

THE WAY WE
BANK NOW 

It's in your hands

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The voice of banking

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The Way We Bank Now: It's in your hands

June 2014



The voice of banking

About the BBA

The BBA is the UK's leading association for the banking sector representing the interests of more than 250 member organisations with a worldwide presence in 180 countries.

Our member banks make up the world's largest international banking cluster, operating 150 million personal accounts for UK customers and contributing over £60 billion annually to UK economic growth.

We represent our members to policymakers, regulators, the media and all key stakeholders across the UK, Europe and beyond, working together to promote a legislative and regulatory system that helps customers, promotes growth and raises standards in the industry.

For more information on becoming a member and working with the BBA, visit: www.bba.org.uk/membership or contact: Richard Adler, Relationship Director, richard.adler@bba.org.uk

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Executive summary

1. A revolution is underway in how customers spend, move and manage their money. Millions of people are harnessing mobile phone apps, contactless cards, text alerts and a range of other technologies which give us more flexibility than ever before over how we manage our money. This is a world away from the days when customers had limited access to their cash and had to take time out of their day to do basic transactions that can now be done with a few taps of a screen. Not only does this make it easier for customers to bank – it also gives them more control over how they manage their money than ever before.
2. Take-up of mobile phone banking is proving faster than internet banking was in the last decade. Apps offered by banks have been downloaded more than 14 million times. Some of these services have already racked up well over 1 billion uses in just a few years. The advent of Paym – which allows customers to make payments from their mobile phone – will only accelerate the adoption of banking on the move.
3. Mobile phone banking is popular, but many customers still prefer internet banking for larger transactions. Nearly £1 billion a day is being transferred using the internet. While customers like the ease of checking their balance with an app on their phone or tablet, they often use a PC to transfer larger amounts or apply for a mortgage.
4. Customers want multi-channel banking. Mobile or internet banking will not be for everyone, but many people want options with the way they communicate with their bank – perhaps starting a mortgage application

on Twitter, before moving onto a phone call, then to a branch and finally completing the form online. Banks are answering tens of thousands of emails, Facebook messages and tweets – and as a result traffic to some call centres is falling. Banks are also deploying thousands of staff to help customers harness this new technology.

5. **The branch remains integral to banking in the 21st century.** Day-to-day branch use is falling sharply and while the size of these networks will decline, high street outlets will remain important for those bigger moments, such as when a customer takes out a mortgage, wants to assess their financial options or resolve a complaint. The on-going modernisation of thousands of branches underlines the banks' commitment to their high-street networks.
6. **More innovation is imminent.** Payment by text message has recently arrived, cheque imaging technology is pending and a host of other new innovations are being developed to give customers even more flexibility about how they manage their money. Competition from new challenger banks is only likely to increase innovation in the years ahead. Banks are also looking at biometric techniques to further tighten security and technology that could allow you to use your mobile as a bank card. Some experts believe banks should consider analysing their customers' spending habits to see if they can save consumers money on energy bills and other household costs.

Foreword

It's in your hands

Anthony Browne
Chief Executive of the BBA



A revolution is sweeping the country in the way millions of us choose to manage our finances.

The British public are embracing mobile banking, contactless cards and a range of consumer-friendly technology. Some of the figures illustrating this take-up featured in this report are dazzling.

Every day bank customers are using the internet to transfer almost £1 billion. Banking apps for mobile phones are proving incredibly popular and convenient – now being used 2.6 million times a day. Contactless cards and text alerts warning you when your balance is close to slipping into the red are also being used by millions of us. According to online YouGov polling done for the BBA in June 2014, 77% of customers use online or mobile banking at least once a month.

This has been a fascinating report to put together, and I'm very grateful to the contribution made by EY who have some inciteful thoughts about the wider benefits and opportunities of this technology.

I would highlight three things that this report tells us about banking and our country.

The first is that this is an industry-wide phenomenon. Banks of all sizes have contributed to this report. They include some of the biggest names in retail banking along with their growing rivals, who are fighting hard to win market share.

Secondly, this report shows that branches will remain integral to banking services in the 21st century – especially when it comes to taking out a mortgage, assessing your financial options or resolving a complaint.

The fact that banks are refurbishing more than 1,000 branches this year – clearly demonstrates that commitment.

Many people will want to do those day-to-day transactions from the palm of their hands because it's far faster than taking time out of their busy lives to visit a branch.

My final point stems from the title of this report. Glance through the opening section and you will see a history of retail banking. What progress there has been – especially in the last 30 years.

I'm certainly not misty eyed about banking in the 1970s. I shudder to remember the days when customers waited months for mortgages to be approved and when banks turned their back on millions of customers because they were not judged to be suitably lucrative.

And how many of us mourn those pre-ATM days when you had to reach the front of the queue in your local branch by 3.30pm on a Friday afternoon or face a cashless weekend?

Each of these steps – the advent of the cheque, then the cash machine and then the app – has made banking even easier for the customer. Reducing hassle and giving you greater control to bank wherever and whenever you please.

That online YouGov polling mentioned before is quite striking – 75% of business customers believe online banking has made it easier for them to keep a closer watch on your finances or cashflow. The same proportion think it has made it easier for their business to pay bills.

That progress and some of the tantalising innovations discussed in the third section of our report are merely the next step in an evolution in that passing of control from banks to their customers.

So what's the future of retail banking in Britain? It's in your hands.

Foreword

Digital Banking in the UK: Realising the promise

Tariq Khatri
Partner, FS Digital, EY



EY applauds the BBA for continuing to showcase the current and future significance of digital technology in UK banking with this second report on the topic this year.

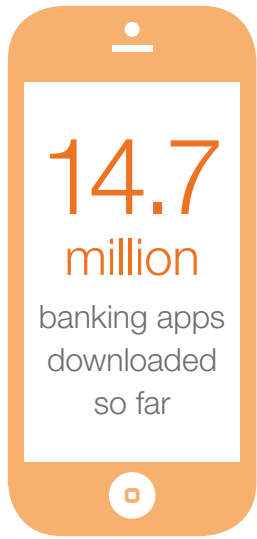
We believe that:

- The time and conditions are present for the UK to take advantage of a major step forward in digital banking for consumers and the developing UK financial technology sector.
- Delivering the “Digital Promise” for customers has the potential to make many major improvements to the lives of the British public.
- Collaboration between industry regulators and government is critical to address the customer protection, talent and regulatory oversight challenges.

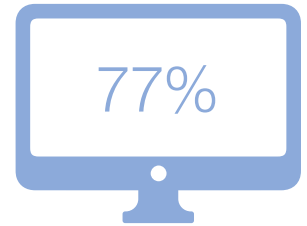
The first report was an important step forward. This second instalment is perhaps even more critical. Now, to truly realise the potential of digital banking as a force for good for UK plc, every stakeholder – banks, financial technology companies, customers, regulators and professional advisers such as EY – needs to engage in a regular exchange of views about what they want to achieve and how best to achieve it.

We thank the BBA for allowing us to contribute to their timely and topical report.

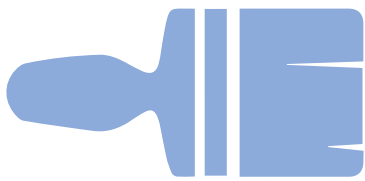
A banking revolution



£6.4 billion
– amount customers transfer per week using internet banking – up from £5.8 billion last year



– of bank customers use online or mobile banking at least once a month
(YouGov, June 2014)



2,274

bank branches have been refurbished in the past two years

93% – proportion of UK population living within a mile of a Post Office branch, which provides many traditional counter services for customers of most banks



Every 7.5 seconds

a bank customer signed up for payment by text services in the first month of Paym

1966
Launch of the Barclaycard – the first British credit card



1967
First ATM opened by Barclays in Enfield



1986
New legislation allows high street banks to sell mortgages



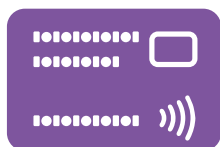
1987
First UK debit card launched



1990
Banks launch cashback services



Innovation across an industry



5.4 million

– number of HSBC and first direct cards fitted with contactless technology



190,000

– emails responded to by Nationwide each week

6.6 million

– uses of Lloyds Banking Group apps per week

2 million

– number of transactions completed on Barclays' in-branch iPads last year

85%

of Tesco Bank's transactions are now done via the internet



90,000 – customer tweets responded to by RBS in 2013

173

– increase in Handelsbanken branches since 2000 when there were just three



22% increase in weekly spend on contactless cards by Co-operative Bank customers between 2013 and 2014

10% – the proportion of NatWest and RBS transactions that will take place in a branch in 2014 – down from 25% in 2010

1997

Nationwide unveil first internet banking service



2003

Chip and Pin card security introduced



2007

The first contactless card transactions take place



2010

Mobile banking apps are launched in the UK



2014

Paym, near industry-wide payment by text technology, goes live



PART ONE

The Way We Banked Then

“Once past the magnificent walnut panelling round the area in front of the counter, the style of the office became decidedly utilitarian the further one got from the high street, with boilers that needed stoking three times a day and lifts that had to be cranked by hand.”

Harry Drury, former bank manager at the Midland Bank, describing his first job as a bank clerk in 1928

“Rationing might have been long gone by the 1970s, but this mentality applied when it came to mortgages. Typically there’d be a waiting list as funds were limited, and most people had to wait six months before they could get a home loan. But that was how it was.”

Former Woolwich employee

“It was revolutionary when it launched. Though we did have one employee ask ‘how do you get money out of the telephone?’”

One of first direct’s first employees

The Way We Banked Then

Things often appear different in the rear-view mirror. Some observers look back on banking in decades gone by with nostalgia as a golden age for the customer. But was that really true?

There was a time when it was not uncommon for mortgages to take six months to be approved. Merely getting an appointment to discuss a home loan could be a challenge. Fifty years ago there were no such things as credit cards, direct debits or unsecured personal loans.

Getting hold of your money was by no means easy either. Until cash machines became widespread in the 1980s millions of us would have to travel to our local branches to make a withdrawal or even check our balance. These austere, wood-paneled outlets usually closed at 3.30pm and were seldom open at weekends.

Queues in supermarkets and shops were longer as customers took time to scribble out and sign cheques – rather than flash their card at a reader in a few seconds.

And that was for those who were lucky enough to be customers. Millions of people were not considered appropriate to even hold a bank account.

Vigorous competition and technological innovation in the banking industry gradually swept all this away. Over the years banks launched a range of new services to win customers from their rivals. This evolution has made life easier for millions of customers and given us more and more control over how we manage our money.

The following pages explain the Way We Banked Then – and how far we've already come.

1. How retail banking began

The first banks in the UK grew out of the goldsmith industry. As part of their trade these goldsmiths exchanged foreign currency, keeping some in hand to supply overseas travellers and melting down the rest. Crucially, goldsmiths were trusted custodians of money and other valuables for those who had no safe means of keeping such items at home.

During the 17th and 18th century these “goldsmith bankers” developed an efficient system of private banking in London and some of the companies formed then still survive today. Coutts & Company, now part of the Royal Bank of Scotland, dates from 1692 and Hoare & Co – now one of the UK’s oldest private banks, was founded at a similar time.

When the Industrial Revolution began there was a need for banks in the Midlands and the North to provide capital for expanding businesses. Unable to use goldsmiths, it was left to local industrialists, traders and local revenue collectors to start their own banks.

Many of these “country banks” were linked to specific trades and specific areas, such as the iron and steel industries in the Midlands, the cotton and wool trade in East Anglia, or tin mining in Cornwall. While primarily offering banking services for industrialists, some also offered basic banking for those working in these industries, via “tokens” that could be cashed in at these banks.

However, many of these fledging banks failed in the aftermath of the Napoleonic wars. In order to stabilise the banking industry, a Parliamentary Act led to the creation of the so-called joint-stock banks.

This was the name given to companies that were owned by several people and effectively allowed these new banks to raise more capital. It also enabled the owners to pool both resources, and risk, to finance larger enterprises.

Joint-stock banks gradually took over many of the smaller, local country banks and began to open more branches – ultimately leading to the modern branch network we have today.

This branch system provided a more stable structure, as a bank’s finances were no longer linked to one industry, or one area. This process of consolidation continued during the late Victorian and Edwardian periods.

By 1866, there were 154 joint-stock banks with 850 branches and 246 private banks. By 1900 the 77 joint-stock banks had 3,757 branches and there were only nineteen private banks left. By 1918 there were just five large banks in the UK, and six smaller concerns.

2. The bank branch

It may seem extraordinary, but many bank branches did not open every day until halfway through the last century.

1659



Earliest known cheque issued by Morris & Clayton, a London-based firm of scriveners, bankers and estate agents. The value was £400 – around £50,000 in today’s money.

1694

Bank of England founded, primarily to raise money for the war with France (the Nine Years’ War). The founders gave the Government a loan of £1,200,000 – with interest charged at £100,000 a year. In exchange the Bank received a Royal Charter.

1717

Bank of England prints first cheques.

1728

The Royal Bank invented the overdraft, one of the most important banking innovations, by allowing William Hog, a merchant, to take out of his account £1,000 (£63,664 today) more than he had in it.

1750s



As UK trade expanded, the first provincial “country” banks appear. They were usually run as partnerships to serve the local area and were mostly used by the landed gentry or the merchant class.

1765

Taylor & Lloyds Bank – which would ultimately become Lloyds Banking Group – founded in Birmingham.

1826

The first “joint-stock” banks were set up under the 1826 Banking Act. These organisations could issue their own bank notes. They gradually start to take over and consolidate the older “country” banks.

1826



The Royal Bank printed the first double-sided banknotes in another effort to thwart the counterfeiter – a century before the Bank of England.

1850s

Start of the first savings banks offering deposit services for ordinary people. Eventually merged to form Trustee Savings Banks.

1880



First credit voucher – a pre-cursor to credit cards – was introduced in the UK by the Provident Clothing Group. Customers were issued with vouchers that they could use in shops on an approved list. Payment would be made to the Provident Clothing representative, who called at the customer’s home.



Opening hours were designed to coincide with local market days.

HSBC’s Barnstable branch recently celebrated its centenary. But when it opened in 1914, customers stepping into the City and Midland Bank would have had a very different experience.

Inside this bank branch, customers would have approached a line of clerks standing behind a counter surrounded by large ledger books that would be used to record the day’s business. The range of services tended to be limited to providing businesses with advice and small loans, receiving customer deposits, authorising withdrawals and cashing cheques.

At this time if a customer wanted to make a withdrawal from their account, their signature would be taken and carefully checked in ledger books which held a copy of every customer’s signature.

At the end of every day the various books would be meticulously inspected to ensure that every penny that came into and left the branch was accounted for. This explains why banks (when they started opening daily) would close their doors at 3 or 3.30pm – as this gave staff another few hours to ensure the books balanced.

During the interwar years banks extended their branch networks, often by merging or taking over smaller banks. At this point banks and building societies were far less centralised than they are now. Most banking transactions were carried out in the branch itself rather than in a central processing centre. Banking records were all paper-based – relying on manual typewriters, ledger-posting machines and hand-written reference cards.

The 1960s and 1970s saw the introduction of new technology that made banks more efficient. Staff no longer had to manually update banking records, instead they could be processed by central computers. To make this easier bank and deposit accounts were given account numbers and sort codes, while cheques were produced with magnetic figures, allowing them too to be sorted electronically.

It took time for all branches to enter the next generation. HSBC’s Barnstable outlet only became computerised in May 1974.

Despite more modern glass decors, many branches retained their older traditions. Many decisions – particularly to do with lending – were still made at the branch level. Many branches still closed at 3.30pm, and while some banks started opening on Saturdays – to compete with the building societies for mortgage customers – this was usually only in the morning.

Queues were still commonplace, particularly on Friday afternoons as people waited to cash cheques and withdraw money for the weekend.

Telephone banking

The number of customers visiting bank branches started to decline in the 1990s, with the introduction of telephone banking and a far more extensive network of ATMs.

Girobank launched telephone banking services in the early 1980s, but first direct launched as the world's first telephone-only bank in 1989. This allowed people to talk to a member of staff 24-hours a day, 365-days a year. Customer surveys had shown that people wanted speed, convenience and service.

Uniquely, this would be the first bank without any branches, although customers had the option to use a Midland Bank branch for cashing cheques and some other services.

Customers did not seem to miss their local branch. Following its launch first direct was dealing with 2,000 calls from customers a day. By the end of the first year, 100,000 customers had joined.

In time all major banks offered telephone banking. Only in recent years, with the advent of internet and mobile banking, has the use of telephone banking started to tail off.

YouGov polling from June 2014 for the BBA shows that less than 10% of customers use telephone banking at least once a month.

3. Owning a home

Arranging a mortgage before 1980 could be a protracted, uncertain and stressful process. Far more restrictive credit controls meant that high street banks were not able to provide the finance for mortgage lending. As a result, 90% of home loans were provided by building societies and they could effectively only lend the equivalent value of the assets they had on their savings books.

Competition was almost non-existent. The Building Societies Association (BSA) was officially sanctioned to recommend the interest rates that institutions should levy on mortgages and savings products. Many lenders closely followed these guidelines. Although there were more local building societies than there are now, homebuyers had a far more limited choice of mortgage deals.

The 1980s consumer had a simple choice: an endowment or a repayment plan, the latter of which typically had a higher

1920s

Collapse of Farrow's Bank. Credit problems in 1920s and 1930s lead to consolidation within the industry.

1950



Launch of the Diners Club Card in the US, the first credit card. It was created by businessmen Frank McNamara after an occasion when he did not have enough cash to pay for dinner.

1954

Commercial Bank of Scotland is the first British bank to move into hire purchase.

1958

Midland Bank – now HSBC – becomes first UK bank to offer unsecured personal loans. Such was their success that the then prime minister, Harold Macmillan, wrote to the bank's chairman and said: "You certainly put the cat among the pigeons. I shall send my application in due course."

1963



American Express was launched in the UK with an annual fee of £3 12s (around £66 in today's money) and a required income of £2,000 (now about £36,540). The card could be used in 3,000 UK outlets and 83,000 places overseas.

1966

Barclays launched Barclaycard, the first British credit card.

1967

The world's first cash dispenser was opened by Barclays in Enfield. Customers needed to purchase special vouchers to use in the machines.

1969



Cheque guarantee cards launched, initially for payments of more than £30. This is later increased to £50 – with some special cards guaranteeing cheques of £100 and £250. They were phased out in 2011.

1970

Direct Debits, making bill payment easier for millions of people and in time helping to save customers money, are launched.

1972

Lloyds Bank 'Cashpoint' is the first online ATM machine using plastic cards with a magnetic stripe.

1972

Access credit cards launched by the then Midland Bank, National Westminster Bank and Lloyds Bank.

1972



The Royal Bank became the first British bank to offer a house purchase loan scheme to customers.

1974

Williams & Glyn becomes the first British clearing bank to offer free banking for personal customer accounts in credit.

interest rate. Customers paid the lender's standard variable rate for 25-years. There were no fixed rate mortgage deals, discounted deals, caps, collars or offset mortgages.

This lack of supply meant that most homebuyers often faced a lengthy wait to get on the housing ladder. Most building societies would expect customers to have saved regularly for at least six months before they were prepared to discuss a mortgage application.

After going through the application process, those that were approved would then be placed on a waiting list. Typically it would be a further six months before the mortgage funds would be released. In some cases there could be a wait of two years. This Prime Minister actively encouraged banks to enter the mortgage market. In 1980 banks accounted for 5% of net mortgage lending. By 1982 that had risen to 35%.

This situation began to improve in 1979, as the Thatcher Government started to liberalise the money markets. In the mid-1980s a number of new mortgage companies, known as centralised lenders, entered the market.

In 1986 the revision of the Building Societies Act eased the credit restrictions on high street banks. It also gave more flexibility to the building societies to offer a range of other financial services – from insurance and investment plans to estate agency services.

With interest rates no longer set by the BSA, there was renewed competition, with fixed, capped and collar rates becoming popular.

Rising house prices, more flexible mortgage deals and new rules enabling people to buy their own council properties led to a surge in home ownership and demand for these new mortgage deals. In the 1950s, just 30% of the population were home owners. Today, that figure stands at 66% – down from 71% in 2003.

4. Personal loans

Borrowing to buy a home was one thing – but taking out credit to buy a car or household goods was a different matter.

In the 1960s Midland Bank – later part of HSBC – launched the first personal loans and kick-started a revolution in banking services. Until then, those wanting to purchase more expensive items either had to save up or enter into a hire-purchase agreement with one of a limited number of finance houses.

This situation changed when banks started offering personal loans, which were designed specifically to enable people to go out and buy the new consumer goods that were starting to be more widely available – be it cars, washing machines or cheap televisions.

Initially these loans were available to bank customers and non-customers alike. Only one reference was required –

usually a letter from the applicant's employer saying that they were in employment and of sound character.

These loans proved to be such a huge success that other banks soon started offering similar credit services. This innovation had two consequences: it extended banking services to a wider proportion of the population. Some of those who went into a bank branch to apply for a loan also opened a bank or deposit account.

This also encouraged banks to diversify away from their core business to offer a wider range of financial services, including credit cards, mortgages, insurance and investment management.

"If you had been standing on the other side of Walsall Road, facing the Midland Bank in Darlaston, about 9.45 one September morning in 1958 you would have observed a most unusual spectacle... a queue outside a bank! It was not just a few people waiting their turn at the counter. This was a queue stretching back some 70 yards along the pavement. One had seen queues outside the cinema, for sales at the big stores, or at a football match... but a queue outside a bank. It was, to put it mildly, an unprecedented sight."

Harry Drury, manager of the HSBC Darlaston Bank, recalls the introduction of personal loans.

5. Credit and debit cards

Back in the 1960s and 1970s the vast majority of transactions were paid for by cash or cheque. When Barclays launched the UK's first credit card – the Barclaycard – in 1966, attitudes to debt were very different. Many held the view that these new credit cards were an "undesirable American influence". There were concerns that this "plastic money" would fuel inflation by encouraging people to buy goods with cash they didn't have. Questions were asked in the Houses of Parliament.

Despite some deep held reservations about "paying on the tick", the benefits of being able to spread the cost of large purchases and the ability to buy now – rather than save – ensured that the number of people using credit cards steadily increased.

By 1973 Barclaycard had 2 million customers. This growth was in part helped by glossy advertising – designed to appeal to a more aspirational and affluent consumer class. The Barclaycard was followed by the Access card in 1972 – offered by Midland, NatWest and Lloyds.

Initially the amounts that people could borrow were relatively low. The first Barclaycard customers had a credit limit of either £100 (£1,055 in today's money) or £200 and



1979

Margaret Thatcher's Conservative Government came to power. The start of the liberalisation of many monetary and financial regulations.

1986

Revision of the Building Societies Act. This paved the way for high street banks to sell mortgages and for building societies to offer current accounts, insurance and investment products.



1987



First UK debit card launched: Barclays Connect.

1988

"Switch" debit cards launched by Midland, NatWest and Royal Bank of Scotland.

1989

first direct, UK's first telephone bank launches. This new entrant was the first bank to offer a 24-hour banking service, 365-days a year.

1990



Cashback launched, allowing customers to withdraw money when doing their supermarket shopping. More than £7m is withdrawn via cashback in first year, with the scheme later extended to more retailers, pubs and other places.

1990



Year of peak cheque usage – with more than 11 million cheques written a day.

1997

Nationwide Building Society launches first internet banking service.

1997



Sainsbury's launched the first supermarket bank. Tesco – in a joint venture with RBS – also started offering banking services.

1999

The launch of first internet-only banks, such as Smile, Egg, and Marbles.

2003

Introduction of first 'Chip & Pin' credit and debit cards.

2007



The UK's first contactless card transactions took place. This technology offers a quick and convenient alternative to cash for low-value transactions.

were charged interest at 1.5% a month if they had not cleared the balance after 25 days.

It would be another 20 years before debit cards were introduced. Competition was once again the catalyst. Barclays launched its Connect card in June 1987. Less than a year later Midland Bank, NatWest and Lloyds launched their own debit card – the Switch card.

Credit cards might have come over from the US, but UK banks were the first to pioneer these new current accounts cards. Within seven years, half of all adults in the UK had a debit card in their wallet. It took 33 years for the same proportion of the population to have a credit card.

6. A chequered history

In 1990 the banking industry processed a total of 4 billion cheques – the highest annual number recorded. Many of these cheques were backed by cheque guarantee cards, first launched in 1969, but soon incorporated with the new debit cards.

Cheque usage has declined rapidly in recent years. Between 2006 and 2011, the number of cheques written fell by 45%. In 2011 just 970 million cheques were written – half of which were for less than £100.

However, for many customers cheques are still a useful way of making payment, particularly to small traders or friends and family.

7. Access to your cash

The first Automated Teller Machine – or ATM – was opened by Barclays at its Enfield branch on June 27, 1967. Reg Varney – the star of television's *Beggar thy neighbour* and *On the Buses* – unveiled the first machine, which for the first time allowed customers to access their money outside of traditional bank opening hours.

Competition between the banks soon led to more sophisticated machines. Lloyds developed its own ATM, known as a "Cashpoint". This was launched in 1972 and was the first online machine, where withdrawals were automatically deducted from a current account. These machines were also the first to use plastic cards with a magnetic strip. Until then ATMs had used a punch card returnable via the post.

This innovation was soon adopted by the other main banking groups, making it far easier for customers to get their own money.

Refinements meant that by the early 1970s these machines could print statements as well as dispense cash. Customers just needed a bank card and a new Personal Identity Number (PIN) to get cash 24-hours a day, 365-days a year.

The number of ATMs mushroomed. Barclays initially launched just six cash-dispensing machines. But by 1975 there were 568 ATMs around the country. During the 1980s the number of ATMs rapidly increased from 1,707 in 1980 to almost 16,000 by the end of the decade.

Competition between banks can improve the products available, but sometimes it is co-operation that enhances customer service. In the mid-1980s Barclays, Lloyds, Royal Bank of Scotland and Bank of Scotland teamed up to ensure their customers could all use one another's cashpoints.

Midland Bank and the National Westminster Bank forged a similar reciprocal arrangement.

Both networks later merged to become part of the LINK network – giving customers free access to the vast majority of ATMs in the UK.

The early cashpoint machines were typically situated outside – or in some cases inside – bank branches. But ATMs soon appeared in supermarkets, on high streets, in cinemas, on garage forecourts and in corner shops. Barclays launched the first drive-thru ATM at Heathrow Airport – opened by Bucks Fizz singer and TV presenter Cheryl Baker.

Now there are more than 67,500 ATMs throughout the UK, with 70% free for consumers to use, regardless of whom they bank with. Around 97% of withdrawals from this network are free.

In 1990 banks started allowing customers to get cash back from supermarkets and other shops. Lloyds Banking Group says that 9 per cent of all supermarket transactions include cash back, with an average of £25 per time.

As with taking out a mortgage, even getting hold of your cash in the last century was far from straight forward.

In just a few decades the way we bank has become easier, faster and more convenient.

2008

The launch of faster payments – which for the first time enabled internet and phone banking payments to be made almost instantaneously 7 days a week.

2010



Debit card expenditure on the high street exceeded cash spending for the first time.

2010

Launch of mobile banking, with the first apps allowing customers to check balances.

2011

first direct unveiled the first banking app, letting people do transactions from their mobile phone.

2012



Barclays launched Pingit – the first app that allows customers to make instantaneous payments using just mobile phone details.

2013

New Current Account Switch Service launched making changing bank accounts faster, easier and hassle-free.

2014

Paym – the new mobile payment service is launched. Customers need just a mobile phone number to transfer funds.

2014

Tesco enters the current account market.

Conclusion: The Way We Banked Then

Banks started life as a safe place to keep our money, but it did not take long before customers started to benefit from a number of innovations.

Lending to businesses took off when the Industrial Revolution began and some banks provided “tokens” for workers to redeem their wages. Soon joint-stock banking bought hundreds of branches to Britain’s high streets.

The bygone era of paper trails and ledger books was not quite over by the time computers started to transform banking in the late 1960s. Refurbished branches, magnetic strips and cash machines suddenly gave customers more choice and control over how they paid for goods.

Change continued to sweep through the industry as reforms to the mortgage market and advances in technology led to the introduction of a flurry of new products and services in the 1980s – many of which are still here today.

But banking was still too often for the few, not the many. Too often customers found themselves facing lengthy waiting times and limited services. There was plenty of room for improving the way we banked then.

PART TWO

The Way We Bank Now

“Do you know what our busiest bank branch is in the UK? It’s our mobile app on the 7.15am train to Paddington.”

Ross McEwan, Chief Executive of RBS Group

“By becoming more focused on the customer, branches are becoming less like a dental surgery, where people rush to be in and out in the minimum time.”

Steven Roberts, Head of Strategic Transformation at Barclays

“Social media is rapidly becoming the channel of choice for people to contact us – and Twitter is particularly popular.”

Tony Prestedge, Chief Operating Officer at Nationwide

The Way We Bank Now



Apps offered by major banks have already been downloaded on more than 14.7 million occasions.

It is nothing short of a revolution and the evidence is all around us.

The Way We Bank Now is allowing millions of customers to pay bills, check their balances, apply for credit and do a host of other banking services wherever and whenever they please.

Contactless cards are cutting shop queues. Balance alerts by text message are helping us avoid charges. Cheque imaging technology will soon ensure we get what we are owed more quickly. Innovation is even improving the quality of the service to older, visually impaired and disabled customers.

And technology is also radically changing the relationship between banks and their customers. Our parents and grandparents queued up in branches or waited weeks for appointments. Now we can talk to our bank by phone, email, Twitter, Facebook or on Skype when we want. This is increasingly a relationship on our terms.

Make no mistake, the branch will remain at the heart of banking services in the 21st century. But the way we use our banks' high street outlets is changing. Many of the traditional banking transactions are now done online and branches are becoming the place to ask questions about a mortgage, assess your financial options or simply log-on to the free wifi.

It's already been quite a journey and there's even more to come...

1. Banking on the move

Mobile banking has transformed the way that people manage their money. These services – most launched less than three years ago – are now used by millions of customers on a daily basis to carry out their day-to-day banking: be it checking balances, transferring money or paying bills.

The speed at which this technology has been embraced is phenomenal, with a far faster take-up than either internet or telephone banking services. Apps offered by major banks are being used 18.2 million times a week in 2014.

Around 167,000 RBS customers use their mobile banking app between 7am and 8am on their morning commute. On Friday 30 May 2014 the bank's app had 3.65 million log-ins – its busiest day so far. NatWest and RBS's mobile app has received more than 1.25 billion log-ins so far.

Lloyds Banking Group's weekly app use has risen from 2.1 million uses in 2012, to 4.7 million in 2013 and now 6.6 million so far this year. More than £1.7 billion is transferred a week using mobile phones or tablets – a 40 per cent rise on the previous year. Banking apps for the group – which includes Halifax and Bank of Scotland – have been downloaded more than 7.2 million times. At peak times, the app has been used 138 times per second.

This rapid rise in app use looks set to continue. According to the European Financial Management Association, 60% of all banking transactions will be conducted on mobile devices within three years.¹

Anthony Thompson, the former chairman of Metro Bank now setting up his new challenger bank Atom, agrees. "The direction of travel is absolutely clear. Whether it's three years, or five years, it is clear that banking will largely be done on mobile phones and tablets, not in bank branches. Banks need to adapt to this new reality."

Customers are leading this charge. Millions of people who have become sophisticated digital users now expect the same convenience, speed and functionality from their bank – with the same level of security they would get from a bricks and mortar branch.

Banks have had to reallocate considerable resources to support and enhance their digital services to meet this growing customer demand.

It is perhaps too simplistic to plot the exponential rise in mobile banking against a decline in bank branch usage. It is worth noting that since mobile banking apps first became available, there has been a moderate decline in the number of people using telephone banking services. HSBC, for example, has seen the call volumes decline by 5% this year, and just over 4% the year before.

It appears customers who have become used to banking "remotely" by phone, now find it as quick and as convenient to bank online. For many customers mobile or online banking is not solely an alternative to other banking channels, it is a helpful extra that gives them more options over how they carry out different types of transactions.

It is also misleading to compare the uptake of mobile banking to that of internet banking. By the time mobile banking applications were launched there was already a mature smartphone market – which had a critical mass of people using smart phones and tablet devices.



Around 167,000 RBS customers use their mobile banking app between 7am and 8am on their morning commute.



More than £1.7 billion is transferred a week using mobile phones or tablets – a 40 per cent rise on the previous year.

¹ European Financial Management Association (ESMA), 2014. *Mobile banking: The dawn of a new era for retail banks*. [Online] Available at: <http://www.efma.com/index.php/resources/studies/detail/EN/1/507/1-YQ1TH>

Eight out of 10 Barclays' consumers – for example – were already making digital transactions – be it ordering groceries, booking holidays or downloading films and music. This has paved the way for the huge growth in digital banking. Online YouGov polling for the BBA from June 2014 found that only 16% of customers never use online or mobile banking.

By contrast, when internet banking launched – back in the late 1990s – a far smaller proportion of the population had access to the internet. The web was primarily a source of finding and reading information, rather than a transactional tool. At the time the underlying technology was also far more limited, with people initially relying on dial-up, and then far slower broadband capability.

Crucially too, switching from internet banking to mobile banking is less of a culture shift than moving from branches and phone banking to the internet.

Nick Williams, Consumer Digital Director at Lloyds Banking Group, says: “There is no doubt technology is giving us all better control to manage our own finances. Around 60% of our mobile banking logins are simply to check a balance and with instant access to setup new beneficiaries and transfer payments instantly on our new app, this means customers are in control.

“Our focus on digital is customer-led. Our aim is to making things easy for our customers to bank where they want, how they want, when they want – technology in everyday life is driving this expectation and our ability to meet it.”

2. Internet banking

Mobile banking is only part of the digital experience. Many people using these apps aren't on the move at all, but paying bills, transferring funds and checking balances from the comfort of their own sofa, while watching TV in the evening.

Lloyds Banking Group now say that 40p of every £1 spent on debit cards is now spent online. In May 2014 alone 8.8 million of the group's customers accessed 16.4 million accounts online.

Mobile banking apps have been designed to dovetail with existing internet banking services. The latter are accessed through online browsers and usually offer more services than mobile apps – although the difference between the two is narrowing.

More than 14 million mobile and internet transactions are processed each week. Customers tend to log onto mobile bank apps more frequently, but transfer significantly more money using conventional internet banking services. Around £1.7 billion a week is transferred using mobile banking apps by customers of major banks – compared with £6.4 billion for internet banking over the same period.

It seems that despite the rapid rise of mobile banking, there are still significant numbers of people who bank online but have not yet embraced this mobile technology. Although many mobile banking apps now offer increased functionality, most don't quite replicate the services available through internet banking. If customers are setting up a new payment, standing order or Direct Debit, this typically has to be done on a computer



Around £1.7 billion a week is transferred using mobile banking apps by customers of major banks – compared with £6.4 billion for internet banking over the same period.

for additional security reasons. If this is a Direct Debit or regular payment it is likely to continue to be paid through this channel. Some customers may also feel more confident using internet banking – rather than a mobile – to transfer larger sums of money.

3. Contactless cards

We've had plastic cards in our wallets for more than 40 years. But while outwardly they might look much the same, the technology embedded in them has changed beyond recognition.

Some of these developments have improved card security. Just over a decade ago most cards had a magnetic strip and needed a customer signature to authorise payment. These were replaced by Chip and Pin technology in 2003, which required customers to enter a four-digit passcode. This innovation helped cut fraud.

In a parallel development banks, retailers and transport providers began looking at whether plastic cards could be used instead of cash for smaller purchases. Here, it was convenience driving this innovation, with shoppers able to 'tap' a card on a reader to make a payment, rather than fiddle about with small change. The first of these cards were sent out to customers in 2007.

Today, there are now more than 28.4 million contactless-enabled bank cards in circulation and 147,000 terminals in use. Most debit cards issued today automatically include this new technology, allowing customers to 'tap and pay' for smaller items (up to a maximum of £20) or use the Chip and PIN for larger purchases.

Over the past 12 months there has been a significant rise in the number of people using this technology. The amount of money now spent on these cards each week has almost doubled, in the space of just a year.

Banks expect these figures to climb steeply in the next few years as the number of people with contactless cards in their wallets and the number of retailers offering this as a payment option reaches a critical mass.

Royal Bank of Scotland expects to process payments from 44 million contactless "taps" this year. This is a huge increase on the 14 million "taps" it processed in 2013 and the 3.5 million in 2012.

4. Paym and other mobile payments

When it comes to money transfers customers expect their bank to pass on their money quickly and securely, at no extra cost. Most people don't look under the bonnet to see whether these funds are being transferred by BACS, CHAPS or Faster Payments – the only key factor is how long this transfer takes.

The first of a series of major breakthroughs came in 2008 when the industry came together to introduce Faster Payments. The service allows customers of UK banks and building societies to make one-off electronic payments whenever they want, whether they are transferring money to a friend or paying an energy bill online.

All you need to know is the recipient's sort code and account number to transfer up to £100,000 in a matter of minutes. The ability to pay for direct debits online has saved customers millions of pounds.





£525m

Since launch, the Pingit app has been downloaded 3 million times and transferred £525 million.

More than 3 billion Faster Payments have been made since its launch – that works out at more than £75,000 for every UK household – and the speed, convenience and security it offers have underpinned the surge in internet banking.

A new service called Paym, launched by the Payments Council in April 2014, has helped make sending and receiving money even easier. It enables electronic payments to be sent as quickly and securely as before, but makes things simpler by linking bank accounts to mobile numbers – no more sort codes or account numbers are needed. To make a payment through Paym, customers use their existing mobile banking or payments app to select a mobile number from their contacts or enter the mobile number manually. As part of the process they are asked to confirm the name of the recipient – so customers can be sure they are paying money to the right place. All providers will let their customers send at least £250 per day, although this can be in some instances a bit more. In the space of three months, more than 750,000 people have signed up to Paym.

In the space of three months, more than half a million people have signed up to this service. This isn't the first mobile payment system in the UK – Barclays launched its own Pingit service two years ago. Since launch, the Pingit app has been downloaded 3 million times. To date £525 million has been sent using this service. RBS also launched a similar service in 2012 and their customers can use their mobile to withdraw cash if they don't have their bank card to hand.

But the fact that Paym has the backing of the majority of the larger banks in the UK helped to build a wider network of users and inspires confidence among consumers that the system is secure.

Paym is an example of suppliers and service providers working together for the benefit of the consumer, which is vital when it comes to building trust. This is clearly a convenient way for individuals to pay one other. It removes the need to divulge – or remember – account numbers and sort codes.

In addition, as this payment is made on a mobile phone it is easy to set up a two-way authentication. Before the payment is made, the mobile number is matched to the account holder's name, so customers can check they are transferring money to the right person.

Paym is an important development as it has the backing of the majority of the larger banks in the UK and will be available to nine out of ten current account customers by the end of the year. This wider network of users inspires confidence among consumers and is an example of suppliers and service providers working together for the benefit of the consumer, which is vital when it comes to building trust.

Given that the majority of the adult population now owns a mobile phone, this technology has the potential to dominate the way people make person-to-person payments. The Centre for Economics and Business Research forecasts that by 2020, 20 million adults will use their mobile to pay for goods and services.²

And Paym also has the potential to improve payment processes for businesses. Participating banks and building societies are able to offer Paym to small business customers such as market traders and home

² The Centre for Economics and Business Research (Cebr), 2014. Mobile Payments to Boost UK Economy. [Online] Available at: <http://www.cebr.com/reports/mobile-payments-to-boost-uk-economy/>

businesses, enabling them to accept mobile payments without having to sign up for expensive hardware contracts.

5. Cheque imaging

Compared to contactless cards, mobile payments and even Chip and Pin technology – cheques seem positively antiquated. This paper-based system dating back to the 17th century is still regulated by the 1884 Bill of Exchange Act. It has seemed fairly immune to digital innovation – until now.

Barclays is pioneering a new system which allows customers to cash in a cheque simply by taking a photo of it on their mobile phone. At present this system is only available to Barclays customers who are banking a Barclays cheque – but the bank says it hopes to extend this service, through joint arrangements with other banks.

Steven Roberts, Barclays' Head of Strategic Transformation, says improving customer service lies at the heart of this initiative. "The reason we've done this? It's borne out of frustrations with the current cheque clearing process and the fact that not all banks are moving at the same speed when it comes to improving this service for customers."

Under this new system the old 2-4-6 clearing system is completely transformed. Once the mobile banking app verifies that the cheque is genuine – a process that takes around 2 seconds – the money is then debited from one account and credited into the recipient's account instantly.

Barclays says it is "very excited" about this new technology – which so far has had very positive feedback from regulators, politicians and, most importantly, customers.

Cheque usage might have declined significantly in recent years, but it is clear that they remain a vital part of the banking system. This new technology brings this payment system into the 21st century.

6. Communicating: Texts and social media

Technology has allowed banks to dramatically improve the way they talk and listen to their customers. It is no longer cutting edge technology, but much of this communication can be done via the humble text message.

Under the old banking model, customers typically had to contact their bank when they wanted information: either by going into a branch, phoning a call centre, or logging into their account.

But now this information can be sent to customers, via a text message, either on a weekly or daily basis. Smarter data use means banks can gauge when customers are likely to ask for statements or balance updates, and ensure this information is sent in advance.

The other prime use of the text alert is to warn customers that they need to take action to avoid charges: typically because a customer is nearing their overdraft limit.

Banks are now among the biggest text generators in the country. Lloyds Banking Group alone sends 3.8million SMS messages a week.

Text alerts can also ensure that customers are contacted immediately if there is suspicious activity on their account. Previously if there was

Steven Roberts, Barclays' Head of Strategic Transformation, says improving customer service lies at the heart of cheque imaging. "The reason we've done this? It's borne out of frustrations with the current cheque clearing process and the fact that not all banks are moving at the same speed when it comes to improving this service for customers."



HSBC texts:

52% are balance alerts,

33% are balance updates,

15% are notifications that a purchase above a set amount has been made.



RBS Group has sent 90,000 tweets to customers and posted 10,000 Facebook messages.

suspect activity a transaction would simply be blocked – potentially inconveniencing customers who are making a genuine purchase. But the ability to contact customers at the point of a purchase has improved these service standards.

Social media is also changing the way people communicate with each other – and with their banks. The reach of networks like Twitter and Facebook mean that they can be an effective way for banks to disseminate information to millions of customers – whether it's updates on service information or details of the latest product offers.

RBS Group has sent 90,000 tweets to customers and posted 10,000 Facebook messages in the past year. Major banks typically respond to 1,341 tweets a day, and this number is expected to rise significantly over the next few years. It's not just banks that have latched onto the potential of social media. Customers are increasingly finding that it offers a convenient and direct way of contacting companies. Anecdotal evidence suggests that the social media teams can often resolve problems quickly and efficiently.

Social media is a growing and important communications tool for banks, and particularly younger customers. But it's important to put this in context – banks receive more than 7,000 tweets a week from customers, but over the same period they pick up more than 2 million phone calls.

Tony Prestedge Nationwide's Chief Operating Officer

"Social media is rapidly becoming the channel of choice for people to contact us – and Twitter is particularly popular. It enables thousands of people to talk to us at a time that is convenient to them. Social media allows customers to talk to companies, ask questions or share their opinions. It also gives us the ability to provide rich media content, such as videos and guides, in the way people want it, whether that's via their computer, phone or tablet.

"To believe we can continue as an industry on the basis of a 9am to 5pm working day is archaic. Technology and consumer behaviour is constantly moving and as an organisation which prides itself on digital innovation, we feel very strongly about opening up our channels to suit all lifestyles. The age of the pen and letter is still very much alive, but we need to understand that society is diverse, not least technologically.

"At Nationwide we've embraced Twitter, along with other social media channels. It is no longer a poor relation to channels such as the phone. In fact, it complements more traditional services, as we often start conversations with the customer on Twitter before migrating them to the most suitable channel, whether that is the phone, email or otherwise. However, in its own right, it is a speedy, flexible and user-friendly service."

7. How technology is changing lending

As we have seen digital technology has transformed the way customers carry out day-to-day banking transactions, communicate with their bank and transfer money. It is also starting to alter the way many consumers borrow money.

John Sills, Head of Customer Innovation and Perception at HSBC, says that “over the next few years the lending landscape will change”. “Banks may no longer be the first point of call for those looking for credit,” he says. “The question is how they can adapt their services to meet the needs of future borrowers.”

Some banks believe there is clear consumer appetite for more automated lending processes that don’t involve visiting a branch or signing lengthy credit agreements – as well as the technical ability to deliver it.

Last year Barclays included unsecured lending within its mobile banking app. This gave customers a pre-approved credit limit – as well as showing them what monthly payments would be on loans up to this limit. In the space of 12 months the bank now sees half of all its unsecured lending completed without a customer stepping into a bank. Lloyds Banking Group says that customers applying for a loan online typically complete their applications in 7 minutes and 28 seconds – with approval often instantaneous.

Some customers even want to complete a full mortgage application online. HSBC launched its online application service earlier this year. The end-to-end process is completely paperless, and customers can begin, pause and save, and complete their mortgage without having to sign and return paper forms in the post. Customers can stop and seek advice at any point in the process by speaking to one of HSBC’s mortgage advisers on the phone or in a branch. One customer even completed a full mortgage application in 24 minutes.

In recent years the lending landscape has changed. Banks are no longer sole providers on unsecured credit and face increased competition from point-of-sale finance companies and a new wave of short-term credit lenders – known as “payday lenders”. These providers have filled the gap that was created as a result of the global financial crisis, when some banks had to restrict the credit available to consumers.

Many of these lenders have embraced this digital revolution: with customers able to secure a short-term (but expensive) payday loan simply by applying by text. Convenience – rather than cost – is the prime driver for many of these customers.

Similarly, customers buying a car, kitchen, or plasma screen TV, often find it as easy to sign up to a finance agreement there and then, rather than make a separate visit to their bank. These point-of-sale providers are also well placed to offer additional benefits, be it free insurance or warranties.

The challenge for banks is to compete against these new entrants: on price and service. New mobile banking apps can help deliver this by providing an easy comparison on cost at point of sale, with the option of accessing a call centre or face-to-face advice should they need further assistance.

This multi-channel approach looks to be particularly beneficial when it comes to mortgage lending. Customers are increasingly searching online for basic information on what they can afford to borrow and what mortgage rates are available.

Santander said that just 28% of those starting a mortgage application with the bank – often simply by seeking this basic pricing information – go

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on to complete this process exclusively via the web. But newer online applications, which come with telephone, web chat or video support, should help consumers, and improves completion rates, Santander says.

The virtual mortgage adviser

Technology isn't always replacing traditional face-to-face advice. In some cases it is facilitating these services in more remote areas, where specialist advice has not always been available.

Nationwide Building Society is using video conferencing technology to deliver specialist face-to-face advice on mortgages.

William Campbell, Oban Branch Manager at Nationwide Building Society said: "Taking out a mortgage is one of the key moments in that person's life and sometimes a voice at the end of a phone just isn't quite enough. Nationwide Now is a new service which is already in more than 60 of our branches across the UK. From my personal experience, it is proving invaluable at helping hard-to-reach customers secure a mortgage appointment quickly and efficiently, without losing the personal touch that customers like.

"Our consultants, based in our Northampton Admin Centre in Moulton Park, offer the same end-to-end mortgage service as any in-branch consultant. The service has been really well received by customers, with 94 per cent of people who have used the service reporting that they thought it was a good or excellent replacement for a face-to-face meeting.

"Some have even got up at the end of the meeting and gone to shake the advisers hand, even though they are on a video screen.

"Customers at my branch – Oban in Argyll, Scotland – previously had two options if they wanted to see a mortgage consultant: have the appointment over the phone with the Dumbarton branch or undertake the 200-mile round-trip to have a meeting in person. This could be at times frustrating for local customers who needed to be seen quickly – and also hard work for consultants moving from branch to branch.

"The high-speed video link offered through Nationwide Now has opened up a new world of possibilities. This has improved the service we can give our customers by increasing access to mortgage advice when the customer needs it."

However, in its own right, it is a speedy, flexible and user-friendly service."

8. How technology is changing spending

It is easy to overlook the purpose of technology. New systems aren't designed for the sake of it, nor to generate income streams for IT companies. They are there because they offer a better way of doing things. This can clearly be seen with the new payment systems coming into force, such as contactless cards and mobile payments. These innovations are transforming the way consumers pay for goods and services by improving the speed, convenience or security of these transactions.

This is one area where banks have to co-operate with each other – rather than compete – to drive up service standards for consumers.

By definition, for any payment system to work successfully it needs the input and participation of all banking groups, plus additional third parties, such as retailers.

Developing payment systems takes time and investment. But often this is a gradual evolutionary process, where the latest developments have built on earlier projects: be it the “cashless” Mondex cards that were used to pay for public transport in Bristol or the TV banking services that were introduced at the turn of the Millennium.

Eric Leenders, Executive Director of retail at the BBA, offers an industry-wide perspective. “There has been a number of recent innovations,” he says. “Clearly there is substantial investment involved in such systems, so banks need to be sure they are putting their resources into a sustainable development that consumers want to use.

“No-one wants to fund the banking equivalent of Betamax, only to discover their customers are using VHS.”

9. Branch of the future

So where does all this leave the humble bank branch in the 21st century? Few observers would dispute that far less people are using bank branches or that those that do are using them less often. YouGov research from June 2014 found that 57% of business customers thought that the advent of digital banking meant that their business has to make fewer trips to their branch.

According to HSBC, footfall at their branches has fallen by 30% since 2009, with a 10% drop between 2012 and 2013. RBS has seen a similar decline. By the end of 2014 the proportion of NatWest and RBS transactions that will take place in a branch will have fallen to 10% – down from 25% in 2010. There are now 2.7 million RBS and NatWest customers who are choosing to do all their banking digitally.

This decline obviously has to be seen as part of a longer term trend. But although there are now fewer branches today than there were 20 years ago, the ones that remain continue to play a vital role within the banking network.

The BBA’s Eric Leenders, a former branch manager himself, is confident the banks’ high street outlets are here to stay. “Bank branches aren’t going to disappear,” he says. “But where they are and what they do will change.”

Bank branches continue to provide a range of vital services – in fact more than 67 million transactions a week in their branch networks.

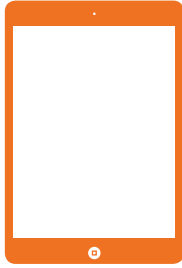
The large number of branches that are being refurbished underlines that banks remain committed to their high street networks. Banks are modernising these outlets – to ensure they are fit for their role as 21st century financial hubs.

Over the past two years larger banks have refurbished 2,274 branches. Lloyds Banking Group have updated 585 branches in the past two years, Co-operative Bank have revamped 200 and RBS 169.

Step inside the branches that currently populate our high street and shopping centres and you will see that bank branches are already changing. Gone are the rows of counters, where customers queued to



Over the past two years larger banks have refurbished 2,274 branches. Lloyds Banking Group have updated 585 branches in the past two years, Co-operative Bank have revamped 200 and RBS 169 – as well as investing £600,000 in five ‘mobile’ branches.



Thousands of iPads – 10,000 by Barclays alone – have been installed in bank branches for customers to bank with.



2 million – number of transactions completed on Barclays branch iPads last year.

withdraw funds or deposit a cheque. In its place are smart ATM machines, iPads and computer terminals, along with specialist staff who can help with more complicated money matters.

“Branches are becoming retail spaces, designed to help people manage all aspects of their financial life,” John Sills, Head of Customer Innovation and Perception, HSBC.

Modern technology isn’t superseding the branch – it is helping to support the network and in some cases increase footfall. Barclays was one of the first banks in the UK to offer free wifi in all its branches – which has helped increase footfall in some locations.

Thousands of iPads – 10,000 by Barclays alone – have been installed in bank branches for customers to bank with – leading to unexpected consequences. Formal complaints about queues fell because tablet computers and smart ATMs reduced the need for counter services. It also appears that those waiting to see a cashier were far more content when they could use the wifi to check emails or surf the internet on their phone while waiting to be served.

Some Barclays branches now use this wifi to stream Premier League football games on the screens above the counters. This, Barclays says, had led to occasions where people actively allow others to queue-jump – so they can see more of a match.

A bank branch today looks very different to how it did 10 years ago. But this isn’t just a nod to prevailing fashions: with brightly-coloured sofas and meeting “hubs” replacing the glass counters and formal desks. It is as much a facet of the branch’s evolving function.

Far fewer people are visiting banks for simple transactions, like withdrawing cash. Instead many customers want help opening a new account, getting a mortgage or discussing their investment or retirement options. As a result, more of the space within a branch is now dedicated to meeting rooms and places where it’s possible to have a discreet and comfortable conversation.

Rather than the customer sitting at a desk opposite a bank clerk, who had a list of relevant products on their own computer terminal, customers are now discussing their options alongside staff side-by-side.

“It’s a subtle change, but we think it’s a more inclusive conversation, where staff are helping customers find the best financial solutions,” says Steven Roberts, Head of Strategic Transformation at Barclays. “Rather than telling them what products they can, or cannot have.”

Over the next three years RBS Group is also investing £750 million to improve the branch network, by equipping its high street outlets with new technology. The bank has also spent nearly £4 million on five new mobile branches equipped with state-of-the-art satellite technology that will deliver banking services to 90 communities across the UK that, historically, have never had one of the banks’ permanent branches. The bankers who work in these mobile branches together drive 7,000 miles every week, making 425 stops in 357 communities.

10. Tech-savvy staff

Staff – inside and outside branches – are vital for delivering this banking revolution. As Steven Roberts, head of strategic transformation at Barclays, says: “Technology is nothing without people.”

Customers will continue to need specialist, face-to-face advice on a range of issues, from mortgages to pensions. New video conference technology enables customers at smaller branches to “speak” directly with experts that typically have only been based in larger branches.

Staff also need to be on hand to help people assist customers using new digital platforms. Barclays now has 7,000 “Digital Eagles” based in branches, helping customers get online and use the latest mobile apps.

This initiative has particularly targeted older customers that may not be as familiar with new technology. The bank launched this initiative to help equip customers with the IT skills they need for today.

In many cases it is older members of staff who have been trained to be Digital Eagles, with at least one in every branch. One of the first was Pat Judd – now dubbed “iPat” by colleagues. She has now helped hundreds of customers get online, including the England’s World Cup winning goalkeeper from 1966 Gordon Banks.

“For someone like me who didn’t grow up with a telly let alone the internet, it can seem pretty daunting,” says the retired footballer. “I see my grandchildren on all these gadgets and used to just stare in amazement. But now I’ve got some basics I’ve been catching up on Emmerdale online, watching YouTube clips of my Pele save... and doing my banking online, of course.”

This project has wider implications. Bank staff have historically been trained to use their bank’s own back-office computer systems. But now these are becoming integrated with the front-end digital interface used by customers.

The challenge is to ensure staff – in branches as well as call centres – can support customers on new digital channels, so they can help with specific technical queries, as well as banking issues.

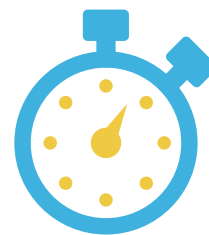
11. Better access for all

One of the challenges for the banking industry is to ensure that no customers are left behind by rapid technical advances.

This is something Steven Roberts, Barclays’ Head of Strategic Transformation, is acutely aware of. “We know customers are bewildered, frightened and sometimes embarrassed that they cannot use the latest gadgets,” he says. “These customers still need access to a range of banking services.”

Customers want choice about how they access banking services: some customers may be happy to be purely digital, and some may be reluctant to use these newer services, but the vast majority will want and use a variety of different channels at different times.

Without due consideration, digital advances have the potential to isolate certain cross-sections of a bank’s customer base. However, technology



3 minutes – the time it takes to open a Barclays account on its in-branch iPads.



Barclays now has 7,000 “Digital Eagles” based in branches, helping customers get online and use the latest mobile apps.

“As a bank we are looking at how we can improve services for all our customers. We are trying to make it easier for customers to tell us what they need – whether it’s access to branches, longer appointment times, or even a quieter room.”

Trudie Hills, customer disability manager at Lloyds Banking Group

has also been used to improve products and services for those who have previously found it difficult to access certain banking services.

Trudie Hills, the Customer Disability Manager at Lloyds Banking Group, says there has been a renewed focus by banks on ensuring that all sectors of the community can access banking services.

Increasingly ATMs are being upgraded with earphone points to make life easier for the visually impaired. RBS says that by 2015 80% of their cash machines will have been fitted with speech-enabled technology to help blind and partially sighted customers.

Lloyds is using Skype technology to enable deaf customers to use sign language to talk to qualified signers. The interpreters can then talk to call centre staff and relay relevant information back to the customer.

12. An ongoing revolution, propelled by competition

Time and time again we’ve seen how innovation from one bank has led rivals to introduce similar technology for the benefit of millions of customers.

However, every customer is slightly different – and the same is increasingly true of banks. We are seeing more and more diversity in the banking industry as different players appeal to customers who want to bank in different ways.

Smaller and newer entrants into the banking market do not have the overheads involved in running a large legacy branch network. This has enabled them to take very different approaches to how they provide services to consumers.

Over the next few years it looks likely there will be a number of new “digital-only” banks that have neither physical branches on the high street or telephone call centres. Atom Bank will be one of the first on these new providers, and while it will offer telephone support services, this is to help people use its digital services. They will not conduct banking transactions.

Anthony Thomson, the founder and Chairman of Atom, happily admits this model “won’t suit all customers”. “But those who rarely use the branch network are going to start asking why they are expected to pay for it,” he adds. “Cutting out this cost will enable us to offer more keenly priced products.”

In contrast, other new entrants have put an emphasis on the branch network, and the more personal face-to-face service this can offer.

Virgin Money – which has taken over the Northern Rock branch network – and Metro Bank have both focused on creating a modern and welcoming retail space for consumers. Metro Bank notably refers to its branches as “stores”. It has prided itself on offering branch services at a time that is convenient to consumers, opening early in the morning and at weekends, including Sundays.

Handelsbanken is another bank that has continued to focus on its branch service as a means of attracting customers. In contrast to prevailing trends, the Swedish-based bank has expanded its branch network over the past decade. In 2000 it had three UK branches – today it has 176. It focuses on delivering a more personal banking service and a more localised approach, where the branch manager has the authority

to make lending decisions, rather than this being done in a centralised processing department.

“Human beings don’t necessarily evolve at the same rates as computers,” observes Andy Copsey, Chief Operating Officer at Handelsbanken.

Although the banking market may be segmenting, many banks are still using the branch network to give themselves a competitive edge over rival organisations. It is clear customers will continue have a choice of providers, offering a range of banking channels to suit their needs.

Conclusion: The Way We Bank Now

It took a few years for digital banking to take off as slow and limited access to the internet made it easier to visit a branch. The advent of wireless broadband and internet-enabled smartphones changed all that.

Suddenly, millions of us started banking on the move and digital banking exploded into our everyday lives.

Customers now use a staggering 14.7 million apps to check their balance, transfer money and pay their bills. Each week customers use internet banking to transfer £6.4 billion.

Whether you are buying a pint of milk or hopping on the bus, the UK’s 28.4 million contactless-cards are making paying more convenient than ever before.

Depositing that birthday cheque will soon be a matter of snap and send thanks to cheque imaging. With Paym, all you need to pay your friend back for the cinema or that taxi home is their phone number.

People may be using their branch less often but they still rely on face-to-face meetings when they want advice with one of life’s big decisions like taking out a mortgage.

Branches too are adapting to meet customers’ needs. Thousands of iPads allow accounts to be set up in a matter of minutes. You can even see the mortgage adviser helping you from the other side of the country.

Technology is transforming the Way We Bank Now and customers are driving this change.

PART THREE

The Way We Will Bank in the Future

“The technological revolution continues and like all banks we must adapt to it. Technology is not a panacea – it cannot replace the crucial bond that a bank can forge with a customer during a face to face meeting.”

Craig Donaldson, Chief Executive of Metro Bank

“In the future you won’t have to remember your own name to bank with us. You will be your own unique PIN code.”

Anthony Thompson, Founder of Atom

“RBS and NatWest will retain one of the largest UK branch networks for a long time yet, with more branches than the combined number of Sainsburys and Asda supermarkets put together. Eight out of 10 customers will be within a three mile radius of a branch.”

Brian Holland, Head of Points of Presence, RBS and NatWest

The Way We Will Bank in the Future

Crystal ball-gazing is a notoriously tricky art. The pace of change within the banking industry over the last decade and how innovation has accelerated in just the past few years makes it hard to predict with any certainty what banking will look like in five, let alone 10 years.

As this report has shown, these changes have been driven not only by technical innovation but by vigorous competition between banks for customers.

Most of us want banking services that fit round the way we live our lives today: services that are easy to use, accessible round the clock and on the move, but also provide the peace of mind that our data is safe.

For a decade or more banks have talked about being “customer-focused”. Now they have had to deliver this. Increased competition in this market, and a significantly improved switching service, means that banks that do not put their customers first will lose them.

While no-one can accurately predict what tomorrow’s bank will look like, the direction of travel is clear. There are a number of key challenges that the bank of the future will have to meet, which are explored in further detail below.

Banks may look more futuristic, but it is important to remember that key aspects of banking remain the same.

“At its heart banking is pretty straightforward: you look after people’s savings, provide prudent credit when they need it and enable them to

transfer money from A to B,” says Eric Leenders, Executive Director in charge of Retail at the BBA.

“We will still be doing this in 10 years time – it’s just that new technology means there are different ways to deliver these services.”

1. More personal banking

One of the key future developments will be how technological innovation can dovetail with more tailored financial advice and services.

John Sills, Head of Customer Innovation and Perception at HSBC, says that customers want two things from their bank: access to their money when they want it and help understanding their finances. “The good news for all of us is that banking in both of these areas is changing for the better and will continue down this path in the next few years,” he says.

“As we tip over the middle year of the decade and approach 2020, people are going to expect more help getting things done. Their time will become ever-optimised to make use of perceived ‘grey’ time, with the firm expectation that companies use the data they hold to help them make better decisions as customers live the life they choose to live.”

We can see in banking that new technology is helping customers achieve this. Mobile banking gives people the immediate access to their money and the information that they want. Expected moves into “anticipatory notifications” will only make this better.

For instance, everyone wants to know their balance on payday – so why wait until they ask? We’re also starting to see greater moves to help people understand their data, providing a more personalised service, showing where customers are spending and saving and nudging them in the right direction to achieve what they want to achieve.

Everyone wants to know their balance on payday – so why wait until they ask?

However, technology is only ever a supporting player in what has to be a human service. There will be a further increase in the openness and transparency of how banks build relationships with customers. The big moments in life always will be closely intertwined with money, and it’s for this reason that we’ll see banks continue to provide real people to talk about the support that customers need.

2. Multi-channel

The bank of the future won’t offer simply mobile or branch-based services. It is likely to be a multi-channel operation, giving customers choice on how they choose to bank. Banks realise that customers want choice in how they manage their finances. More than half of Lloyds’ customers who banked online last year also used branch and telephone services.

Nick Williams, Consumer Digital Director for Lloyds Banking Group, says: “The multi-channel banking experience is important to give customers choice and ease of access to services, that’s why we are also investing in new technology across our branch network.

“This includes further investment in Intelligent Deposit Machines to make transactions quicker, digital posters to keep customers informed, iPads to welcome and service customers in the branch more effectively

“It’s important that our customers can have conversations with us how they choose to,” he adds. “And if that’s Facebook or Twitter, then they should be able to get the same level of service as our more traditional channels.”

Nick Williams, Lloyds Banking Group

and enabling our colleagues to use our online digital service to give customers a consistent and efficient customer experience.”

Williams says that Lloyds are also trailing video conferencing with mortgage and wealth advisers. This can give customers more flexibility to speak to these experts when it suits them. He says this all demonstrates that the way banks talk to their customers is evolving.

“It’s important that our customers can have conversations with us how they choose to,” he adds. “And if that’s Facebook or Twitter, then they should be able to get the same level of service as our more traditional channels.”

“There is no doubt technology is giving us all greater power to manage our own finances. Now 60% of our app log-ins are simply to check a balance and with instant access to transfers and payments at our fingertips this means customers are in control. If you happen to forget then our text alert service means that we can keep you more informed.”

“Our focus on digital is customer led, our progress is aimed at making things easier for our customers to bank where they want, how they want – and technology in general life has certainly increased the demand for that, and our ability to meet it.”

3. More competition

The financial crisis saw consolidation in the banking industry. But this trend looks set to reverse over the next few years, with competition from supermarket groups such as Marks & Spencer and Tesco, as well as new challenger banks, including Virgin Money, Metro Bank, Atom and TSB. Increased competition should be beneficial for consumers, both in terms of the range of services offered and how they are priced.

Craig Donaldson, Chief Executive of Metro Bank, says: “When we launched in July 2010 we did so with a focus on providing customers with the very best in service and convenience. We give our customers the best possible banking experience through every channel, and a big part of that means investing in the latest technology.

“There’s no doubt that technology has had a big effect on banking and many of the changes to have hit the sector have been good news, such as consumers being given the autonomy to manage their own finances wherever and whenever they want through digital channels. Despite the great advances of the information technology age, we continue to place a great deal of importance on our stores, and see them only increasing in value.”

Donaldson says their branches – or stores as Metro calls them – enable this challenger to provide traditional banking services and build personal relationships with their customers. This is why identifying the best sites and equipping the branches with the state-of-the-art technology is so important.

“So we use a combination of the traditional and the new,” he adds. “The face-to-face approach is still vital – but once a customer is in store we introduce them to our digital offering, from online solutions, brand new e-signature technology, to debit cards printed on the spot.

“Technology is extremely important to us and, as a relatively new bank, we have the benefit of state-of-the-art technology with no legacy systems to support. This allows us to focus on the customer.

“The technological revolution continues, and like all banks we must adapt to it. Technology is not a panacea – it cannot replace the crucial bond that a bank can forge with a customer during a face-to-face meeting. Banks must continue to provide a strong face-to-face service, accompanied by customer-centric technology. Providing a channel-agnostic approach means we give our customers the choice about how, when and where they’d like to do their banking and we know that putting our customers at the centre of our operations is crucial to our success and future growth.”

4. Security

One of the prime functions of a bank has always been to keep our money safe. Today, it’s not just the physical security of the coins and notes we deposit. It is the security of our financial data that is key – particularly as the majority of money transfers are processed electronically, and the “value” of our savings, mortgages and current accounts are essentially digits on a computer screen.

For banks the challenge is to maintain the integrity of their systems against increasingly sophisticated hackers and fraudsters, while also ensuring it is easy for customers to log-in, access their details and carry out everyday transactions.

This is not a new problem: a generation ago the easiest way to protect bank branches would have been to close the counter service for much of the day. But any bank doing this would soon be out of business, as customers wouldn’t be able to access their money either.

In a similar way customers rightly demand that bank systems are safe but can get frustrated if they are asked to remember ever more complex passwords, user names and PIN codes.

Nick Williams, Consumer Digital Director for Lloyds Banking Group, says: “Security is paramount when it comes to digital, ensuring the service is robust and secure through identification and authentication of customers as they log in is critical. The key to success here is having the strongest possible security without making it so difficult for customers to log in, that it becomes a barrier to using the service.

“There has been a lot of research and development take place in this space and over the longer term biometrics will help deliver unique identification methods which don’t over complicate things for our customers will lead the way.”

In the future it’s likely we will have more sophisticated ways of verifying our identity – that don’t rely on remembering 10 digit alpha-numeric sequences and the second letter of our first pet.

Biometrics are already being used to help verify an individual’s identity – be it through fingerprint, facial scanning software or voice recognition. Many predict such methods will become a commonplace way of accessing banking services in future. Customers may not be able to authorise mobile payments or withdraw cash from an ATM without a thumbprint “signature”;

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Craig Donaldson, Chief Executive of Metro Bank

Watches, keyrings, mobile phones or even clothing can be embedded with near-field communication technology, which can effectively communicate with the ATM, or banking app to provide this additional information.

while voice recognition software will confirm to call centre staff that they are talking to the account holder.

Such voice technology software is already used for Barclays Wealth customers. The bank says that within the time it takes to state your name, and why you are calling, the system will confirm it is the account holder. The bank plans to roll out this technology throughout the bank soon.

In a similar vein Apple's new iPhone 5S has the technology to recognise its owner's fingerprint, which is then used as a "quick" way to unlock it. It isn't a leap of the imagination to see how this will become the norm for those opening mobile banking apps. This is particularly useful on tablets – which may be shared within a family – as it provides a useful way to switch between different profiles and accounts.

But while greater use of biometrics seems inevitable, many in the industry say it is not a panacea that will solve the security conundrum for banks.

Ben Green, Head of Innovation at Santander, urges customers not to expect the death of the password. "Do we think biometrics will be used as one means of verifying identity?" he asks. "Yes, but does this mean customers won't also have to remember passwords in future? No."

Biometrics may be used to complement other security checks, but it is only part of what is likely to be a three-factor authentication process. Most banks already use a two-factor system, for example you need your bank card and a PIN number to withdraw cash from an ATM.

Watches, keyrings, mobile phones or even clothing can be embedded with near-field communication technology, which can effectively communicate with the ATM, or banking app to provide this additional information.

As Ben Green from Santander points out, the increased use of mobile banking also enables banks to build up far more sophisticated profiling techniques which can be used to verify transactions.

"Customers might not want to give social media sites permission to access data on where they are, what wifi networks they use and what apps they have on their phones," he says.

"But they may be far more willing to share this information with their bank if it helps verify their identity and stop fraudulent activity. Banks are looking at detailed ways of verifying this information, which should give customers peace of mind that their systems are secure. This is an ongoing process but there will be significant advances in such profiling techniques in the future."

5. The pop-up bank

Banks were once a physical pillar of the traditional high street. But as shopping habits changed banks migrated their services to out of town retail parks, 24-hour supermarkets, and then onto new digital channels.

This trend is likely to continue. The branches that remain are likely to become more automated spaces with face-to-face advice delivered via video-conferencing screens.

Martin Shires of banking technology firm NCR said: "As early as next year, you could see one of the major high street banks buying a

convenience store location and fitting it out with ATMs that mean you can do 95% of your transactions through self-service. Within five years this will be a common sight.”³

This trend is already apparent in the supermarket sector. In recent years the larger supermarket chains have all concentrated on opening smaller local branches, closer to where people live and work and introducing more self-service tills to reduce staffing costs.

In the US, banks are already adopting this technology, with smaller “express branches” often offering drive-thru services. But this technology may offer branch based services to communities who until now haven’t had access to banking services. Barclays said it will soon operate “pop up” branches in libraries and community centres in rural areas.

Brian Holland, Head of Points of Presence at RBS and NatWest, says that banking in 2014 is “completely unrecognizable” from when he started in the industry 20 years ago.

“Back then the branch was everything – the sole point of contact for customers and the only way people could interact with their bank,” says Holland. “But technology has changed this forever, heralding services that are faster, more flexible and more convenient than I could have dreamt of all those years ago.

“The technological developments that shape modern life have revolutionised banking, with organisations like RBS and NatWest changing the way they do business to meet the shifting expectations and demands of our customers.”

So does this mean the bank branch is dead? Absolutely not Holland argues. He says that branches are now the places customers go to get advice on big life decisions, such as applying for a mortgage or opening their own business.

“RBS and NatWest will retain one of the largest UK branch networks for a long time yet, with more branches than the combined number of Sainsbury’s and Asda supermarkets put together,” Holland adds.

“Eight out of 10 customers will be within a three mile radius of a branch, and when you include the Post Office network, that raises to 9 out of 10 of our customers being within one mile of a place they can carry out their every day banking.”

6. Mobile money

Paym may be in its infancy, but many banking experts expect that in five years’ time the vast majority of payments will be made via mobile phone.

Many banking innovations in recent years have started in the UK or in the US. But here, it is developing economies, where customers don’t have access to a retail banking infrastructure, that have led the way and provide a clear signpost of what the future may look like.

Kenya has the world’s leading mobile-money system, M-PESA. It was launched in 2007 by Safaricom, the country’s largest mobile network provider. Around two-thirds of the adult population use this payment system, with around 25% of the country’s GDP flowing through this system.⁴

The scheme was initially designed as a way of making repayments on small micro-finance loans. But it was soon expanded to become a general

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³ Telegraph, 2013. Available at: www.telegraph.co.uk/finance/personalfinance/consumertips/banking/10468109/How-your-bank-could-look-in-five-years-time.html

⁴ Sagentia, 2014. *Mobile micro finance service for emerging markets: M-Pesa- Vodafone*. [Online] Available at: www.sagentia.com/resources/case-studies/2012/m-pesa.aspx

“The real innovation isn’t in how we pay for items, it’s what happens before and after these transactions.”

Chris Popple, Managing Director of Digital at RBS Group

money transfer system, which is often used by those working in the larger cities – particularly Nairobi – to send money back to families living in rural areas.

People typically load money onto their mobile phones from a linked bank account when they are buying air-time. They can then transfer this money to other personal mobile accounts or to pay for goods in shops where they are linked up to the M-PESA system.

This system has grown at a phenomenal rate in Kenya, and is now used in a number of other countries – including India, Afghanistan and South Africa.

Much of this growth in developing economies has been based on the fact that the banking system in these countries is nowhere near as developed as in the West, especially in poorer rural areas. This is not the case in the UK, and we have become used to transferring money quickly and conveniently by other electronic means. So what is likely to lead to an upsurge in the use of mobile payments here?

“The real innovation isn’t in how we pay for items,” says Chris Popple, Managing Director of Digital at RBS Group. “It’s what happens before and after these transactions”

At present it’s just as easy to pay for goods or services with a plastic card as it is with a mobile phone. But new banking innovations are starting to shift this dynamic, which could lead to a change in future.

Part of this innovation comes from the banking industry and part from the telecoms companies and retailers working with the banks to devise elegant and easy-to-use applications for consumers.

Currently banks are developing technology that can integrate digital receipts into your payment records. RBS’s Chris Popple adds: “This clearly involves work with both the banking and retail sectors, but it could deliver real benefit to consumers.”

Appending a receipt to your bank statement at point of sale means customers have a digital record of the purchase that can be printed and used, should they need to return the item – rather than having scrappy bits of paper in your wallet. It can also double up as a safe online record system for tax purposes or simply to keep track of your spending.

At the same time retailers are starting to develop apps that combine loyalty schemes and “discount vouchers” with payment options, which should encourage far wider use of mobile phone apps or “e-wallets” for payment.

In the US more than 30% of all Starbucks sales are now paid for using the coffee chain’s own app. Customers simply link this app to their own online bank, load money onto it and then use it to pay for items in store. For purchases less than £20 customers simply place their phone near the contactless reader.

When they enter the store, geo-location data can open the app, which then shows the customer how much money they have, what the day’s special deals are and the number of loyalty points accumulated (for that all important free coffee). The phone is out of their pocket to check for this information, so tapping to pay is as quick and convenient as using a card.

In future we may not even have to take our phone out of our handbags or pockets. In the US Apple is pioneering its “Beacon” technology – which effectively sends out a pulse from a mobile phone that is equipped with Near Field Communication (NFC) or “contactless” payment technology.

This enables the phone to send out a pulse, which is automatically picked up by the contactless card reader as you approach. So for those boarding public transport, barriers will automatically open, deduct the payment and allow you to board in one seamless action. Clearly, there is also the potential to use these applications in retail spaces, allowing people to simply walk through a payment zone with the items they want to buy.

Companies offering “discount vouchers” and money-back schemes are developing similar technology, which is likely to fuel interest in the number of transactions paid for by mobile phone. If customers have these apps open to check for special offers in store, it is then easy to use these discounts by paying on their mobile phone.

7. Big data

Can banks get an edge on their competitors by helping us to make smarter financial decisions and manage our money better?

Gillian Guy, the chief executive of Citizens Advice, thinks so. She says the banking industry is “teetering” on the edge of a brilliant idea, adding that it just needs a good firm shove from consumers.

“For more than a decade, the conventional wisdom has been that the only way to make money in retail banking is through interest on loans and debt, or up-selling additional products,” she says. “Banks need to develop a new model that shows how today’s global giants can use their expertise to help save their customers money.”

Banks do have access to an incredible amount of information about their customers: where they live, what they buy and whom they buy it from. They also have access to comparable information from millions of other customers. But banks currently do very little with this information. They have only started to ask whether they can use this data for customers’ benefit.

She says this information is hugely valuable and if banks used it wisely they could provide tangible benefits for their customers. For example, banks effectively know which customers are paying too much on their household energy bills and could signpost to these customers how others have been able to cut costs. On the simplest level banks could identify customers paying quarterly bills and advise them how much they could save by paying by monthly direct debit.

This could be a win-win for the banking industry, Guy says. Putting the customer first should help them win more customers. At the same time banks could effectively increase their savings books by “nudging” customers to build “savings from these savings” and reinvest this money into a high interest savings account.

When it comes to smart use of data, supermarket banks are leading the way. Customer loyalty cards provide a colossal amount of data and Sainsbury’s has announced it is to use the personal information it collects through the Nectar Card scheme to tailor its banking services.

In the US these “nudge” techniques have been used to great effect by some larger corporations. The US power company, Opower, has encouraged households to use less energy by showing “average” energy use on quarterly statements. Not surprisingly those with above-average usage have been encouraged to follow the enclosed energy savings tips and overall energy consumption has fallen. Could banks use similar techniques to encourage savings?

“This idea is simple but fundamental,” says Guy. “Banks stop making money from encouraging customers to spend theirs on things they might not need, and start profiting from helping them to save money on the things they really do. It sounds obvious, but it could be the future of banking.”

Conclusion: The Way We Will Bank in the Future

The revolution in the way we spend, move and manage our money is not over. Banks are looking at a range of new technologies to make banking even easier and more flexible. Biometric data could make accounts safer and security features more straight forward for legitimate transactions. Near-field technology could end the need for taking your card out of your wallet or purse to make a purchase. Banks will strive to innovate because they know it’s a way to win new customers.

Unlocking the digital banking premium for British consumers and UK plc



**Building a better
working world**

Driving the growth of digital banking services (and broader digital financial services) has the prospect to deliver major improvements in the the financial lives of the British public while presenting UK plc with a major new technology sector to contribute to future economic growth as a world leader.

For this reason we welcome the timely publication of the BBA's *"The Way We Bank Now"* report and thank the BBA for opening up a discussion about the role of digital technology and customer-focused innovation as a force for good in the industry and the country as a whole.

Stimulating successful collaboration across the banking sector, the fintech industry, government and regulators is a critical step to securing this benefit for our society. The first report was an important step forward; this second instalment is perhaps even more critical: to really move forward, banks and policy-makers must keep the conversation going. This is a discussion that must happen regularly.

Looking across the report, three themes should be particularly considered;

1. [The time and conditions are present for the UK to take advantage of a major step forward in digital banking for consumers and the developing UK fintech sector.](#)

The UK is exceptionally well placed to take advantage of this with a heritage and culture of leading financial innovation, a growing leading fintech sector and increasingly pervasive availability and adoption

of digital services in the UK by individual, small, medium and large corporate customers.

2. Delivering the “Digital Promise” for customers has the potential to make many major improvements to the lives of the British public.

In particular, we heartily endorse three aspects of this “Digital Promise” for consumers that the report picks up, which we are seeing working with clients in digital innovation worldwide:

- a. **Better household money management:** going beyond the traditional statement to enable customers to be better informed with helpful tools to enable them to save more and spend more efficiently.
- b. **Seamless integration into daily life:** massively improving the ease of access and use of financial services, for instance through simplifying basic payments, better tailoring of products to customer needs and preferences, and maintaining robust security while removing the paraphernalia and complexity involved.
- c. **Bringing everything together:** enabling customers to easily see the status of their financial lives at one time, in one place, across providers with relevant tools and advice. The security and standards issues involved in this task are increasingly being resolved and a range of exciting services deployed.

Together, these and other digital advances are enabling more responsible financial behaviour, better decision making and massively reducing the complexity and laborious nature of managing a customer’s financial affairs.

3. Collaboration between industry regulators and government is critical to address the customer protection, talent and regulatory oversight challenges that are some of the major obstacles to continuing to deliver the economic and consumer benefits of digital banking.

At EY, we too are pushing this conversation – we want our clients and the UK to be at the forefront of the digital revolution because we believe that, if it’s done right, digital banking can truly deliver a better working world for customers, banks and the UK economy.

1. The time and conditions are present for the UK to take advantage of a major step forward in digital banking for consumers and the developing UK fintech sector.

From its mercantile origins through to the Big Bang to today, the City has driven global change in finance for centuries.

This heritage of dominance is not enough, though, to retain international importance at a time when technology is evolving rapidly across the major financial centres. For UK banking to retain its global significance, innovation in the digital space is key.

British financial innovations run from the mid-17th century, when London gave the world the first cheque and modern bank note, to further innovation following thick and fast down the centuries: the overdraft, the credit voucher, the cash machine and the plastic cash card were all first seen here. The UK continues to play a role in spearheading development in the digital age, with services such as contactless and mobile payment.

However, history is not the UK's only advantage. The UK's financial technology (fintech) industry is world-class and growing rapidly – currently estimated to be worth £20bn pa – and we are a world-leader in fostering new financial technology start-ups. Digital adoption runs at a very high rate compared to much of the rest of the world: 75% of UK consumers have a smartphone, for example, and online shopping reached £91bn last year – equivalent to a fifth of all retail expenditure. This makes the UK the global leader in e-commerce by market penetration.

Our highly developed banking industry, high rates of digital penetration among customers and the fact that we have world-leading financial technology and digital companies based in London and other UK cities confer huge potential for future innovation.

Banking and financial technology stand poised to ride a wave of consumer engagement. Indeed, UK banks are currently engaged in a competitive 'arms race' in which hundreds of millions of pounds every year are being invested in digitisation. Consumers are already experiencing meaningful benefits from this in the form of digital banking services. The challenge now is for banks to harness technology that can supply new and greater advantages to users, within a regulatory framework that helps and supports, rather than hinders, innovation and adoption.

2. Delivering the “Digital Promise” for customers has the potential to make many major improvements to the lives of the British public.

The BBA's report shows how digital banking is already bringing value to consumers in the form of more convenient and richer services available through digital devices.

What does this mean for the future? Digital has the potential to deliver an even more helpful, integrated and – above all – customer-focused experience for bank customers.

Better household money management

Today's bank statement – whether digital or paper – is a document of record listing a flow of transactions culminating in a current balance.

There have been many attempts to help customers get more insight into the state of their finances through categorisation and graphic representation, but most of these have failed because of the burden on users to set them up themselves.

Today, it finally looks as if banks and financial technology companies have woken up to the needs of their customers and are creating a new breed of digital money management service which is virtually effortless to maintain and easy to use. This promises customers up-to-the-minute guidance on budgeting and financial control which many would value.

Seamless integration into daily life

We are used to being constantly connected with the digital world through social networks and instantly accessible mobile apps, many offering commercial services. The physical world is becoming more digital too, with everything from NFC tags on posters to smart watches and personal health monitors.

Digital banking makes it much easier for us to connect our financial services with this digital world. At its simplest, this can enable seamless payment based on digital inputs, for example, car insurance based directly on actual distance travelled and driving style, or health insurance influenced by inputs from a digital wrist band. More complex are the provision of relevant offers and promotions based on purchases in specific retailers and locations, and provision of targeted financial services like instalment credit at the point of purchase. New ways of connecting our financial services into our increasingly digital lives will continue to emerge.

Most of us have eventually said goodbye to cheque books – even schools are starting to accept e-commerce payments. However, banking is still cluttered up with physical paraphernalia. Cards are still the dominant payment type and our wallets are stuffed with them. Many banks also provide a device or card reader to generate codes for logging in to digital banking. Tomorrow we will say goodbye to these separate physical identity tokens and use apps on mobile phones or simply our physical selves as proof of identity. Besides not having to remember separate items to run our lives, building in identity verification in more seamless ways will finally rid us of the tyranny and irritation of PINs and passwords, and make access to banking just a click away.

Bringing everything together

Even in the digital age, most of us are forced to manage our banking around the banks that provide the service. We have separate services for each firm that serves us and, for most of us, that's a fair few. Tomorrow the financial world will come to us. Services which bring together a combined view of our finances incorporating all our providers (and even our non-financial assets) have been around for a while but have come up against industry resistance concerning security. This is a problem which will inevitably be solved for the good of customers, who will benefit from an integrated experience rather than the inconvenience of segregated product providers.

3. Collaboration between industry regulators and government is critical to address the customer protection, talent and regulatory oversight challenges that are some of the major obstacles to continuing to deliver the economic and consumer benefits of digital banking.

We need to ensure that London and the UK remain a hub for digital innovation in banking. To do this, it is essential that policy-makers, the digital and financial technology industries, and banks themselves work together to deliver products that work in the UK's sophisticated consumer market in a secure fashion.

Collaborative innovation would also help to revive the crisis-scarred UK banking industry and return it to its key role as a driver of economic growth. There is evidence that the bold steps required are already being taken in other markets. For example, one of the largest US banks recently replaced its core banking system with a modern platform in the largest banking transformation in the US in the last decade. The new platform will move it from paper processing to a world that is 95% electronic. We should be careful not to become complacent and look to catch up with the leading digital banking markets globally.

We have selected three key example areas of challenge from the longer agenda which confronts the stakeholders: talent, consumer protection and regulatory oversight. These all require – and to different measures are already receiving – urgent attention and collaboration.

a. Talent

There is a strong need to continue creating world-leading intellectual property and expertise to export, delivering much needed long-term, skilled jobs. A recent study by Development Economics found that the UK would need 750,000 additional, digitally-skilled workers by 2017 if it is to capitalise on the £12bn economic opportunity presented by the digital sector as a whole. However, YouGov's recent STEM (Science Technology Engineering and Maths) skills gap report highlighted that 59% of businesses and 79% of universities believe that the number of STEM-skilled people leaving education is insufficient to meet industry's requirements, which means that the UK needs to bridge the gap and ensure we are ready to take the challenge of continued digital innovation in banking.

However, much of what needs to be done starts at the top. The UK government is a world-leader in enabling access to public data in a way that is useful to both business and the public it serves. Many British businesses have derived a competitive advantage from this and the UK's strategy for digital inclusion will be key to increasing financial inclusion.

b. Consumer protection

UK regulators have a deserved reputation for their work in leading the way on prudential and conduct regulation to keep banking safe. But it's equally important that they carve out a reputation for working with the industry to let UK financial services grow.

Regulations governing consumer protection and data privacy have largely been drafted to cover non-digital services, and will need to evolve to ensure that customers are well served in the digital age. For example, there needs to be very careful regulation around how people interact with digital processes as customers are less likely to read written disclosures and terms and conditions in a digital process than in a face-to-face meeting.

Another concern to regulators comes from the increased accessibility of specialist digital financial products. For example, services like investment portfolio management, which were once available only to the few via trained introducers, can now be accessed by the mass market. This product is inappropriate for some consumers and highlights that poor or insufficient advice could potentially present a very large risk.

c. Regulatory oversight

Beyond consumer protection, however, regulators must adapt to make sure that they are not hindering the adoption of technology. The FCA, in particular, must ensure that its frameworks and requirements are sufficiently flexible, not only to allow, but to encourage digital innovation to thrive in banks and the wider financial industry.

The FCA deserves credit for successfully launching Project Innovate in response to the challenges presented by digital financial services. But that is just a beginning. By asking how the FCA can encourage innovation, whether it does enough to promote competition in the digital arena and whether its activities serve the needs of innovative businesses, it will help to create room for new digital businesses and services.

The FCA sees one output of this work as providing help and advice to firms who are developing new models or products so that they can better navigate the regulatory system. It is also looking for areas where the system needs to adapt itself to new technology or broader change. Project Innovate is a tangible response from this regulator to the pace of change in digital financial services and we await the results with interest.

Project Innovate marks an important step-change in the nature of regulation. Necessarily, for much of the post-crisis period regulation has focused on punishing banks for past failings. But with Project Innovate, the FCA is embracing its role as a stimulator to growth and not just a supervisor. The old world of regulation was retrospective; the new world appears to be forward-looking and concerned with safe execution, collaboration and enablement.

It's heartening to see that the government is already responding to this demand positively by recently announcing the forthcoming inclusion in legislation of permission to enable deposit of cheques by photograph from customers' phones.

Collaborating for digital success

Digital banking has the potential to be another fantastic success story in the UK for businesses and customers. To realise this potential as a force for the common good, every stakeholder – banks, financial technology companies, customers, regulators and professional advisers such as EY – needs to talk to each other about what they can and want to achieve. The BBA's efforts to promote this dialogue are a welcome first step.

At EY we are pushing this conversation – we want our clients to be at the forefront of the digital revolution in the UK because we believe that, if it's done right, digital banking can truly deliver a better working world for customers, banks and regulators.

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Conclusion

The Way We Bank Now is barely recognisable from how it was in our great grandparents' day.

Just a few decades ago even the most basic transactions had to be done in branches, that often did not open every day of the week, shut up shop at half-past three and remained closed throughout the weekend. Setting up a meeting to discuss a mortgage could take six months – with only those who had saved regularly were considered suitable candidates. This was also a time when millions of people were not offered bank accounts.

In the second half of the 20th century times changed. Time and again, one bank would introduce a new type of consumer-friendly technology that would make it even easier for their customers and within a few years their rivals would follow. First came personal loans, credit cards and ATMs. Then came debit cards and phone banking.

As a new century dawned internet banking took off and with it an even more astonishing period of transformation in retail banking. Today customers are harnessing mobile phones, tablets, Twitter, Facebook, contactless cards, text messages and a range of other technologies to make banking easier than ever before. This array of new banking technologies will not be for everyone, but what it has undoubtedly done is given us more choice about how we spend, move and manage our finances.

Branches will remain an integral part of this service. The number of transactions in the banks' high street outlets may have fallen sharply, but many people will want to visit their branch for those bigger moments in life, such as taking our mortgages or assessing their financial options.

Further technological progress is imminent. Payment by text message has begun and cheque-imaging technology is set to follow soon. Within a few years, we may see biometric security features and the mobile phone effectively converted into your bank card.

And as EY's valuable contribution to this report shows – Britain is well-placed to harness this wave of technological progress to create jobs and growth. It may also empower consumers to manage their finances more efficiently.

But how will our great grandchildren bank? Well, the last century has shown us that banks innovate to offer the technology that they think their customers want. When one bank innovates and the consumers latch on to that new product or service, that bank's rivals follows suit and the evolution becomes industry-wide.

So perhaps the answer to that intriguing question about the future direction of retail banking is best answered by you the customer. It's in your hands.



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