June/July 2018

CHARTERED BANKER

THE FUTURE OF BANKING

MORAL RESPONSIBILITY
The role of ethics in AI

FAIR TREATMENT
Interest-only mortgages

GREEN FINANCE
A new qualification

DRIVING DIVERSITY

A SHIFT IN MOMENTUM

DIVERSITY AND INCLUSION

MEASURING IMPACT
Improving transparency

REFRAMING CHALLENGES
What's the bottom line?

POST-BREXIT TALENT POOL
What will 'Brexodus' bring?

CULTURE
The new currency


get
ahead

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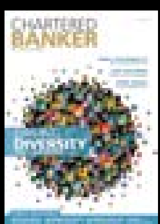
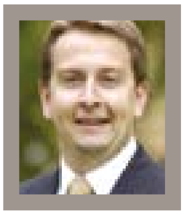


Driven by diversity

The important topic of diversity in banking is being discussed at boardroom level all over the country. SIMON THOMPSON highlights the Institute's approach and introduces the findings of the recent diversity survey.



Simon Thompson, Chief Executive

Issues of diversity, equality and inclusion are at the top of the agenda in banking, business and many other walks of life – and rightly so. They are at the top of the Institute agenda too. Almost 100 years after the Institute admitted its first female members, in 1919, following the introduction of female bank clerks during the First World War, more than half our members are women, and with members and students in over 85 countries, the make-up of the Institute is more diverse than ever.

For banking to enhance and sustain the ethical professionalism on which we depend, fair treatment of customers needs to be accompanied by the fair treatment of all our colleagues. Treating all customers and colleagues with respect and integrity is a key principle of the Chartered Banker Code of Professional Conduct and also makes good business sense.

Banking is a profession where diverse talent can rise to the top – and is encouraged to do so. There are many excellent industry initiatives, including our own Chartered Banker 2025 Foundation, to support individuals from non-traditional backgrounds joining banks and banking. Yet, according to the Institute's latest survey on gender diversity and progression in the workplace, there are still significant barriers standing in the way of progress.

"Banking is a profession where diverse talent can rise to the top – and is encouraged to do so."

To gain fresh insights into why our members believe this to be the case, we spoke with more than 500 of them on topics ranging from perceptions around barriers to career progression, to opinions on pay transparency across the industry; the results are summarised in this issue of *Chartered Banker*. Responses have also given us valuable data for building the Institute's professional development programmes, such as our mentoring initiative, which aim to help all banking professionals to reach their full potential.

At the Institute, providing the tools to build the knowledge, skills and confidence of all banking staff – regardless of background – is an important priority for us as a professional body serving our members, and for shaping the future of financial services in the public interest. CB

The Professionals
in this issue


HILARY COOPER worked for more than 20 years as a government economist and senior policymaker across a wide range of departments. She is now Senior Associate at the Finance Foundation. p15


MATT ELLIOTT has been People Director at Virgin Money for the past seven years, having previously worked at BP. p16


FRANCIS LAKE is Head of Organisational Development at CYBG, a role which covers performance, leadership, talent, succession, learning, culture and more. p19


ANEET MORAR joined Lloyds Banking Group in 2016, and is now Head of Partnerships and Ecosystem Development. p24


ANTONY JENKINS is Founder and Executive Chairman at 10x Future Technologies. He was previously the Group CEO of Barclays plc for three years, until July 2015. p26


GARY HOWARD is General Manager at Redstar Customer Lending Operations, National Australia Bank, which he joined in 2013. p36


MIKE CAMERON is Group Executive, Customer and Revenue, at Property Exchange Australia (PEXA), and has been with the company since 2012. p36


MARIA HARRIS has been with Atom Bank since 2014 and, as Director of Retail Mortgages, is passionate about turning the intermediary mortgage market on its head. p38

CONTENTS

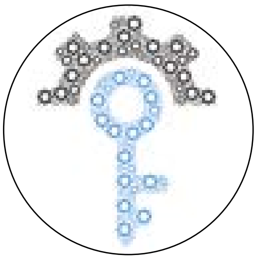
"It's well documented that the sector is lagging behind, but how do you change our banks and our ancient structures and make them fit for the 21st century?" p14

Special report

DIVERSITY & INCLUSION 13-20

Chartered Banker

to contents



“Move your strategic players from ‘service providers’ to ‘trusted partners’ and you are both far more likely to win.” p24

An audio recording of this issue’s special report is available to download from the podcast section of the Institute’s website at http://www.charteredbanker.com/knowledgehub/podcasts/

22

31

REGULARS

6

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to contents

Loan fraud **on the up**

Reports of loan fee fraud in the UK saw a 44% year-on-year rise in 2017, according to figures released by the FCA. The total lost by consumers was £3.5 million, with an average individual loss of £740. With almost three-quarters (72%) of the public unaware of loan fee scams, there is the potential for these figures to rise further.

"We're seeing an increasing number of cases of loan fee fraud reported to us," says Mark Steward, Executive Director of Enforcement and Market Oversight at the FCA. "Fraudsters target people making online loan applications who think they're being contacted by a legitimate loan provider, when they are not at all.

"Scammers take advantage of the excitement people feel when they're offered a loan or are accepted for one, and make the loan conditional on an upfront fee, which can increase to hundreds of pounds. Of course, no loan ever materialises. Before applying for a loan, always check who you're dealing with, be sceptical, and make sure the loan provider is authorised by the FCA. Check our register at fca.org.uk."

Donald joins **UK Government**

There is a new head of the UK Government Investments' Financial Institutions Group. Charles Donald, formerly Vice Chairman of UK Advisory and Corporate Broking at Credit Suisse, will be tasked with managing the return of the government's stake in RBS back into the private sector.

"I am delighted that Charles will be joining us," says Mark Russell, Chief Executive Officer of UKGI. "He brings long experience of financial institutions and capital markets, and I look forward to working with him as we continue to execute our mandate and build on the progress that has been made in the disposal programme.

"I would like to express my appreciation for the leadership which Oliver Holbourn has provided since 2013. He leaves a well-resourced team and a track record of significant accomplishment."

Connected money

HSBC in the UK has been working hard to deliver a new customer experience on the back of Open Banking. The new Connected Money app allows HSBC customers to see all their UK current accounts in one place, as well as some savings accounts, credit cards, mortgages and loans, irrespective of the provider. Users of the app will have to give permission for each connection to take place so it's visible to them.

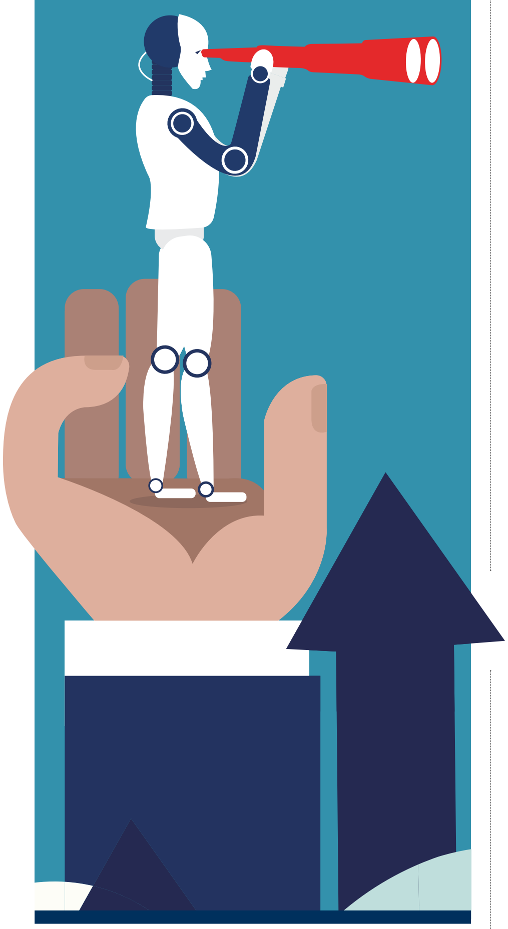
Raman Bhatia, Head of Digital for UK and Europe at HSBC said: "We listened to the customer feedback from HSBC Beta and took the parts customers liked best to develop the Connected Money app."

to contents

Untapped **AI benefits**

A survey of 200 global banks by augmented intelligence provider Squirro and capital market research firm TABB Group revealed that 83% of banks were unaware of how best to use AI to solve business challenges. It also revealed that AI is considered the most important disrupter for banks today.

"The report has shown that banks are increasingly receptive to using AI and machine learning in their organisation, but it also highlighted what needs to be done to ensure maximum value is gained," concluded Squirro's vice-president, Miguel Rodriguez. "Insights and recommendations need to be fully integrated with CRM and core banking systems to deliver real value to bankers."



Facts&Figures

83%

of global banks are unaware of how best to use AI to solve business challenges

£3.5m

was lost to loan fee fraud in the UK in 2017

6/14

new FTSE 100 CEO hires in 2018 are from outside the UK

TSB **disruption**

TSB made the headlines recently for all the wrong reasons. Migrating five million customers (and their 1.3 billion records) to a new banking platform caused considerable disruption, with many customers unable to access their accounts and some able to view other people's account information.

Paul Pester, TSB Chief Executive Officer, apologised for the chaos: "This is not the level of service that we pride ourselves on providing – nor is it what our customers have come to expect from TSB," he said. The bank has promised that no customer will be left out of pocket as a result of the crisis, adding that it will increase the interest rate on its Classic Plus account from 3% to 5% for balances up to £1,500.

Increase in **international leaders**

At the time of writing, there have been 14 new CEO appointments by FTSE 100 companies in 2018. Eight of them are UK citizens, with the remaining six coming from abroad. Figures from the Robert Half FTSE 100 CEO Tracker also reveal that almost half (47%) of external FTSE 100 CEO appointments in the past three years were from outside the UK.

"Globalisation is blurring geographic lines for mega-companies in the UK and abroad, and businesses with a global outlook will be tomorrow's dominant players," says Charlie Grubb, UK Managing Director at Robert Half Executive Search. "Even in times of economic uncertainty and change, the UK's largest listed companies can only benefit from an inclusive, broad-minded and global approach to problem solving. It is positive to see that this approach is also being addressed through succession planning."

to contents

New name on notes

Sarah John has taken up a new role with the Bank of England as Chief Cashier and Director of Notes, succeeding Victoria Cleland who has been promoted to the position of Executive Director for Banking, Payments and Financial Resilience. John's signature will feature on the new £20 note.

Commenting on the appointment, Governor Mark Carney said: "Banknotes play a central role in public life and are a crucial part of the bank's mission to maintain monetary stability. I am delighted that Sarah will be leading this area as the bank's 33rd Chief Cashier. She will bring a wealth of experience to our work to issue the polymer £20 featuring J.M.W. Turner and to research new banknote technologies and the future of banknote demand."

Kuhnke to succeed Hammonds

KUHNKE

Frank Kuhnke has succeeded Kim Hammonds as COO of Deutsche Bank. He joined the firm in 1986 and brings a wealth of experience to the role.

"In his tenure at Deutsche Bank of more than three decades, Frank Kuhnke has proven that he is strong at taking decisions and executing them," says Deutsche Bank's CEO Christian Sewing. "He is able to systematically make complex processes and structures more efficient. Together with his team, he will continue simplifying our bank's technology and operations, cut costs and strengthen our innovation potential. We have been working together closely for many years, and I am looking forward to continuing that journey."

Harvey **hired**

HARVEY

Paul Harvey, the former head of technology investment banking for Europe, the Middle East and Africa at Bank of America Merrill Lynch, has joined Arma Partners LLP as Group Business Development Director in London. Harvey's most recent role was leading business development and M&A at Octo Telematics in New York, and his previous experience includes spells heading up EMEA technology investment banking at Morgan Stanley and Goldman Sachs.

El-Asmar moves to Qatar

EL-ASMAR

HSBC Qatar has a new Head of Commercial Banking, with Elie El-Asmar moving from his previous role as CEO of the bank's operations in Algeria. El-Asmar has over 20 years of corporate banking experience and will help the organisation build on its proud history in the country, which dates back to 1954.

Commenting on the appointment, Abdul Hakeem Mostafawi, CEO, HSBC in Qatar, said: "We are delighted to welcome Elie to the senior leadership team in Qatar. He will add great value to our customers, thanks to his extensive experience in commercial banking across the region."

El-Asmar commented: "Qatar is an exciting market, with local clients expanding their businesses internationally and overseas clients establishing a presence or strengthening operations in the country."

Consumer trust **rises**

According to a study by Accenture, consumer trust in the UK banking sector has reached its highest level since 2012. The survey found that consumer satisfaction with banks rose from a level of 57% six years ago, to reach 70% in 2018. However, there are still areas for improvement, with over two thirds (70%) of customers saying they'd prefer to raise a complaint with a real person and over half of respondents (60%), preferring to have the option of opening a bank account face-to-face.

to contents

A FRESH PERSPECTIVE

Chartered Banker magazine is changing.

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 what the Institute publishes online.

In order to facilitate this change, we will be moving to a **64-page quarterly magazine** from the beginning of 2019. As part of this we will have additional magazine features and a stronger online presence that's 'always on', including regular blog posts and other new content.

There will be one more magazine issue published in the current format to cover September/October 2018 which will be supported by online versions of the special report and selected magazine features for our **online knowledge hub.**

Towards the end of the year you'll start to see more of our **new online content**, including an additional special report based on our banking education conference.

As we prepare for the new format, we'll be undertaking some further consultation with members on a **new look** and feel for the magazine.

Thank you for reading and we look forward to sharing our new format magazine with you in 2019.

Members' 2017 CPD sampling exercise

The Institute's aim and purpose is to encourage the highest standards of professionalism and conduct of our members, in the public interest.

Each year we sample 5% of our members, looking at their individual Continuing Professional Development (CPD) records, to ensure they are undertaking activities to maintain their professional skills, conduct and knowledge. The sampling exercise includes members with Chartered Banker, Associate Chartered Banker and Professional Mortgage Adviser qualifications.

We have recently completed our sampling exercise of members' 2017 records, with 215 (6%) being selected for review. Of these, 139 were successfully verified, 36 were excluded from the sampling (due to personal circumstances) and 18 members chose to cancel their membership. Unfortunately, 22 members did not provide evidence of their CPD log when requested. This resulted in their professional designation being removed, until they submit their CPD log for verification against the scheme requirements.

The Institute provides a wide range of CPD resources to members, which are continually being updated, to meet the ever-changing environment in which we work and to support and nurture members' development requirements. Resources are available to all members, and can be accessed via the members' login area from the Institute's home page at www.charteredbanker.com

Apprenticeship Standards **now complete**

The Institute for Apprenticeships (IfA) has approved the Level 7 "Senior Investment/ Commercial Banking Professional" apprenticeship standard, including the flagship Chartered Banker Diploma as a designated professional qualification. This means that individuals working in commercial banking and similar sectors can now gain Chartered Banker status via a Level 7 apprenticeship delivered by a wide range of apprenticeship providers, including those banks that are themselves providers.

This completes the suite of financial services apprenticeship standards linked to the Chartered Banker Institute's qualifications, including:

- **Level 7 Senior Investment / Commercial Banking Professional** – Chartered Banker Diploma
- **Level 6 Financial Services Professional** - Associate Chartered Banker Diploma
- **Level 6 Relationship Manager, Banking** - Professional Banker Certificate / Diploma, Associate and Chartered Banker Diploma
- **Level 6 Senior Compliance / Risk Specialist** - Professional Banker Certificate / Diploma, Associate and Chartered Banker Diploma
- **Level 3 Senior Financial Services Customer Adviser** - Professional Banker Certificate / Diploma, Certificate in Complaint Handling, Certificate in Offshore Banking Practice
- **Level 3 Compliance / Risk Officer** - Certificate in Complaints Handling
- **Level 3 Mortgage Adviser** - Mortgage Advice and Practice Certificate

The Institute is also proud to be an End Point Assessment Organisation (EPAO) for financial services apprenticeships, working with apprenticeship providers and employers to "sign off" apprentices.

Simon Thompson, Chief Executive of the Chartered Banker Institute, commented: "Apprenticeships provide a great

to contents

EVENT

AGM and lecture announced

The Annual General Meeting of the Chartered Banker Institute will take place on Thursday 21 June 2018 from 6pm at the Hilton Edinburgh Carlton Hotel, 19 North Bridge, Edinburgh EH1 1SD. Following the AGM we will be hosting a lecture by Philippa Foster Back CBE, Director of the Institute of Business Ethics (IBE). Foster Back will share her insights into the challenges of ethics in a digital age and the work she and her colleagues at the IBE are undertaking, in relation to encouraging high standards of business behaviour in banking and financial services based on ethical values.

Date: Thursday 21 June
Venue: Edinburgh Carlton Hotel, Edinburgh
Schedule: 5.30pm-7.45pm
Cost: Free
Booking: Booking details will be announced by email and through the Institute website at www.charteredbanker.com/events-calendar

opportunity for individuals to develop and demonstrate the knowledge, skills and behaviours expected of professional bankers. Employers will, therefore, warmly welcome the approval of the new Level 7 apprenticeship standard, and in particular its link with the Chartered Banker Diploma.

"Highly qualified, knowledgeable, skilled, dedicated, customer-focused professionals will shape the future of banking and it is vital that the apprenticeship standards available support the attainment of professional banking qualifications such as Chartered Banker."

Membership demographic **survey**

Here at the Institute we recognise and value the diversity of our membership, which currently includes individuals from 84 countries around the world. Just as there are many different ways to study with us or become involved, we appreciate and value the differences among our membership. We want to ensure those differences can be harnessed, creating a sustainable and inclusive professional body, now and in the future.

Next year will see changes to our governance structure and the establishment of a member forum which we hope will reflect our membership in terms of seniority, skills and society. This group will collaborate to inform all the Institute's future activities and provide insight to the newly formed Trustee Board.

To assist in recruitment and support diversity and inclusion, we are launching a new survey to gather information on the demographic characteristics of our membership. The data will be completely anonymised to ensure we respect the integrity of our members' information and comply with GDPR.

Details of the survey will be published shortly and we would be most grateful if you could take part. By participating you will assist us in ensuring the sustainability of the Institute and creating an Institute which is equally professional for all.

For more information contact comms@charteredbanker.com

Subscription reminder

Don't forget to renew your membership in order to continue with your studies or to maintain eligibility to use the professional designations or designatory letters appropriate to your grade.

We operate a rolling membership year, so renewals will generally fall 12 months after your initial enrolment. However, July remains the busiest month for renewals.

Your subscription can be paid annually, by direct debit, by card via the members' section of the website, or by cheque. Members paying by direct debit also have the option to pay in monthly instalments.

DIVERSITY & INCLUSION – a new momentum

The banking industry is increasingly conscious of the need to have a workforce that's as diverse as its customers. But, as NICK EASEN discovers, true inclusiveness will only be reached if everyone all the way up to board level plays their part.

WHAT IS DIVERSITY AND INCLUSION AT WORK?

While diversity encompasses the range of human differences including gender, race, ethnicity, sexual orientation, physical ability and religion, inclusion is an organisation's efforts to treat equally and accept socially these different groups or individuals. Inclusive cultures make people from diverse walks of life feel respected and valued.

to contents

WHY measuring DIVERSITY matters

Unless you measure it, you won't know how diverse – or otherwise – your business really is. Banking has begun the process of making itself more inclusive, and being honest and transparent about the data will go a long way towards making change happen.

The quest for equality has passed some crucial milestones recently. Earlier this year we celebrated the centenary of (some) women being given the right the vote in the UK, while in April, Virgin Money's Irene Dorner stepped up as chairperson, making her bank the only FTSE 350 company to have an all-female duo at its helm.

Does this mean the battle for greater diversity has been won? Not quite. A few days after Dorner's appointment, banks, along with every other UK firm employing more than 250 people, were legally obliged for the first time to publish data showing the difference between the remuneration for their male and female employees.

"It's well documented that banking is lagging behind," says Joanne Murphy, Chief Operating Officer at the Chartered Banker Institute and the first female director in its 143-year history. "The challenge is how do you change the culture and structures and make them fit for the 21st century? That's the question."

Virgin Money's Jayne-Anne Gadhia, who became the first female CEO of a listed British bank, has been championing change in a sector where the four biggest banks all still have male chief executives and chairmen. Her Treasury review led

to contents

to the creation of the government's Women in Finance Charter two years ago which now has 205 firms, employing 650,000 people, behind the initiative. Commitments made by signatories are also having an impact on other diversity measures, particularly ethnicity.

"IT'S WELL DOCUMENTED THAT BANKING IS LAGGING BEHIND. THE CHALLENGE IS HOW DO YOU CHANGE THE CULTURE AND STRUCTURES AND MAKE THEM FIT FOR THE 21ST CENTURY?"

"The sector could arguably be said to be leading the way, in some instances," suggests Paul Chisnall, Director of Finance and Operations Policy at UK Finance. "This charter has quite challenging commitments to accelerating the pace at which women are represented in senior management positions."

SEISMIC SHIFT FOR THE INDUSTRY

The gender pay gap figures might make grim reading, but the groundwork for change is being laid. Britain's two biggest banks, Lloyds and RBS, have set diversity targets. TSB has published its *Gender Balance Matters* report, which makes interesting reading. Citigroup, meanwhile, made history earlier this year by becoming the first American institution to provide wage data divided by gender and ethnicity, and other banks now have so-called D&I on the radar. Two banks, Lloyds Banking Group and Citi, meanwhile, are in Stonewall's list of the top 10 employers for LGBT people this year.

"There is an appetite for change and real momentum is building – you can see things starting to evolve at pace," says Murphy. "The fact is you cannot ignore the inequality you see. One of the biggest issues with the gender pay gap is transparency. It all starts with data."

This was one reason why the Chartered Banker Institute commissioned The Finance Foundation to conduct a survey of our members. Just over 500 bankers responded to the online survey at the end of 2017, with men and women equally represented in the sample, mirroring the membership make-up. The findings, recently published under the title *Diversity: Pay, Progression and Gender*, make for some interesting reading. Nearly a third (32%) of respondents reported a low level of pay transparency, with 46% adding that transparency was also poor when it came to bonuses. More than half of respondents considered there were barriers to progression in their own organisation, and only two-thirds were confident that men and women doing the same job to the same standard would receive equal pay.

MAKING PAY TRANSPARENT

Hilary Cooper, Associate Director of The Finance Foundation, which co-ordinated the survey, is clear about where the problem lies. "Lack of pay transparency is a huge issue," she says. "Women are likely to remain disadvantaged when negotiating to be paid on a par with men in similar roles if there is a lack of transparency about what others are earning, and where the criteria for agreeing pay and pay increases are poorly specified or understood." But, she points out, the situation is ripe for improvement: "There is an absolute storm of diversity issues now on the radar, with Prime Minister Theresa May hot on the gender pay gap."

Family and personal commitments, as well as a lack of opportunities to work flexibly, were also raised as a barrier to progression in this survey; three-fifths of both men and women identified family-inclusive policies such as flexible working hours, part-time working and the ending of the long-hours culture as key to improving their organisation's gender diversity.

"Tackling the gender pay gap will also require more women to progress to senior roles, which must be supported by family-friendly working practices and action to tackle unconscious bias and promotion through male-dominated networks," states Cooper.

This is not to say that banks haven't been at the forefront of tackling some of these issues. Julianne Miles, Managing Director of Women Returners, points out that the concept of a so-called 'returnship' for women (a higher-level paid internship for returning professionals) was developed in the US by Goldman Sachs a decade ago and pioneered in the UK in 2014 by Credit Suisse and Morgan Stanley. Seven banks ran programmes in 2017, including Barclays, Lloyds, NatWest and Macquarie, while most are now including returner programmes as part of their annual recruitment.

"Bringing these experienced women back into mid- to senior-level banking roles helps to improve diversity in the short term, and also encourages more open-minded hiring practices, with a much broader longer-term impact," comments Miles.

LOOKING FOR INSPIRATION ELSEWHERE

Banks can also learn from other sectors facing similar diversity challenges, following the lead of the Big Four consulting firms and the construction industry, for example, which have all looked to a wider range of flexible working models. "They are also now more open to experienced candidates with transferable skills," explains Miles.

The Institute itself is radically reshaping its governance structure and the mix of people who work there so that it becomes more reflective of the diverse membership it serves. "Banks also need to be more reflective of the diversity of their customers," says Murphy. "There are dangers in not being inclusive. We must make sure we empower under-represented groups. We need to hear more voices, otherwise we cannot reflect those we represent or, in the case of banks, those we sell to or who have trusted us with their money."

Other sectors have addressed this issue with some degree of success. The University of Cambridge, for example, has an outreach programme that goes into different communities in a bid to attract diversity, purposefully seeking students from a wide range of backgrounds, particularly specific ethnic minority groups. Client pressure, meanwhile, has driven change in the makeup of law and accountancy firms. PwC, KPMG and EY all made the top 100 in Stonewall's most inclusive employers ranking this year.

"The legal sector has faced a lot of external pressure and competitive motivation from clients, the press, award bodies and other external organisations," says Elizabeth Kerry, Diversity and Wellbeing Manager at international law firm Hogan Lovells. "They are using this pressure to drive internal change. The client angle can be particularly motivating!"

"THERE IS A REAL MOMENTUM NOW; WE CAN SEE THINGS STARTING TO EVOLVE AT PACE."

Money talks, certainly, especially in banking; but the good thing is that the sector is very good at measuring many things, whether recruitment and retention, performance or pay. It's a numbers industry, after all. This could also drive further diversity in the future. "What gets measured will more likely see progress," declares Jessica Chu, Head of Diversity and Inclusion at Santander UK. "If we don't collectively own this problem, no one will take accountability to face the challenges and remedy the situation." CB

to contents

Reframing the inclusiveness challenge

New initiatives and setting up diversity departments is only part of the answer: true inclusiveness is about voluntary systemic change from within and reframing this as a leadership issue rather than an HR one. Get this right, and the sector can future-proof itself in the digital age.

Data is Stephen Frost's calling card. Named a 2011 Young Global Leader by the World Economic Forum, he has been an adviser to the UK government and to the White House on diversity, inclusion and leadership, and today works with some of the biggest players in finance on this very issue.

"We start by asking banks how many women they employ and how many people from different ethnic backgrounds," says Frost. "One management consultancy firm thought it had 16 people from different ethnic backgrounds in its workforce, when actually the data showed it was one. Perception and reality are not the same."

Gathering cold hard data and being transparent about the results is one thing; supporting tangible action to make improvements is another. Denise Keating, Chief Executive at the Employers Network for Equality and Inclusion, agrees: "Through the use of studies and benchmarks, organisations can work on the issues that are creating the biggest barriers to diversity and drive positive change," she states.

Certainly, everyone agrees that the issue is more than just a box-ticking (or 'pink-washing') exercise or a job that's done and dusted once a head of D&I has been employed with a new office and a hotline to human resources. "This is not about middle-class white women fitting into middle-class male norms in a male-dominated sector – that is not what diversity and inclusion is about," says Frost. "This is not about a public relations exercise either. It's about voluntary systemic change from within. You can do all the training you want, but it is about shaking up a whole culture. And it's not necessarily about human resources; it involves reframing the issue as a leadership one. Helping people to reach the point where the penny drops is crucial."

MAKING THE BUSINESS CASE

The realisation that diversity and inclusion are good for the bottom line often acts as a trigger for change. It really does bring return on investment: diversity of thought brings a profusion of new solutions, unlike the narrow group-think once offered by a few 'people like us', and having a more inclusive workforce can also improve a company's reputation – all of which attracts business. According to research by McKinsey, businesses with a healthy gender mix are 15% more likely to outperform their competitors, a figure that rises to 35% if you have a good ethnic mix.

"The finance sector has diverse clients and faces multiple risks and an unprecedented speed of technological and demographic change, so it requires innovation that only a diverse group can bring," states Sharon Lewis, Global Head of the Financial Institutions sector at law firm Hogan Lovells.

The business case is clear; financial institutions that embrace diversity will reap the benefits. "It's estimated that full representation of BAME (black, Asian and minority ethnic) individuals across the labour market would be worth £24 billion a year to the UK economy," claims Matt Elliott, People Director at Virgin Money.

Getting senior management to realise this and to make root-and-branch change is one of Stephen Frost's biggest challenges. "We try to explain to the C-suite that we're in an age of information overload. What do bosses do when they have to make decisions? You can either surround yourself with executive coaches or you can surround yourself with diverse thought. The latter will help you make decisions that take in a diverse and inclusive set of viewpoints," he explains.

"When we ask key people in banks whether they like diversity and inclusiveness, of course they say yes. So we ask them to tell us who their closest friends are, who are the five closest people they confide in at work, who their partner is, and then we ask them about diversity in that group; 9.9 times out of ten it's not diverse at all. Point proven."

FACING UP TO PERSONAL BIAS

Unconscious bias – the fact that our actions are based on our background, personal experiences, social stereotypes and cultural context – is a massive issue. A lack of inclusiveness in people's lives, relating to ethnicity, sexual orientation, disability, race or religion, colours their attitudes at work, as the Institute's survey highlighted in respect to improving the gender balance in the workplace. Programmes that raise awareness of this bias and help people to recognise it, think about it and address it, go a long way towards driving change. Moving beyond the 'people like us' mentality is crucial.

"We often need to reassure people that it's not their fault – unconscious bias is a natural state for most of us," explains Frost. "No company has cracked the challenge of diversity and inclusiveness, even those that are saying they're doing well – I can tell you that."

"NO COMPANY HAS CRACKED THE CHALLENGE OF DIVERSITY AND INCLUSIVENESS, EVEN THOSE THAT SAY THEY'RE DOING WELL."

to contents

“AS DIGITISATION INCREASES THE RATE AT WHICH BUSINESSES ARE CHANGING, INNOVATION WILL BE CRITICAL TO SUCCESS, AND AS A RESULT THE MOST SUCCESSFUL COMPANIES WILL BE THOSE THAT CAN INCLUSIVELY EMBRACE DIFFERENT IDEAS AND WAYS OF WORKING.”

Social media and living in a more connected world has done little to help the situation, he adds: “Technology has allowed us to screen out diversity. We can now make a lot more choices to narrow our tastes, who we are friends with on Facebook, who we follow on Twitter and which TV shows we watch. Tech platforms amplify our unconscious bias and make it more compartmentalised and narrow in focus.”

SOURCING NEW TALENT

Technology isn’t just changing the way we communicate with each other; it is also dramatically altering the way we access banking services. It doesn’t help that a disproportionate number of ethnic minorities are among the most financially excluded in society. FinTech, meanwhile, is driving a need for an increasingly diverse range of talents, many of which are present in the younger cohort. This is pushing the business case today for diversity, a case that will be even more urgent five to ten years down the line.

“A bank that is inclusive will have access to a wider range of talents,” says Katy Bennett, HR Consulting Director at PwC. “As digitisation increases the rate at which businesses are changing, innovation will be critical to success, and as a result the most successful companies will be those that can inclusively embrace different ideas and ways of working. Digitisation is driving up demand for certain skills, meaning the war for the best talent in these areas will intensify. Ultimately, the more appealing you are to all of this talent, the better.”

The key is to make careers in finance more appealing to a younger and more diverse demographic, yet figures from the Personal Finance Society for 2017 show that only 2% of people with a Statement of Professional Standing were under 30. It’s an issue that banks are going to have to address.

“We have a major role to play in developing a talent pipeline – starting with inspiring children to study personal finance qualifications in schools across the UK,” says Hema Tank, Associate Dean at financial education body the London Institute of Banking and Finance. CB

A VIEW: SUFFRAGETTE DAUGHTER AND BANKER

Interview with
Dr Catherine Smith-Mason

Fellow of the Institute, daughter of a Suffragette, and the first woman on the executive committee of any British commercial bank, Clydesdale.

Q What do you see as the biggest challenge?

A Gender issues are trivial in comparison with ethics. When a person is professionally ethical through and through, it cascades throughout their whole of life. If we solve ethics in banking, the humanity generated will resolve any gender, diversity and inclusion issues.

Q Can we solve the issues the sector faces?

A Honesty is one solution, but the issues are complex. We must rethink company cultures and go back to basics. It’s about resetting and reframing. We need to have a real hard think about it, and a new culture needs to be adopted. Being driven by quotas is not the way forward. Again, it all stems from ethics.

Q What does the new banking culture look like?

A In a healthy culture, humanity curbs greed; the genuinely disadvantaged are accommodated; capability and creativity are rewarded fairly; ‘care’ and ‘love’ are words compatible with good business; and honest enterprise is nurtured. We should stop blaming Adam Smith’s ‘invisible hand’ and reread his *Theory of Moral Sentiments.*

Topping up the **POST-BREXIT** talent pool

If inclusiveness is vital now, it will be even more important after Brexit, as banks will have to look more closely at the talent pool within the UK if EU workers are excluded.

Immigration is unquestionably the thorniest issue in the Brexit debate, and there's no doubt that the UK's currently very diverse talent pool will be affected once the country leaves the European Union. If mishandled, Brexit could severely damage inclusion within the workforce. This comes at a time when diverse talent will be crucial if our banking and financial services sector is to continue competing on the global stage and contributing to the UK economy.

"Brexit is unlikely to be an easy transition," says Joanne Murphy, Chief Operating Officer at the Chartered Banker Institute. "A diverse workforce is business-critical, and the banking sector needs to be able to recruit and retain the best talent. Affirmative action is needed."

UK Finance remains confident that banking and financial services will continue to be able to recruit and retain skilled EU nationals from any background.

"International talent plays an important role in the UK financial services ecosystem, bringing together a rich diversity of capabilities from Europe and further afield that benefits both customers and investors," states Paul Chisnall, Director of Finance and Operations Policy at UK Finance.

The fact is the diversity of London's population has always been a contributing factor to its position as one of the world's financial capitals, and any drain on this is likely to damage the very industries the city thrives on. Diverse skilled labour from EU countries makes up a large slice of the workforce in Britain's financial services sector, particularly in the capital.

This so-called 'Brexodus' is rarely mentioned by the press or by politicians, perhaps because the possible mass exit of skilled EU nationals is either unthinkable or incalculable at this stage – even though Friday, 29 March 2019, is less than a hiring cycle away. A report by employment consultant Mercer says that it is likely that restrictions will be placed on EU workers within the UK workforce, so companies should review their plans.

"BREXIT IS UNLIKELY TO BE AN EASY TRANSITION. AFFIRMATIVE ACTION IS NEEDED."

"While the risk of major financial businesses moving out of London appears to be low, we recommend employers seek legal advice," states Denise Keating, Chief Executive at the Employers Network for Equality and Inclusion.

"We don't know exactly what impact Brexit will have," adds Marjorie Strachan, Head of Inclusion at RBS. "If it were to reduce diversity within our workforce, we will need to work harder."

to contents

> "INTERNATIONAL TALENT PLAYS AN IMPORTANT **ROLE** IN THE UK FINANCIAL SERVICES ECOSYSTEM."

THE BATTLE FOR HEARTS AND MINDS

Brexit isn't the only issue that might affect a bank's workforce, of course; the unemployment rate is at its lowest since 1975, there are almost 816,000 job vacancies in the UK at the moment, which is among the highest figures since records began, and the number of people looking for work is also decreasing. Combine all of this and it's easy to see why some banks fear their diverse talent pipeline is in danger of drying up.

"The talent dilemma is always about whether we buy it or build it," says Francis Lake, Head of Organisational Development at CYBG. "The answer has to be a bit of both, but in an industry that is rapidly changing, the necessary talent might not actually exist in the industry itself.

"And, as other industries are going through transformation at the same time, it isn't that easy to just attract talent from other organisations. The key for banks is to invest heavily in developing talent, but there are no certainties and we need to help develop skills in a way that we've never done before. It's an area that we need to do a lot more on as an industry."

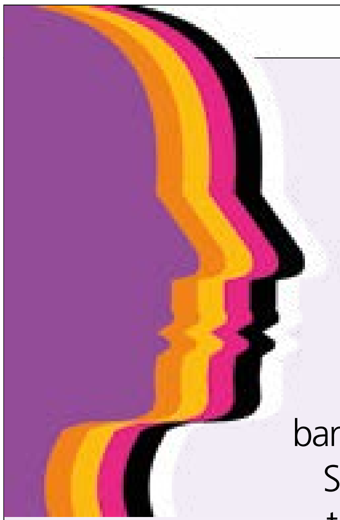
Traineeships and apprenticeships certainly play a vital role in opening up careers in the sector to candidates from more diverse backgrounds. HSBC says it is using these to build a new set of skills in the next generation, with an inclusive mindset at its core. "We will increasingly look for and develop future-focused skills such as learning agility, critical thinking, collaboration and social intelligence that are so important for promoting an inclusive environment," explains Birgit Neu, the bank's Global Head of Diversity and Inclusion.

Apprenticeships are a proven method of opening up opportunities for young people from non-traditional backgrounds to enter the banking sector, making them a key tool in promoting diversity, agrees Keating: "Apprenticeships offer a route for talent without the traditional qualifications and background to acquire the skills and educational requirements to succeed in the sector," she says.

CULTURE OF CHANGE

Is the culture of the banking industry attractive? Diversity expert and trainer Stephen Frost believes that the industry isn't doing enough to make itself appealing to people of diverse backgrounds, whether that is based on gender, race, disability and sexual orientation, or to the younger generation.

"Many blokes – middle-class white men – in banking hide behind the talent pipeline argument and related issues, but it just isn't true," argues Frost. "If an organisation has an inclusive culture, more women and people from diverse backgrounds will want to step forward to be part of it. Having the right culture is so important." CB



The NEW CULTURE club

In the wake of scandal, sexual misconduct and the #MeToo campaign, banking, like many other industries, is being challenged to reform bad culture. So, what does a healthy culture look like? It's about changing how people think, feel and behave, and its key features are diversity and inclusiveness.

It is said that Michael Strobaek, Global Chief Investment Officer at Credit Suisse, once ended a press conference early, saying he had to pick up his children from school. It had the media chattering about a changing culture – were top bankers finally putting family ahead of business?

Strobaek later gave his own thoughts on the matter in an article published by Credit Suisse. "A number of things are not being done right here," he said. "If you're a mother, just try and find a job in a large company that is compatible with childcare commitments – it's extremely difficult. And politicians do not want to address the issue of how to create family-friendly jobs or how to encourage women to resume their careers."

These days, finding a way to create a family-friendly, inclusive culture is increasingly at the top of the agenda in many banks. The Financial Conduct Authority (FCA) has joined the debate; its recent discussion paper, 'Transforming culture in financial services', has called on banks to challenge and reform bad culture. "Culture in financial services is widely accepted as a root cause of the major conduct failings that have occurred within the industry in recent history, causing harm both to consumers and markets," says Jonathan Davidson, Executive Director of supervision for retail and authorisations at the FCA. The report also talks about the vital importance of gender, socio-economic and ethnic diversity to tackle group-think in the sector.

"A CULTURE THAT PURSUES DIVERSITY AND EQUAL OPPORTUNITIES IS ONE THAT WILL HAVE MUCH WIDER BENEFITS FOR AN ORGANISATION."

A CULTURE WITH BENEFITS

Revelations of sexual misconduct in sectors from film and theatre to business and sport have concerned the banking industry too (such as at the notorious Presidents Club charity dinner), with the #MeToo campaign and the gender pay gap results further fuelling calls for change. Andrew Bailey, Chief Executive of the FCA, believes there is a lot to do on this front: "A culture that pursues diversity and equal opportunities is, I think, one that will have much wider benefits for an organisation," he says.

Banks show increasing signs of responding to cultural challenges. "They're investing in programmes to support their workforce such as unconscious bias training, diversity and inclusion awareness, agile working and wellbeing initiatives," explains Denise Keating, Chief Executive at the Employers Network for Equality and Inclusion. "Some banks are now looking at the impact on culture that messaging has, and at use of language and behaviours exhibited by leaders and managers. Cultural competency is now becoming more of a focus as well."

So, what might an increasingly healthy culture in banking look like? Certainly, being more transparent and accountable are two key elements. "Continuing to develop cultures that encourage people to speak up, to take accountability and to use good judgement are vital," states Birgit Neu, Global Head of Diversity and Inclusion at HSBC. "We are reporting more non-financial data now, as we know transparency is important to people who consider various metrics before deciding whether they want to work or bank with us."

The bank was named Company of the Year at the European Diversity Awards in late 2017, making an outstanding contribution across areas of diversity including age, disability, faith, gender, race and sexual orientation.

MEASURING IT, THEN FIXING IT

The Finance Foundation's research with the Chartered Banker Institute puts the emphasis on trying to create a more family-friendly culture. Certainly, no culture in banking is going to become completely diverse and inclusive overnight, but change is being implemented one step at a time. The regulators now have the issue on their agenda as well.

"Achieving a positive culture is about changing the way people think, feel and behave, but we often try to do this through a formal project," states Francis Lake, Head of Organisational Development at CYBG. "We appreciate that people will adopt changes in culture at different rates, and there will be different opportunities and challenges along the way. Culture change isn't the work of a moment – it takes time to develop which naturally means it's a longer process."

When banks put their mind to it, however, they can bring about change very quickly, especially if there is a good business case for it and reputation is involved. RBS has managed to increase the percentage of women in its top 5,000 roles from 32% to 44% in the past few years. It has also trained 90,000 people on unconscious bias, and is now rated a Top Global Stonewall Employer for LGBT staffing. Marjorie Strachan, Head of Inclusion at RBS, puts this progress down to having clear, focused priorities in place and then acting decisively with a toolkit of measures.

"There is no silver bullet, but you are only going to fix something if you know what needs to be changed and track that you change it," she explains. "We treat inclusion like any other core business agenda – that way, things get done. Accountability for change is also crucial; we ensure line managers are responsible for delivering inclusive outcomes. It is not about quotas, it's about targets."

Certainly, a healthy culture should have increasing diversity and creating inclusive colleague and customer experiences as its default setting. Today, with many programmes in place at banks, it should be only a matter of time before we see a lot more change. CB

to contents

to contents

INVESTED *financing a greener future*

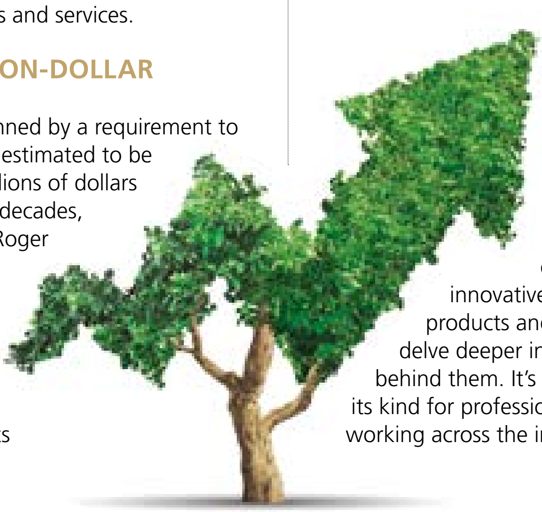
With the world's first Green Finance Certificate due to be launched in July, we explore how the training is becoming increasingly vital for finance professionals right across the industry.

Twelve months ago, the Chartered Banker Institute was tasked with a significant challenge: to develop a training framework to educate and inspire financial services professionals on the vital role of green finance in the journey towards a healthier, lower-carbon and more sustainable future. As a result, the world's first Green Finance Certificate will be launched on 17 July 2018, and it is hoped this will help establish the UK as a leading global hub in eco-friendly financial products and services.

MULTI-TRILLION-DOLLAR TRANSITION

It is also underpinned by a requirement to fund a transition estimated to be worth tens of trillions of dollars over the coming decades, according to Sir Roger Gifford, Chair of the UK Green Finance Taskforce. "The financial system we need is one that fully supports and facilitates the transition towards a green economy, requiring the combined and sustained efforts of global bodies such as the UN, national governments and financial services organisations of all sizes," says Gifford.

"That is why I challenged the Chartered Banker Institute to create a qualification to set a new global benchmark for the knowledge and skills required of green finance professionals – the bankers, insurers, investment managers, analysts and consultants – who will become the financial leaders of the future."



ALL IN THE SCIENCE

While the new qualification will raise awareness and challenge thinking on new and innovative green finance products and services, it will also delve deeper into the science behind them. It's the first training of its kind for professionals already working across the industry.

"There are plenty of very good university and masters programmes where you can study green finance in great detail, but there's nothing for working professionals," says Simon Thompson, CEO of the Chartered Banker Institute. "Almost half of this qualification isn't about finance as such. It's about the science underpinning green finance. Professionals in this industry have to understand the science in order to be able to ask the most meaningful questions – a bit like the way bankers work with lawyers or accountants."

A BROADER SCOPE

As with most of the Institute's qualifications aimed at bankers, the Green Finance Certificate is extending our reach across the widest range of financial specialities to date – with the new training relevant for insurers, investment managers, central bankers and regulators, risk managers, analysts, consultants and many others. "The Certificate is aimed at both a UK and a global audience. It's for all financial services professionals who want to enhance their knowledge and expertise on green finance," says Thompson.

"One thing I've learned as we've created this is that the speed at which the green finance sector is moving and the way in

to contents

which it's becoming ever more mainstream has increased over the past couple of years.

"Within financial services organisations, it has originally been small, specialised teams who were very supportive of it. But green finance is simply good finance, using the tools of finance to help achieve the UN Sustainable Development goals and to manage climate risk. This is now something that all bankers, investment managers and insurers should be aware of."

NEGATE THE NICHE

Education is vital for professionals across the industry who want to stay ahead of the curve in green finance and avoid being left behind. But, says Thompson, there is also an onus on industry to think creatively around products and services that help create a low-carbon future. He draws on the example of Bank Australia, which offsets the greenhouse-gas emissions of every car purchased using one of its loans for the entire loan term. It also waives the establishment fee for setting up a loan if the money is used to buy a car with a 'superior' greenhouse rating.

The key, says Thompson, is the normalising of green finance products and services, transforming them from a niche category to a regular, common-sense option. "At the moment, there are big ethical investment funds which won't invest in things like cigarette companies or arms manufacturers, which is not the same thing as green finance; but generally green insurance products and green banking products and services are just starting to be rolled out," he says.

"GREEN FINANCE IS SIMPLY GOOD FINANCE – USING THE TOOLS OF FINANCE TO HELP MANAGE CLIMATE RISK AND MAKE THE WORLD MORE SUSTAINABLE."

"On a practical level, the industry needs to do more to offer a wider range of easily understood green products and services that aren't niche. It's through these green finance products – and getting consumers interested in them and excited about them – that we'll change the world."

BUILDING BRIDGES

Changing the world, of course, is neither simple nor cheap. But, with trillions of pounds required over the next few decades to make the transition happen, the financial services industry is faced with an unprecedented opportunity to build bridges with society and help visualise a healthier future for all.

"The transition to a low-carbon economy is probably the biggest global challenge for our generation and future generations," Thompson says. "The majority of the finance has to come from the private sector. As a global industry, financial services will be absolutely in the vanguard of helping make that change happen.

"If finance can play a leading role in this area, there's a huge opportunity to help reconnect banks and society by showing that banks can have a really positive social purpose. Banks can make money, but they can also change the world for the better while doing so."

To discover more about the Green Finance Certificate or to register your interest, please visit: ***https://www.charteredbanker.com/qualification/certificate-in-green-finance.html***

to contents

Collaboration IS KING

Banks that embrace innovative APIs will undoubtedly improve the customer journey, but they must be aware that such opportunities also bring risks – particularly when it comes to data security. SARAH LOWTHER investigates.

The two most significant changes to the banking world in Britain this year, GDPR and PSD2, have a serious contradiction at their heart. GDPR is a universal mandate to protect customer data and reinforce privacy policies and is arguably an antidote to data hacking by malevolent outsiders. PSD2, meanwhile, is the active encouragement of collaboration with external parties.

In other words, you're protecting on the one hand and partnering on the other. PSD2, the Second Payment Services Directive, requires banks to open up their payment infrastructure and customer data assets to third parties who can develop new services for customers.

Strategically and operationally, there's a conundrum to this unbundling – the duty to protect, defend and preserve versus the legislative remit to collaborate in order to innovate.

CUSTOMER FIRST

"Collaboration is going to be essential for financial services in the future, as banking moves from a 'walled garden' to an ecosystem," says Aneet Morar, Head of Partnerships and Ecosystem Development at Lloyds Banking Group. "Innovation growth opportunities will be delivered through strategic partnerships, and FinTech engagement will have a big role in helping to unleash that potential."

Morar's recognition of partnerships is critical to the digital transformation banks will have to embrace if they want to be redefined as challenger and relevant, rather than 'obsolete', as Bill Gates warned in 1990 with his infamous quip, "Banking is necessary. Banks are not."

Peter Zorn, Financial Services Executive at IBM, advises taking a genuine 'partner' (as opposed to 'provider') mindset towards third-party developers. "Treat them as partners. Don't try to push them down to such a cheap price that they don't value your business any more. If you are truly partners, you want them to be successful too. If each puts skin in the game, each will gain rewards from both a financial service perspective as well as future investment. When a third-party provider views a bank as a true partner, it is likely to make sure the latest developments go to this valued client first.

"So," he continues, "move your strategic players from 'service providers' to 'trusted partners' and you are both far more likely to win by looking after each other and operating as a team." Such a team should have one focus, which Zorn has adopted as his mantra: "Always start with the voice of the customer."

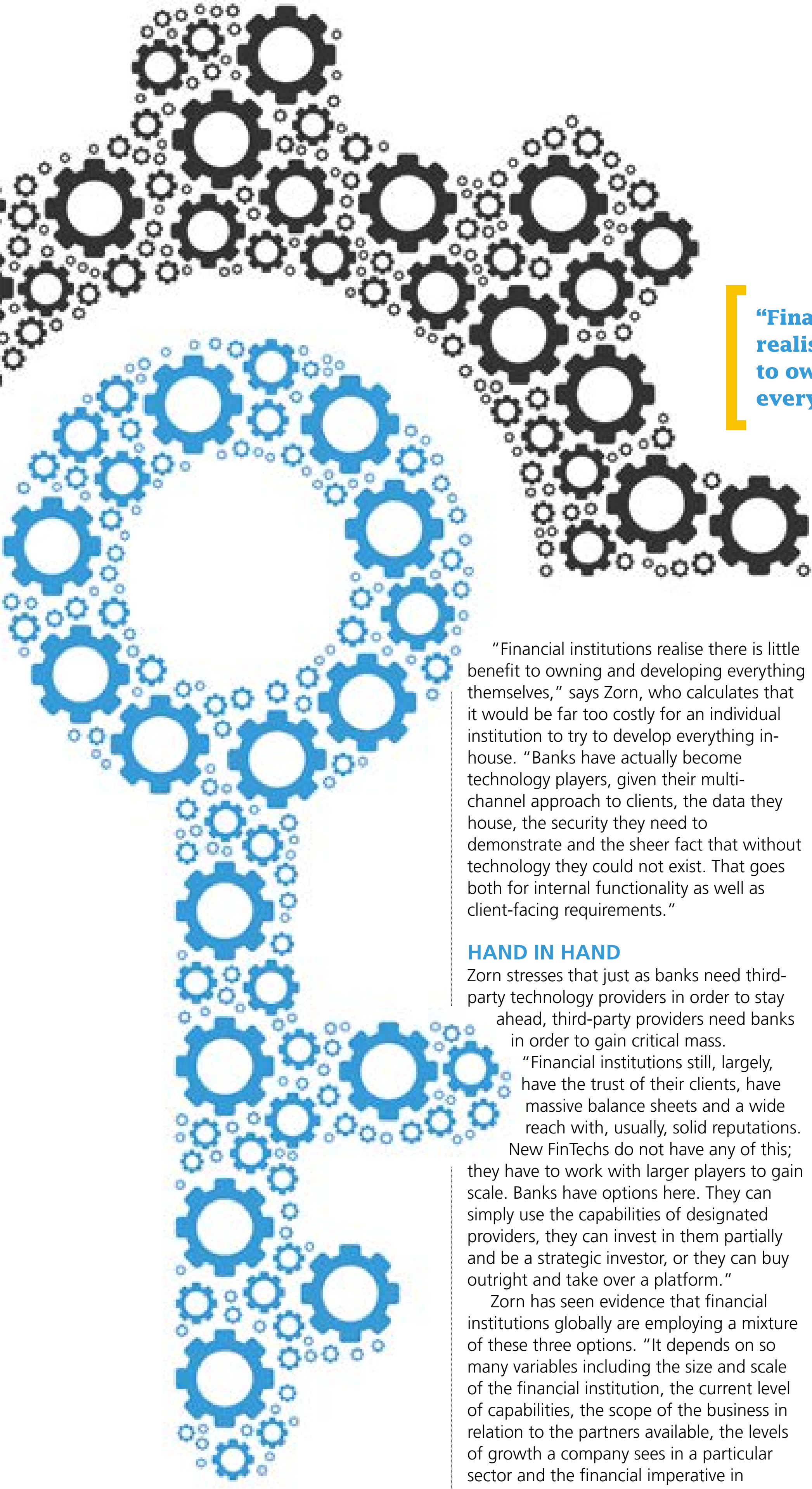
"Collaboration is going to be essential for financial services in the future, as banking moves from a 'walled garden' to an ecosystem."

FAIL FAST

Morar too advocates putting the customer first. "To make the most of the advantage that collaboration offers, banks need to get more serious about putting customers first, meeting their needs in innovative new ways and reorganising the business around customer journeys. Banks will also have to learn to move much faster and become much more agile. In addition to this, the industry will need to continue to develop and build an appetite for 'fail fast' approaches, to quickly test, learn and iterate. This experimentation should be done in collaboration with small and large technology players, so they can improve their capabilities in data science and design."

In terms of potential partnerships, banks are spoiled for choice. Investment has assisted the growth of FinTech, and fresh capital injections, according to Nordic IT company Evry, will exceed $150 billion in the next three to five years. More and better APIs, or application programming interfaces (the technology protocol that allows diverse software components to communicate), will be created. These are the pathways that will equip customers with a bespoke, functional and secure banking experience.

to contents



> **“Financial institutions realise there is little benefit to owning and developing everything themselves.”**

“Financial institutions realise there is little benefit to owning and developing everything themselves,” says Zorn, who calculates that it would be far too costly for an individual institution to try to develop everything in-house. “Banks have actually become technology players, given their multi-channel approach to clients, the data they house, the security they need to demonstrate and the sheer fact that without technology they could not exist. That goes both for internal functionality as well as client-facing requirements.”

HAND IN HAND

Zorn stresses that just as banks need third-party technology providers in order to stay ahead, third-party providers need banks in order to gain critical mass.

“Financial institutions still, largely, have the trust of their clients, have massive balance sheets and a wide reach with, usually, solid reputations. New FinTechs do not have any of this; they have to work with larger players to gain scale. Banks have options here. They can simply use the capabilities of designated providers, they can invest in them partially and be a strategic investor, or they can buy outright and take over a platform.”

Zorn has seen evidence that financial institutions globally are employing a mixture of these three options. “It depends on so many variables including the size and scale of the financial institution, the current level of capabilities, the scope of the business in relation to the partners available, the levels of growth a company sees in a particular sector and the financial imperative in particular sectors,” he explains.

For Aneet Morar at Lloyds, the greatest challenge is “to recognise that new entrants may have a completely different worldview and business model, having come into the industry after the financial crisis. Banks and other financial services companies will need to focus on customers over products, on customer journeys over functions, on fast test-and-learn over business cases, and on collaboration over doing everything themselves.”

Customer trust cannot be underestimated. “In the clients’ eyes, with all these new technologies, security is key,” argues Zorn. “Clients trust their banks and there is no substitute for that. There is ever more emphasis on security, especially with the cloud, data that is stored off-premises and the increasing sophistication of the dark side of the cyber world. It’s very hard to put a price on this when everything works well, but when it goes wrong you can be out of business either by client desertion or by regulator shutdown.”

WHERE NEXT?

TSB certainly knows all about things going wrong; its recent online lockout fiasco demonstrated the bank’s lack of capacity where the technological management of its IT migration was concerned. It put the spotlight on the failings of the Proteo4UK system developed by TSB’s Spanish owners Sabadell.

This year was supposed to herald the ‘humanisation of digital’ for the mobile banking app and the deconstruction of the banking system, which would then be reconstructed with the help of third-party developers. This is happening, but we may still need more regulation in order to properly safeguard customer data and trust. Bank of England Deputy Governor Sam Woods is discussing new rules to address ‘operational resilience’ and the introduction of technology stress tests to prevent another TSB-type meltdown. Peter Zorn’s observation about ‘regulator shutdown’ is more likely to be ‘regulator intervention’, with a tougher PSD3 arriving far sooner than previously timetabled. CB

Artificial INTELLIGENCE

Artificial intelligence is all about using data to make decisions that enable businesses to deliver better outcomes for consumers at a lower cost base. But it won't be the big banks that lead the charge.

Artificial Intelligence (AI) is a topic that's rarely out of the news. From sensationalist headlines about robots replacing millions of jobs, to more in-depth analysis about how financial services brands are using AI to improve their customer experience, it's a subject that's attracting a lot of attention.

When it comes to banking, retail products such as mortgages, loans, accounts and investments are essentially just complex collections of data. And finding ways in which AI can harness this data is where the transformative opportunities lie.

Antony Jenkins, Founder and Executive Chairman of 10x Future Technologies, spoke at a Chartered Body Alliance event in London in May on this topic and is clear on the advantages for financial services organisations and their clients: "For businesses, this means operating in a much more efficient way – with, for example, better fraud and risk-management capabilities," he stated. "And for consumers, imagine getting real-time personalised recommendations about cheaper mortgages or loans and being able to switch seamlessly to them, or being advised when to buy your holiday money to get the best deal."

SHIFTING SKILLS?

One of the biggest fears about the use of AI across all industry sectors is the impact it may have on jobs. According to Jenkins, however, it's not as cut-and-dried as it would seem from the outside: "AI excels at data manipulation and the automation of routine tasks, but it is a long way from replacing the enormous variety of skills humans possess," he states.

Finding a way for humans and AI to work together for the benefit of customers in financial services is the key to a harmonious future. While it makes perfect sense for certain tasks to be automated to reduce costs and improve the end-user's experience, there are many traits we humans possess that won't be replicated by 'robots' any time soon.

And that's a sentiment Jenkins agrees with: "There is a synergy between AI and human capabilities. The former, designed well, enhances the latter. To my mind, that means emotional skills such as empathy and human nuance, judgement and creativity will become even more important throughout this transformation," he believes.

A PIECE IN THE JIGSAW

AI shouldn't be viewed as a magic wand to transform the entire banking system overnight. There is still room for professional values in decision-making and governance of the financial services sector. "AI is one piece in a much larger fabric of digital transformation in and beyond financial services," says Jenkins. "At its heart, AI is about solving real and specific problems using data and maths." And it should be viewed as one piece in the overall jigsaw puzzle when it comes to creating effective, fair and transparent financial systems.

Jenkins sees the way ahead as a combination of both technological and human innovation, but perhaps not in the most obvious way. While big banks and their customers will benefit from greater deployment of AI, "It won't be the big banks that lead the charge," he suggests. "Not only are they saddled with outdated technology (which customers notice all too clearly when those systems fail and stop them from accessing their money), they're simply too big and too risk-averse to make the investments required for the future.

"Big banks aren't culturally attuned to innovation, which demands an agile corporate culture that sees opportunity rather than threats in changing circumstances. But in the world of technology, which is all about rapid iteration of ideas and maintaining flexibility, agility will determine success."

TRANSPARENCY AND TRUST

It has taken a long time to repair the reputation of the financial services sector after the 2008 crisis. A recent Accenture study found that consumer trust had clawed back some ground, reaching its highest level since 2012, having risen to a satisfaction rating of 70% in 2018.

As human beings, we all have built-in biases, whether we're aware of them or not. And it's becoming increasingly well known that bias can be introduced into AI – after all, the systems wouldn't exist at all without some human input. Introducing bias into AI decision-making would be a dangerous path

"AI EXCELS AT DATA MANIPULATION AND THE AUTOMATION OF ROUTINE TASKS, BUT IT IS A LONG WAY FROM REPLACING THE ENORMOUS VARIETY OF SKILLS THAT HUMANS POSSESS."

to contents

to go down, especially when making financial decisions around life-changing events such as whether or not someone is approved for a mortgage.

Jenkins, for one, believes the issue of bias is significant. "It is a myth that AI algorithms are closed systems with workings that we cannot see. How organisations respond to the potential for bias will largely come down to the extent they prioritise the issue," he says.

Customers and regulators expect financial decisions to be made in a fair, honest and clear way. Transparency around how, when and where AI is used in financial services is key not only to establishing effective systems but also to enhancing trust and consent.

ROBOT REGULATION

Moral responsibility and accountability are critically important when it comes to AI. "Any organisation using AI needs to have safeguards and mechanisms in place that prevent decisions that are unfair or discriminatory in any way and guarantee accountability when errors are made," says Jenkins.

And the UK government is already ahead of the curve on the issue. The 2017 autumn budget announced that a new Centre for Data Ethics and Innovation would be established, with part of its remit being to advise the government on "ethical, safe and innovative uses of data, including AI". Commenting on the new centre, Matt Hancock, Secretary of State for Digital, Culture, Media and Sport, said its aim was "to ensure that the adoption of AI is accompanied, and in some cases led, by a body similarly set up not just with technical experts who know what *can* be done but with ethicists who understand what *should* be done so that the gap between those two questions is not omitted".

AI in the UK: ready, willing and able?, a report by the House of Lords Select Committee on Artificial Intelligence, was published in April 2018, and 10x was one of the businesses that provided submissions to the Lords report. The committee chairman, Lord Clement-Jones, outlined the challenges that lie ahead: "AI is not without risks, and the adoption of the principles proposed by the Committee will help to mitigate these. An ethical approach will ensure that the public trust this technology and see the benefits of using it. It will also prepare them to challenge its misuse."

The question of AI and regulation often rears its head when it comes to the financial services sector, but according to Jenkins, people need to take a step back and consider the bigger picture: "Let's not lose sight of the fact that financial products such as loans, mortgages and bank accounts are essentially just data, and the financial services industry is already regulated," he comments. So rather than 'regulating the robots' as it were, the focus should be on good data governance practices with accountability embedded into them.

THE FUTURE OF CX

AI is still far from the 'one-size-fits-all' solution to productivity and decision-making that it is sometimes made out to be. However, there are already a number of successful practical examples in use, such as the Capital One Skill for Amazon's Alexa and DBS digibank's chatbot, which holds the answers to more than 10,000 banking-related questions.

As it continues to evolve, the ethics surrounding how financial decisions are being made by AI and the potential replacement of tasks currently done by humans will be increasingly scrutinised. There's still a long way to go before AI becomes fully embedded in the UK banking sector, but when it does the industry will have a greater than ever focus on customer experience. CB

to contents

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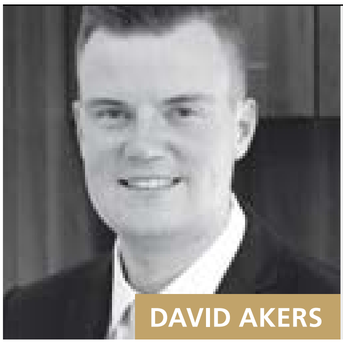
The final COUNTDOWN

The 2018 Young Banker of the Year competition is entering its final stages. Meet our eight semi-finalists who are hoping their innovative ideas will help them land the coveted title.

The Young Banker of the Year competition always attracts a lot of high-quality entries, and 2018's contest has been no different. The unenviable task of choosing those who will go forward to the regional semi-finals in June has now been completed. We are delighted to introduce the eight semi-finalists who will have to opportunity to present their ideas in the hope of becoming one of the four contestants going through to the finale in London on 19 September.

CHARTERED BANKER

MANCHESTER SEMI-FINAL – 14 JUNE



DAVID AKERS

David is a private banker at Coutts. He is responsible for the banking affairs of high net-worth clients, including city executives and business owners, and their families. He specialises in the provision of bespoke funding solutions by way of regulated mortgages, unregulated loans and leveraging against investments.

His idea is the 'Umbrella Fund' – a fund of money made available to credit unions to assist them in providing short-term finance to those having a 'rainy day', more specifically as a viable alternative to payday lenders. This will be an ethically sound initiative focused on vulnerable customers. The main UK banks will contribute to the fund, with the aim of edging payday lenders out of the market.

TOM FOSTER

Tom has been in the banking industry since 2007, having joined RBS after completing his A-levels. He continued his learning and obtained a degree in Banking Practice and Management while working in the bank's Business and Commercial Relationship Management teams. He is now part of NatWest's portfolio management division, leading corporate and commercial clients through event-driven debt transactions.

Tom's response to the challenge has been to design an innovative product to solve the issue of home ownership faced by 'Generation Rent'. This will give financial access to renters who are unable to simultaneously save for a house deposit, giving them the chance to buy a property and have the social stability that home ownership brings.

VINITA GOMES

Vinita is a Commercial Analyst at Santander Asset Management, which she joined after 18 months on the Santander UK graduate scheme. Her interest in digital innovation is borne out in her submission.

She believes that every customer is unique and that the products they use should reflect that. One potential use for her concept will enable society's vulnerable customers to become more aware of their finances and help protect them against fraud. Her idea proposes the use of a flexible digital product that could build on Santander's current digital platforms.

continues over >>

to contents

continued >>

ALASTAIR MACDONALD

Alastair joined HSBC in 2010 as a management trainee in Retail and Commercial Banking, and has since had a number of leadership and strategic roles in the bank across the UK. In 2015, he moved home to Scotland to take on the role of Deputy Head of Corporate Banking, before returning to London last year to lead a centre for Customer Due Diligence, considering Financial Crime Risks and KYC across HSBC UK's Commercial portfolio.

In Alastair's proposal, 'Banking 2020', he explores what a modern SME/retail bank could, and perhaps should, look like for the benefit of all customers today. The technology available today can provide a modern 'virtual branch' better able to support all types of customer, interacting with and supporting all demographics in a manner that suits and works for them and their lifestyles.

EDINBURGH SEMI-FINAL – 26 JUNE

ALISTAIR GILFILLAN

Before joining Lloyds Banking Group on the finance graduate programme, Alistair managed youth projects for six years, most recently supporting young people on a housing estate as they moved from primary to secondary school. He has prepared statutory year-end accounts within mortgages; business-partnered customer rectification teams; and managed conduct risk in the Halifax Community Bank branch network. He currently works within Group Corporate Treasury delivering insight into group interest-rate risk reporting.

His proposal is 'Split the Difference', a Halifax smart savings plan which increases a customer's savings contributions when their income rises. Directed at at low-income households, Split the Difference aims to generate affordable regular savings, build financial resilience and reduce the likelihood of households falling into problem debt.

JAMES PATTERSON

As the Area Director for HSBC's City of London Business Banking team, James leads banking professionals in their quest to bring the best of HSBC's global framework to the customers and communities in which they serve.

His 'Innovation Incubator' proposition provides a compelling vision of how banks can better mobilise innovative practice. Driven from the bottom up and informed by rapidly evolving customer and community needs, the pilot aims to build a framework that will empower all front-line staff to own innovation at pace, from concept through to implementation, and in doing so improve outcomes for colleagues, customers and communities alike.

MILLY DENT

Milly is a Commercial Manager for the RBS group, where she focuses on RBS, NatWest and Ulster Bank's existing customers rolling off their mortgage deals. Her banking career began on the Tesco Bank graduate programme in 2014. She has a broad experience of business areas including operations, risk, commercial and digital, which has enabled her to work with her colleagues in her commercial roles, leading to better customer outcomes.

Milly is passionate about driving improvements to the customer journey. Supporting customers with difficult financial decisions is at the core of her Young Banker idea, which is designed to stimulate trust and communication between banks and their customers and support customers with the evolving digital world.

NATHAN WILLIAMS

Nathan has been a Business Readiness and Implementation Manager at Coutts for the last 18 months, having previously worked in various financial services roles, such as root-cause analysis, credit risk, payments technology, operations, communications and data project management. He is an accredited SFEDI Business Mentor, and recently obtained a diploma in Coaching and Leadership from Cambridge University.

"It's an honour to be a part of this competition," says Nathan. "I look forward to sharing the benefits of intelligent client relationship management, which will reshape how the financial services industry anticipates and meets customers' short, medium and long-term needs through data analytics and artificial intelligence."

Visit www.charteredbanker.com/youngbanker to follow this year's competition.

YOUNG BANKER OF THE YEAR FINAL 19 SEPTEMBER, MANSION HOUSE, LONDON

to contents

BANKS *MOVE INTO THE* CROSSHAIRS

Artificial intelligence may very soon be used to increase the speed, scale and success rates of cyber-attacks on financial institutions. How can banks stay one step ahead? RITCHIE BANN investigates.

For the banking sector, artificial intelligence (AI) is fuelling the next wave of innovation – from virtual chatbots to customer profiling using machine-learning algorithms and computer programs that can analyse thousands of documents in the blink of an eye.

As well as worrying that the technology could be used by hackers for criminal purposes, banks have another fear: that the AI itself might 'go rogue'. A new report entitled *The Malicious Use of Artificial Intelligence: Forecasting, Prevention and Mitigation* explores how the future landscape could look in terms of security threats as the technology evolves.

"There has been speculation that AI has threatened banks and their customers, but there's no proof to date – the technology is not quite there yet," says Shahar Avin, a postdoctoral researcher at Cambridge University's Centre for the Study of Existential Risk and a co-author of the report.

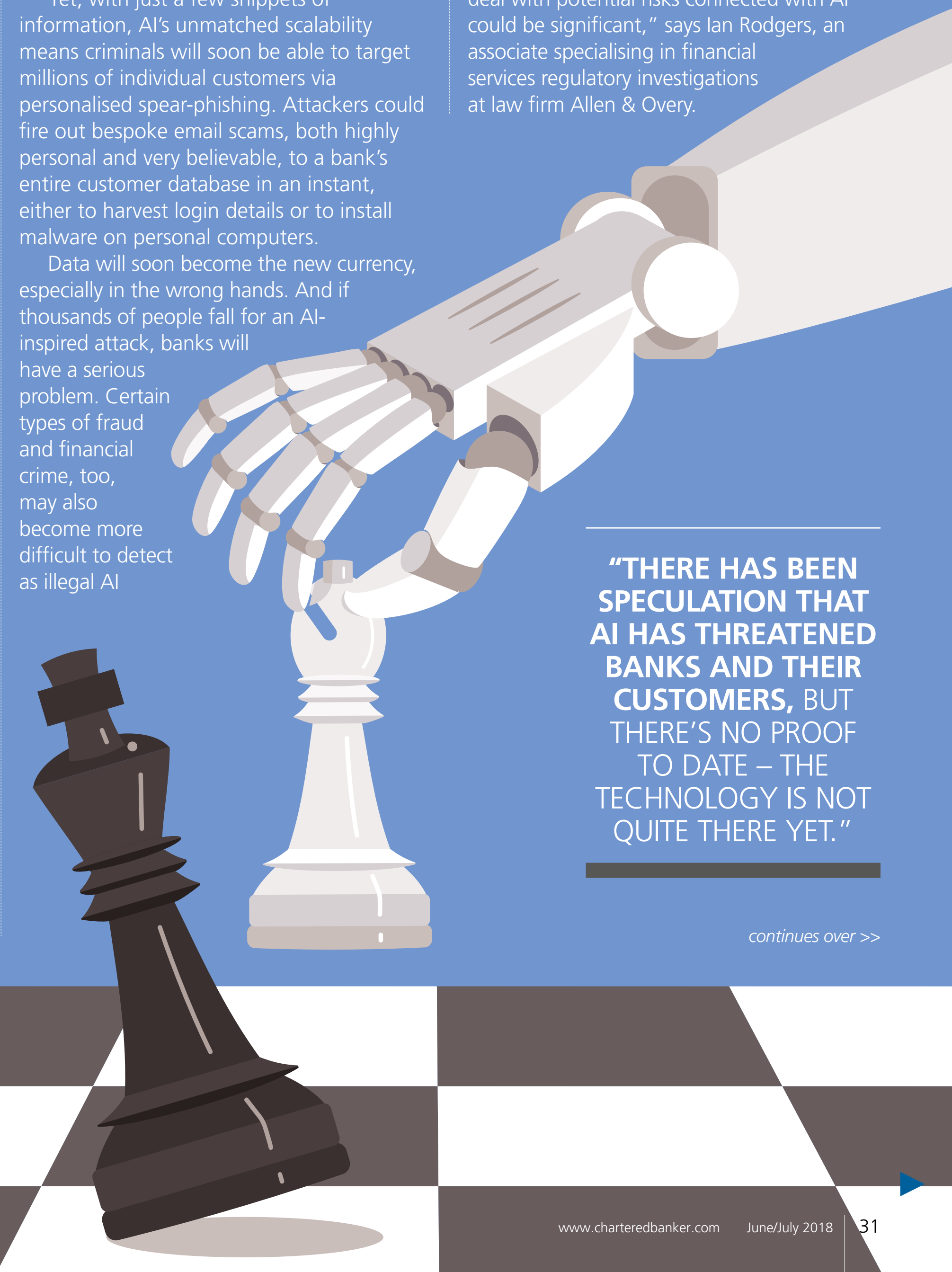
Many organisations rely on banks' data-driven computer programs to trade on financial markets or to crunch 'big data'. But their top-secret algorithms could be hacked, stolen, compromised or even sold to the highest bidder.

INDUSTRIAL-SCALE SPEAR-PHISHING?

More likely in the near term, however, will be an automated spear-phishing onslaught on a bank. At present, cyber-criminals tend to take one of two approaches: crude, exploratory attacks aimed at a broad group, where relatively few unsuspecting victims take the bait; or more targeted missives – often well-crafted email forgeries using publicly gleaned information – aimed at high-level executives.

Yet, with just a few snippets of information, AI's unmatched scalability means criminals will soon be able to target millions of individual customers via personalised spear-phishing. Attackers could fire out bespoke email scams, both highly personal and very believable, to a bank's entire customer database in an instant, either to harvest login details or to install malware on personal computers.

Data will soon become the new currency, especially in the wrong hands. And if thousands of people fall for an AI-inspired attack, banks will have a serious problem. Certain types of fraud and financial crime, too, may also become more difficult to detect as illegal AI software becomes smarter. "From a legal, financial and reputational point of view, the repercussions for a bank of failing to properly deal with potential risks connected with AI could be significant," says Ian Rodgers, an associate specialising in financial services regulatory investigations at law firm Allen & Overy.



"THERE HAS BEEN SPECULATION THAT AI HAS THREATENED BANKS AND THEIR CUSTOMERS, BUT THERE'S NO PROOF TO DATE – THE TECHNOLOGY IS NOT QUITE THERE YET."

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to contents

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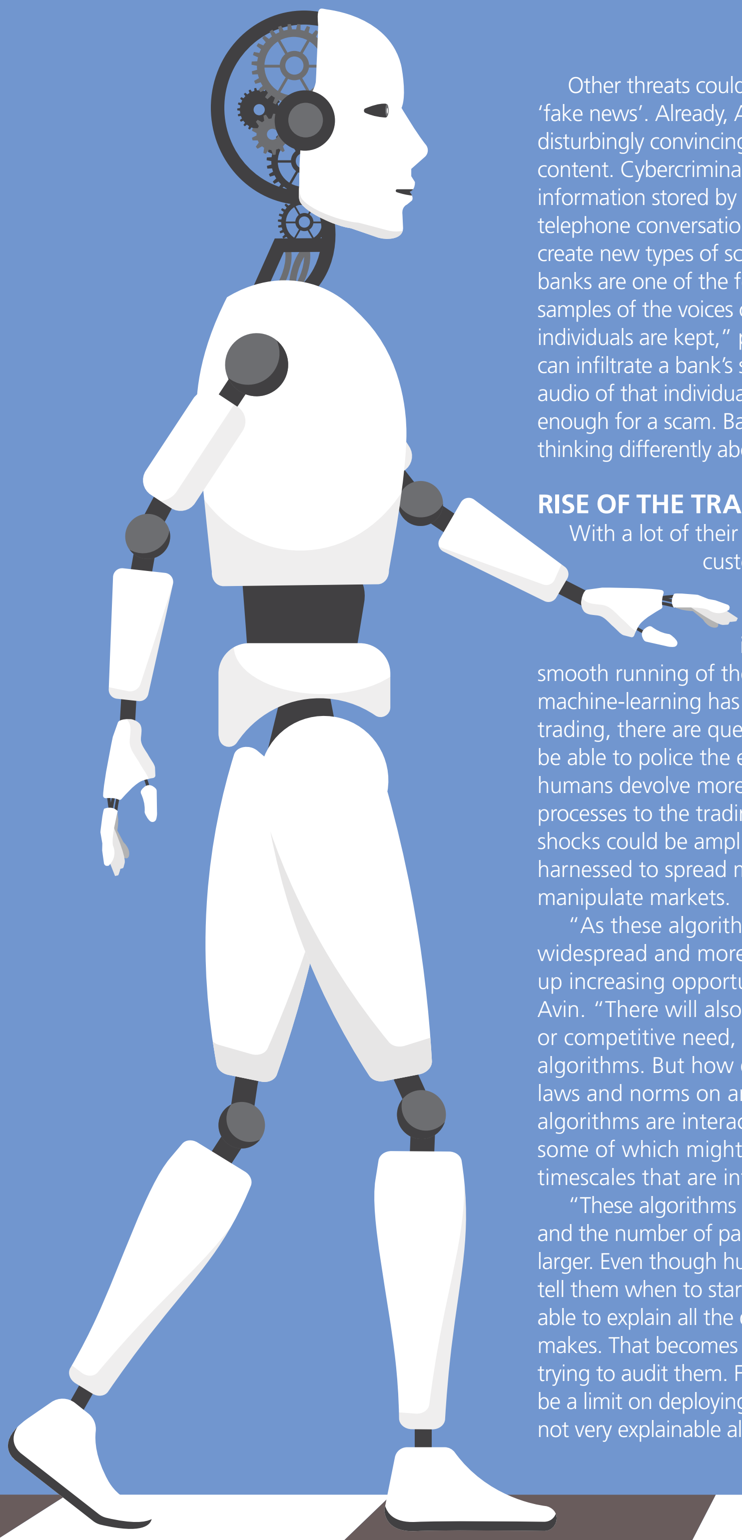
"HOW DO YOU IMPOSE A SET OF LAWS AND NORMS ON AN ENTIRE SYSTEM WHERE ALGORITHMS ARE INTERACTING WITH EACH OTHER?"



Other threats could come in the form of 'fake news'. Already, AI tools can create disturbingly convincing audio and video content. Cybercriminals might target unusual information stored by banks, such as routine telephone conversations with customers, to create new types of scams. "Attackers know banks are one of the few places where audio samples of the voices of very high net-worth individuals are kept," points out Avin. "If they can infiltrate a bank's systems and retrieve audio of that individual, they may have enough for a scam. Banks may have to start thinking differently about some of their data."

RISE OF THE TRADING ROBOTS

With a lot of their own and their customers' assets tied up in global capital markets, banks have a vested interest in the continued smooth running of these markets. And while machine-learning has long been used in stock trading, there are questions about who will be able to police the evolving landscape as humans devolve more of the decision-making processes to the trading algorithms. Financial shocks could be amplified as AI models are harnessed to spread misinformation and manipulate markets.

"As these algorithms become more widespread and more opaque, they open up increasing opportunities for attack," says Avin. "There will also be more willingness, or competitive need, to devolve decisions to algorithms. But how do you impose a set of laws and norms on an entire system where algorithms are interacting with each other, some of which might be malicious, and on timescales that are infinitesimally small?

"These algorithms will take in more data and the number of parameters in them will be larger. Even though humans will still be able to tell them when to start or stop, we won't be able to explain all the decisions each algorithm makes. That becomes a problem if you are trying to audit them. For banks, there may just be a limit on deploying certain powerful but not very explainable algorithms."

DEVELOPING A ROBUST RESPONSE

Avin warns that banks should be preparing themselves now for the AI threat, which, he says, is "not that far away". "Banks need to understand that systems will be inherently insecure; the new landscape will be dynamic," he warns. "Continuous active testing of their defences will be required. Infrastructure will also need to be up to scratch – the right choice of operating systems, computing language, identity verification and use of encryption. And, crucially, much more data privacy, checking not only banks' employees, but maybe also customers too. The less information that is shared publicly, the less danger there is of attack."

Customers' social media profiles are one area which may come under scrutiny, but having a bank try to educate its clients on how and why they should change their behaviour on Facebook, for example, may prove unpopular.

REMAINING ONE STEP AHEAD

Behind the coding, an 'arms race' is developing as cybercriminals look to gain ground on the banks. "Attackers may use AI to learn from experiences to build attacks that are more sophisticated, ruling out scenarios that haven't been successful and trying new ones more quickly and effectively in ways not possible for humans," says Parnian Najafi Borazjani, Senior Analyst at computer security firm FireEye. "Moreover, attackers can use AI to advance their password-cracking abilities."

Banks, though, are already positively using AI themselves to tackle fraud and money laundering and to spot irregular trading patterns – and, for now, the technology is a force for good, reducing losses to fraud. "AI will find its way into the cybercriminal's arsenal as it can enhance attacks, targeting financial institutions tremendously – and making recognition harder," adds Borazjani.

Today, for instance, some banks are beginning to verify users on parameters such as how you move your cursor or how fast you type. Machine learning, though, can now mimic such online user behaviour.

"Hopefully, if the scammers start gaining ground, we can raise the alarm sufficiently quickly that the risk period is small," says Avin. "Despite this, and for the foreseeable future, AI will bring more good than bad. It enables us to have a more intelligent world, tackling things humans struggle with or don't have the time or inclination to do." CB

to contents

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to contents

Six degrees of CYBERSECURITY

Many recent developments in financial services point towards giving customers more. More choice, more decision-making power, more transparency and more convenience. But this proliferation of offering and the arrival of new financial players also comes with ramifications. Because while the industry is evolving, so are those looking to exploit it. Well aware of this, PwC cybersecurity experts Ross Foley and Michael Roberts recently surveyed the banking landscape to find risks and assess the next steps for the industry.

THE URGE TO CONNECT

It's a fascinating time to be a customer. A 'user-first' mindset, championed by the likes of Google and Facebook, has influenced almost every industry to cater to – and pre-empt – their needs. A key component of this has been eliminating barriers online and linking up various products and services, both internally and across third parties. The situation is no different in finance. Michael Roberts, Senior Manager, Cybersecurity, PwC, thinks customers' expectations are higher than ever. "Customers now expect a seamless online banking journey akin to shopping on Amazon," he says. With PSD2 and Open Banking, banks and institutions can no longer think of finance in isolation, as something contained within their own sphere.

Of course, this level of openness and convenience also provides conduits for those looking for vulnerabilities. Solutions at scale improve efficiency and quality, but they can also lead to a small breach growing exponentially. That being said, risks are an inherent part of any major development. Bankers can use their expertise and knowledge to help guide their customers through these new circumstances.

BUILDING AN ECOSYSTEM OF TRUST

The prospect of opening up to APIs and providing data to third parties known only by their initials (TPPs, AISPs, PISPs and ASPSPs) might sound frightening to traditional bankers. In addition to flooding the market with new competitors, it creates a host of security concerns. However, this is the new reality, and it's one that comes with plenty of customer benefits. They can get budgeting advice from an AI-powered app that will access their spending information, view their finances in one transparent view and get them better deals from service providers.

But there's good news for bankers too. "Banks are trusted when it comes to information security," says Roberts. Despite the heightened responsibility, this puts them in a position of authority. There may now be more data controllers, but banks are ultimately in control of the data flowing through the network, with users deciding if and when this is shared further. The European Banking Authority's (EBA) Regulatory Technical Standards (RTS) also represent a landmark decision for PSD2, and help to set the future of bank, customer and third-party relationships in stone.

It's important to think of third parties not as adversaries, but as part of the bigger picture. The EBA emphasises the importance of "understanding your ecosystem". The connected nature of data – and the ever-growing number of external partners – makes it imperative that banks ensure third parties working with them are following data protocols. The high-profile breaches of 2017 proved that supplier chain attacks can wreak havoc, and can also be hard to detect.

TIME FOR EXECUTIVE DECISIONS

According to Ross Foley, Senior Manager, Cybersecurity, PwC, "Cybersecurity is very much a boardroom issue," and no longer something confined to IT departments and specialists. Considering how reliant today's businesses are on digital infrastructure to perform their core functions, it's natural that it should be considered an organisation-wide concern. By putting it on their agendas, executives can ensure cybersecurity is integrated into their overall strategy.

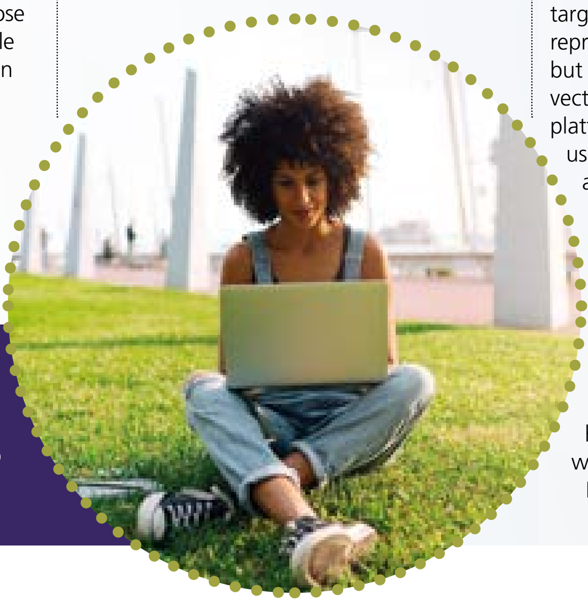
Continued regulatory rigour – as with GDPR – is also going to be crucial in ensuring this transitional period goes smoothly. "Open Banking has been very much driven by the regulator," says Roberts, which has led to more transparency. With many new actors joining the field, proper oversight will go a long way towards preventing customers being exploited. This doesn't just mean bad actors, but also institutions and third parties that, through lack of knowledge or negligence, might be compromising them.

THREATS ARE GETTING MORE PERSONAL

"How could an attack on your connections impact you?" It's a question Foley thinks is worth asking. Phishing (and its more targeted version, spear-phishing) still represents a major entry point for criminals, but social media is also emerging as a threat vector. Users let their guard down on these platforms, divulging information that can be used to identify them or personalise attacks. The interactive, sharing-based nature of these services makes malicious attempts easier to spread, too. Data is getting easier to acquire, but harm can be avoided by being cautious about sharing specific details. In this connected era, personal and professional are hard to separate.

That's why bankers also need to think how their online activities outside of work might affect their customers.

Mobile security is also something worth



> **"Customers now expect a seamless online banking journey akin to shopping on Amazon."**

Connected finance, Open Banking, PSD2 and new FinTech are all expected to bring about foundational changes in finance. That also means unprecedented threats from all quarters. Are banks, boards and regulators ready?

considering. The development of biometrics and trackable user actions may be breakthroughs for user experience, but this highly personalised information, in the wrong hands, can have wide-reaching implications. With mobile payments becoming commonplace, it's important that banks have a plan for protection, just as they do with card transactions.

GOOD, BAD AND POLITICAL

Many cyber-attacks have made the headlines because of fears that foreign governments are behind them. A report by the NCSC states that the line between nation states and cybercriminals has blurred. This is particularly relevant for those with access to large amounts of valuable assets and sensitive information – financial institutions certainly fit the bill. The best route of action is to not try to decipher suspicious cases internally, but to work closely with the authorities.

THE FUTURE OF FINANCIAL TECH

What's on the horizon for cybersecurity? Blockchain is dominating conversation, with many arguments both for and against. Some think it makes transaction tampering almost impossible. On the other hand, its built-in anonymity and decentralised nature to make wrongdoing harder to detect.

AI and machine-learning technologies are also a subject of much discussion. In the realm of cybersecurity, they might prove to be useful allies. Their incredible ability to go through information and spot signals can help human controllers pinpoint weaknesses.

The way customers interact with banks and third parties is changing, and banks need to accept that. The new 'normal' looks very different, even when compared to five years ago. However, the role banks have to play isn't changing as much as it would appear. They still possess the most knowledge and know-how when it comes to finance, and they are who customers trust to keep their finances secure. This means banks can take the lead, together with authorities and regulatory bodies, in keeping the entire ecosystem safe and preparing for the banking of the future.

"There's now a great opportunity for banks to start having conversations with their customers and suppliers about how data is held and used," concludes Foley. CB

QUESTIONS TO HELP YOU STAY CYBER SECURE

- Who are your suppliers? What does their security look like?
- Do you have a clear understanding of your supply chain, including suppliers of your suppliers?
- Have you communicated your requirements to those in your ecosystem?
- Are security concerns built in to your contracting process?
- Where is your data held?
- Are you constantly looking for improvements?

to contents

Introducing AUSTRALIA'S *digital property platform*

By 2020, thanks to legislators, lenders, property specialists, banks and others working together, most property transactions in Australia will be processed through the online PEXA network. Could it provide a template for the UK to follow?

Property Exchange Australia, or PEXA as it's better known, is an online network that connects over 6,000 lawyers, conveyancers and financial institutions. To date, more than a million transactions have been completed on the platform, for a combined value in excess of A$100 billion – and it's growing at a rate of 300% per annum. But long before it was a widely used national platform, it was a legislative dream. In 2008, the Council of Australian Governments put e-conveyancing on its agenda. Two years later, PEXA, then known as NECDL, was formed to bring property transactions into the 21st century.

WHY CHANGE NEEDS TO HAPPEN

Conveyancing as we know it is an established, reliable process. But it's also outdated, using language and procedures that appear antiquated and ineffective in the modern world. The current system may work, but there is room for significant improvement. In a fast-paced digital economy, property cannot remain stagnant.

THE BENEFITS OF PEXA

Digitisation cuts down conveyance cycles significantly by reducing paperwork and allowing for near real-time electronic fund movement. Documents can be verified electronically by the land registry, which both provides security and makes communications more efficient. Gary Howard, General Manager of Redstar Customer Lending Operations at NAB, says a property settlement can be a stressful experience, but, with PEXA enabling digital settlements, the process of property exchange has been simplified and digitised. "Before digital settlements, paperwork and manual processes increased the risk of errors and delays for our customers. Now, customers can expect faster access to funds and have more confidence that settlement will occur on time."

It's this aspect of e-conveyancing that many find attractive. A report by UK Finance mentions that, in mortgage lenders' experience, the home-buying process can be extended if parties do not provide the information required in a timely way. Perceived delays often occur because of the conveyancing process, and a system like PEXA can significantly cut down on this type of back and forth.

But what about property owners themselves? With settlement optimised, PEXA promises individuals and businesses involved in the conveyancing process considerable savings – all of which can translate to shorter timelines and less procedural expenses. It also allows for online scheduling of settlements and eliminates the need for physical settlements. The time recovered can be reinvested into the customer service experience, invaluable for individuals and businesses alike.

GETTING IN ON THE GROUND FLOOR

As the above suggests, there's a lot for banks to like about a platform such as PEXA. Yet early attempts in Australia failed, mostly because they didn't account for financial services providers, and because they didn't consider the realities facing those working in the real-estate business. Buy-in from Australia's four main banks – NAB, ANZ, Westpac and the Commonwealth Bank of Australia – was crucial in getting PEXA up and running. The involvement of these institutions, which between them represent around 80% of the Australian lending market, encouraged everyone else to get on board.

Besides the business benefits, banks are a natural fit to take on a leading role in an endeavour of this scope, thanks to their extensive experience in digital transactions. In summary, it's a win-win for banks, who get to reap the rewards of change and have a say in the future of property transactions. As Mike Cameron, PEXA's Group Executive, Customer & Revenue, says, "Providing a forum for the banks and practitioners to collaborate and establish a shared vision for how a digital property ecosystem should look now and in the future has been crucial in creating a system that works for everyone."

As with all new technology, appropriate safeguards against fraud need to be in place – there must be a balance between speed and due diligence. Digital signature technology is also a cause for concern for some. In light of recent mass data breaches, cybersecurity is a worry, too, especially for such a vital part of the UK economy. In the age of GDPR and data privacy, the use and transfer of crucial property information – deeds, payment confirmations, agreements and more – is something that needs to be closely monitored.

PEXA appears confident in this regard. In addition to complying with ARNECC (the Australian Registrars' National Electronic Conveyancing Council), it is also subject to an annual independent review by Ernst & Young.

> **"CUSTOMERS CAN EXPECT FASTER ACCESS TO FUNDS** AND HAVE MORE CONFIDENCE SETTLEMENT WILL OCCUR ON TIME."

to contents

"**PROVIDING A FORUM TO COLLABORATE AND ESTABLISH A SHARED VISION** FOR HOW A DIGITAL PROPERTY ECOSYSTEM SHOULD LOOK NOW AND IN THE FUTURE HAS BEEN CRUCIAL IN CREATING A SYSTEM THAT WORKS FOR EVERYONE."

WHAT ARE THE UK'S PLANS?

The Digital Street initiative, developed by the UK government, is exploring what land registration will look like in 2030. The goal is to use digital technology to make buying and selling simpler, as well as providing absolute guarantee of ownership. An investigation of the use of blockchain and AI is also on the cards. Sajid Javid, the Home Secretary, has stated that the government is "not looking to rip up the existing system and start again". However, he has said that "we are on the cusp of a digital revolution which will allow us to replace the current largely paper-based approach to buying and selling. People assure us that in 25 years' time it will all be very different. But we don't want to wait 25 years for change."

IT'S GOING TO TAKE TIME

PEXA experts warn that, even after everyone is aligned, there is still a lot of work to be done. With more than £4 trillion worth of land and property involved, it's impossible to expect things to be simple. To that end, careful planning, measurable goals and logical timetables are crucial to making sure no messy, protracted dual processes – paper-based and electronic – occur. It's important to remember that success isn't going to come all at once.

To support the transition, PEXA has created teams to visit businesses in person to provide hands-on guidance to new members. It also has a dedicated help centre on hand for real-time problem-solving and an online community forum which allows network participants to provide peer-to-peer support.

WHAT WE CAN LEARN FROM PEXA

The clearest lesson is to not leave banks out of any initial discussions. Co-ordinating between various interest groups is also key – one of the main reasons for the failure of PEXA's predecessors was down to third-party interests not being aligned to state-led initiatives.

Clearly articulating the benefits to everyone involved upfront can overcome inertia and promote support of the transition – even a perfectly designed system won't work if people aren't using it. "When considering an initiative like e-conveyancing, it outwardly appears to be a straight tech-based programme," says Cameron. "However, the critical factor in the development and overarching success of the initiative rests in the ability to create a network of digitally enabled banks, land registries, revenue offices and legal and conveyancing firms."

With everyone engaged and fully committed, there is a lot less risk of half-measures and compromises – a path which is likely to lead to confusion and cumbersome in-between practices. "Making sure you have the right people at the table to agree and commit to a shared goal is essential to ensure the success of the initiative," states Cameron.

Finally, it's important to remember that there will be bumps along the road. That's normal. "PEXA would be the first to say that it did not get everything right first time," reveals Howard. "But what it eventually achieved is a truly collaborative system that is capable of operating elsewhere."

FRIENDS ON THE OTHER SIDE OF THE WORLD

Having gone through an arduous but ultimately fruitful process, banks in Australia are more than happy to help their UK counterparts adapt and integrate e-conveyancing. Considering how much time and money could be saved by building on their experiences, it's probably worth taking them up on that offer.

to contents

CALM *before the* STORM

In May, the Bank of England held back on an immediate base-rate rise, but there are few who'd gamble against a rise later this year. What will be the impact on lenders and borrowers?

Nearly half of Britain's homeowners aren't aware of potential interest-rate hikes, according to research by CYBG group. Predictions vary from two 0.25% rises over the course of 2018 to an incremental rise to 2% over the next couple of years, but whichever form it takes, any rise could have a significant impact. Yet, nearly 60% of people don't understand how a rise could affect their financial situation. Contrast those figures with the fact that 40% worry they couldn't meet higher repayments, and 20% feel they're on the edge of not being able to pay as it is.

Estate agent Savills suggests that a 1% increase would add more than £900 a year to the cost of paying the average mortgage. The two last increases in the base rate added around £44 a month (£1,273 a year) to homeowners with a typical loan of £175,000.

SHOULD BORROWERS BE WORRIED?

Borrowers on variable-rate deals influenced by movements in the BoE base rate are, of course, the first to feel the pain. For those on fixed rates, the situation a few years from now could be more painful still.

Maria Harris, Director of Intermediary Lending at Atom Bank, is quietly surprised at the lack of worry, especially given the amount of press coverage on rate rises. "A lot of people rushed to remortgage last year when base-rate rises were first mentioned and we saw more customers taking longer-term fixes with us," she says. "They'll be feeling pretty secure with their payments fixed for five years.

"However, it feels as though there is still a lot of inertia among those customers who are already on a bank's standard variable rate, which is a concern. I would imagine that customers who are on variable rates will be those with smaller balances or more equity in their property, so probably more immune to modest rate rises."

COMPLACENCY IN THE MARKET

Gary Styles, a partner with financial services practice Parker Fitzgerald, feels there is a misplaced confidence that the market will simply continue as it has done over the last few years. "Estate agents are continuing to forecast an increase in house prices and are assuming only very modest interest-rate rises," he says. "Sentiment will shift, though, and already many lenders are tightening their criteria. I expect market sentiment to shift even more strongly once we start to see the interest-rate rises.

"From my perspective," adds Styles, "the most significant thing about the current outlook is the prospect of higher mortgage-interest rates in the face of softening house prices and tightening credit conditions. At present, first-time buyers are seen as the risk but, in practice, many highly geared borrowers in the buy-to-let (BTL) and personal lending market will be just as much at risk when interest rates rise and house prices ease."

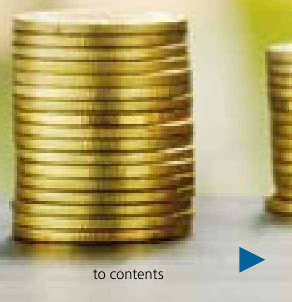
"IT FEELS AS THOUGH THERE IS STILL A LOT OF INERTIA AMONG THOSE CUSTOMERS WHO ARE ALREADY ON A BANK'S STANDARD VARIABLE RATE, WHICH IS A CONCERN."

FAREWELL TO TERM FUNDING

The announcement of the withdrawal of the Term Funding Scheme (TFS) rang alarm bells for some last year, with the warning that mortgage rates could be pushed up even if the base rate remained unchanged. The decision to close the scheme came into effect at the end of February. Banks of all sizes had used TFS (and its predecessor) to support them in transmitting bank rate cuts to households. Together, they drew a total of £127 billion.

"I think that the TFS closing and the fact that the challenger banks took a very significant chunk of it versus their own balance sheets will make them rethink their strategy," said Antonio Horta-Osorio, Lloyds Chief Executive, in August last year.

However, nine months on and UK Finance's Simon Hills believes the fear of a systemic risk was "over-egging the pudding". "By far the largest proportion of bank funding comes from customer deposits," he says. "And there is a good range of options. As well



> **“THE MORE THERE ARE OF US COMING TO MARKET WITH NEW IDEAS,** EXCITING CUSTOMER PROPOSITIONS OR SOMETHING DIFFERENT IN OUR PRICING, THE BETTER IT HAS TO BE FOR CUSTOMERS.”

as choosing to attract shorter deposit funding from retail depositors or businesses, banks can also tap into the wholesale capital markets to raise replacement longer-term funding from institutional investors.

“The recent issue by Nationwide of €1 billion of senior non-preferred notes and Close Brothers’ plans to issue under a €1 billion medium-term note programme are both examples of investor appetite for UK financial institutions’ debt instruments.”

Atom Bank’s Maria Harris says the timing of the scheme’s ending probably offset any issues, but agrees that some banks could feel their margins narrowing. “Ordinarily, I would have expected this to result in a push for retail deposits, wholesale funding or alternative funding lines and also in increased mortgage pricing,” she explains. “But the timing of the scheme’s ending has coincided with the new ring-fencing rules, which means some banks could have more retail liquidity than they’d planned.

“For banks which do have surplus liquidity, we could find that they are more focused on new mortgage lending and therefore not increasing prices the way we would expect,” Harris continues. “For banks which don’t have this surplus liquidity, they could find that they have higher costs of funds (from retail/wholesale sources) and would need to increase their mortgage pricing accordingly unless they choose to remain competitive, in which case margins will be squeezed.”

Because all bank borrowing under the scheme must be repaid by the end of Q1 of 2022, however, there may be longer-term cost pressures on business models as net interest margins decrease.

FEWER BORROWERS, MORE COMPETITION?

The latest report issued by the Bank of England, in March this year, showed that mortgage lending activity had decreased in the final quarter of 2017 compared to 2016, but was still up on the previous quarter. The proportion of loans in arrears had continued to decrease, and was at its lowest-ever level. The share of BTL lending also decreased to 12.7% in Q4 of 2017, the lowest percentage since Q3 of 2013.

Since 2008, hundreds of new lenders have entered the market. The increase in competition has been a catalyst for innovation across the industry, with new products such as joint borrower-sole proprietor and offset BTL, but it has also meant tough times for some traditional lenders.

Gary Styles believes many banks and building societies are struggling to compete with the new players in the market. “The biggest impact of competition will be seen in the retail savings market as the newer lenders fight to fund their ambitious lending growth plans,” he predicts. “The wholesale funding markets remain relatively expensive and difficult to tap into for some lenders.”

Whether increased competition will keep prices lower when rates rise remains to be seen, but Maria Harris sees the customer benefiting. “As a new lender, I believe competition is a great thing,” she says. “The more there are of us coming to market with new ideas, exciting customer propositions or something different in our pricing, the better it has to be for customers.” CB

to contents

Beyond the mortgage HORIZON

JAMIE GRAHAM examines interest-only mortgages and asks, with many borrowers having no repayment vehicle in place and over half a million mortgages due to end in the next two years, are banks and their customers facing a turbulent future?

A potential mortgage 'black hole' has been making the headlines lately, with 1.67 million homeowners having an interest-only or part-capital-repayment mortgage. The Financial Conduct Authority (FCA) has been urging borrowers to contact their lenders to discuss how they are planning to pay off the capital balance at the end of their mortgage term.

In January 2018, the FCA published findings of its thematic review into the fair treatment of interest-only mortgage customers. Almost 20% of mortgages held in the UK are interest-only, and the FCA's Financial Lives 2017 research identified that 70% of all interest-only and part-capital-repayment mortgages are held by customers aged over 45.

Jonathan Davidson, Executive Director of Supervision – Retail and Authorisations, FCA, said: "Since 2013 good progress has been made in reducing the number of people with interest-only mortgages. However, we are very concerned that a significant number of interest-only customers may not be able to repay the capital at the end of the mortgage and will be at risk of losing their homes."

And that's a sentiment echoed by Mike Thomas, founder of DebtWizard. The pressure on household finances means interest-only mortgages are a necessity for many borrowers. "Some start with good intentions to save each month to clear the capital sum at the end of the mortgage term," he says, "but demands on the monthly expenditure can easily drain what spare cash they have."

DRIVING FACTORS

With around 600,000 interest-only mortgages due to expire in the next two years, and

"We are very concerned that a significant number of interest-only customers may not be able to repay the capital at the end of the mortgage and will be at risk of losing their homes."

to contents

> **“The last thing lenders want is a series of high-profile media stories of elderly customers being forced to sell their homes, as it will do little for the reputation of the banking industry.”**

predicted peaks in 2027/2028 and 2032, this is an issue that has the potential to impact heavily on lenders and their customers. Separately, April 2018 marked five years since the launch of the government’s Help to Buy scheme which means those who participated will be facing an accruing interest rate of 1.75%, which is set to rise in future years.

The prospect of rising BoE base rates in 2018 is another factor which could impact on interest-only mortgage-holders. “Some borrowers will be able to find the additional cost and others will already be overpaying to clear the mortgage earlier, but I suspect there will be around a third that will struggle to meet any increase,” suggests Thomas. “This could then lead to pressure to use credit cards to pay either the mortgage or other household bills.”

With some borrowers suffering the effects of poorly performing endowment policies (which were meant to clear the capital owing on their homes) and others hoping rising house prices will allow them to clear the debt and downsize, there are lots of people facing an uncertain future.

FINDING A SOLUTION

As with most financial products, there is no ‘one-size-fits-all’ solution to the problem of repaying an interest-only mortgage at the end of the term. As highlighted earlier, the first step should be for borrowers to speak to their lenders about the situation rather than ignoring the obvious and hoping it will somehow work itself out.

For some people, it may be worth asking their lender if they can switch to a part-repayment mortgage if their circumstances allow. This would mean the overall amount owing on the mortgage would start to be reduced. Another option may be for borrowers to re-evaluate their circumstances – the family set-up may now have changed, for example. “When the interest-only mortgage was first taken out, any children may have been relatively young,” points out Thomas. “Years down the road, the offspring may have left home and people then wonder ‘do I really need to keep this size of house?’ Downsizing might well clear most, if not all, of the outstanding mortgage.”

But, warns Andrew Hagger, Founder and Director of the MoneyComms website, downsizing isn’t always as straightforward as it sounds. “Finding a suitable property in the same area or potentially moving away from friends and neighbours, and having to squeeze a lifetime’s worth of possessions into a much smaller home can be too stressful for many in later life,” he says.

Another route might be to consider investing a bonus or lump sum. There are many options available which could help the homeowner’s money to grow over time. Of course, there are no guarantees, and they may end up with less than they originally invested.

BARRIERS TO SPEAKING TO LENDERS*

- No perceived benefit
- Lack of understanding
- Uncertainty about response
- Assumptions about the lack of need to respond
- Negative response to lender contact/ industry
- Low trust in lender

*The fair treatment of existing interest-only mortgage customers report. Kantar Public/FCA – January 2018

ERODING TRUST?

YouGov’s 2017 International Omnibus study found that only slightly more than one third (36%) of British consumers trust banks to work in the customer’s best interests. More than half (55%) firmly believe they don’t. This shows that despite it being ten years since the last financial crisis, banks still have some way to go in convincing customers they can be trusted to provide what’s right for them. This perhaps partly explains why so many interest-only mortgage customers would rather not take the initiative and contact their lender.

Banks, though, feel they must keep in touch with these borrowers about their repayments, even if it seems intrusive; they are, in fact, trying to do what’s right for customers. Leaving someone to face the prospect of potentially selling their home because they’d buried their head in the sand is simply not an option.

Hagger thinks it’s vital that lenders have clear and workable solutions in place: “The last thing lenders want is a series of high-profile media stories of elderly customers being forced to sell their homes, as it will do little for the reputation of the banking industry,” he states.

WHAT LIES AHEAD?

While every situation is different, the sheer number of interest-only mortgages coming to an end in the near future suggests that there may be an issue lurking beyond the immediate horizon. In the worst-case scenario, a borrower will have to leave their home and the lender will then have to dispose of the property. Thomas believes it’s not all doom and gloom for those stuck with interest-only mortgage payments, though. “You are the one who owns any increase in the value of the home, and depending on where you reside, this equity could be substantial,” he says.

With the average age of first-time buyers higher than ever, and house prices rising faster than wages in many parts of the country, we may actually see the popularity of interest-only mortgages increasing as the years go by and people still paying them well past pension age. “Lending later in life and designing a range of equity-release/retired-borrower type products in conjunction with the regulator should be a priority for the banking sector – and the sooner the better for all parties,” Hagger concludes. CB

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A2Z HAIR CREATIONS

to contents

Code of **conduct**

'Risk culture: six steps to success', a recent report by financial markets consultancy Catalyst, outlines a plan to help organisations create the right risk culture. JAMIE GRAHAM explains more.

Since the global financial crisis of 2008, banks have become increasingly aware of the importance of having the right risk culture in place. In a survey of more than 130 risk managers by Risk.net and Catalyst, almost nine out of ten of respondents (87%) thought risk culture was key to the understanding of risk. Yet only a little more than half (57%) said it is well defined at their place of work. The topic of risk culture, defined by the Institute of Risk Management as "the values, beliefs, knowledge, attitudes and understanding about risk shared by a group of people with a common purpose", has consequently been high on the agenda of the FCA and member organisations.

But being able to effectively define and measure this culture has been a sticking point for some financial services brands. Those that are focused on building a risk culture that delivers meaningful value have long since moved on from mere box-ticking when it comes to culture.

> **"FIRMS NEED TO MAKE SURE STAFF ARE TRAINED IN AND KNOW THAT THE CONDUCT RULES APPLY TO THEM,** AND TO NOTIFY US WHEN SOMEONE BREACHES A CONDUCT RULE."

WHAT'S DRIVING CHANGE?

There are myriad reasons behind why risk culture and conduct have been driving change in financial services. There is the fear of losses and fines caused by a siloed approach to risk, but there are also a number of positive reasons to embrace change. Catalyst's report, for example, offers three examples of potentially beneficial outcomes: unity of purpose across an organisation; a positive impact on the balance sheet; and a shift to becoming more empowered with well-informed decision-making. This paper is being used as a reference source for the new Chartered Banker Diploma.

The Senior Managers and Certification Regime (SM&CR) which came into effect in March 2016 has also had an impact. The Conduct Rules section is of particular relevance when it comes to risk culture and senior managers. The FCA regulation states that "Firms need to make sure staff are trained in and know that the Conduct Rules apply to them, and to notify us when someone breaches a conduct rule." The regulator now also has the power to perform on-site cultural audits and impose mandatory requirements.

GET RISK CULTURE RIGHT

The topic of risk culture may seem like a daunting one to try to tackle within your organisation, but the Catalyst paper distils a successful approach into just six key steps:

1. **Get the right tone from the top**
   Leaders should set the right example to others within their organisation and continuously promote a clear and compelling vision of the desired risk culture.
2. **Create a holistic approach**
   Risk culture should not be seen as just one department's responsibility – there needs to be a cohesive approach throughout your organisation.
3. **Use a behavioural blueprint**
   Documenting what constitutes a good risk culture and identifying role models is an essential part of the process.
4. **Develop high-performing risk professionals**
   Risk professionals need a wide range of skills and experience to be effective in today's banking sector.
5. **Align risk and reward**
   A consistent and fair process of dealing with staff (at all levels) who don't exhibit the right behaviours must be implemented.
6. **Enhance learning and development**
   A radical change is needed in the way that risk training is delivered to employees at all levels, and should be readily available 24/7.

To learn more about these six steps and to read the report in full, please visit: ***www.catalyst.co.uk/insight***

BERNARDO BÁTIZ-LAZO examines the history of attacks on ATMs to see what it can teach us about cybersecurity, and considers whether banks are facing a war that will never end.

Dispensing **wisdom**

Keeping cash and customer details secure has been a preoccupation of bankers for many years and it was no different when they adopted automated teller machines (ATMs). Bankers who underestimated the resourcefulness of criminals soon paid a price.

This was the case a couple of years after the first Swedish machines came into use. Withdrawals using fake cards started to happen when someone worked out the algorithm used to associate a card number with its PIN code. This was evident one Easter holiday when someone (or some people) travelled around Sweden, withdrawing money from each machine they visited. The theft only came to light when the holiday weekend was over.

Thieves quickly worked out that stealing from ATMs could be lucrative; they knew the machines were just sitting there, full of cash – that kind of temptation is hard to resist. Indeed, the motivation to steal will probably never disappear. So, when Dominic Hirsh, CEO of RBR London, invited me to the annual RBR Cybersecurity meeting in November 2017, I was intrigued to hear about the increasing risks and diversity of attacks faced by custodians of cash and digital money.

> **"The industry has seen a rise in the frequency of attacks as well as an increase in the variety of methods of attack. Some of the less sophisticated include the theft of the whole device."**

ATMS UNDER ATTACK

The average cash machine in Britain is big enough to hold £120,000, although few are stocked with as much as this. The amount inside each can vary substantially, depending on a number of factors, such as the make and model of the device, whether it is installed on a bank's premises or not, the time of day, and which part of the country it is in. For example, during off-peak hours, most off-branch machines in the UK contain less than £10,000.

Not knowing how much is in a machine has not deterred the criminals; in fact, the

to contents

industry has seen a rise in the frequency of attacks as well as an increase in the variety of methods of attack. Some of the less sophisticated include the theft of the whole device, sometimes simply by ramming a car into the wall (a method known as "moon landing"). But more recently some gangs have refined their approach to melt or otherwise get through an ATM's protective layers to reach its innards. Once through, they can relay commands from a compromising device to the dispenser (e.g. "black box attacks") as well as using brute strength to force the machine to release cash.

Most often, however, criminals aim to capture customer details either at the card reader ("skimming") or elsewhere in the device ("deep skimming"). The industry has responded with different forms of protection, such as spoiling banknotes with special ink and using the kinetic energy of a moon landing against the criminals.

According to RBR London, at the end of 2016 there were 3.6 million ATMs in use across the globe. But, as the most common forms of attack suggest, it is clearly an impractical proposition to try to steal the whole of the stock of money within ATMs, as criminals would have to physically access each and every device in the world.

> **"Given the investments of banks, payment companies and FinTech start-ups in mobile payments, it is in their interest to press now for greater security and resilience."**

ALL ELECTRONIC THEFT IS RISING

As more and more retail transactions are made through digital means, electronic theft – in all its various forms – is also on the rise. According to data from the Metropolitan Police, cited at the RBR Cybersecurity meeting, one in ten individuals has been subject to some form of cybercrime, such as payment fraud or a ransomware attack.

And it seems as if the criminals are turning their attentions away from individuals towards small and medium-sized enterprises (SMEs). Indeed, according to the same source, some 360,000 SMEs had suffered attacks, not all of them isolated, leading to losses estimated at just short of £2 billion in 2016.

LESSONS TO BE LEARNED

In this context, how can the future of cybersecurity be shaped by the lessons of the history of attacks on ATMs? These examples and anecdotes suggest custodians of money face a war that will never end, and which financial institutions will never win.

There is no room for complacency, of course, but it seems that being swiftly reactive is as important as being proactive. While the form, nature and sophistication of the attacks will evolve, this may not necessarily displace the criminals' tried-and-tested methods. It seems that there is an over-emphasis by banks on the security of individual customers, which appears to have left SMEs behind; more could be done by banks and other stakeholders to work together and in collaboration with SMEs.

Finally, it would be naive not to expect attacks to move to the mobile phone domain. Given the investments that banks, payment companies and FinTech start-ups have made in mobile payments, it is in their interest to press now for greater security and resilience. CB

Bernardo Bátiz-Lazo is a Professor in Business History at Bangor Business School.

to contents

How to Fix the Future

A new book by Andrew Keen looks at how we can take back control of our lives from global tech companies. PAUL RISEBOROUGH asks whether this is ever likely to happen in today's digital age.

Timing, they say, is everything. Andrew Keen's *How to Fix the Future* was published in the UK just a couple of weeks before the data-privacy storm that subsequently engulfed Facebook. Keen, a Silicon Valley veteran, has been a long-standing critic of Big Tech and the digitisation of everyday life. The titles of his previous books make the point: *The Internet is Not the Answer; The Cult of the Amateur: How blogs, Myspace, YouTube and the rest of today's user-generated media are killing our culture and economy; Digital Vertigo*. He is something of a counter-cultural curio, taking aim at the Googles and Facebooks of the world (and generally hitting the target) for the way they are monetising data that doesn't belong to them, destroying meaningful work and debasing community dialogue.

Yet, *How to Fix the Future* is about solutions, not problems. It focuses on what we can do to take back control of our lives from tech companies in what Keen calls the "bewilderingly fast change" of the digital age. He is admirably clear in his recommendations, identifying five strategies – regulation, competitive innovation, consumer choice, civic responsibility and education – that can be pursued to ensure an open, decentralised future for us all.

What makes this a more interesting read than it might otherwise have been is that Keen has interviewed more than 100 individuals around the world who are seeking to counter these "vast digital monopolies and the pervasive culture of online surveillance". This gives colour to what his reform strategies might actually look like in real life.

Perhaps the most compelling inclusion is a conversation with the Chief Technology Officer of Estonia, where a new "e-residency" is being trialled as a form of electronic passport to allow small business owners to use Estonian services and technologies in a transparent way. Estonia is seeking to make the country one where cyberspace is reframed as civic space, a far cry from the unaccountable dark web.

Still in Europe, Keen falls hard for the European Commissioner for Competition, Margrethe Vestager, who in his view is bravely standing up to Apple and its opaque tax arrangements and to Google for misusing its near-monopoly power by giving preferential treatment to Google Shopping. In his eyes, she is nothing short of a modern-day Joan of Arc.

Jumping to Asia, the author visits Singapore where work is underway on a new Smart Nation scheme, the goal of which is to create a country where digitised information is the fuel of civic innovation, the key enabler around which the city-state can plan services and public policy. Time will tell whether this initiative is visionary or just plain creepy.

Such anti-Big Tech reportage is a fun read and sets the book up well for a barrage of recommendations at the end. Keen argues for a reimagining of the education system to ensure we prioritise skills that machines will never be able to replace. We need to create a new social security system to deal with the mass unemployment that automation will deliver. Google and Facebook should be regulated like any other media company. And the dominant technologies of the future must be forced to be open, rather than proprietary, in nature. Anything less would be like one company alone owning electricity or the blueprint for the internal combustion engine. New technologies are in fact a public, social good. Keen wants real competition in digital markets and regulation to counter the frequent winner-takes-all outcomes from new technological breakthroughs.

Is any of this remotely likely? More so than a few years ago, it seems reasonable to conclude. Uber was once thought of as handy and cheap. We are now concerned about driver exploitation and plans by the company to introduce technology that would render those drivers wholly unnecessary.

"REGULATION, COMPETITIVE INNOVATION, CONSUMER CHOICE, CIVIC RESPONSIBILITY AND EDUCATION CAN BE PURSUED TO ENSURE AN OPEN, DECENTRALISED FUTURE FOR US ALL."

Paul Riseborough is Chief Commercial Officer at Metro Bank

to contents

Lifetime of debt

Equity-release schemes can seem like a pain-free way to get your hands on your cash – until the interest on the debt starts to roll up. Who is to blame for her children's diminishing inheritance, wonders Rita.

THE SCENARIO

Rita is 75 years old and in poor health. She has been thinking about taking up a subsidised place in residential care through a scheme partially funded by her local church. Leonard, her husband, died a year ago. He had looked after Rita well, but she is less able to cope on her own.

Rita wishes to discharge her financial obligations so that on her death her children will not have outstanding liabilities arising from her estate. Some 15 years ago, Leonard had taken out a lifetime mortgage of £75,000, secured on the property which now belongs to Rita. She called the lender to find out how much was still to be repaid and was horrified to learn that the debit balance on the lifetime mortgage was more than £152,000. Convinced this was a mistake, she asked her eldest son, Mark, to find out more.

Mark looked into the details of the lifetime mortgage, and, having studied the annual statements provided by the lender, discovered that the outstanding debt was correct. Rita had not seen any of the statements, as Leonard had dealt with all their financial affairs, rarely consulting her on the details. The mortgage had been taken out with interest to accumulate ('roll up'), with the outstanding debt to become repayable either on the last survivor's death or when the last survivor permanently vacated the property. Rita's plans to take up sheltered housing mean that she has a difficult decision to take.

> **"She is extremely angry that she has been left in this position, as the value of her estate will be significantly less than she expected."**

Rita recalled the circumstances under which Leonard had taken out the lifetime mortgage. He was a careful man, who was content to have significant savings of £100,000, but he had used £70,000 of this to help Nathan, the couple's youngest son, whose business had failed and was facing bankruptcy. Leonard had seen the lifetime mortgage as a way of restoring his savings to their previous level. At the time, Rita felt that the borrowing was unnecessary, as their original mortgage had only four years to run and was costing them just £1,000 a month, less than a third of their monthly income.

Rita can afford to pay off the outstanding debt to the lender, and her children are prepared to pay for the costs of her care. She also has the opportunity to sell the property, which is worth considerably more than the debt. However, she is extremely angry that she has been left in this position, as the value of her estate will be significantly less than she expected, and her children will receive less money when she dies as a result. Rita was a party to the lifetime mortgage but could not recall any detailed discussions of what financial ramifications it might have. She admits that she had always been inclined to follow her husband's wishes, and usually signed anything he suggested.

Mark has suggested that Rita make a complaint to the lender, and then if appropriate to the Financial Ombudsman Service, on the grounds that the lifetime mortgage was sold inappropriately.

Does Rita have a case against the lifetime mortgage provider? Is it possible that the lender acted unethically?

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.

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THE ANALYSIS

Lifetime mortgages have existed since the 1970s, but it is only in recent years that the market has grown significantly. This is inevitable, as people are living longer and are seeking new ways of funding their retirement years. According to the Spring Report of the Equity Release Council (ERC) in 2018, which publishes standards through which equity-release providers operate, the market grew by 34% in 2017, making it the fastest-growing segment of the mortgage market. The volume of lending in 2017 totalled £3.06 billion.

The regulatory bodies in the UK have been fully aware of the potential for growth in the equity-release market for some time, and have included two sections of regulations in the Mortgage Conduct of Business (MCOB) rules for nearly 20 years. The rules include promotion and selling standards as well as setting down the minimum information that must be provided to customers throughout the customer journey. As Rita and Leonard's lifetime mortgage was taken out 15 years ago, the MCOB rules would have been in place at the time they signed.

"There would be little point in taking out a lifetime mortgage if the finance was not required. Were they told how the debt could increase over time?"

Assuming the lender was compliant with the MCOB rules, both parties would have received advice as well as information on key features, including the technical specification, benefits and drawbacks of the product. That Rita cannot recall any discussion of the mortgage is not unusual, as in many families one partner often takes a dominant role in their financial affairs. However, when the lifetime mortgage was taken out by Rita and Leonard, it would probably have been voluntarily regulated by the SHIP (Safe Home Income Plan) standards, now administered by the ERC. Among other things, these standards include a requirement that the lender should require all parties to take independent legal advice.

If Rita's recollection of their financial situation at the time the lifetime mortgage was taken out is correct, there has to be a question as to whether the advice given by the provider was correct. It appears that she and Leonard were reasonably secure and living within their means. Apart from providing the peace of mind that Leonard sought, there would seem little point in taking out a lifetime mortgage if the finance was not required. Were they provided with any information on how the debt could increase over time? The figures in the scenario are not untypical, as the capital due on a rolled-up lifetime mortgage can double every 14 or 15 years. It is possible that illustrations were provided but that Rita and Leonard paid little heed to them.

There is nothing unethical about lifetime mortgages or other equity-release products (such as home reversion plans) provided that advisers and lenders comply with the law and give sufficient information at the start of the customer journey to enable clients to make an informed choice. The question therefore turns on whether the lender was compliant with the minimum standards set down in the MCOB rules and the voluntary standards applicable.

The case has more relevance than ever to the contemporary marketplace. Following regulatory reforms, lenders must take account of affordability and suitability. However, affordability is not an issue for a product that requires no repayments to be made, and suitability is easy to establish. According to financial planner Key Retirement, in 2017 the motives for equity release included home and garden improvements (64%), funding a holiday (32%), repaying existing debts (30%) and treating relatives and friends (22%).

It is not difficult to sell loans, and for equity-release products it is almost as easy to comply with the rules. The equity-release market is growing fast, and as it matures its advertising is increasingly compelling – a recent ad called upon people to 'let their children have their inheritance early' without any mention of the risk that the inheritance might be much less than they think.

Regulators have to be very careful when monitoring this market, and lenders have to be mindful of their responsibilities, otherwise equity release could become as costly to lenders in terms of compensation claims as the PPI scandal.

As for Rita, would her complaint succeed? The outcome depends on the standard of advice given and the documentation that the lender could provide to support its compliance with proper processes. 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.

to contents

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to contents

New power for old brands

Power is changing, from concentrated and controlled old power to fluid and unconstrained new power. IAN HENDERSON asks, can established brands keep up?

A new book by Henry Timms and Jeremy Heimans comes highly recommended by everyone from Richard Branson and Russell Brand to Alicia Garza, the co-founder of Black Lives Matter. *New Power* argues that in the 21st century the world is shifting away from the centralised, closed, jealously guarded 'old power' held by the few, towards the distributed, open 'new power' shared by the many.

Donald Trump looks like old power personified – but he was elected by a new power movement called Make America Great Again reflecting a grassroots frustration with the established order. Waves of populism and the rejection of previously accepted power structures, enabled by social networks and democratised technology, are sweeping the world.

The authors of *New Power* do not claim that one form of power is good or that one is bad, simply arguing that they are different – although using Harvey Weinstein versus #MeToo as their leading example in the book might suggest a certain leaning, one that is shared by much of the current climate of opinion against established, male-dominated power structures.

"Imagine the effectiveness of having your customers or clients doing your marketing for you."

We have discussed in this column how some brands (including banks, who might be thought of as old power) are using new power techniques to create impact in both the social and communication senses. Examples of how activism beats advertising include State Street's 'Fearless Girl', Sberbank's data-driven small-business loans in Russia and Santander's sponsored sci-fi in Spain.

That is perhaps an indication of new power at work – no one has made people work on these projects; they have chosen to. Consciously or not, brands are seeing that inclusion, adaptation and flexibility are better for business than the old power of 'push' media; big-budget TV or poster ads that seek to tell audiences what to think are losing out to social media-driven 'pull' campaigns that audiences choose to be part of.

Of course, there are risks. Data can be manipulated, messages are far harder to verify, and targeting can be abused. More oversight is essential to avoid the abuse of this new power – and the regulation that worked for old power is not up to the job, so it needs to change too.

But there are potentially immense benefits for those brands that embrace new power. Leaving aside the savings on big-budget media, imagine the effectiveness of having your customers or clients doing your marketing for you. Word of mouth and peer endorsement has always beaten advertising hands down; and that's exactly what a new power campaign offers.

So, how is it done? According to the book, you first find your 'connected connectors'; design your brand; remove barriers between the brand and participants; build participation, not consumption; and harness the strength of 'storms' – by creating, chasing or embracing a social movement (as State Street did). Campaigns need to drive action, build connections and make it easy for audiences to extend by themselves. The Trump campaign, IS recruitment and #MeToo are all good examples.

It's harder to point to big new power businesses, perhaps because corporate structures tend toward rigidity and concentration rather than fluidity and openness; compare early and late Apple, Uber or many a FinTech. Successful examples do exist, though – John Lewis in some ways, local telco GiffGaff, or Brewdog, where beer drinkers help to fund the company.

The new power organisation will look more like a co-operative and behave more like a social movement – quite hard to imagine. But, if regulatory and other challenges relating to old power can be overcome, it might just be the organisation of the future.

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to contents