? Banks have more going for them than the high-street store, which may be why we're still waiting for the super-disruptor. There are regulatory barriers, an extraordinarily high level of customer inertia, and banks have the cash to buy up potential threats.

But imagine a tech firm that found a way to give customers instant access to join up any bank account, anywhere in the world. Immediate sign-up, instant transactions. A cool interface that feels as intuitive and natural as looking at your Apple watch. An aggregator that turns every existing bank, big or small, into a mere service provider like an Amazon seller or landlord letting through AirBnB.

Sounds far-fetched? It isn't. It exists. And it's inevitable. CB

Ian Henderson is CEO of AML Group
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