Future of Banking SPECIAL REPORT

Billy Kennedy, principal UX designer, Each&Other

Banks are getting up to speed with new variants of financial services

International experience shows that, with the right questions being asked, traditional banks can meet the challenge posed by new competitors, writes **Jason Walsh**

Change is not something often associated with the banking industry, and given the desire for banks to demonstrate their stability and continuity this is hardly a surprise. Behind the scenes, though, a quiet revolution has been going on in the technology that underpins banking.

At the same time, Irish banking customers have dipped a toe in the 'fintech' waters with current accounts and foreign exchange provided by so-called 'neo-banks', online-only outfits that typically operate across the European Union and farther afield syphoning off customers for niche transactions.

User experience (UX) specialist Each&Other has found that the traditional banking institutions, well aware of the threat from new players, are capable of responding.

Prior to joining the agency, Billy Kennedy, principal UX designer at Each&Other, worked on projects in Britain with a new player in the market, Mettle, aimed squarely at taking on the neo-banks, and owned by NatWest.

"They hypothesised changes in working habits, in terms of a switch from the traditional model to the gig economy," he said.

Kennedy recognised ongoing changes in the economy were having an impact on user behaviour and demands.

"Essentially, what we were being asked to do was figure out the behaviour of these groups and what were their banking needs. We found that many of these people don't see themselves as businesses," he said.

Foreseeing potential regulatory changes, they worked to offer a low-cost business account that operated just like a traditional online current account.

"There was an expectation that the law could force these customers to use business accounts, and the requirements for opening a business account are very onerous, so the idea was to try and get ahead of this and automate as much of this as possible for these people, essentially creating a challenger bank for the gig economy," he said.

Despite the attention given to true neo-banks, and the cloud-type technology that underpins modern banking, Kennedy found there was a lot of value in trusted brand history. Specifically, being part of, and being known to be part of, a larger institution helped build trust. "Mentioning the bank's name gave them an uplift," Kennedy said.

The future of Irish banking

The same could be said in Ireland, where the names we all know offer a certain amount of confidence. However, Kennedy said Irish banks were in danger of chasing ghosts, in technological terms at least.

"They're offering functionality that most challengers had, in this market, six years ago, and that Wise, formerly TransferWise, had, internationally, 11 years ago," he said.

One thing Each&Other has found is that Irish customers are very aware of the fee schedule and, consequently, will do a lot of shopping around. In time, this could become a real issue for the incumbents.

"The cost of doing financial business in Ireland is quite a bit higher, likely because the customer base is smaller. Europe-wide, challenger banks will see this as an opportunity," he said.

One shift is already under way: traditionally in business banking there are fees per transaction, but a lot of competitors across Europe are moving to a monthly subscription model.

Ireland's banks have not stood still, said Kennedy, but they need to do more. Work in automation and artificial intelligence (AI), for instance, has paid dividends.

"A lot are also offering good add-on tech. With a bit of help from you they will learn to categorise transactions, for example. They're doing a good job catching up, but it really is only catching up," he said.

"Self-serve in many countries means you can do 90 to 95 per cent of what you need in the app. In Ireland, you can do the basics, but then for anything complex you have to get on the phone at the very least and perhaps go into the branch. And, culturally, we like the face-to-face element," he said.

The lag cuts both ways, though: Irish banking customers themselves have not made clear calls for a broader range of products, for example, investing.

At a time when hype around alternative investments has reached fever pitch – not a day goes by without talk about cryptocurrency and, with inflation a major concern, gold is now being advertised on national radio – it is not surprising that financial services can seem a daunting area.

Some of this is down to Irish regulations outside the control of the industry: for example, exchange traded funds (ETFs) that track share indices are popular in much of the rest of Europe but complicated to own in Ireland.

A worry is that pent-up demand is directed to risky asset classes. But it also shows that Irish consumers may want to do more with their banks.

"People signing up to crypto shows there is a demand for financial instruments. Perhaps it's not going to the right instruments, but it does point to a demand," he said.

Facing regulation with innovation

Law firm Leman Solicitors LLP has partnered with regulated entities including financial institutions to smooth the regulatory burden, including by deploying legal technology, writes **Jason Walsh**

Financial institutions come in all shapes and sizes, from banks that sit astride the globe to the small and specialist insurance brokers, and while they might appear to have little in common, they do share one characteristic: regulation.

"Financial regulation and compliance is a broad area, and we see it as our job to help the institutions navigate it," said Ronan McGoldrick, who leads Leman's financial services dispute resolution team, which assists clients with regulation and compliance.

Leman Solicitors' clients include banks, funds, insurance companies and entities, fintechs and other regulated entities for whom it provides a range of advisory services around regulatory compliance, as well as owning the specialist legal technology company LexTech.

Stephen O'Connor, partner in the financial services disputes resolution team at Leman, said that some institutions do feel pressured by regulation, but the reality was it needed to be dealt with, and it was only going to increase.

"We're fully aware that some clients would call it over-regulation, but it's one of those trends that is only going to intensify".

This is because regulation is there to protect the integrity of the banks and wider economy, he said, as well as to deal with a range of hot button political issues, such as money laundering, terrorism financing and consumer and data protection.

McGoldrick said that, historically, financial services had been a rather conservative industry, but it has had to innovate to deal with a lot of regulation and compliance.

"That is where we're seeing a lot of innovation: secure customer authentication and partnering with RegTechs, for instance. If you can try and imagine the number of regulated entities and the number of customers they have to on-board, it becomes an impossibly labour-intensive process product, unless you use data-driven techniques or AI," he said.

Burdens across the board

The amount of reviewable material for larger regulated entities, including financial institutions, is significant.

Each week, regulation and compliance executives could expect more than 100 sources that have potential regulatory impact. Each business line would need to assess whether it was applicable and then be reviewed by a senior member of the team, including legal whether in-house or external counsel.

Ronan McGoldrick, head of financial services dispute resolution at Leman Solicitors LLP

For Leman, digitisation and digitalisation is a key answer in solving this, but human oversight remained essential. AI and data-driven techniques are creating cost-efficient and more effective ways to deal with such burdens, but human interaction and oversight is still critical.

McGoldrick and O'Connor agree that the role of the law firm has changed.

"Historically the law firm simply advised the client on how to react. That progressed to advising the client on how to anticipate. Now we partner with our clients using innovative proprietary and third-party technology solutions to meet compliance problems in an ever-changing regulatory landscape."

Interestingly, the regulatory burden is felt in different ways, by different kinds and sizes of business.

> "The balance is the same no matter what size you are

"An insurance broker won't have the same number of compliance requirements, but they also won't have the same resources," O'Connor said.

In that sense, the burden may balance out, but it remains a burden.

"A large organisation may look at AI or data-driven techniques in conjunction with in-house or external counsel, but a smaller one may need external counsel to assist them," he said.

What was important to understand, he said, is that the burden of regulation is across the board.

"You might think the greatest impact will be on a global financial bank with tens of thousands of employees, but, in fact, we see that the balance is the same no matter what size you are, no matter what resources you have," he said.

O'Connor said that one thing was certain: the burying of heads in the sand is not an option.

"Regulation is not going to fall away, in fact it's really only going to increase: look at data protection and how that has developed," he said.

The best of both worlds as financial services step up to a digital challenge

Technology has the potential to combine banks' wide product range with the agility and flexibility that consumers now demand

BY JASON WALSH

Tom Lane, group chief operating officer, CubeMatch

Changing consumer demands, market pressures and a tightening regulatory environment: financial services is in the middle of a paradigm shift, and digital transformation has been identified as the key to navigating the flux.

CubeMatch, a global change and transformation consultancy specialising in working with the financial services industry to renew processes and rethink technology, has found that the industry is well aware of the challenges.

"Clearly digital, however you want to look at it, is one big underlying driver, and different players are at different stages of that journey," Tom Lane, CubeMatch's group chief operating officer, said.

There is also the strange state of the global economy in the post-pandemic world. While consumers and businesses alike are now grappling with inflation, banks continue to find their traditional profit centre less lucrative than in previous decades. After all, interest rates remain low, and while the US central bank, the Federal Reserve, has signalled a series of interest rate rises for 2022 and 2023, the European Central Bank (ECB) rates remain on hold.

In a recent interview with Italian newspaper Il Sole 24 Ore, one ECB executive board member said the expectation was that inflation would be temporary within the eurozone, unlike in the US and Britain. While good news for consumers (if it pans out), it indicates that, for now at least, the ECB intends to hold firm on low interest rates.

Whether it really can do that in the face of inflation and interest rate rises elsewhere remains to be seen, though. If rates rise, one effect will be that incumbent banking institutions will be able to leverage their sheer scale as an advantage over the new challenger banks.

"As the rates go up it will favour the incumbents who have larger lending and deposit bases, so, all of a sudden, revenue streams for the big players are going to come back," Lane said.

The other advantage currently enjoyed by challengers and so-called 'neo-banks' – technology – has also been eroded in recent years, with large banks in Ireland and elsewhere in Europe making significant investments in IT and process modernisation.

"Certainly, the back-end legacy is in the process of being shifted. The gap between the agility of fintech companies and banks is going to narrow," he said.

Much of this work has been performed in-house alongside partners such as CubeMatch, and the aforementioned strong bases of the incumbents means it has been thorough.

> "Banks continue to find their traditional profit centre less lucrative than in previous decades

"They have the revenues and the deep pockets to be able to spend. They've been working on it ever since 2008, even before the genesis of some of the digital start-ups they got going in 2009 and 2010," he said.

Banking on tomorrow

Ongoing competitive advantage should not give rise to complacency, however. Neo-banks' offerings may as yet be narrow, but they are successful.

One perceived advantage is that they lack legacy technology. Arguably, this is merely the flip side of having a shorter history and a more limited product offering. Nonetheless, the ability to give customers what they want, such as instant reconciliation, is a technology issue.

The incumbent banks are working on this, Lane said, including by innovating at the back-end.

"One of our major clients is moving everything to the cloud, but it is a process. It involved six to eight thousand software developers worldwide, and the first step is to move the development environment over," he said.

Naturally, the ongoing skills shortage is an issue for many businesses, not least a bank. Banks, however, have added demands in the form of regulation and compliance.

Fraud, the sale of counterfeit goods, terrorism financing, money laundering, cybercrime, and more, are among the challenges which regulators have highlighted and banks have to deal with.

"The regulatory landscape continues to be a challenge, and that's an area where we help. We advise on policy and implementation and can do the big remediation on financial crimes work. Technology has a major role to play here," Lane said.

"The technology is catching up, certainly, but things aren't joined up. You can't share data with other players, you report it to the central authority, and that is not always a responsive process," he said.

Other regulatory areas continue to grow too, and just as banks get on top of one, another comes into play. "Environment, social and governance [ESG] is a very big topic at the moment," Lane said.

In the end, it is about navigating change, and while governments steadied the ship throughout the Covid-19 lockdowns, the fact remains that the final destination is not yet known.

"Take something like flexible working: this is something everyone has recognised that people want, and one of the smaller banks in Britain has moved to a four-day week," he said.