October/November 2018

CHARTERED BANKER

THE FUTURE OF BANKING

YOUNG BANKER OF THE YEAR
Meet 2018's winner

RESPONSIBLE FINTECH
An agent of change?

BIG DATA MEETS BIG BROTHER
Banking behaviour

DATA THAT DELIVERS

WHERE NEXT FOR BANKING?

THE FUTURE OF DATA

POWER TO THE PEOPLE
The data dilemma

BANKING CULTURE
Digital leadership

PERSONALISATION
Novelty or necessity?

RISE OF THE SUPER-APP
Beyond the UK

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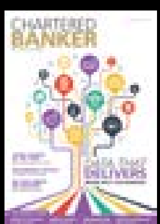
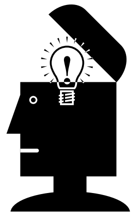
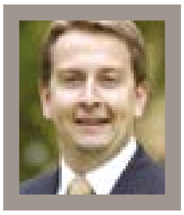




The future of banking

With so much talk about data and technology, it's easy to lose focus when it comes to banking fundamentals. SIMON THOMPSON highlights the people and skills that will prosper in the digital age.



Simon Thompson, Chief Executive

Congratulations to Alistair Gilfillan of Lloyds Banking Group, our 2018 Young Banker of the Year. As well as impressing with his excellent presentation, he was commended by the judges for his use of technology to help lower-income customers save for a rainy day. His project, Split the Difference, uses algorithms to spot when customers receive a salary increase and then sweep half of this into a linked savings account. It’s a simple yet powerful and purposeful idea, and a very good example of how banks can use data, and technology, to genuinely benefit customers – customer-focused, ethical professionalism in a digital age.

It seems impossible to read about banks and banking at the moment without hearing that the sector is now all about data and technology. Indeed, this edition of *Chartered Banker* contains our own special report on banking in a data-driven age. Yet I have to respectfully disagree with commentators who make such claims.

For me, banking remains fundamentally about money, and about people – our customers, colleagues and communities. We may now increasingly see both as patterns of data on our screens. The analytical tools at our disposal may give us greater insight into the data. Technology may help us provide banking products and services faster and more efficiently, and offer an exciting range of new opportunities. But banks are not technology companies – the service provided, and the expertise fundamentally underpinning the delivery of that service, is banking.

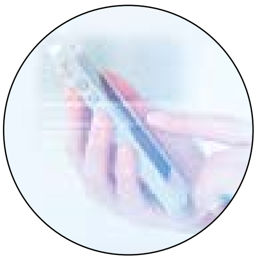
“For me, banking remains fundamentally about money, and about people – our customers, colleagues and communities.”

Technology is shaping the way that banking products and services are delivered, but it is crucial that the digital tools we use must be put to the service of banking, not banking put at the service of technology. This requires current and future generations of bankers to add knowledge and expertise of technology to core banking skills such as credit, risk and regulation – which is why we’re launching, this month, the Institute’s new Advanced Diploma in Banking and Leadership in a Digital Age, as reported in this issue of *Chartered Banker.*

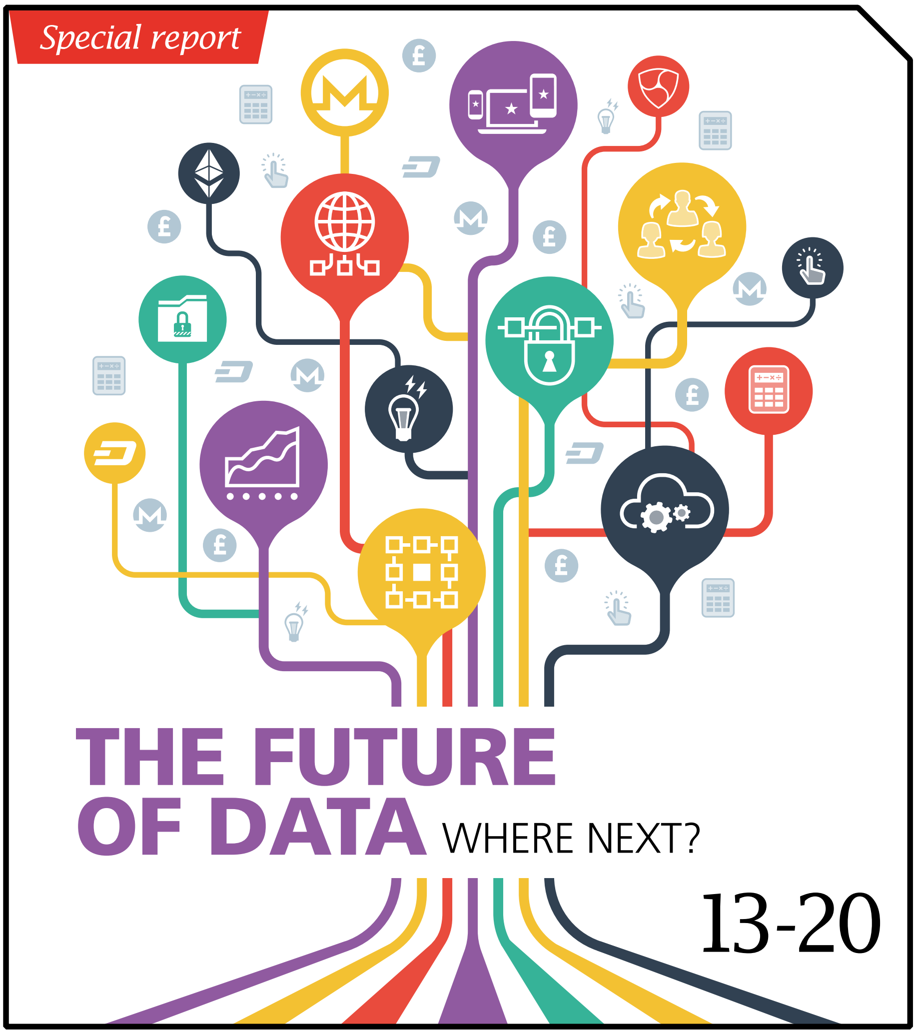
It is also why, therefore, I believe that in the data-driven age it is more important than ever that we encourage and support the next generation of highly qualified, knowledgeable, skilled, dedicated, customer-focused banking professionals like Alistair Gilfillan. If we do, the future of banking will be in safe hands, as they will shape the new technologies that are transforming our sector, and ensure customer-focused, ethical professionalism remains at its heart. CB

to contents

CONTENTS

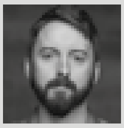


"Data has become the single most valuable asset not only of banks, but of their customers." p14



Chartered Banker

The Professionals
in this issue


DR KENNETH CONROY is Finn AI's VP of Data Science and leads the development of the firm's proprietary Natural Language Processing system. p19


ANNA LAYCOCK is Executive Director at the Finance Innovation Lab. She has been nominated one of 30 Ones to Watch in 2018 by Brummell Magazine. p23


PAUL CLARK is Chief Technology Officer at Tandem Bank, having joined the challenger in 2016. p23


FLORIS KLEEMANS is the former Group Head of Strategy at ABN AMRO and the founder of the FOCAFET Foundation. p24


VIRRAJ JATANIA is CEO and Co-Founder at Pockit, which offers a digital banking alternative for unbanked, underserved and low-income consumers in the UK. p26

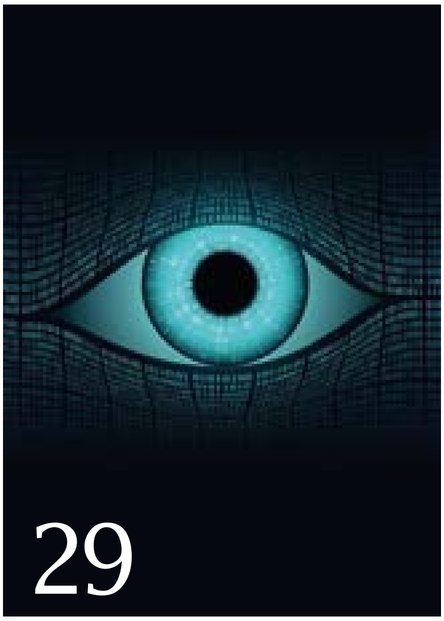

TIM MILLER has been Executive Director of the Gambling Commission since 2016 and has 15 years' experience across the regulatory and public sector. p30

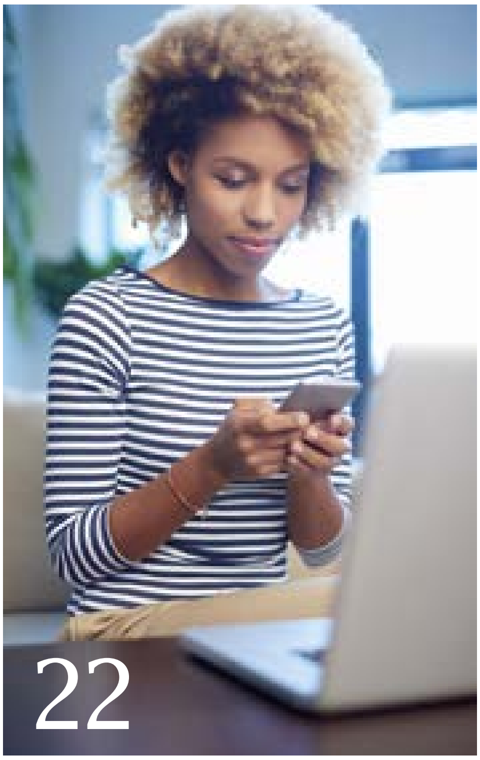

RACHEL SPRINGALL is a Finance Expert and Research Consultant at Moneyfacts Group Plc who is regularly featured in the press on financial matters. p35


MARCUS SCOTT has held the position of Chief Operating Officer for TheCityUK since December 2013. p36

"Millions of individuals use borrowing facilities as a helpful means of managing peaks in their everyday spending." p34

An audio recording of this issue's special report is available to download from the podcast section of the Institute's website at https://www.charteredbanker.com/knowledge/podcasts.html





REGULARS

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Cooper to join **private bank**

COOPER

Steven Cooper, CEO of Barclaycard Business, is to move on in January 2019, joining private bank C.Hoare & Co as its new CEO. Lord Macpherson, Chairman, said of the appointment: "We are very pleased to welcome Steven as our new CEO. His deep and extensive banking experience will help ensure that we continue to provide our customers with the highly personal private banking service that sets us apart from our peers. I am confident that Steven will prove to be an invaluable addition to our executive team and look forward to working closely with him."

Cooper said: "I feel delighted and privileged to be joining such an outstanding institution. C. Hoare & Co has a reputation founded on centuries of excellence and I am very much looking forward to working with the team to continue that tradition."

A TRIBUTE

The Reverend Group Captain Donald Wallace

5 September 1925 – 9 May 2018

The Reverend Group Captain Donald Wallace sadly passed away in May this year. He was a brave and highly accomplished man, a great speaker and slicer of candles, a very proud Scot and a good friend to the Institute.

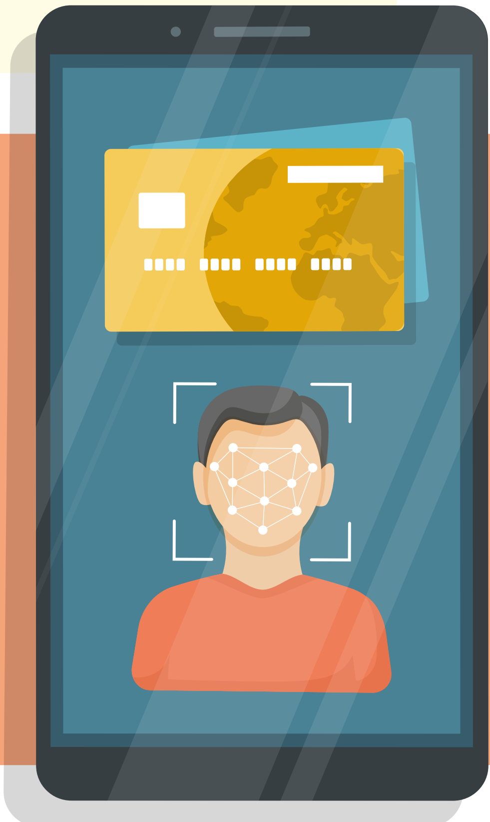
A regular at the Institute's Burns Suppers in London for many years, he was known and loved by many members. His long and distinguished career saw him serve in Kenya, Cyprus and Germany. He was appointed a Queen's Honorary Chaplain in 1977 and also received the Russian Ushakov Medal and the Légion d'Honneur.

Madouros on the move

MADOUROS

The Central Bank of Ireland has hired Vasileios Madouros as its Director of Financial Stability, starting in January 2019. Madouros currently heads up the Bank of England's macro-financial risks division.

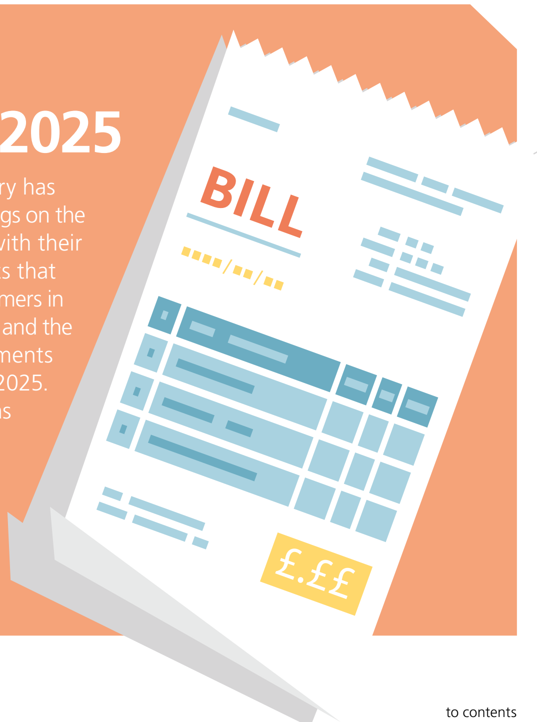
Commenting on the appointment, Deputy Governor Sharon Donnery said: "I am delighted to announce Vasileios as the Central Bank's new Director of Financial Stability. He brings extensive experience in risk assessment, the development and implementation of macroprudential policy, and stress-testing. His technical knowledge in central banking will greatly contribute to the leadership of policy and analytical work on sources of systemic risk in the financial system, as well as actions we take to mitigate risk including the orderly resolution of institutions."



Biometric payments **in 2025**

Research by the Foresight Factory has unearthed some interesting findings on the future of biometric payments, with their use expected to grow. It predicts that almost two thirds (63%) of consumers in Sweden, Germany, China, the UK and the US will be using fingerprint payments or be interested in doing so by 2025.

Password fatigue was cited as one of the main driving forces behind the potential rise as customers seek a universal and more secure way to make seamless purchases wherever they are.



HSBC in hiring push

HSBC Private Bank has announced it is looking to hire an additional 240 staff by early next year as it enters a new phase of growth. The Asia-Pacific region is a key focus for the bank and it has already stated its plans to make a significant investment of between $15bn to $17bn in its technology and businesses across Asia.

Gordon goes **to TSB**

GORDON

George Gordon has joined TSB as Communications and Corporate Affairs Director. Gordon brings a wealth of experience, not just in banking, but also in government and retail. His role will see him head up teams in media relations, partner communications, public affairs and stakeholder engagement for the challenger bank.

Facts&Figures

£60m

lost through transfers to fraudsters last year was refunded by banks

22%

of UK adults have less than £100 in savings

90%

of small businesses get loans from their main bank

Sharing the **blame**

The Financial Ombudsman Service (FOS) has stated that it's not fair for banks to automatically blame customers when they lose money as the victims of scams. It is estimated that only around £60m of the total £240m lost through transfers to fraudsters last year was refunded by banks. With advances in technology and fraudsters launching ever more sophisticated scams, Caroline Wayman, chief ombudsman, FOS, highlighted the difference between 'carelessness' and 'gross negligence' on the part of customers when banks are dealing with reimbursement claims. "We also often hear from banks that their customers have acted with 'gross negligence' – and this means banks are not liable for the money their customer has lost. However, gross negligence is more than just being careless or negligent. And as our case studies show, the evolution of criminals' methods – in particular, their sophisticated use of technology and manipulative 'social engineering' – means it's an increasingly difficult case to make."

FCA appointment


MILLS

The Financial Conduct Authority (FCA) will have a new Director of Competition from November 2018. Sheldon Mills' current role is Senior Director, Mergers and State Aid at the Competition and Markets Authority (CMA), and his new position will see him look after promoting competition in consumers' interest. Speaking of his impending appointment, Mills said: "I am delighted to be joining the FCA to lead its expert and committed competition team. Financial markets face major change and complexity, so the FCA's competition work is essential. I amlooking forward to leading a programme of work which delivers real and lasting change for people and communities across the UK."

Young Banker **branches out**

The Institute's Young Banker of the Year 2015, Josh Greenway, launched a free business loan comparison platform, BIZL.co, in 2017. With around 90% of small businesses getting loans from their main bank, he felt there was a gap in making the market more competitive.

Earlier this year, the platform was accepted as a full member of the National Association of Commercial Finance Brokers (NACFB) and has over 20 lenders covering all aspects of business borrowing. Commenting on the news, the firm's Chief Operating Officer, Lewis Stuart, stated: "The NACFB's support will be a real help on our journey to revolutionise the business finance market."

Tackling **problem consumer debt**

A report from the National Audit Office, 'Tackling Problem Debt', has found that there are 8.3m over-indebted people (when someone becomes unable to pay their debts or other household bills) in the UK. The published figure for mortgage arrears is alarming too, with an estimated £15bn outstanding in 2018. And with around one in five (22%) of adults in the UK having less than £100 put away for a rainy day, it's clear that many would be plunged further into financial problems by an unexpected bill or payment. The report makes a number of recommendations for tackling this problem, and in May this year the FCA published its high-cost credit review which looks to address areas such as catalogue credit and unarranged fees on overdrafts. See page 33 for more on this.

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.

This issue will be the last in the current format but also the first to 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.

In preparation for the new format, we've undertaken 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 magazine with you in 2019.

Overview of **governance changes**

INTRODUCTION

Members will hopefully recall that at last year's AGM we agreed a draft new Royal Charter for submission to the Privy Council. As well as some general modernisation to bring our Rules and Regulations up to date, the four main changes proposed were:

1. Renaming the Institute as "Chartered Banker Institute", thereby making the existing working name the Institute's legal name (although we will retain the CIOBS name and trademarks too, for use in Scotland where necessary);
2. Altering the associated designatory letters currently provided for by the Rules to reflect that change of name;
3. Replacing our existing Council with a smaller Board of Trustees, comprising (as now) both member Trustees and independent Trustees; and
4. Establishing a new "Membership Forum" which will provide an opportunity for a much larger and more diverse group of members to get involved in the governance and strategic direction of the Institute, without requiring the very significant time commitment that the current Council/the new Board requires.

Our new Supplementary Charter has now been approved and we anticipate it will come into force by the end of the year.

NEXT STEPS

Once the Charter comes into force, we will formally begin to implement the changes – although work has already started behind the scenes on this.

The new Board of Trustees, which will replace Council, will take office at next year's AGM; in the time between the approval of our new Charter and our 2019 AGM, existing Council members will continue as a "Transitional Council".

This autumn, we will begin recruitment of Board and Membership Forum members, and have increased our Nominations Committee in size to help with this. We want the Forum in particular to reflect the broad diversity of our large and growing membership as much as we can. We'll be promoting this quite heavily – please do apply, and encourage colleagues and friends to get involved too. See advert on page 32 for more details.

KEY MESSAGES

Finally, there will be regular communication from the autumn, at the start of next year, and this time next year about the changes and in particular what they mean for members. The key messages are:

- This establishes us unequivocally as the professional body for bankers in the UK; and
- Our modernised governance arrangements will streamline decision-making whilst allowing a much more diverse range of members to get involved in our strategy and direction.

Update your details

All members of the Institute are required to ensure that we have at least one current e-mail or postal address where you may be contacted. This is so we can communicate with you, for example, to check subscriptions and other payments, confirm compliance with the Institute's CPD requirements or, in the case of students, issue materials and results. It also allows us to keep you informed of the resources and services available as part of your membership.

Please take a few minutes to login to the members' area at www.charteredbanker.com and check that your personal details are still correct. If you haven't logged in since our new website was launched in April, you will also be asked to update your marketing preferences to help us ensure we are meeting GDPR requirements.

Chartered Body Alliance – **party conferences 2018**

The Chartered Banker Institute has been working with CII and CISI, its partners in the Chartered Body Alliance (www.charteredbodyalliance.org), to organise two fringe events at this year's Labour Party and Conservative Party conferences. Both meetings were entitled "Who is watching the machines?" and focused on ethics in artificial intelligence (AI) and financial services generally.

First completion for Professional Banking Fundamentals

Rachel Corby from the Financial Services Institute of Australasia (FINSIA) is the first person to pass Professional Banking Fundamentals (PBF), which launched in May this year. PBF is the first of the Institute's internationally recognised Chartered Banker qualifications to be adapted for the Australian market. The Institute and FINSIA are working on a full suite of professional qualifications for Australia, and the possible launch of a standards board based on the UK model.

Learn it, **log it**

As the weather turns colder, don't forget to wrap up your 2018 CPD too. The CPD year ends on 31 December 2018, so make sure that you've logged your learning.

The number of CPD hours you need to complete and record depends upon your membership status. Please see our CPD Guide: 'Where will your career take you?' (https://bit.ly/2wwJGgv) to find out what your requirements are. Then login to your account at www.charteredbanker.com and click 'Log your CPD' on the member homepage to update your record.

Now is a perfect time to think about your career destination and plan your next learning journey. Where do you want to be this time next year?

Check out our online course 'Developing your professional career' to get you on your way. We have a whole host of other development goodies for you within our CPD resources. And if what's currently on offer doesn't appeal, simply send us your wish list:
cpd@charteredbanker.com

THE FUTURE OF DATA
WHERE NEXT?

According to the World Economic Forum, the global data market could be worth half a trillion dollars by 2024. With data being measured and regulated more closely than ever before, what does this mean for banking culture? SARAH LOWTHER investigates the challenges and opportunities presented by this new data-driven era.

POWER TO THE *people*

Has the introduction of GDPR and Open Banking caused a data dilemma? Could this be an opportunity for banks and their customers? The answer is all about trust.

"Data has become the single most valuable asset not only of banks, but of their customers," says Daniel Meere, MD of global management consulting firm Axis Corporate. "It also defines how a regulator views a bank under its supervision."

Data on customers has become as valuable as the customers themselves, adds Meere, and the rise of the data-specific banking roles, such as CDO and CISO, and the emphasis placed on data governance and security, is part of the focus on protecting, preserving and policing customer information and privacy.

New personnel appointments are just some of the responses to the data regulation changes this year. GDPR has revolutionised the way companies protect customer data, and Open Banking, in the form of the Second Payment Services Directive (PSD2), is financial services-specific, instructing banks to make customers' financial data shareable with trusted third parties if, and only if, the consumer gives permission.

In 2018 the banking industry is resolutely focused on regaining the customer confidence lost after the 2008 financial crisis and the data breaches that have occurred as a result of targeted attacks, whistleblowers or human error.

Rav Hayer, Banking Data and Analytics partner at PwC, is optimistic that data-specific regulation will be more than simply a restrictive measure. "GDPR should not be treated as a mandate – it should be treated as an opportunity," he says. "It has certainly brought a realisation that data is an incredibly valuable asset in financial, regulation and reputation terms. It's a major opportunity for a bank to become more customer-centric and to better react to the way customers evolve based on data insights and technological advances."

THE MOST IMPORTANT MARKETING CAMPAIGN EVER

Stephen Lester, Propositions Director at Paragon Customer Communications, believes that if the administrative side is executed thoroughly, the relationship between bank and customer can be refreshed and realigned. "Under the new regulation, banks need to gain freely given, specific, informed and unambiguous clear affirmative consent in order to email customers about their services. While the re-permissioning procedure may have been something of a struggle for some, the process of re-contacting existing customers has afforded financial institutions a unique opportunity to cleanse existing data and remove contacts who are not interested in their services and solutions, and concentrate on those who are.

"In this sense," asserts Lester, "re-permissioning is possibly one of the most important marketing campaigns banks will ever run. Held securely and in full compliance with legislation, customer data can provide a wealth of information that can be used to improve customer experience."

Rav Hayer agrees that customer data made available through Open Banking will help banks themselves to create opportunity through tailoring products and services to better suit customers – as long as GDPR is adhered to. While some bankers suffering from admin-heavy change fatigue may view Open Banking as a GDPR contradiction, Hayer disagrees: "There's a fundamental prospect with Open Banking. It's not a clash with GDPR; it's an opportunity to better understand and work with the customers, harnessing the power of the data available," he says.

"RE-PERMISSIONING IS POSSIBLY ONE OF THE MOST IMPORTANT MARKETING CAMPAIGNS BANKS WILL EVER RUN."

"GDPR allows for data portability, so this removes the notion of it clashing with Open Banking – or with PSD2, for that matter. Questions still remain, however, regarding an organisation's duty to redact sensitive data or obligations to delete data after a certain period of time when it comes to third-party providers."

The uplift in Open Banking is expected to be significant – PwC, for instance, estimates the Open Banking market could be worth £7.2 billion by 2022. With calculations like this, Hayer says, banks "need to be bolder", and to think about which other services the sector could add to the Open Banking ecosystem. "Lifestyle services and the

Internet of Things," he says, "are examples of opening up new revenue streams. Data monetisation is a significant opportunity, and organisations need to capitalise on this."

NO TRUST, NO ENGAGEMENT

In order for customers to fully engage with the developing digital ecosystem and its inherent opportunities, they need to understand and trust it. Just one month before GDPR was launched, IBM published its cybersecurity report, which revealed that 82% of UK respondents surveyed agreed with the statement: "If I don't trust a company to protect my data, I won't buy from them no matter how great their products are."

For consumers to regain confidence about how their data is managed there needs to be information and choice. The Catch-22 is that the consumer must give permission for banks to share their data with third parties. If not, choice remains undisclosed. The solution could lie in more personalised education and the launching of astute marketing campaigns, Lester suggests.

The public know about GDPR, but they are less familiar with Open Banking. The big incumbent banks have been ordered to put customer data in a standardised form so that people can see all their financial accounts in one place. This at-a-glance-intelligence is consumer-empowering, allowing customers to switch providers, for example. So far, HSBC has unveiled a connected smartphone app that lets consumers take advantage of that initiative. Santander has launched Open Banking integration with Moneybox, and ING has its FinTech app Yolt.

FinTech disruptors offering Open Banking initiatives are outnumbering the banks, and it is inevitable that the market share of established players will be eroded. "Major household names in the technology sector see Open Banking as a significant opportunity to make money from data and, similarly with PSD2, to be a payment provider," claims Hayer. "There is a major challenge to banks to evolve like the FinTechs and tech giants. We know traditional banks are thinking about setting up digital banks, but they will also have to think about how they adapt and flourish in the different digital ecosystems."

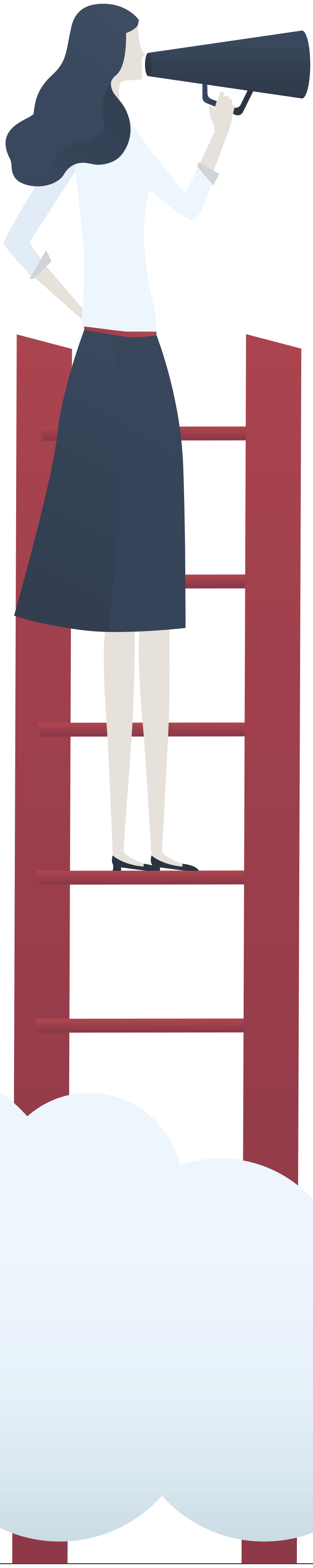
THE GENERATION GAME

While banks deliberate, more competition is coming online. David Llewellyn, Professor of Money and Banking at Loughborough University, says the speed with which the emerging ecosystem is adopted will be determined by the public, and the impact of Open Banking "will depend crucially upon how consumers react and on their willingness or otherwise to allow the sharing of data. These reactions may be different for different generations of consumers."

"While Open Banking and other technological changes can be expected to substantially alter most aspects of financial services," he adds, "this will be a process of evolution and adaption rather than a rapid disruption such as that of analogue film processing by digital photography."

He puts the pace of change down to likely consumer resistance to unfamiliar products and the slow process of co-ordination of regulations and standards. The unfamiliar will only become familiar through education, with 2019 being predicted to be the year of the canny financial services and data-savvy marketeer.

"MAJOR HOUSEHOLD NAMES IN THE TECHNOLOGY SECTOR SEE OPEN BANKING AS A SIGNIFICANT OPPORTUNITY TO MAKE MONEY FROM DATA."



TONE from the TOP

As banks work to embed advanced analytics in their DNA and leverage the value of customer data, what determines a healthy banking culture in the digital age?

Psychological safety over fear; remuneration and incentives; leadership and management capabilities; and assessing culture: all of these have been identified by the Financial Conduct Authority as ongoing thematic lines of enquiry. It's part of the dialogue initiated by the regulator in March and intended to speed up the pace of change for cultural transformation in financial services. It's pertinent that this culture in banking debate coincides with the digital transformation that is making the industry more inclusive for itself, its customers and its competition.

With digitisation and automation comes a volume of data, insights and intelligence that is becoming part of the banking culture in terms of how it is viewed, vaulted, valued and – in the crudest form – vended.

David Llewellyn, Professor of Money and Banking at Loughborough University, says banks have always been in the information business: "That is their comparative advantage, but historically they've only scratched the surface in developing that advantage and are now in a much better position to utilise data."

The current transformation in retail financial services, Professor Llewellyn says, depends largely on the consumer and on a willingness to transcend the divide between relationship and purely transactional banking. "Will consumers be prepared to transfer information from their bank account, which is implicit in the Open Banking model? It's important to distinguish between what is technically possible and what consumers want. Just because something is possible doesn't mean that's what we want."

The financial crisis, misselling and other scandals defined the banking industry of a decade ago, and there was a corresponding decline in trust. "We're not as confident in dealing with our banks as much as we once were," says Llewellyn. "Do we trust the culture of the bank?"

Liz Sandwith, Chief Professional Practice Advisor at the Chartered Institute of Internal Auditors (IIA), references the 2017 Edelman Trust Barometer which pointed out that the financial sector is still viewed as untrustworthy. She is hopeful that part of the solution lies in the IIA's remit to educate businesses about the role of internal audit in linking governance and culture to help rebuild that trust and also to "strengthen an organisation's reputation". Internal organisational audit, she stresses, contributes to the debate about culture, governance, compliance and reputation.

> **"A HEALTHY BANKING CULTURE** IS ONE THAT IS BASED ON A CLEARLY ARTICULATED HIGHER PURPOSE FOR THE BANK."

CASCADING CULTURE

"Culture should be set by the board and senior management team and should cascade through and be understood by all individuals within the organisation," she says. "We have seen a number of examples where the tone from the top is flawed – look at Oxfam and the halo impact that had. Contributions from the public fell around 35%, so culture isn't just important to an organisation – it has the ability to impact across the sector."

Feedback the IIA is receiving is that culture starts at recruitment. Sandwith says it's essential that individuals are recruited who share the organisation's values and embrace the culture. "One CEO I worked with felt culture was as simple as ABC – attitude, behaviour and consequences. In other words, if individuals don't demonstrate the right attitude and behaviours, there should be consequences."

A HIGHER PURPOSE

The concept of purpose is increasingly being incorporated into mission statements and corporate vision. Anjan Thakor, Professor of Finance at Washington University in St Louis, has researched organisational culture in banking. He has developed a framework for diagnosing and changing corporate culture in a way that more effectively supports the bank's growth strategy and induces behaviour that enhances financial stability. "A healthy banking culture is one that is based on a clearly articulated higher purpose for the bank; a prosocial contribution goal that transcends usual business goals but intersects," he says.

"It should emphasise high capital in the bank and value safety over 'reckless' growth. Compensation packages for executives should be aligned with this culture." He gives the example of "just compensating loan officers based on loan growth is inadequate".

MEMORIES ARE SHORT

Chris Bailey, founder of research consultancy Financial Orbit, says the profit incentive remains at the core of any financial institution but not as intensely as it was prior to the global crisis of 2008. "Compliance cultures are more appreciated and risk exposures are better understood, although the complex, dynamic and opaque web that underpins any financial sector company will always provide uncertainties," he says. "The shift to deferred incentive compensation regimes with longer vesting periods and the expunction of such benefits at the time of leaving a company should help these efforts.

"However, memories fade slowly and senior managers who themselves rose through the ranks during more risk-embracing epochs are still susceptible to business routines which will become unstuck during cyclical downturns. A managerial ethos of equally questioning material positive and negative shifts in operational performance/market share has to become central to all financial sector institutions."

Liz Sandwith agrees that the values, policies, attitudes and behaviours set out by management require proper monitoring, and questions what type of behaviour is being driven by performance-based rewards. "The Wells Fargo Bank was a recent example where performance-based rewards drove the wrong behaviour. If the lessons at Toshiba and Wells Fargo and perhaps now Carillion have taught us anything, it's that the existence of an inappropriate culture can be dangerous to an organisation and its employees."

"IT'S IMPORTANT TO DISTINGUISH BETWEEN WHAT IS TECHNICALLY POSSIBLE AND WHAT CONSUMERS WANT. JUST BECAUSE SOMETHING IS POSSIBLE DOESN'T MEAN THAT'S WHAT WE WANT."

Against the backdrop of old habits dying hard, the adoption of internal audits and the embracing of organisational culture, which skills do today's leaders need in order to cultivate a healthy banking culture?

Sandwith advocates being proactive. "The IIA is hearing from members and SMEs that organisations need to prepare for incidents, be it a regulatory breach, a cybersecurity event or a change in senior management, such that in the calm before the storm they have their 'story' for the media and customers. Preparation of a business resilience statement can contribute to reducing damage to reputation."

Thakor circles back to purpose and how leaders need to understand what a corporate higher purpose for the bank means, how to imbue the bank with it, and the levers they need to pull in order to change culture. Most importantly, he stresses, they should understand the value of having high capital in the bank of an equity-to-assets ratio of 15% or higher.

HYBRID MODEL IN ITS GENESIS

While the views of Thakor, Llewellyn, Sandwith and Bailey should be universally recognised as wholesome common sense, Simon Thompson, Chief Executive, the Chartered Banker Institute, is worried that some of the messages may be lost due to the distraction of digital transformation. Banking, he says, will primarily be shaped by data, technology and myriad digital channels; a hybrid banking model where bankers and regulated technology work alongside each other is in its genesis.

He's keen to ensure customers are not viewed as mere 'data collection points' and to that effect the Institute has developed the Advanced Diploma in Banking and Leadership in a Digital Age to prepare future generations of bankers who, in addition to learning about technology and data, will be educated about the core banking skills of credit, risk, regulation, banking operations and professional ethics.

Thompson says it's essential the industry doesn't just focus on the digital and the data and on the technology which should underpin and not determine the service which is banking. "The challenge is training future generations of bankers at all levels, from service officers to chief executives, to be able to understand what the deployed technology is, how the deployed technology works, how it arrives at the outcomes it does, what inputs it needs, and to be able to demonstrate that the outcomes are genuinely in customers' best interests."

In essence, he wants to ensure the industry avoids a bias or other ethical issues that can creep into technology, and reconcile the advancement of technology with the restoration of trust. CB

Personalisation: from novelty to necessity

As the data culture establishes itself, so too does the requisite etymology and classifications associated with the new paradigm. There's the 'Me-Me', the 'Advice is Nice', the 'Discounter' and the 'Function Favourer'. All are categories of personality types willing to share their data in exchange for commercial benefits. They've been identified by data-led trends agency Foresight Factory and encompass those who will share data on varying scales in return for a range of personalised advice, relevant discounts and improved product suggestions.

Another term entering the data-driven lexicon is 'hyper-relevance', which is referenced in Accenture Strategy's Global Consumer Pulse research. This established that nearly a third of consumers expect the companies they engage with to know more about them, while two-thirds are willing to share personal information with companies in order to make those organisations 'hyper-relevant'. Data divulgence will only occur if there is a perceived value exchange, however.

Lesson one in the value exchange, according to Stephen Lester, Propositions Director at Paragon Customer Communications, is about basic manners. "Using an individual's name is crucial to winning people over; it demonstrates that they are valued and that the message to be delivered will be important to them. Despite regulations surrounding how banks hold and use data, today's customers are savvy. They know that a wealth of information about them is available and they expect organisations to use it wisely."

Lesson two, says Lester, concerns timing. "Personalisation is about more than addressing something to the right person; it's about reaching that person at the right moment and in the right manner in order to deliver timely and relevant messages." The challenge, he adds, is in identifying an individual's preferred way of being contacted, be it by direct mail, SMS or email, and at what time of day they are most likely to respond. "These insights into preferences and behaviour can be achieved through analysing data and responses such as opens, clicks and landing-page visits."

Another key skill identified by Lester is the one governed by listening. By listening to how people respond through a variety of touchpoints, he suggests, banks can glean a far better understanding of what matters to their customers and use this to speak to them in a relevant, engaging way.

"BANKS CAN GET TO THE HEART OF PEOPLE'S RELATIONSHIP WITH MONEY BY BETTER ANTICIPATING CUSTOMERS' NEEDS."

OWNING THE INTERACTION

Abhijit Deb, Head of Banking and Financial Services in the UK and Ireland at professional services company Cognizant, says banks, card issuers and lenders have been doing just that for several years and are pushing the boundaries of personalisation to try to understand and own their customer interactions. "Apart from the fact that personalisation promotes customer loyalty and better opportunities for cross- and upselling, financial services providers realise that they need to go beyond simple transactional relationships and move to a lifestyle-based banking model, where they are at the centre of any financial decision their customers make."

He suggests two key elements sit at the foundation of personalisation in banking. Through collaboration with behavioural experts, banks can get to the heart of people's relationship with money by better anticipating customers' needs. Secondly, he says, are the advanced technologies that capture and analyse customer and transaction data. "Other sectors such as retail, travel and hospitality are already using such data analysis – beacon technology is enabling retailers to send personalised offers directly to shoppers in their stores, for example," says Deb. "Banks are now investigating how data can be coupled with beacon technology to improve the customer experience in branches; this makes the experience frictionless and targeted, without being intrusive."

USING GEOSPATIAL DATA

This year's GDPR regulation was aimed in part at eliminating intrusion, and both Lester and Deb agree that, in accordance with the new legislation, information held by organisations must be kept securely and only after the correct permissions have been sought.

Today's consumers expect their bank to understand and even anticipate their needs, delivering personalised, tailored solutions. But do they see real value in the data exchange?

"Banks must ensure that their ever-more personalised services adhere to strict data privacy rules," says Deb. "For example, financial services providers are looking at using geospatial data, which can be easily accessed from mobile devices, to inform the customer about the best car loans on offer when they are at a car dealership, say. While certain customers might find this relevant and timely, it could equally lead to distrust in some customers' minds about how their bank is accessing their data and why. However, regulations such as GDPR and high-profile scandals, such as that surrounding Cambridge Analytica, are helping to define acceptable practices around data-sharing, permissions and renewing customer consent, all of which banks, as well as marketers, will have to adopt and adhere to."

Peter Kirk, who leads Accenture's Financial Services Distribution and Marketing practice in the UK, says consumers want natural conversation with a bank that understands their needs and acts in their best interests, while keeping their data safe and secure.

"We know that customers have evolving attitudes towards the privacy of their personal data and banks will be keenly aware of the need to let the customer retain control and to be careful not to cross the line from convenient to intrusive," he says. "The next challenge is how banks provide convenient customer experiences that blend human and digital services to stop them becoming faceless and putting trust at risk."

> **"FINANCIAL SERVICES PROVIDERS REALISE THAT THEY NEED TO GO BEYOND** SIMPLE TRANSACTIONAL RELATIONSHIPS AND MOVE TO A LIFESTYLE-BASED BANKING MODEL."

POCKET-SIZED BANKING

Developers worldwide have been listening, creating solutions devoted to personalisation based on timing, convenience, behavioural expertise, neuro-linguistic programming and data insights. One such solution is Finn AI, an artificial intelligence-powered virtual assistant built for personal banking and finance, which aims to 'put a personal banker in every bank customer's pocket'. In June it launched a collaboration with digital payments provider Visa Canada, with customers serviced by conversational banking chatbots.

Dr Kenneth Conroy is Finn AI's VP of Data Science. He explains that the AI-powered, conversational platform system delivers value by being able to handle and reduce a high volume of simple customer service and bank interactions from call centres. For the consumer, the likelihood of being kept on hold or passed from department to department is eradicated, with the human customer support representatives freed up to focus on higher-value interactions.

Will the chatbot solution transcend from novelty to necessity – or has it already done so? "Chatbots are like phones," says Conroy. "They're more of a utility than a necessity. It allows us to have the ability to 'always be on the line', meaning that no matter how much time has passed, our information and interactions will always be saved on file. So the next time a user engages with the chatbot, they're able to pick up the conversation where it left off. Right now, interacting with a chatbot is viewed as a novel option to connect with one's bank. However, as digital becomes more entrenched as a preferred mode of communication, especially with millennials and Gen Zs, chatbots and other digital platforms will become a necessity for any business looking to engage proactively with these audiences."

The debate returns to data exchange and whether an organisation – in this instance a bank – has hyper-relevance to a consumer who expects value-add. Conroy says chatbots can enable banks to provide a truly holistic, mutually beneficial, conversational approach to managing users' money. "Focusing solely on banking allows our system to truly understand what bank customers want to do, and also enables banks to proactively engage in the form of money management recommendations to users. This occurs in the form of push notifications, reminders or nudges in order to encourage behavioural changes."

Will those changes result in the demise of overt data divulgence by the consumer? Sharing is now far more subtle, with Conroy revealing that by leveraging Finn AI's intelligent system, banks can increase proactive engagements with users by providing personalised recommendations and insights, without necessarily requiring more personal data. CB

EXPLORING THE SUPER-APP UNIVERSE

With a billion monthly active users, social and commercial app WeChat is expanding its payment platform beyond China. What can the UK banking industry learn from this Asian digital ecosystem?

During his career as an asset fund manager, Chris Bailey, founder of global investment research consultancy Financial Orbit, has been a frequent visitor to Asia. "A trip to any major Chinese city appears at face value to be a step into a new super-app consumer world," he says. The rapid emergence of Alipay and WeChat Pay in the Chinese financial system is, he believes, due to the "lack of natural banking sector digital expertise and payment infrastructure in an emerging market".

Simon Thompson, Chief Executive, the Chartered Banker Institute, concurs: "The difference in China is that the majority didn't have access to banking until recently and now, due to the initiative of Jack Ma and his Alipay, there is almost universal financial inclusion."

USER EMANCIPATION

Samuel Murrant, Senior Analyst, Payments, at GlobalData, believes the industry in the UK can learn from China's example, but he doesn't see the market here developing in the same way, as a result of the UK's pervasive card infrastructure. "Essentially, these electronic payment ecosystems grew up without a rival ecosystem based on cards to compete with," he explains. "It was cash or nothing, and now it's cash or mobile, moving to mobile-only."

Murrant says it will be difficult to 'crack' established consumer behaviour in the UK by giving people a way to pay in store via mobile. That already exists. Instead, he says, there's more to learn from the WeChat model with its blend of interaction and commerce. "For the UK, the super-app platform would need to come first and payments would be integrated into it."

TRANSFORMING EXISTING UK INFRASTRUCTURE

The issue facing the banking industry here, says Simon Thompson, is how we transform all the existing infrastructure: "The UK is managing a transition that China and Indonesia did not have to face, such as the retrofitting of an existing culture and infrastructure. The great majority of UK consumers use credit and debit cards, and many still even use cheques."

Daniel Meere, MD of management consultants Axis Corporate, observes the marketplace banking concept in Europe is now piecing together the collective drive for frictionless transactions, customer choice and better technology. In the UK, he adds, "The Open Banking standards have pushed this concept. Banks are finding their under-pressure business models can use the marketplace to generate new sources of revenue through better use of data – matching customers to relevant products, filling gaps in their product offering and tailoring pricing based on better insights. As the sun sets on legacy systems, the smart-app future in financial ecosystems looks bright."

PRICELESS INSIGHTS INTO PRIVACY PROVISION

The shadow of data breaches, though, is ever-present. Data safeguarding and privacy have become banking's metaphorical bogeymen in 2018. Bailey remains sanguine, however. "Privacy concerns will have to be addressed, although the growth of contactless payment mechanisms over recent years should have provided priceless insights."

> "AS THE SUN SETS ON LEGACY SYSTEMS, THE SMART-APP FUTURE IN FINANCIAL ECOSYSTEMS LOOKS BRIGHT."

The major insight for UK banks, he argues, is that inexorably local consumers will rapidly become extremely comfortable with such payment techniques and that ensuring a technological capability in their customer offerings has shifted from important to essential. "Failure to do this opens up the opportunity for newer players to take significant share, piggybacking off the UK's existing payment infrastructure operators."

The UK has high mobile penetration and a consumer base that is increasingly app-confident, so how can the country's legacy systems be transformed as Thompson asks? Meere argues that banks' legacy systems are not up to the challenge of getting to the data they hold. Banks are therefore reliant on the agile methods of technology partners "to create flexible, scalable platforms to help them extract, cleanse and present data to make it useful," he suggests. "This significantly impacts cost, as infrastructure is effectively outsourced to the partners, as is the ongoing investment in maintaining regulatory compliance."

A NEW PARADIGM AND MINDSET CHANGE

Ecosystems rely on strong partnerships based on an alignment of objectives, robust standards and interoperability. "This is a completely new paradigm for banks," adds Meere. "They are used to being 'owner/operators' of their own infrastructure and building in-house rather than buying in from the external market. The question is, can a bank truly be assured that it is better than the leading technology firms at their own game?" The change in mindset required is significant, argues Meere, which explains the delay in uptake.

Thompson argues that none of this will work effectively without banking professionalism. "It worries me if we don't have a banking system with professionalism at its heart," he says. He stresses that banks and bankers of the future must, of course, understand digital tech and how to work with digital channels and must not forget that technology supports the delivery of banking services.

Propositions with purpose

Could FinTech be an agent of social and environmental change? SARAH LOWTHER investigates.

Two billion people around the world do not have a bank account, with 1.5 million of those in the United Kingdom. What causes these people to remain unbanked is down to a variety of factors, such as eligibility, accessibility, desire to own, and the ability to manage an account. FinTech – technologies and innovations including smartphones, blockchain, artificial intelligence and machine learning – has the potential to be a social and economic equaliser, enabling the unbanked to gain access to the benefits of having an account of their own.

WITH GREAT POWER…

With technical progress, transformation and associated opportunities comes responsibility – a responsibility to ensure that FinTech does not inadvertently create a divide between the haves and the have-nots; and that it will empower the economically disadvantaged and assist sustainable development. Central to this is the question that banks, government agencies, financial agents of change and software developers are considering: what is the purpose of FinTech and who should it serve?

Anna Laycock is Executive Director at the Finance Innovation Lab, an organisation dedicated to creating a financial system with a social and environmental purpose. "We see many FinTech developments as 'status quo innovation'," she says. "They add a better user experience or a more efficient back-end, but they don't fundamentally change the way finance works for individuals or communities."

Laycock's 'status quo' is based on an analysis of what she sees as the maintenance and beautifying of existing business models and power relations in traditional retail banking. More inclusive innovation is required. This comes just two years after the Financial Conduct Authority used three metaphors to describe the difficulties consumers had in accessing financial services. Physical and digital barriers were described as 'The Void'; complex bureaucratic procedures were 'The Maze'; and 'The Fog' referred to a lack of transparent and simple information, hampering understanding.

A CALL FOR DATA CLARITY

The implementation of the General Data Protection Regulation (GDPR) in May spawned FinTech cloud-based solutions to assist companies understand the intricacies of what the regulation was demanding of them.

"BANKS' FINTECH FOCUS IS PREDOMINANTLY ON CUSTOMER CONVENIENCE, BUT THIS IS NOT WHERE THE TRUE TREASURES OF FINTECH AND GREEN FINTECH ARE TO BE FOUND."

The challenge remaining for banks and other B2C organisations is how to explain to the customer how their personal data is used. There's only one way at present, and that's the text-heavy, long-handed way.

Paul Clark, Chief Technology Officer at Tandem Bank, points to the Consumer Credit Act 1974 which regulates credit contracts and largely dictates what a bank tells its customers. "It's a beast of a document and in practice few people will read and understand it in full," he says.

The digital challenger bank, which operated under the working title of 'The Good Bank' while it was being set up, and which has a base of more than 10,000 co-founders, is committed to clarity. "Customers' data protection rights are set out in Tandem's privacy policy in language that people can understand; it explains what data is collected, how it is used and how a customer can correct it or have it deleted.

"When we request information as part of customer registration, we do our best to give the context for why we want this information and what we'll use it for," emphasises Clark. "This way, people know what they're signing up for and how they stand to benefit."

THE SMALL PRINT

There's an expectation that the customer reads everything in full – but do they? Who really reads the small print? Anna Laycock remains concerned about 'weak consent', where the user doesn't understand how their data is used, shared and stored. "We know people don't read terms and conditions," she says. "The problem is now compounded by the lack of understanding of data-use and business models. The website Doteveryone.org.uk, for instance, has found that 70% of people don't realise a free app will be using and/or monetising their data."

Laycock references the FCA's Duty of Care discussion paper released in July. It's exploring whether a specific duty of care requirement for firms in financial services could enhance good conduct and culture and provide additional protections for consumers. "Many compliance departments seem to assume that more information equals more understanding, or that boilerplate warnings will be read and understood. We'd like to see new tech used to ensure that people are presented with

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clear, concise, relevant information about their contractual obligations at the point where it will have most meaning for them. Can banks and FinTechs work together and with the regulators to test and refine this?"

Clark highlights one of Tandem's relevant FinTech solutions: "We can use a customer's data to see if they're going to break even at the end of the month; if they're not, we can proactively suggest ways for them to make savings, be that switching to a cheaper utility provider or cancelling a streaming subscription that has increased in price."

Tandem's app aggregates every bank account owned by a customer into one place. Insight gained from that data then assists in the creation of financial products and features aimed at helping customers manage their money better.

DIGITAL EXCLUSION?

Laycock returns the conversation to the socially disadvantaged. "Much of the FinTech sector is focused on the wealthy or on millennials, as a more attractive target audience in terms of profit and scaling." She wonders whether enough products are being designed for lower-income customers who don't have smartphones or who have to rely on public Wi-Fi. "Will this create a new form of financial exclusion where people can't access services that have been designed on the assumption we all have the latest smartphones and always-on 4G?"

The flagging of public Wi-Fi access is a critical one. Consumers using less sophisticated handsets could be vulnerable to identity theft and fraud. Public Wi-Fi can expose the user to unencrypted networks. If the consumer's information is unprotected, criminals eavesdropping on Wi-Fi signals can access everything the user is doing online.

MORE INTERACTION

Floris Kleemans, the former Head of Strategy at ABN AMRO and the founder of the FOCAFET Foundation, agrees with Laycock's assertion that FinTech isn't transformative enough at the back end, but he also offers another viewpoint: "Banks' FinTech focus is predominantly on customer convenience at the front end. This is nice but it's not where the true treasures of FinTech and green FinTech are to be found. With such an approach, banks remain legacy-constrained, IT spaghetti-bound, costly and slow-moving operators."

"WE SEE MANY FINTECH DEVELOPMENTS AS 'STATUS QUO INNOVATION'. THEY ADD A BETTER USER EXPERIENCE OR A MORE EFFICIENT BACK-END, BUT THEY DON'T FUNDAMENTALLY CHANGE THE WAY FINANCE WORKS FOR INDIVIDUALS OR COMMUNITIES."

Kleemans understands and sympathises with banks and what he describes as the focus on three-to-six-month profit targets and 18-month timelines to introduce change. He argues that for the creation of a 'oneness', banks must look at design and architecture that allows information to communicate directly with other information unimpeded. "With the right, 'rigidly agnostic approach', for instance, and the use of ecosystem-neutral and open identifiers such as 'virtual addresses', FinTech can remove IT spaghetti and legacy. It will make banks agile, fast and scalable again in functional interoperability. With that renewed agility, speed and scalability, a lot more interaction and sustainable value can be created."

SHARING THE VALUE

The concept of 'oneness' interests Laycock: "How can we share in the value of our data rather than give it away to companies who will use it to generate value for themselves, but not necessarily share this value with the public?" she asks.

Kleemans is hopeful he has found a solution and one that's not too dissimilar from the worldwide web's research-sharing purpose when it was created almost 30 years ago. Today, FOCAFET is creating a free-to-use internet protocol that allows information to interact directly with other information on an open source data, open intellectual capital basis. He describes it as a new 'internet of entities' or 'virtual internet', in which everyone and everything can interact with the use of virtual addresses. In working proofs of concept, 'everyone and everything' can concurrently interact with each other in over 80 languages.

FINTECH FOR SUSTAINABILITY

In a FinTech innovation recognised as capable of supporting sustainable development, FOCAFET is working with several international companies and banks on a virtual barcode that provides a product-centred shared data solution with customisable information access and controls in the supply chain. Banks can collateralise products through the virtual barcode and provide finance to low-income producers that currently do not have access to finance.

It is a collaborative change in approach rooted in a commitment to social and economic good. Kleemans concludes: "Beyond technology, FinTech is also about culture and principles. I would consider FinTech to be a result of the smart combination of recent technologies and concepts into new propositions."

And it is propositions with purpose that could become FinTech's motivation, fostering universal relevance. CB

All inclusive?

Financial inclusion is on the rise globally, but account ownership varies dramatically: from 9% in South Sudan to 100% in countries such as Sweden. How can organisations not only extend access to the remaining underserved population, but ensure that it is genuinely useful?

Globally, 69% of adults – 3.8 billion people – now have an account with a bank or mobile money provider, according to the World Bank's Global Findex database. While in some economies account ownership has surged, progress has been slower elsewhere – often held back by large disparities between men and women and between the rich and poor.

In the UK, basic bank accounts have been available for over a decade. A voluntary agreement in 2014 marked a commitment from the nine largest personal current account providers to improve basic bank accounts and, in 2016, a further agreement was designed to standardise and extend their availability. All nine, along with some other banks not covered by the agreement, now offer basic bank accounts that are 'fee-free' for standard operations, including a failed payment.

This major agreement between government and the banking industry was hailed as a positive step towards helping the 1.5 million adults who, according to the University of Birmingham's Financial Inclusion Annual Monitoring Report 2017, lacked access to basic banking services.

GET THE BASICS RIGHT

But, stresses Joanna Finlay, who won the Chartered Banker Young Banker of the Year award in 2017 with her project to boost financial inclusion, the introduction of these accounts alone has not been enough. This, she believes, is because the existence of basic bank accounts does not ensure that people are aware that they are entitled to apply and face no barriers in doing so." Additionally, as authors Karen Rowlingson and Stephen McKay point out in the aforementioned University of Birmingham report, "having access to a bank account does not in itself guarantee that it will be useful or be used".

Finlay saw this at first hand: "Through listening to previously homeless people and the

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charities supporting them, I became deeply frustrated that the reality was that those who could benefit most from having a basic bank account were often unable to apply."

ELIGIBILITY AND ACCESS

The reasons why individuals remain unbanked are complex, with common factors including accessibility, desire to own, the ability to manage an account and eligibility (see page 23). Finlay chose to start with the latter, working with charities, banks and homeless individuals to overcome the mutual challenges around verifying a potential customer's proof of address.

"If we can help people without proof of address to access banking services, receive legitimate income, pay rent and bills electronically and escape the poverty premium, this can support their rehabilitation, in turn enabling the charities to get more people off the streets," she explains.

Finlay's solution sought to tackle the underlying issue: trust. Without trust, she insists, "There is little hope for those outside our system." She identified two areas in which trust needs to be built: "On the one hand, unbanked people are often wary of banks, not believing themselves to be welcome as customers." On the other, banks can be wary of non-standard forms of identification due to the risk of fraudulent applications and potentially serious repercussions of having unsatisfactory AML defences, she says.

While many banks will in principle accept a letter of introduction, Finlay found the reality was that branch staff did not always recognise this as an acceptable proof of address. Similarly, charities and homeless individuals applying for a basic account were largely unaware that it could be used. Aside from these apparent communication problems, the verification process has inherent flaws in terms of both efficiency and risk, she points out, as it relies on the retrospective assumption that the author is legitimate and trustworthy.

TRUSTED PARTNERS

To overcome these challenges, Finlay created a solution based upon building personal relationships between branches and charities and thus creating a space for trust to grow. "This approach enables us to satisfy our need for identifying each applicant via a trustworthy, independent source, reduces the risk of fraudulent applications and account misuse, and ensures that branch colleagues and charities are not only aware of the solution, but empowered to use it."

> **"I became deeply frustrated that those who could benefit most from basic bank accounts were often unable to apply."**

While she accepts that, as a manual process, this might be seen as cumbersome, digital options to trace the letter's source to the relevant homing charity manager proved cost-prohibitive within the context of the competition. "Opportunities to make the process slicker should not be an excuse for not starting today," Finlay stresses. "The simple forms we are piloting aim to take the guesswork out of providing and verifying these letters."

ACCESS FOR ALL?

It is through intelligent, adaptable technology that Pockit, a FinTech which describes itself as a 'digital current account, not a bank', aims to revolutionise access to banking. A central part of this approach is its recognition that, when it comes to KYC, there is no one-size-fits-all. Customers have diverse needs, stresses CEO and co-founder Virraj Jatania. One person might, for example, struggle to provide proof of address because they have recently moved to the UK. Another might be in temporary housing or unable to afford expensive forms of ID such as a passport. "That's why we've streamlined our process to ensure that it's easy to use and incredibly accommodating of individual situations," says Jatania.

Pockit will grant customers a basic bank account no matter what, he explains, always striving to provide them with the fullest access to its services at their point of sign-up. "But if we can't do that, we make it as easy as possible for them upgrade to our full suite of tools for free." To do so, customers can simply send a selfie and proof of ID. "We do our best to accept alternatives to traditional forms of ID, such as letters from the government, and also accept in-person verification with partner organisations such as homelessness charities once we've satisfied due diligence requirements." A big part of the process is always making sure that there's a human on the other end of the phone. For Jatania, improving financial mobility is ethically the right thing to do. But, he explains, it also makes business sense for Pockit. “Two million UK consumers are unable to access even a basic bank account, and millions more are left stranded by high-street banks in other ways: isolated by branch closure, unable to access affordable credit, reliant upon unarranged overdrafts, or otherwise trapped by a lack of basic services.” Historically, retail banks have extracted the highest value from their most affluent customers, he notes, meaning that recruiting customers on low incomes is effectively disincentivised. This cycle has created a huge gap in the market, so it “makes sense for Pockit to meet the burgeoning demand”.

THE POWER OF PARTNERSHIPS

Jatania recognises that challengers like Pockit benefit from the agility that is inherent in startup business models, yet he also highlights the mutual benefits of partnering with larger players. “Our size allows us to be flexible and resilient and to roll out radical internal change at pace where necessary,” he explains. The UK regulatory environment could certainly be more conducive to supporting vulnerable customers, he believes; “But as Pockit develops we are finding policymakers increasingly sensitive to this market.”

Pockit has itself benefited from partnerships with larger, more traditional financial services firms, but there are learnings to be found on both sides. “A great example is our work with Experian,” he says. “We share customer insight and best practice, but also develop each other’s perspective on the best ways to tackle industry challenges.”

SOLUTIONS AT SCALE

While it does not have a UK retail presence itself, Citigroup’s global experience underlines the importance of strategic partnerships in tackling financial exclusion. “People don’t wake up in the morning wanting to get banked,” says Bob Annibale, Global Head of Financial Inclusion at Citigroup. “Instead, individuals have real, practical needs and our approach at Citi is to create solutions for as many people as possible.

"New entrants and innovation are constantly creating new opportunities to better address the needs of the unbanked and underserved," he adds. "The most powerful models that we have seen globally are partnerships – sometimes between unlikely parties and banks – that allow these solutions to be scaled."

Citigroup, the ‘World’s best bank for financial inclusion 2017’, according to Euromoney, put this into practice in Mexico.

> **“People don’t wake up in the morning wanting to get banked. They have real, practical needs that require solutions.”**

There it operates as Citibanamex, forming a joint venture with the country’s largest mobile network operator, América Móvil. The resulting mobile payments operator, Transfer, removes the need to visit a traditional bank branch by hosting simplified digital bank accounts – together with integrated, in-app financial education tools – that people can open via the network or their mobile phone.

In 2017, through a distribution partnership with convenience store chain OXXO, the bank opened an average of more than 8,000 new Transfer accounts every day. That year alone, more than three million Mexicans set up a Transfer account, 85% of whom did not previously have a bank account. By 31 March 2018 more than seven million accounts had been opened, performing over 20 million transactions per month.

INCLUSIVE GROWTH

But it was after many years of philanthropic contributions to financial inclusion that the bank realised it could contribute most if it brought its business to bear, says Annibale. As a result, Citi Inclusive Finance was created as a specialised industry unit with the business. "Our work is not only focused on serving individuals through products like Transfer, but also enabling corporate, government and other institutions who serve low-income customers directly achieve scale."

To achieve this, he explains, Citi’s businesses around the world work with banks, corporates and non-profits on lending, transaction banking, capital markets and IPOs to create efficiencies and drive more capital and diverse investors into the sector. Inclusive growth is an area that is also increasingly important to the bank’s clients, regulators and employees.

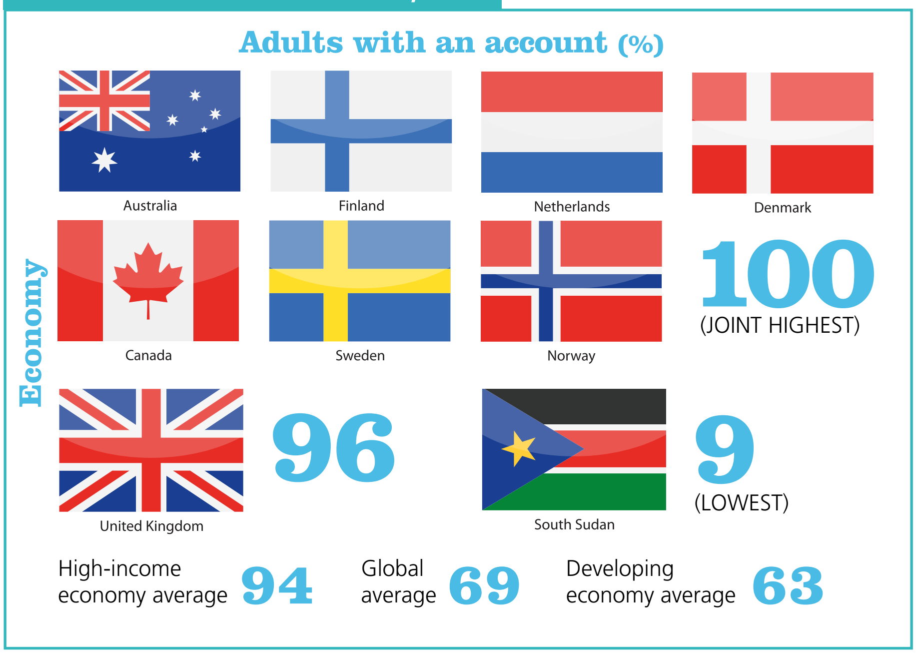
TOWARDS ‘TECH TOUCH’?

Whether customers are affluent, millennial or low-income, the way they interact with finance is converging, notes Annibale. “Game-changing technology such as smartphones may have contributed to a decrease in the use of branches as a primary means to access financial services, but we must remain mindful of the clients that we are trying to serve.”

While smartphone-only solutions have proven very successful in some countries, often leapfrogging traditional banking services, they are not appropriate for everyone and every market. In the UK, for example, an estimated 600,000 of the 1.5 million financially excluded adults are older people, highlights Annibale, and around a third of over-80s have either never used a cash machine or prefer to avoid them.

“From our global perspective in financial inclusion we are seeing the emergence of tech-touch solutions that combine technology and a local presence to create efficiencies and maintain connectivity to communities.” CB

GLOBAL ACCOUNT OWNERSHIP, 2017



Source: The Global Findex Database 2017

CHARTERED
BANKER

POSITION:

Chartered Banker by Experience – ASSESSOR

The Chartered Banker Institute has recently launched Chartered Banker by Experience, a flexible and accelerated route to Chartered Banker status for experienced banking professionals.

The Institute is looking for qualified members who are enthusiastic about sharing their knowledge, skills and experiences with the next generation of bankers. The appointment will be on a self-employed basis.

If you are interested in becoming more actively involved with the work of the Institute, we would like to invite you to consider joining our team of Assessors for Chartered Banker by Experience.

You will be responsible for supporting candidates to reflect on their experience, expertise and professional practice and undertaking the assessment and approval of candidates. The assessment involves the preparation of a Critical Self Evaluation document by candidates and the completion of a Professional Ethics assignment.

Candidates will also make a presentation lasting around 30 minutes and participate in a professional discussion with the assessor, lasting for up to two hours, designed to give candidates the opportunity to demonstrate in detail how their experience as set out in their Critical Evaluation, and their banking knowledge and skill in general, meets the Institute's requirements for the award of Chartered Banker status. The assessment will be undertaken preferably as a face-to-face meeting.

This opportunity would be ideal for individuals who are either in full-time banking employment or who perhaps have recent banking experience. Chartered Banker by Experience assessors will typically be professionally or academically qualified with at least ten years' work experience in a relevant part of the banking sector.

QUALIFICATIONS AND EXPERIENCE REQUIRED:

- At least ten years' experience in the banking sector
- Be a Chartered Banker or have suitable professional or academic qualifications
- Experience of training management or mentoring of staff would be advantageous
- Assessor qualification would also be advantageous, although training will be given

WHAT DO I DO NEXT?

Please send your CV and a brief supporting statement, outlining the personal skills and attributes that you would bring to the position to: **sophia@charteredbanker.com** by **1 November 2018.**

BIG DATA *meets* BIG BROTHER

Technology to reduce harmful gambling promises to deliver social good. But how far should banks go to control customer spending? And are we edging closer to China's 'social credit' system, which scores consumers on good or bad behaviour?

With so much valuable customer data available to banks, the question of ethics is never far away. Every financial transaction leaves a digital footprint that can be accessed – and shared. So how should banks be using this data?

It's a question that the gambling and betting industry has been examining in depth. Once characterised by smoke-filled bookies frequented by men, the industry and its demographics have been transformed by online gambling.

Today, more than half of the UK's gamblers – 51% – place bets using mobile phones and tablets, according to research from the Gambling Commission, which regulates the industry to safeguard consumers. The commission also finds that 41% of women and 48% of men have gambled in the past four weeks, while 97% of online gamblers gamble at home.

So technology has widened access to gambling and made it available 24/7. But technology can also help – particularly where online gambling has become a serious addiction. This is an issue that challenger banks Starling and Monzo have taken steps to address.

SELFLESS TECH?

Starling has introduced a voluntary gambling blocker feature on its app which allows customers to stop their card being accepted for betting transactions.

> **"CONSUMERS MIGHT NOT UNDERSTAND** HOW VALUABLE OR SENSITIVE DIFFERENT PARTS OF THEIR DATA COULD BE."

For someone who's looking to curb their addiction, this is a much easier process than contacting all the places they may be tempted to place bets and asking each one individually to refuse their card.

Monzo is developing a similar feature and meantime signposts customers who tell it about a gambling problem to sources of support including GamCare, a charity providing free software that blocks online gambling sites.

Both banks cite research from the Money and Mental Health Policy Institute, an independent charity committed to breaking the link between financial difficulty and mental health problems. It found that placing an obstacle between people and the sites they find problematic can be a useful first step in helping users regain control over their financial lives.

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"This research, combined with conversations with customers, has led us to launch this feature which gives all customers the choice to block spending by card on gambling and betting," said Starling Bank when it introduced its merchant blocking feature. "This includes betting shops and horse-racing tracks, as well as gambling websites such as online casinos and betting exchanges."

Starling believes other banks will follow suit, but feels wider support for problem addiction must be left to specialists. "We are a bank, not trained addiction counsellors," says Alexandra Frean, Starling's Head of Corporate Affairs. "However, we want to offer customers a tool that helps them make a positive choice about how and where they spend their money."

OPEN ETHICS

On the wider ethical considerations of monitoring how customers spend their money and sharing account details with other providers, Starling feels the industry has a duty to ensure that customers give informed consent. "This is a difficult task because it's not enough to get them to click on an 'I Agree' button," says Frean. "Consumers might not understand how valuable or sensitive different parts of their data could be. The industry has to educate and empower customers to make sure that consent is meaningful."

Open Banking can be a force for good and a real game-changer for the way individuals and businesses manage their finances, Frean believes. But many people still don't seem to understand what it is: "There's a huge need for education around the subject, but we think that the public is open to learning about it and embracing it," she states.

The Gambling Commission's 2017-18 annual report estimates that 430,000 adults are problem gamblers, while two million adults are 'at risk' of experiencing problem gambling.

GREATER CONTROL

Tim Miller, Executive Director of the Gambling Commission, believes the steps taken by Starling and Monzo will have a positive impact. "We've been actively talking to financial institutions about the role they could play in protecting customers who are struggling with their gambling," he says. "This has included looking at how giving consumers greater control of the way they use financial products could work alongside the existing protections that we require gambling companies to provide, such as offering consumers the option of blocking their cards from gambling companies."

In each gambling sector, the commission says it has driven the establishment of 'multi-operator self-exclusion schemes' – which allow customers to issue a single request asking operators to take all reasonable steps to prevent them from gambling. "A complementary initiative to allow customers to block their bank or credit cards should help support a reduction in harm," he adds.

As part of its review of online gambling published in March, the Gambling Commission is also taking a closer look at gambling with credit. "We will consider prohibiting or restricting the use of credit cards for gambling and the offering of credit by gambling businesses, but will explore the consequences of doing so," Miller says.

"WE'VE BEEN ACTIVELY TALKING TO FINANCIAL INSTITUTIONS ABOUT THE ROLE THEY COULD PLAY IN PROTECTING CUSTOMERS WHO ARE STRUGGLING WITH THEIR GAMBLING."

TIP OF THE ICEBERG?

While technology that helps prevent problem gambling is welcome, there are ethical questions about how far the monitoring of customer behaviour should go. In China, for example, the development of a so-called 'social credit' system has prompted incredulity – and growing concern – internationally. Due to be fully operational by 2020, it uses big data, artificial intelligence and mass surveillance to monitor China's huge population.

The system, first announced in 2014, scores citizens based on their behaviour and penalises them for infractions such as smoking in no-smoking areas, bad driving, not paying bills on time or spreading fake news. According to reports, punishments can include restricting plane or train travel; slowing the individual's internet speed; and blocking their access to education, jobs and hotels. By monitoring Chinese citizens abroad – as well as international companies doing business in China – the social credit system could also start to spread beyond the country's borders, some observers believe.

So is monitoring how customers spend their money just the thin end of the wedge for the banking industry?

STAR TREK STATE

The answer to that, according to Julian Gruin, a political economist and assistant

professor of transnational governance at the University of Amsterdam, is yes. "As individuals and businesses increasingly conduct their financial business through integrated online systems, banks have both greater opportunity and more incentive to monitor, manage and manipulate financial activity and the movement of capital," he argues.

"Big-data technologies enable banks to start constructing complex and increasingly comprehensive images of financial flows, which will lead to a version of what Andy Haldane, Chief Economist at the Bank of England, described as his dream of a 'Star Trek chair and a bank of monitors… tracking the global flow of funds in close to real time'."

But instead of identifying patterns that might lead to systemic risk, this form of 'algorithmic governance' would be able to identify patterns that influence a bank's operations at numerous levels, from marketing to risk assessment, Gruin believes.

Although China's social credit system is at a very early stage of development, this kind of 'Big Brother' surveillance using big data is on its way, he adds. "The Chinese case is unique in its combination of several factors, including the vast public resources being poured into machine learning and artificial intelligence technologies," Gruin says. "China also has a resilient and sophisticated authoritarian government that has immense control over the country's private tech industry. And Chinese society is positively disposed to governance models that use technology to increase public trust in areas such as environmental, consumer and financial regulation."

In other countries, Gruin suggests, we might expect to see systems of social and economic 'dataveillance' that contain "a different admixture of private and public control, and which will have more or less explicit political implications".

CARROT OR STICK?

Chris Cowton, Professor of Financial Ethics at Huddersfield Business School, argues instead for a distinction between banks monitoring how customers spend their money on the one hand and helping customers to control their spending on the other. "I think it's perfectly reasonable, indeed commendable, to allow a problem gambler to block payments," he says. "Gambling addiction wrecks lives, both the gambler's and that of others. The blocker technology is just another tool in that person's armoury to help in moments of weakness, such as banning themselves from betting with certain companies or blocking access to certain websites."

"BIG-DATA TECHNOLOGIES ENABLE BANKS TO START CONSTRUCTING COMPLEX AND INCREASINGLY COMPREHENSIVE IMAGES OF FINANCIAL FLOWS."

Cowton doubts that a social credit-style system like China's will be arriving in the West any time soon. "Such a system would be built on the particularities of China's culture and I would be surprised to see something similar take root in countries such as the UK," he suggests. "I think incentive schemes are much more likely to be privately led or, at least, focused on particular issues. Healthy eating might be a good example. However, I'd be surprised if this were to involve the banks, with reward provided through preferential interest rates – which would probably appeal more to the 'healthy wealthy', anyway."

While banks aren't obliged to help customers with addiction problems, technology puts them in a position to assist, particularly in relation to gambling. "There doesn't seem much they can do to help someone with a drug habit, for instance, and in the case of an alcoholic, it's impractical to block shopping at the supermarket or buying alcohol with cash," Cowton points out. "But in the case of gambling, very large debts can be built up quickly, which is why the bank is in a good position to help."

He suggests the ability for third parties such as mortgage lenders to see how a customer is spending their money should be restricted to a small number of problem cases. "I think confidentiality is a good principle for anyone involved in the management of someone else's financial affairs. If there are particular reasons for opening up a customer's account details to lenders, it has to be with the customer's permission, for the customer's benefit, and something seen in only a small minority of cases. This latter point will help to ensure it really is for the customer's benefit." CB

Chartered Banker

Your Institute is changing: BE PART OF IT

Are you interested in ensuring the views of our membership are heard? Would you like to get involved in the governance and strategic direction of the Institute? If so, then your Institute needs you.

Following a decade of growth in our Institute's impact and influence, our new Royal Charter empowers us to establish a new Membership Forum, responsible for representing our growing membership and ensuring that members' views are appropriately reflected in the strategy and activities of the Institute.

The Membership Forum's principal tasks will include:

- Advising the Board of Trustees on:
  - the Institute's strategic and annual business plans;
  - matters of concern and interest to the Institute's membership;
  - the needs of members;
- Promoting the Institute, and the benefits of membership, within the banking industry;
- Assisting in the recruitment and retention of members;
- Advising on and supporting activities and measures to enhance member engagement;
- Promoting the geographic expansion of the Institute.

We are seeking representation from all member grades on a UK and international basis, from all stages of their careers and we are keen for the broad diversity of the Institute to be reflected in the Membership Forum.

Members of the Forum will be expected to demonstrate:

- Commitment to the aims and objectives of the Institute;
- The highest standards of integrity, ethics and professionalism;
- Excellent interpersonal and communication skills; and
- Good knowledge of professional training and development issues, particularly banking education issues.

Members of the Forum will be appointed by the Nominations Committee for a three-year term, which may be renewed. The Forum will meet in person, usually twice per year, in either Edinburgh or London. All members will be expected to attend both meetings, either in person or by video conference. The position is not remunerated, although expenses will be paid for reasonable travel within the UK.

If you are interested in joining the Membership Forum, you can access the full details and the application form here: https://www.charteredbanker.com/the-institute/vacancies.html

Unfortunately, members of the Forum cannot also sit on the Board of Trustees. If you are interested in sitting on the Board of Trustees, please note that recruitment will begin in December 2018.

All change for OVERDRAFTS

The FCA has published its consultation paper, High-cost Credit Review: Overdrafts. We explore the key information and ask what the proposals mean for banks and their customers.

The way banks operate and charge for overdrafts needs 'fundamental reform', the Financial Conduct Authority announced in May. "In 2016 firms made an estimated £2.3 billion in revenue from overdrafts; 30% of this was from unarranged overdrafts," the watchdog said. "The majority of unarranged overdraft charges are paid by only 1.5% of customers, who each pay around £450 per year in fees and charges."

The FCA believes its immediate proposals for overdrafts could save customers up to £140 million a year, and warns that, beyond this, it will consider "more radical options" to ban fixed fees and end the distinctions around unarranged overdraft prices. The FCA consultation also accepts that unarranged overdrafts can play a useful role and that there should be a place in the market for them.

The move follows an in-depth review into the high-cost credit market – including store cards, home collected credit and 'rent-to-own' goods such as household appliances.

SIGNIFICANT REFORMS

"High-cost credit is used by over three million consumers in the UK, some of whom are the

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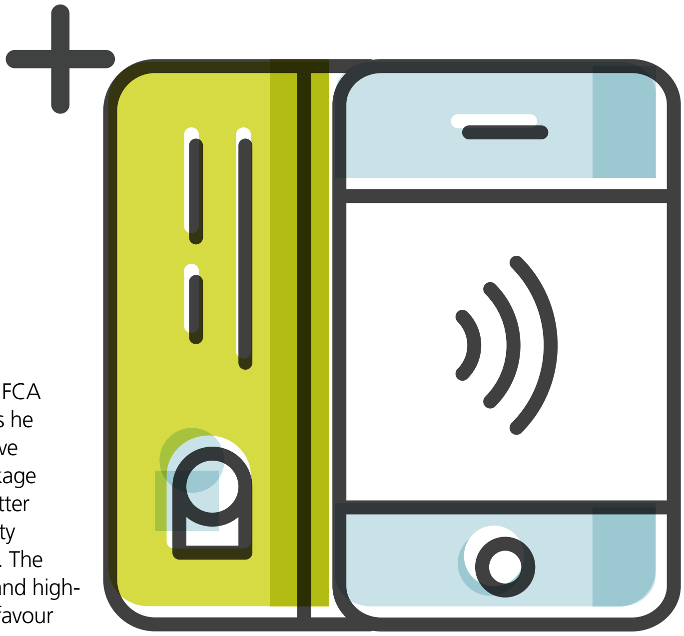

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most vulnerable in society," said FCA Chief Executive Andrew Bailey as he unveiled the proposals. "Today we have proposed a significant package of reforms to ensure they are better protected, including the possibility of a cap on rent-to-own lending. The proposals will benefit overdraft and high-cost credit users, rebalancing in favour of the customer.

"Our immediate proposed changes will make overdraft costs more transparent and prevent people unintentionally dipping into an overdraft in the first place. However, we believe more fundamental change is needed in the way banks charge customers for overdrafts. Given the size of the market, our work here will be completed as part of our wider review into retail banking."

The overdraft proposals are set out in the FCA's consultation paper, *High-cost Credit Review: Overdrafts*, and include a series of potential remedies to make it easier for personal current account holders to manage their accounts – specifically when it comes to the fees and charges generated by unexpectedly going overdrawn.

Of the 52 million people in the UK with a personal current account, it's estimated that more than a third (37%) have an arranged overdraft facility – and roughly one quarter end up using an unarranged overdraft every year.

RED ALERTS

UK Finance, the trade association for the UK's finance and banking industry, says it welcomes the FCA's paper and will carefully consider its proposals to make overdraft costs more transparent – and help customers unintentionally drawing on their overdraft facilities.

"Millions of individuals use borrowing facilities as a helpful means of managing peaks in their everyday spending," says a UK Finance spokesperson. "We have been working with the regulator for some time to develop alerts for customers who may be about to slip into the red, as well as a range of prompts that make it much easier to keep on top of finances and reduce costs.

"This builds on the unarranged overdraft alerts already available and supported by the regulator, which have reduced charges to consumers by as much as 25%. The industry is also introducing proactive support where persistent use of an overdraft facility might be a symptom of financial difficulty."

Text alerts and mobile apps are already available to inform customers who are about to enter into an unarranged overdraft and give them the opportunity to take action to avoid incurring charges. In 2017, customers received a record 512 million text alerts ranging from new payments into their account or warnings on low balances, according to UK Finance's *Way We Bank Now 2018* report.

SMARTER TOOLS

To help customers avoid potential charges, many banks have developed products that allow a fee-free overdraft buffer, within which no overdraft fees are charged. Most current accounts have a minimum overdrawn balance of £10 to £20, below which a charge is not applied.

> **"Customers have been able to compare personal loans and credit cards fairly easily as these charge simple interest."**

Most banks will also inform customers of overdraft charges at least 14 days before these are applied to their account, in accordance with the Standards of Lending Practice. And support is offered to customers who are considered at risk of financial difficulty – including signposting to debt charities for free, impartial advice.

"Banks recognise that customers do not always engage, and continue to look at how 'smarter' communications can achieve greater consumer engagement," says UK Finance. "Banks are working together with the FCA on a research programme that aims to identify which communications work well to raise customer awareness of products and fees."

PRICE CAP CALL

Debt charity StepChange provides debt advice and debt management services and helps around 620,000 people a year. It agrees with the FCA's proposals for a simpler fee structure that aligns authorised and unauthorised overdraft fees, and is also lobbying for a price cap.

"We will argue that the FCA should implement a price cap by setting a monthly maximum charge on all overdraft fees as a backstop," says Adam Butler, Senior Public Policy Advocate at StepChange. "These steps should help to moderate the proportion of fees that fall on financially or otherwise vulnerable people who are more likely to use an overdraft facility regularly."

Overdrafts work well when they're designed and used as a last resort for people experiencing short-term cashflow problems, Butler adds. But the charity frequently sees struggling clients start to use an overdraft persistently. "It's then often very difficult to get out of debt, as fees swallow up spare income or people take on other forms of expensive credit to cover overdraft fees," he explains.

"When we surveyed our clients, we found that 79% of people who use an overdraft used it to pay for essentials such as food and utilities. The reality is that overdraft use is for many people part and parcel of living with a low income. Banks can help by structuring current-account products to be flexible when people can manage – but recognising signs of financial difficulty and stepping in to find the right solution, rather than allowing unsustainable debt to accumulate."

SIMPLER FEES

More prominent information about overdraft fees and online calculators – as proposed by the FCA – will help people to see what overdraft fees they are likely to pay, Butler says. The FCA's proposals to simplify fees using a single interest rate that is easy to understand will also raise awareness that overdrafts are a credit product. More transparency on overdraft fees might also encourage switching.

THE FCA'S OVERDRAFT PROPOSALS INCLUDE:

- Mobile alerts warning of potential overdraft charges
- Stopping the inclusion of overdrafts in the term 'available funds'
- Requiring online tools to make the cost of overdrafts clearer
- Introducing online tools to assess eligibility for overdrafts
- Making it clear that overdrafts are credit or borrowing.

"People tend to think that if they're regularly using their overdraft, they won't be able to switch accounts," Butler says. "So the FCA's proposals to make it easier for customers considering switching to see that they'll be eligible for an overdraft should help encourage more people to move to the best value account."

The Moneyfacts Group has been providing personal finance data since 1988 and monitors thousands of mortgage, savings, credit card, personal loan, business banking, life, pension and investment products across the UK. It welcomes the FCA's proposals – and also calls for a cap on overdraft fees. "It has felt like a long time coming, but the FCA's proposals to crack down on overdraft charges is a welcome start, especially as it could save borrowers up to £140 million a year," says Moneyfacts Finance Expert Rachel Springall.

"Customers who use their overdraft for the convenience of short-term borrowing have likely paid the price in fees over the years, particularly due to the rise in usage fees versus standard interest. We would welcome an industry-wide cap on the amount customers could be charged in either their arranged or unarranged limit – and a review into the daily fee tariffs currently on offer."

PRICE COMPARISON

In the personal finance market, consumers have been using comparison sites for years to choose loans and credits cards with the most favourable interest rates. So it seems anomalous that overdrafts can't be compared in the same way.

"Customers have been able to compare personal loans and credit cards fairly easily as these all charge simple interest," Springall says. "So if flat fees were banned, consumers would be able to compare overdrafts, as interest was a standard tariff years ago. While flat fees are intended to be transparent, in many cases it's more expensive for customers to pay these instead of interest on the overdrawn balance."

This might also encourage switching, she adds: "If customers were able to make a true comparison of charges, it's likely to lead to a rise in switching and a reduction in customer apathy. It's commonplace these days for customers to switch their credit cards, loans and mortgages – and with the Current Account Switcher Service (CASS), it has never been simpler for customers to switch."

> **"We have been working with the regulator for some time to develop alerts for customers who may be about to slip into the red."**

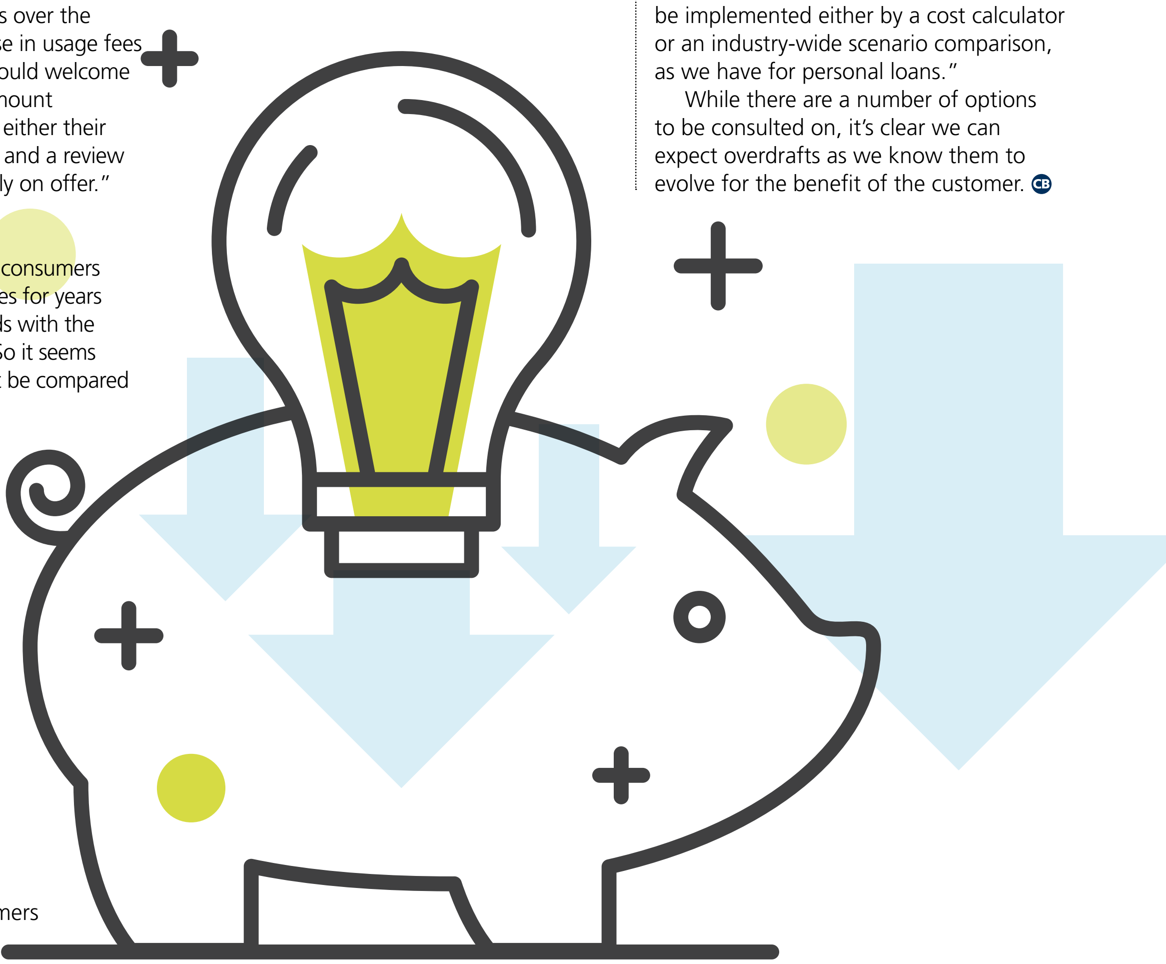
INNOVATIVE IDEAS

Moneyfacts has some innovative ideas on how to reduce charges for consumers. "One way to keep an account in credit could be to move some cash across from a tied savings account – with permissions already in place, of course – so that the customer can avoid paying fees," Springall suggests.

Alternatively, customers with savings in a separate account with the same bank could arrange an automatic account credit if they become overdrawn for a few days – so they avoid paying fees.

"It's easy to see why overdrafts are a complex maze for consumers to navigate, with fees, interest, buffers and caps to take into consideration," Springall concludes. "If banks and building societies introduced even more ways to show customers a cost scenario across the board – for both arranged and unarranged limits – it would give people a clearer picture. This could be implemented either by a cost calculator or an industry-wide scenario comparison, as we have for personal loans."

While there are a number of options to be consulted on, it's clear we can expect overdrafts as we know them to evolve for the benefit of the customer. CB



A NEW CYBER

New cybersecurity standards are just around the corner. But, asks EMILY PERRYMAN,

A wave of cybersecurity attacks on Britain's leading banks has encouraged the Bank of England's Financial Policy Committee (FPC) to develop a framework that aims to increase resilience to operational risk. Due to come into effect in 2019, the new standards will lay out how quickly the FPC expects firms to restore vital services should they fall victim to a cyber-attack. The Committee is also piloting a new stress-testing approach, in conjunction with the National Cyber Security Centre, to ensure firms can meet its standards.

This comes after the Bank of England, the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) published a joint Discussion Paper on the ability of firms to respond to and recover from cyber-attacks, as well as what they can learn from them.

The Discussion Paper has enabled the supervisory authorities to collate their views on how to improve operational resilience, after the PRA announced in April that it intended to develop a set of cybersecurity standards that would apply to the entire financial services sector, including banks, insurers and investment firms.

The increased focus on cyber-resilience follows a series of high-profile attacks on seven of the UK's biggest banks in 2017, as well as major technology failures at Visa, TSB and the London Stock Exchange this year. Speaking on behalf of the Bank of England, Lyndon Nelson, Deputy CEO of the PRA, warned that although banks have been safeguarding their financial interests against fraudsters for decades, "in the case of operational matters, the barriers to entry for those who would seek to do harm to the bank are much lower".

CONTINUITY OF BUSINESS

As yet there is very little detail on what the new framework will encompass. Nelson, however, has said that firms will be expected to: draw up their own metrics of when an attack would constitute a threat to consumers or financial stability; regularly test their approaches to incidents; and have contingency plans for the resumption of critical functions.

The heightened regulatory focus has been broadly welcomed by the financial sector. "Technology is an enabler for the services that customers and businesses rely on in their day-to-day lives. It is therefore right that the Bank of England has chosen to focus on continuity of business services and the area of operational resilience in more depth," said a spokesperson for the trade association UK Finance.

"It's important to have measures that encourage companies to take security seriously, and organisations will already have a range of cybersecurity standards, tools, metrics and approaches in place. However, as cyber-resilience is increasingly incorporated into the overall resilience of an organisation, new standards should view this issue holistically, against the context of the wider organisation, and as organisations become more interdependent."

For banks with strong cybersecurity policies already in place, any new regulations may appear an unnecessary additional – and expensive – burden. A poll by corporate adviser Duff & Phelps of 200 financial services firms last year found that 86% were already planning to spend more time and money on cybersecurity, up from less than 60% in 2016.

But Marcus Scott, Chief Operations Officer at TheCityUK, an industry-led body for UK-based financial and related professional services, points out that although there are very high standards of cybersecurity among big firms, this isn't necessarily the case among the smaller ones. "All firms, even the tiny ones, hold important information about individuals which could allow fraudsters to con people out of money," he says.

"The Bank of England can't undertake its CBEST cybersecurity testing with all the small firms, so it needs to develop best practice. At the moment, there is no real consensus in the market of what good practice looks like."

Scott points out that because financial firms are interconnected, it is important for the industry as a whole that smaller firms are encouraged to focus on cyber-resilience: "We need to ensure the companies that banks are servicing and lending to aren't the weak link in the system."

FRAMEWORK

is regulation the best way to boost resilience to cyber-attacks and major IT failure?

AN EVOLVING PROBLEM

One of the difficulties with cybersecurity, as opposed to other types of business risks, is that criminals' expertise is constantly evolving. "There's a distinction between resilience against systems failing and resilience in the face of external actors who are trying to break you," says David Aspinall, Professor of Software Safety and Security at the University of Edinburgh. "Attackers who are deliberately looking for ways to break the system have an asymmetric advantage because they can be using cheap and plentiful computing resources, they're often spread out around the world, and they're often finding out about software vulnerabilities more quickly than bank IT systems can be patched."

At the same time, the world's dependence on online financial services is growing exponentially. Internet banking use among British customers, for example, is projected to rise from 53% in 2014 to 66% by 2020, according to the Centre for Economics and Business Research. This represents an increase of almost 7.5 million internet banking users in just six years.

Ashley Stephenson, Chief Executive of software company Corero Network Security, says that in the past five years banks have come a long way in the context of cybersecurity. They are better informed, better prepared and more likely to disclose a cyber-attack. "However, during the same period the attackers have also become more sophisticated and powerful and our dependence on online financial services has become more critical," he adds. "Therefore, I conclude that, 'adjusting for inflation', we may be worse off now than we were five years ago as the potential threats and resulting consequences are of a much greater magnitude.

"This means that in the context of cyber-risk, the sector must continue its efforts to share information, boost its goals for cyber-resilience, deploy active cyber-protection and welcome, rather than resist, efforts to increase cyber-regulation."

"IF THE STANDARDS ARE SIMPLY A TICK-BOX EXERCISE,
CYBERCRIMINALS WILL VERY EASILY FIND A WAY AROUND THEM."

PRINCIPLES AND OUTCOMES

With cybercriminals becoming increasingly advanced and skilful, it is hoped the FPC is not overly prescriptive when developing its standards. UK Finance says it is important to have regulation that is responsive to the changing risks that organisations and services face. "This could mean a principles-based approach, rather than point-in-time regulations that just meet the needs of today's operative environment," says the organisation's spokesperson.

Scott suggests the standards will adopt the outcomes-based approach that regulators such as the FCA have applied to other types of financial regulation. "Rather than specifying what individual technology a firm requires, the standards are more likely to focus on the behaviours and attitudes of companies," he explains. "If the standards are simply a tick-box exercise, cybercriminals will very easily find a way around them."

Diversity of implementation is thought to be an important tool against cyber-attackers. "Drawing an analogy with physical security, if every bank has the same lock, there is compelling motivation for the bad guys to find the master key. A similar situation exists for cybersecurity: if exploiting a vulnerability at one bank exposes many more institutions that are using the same defence solution, the results are potentially catastrophic," warns Stephenson.

WATCH THIS SPACE

With several months still to go before the new framework comes into effect, for banks it is very much 'watch this space'. One thing is for sure, though: cyber-attacks are now a constant threat for the financial sector and are likely to be a key regulatory focus in the years to come. The framework will hopefully encourage the development of systems and procedures that better protect both banks and their customers. CB

CHARTERED BANKER

And the winner is...

Our Young Banker of the Year Competition 2018 has reached its exciting conclusion with the crowning of the winner. We hear more about his innovative idea and from the other three impressive finalists.

The high standard of entries for the Institute's Young Banker of the Year competition continued in 2018, with a fiercely contested final on 19 September at Mansion House in London. We're delighted to announce that the winner of the coveted title is **Alistair Gilfillan** of Lloyds Banking Group.

"Our Young Banker of the Year competition once again provided a gripping final," said Simon Thompson, Chief Executive of the Chartered Banker Institute. "Ten years on from the financial crisis, we need to ensure that the improvement in enhancing and sustaining professionalism is maintained, as it is one of the most effective ways we can deliver a sustainable and successful financial sector. All four of this year's finalists displayed the qualities of customer-focused ethical professionalism that should be at the heart of a revitalised banking profession, and I'd like to congratulate Alistair on becoming our 2018 Young Banker of the Year."

Alderman Charles Bowman, Lord Mayor of the City of London, said: "These awards provide the perfect opportunity to recognise the talent of tomorrow and so we were delighted to host this event in Mansion House. I'd like to congratulate Alistair on winning this accolade – a fantastic achievement for a hugely talented individual."

An Audience Prize for the candidate who, in the opinion of the spectators, best personified the high professional standards expected of bankers through their presentation on the night was awarded

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

Left to right: Tom Foster, Alistair Gilfillan, David Akers and Nathan Williams.

to Tom Foster of NatWest by Robert Dickie, President of the Chartered Banker Institute. "I would like to congratulate Tom Foster," said Dickie. "The audience voted him the finalist who best personified the high professional standards expected of bankers through his presentation on the night. I would also like to pay tribute to all four finalists for their inspirational ideas. There has been much to be proud of and it leaves me with enormous confidence in the future of our industry and profession."

If you didn't enter this year but have a great idea that you feel could change banking for the better, you can register your interest for next year's competition at **www.charteredbanker.com/youngbanker**

INTRODUCING THE 2018 YOUNG BANKER OF THE YEAR

ALISTAIR GILFILLAN,
Lloyds Banking Group

It's an honour to have won this year's competition. I wanted to develop an idea to make saving easy and achievable for vulnerable customers, which will reduce their worries about money. I feel privileged that such experienced judges see the potential of the idea, giving it weight as we continue to innovate within Lloyds Banking Group to help Britain prosper.

My idea, Split the Difference, is a smart savings plan which automatically increases a customer's savings contribution when their income rises. It helps low-income households (25% of the population) build a savings buffer to cope with financial difficulty and avoid falling into problem debt.

I was inspired by thinking about what makes saving difficult for people and how we could help customers overcome these barriers and meet their savings goals. I know money can be tight for many people and having a savings buffer takes a lot of stress out of life.

I've learnt so much from the whole Young Banker of the Year experience. My idea is unrelated to my day job, and everyone I've spoken to has been very generous with their time and expertise. I've learnt about our product development process, how our products are designed to fit our strategy, and about the risks and opportunities of Open Banking, as well as developing softer skills such as influencing senior stakeholders.

When it comes to giving advice to other young bankers who may be thinking of entering the 2019 competition, there are two main things I'd share. Firstly, go for it. It's stretching, challenging and interesting,

"IT'S AN HONOUR TO HAVE WON THIS YEAR'S COMPETITION. I WANTED TO DEVELOP AN IDEA TO MAKE SAVING EASY AND ACHIEVABLE FOR VULNERABLE CUSTOMERS, WHICH WILL REDUCE WORRIES THEY HAVE ABOUT MONEY."

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no matter how far you go in the competition. Secondly, it's a great calling card for meeting people you wouldn't normally get a chance to talk to, so use it. In developing Split the Difference, I got to discuss the idea with very senior figures in Lloyds Banking Group and work with teams I would never have interacted with otherwise. It's an opportunity you're unlikely to get again.

I've been working with colleagues across the Group to understand if there are opportunities to move the idea forward. As the UK's largest digital bank, we're constantly testing and learning to continue to meet customers' needs with personalised, better products and services.

INTRODUCING THE FINALISTS

TOM FOSTER,
NatWest

My idea, the Millennial Mortgage, provides a solution to Generation Rent by supplying them with the opportunity to purchase their own home and giving them the stability that comes from home-ownership. It's aimed at people who would like to own their own property but who cannot afford the deposit required to get a mortgage. They may already be renting and paying more than they would with a mortgage.

The mortgage product provides a 100% loan-to-value over a five-year term. However, the structure of the loans that make up the product means that the loan-to-value after the five-year product term is 85%, which is the same as comparable products in the market, albeit not ones that provide 100% funding. The product can only be provided to those who have been renting for at least three years; their repayments are based on the amount of rent they have been paying.

The inspiration behind the product idea came from thinking about how different types of people get onto the housing ladder. I was lucky to be able to stay with family through my 20s, which helped me save for a deposit so I could move out and purchase a home, but what is the answer for those less fortunate? For those who rent, saving the vast sum required for such a deposit while renting seems so unrealistic; government schemes, meanwhile, are aimed at new-build properties only. These people potentially have a low credit risk too where they are renting and a mortgage would cost the same (or even less) than they are used to paying out for housing already.

Overall, my preparation for the semi-final and final involved a great deal of help from my colleagues both in my immediate team and the wider RBS business. Their feedback and coaching really helped me develop my idea, and I am incredibly grateful for their input.

The Young Banker of the Year final at Mansion House, London.

"MY ADVICE FOR ANYONE THINKING OF ENTERING THE 2019 COMPETITION WOULD BE TO HAVE CONFIDENCE IN YOUR OWN IDEA AND TO THINK ABOUT ALL THE DIFFERENT STAKEHOLDERS WHO WOULD BENEFIT FROM IT."

I have learned a lot through the Institute, particularly about the power of preparation and feedback. This included help from my colleagues both in my immediate team and the wider RBS business; their feedback and coaching focused me on developing different areas of my idea. Had I not presented my idea to a wide range of colleagues to get feedback, the finished article would have been very different; and having the scrutiny of a variety of people meant I learnt how to get my point across more clearly. I am incredibly grateful for their input.

My advice for anyone thinking of entering the 2019 competition would be to have confidence in your own idea and to think about all the different stakeholders – colleagues, the public, friends and communities – who would benefit from it. There are sometimes more than you might initially have imagined.

I believe that my idea solves a problem that is very common among a particular market demographic. With the existing mortgage product infrastructure already in place in a large number of institutions, slotting a new idea into an existing portfolio with a clear target market increases the likelihood of implementation.

DAVID AKERS,
Coutts & Co.

My idea is the Umbrella Fund. This will be a pool of money made available to credit unions to assist them in providing short-term finance to people having a rainy day, more specifically as a viable alternative to payday lenders. This will be an ethical 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.

My inspiration came from a number of sources. I was first exposed to the use of payday lenders when I worked in retail banking. Almost every day I would meet customers who were experiencing financial difficulties, many of whom had resorted to payday lenders. I remember thinking at the time that it did not feel right that those most in need and potentially financially unaware were the ones taking out short-term loans with very high interest rates.

As my banking career continued, I was fortunate enough to work for Coutts, which enhanced my resolve to try to find a viable alternative for these customers. Firstly, a lot of my clients are successful business owners, many of whom have spoken to me about the early days of their businesses or previous ventures that had not worked out and how they had struggled at the time. This made me realise how common periods of financial difficulty are and that without the right support these business owners might not have got to where they are today. Secondly, as a bank, Coutts has a proud history of charitable and philanthropic work and so it provided the best environment to allow me to spend time forming my idea and developing it over time with the support of the business.

I've learnt that there is a platform out there to showcase your ideas. Being relatively new to banking, I wasn't initially aware of how open the industry, through the guidance of the Institute, was to change, and change for the better. I now truly believe that there is real momentum for banks and the financial industry as a whole to do good. Personally speaking, I've also learned that it is okay to develop your idea over time and that it does not need to be the finished version before sharing it with anyone. Through feedback, I have created a proposal that I am very proud of.

My idea requires the main UK banks to work together, so I hope that I will be able to speak to the relevant parties at the banks and start a dialogue to implement the Umbrella Fund.

"IT UNDERSCORED THE COMMITMENT OF THE CHARTERED BANKER INSTITUTE AND ITS MEMBERS TO FOSTERING A GREAT SENSE OF COMMUNITY, INNOVATION, PASSION AND ENERGY IN THE BANKING INDUSTRY."

NATHAN WILLIAMS,
Coutts & Co.

Throughout the Young Banker of the Year journey, I've been developing the concept of Intelligent Customer Relationship Management, or ICRM. It's a manifestation of the future of financial services. ICRM uses an artificially intelligent, predictively analytical, data-driven tool to help all types of financial institutions (banks, credit unions, insurance firms and boutique investment houses) proactively predict and thus meet their customers' needs for any period of time up to 25 years in the future. These needs cover basic banking and cash management through to complex lending and financial planning, depending on the customer.

The tool is also leveraging various proofs of concept the business is currently working on with various consultancy firms specialising in data sourcing, predictive analytics and artificial intelligence. In addition to conversations with Strategy & Innovation, IT, Application Management, Front Line, Business Development, and Change Management, I've engaged an Agile Product Owner to produce a comprehensive costing and implementation structure.

While Artificial intelligence (AI) is a concept that's still in its infancy, it's developing fast. As the financial services industry evolves and seeks to regain customers' trust, it is crucial that the principles and potential of AI are understood and applied for our customers' benefit. I see ICRM as a key step to achieving that goal.

Once approved, I envisage ICRM being piloted in a segment with both complex customer needs and a high customer- adviser ratio; testing commercial, retail and investment customer use-cases will take place in parallel. The results of the pilot will pave the way for full rollout. A 'six lines of defence' governance model will underpin the tool and its use, to provide the maximum level of protection for its users and customers.

The rapport built between me and my fellow contestants and those who've been kind enough to support me through this venture will benefit all of us for years to come. Most importantly, though, this experience reflects the commitment of the contestants and the Chartered Banker Institute and its members to foster a great sense of community, innovation, passion and energy in the banking industry – and to restore the trust that was lost following the financial crisis.

During the last six months I've developed my own capability to innovate and bring senior stakeholders on an end-to-end journey more quickly and passionately than before. This in turn has developed persuasive communication and strategic thinking to a degree far higher than I've previously been able, enhancing my capabilities as a leader.

For those who are thinking of entering the 2019 Young Banker of the Year competition, my advice would be to formulate an idea that you believe in. With belief comes the motivation to progress it to completion, which will engender similar belief in your senior stakeholders. Then you'll be able to take advantage of all the development opportunities this wonderful adventure has to offer you.

To learn more about this year's finalists, please go to: https://www.charteredbanker.com/event/young-banker-of-the-year/finalists-2018.html

Robert Dickie, President of the Chartered Banker Institute, presenting Tom Foster with the Audience Prize.

Chartered Banker

Below is an abridged version of the President's address given at the Institute's Annual General Meeting in June 2018.

Fellow Council members, Fellows and members, welcome to the 143rd Annual General Meeting of the Chartered Banker Institute.

I am deeply honoured and proud to be President of this Institute, an organisation I personally have been an active member of for nearly 40 years. I am greatly encouraged to see that the number of members joining the Institute continues to grow. Last year saw member numbers increase, and as I speak to you today, this is now standing at 32,250, including 8,623 student members from over 85 countries.

At the end of 2017, there were 10,503 individuals studying for Institute qualifications (this excludes those studying with our university partners), and 4,196 individuals completed an Institute qualification during 2017.

Our influence is increasingly being recognised globally, and I would like to take this opportunity to welcome Chris Whitehead, the Chief Executive of the Financial Services Institute of Australasia (FINSIA), to this evening's AGM, and to pay tribute to him and his colleagues for their achievements over the past year.

Another important development in 2017 was the launch of the Chartered Body Alliance with our counterparts at the Chartered Insurance Institute (CII) and the Chartered Institute for Securities and Investments (CISI). The initial focus of the Alliance has been a joint marketing campaign to promote Chartered status to financial services professionals and the public in the UK.

As someone who has personally benefited from the Institute's guidance and support throughout my career, I was delighted that 2017 saw the launch of a new initiative by the Institute: the Chartered Banker 2025 Foundation. Established in anticipation of the Institute's 150th anniversary in 2025, the Foundation is aligned with the original aims of the Institute – namely 'the promotion of education and development of young bankers entering the profession'.

The Foundation aims to raise one million pounds by 2025 to identify and support talented young people who would benefit from financial and other help to pursue a career in banking, and has already achieved 20% of that target. I know that many Fellows and members here tonight have already generously contributed to the Foundation; for those of you yet to do so, I would urge you to actively support this initiative, as you will be playing a key role in changing the life of a talented young person.

Looking to the year ahead, let me highlight just two of the many initiatives we have planned. Firstly, we have recently introduced 'Chartered Banker by Experience' for existing experienced banking professionals who wish to gain Chartered Banker status and become members of the Chartered Banker Institute.

And in October, we will launch a substantially redesigned Chartered Banker Diploma, which helps learners to develop both core banking skills and an understanding of technology to give them the professional knowledge and skills required to succeed for themselves, their customers and their banks in our digital age.

> **"THIS HAS BEEN A YEAR OF CONSIDERABLE ACHIEVEMENTS.** THE INSTITUTE IS HAVING AN EVER-INCREASING IMPACT AND INFLUENCE."

This has been a year of considerable achievements and continued growth for the Institute, and I hope you will agree with me that the Institute is having an ever-increasing impact and influence. On behalf of Council, I wish to congratulate the Institute's staff, and our growing range of partners, for their continued hard work and dedication. Thank you, too, to all our Fellows and members who gave up their time, expertise and experience to support the Institute during the course of the last year. I hope you are as proud of the Institute as I am to be its President, and I look forward to another year of success in 2018 – a year that, with royal assent, will see us reconstitute ourselves as the Chartered Banker Institute.

Robert Dickie, President of the Chartered Banker Institute.

MINUTES OF ANNUAL GENERAL MEETING HELD ON 21 JUNE 2018

The 143rd Annual General Meeting of the Institute took place at the Hilton Carlton Hotel, North Bridge, Edinburgh.

1. MINUTES OF THE 142ND ANNUAL GENERAL MEETING

The Minutes of the 142nd Annual General Meeting, which was held on 15 June 2017 in Edinburgh, were printed in the August 2017 edition of *Chartered Banker* and were taken as read.

2. PRESIDENT'S ADDRESS

Extracts from the President's address are printed opposite.

3. ANNUAL REPORT

The 2017-2018 Annual Report had been made available on the Institute website in advance of the meeting. The adoption of the Annual Report was proposed by the Chair and, subsequently, approved by the meeting.

4. ANNUAL ACCOUNTS

The adoption of the accounts was proposed by the Chair and, subsequently, approved by the meeting.

5. APPOINTMENT OF AUDITOR FOR 2018-2019

The Chair proposed the re-appointment of Messrs Chiene + Tait as the Institute's auditor and this was approved by the meeting.

6. ELECTION OF FELLOW REPRESENTATIVES

The nominations for Fellow Representatives were as follows:

Kerry Falconer FCIBS
Steve Pateman FCIBS
Ian Hardcastle FCIBS

The nominations had been considered and recommended by the Nominations Committee and were proposed by Hugh McKay and seconded by Robin Bulloch.

Members voted to approve the nominations. Kerry Falconer, Steve Pateman and Ian Hardcastle were re-elected for a 12-month period to June 2019.

The Institute's Rules state that Council shall include two or more lay voting members, who are not members of the Institute. Lay members are recruited by open selection and do not require to be elected. The Chair informed the meeting that Susan Younger had been re-appointed until June 2019.

7. ELECTION OF PRESIDENT 2018-2019

The nomination for President had been considered and approved by the Nominations Committee. Gary McGregor proposed the election of Robert Dickie FCIBS and this was seconded by Kerry Falconer and David May. Members voted in favour of Robert Dickie's re-election.

8. ELECTION OF SENIOR VICE-PRESIDENT 2018-2019

The nomination for Senior Vice-President had been considered and approved by the Nominations Committee. Robin Bulloch proposed the election of Bill McCall FCIBS and this was seconded by William McDonald. Members voted in favour of Bill McCall's re-election.

9. ELECTION OF VICE-PRESIDENTS FOR 2018-2019

The nominations for Vice-President were as follows:

Kerry Falconer FCIBS
Steve Pateman FCIBS

The nominations had been considered and recommended by the Nominations Committee and were proposed by Bill McCall and seconded by William McDonald and Robin Bulloch.

Members voted to approve the nominations. Kerry Falconer and Steve Pateman were re-elected as Vice-Presidents.

10. GOVERNANCE CHANGES

The Chief Executive provided an overview of the governance changes approved at last year's AGM and the timescale for implementation, for noting.

The four main changes proposed were as follows:

- Renaming the Institute as 'Chartered Banker Institute', thereby making the existing working name the Institute's legal name.
- Altering the associated designatory letters to reflect the change of name.
- The introduction of a new, smaller Board of Trustees to replace the existing Council.
- Establishing a new membership forum to provide an opportunity for a larger and more diverse group of members to get involved in the governance and strategic direction of the Institute.

Following approval at the 2017 AGM, the Institute's draft petition for a Supplementary Charter had been considered by a Committee of the Privy Council. On 24 April, the petition was approved by Her Majesty and published in the London and Edinburgh Gazettes. No petitions against had been received and the Supplementary Charter had now been referred to the Attorney General. It was expected that final approval will be granted in autumn 2018.

It was noted that the year ahead would be a transitional year for Council, as the Institute begins implementation of the governance changes. The recruitment process for both the new Board of Trustees and the membership forum will begin in autumn 2018, and all members are encouraged to become involved.

11. ANY OTHER BUSINESS

As there was no further business, the President thanked Fellows and members present for their attendance and support, and brought the meeting to a close.

Check the forecast **before you go**

PROFESSOR KOSTAS I. NIKOLOPOULOS and DIMITRIOS D. THOMAKOS consider the implications of failing to carry out forecasting when it comes to Brexit.

In our forecasting think tank, we have always been advocates of the quintessential role of forecasts when taking informed decisions. This becomes even more important for efficient and effective governance. Every decision should be based on the impact and consequences of all the various outcomes and scenarios. So, how can we apply this to Brexit?

We are not trying to take a position for or against Brexit, but we would like to be certain that all parties have done their forecasting exercise so that whatever decision is taken, it will be one informed by rational forecasts. We believe neither in the doomsday scenario of Brexit advocated by Remainers, nor in the ecstatic views of the Brexiteers that the economy will fly high under free trade.

BANKING ON EMOTION?

Emotion-based 'reasoning' excludes discussion about the real problems, so the issues of liberty and freedom (of movement of capital and labour) are not tackled, and questions about entrepreneurship and high taxation are confused. Looking at the issue of Brexit completely from an emotional perspective also ignores the support that the European project has provided to many underprivileged areas and people in the UK.

And, of course, when it comes to Brexit, there are many political biases at play that are clouding people's judgement. Effective forecasting shouldn't be influenced by political leanings, preconceptions or indeed patriotism. These preconditioned opinions and beliefs result in skewed forecasts as they are not based on logic, fact and previous experience.

WHAT CAN WE LEARN FROM GREECE?

'Grexit' was a term first coined back in 2012 to describe what might have become Greece's exit from the EU. This, of course, never actually took place, but many of the issues from six years ago have resurfaced in the aftermath of the UK's referendum on EU membership. It would appear that the two situations might be connected – but are they?

There is no doubt that they are connected, but not in the sense of continuity, in that one might trigger pressures for the other. They are connected by the emotion-based arguments made by proponents of 'exiting' the European Union (and, for Greece, the common currency). These are made without the slightest understanding – or forecasts per se – of the disruption and misery that the effects of such an 'exit' could and are likely to bring.

"It's not good enough for both sides to say the country will prosper one way or the other."

TAKING A STEP BACK

Away from the various agendas surrounding the EU and the UK's impending withdrawal in March 2019, there are a number of critical questions to be considered in forecasting, irrespective of who's conducting it. For example, there stands to be an impact on employment in the UK. We've already seen a number of financial services organisations move their operations to other EU countries in anticipation of this. Has the banking sector done enough to address a potential skills shortage in 2019 and beyond?

The UK economy, like many others around the world, hasn't been thriving since the financial crisis of 2008. It's not good enough for both sides to say the country will prosper one way or the other. How long will it actually take for the economy to recalibrate or even grow after all the details of Brexit are known and come to terms with? Where are the lessons to be learnt and factored into forecasting?

The remedies put in place to help the UK recover from 2008 have been well documented. But will fiscal profligacy become in vogue again after Brexit? Beyond the political posturing around the issue, what do we really know about the impact Brexit could have on SMEs that do business with the EU? What about the impact on individual living standards? These are not the 'headline' topics of immigration and the customs union, but they are extremely important nonetheless.

"Effective forecasting shouldn't be influenced by political leanings, preconceptions or patriotism."

We would feel more reassured if for every one of these questions (and more), a scientific forecast had been produced by all parties, so that any discussion could be based on that, rather than on dogma or political manoeuvring. And even if the answer is 'freedom – however it is defined – comes at a cost', it's in everyone's best interests to know this cost beforehand.

FAIL TO PREPARE…

Regardless of what the government, the opposition and the supporters of Leave and Remain claim, some detailed forecasts have been done. These, however, have been kept behind closed doors as they are deemed to be not necessarily favourable to the agenda that needs to be pushed by one side or the other. What both camps ignore is that similar forecasting exercises are being done every day in banks, large companies and SMEs. Even individuals are doing their own assessments so that once (or if) the plug is pulled, they will be ready, based on their forecasts, to stay in or leave.

Finally, some impartial academic advice to all parties involved: do the math. Prepare your forecasts properly and answer all the questions beforehand in an informed way.

This is not a drill.

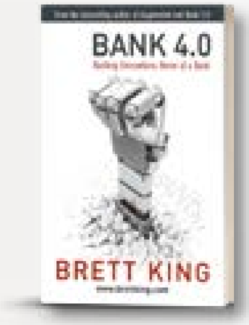
Professor Kostas I. Nikolopoulos is the Director of Bangor Business School's forecasting laboratory, forLAB, and co-director of the governmental forecasting, foresight and strategic planning think tank, forTANK.

Dimitrios D. Thomakos is Professor of Applied Econometrics and Head of the Department of Economics at the University of Peloponnese, Greece, and co-Director of forTANK.

to contents

Bank 4.0: Banking everywhere, never at a bank

A new book by Brett King looks at the future of banking and how AI and data-driven intelligence will shape the sector in the coming years. SIMON THOMPSON asks if the importance of bankers in shaping this future has been overlooked.



Brett King's latest book, the final one in the 'digital BANK' series, offers a vision of the near future where banking is a ubiquitous utility service delivered by AI assistants without much need for banks, or bankers, as we know them today. Society will be cashless and cardless. Payments, loans, investments and so on will be part of the frictionless fabric of our technology-driven world, fully integrated into our daily lives rather than activities in their own right.

It's a powerful vision, and in many ways a compelling one. In King's utopian view of the future of banking, powered by artificial intelligence and data-driven innovation, technology will always be deployed and will always work in customers' best interests, ensuring they invest wisely, use credit responsibly and budget effectively. It's clear that data can give banks (and the new non-banks that provide financial services) much greater customer insight. Machine learning is highly effective at identifying patterns in customer data. But AI has no real understanding of what these patterns mean, nor of the wider context within which customers are using financial services. Placing all our trust in technology may lead to poor outcomes for our customers and communities – there is still an important place for human wisdom and oversight.

As well as providing a vision of the future, *Bank 4.0* also offers insight into digital developments today, with a series of case studies by a range of authors on FinTechs such as Ant Financial, demonstrating how many of the most interesting developments are taking place in SE Asia, Africa and the Gulf, rather than in the West. And, worryingly for banks (particularly those in the West) that are trying to reinvent themselves as technology companies, King shows how the scale and pace of their technology investments, hampered by legacy systems, pales in comparison with non-banks. In some ways, the technology game may be over for at least some incumbent banks. Yet I believe there will still be an important role for more traditional banks to play, even in a data-driven world.

> **"PLACING ALL OUR TRUST IN TECHNOLOGY MAY LEAD TO POOR OUTCOMES FOR OUR CUSTOMERS AND COMMUNITIES** – THERE IS STILL AN IMPORTANT PLACE FOR HUMAN WISDOM AND OVERSIGHT."

Bank 4.0 is an excellent book for Chartered Bankers and students who are keen to engage with, and reflect on, a vision for a data-driven future of banking. It's not a handbook for banks and bankers, however, and it could be risky to consider it as such. Rather, it can help us to understand what might be possible – but it is for Chartered Bankers to use their expertise and skills to shape the future, not be bystanders and be shaped by it.

Simon Thompson is Chief Executive at the Chartered Banker Institute.

A question of ethics

Producing a corporate code of ethics in reaction to negative press may appear to be a good idea, but is it really worth the investment?

THE SCENARIO

The board of directors of ATY Bank plc held a meeting to consider how best to deal with criticism and adverse publicity arising from a report in a respected journal. The authors of the report had studied the policies and practices of several banks, and their published conclusions stated that ATY Bank plc ranked very poorly in relation to several criteria. Specifically, the report noted that it had consistently offered 'teaser' initial fixed interest rates for loans, sometimes of less than 1%, but had charged huge administration fees at the application stage.

The report said that while the fees and charges for the loans were stated in the product literature and other documentation, the packages offered would lure applicants to apply for products that might have been more expensive than elsewhere. The report also found that the point-of-sale advisers working for ATY Bank plc were highly dependent on referrals from intermediaries, who in many cases had sold loans aggressively, without paying due regard to the interests of customers.

An internal investigation found that some of the criticisms were justified. The board took steps to market its lending products differently, and the directors were now satisfied that customers would not be misled. The training and support offered to intermediaries was enhanced, and the bank clarified the business standards expected of them. However, the report had severely affected the reputation of the bank, and evidence suggested that the volume of enquiries had fallen significantly.

At its meeting, the board discussed the possibility of publishing a detailed corporate code of ethics. To add value to the discussion, the directors invited Professor Ng to the meeting. The professor had extensive consulting experience with several banks in relation to business standards and professional values, and it was hoped that he would be able to present informed and objective views on the subject.

Professor Ng studied the report and was also given access to the bank's former and revised policies. He concluded that the bank had taken reasonable steps to address the problems, but admitted that he was not totally convinced by the argument for introducing codes of ethics in a reactive manner. He stated that it was akin to 'closing the stable door after the horse has bolted'.

The professor added that as codes of ethics usually include descriptions of desirable outcomes as well as undesirable outcomes that the bank will avoid, they convey the impression to stakeholders, notably employees and customers, that business ethics can be codified as a set of rules which can be implemented as an ongoing 'tick box' exercise. However, as ethical behaviour is highly reliant on the integrity of individuals, it is impossible for a code to capture every situation that will be encountered in everyday banking, which will inevitably result in the exercise failing.

The professor's view was that the bank should work hard to foster underlying ethical principles such as integrity, honesty, fairness and transparency, building these factors into performance management systems and reinforcing them with training and awareness. Professor Ng also suggested that the bank should consider the financial implications of introducing a code. He said that the costs of writing, implementing, distributing and monitoring the code could outweigh its usefulness, as sceptical customers would simply read the report and conclude, 'Well, they would say that, wouldn't they?'.

> **"As ethical behaviour is highly reliant on the integrity of individuals, it is impossible for a code to capture every situation that will be encountered in everyday banking."**

Has the professor made a compelling case for abandoning the proposal of the board to introduce a code of ethics?

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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to contents

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THE ANALYSIS

Codes of ethics now hold a permanent place in banking and other industries as one feature of corporate governance. Most listed companies publish a code setting down their mission and detailing the minimum standards with which they promise to comply, and in nearly all cases the code is published for all to see in the 'investor relations' section of the company's website. Some companies go further and create links between internal performance outcomes and aspirations set out in the code. Management information can be generated to monitor compliance with the code, although it can be difficult to use metrics to support all of the qualitative objectives sought.

Since the global financial crisis, banks have recognised that codes have a role to play in restoring trust and confidence. The pioneering work of the Chartered Banker Institute in driving the Chartered Banker: Professional Standards Board (CB: PSB) has offered the opportunity to focus on professional values, and the board now has a framework in place which will form the basis of ongoing work. It would appear that at least some banks would disagree with the conclusions of Professor Ng.

"How many bankers who acted unethically during the global financial crisis were sacked or lost their membership of professional bodies?"

The professor's explanation of the limitations of codes has some substance. Why should a banking customer take a code any more seriously than one issued by a supermarket or a tyre-fitting company? Do customers read them or even know they exist? Sales trainers have known for decades that the main question asked by a typical buyer is 'What's in it for me?' and that is all.

The professor is correct to assert that ethical standards cannot be reduced to a set of rules, and this view is supported by some statements by the Financial Conduct Authority (FCA) which concluded that standards should not be regarded as a 'tick box' exercise (Financial Risk Outlook, 2011).

Another problem faced by banks which operate across international borders is that ethical norms, values and beliefs differ from country to country, so codes may have to be diluted to a set of general and almost meaningless platitudes. Codes of ethics are sets of voluntary standards and as such are not legally enforceable. How many bankers who acted unethically during the global financial crisis were sacked or lost their membership of professional bodies?

There are also cogent arguments in support of producing codes of ethics. A code will signal the importance of professional values to the bank, and hence its employees. If the standards are followed through – in recruitment, selection, induction, training, appraisal and performance management (including rewards) – some of the outcomes sought will be driven home constantly. Ethical standards cannot be taught didactically, but they can most certainly be reinforced by placing them at the heart of personal development opportunities. In this way, a code will remind its audience that professions exist to serve the public interest.

Conversely, codes will state, or strongly imply, that divergence from the desired standards will be treated seriously. This may act as a deterrent to undesirable behaviours. A code can serve as a platform for positive customer engagement. When implemented as part of a coherent corporate social responsibility (CSR) strategy, a code can achieve differentiation. Some banks have even published their mystery shopper findings, 'warts and all', to demonstrate their commitments.

The difference in culture between countries is probably overplayed as a criticism. The professions operating in most countries acknowledge that the same set of fundamental ethical principles should be applicable, irrespective of the differences in their external environment.

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.

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How long can London stay at the top?

A mood of impending doom is growing over what will happen to London as a financial centre after the UK leaves the EU. But is it justified? IAN HENDERSON takes a closer look.

Did you know that London was voted the world's top financial centre in 2018, for the first time in five years? The annual survey by Duff & Phelps showed a big jump (from 36% to 53%) in preference among finance professionals, which might seem counterintuitive given the number of headlines about banks moving their operations to Frankfurt, Paris or Dublin ahead of Brexit.

The same survey, however, says that those same professionals aren't as optimistic about London staying above New York or other leading cities in another five years – only 29% think it will remain at the top of the tree. Brexit, as you'd expect, is the main reason for this, although other centres such as New York and Hong Kong have their own political and social uncertainties to deal with. (The next EU city to appear in the list is Frankfurt at 20, followed by Luxembourg, with Paris at 24.)

Despite the pessimism, there are reasons to believe Brexit will have less impact on London as a financial centre than many fear – and that change, if it comes, will happen relatively slowly. For one thing, 'soft' measures such as reputation, infrastructure and quality of life aren't going to change quickly, if at all. London will still have its theatres, its landmarks, its schools, its healthcare, its connectivity, its time zone and, of course, the English language. All of this makes it a more attractive place to do business than, say, Frankfurt or Paris.

"London has the world's best combination of legal system, regulatory framework, sensible taxes, low levels of corruption and economic freedom."

More important is the availability of human capital – people. People have lives and families outside of work, so they enjoy being in a city like London. There are plenty of trained, motivated finance professionals still keen to bring their skills from all over the world. People may well want to come to London even more if, as some predict, property becomes more affordable after Brexit. That said, an extreme left-wing government (still another distinct possibility) which sees the finance sector as largely populated by exploitative capitalists may reduce the city's appeal.

As well as a concentration of expertise, London has the world's best combination of legal system, regulatory framework, sensible taxes (for the moment at least), low levels of corruption and economic freedom. And, according to some of the smarter Leave exponents, the British legal system's incompatibility with the European system could mean that moving outside the ECJ may continue to work in London's favour. London could continue to develop as the clearing house between the world's financial systems and therefore be a centre of excellence for its related services.

To be clear, I'm not a Leave voter and this is not a propaganda piece. I am, however, an optimist and an entrepreneur. Our London-based independent agency is heavily involved in the finance sector, working with firms in the UK, Europe and around the world. At the time of writing, those include the biggest banks in Germany, Switzerland and Japan; leading firms in France, the Netherlands and the USA; and many UK and offshore FinTechs, advisers and innovators.

Obviously, we hope the main reason those firms come to us is for our understanding of how they work, our smart strategic advice and our snappy creative thinking. But we realise it's also because we're part of the London financial cluster; we can easily partner with other advisers, draw on a deep well of human capital and connect with our customers around the world. So we have a vested interest in the continuing strength of London – and a weakened pound has made our services even better value.

We hope for a strong, open and constructive relationship between Britain and Europe. And we hope the same can be true of other global markets and centres too, despite the rising tide of protectionism around the world. We believe that the UK government should invest in infrastructure and systems and in marketing London as a global business brand. Meanwhile, we will keep on doing what we do as well as we can do it. If that doesn't work, there's always Paris. CB

Ian Henderson is CEO of AML Group
www.aml-group.com

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to contents


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