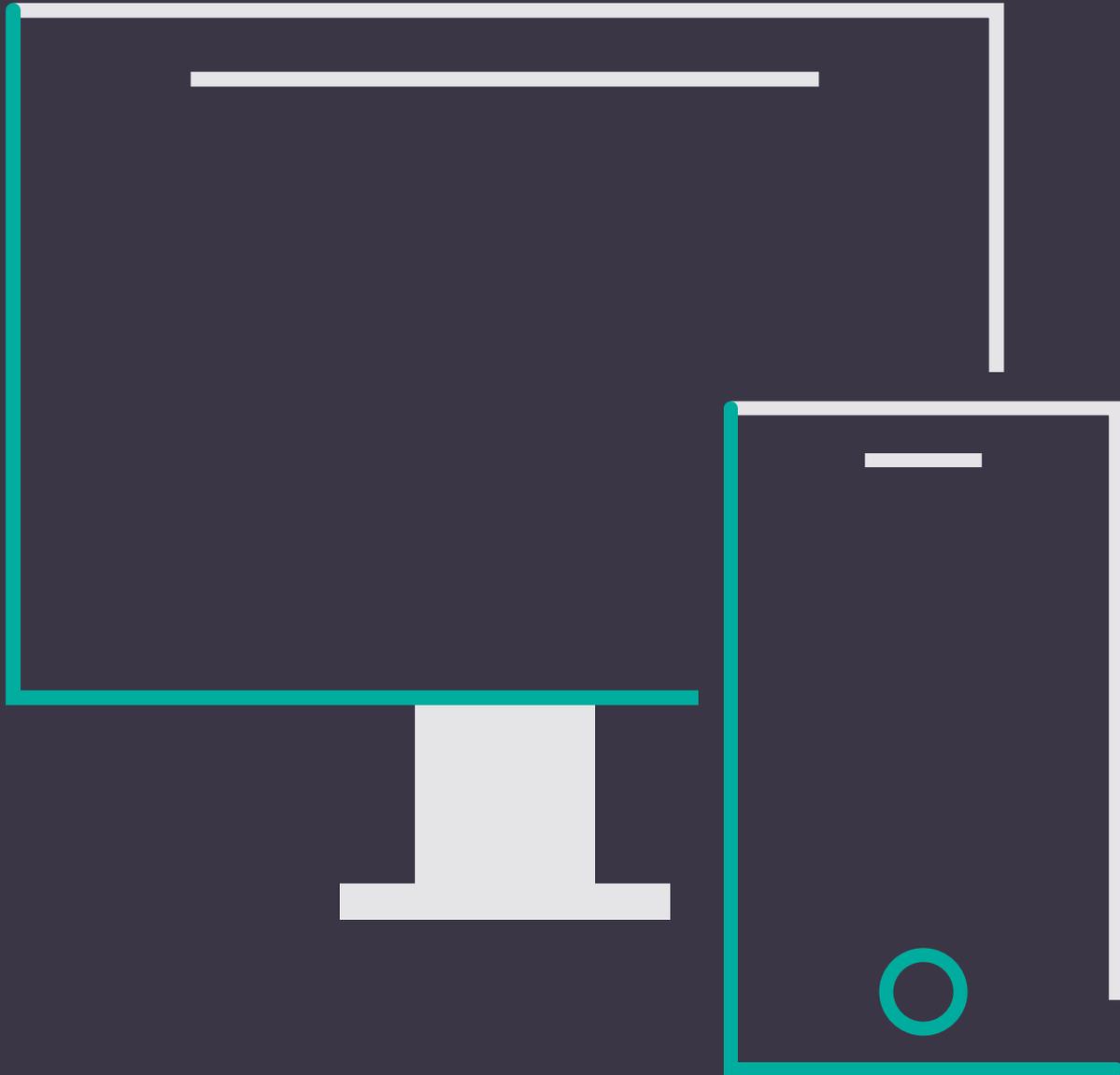


The Way We Bank Now 2018



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Foreword from UK Finance

Few facets of our lives have been left unchanged by technology in recent years. The way we communicate, work and shop has been transformed by the advent of the internet and other new technologies such as smartphones. Of course the banking world has been part and parcel of this seismic social change, but the revolution has been very much led by customers looking to make the most of these innovations to manage their money.

Around 22 million customers in the UK have downloaded and are increasingly using banking apps that allow them to check balances, make payments, transfer money or communicate with their account provider whenever and wherever they please.

The customer desire for convenience is driving this shift towards an increasingly digital world. Mobile and online banking systems are easy to use, safe and reliable. Many customers prefer to use this technology rather than making time to visit a bank branch.

The first chapter of this report highlights the array of innovations transforming retail banking today. These include contactless cards, financial management tools to help with budgeting and alerts to help customers avoid fees for going into the red.

But, as the second chapter shows, just around the corner there is more to come. Banks are looking at analytics, the internet of things (IoT), virtual assistants and a range of other technologies increasingly common in other walks of life. This year Open Banking and the Payment Services Directive (PSD2) will both provide a platform for a wealth of new products and services to be made available to customers.

Such innovations could give banks the chance to enhance and expand the range and quality of services they offer their customers. Of course, the security of customers' finances and their personal data will remain paramount. Banks also need to continue offering practical help on how to harness digital technology for those who might need support and maintain options for those who prefer more traditional ways of banking. Digital innovation opens a world of possibilities for the banking industry. But the real winner of this evolution is the customer, who now has more choice about where, when and how they bank than ever before.



*Stephen Jones,
Chief Executive, UK Finance*

Foreword from EY

The arrival of Open Banking and PSD2 marks the beginning of an exciting new chapter in how customers will be able to manage their banking affairs. One of the hot topics of debate in Open Banking is the speed at which the new services that are made possible by Open Banking will be adopted. Will customers be prepared to share details of how they spend their money with third parties at the click of a button? Will customers authorise non-banks to access their current account and make payments on their behalf? These are some of the key questions which will be answered over the coming months as Open Banking becomes a reality.

At this time of potentially transformative change for UK retail banking, it's a great pleasure for EY to sponsor this fourth edition of the 'The Way We Bank Now'. Whatever your view on the speed of uptake of Open Banking, the data collected by UK Finance for this report puts beyond any doubt the UK population is already embracing the digital banking revolution. Two points to note:

1. Over 70 per cent of adults in the UK now use online banking; and
2. There were 5.5 billion log-ins to banking apps during 2017 - a 13 per cent rise on the previous year.

As highlighted in last year's Way We Bank Now report and confirmed again this year, there is already a clear shift from internet banking to mobile banking. This is truly a customer-led shift in behaviour as many of us are demonstrably embracing the new ways of banking which

continue to become much more user-friendly. This trend will only accelerate as the banks and the FinTechs continue to invest in innovating online and mobile banking interfaces.

In the second half of this report, our Payments and Technology experts provide their perspectives on where banks may go next with innovation beyond Open Banking. Adrian Joseph, our Artificial Intelligence (AI) Leader, talks about the prospect of digital assistants which will provide us with personalised advice based on our own spending patterns. Developments like this have the potential to benefit all of society, especially those facing financial difficulties who have not benefited from any kind of bespoke financial advice in the past.

Clearly, the size and pace of these technological changes present new challenges. One primary concern is data privacy given the potential for large volumes of transactional data to be shared across the banking and non-banking ecosystem for the first time. The banks that successfully navigate these concerns first should put themselves at a competitive advantage since it will enable their customers to confidently embrace the benefits of the latest innovations across the industry.

An exciting year lies ahead for the management of personal finances and the potential for customers to lead the digital banking transformation that is happening across the UK.

*Dan Cooper,
UK Banking & Capital Markets Leader, EY*

Chapter 1: How do we bank and pay for things now?

A customer-led revolution

1. Popularity of online banking

Millions of us are choosing to move more and more aspects of our lives online. Using the internet to buy groceries, keep up with friends on social media or even book a medical appointment has become routine for many British people.

Personal banking and payments are no exception.

The first iterations of online banking began to appear around twenty years ago. Initially these services allowed customers to view their statements online, transfer money between their own accounts and pay bills.

Over the years online banking has offered more and more services. Some banks have used these platforms to provide discounts and other offers with retailers, restaurant chains, supermarkets and other companies.

The popularity of online banking has grown enormously over the last two decades.

38 million

adults used online banking in 2017



Metro Bank: Digital services have developed more quickly for personal customers, but business customers are also enjoying the benefits of this evolution. Metro Bank in November 2016 launched a new commercial bank platform which allows business customers with subsidiaries to easily track the finances of all their companies in one place. The system allows business customers to easily set payment authorisation and verification levels for different members of staff.



UK Finance research shows that 71 per cent of adults in the UK used online banking in 2017, representing over 38 million people, a figure which is still growing.

HSBC: Sophisticated “robo-advice” investment services are being launched by a number of banks, giving customers a much more tailored approach to managing their nest egg. This summer, HSBC announced that it is launching a new personalised online advice platform making wealth management services available at a fraction of the cost to those with a small amount to invest. The bank’s Online Investment Advice service uses data and algorithms to deliver a tailored advice service, making personal recommendations based on an individual’s circumstances and financial goals.



Personal financial management tools have also become a popular feature of many banks’ online services recently. Customers can see their spending broken down by categories, such as food, entertainment and household bills. Those who want help with budgeting can select goals for their expenditure in these areas and receive updates on how they are doing. Similar targets can be set for other ambitions, such as saving for a deposit.

These financial management tools are not for everyone. But many customers clearly do value the clarity and help such services can provide.

For millions of people in the UK their mobile phone has become the bank branch in their pocket.

Regular internet users and adults using online, mobile and telephone banking (millions)



2. Increasing use of mobile banking

Nearly 22 million people in the UK regularly used banking apps during 2017 – a 12 per cent rise on the previous year. Most of these people used mobile banking apps in addition to using online banking through an internet browser, using the option that was most convenient or most fully met their needs at any one time.

However, there were estimated to be around 5.5 billion log-ins to banking apps during 2017 – a 13 per cent rise on the previous year. Part of the explanation for this rise lies with the increasing capability of banking apps, which have been updated over time to enable customers to perform more and more tasks.

Initially apps simply allowed customers to check their balance and see their most recent transactions. But just over half (51 per cent) of banking app users now use these services to pay bills, three fifths (62 per cent) to transfer money to friends and just over a quarter (27 per cent) to set up standing orders.

Some apps now show pending transactions or allow customers to freeze their bank card from making any more payments, for example, if they have misplaced it.

The ability to order a new card from an app without requiring a customer to call their bank is now becoming a standard feature too. Some apps even allow customers to notify their bank that they are going abroad, to reduce the chances that legitimate transactions are declined while they are overseas.

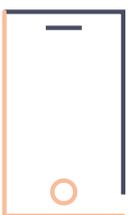
“At HSBC we’ve seen a clear drift from online banking to mobile – it’s part of something wider that we’re seeing across society,” says George Charalambous, Head of Digital Transformation at HSBC Retail Banking and Wealth Management. “But we can see that many customers still like online banking for certain tasks, just as many prefer the branch for certain things.”

Adrian Buckle, Head of Research at UK Finance, says that customers are increasingly making use of a variety of ways of banking, choosing the method that is most convenient for them at any one time. “Around four out of 10 people in the UK regularly use mobile banking apps. However, the majority of these also make use of online banking accessed through a computer’s web-browser. Consumers choose different methods of banking depending on what they want to do and where they are, checking their balance on the go via their smartphone, but perhaps logging on to online banking when they get home to carry out more complicated tasks, such as checking up on Direct Debits or changing a standing order instruction. There are a variety of tools now available to customers to help them bank the way that suits them best.”

There are a variety of tools now available to customers to help them bank the way that suits them best.

Estimated

5.5 billion
log-ins to banking
apps during 2017



3. Changing nature of transactions

The seismic shift in transactions to hand-held devices has inevitably led to fewer transactions in high street branches of banks and building societies.

The average branch received 104 visits per day in 2017, down from 140 in 2012 – a 26 per cent fall. But this decline in use does not sound the death knell for the bank branch.

Several banks such as Metro Bank and Handelsbanken are growing their networks and will continue to do so. “From our point of view the branch is the bank,” says Mikael Sorensen, Chief Executive of Handelsbanken UK. “For us digital solutions are an add-on to our branch services, giving more choice to customers about how they want to interact with us. They are not a replacement for the branch – they augment the branch.”

26%



in branch visits during 2017 compared to 2012

Handelsbanken now has 207 branches within the UK, with 70 per cent of the bank’s credit decisions made in its network of high street outlets. The bank says it has introduced digital services in line with customers’ demand and has plans to introduce video banking in the UK in the future. The service, which allows customers to have a video conference with their bank manager on a desktop computer, similar to a Skype call, is already available to its customers in Scandinavia and the bank believes this is a good way to augment the face-to-face banking experience it prides itself on to customers who would like to harness the technology.



3 in 5

customers said they would like to see their mortgage lender provide an app



However, as the use of branches has fallen the total size of the UK network has become smaller. While some high street branches are closing, hundreds across the country are being refurbished – underlining how banks believe their high street locations will continue to play an important role in 21st century banking.

As demand for services such as paying in cash and cheques continues to fall, banks are reducing the number of counters and making more space where customers can talk to staff. Some banks

are creating larger “superstore” formats, with a look and feel more akin to an Apple Store than a traditional bank branch. Others are moving to locations that are more convenient to their customers, such as opening micro branches within out-of-town supermarket locations.

Royal Bank of Scotland and NatWest have more than 1,200 TechXperts in branches across England, Wales and Scotland to help customers make the most of online and mobile banking.



“Branches are going to evolve to serve a different purpose in the future and we’re going to evolve them in line with how customers want to use them,” says Nick Williams, Managing Director, Consumer and Commercial Digital for Lloyds Banking Group.

Branches are going to evolve to serve a different purpose in the future and we’re going to evolve them in line with how customers want to use them.

“An online bank can’t replace a welcoming smile or a trusted handshake, or the sense of security that a bank which has physical buildings offers you.”

Williams concurs with many digital banking experts interviewed for this report who believe that branches will remain very important for those “big life events”, such as arranging a mortgage or discussing investment options.

A number of banks have equipped staff to focus on helping customers make the most of digital banking. This can involve explaining how to download and use an app or make the most of online banking. Increasingly these staff are offering wider help on aspects of using digital services – such as helping customers make the most of shortcuts or check their anti-virus software is up-to-date.

The moment a customer takes out a mortgage is often cited as a moment when they want to visit a branch, yet recent data on the mortgage market suggests a strong appetite among customers to harness digital solutions. Three in five customers said they would like to see their mortgage lender provide an app, with two in five saying they would be willing to use an app to arrange their mortgage.

And while the same study also said three in five customers would prefer to speak with an adviser about mortgages and other complex products

because they can ask direct questions and receive personalised services, two in five customers thought robo-advice would be faster and more convenient than human advice.

For us digital solutions are an add-on to our branch services, giving more choice to customers about how they want to interact with us.

Box 1: The Rise of Post Office banking



Around 99 per cent of personal customers and more than 75 per cent of business clients can now bank at 11,500 Post Office branches across the UK, under an arrangement launched in January 2017.

The agreement represents the biggest expansion of face-to-face banking services in a generation and effectively means customers are on average just 1.4 miles away from a place where they can bank.

Customers can withdraw cash, pay in money, check account balances and deposit cheques at the Post Office. The agreement has ensured that many communities that have never had a bank branch now have a place where they can do face-to-face banking.

4. Shifting innovation, shaped by how customers use technology

The way customers use technology is constantly evolving. Banks are analysing the way customers use technology to buy or use other high street goods and services and then adapting their own financial services accordingly.

Multi-channel: Banks increasingly recognise that many customers want to bank in different ways at different times. During a morning commute quickly logging into an app may be the easiest option for a customer. But examining their spending history over a series of months will probably be easier on a larger screen, using online banking accessed via a PC or laptop. Indeed, there is often a preference for conducting more “important” tasks online rather than using a mobile device. For example, recent data on the mortgage market² reveals that customers typically prefer to hunt for a new home using a PC rather than a tablet computer.

Many leading tech companies have set a high bar when helping customers move from one device to another, with settings and preferences migrating seamlessly. Customers of the video-streaming service Netflix can stop watching a film or TV box set on their television one evening and pick up the story again at the same point they left on their

tablet or mobile phone the next day – or even weeks later.

“We do understand customers want a more multi-channel experience,” says Michelle Kent, UK Director of Digital at Santander UK. “We want to make it easier for customers to move between those channels. For instance, we are looking at a process where someone could authenticate their identity through their app and then click on something that would allow them to talk to a member of Santander staff without having to identify themselves again.”

A number of banks are already starting to innovate with mortgage applications in this way, by providing forms that can be begun on a PC, accessed in branch and also opened via an app, providing a consistent experience for the customer however they may be choosing to access their application paperwork.

Voice-activation: Most of the digital experts interviewed for this report concurred that there has been strong growth in the use of voice recognition search technology by UK consumers over the past year.



20% of searches are now conducted by voice in Google's Android app

¹ *Digital Change and Mortgage Borrowers*, Council of Mortgage Lenders, June 2017

² *Digital Change and Mortgage Borrowers*, Council of Mortgage Lenders, June 2017

Apple, Samsung and Google have all integrated voice search functions into their mobile phones. Apple's Siri virtual assistant has been available on the iPhone since 2011. Google's Assistant and voice search function are available on phones running the Android operating system. In addition to the Google service, Samsung's Android phones also offer the company's own virtual assistant, Bixby.

Over time, customers have become increasingly accustomed to this technology. In Google's Android app, 20 per cent of searches are now conducted by voice – a service now available to one billion people around the world. Amazon's Alexa voice service takes the intelligent personal assistant one step further, with Amazon providing the Amazon Echo, a device that exists solely as a conduit for the personal assistant (rather than the assistant being integrated into a phone or computer).

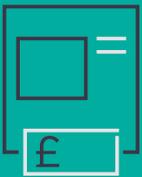
Banks have increasingly been using voice services for some time to allow customers to log into their banking apps, but over the past year some UK banks have made it possible to make payments, order a replacement bank card and see recent transactions by using voice commands on their mobile phone rather than by typing selections onscreen.

Technology of this kind will not always be suitable for making payments or answering financial queries, but banks recognise that many customers will want the convenience of interacting with their bank in this way in the future.

Customers want a more multi-channel experience.

Wearable technology: In previous years digital experts have predicted that smart watches and other wearable technologies would become a popular channel for customers to bank with. Although these technologies have a niche appeal, they have so far failed to appeal to the mass market. "When the customer tells us that they're not interested in something we have to respond," said one bank. "There can be danger of presenting technological solutions for something that isn't a problem and smart watches may be a good example of that. It's a powerful reminder to always focus on what the customer wants."

Box 2: Cash machines in the UK



There are almost 70,000 cash machines in the UK, and three-quarters of these are spread out within the community, rather than being located at a bank or building society branch.

Over three-quarters of cash machines in the UK are free to use, a figure which is continually rising. LINK, the UK's cash machine network, operates a Financial Inclusion Programme, which aims to increase the number of free-to-use ATMs, particularly in socially deprived areas. This programme operates alongside LINK's Suggest a Site scheme, which allows members of the public and businesses to make suggestions for ATMs to be installed in their local area.

Finally, LINK offers an ATM Locator App, which helps members of the public to use their smartphone to find the nearest cash machine to them.

Better services than ever before

1. Better information

An estimated
512 million
SMS alerts sent to
UK customers in
2017



Before the introduction of cash machines many customers seeking their balance had to wait for a fortnightly statement through the post – or ask a cashier to write it on a piece of paper.

Now millions of customers are habitually choosing to log in to mobile banking or online banking to check their balance each day – with many doing so multiple times a day. But the use of apps is just one way in which customers have access to more financial information than ever before.

Millions of people have also signed up to receive **SMS alerts** from their provider. An estimated 512 million of these text messages were sent to UK customers in 2017 – over 16 per second.

These text messages can notify a customer if their salary has arrived in their account or warn if their balance has dipped below a certain level – thereby helping to avoid fees for breaching an agreed overdraft level.

One financial provider has already begun sending notifications to a customer's smart phone if they have been accidentally charged twice for something. They can also alert a customer a few days before an annual payment (such as a magazine subscription) is due – serving as a useful reminder should the customer want to cancel.

Some banks and building societies are also rethinking the way customers' statements are created. The nature of a conventional statement is that it is backward looking. However, some account providers have begun producing "**forward-looking statements**" which take account of pending transactions and payments that typically come out of the customer's account at that time of the month. This can give customers a clearer understanding of whether they can afford some discretionary spending or whether they should transfer some funds across from savings.

Even the language banks use to convey information is starting to change. One challenger bank stressed that, historically, account providers

have had "a long and tortuous process of using jargon", with words such as "payee" and "beneficiary", which mean little to those outside the industry.

Now millions of customers are habitually choosing to log in to mobile banking or online banking to check their balance each day – with many doing so multiple times a day.

"Customers tell us the language we use is incredibly important to them," another bank said. "They want language that is simple, direct and jargon-free – but not too colloquial."

The Co-operative Bank: In 2016, the Co-operative Bank launched a new referral programme with Citizens Advice Manchester. Through this programme, funding is provided for dedicated Citizens Advice staff to work with particularly vulnerable customers across the UK.

Uniquely, this resource supports customers in financial difficulty, looking at their overall financial and personal circumstances, and not just the accounts they hold, helping to get to the root cause of their difficulties and help them get back on track.



There are many advantages to this clearer, more pertinent information. Customers think that managing your money can alleviate **financial stress** – widely considered one of the prime causes of mental health issues in the UK. Lloyds Banking Group research has found that 86 per cent of people who manage their money online "worry less" about their finances as a result.

2. Instant access

Many customers also have higher expectations of the way their services are delivered. There are a growing number of consumers who expect services to be available 24 hours-a-day, 365 days a year. But also, services need to be fast, functional and intuitive to use.

There are a growing number of consumers who expect services to be available 24 hours-a-day, 365 days a year.

Recent data on mortgages³ reveals how new entrants in the home loan market have made it possible for consumers to apply for a mortgage at any time of the day or night and receive a lending decision in principle within just 7-10 minutes.

Barclays: Customers can now withdraw up to £100 using their Android smart phone. Barclays launched its Contactless Mobile Cash Service in 180 branches last. This service enables customers to withdraw money by tapping their phone against the contactless reader on the in-branch cash machine. More than 600 of the bank's cash machines are fitted with the technology, which can also help customers who do not have their bank card available to withdraw money.



Increasingly, many customers want to be able to manage their money in different ways at different times – and move from different devices and channels, whether phone, online or in-branch.

Around half of consumers use just one financial provider for their banking needs. They rarely compare the different apps or websites offered by rivals. The reality is that tech-savvy customers are far more likely to consider how easy their banking app is to use by comparing it with, for instance, buying music on iTunes, using their supermarket's online delivery service or interacting with friends via Facebook or WhatsApp.

Member example: In the run-up to Remembrance Sunday last year, the Royal British Legion and RBS launched collection tins fitted with contactless technology, so customers without cash could buy a poppy using their debit or credit cards.



So, it is these technology giants who now set the bar for banks and building societies to reach. As one digital expert at a major bank interviewed for this report said: "If I can buy music on iTunes with thumb print authentication and just another tap of a screen, then I'm clearly going to expect a similar gold standard from my bank."

"When you think of how many millions of times that is done each day, you come to realise that actually making the log-in on our bank's app fast, secure and reliable is pretty much the most important thing we do as a bank."

³ *Digital Change and Mortgage Borrowers*, Council of Mortgage Lenders, June 2017

Box 3: The success of contactless payments



The maximum permitted payments with contactless debit and credit cards rose from £20 to £30 in September 2015.

These cards allow customers to simply tap to make a payment on a card reader rather than needing to punch in their PIN. This cuts queues in shops and makes paying for journeys on public transport systems fitted with this technology more convenient.

At the end of 2017, 73 per cent of all debit and credit cards in issue in the UK were contactless cards. That same month, over a third of all card payments in the UK were made using contactless.

One impact of the growing popularity of contactless card payments in the UK has been a reduction in the use of cash. As consumers use their contactless cards more, they tend to visit cash machines less frequently. The availability of account balances via mobile banking and online banking also means that there is less need for people to visit cash machines as regularly as they may have done in the past.

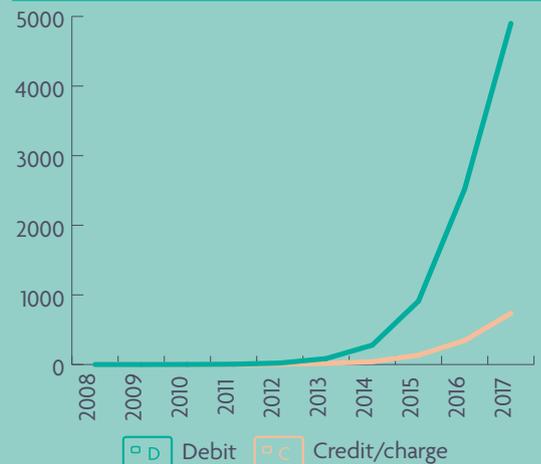
The contactless payments system in the UK relies on so-called Near Field Communication (NFC). The same technology now allows many customers to use their mobile phone to buy goods and services with Apple Pay, Android Pay and Samsung Pay.

A key advantage of these mobile payment services is that they can offer high value contactless transactions for payments above £30. This is because the customer can use fingerprint or other security features on the phone to authenticate their identity.

The majority of contactless terminals in the UK are now able to accept these higher payments via Apple Pay, Android Pay, and Samsung Pay, including supermarkets and restaurants.

Customers spent over twice as much with contactless debit and credit cards during 2017 than in the previous year.

Volume of contactless card payments (millions)



3. More secure



Banks are increasingly fitting a range of biometric security features into mobile and online banking. There are several advantages of these systems, which include finger vein, iris, voice and facial recognition software.

Firstly, customers do not always find passwords easy to remember. There is a danger that a note to help a consumer recall their log-in or passcode details could be used by a fraudster to access their account.

By contrast, biometric security systems rely on unique or near-unique personal characteristics which are hard for fraudsters to imitate. They are also often significantly faster than tapping in a four, six or eight-digit passcode.

A survey of customers who bank online conducted by Equifax and YouGov in 2017⁴ found that 33 per

cent of respondents preferred to access services using fingerprint technology. Only 19 per cent of those polled said they preferred access using a password or passcode.

Biometric security systems are also being incorporated into bank contact centres and elsewhere to detect fraud. For instance, some banking apps have even been fitted with technology that will demand further authentication if the phone is in a different location or if the screen is being tapped more slowly than usual.

“The angle a phone is held at and even in which hand is all highly individual,” one bank digital expert said. “If we see something unusual about the way the phone is being used this creates a risk score and that leads us to step up authentication.”

⁴ https://www.equifax.co.uk/about-equifax/press-releases/en_gb/-/blogs/equifax-finds-56-of-brits-prefer-biometric-banking

4. Accessibility of financial services



An estimate
5.5 million
 webchats with
 customers of
 major banks in 2017

“Why should we expect customers to come to us?” asks Ruchir Rodrigues, Senior Managing Director, Digital, at Barclays. “Isn’t it better for us to help customers where they are?”

That is a sentiment increasingly understood across the banking industry and explains why banks are creating pop-up branches and other ways of banking in the community.

One bank piloted a new account opening service for students at University College London in 2016. Armed with tablet computers, staff were able to quickly open new accounts. This paperless process was faster and meant that customers didn’t need to leave the campus. Plans are underway to roll out this scheme at other universities.

Santander has launched an online mortgage application service, that offers customers the opportunity to remortgage online, in their own time, from the comfort of their own home. A mortgage video service is also available, enabling customers to apply for a mortgage using a video link from the branch, which connects them remotely to a UK based Mortgage Adviser. This video service is designed to complement existing branch, online, telephone and intermediary channels, ensuring that all customers can access mortgage services in the way that suits them best.



Nearly 50 mobile branches were operated by two banking groups during 2016, regularly setting up shop at 740 different sites. These services provide

a lifeline to many isolated areas that have never had a bank branch, allowing customers to make deposits, cash cheques and perform a wide range of other banking services.

Nationwide has introduced its NOW high-definition video call technology, available in hundreds of the building society’s branches. The service connects customers with mortgage advisers, personal banking managers and financial planning managers. Mortgage applications can be completed using the service, with documents being passed between customer and banker using scanners. A survey of customers using the service, found that 99 per cent have rated it as either “good” or “excellent”.



Providing new and popular ways to communicate is an important part of accessibility. The popularity of services such as Twitter, Facebook’s messenger service and WhatsApp has encouraged banks to invest in similar webchat services.

This fast and convenient way for banks and their customers to communicate is growing quickly. It is estimated that there were around 5.5 million webchats with customers of major banks in 2017 – some 622 every hour.

Video banking has become increasingly popular. Some providers allow customers to talk to experts on their mobile, tablet or PC outside conventional bank branch hours rather than taking time out of their working day.

Box 4: Cheque imaging technology



Bank and building societies are increasingly able to offer their customers the option of paying in an image of a cheque – for instance, by using a secure mobile banking app on their smartphone or tablet – rather than having to go to a bank to pay it in.

This technology will also allow most cheques to clear in just one working day. The process can currently take six days.

Several banks have trialled such schemes in recent years, but these schemes have not allowed cheques from other banks to be cleared in this way. Rollout of the new UK-wide system started with some banks at the end of October 2017 and is expected to be complete by the end of 2018.

Use of cheques has fallen in recent years as customers have opted to use cards, online banking and mobile apps to make payments instead.

However, this centuries-old method to pay is still very important to small businesses and many other bank customers. In 2017, 405 million cheques were processed. This new innovation safeguards the future of the cheque for the many customers who continue to use this way to pay.

Chapter 2: How will we bank and pay for things in the future?

The way we spend, move and manage our money has changed dramatically in just a few years.

This section explores what personal banking could look like in the future amidst a changing regulatory environment, as technology allows banks to offer a range of new services to their customers.

1. Regulatory changes afoot



Open Banking which landed at the start of this year and has the potential to transform the way millions of us manage our finances. This innovation gives customers the choice to decide to share information about how they use their bank accounts with other organisations.

The first stage of this process took place in March 2017, and required the UK's largest banks to be able to share their product and reference data with authorised third parties in a standard format. The second stage took place in January 2018 and will, with a customer's consent, allow regulated third parties secure access to their current account to read transaction data and make payments on the customer's behalf.

Open Banking is a requirement of the UK's Competition and Markets Authority (CMA). However, the initiative also coincides with the European Union's revised **Payment Services Directive** (PSD2). This legislation requires all payment account providers across the EU to provide third party access to a customer's payment accounts.

Although Open Banking and PSD2 overlap, there are also clear distinctions between the two. The Open Banking initiative obliges only the UK's largest nine current account providers to participate, and only in respect of their personal and SME current accounts, whereas PSD2 is

mandatory for all providers and all types of payment accounts. So, savings, credit card and business accounts are all covered by the EU legislation, despite not being included in the Open Banking initiative.

PSD2 will provide the legal framework within which Open Banking will operate and sets out key legal protections to safeguard customers' data and privacy.

How banking services are conducted in the future will also be shaped by the **Payment Strategy Forum**, which was created in 2015 by the Payment Systems Regulator and which published its strategy in November 2016. This industry-led body's strategy sets out a series of initiatives to meet the needs of current and future generations of customers. The industry is now considering the best way to deliver these.

The proposed innovations include:

Assurance Data: This suite of tools will provide assurance over the lifecycle of a payment, from initiation, through processing and receipt. The tools would provide:

- Real-time balance information – to allow customers to determine how much money they have at any point in time, before making a payment (although this won't cover all card payments made on an account).

- Confirmation of payee – this would provide a customer with information to give them assurance that the account to which they are making a payment belongs to the intended recipient, reducing the chance of payments being misdirected or of customers being victims of fraud.
- Payment status and tracking – this would enable customers sending payments and those receiving them to understand the status of a payment and to track its position on its journey from one account to another.

Enhanced Data: This innovation would enable increased amounts of remittance information to be added to and associated with a payment, before being retrieved by the recipient, all in a form that is structured and standardised. Bacs

payments are currently limited to 18 characters of reference information. For Faster Payments 140 characters are possible. However, enhanced data would permit far more information to accompany each payment, aiding reconciliation of payments.

Request to Pay: This is a communication mechanism that would allow government departments, businesses, charities or consumers to send messages to a third party to request a payment. In response, the third party would be able either to accept these requests and make full or partial payments; decline them; request an extension of the time period in which the payment could be made; or request more information. It would give customers more control, flexibility and transparency over payments, particularly useful for those on a tight budget, for example.

2. Better information and new services enabling customers to control their finances more effectively



This shifting regulatory environment allied with the combination of smart phones, digital data and the increasing processing power of modern IT will make it possible for banks and other providers to offer an even wider range of new services to customers.

One of the most obvious ways will be to allow customers to see an array of different elements of their financial life all in the same place at once. Customers could see balances of current accounts, savings accounts, mortgages, pensions, credit cards, loans and countless other financial products on the same screen. These tools are known as aggregators.

“APIs will make it possible to see your financial circumstances in a much more seamless way,” explains Paul Riseborough, Chief Commercial Officer, Metro Bank.

Modern IT will make it possible for banks and other providers to offer an even wider range of new services to customers.

“For example, we might be able to bring in balances with your pension provider or insurance policies which will make it much easier to manage your entire financial life.”

3. Better-tailored services, more closely meeting individuals’ needs



But more sophisticated aggregation techniques of this kind could be just the start of what Open Banking could deliver to customers.

The possibilities are almost limitless. For example, one challenger bank is already looking at ways of working with energy providers to provide a price-comparison service that would identify if a customer could save money by moving their gas or electricity account elsewhere, by comparing their spending with other customers in their area.

Several digital experts interviewed for this report suggested that Open Banking could reduce financial exclusion and improve social mobility, by dramatically improving credit reference checking. This would make it easier for banks – with the

customer’s permission – to see data from other institutions. This could provide a more complete view of a customer’s credit worthiness, increasing the accuracy of credit application decisions.

Open Banking could also make it easier to fit payment technology into cars, which would allow a motorist to pay for fuel without even having to take their wallet out of their pocket.

“The real potential of Open Banking is to significantly reduce the friction in a customer’s life,” suggests Hamish Thomas, EY’s Open Banking & Payments Leader.

“How can we use technology to make it easier for customers to arrange utility providers, travel or

entertainment, in conjunction with their finances? How can we ensure we can send customers useful information that helps take things off their to-do list – rather than sending messages that stress them out and add things to do? Those are the types of conversations that are being held across the banking industry right now.”

Thomas argues that the day-to-day management of personal finances can be stressful and boring for customers and that Open Banking has the potential to relieve the administrative burden of many tasks.

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For instance, a customer could choose to automate a transfer from a savings account to their current account at a different bank if the latter drops below a certain level, or choose to auto-renew or switch certain products based on pre-defined preferences and insight provided by understanding of their transaction history.

Barclays: More than 20,000 Barclays customers have signed up to use Launchpad, an app where they can trial new features and give their feedback. Co-creation can also entail working with experts from other fields. Barclays attracted more than 1,000 fintech pioneers from two continents to a recent hackathon to develop innovative technologies with the potential to revolutionise the banking sector.



Several of the digital experts interviewed for this report predict a rise in what they call “invisible payments” of this kind, similar to the transaction which takes place when a passenger uses Uber where no added authorisation is needed by the customer.

The future is actually not about making the payment – it's about serving up help for customers about what the implications are of making the payment and whether they should be making it.

“The payment is the boring thing,” says Nick Williams, Managing Director, Consumer and Commercial Digital, at Lloyds Banking Group.

“The future is actually not about making the payment – it's about serving up help for customers about what the implications are of making the payment and whether they should be making it.”

Opinions differ about what such advice services could look and feel like. Some bank IT experts suspect online banking could look increasingly like a Facebook or Twitter newsfeed – as customers have grown accustomed to this format from many hours of using the social networks' services.

Atom Bank regularly surveys up to 10 per cent of its customers in order to test new iterations of its apps and other services. Customers often even give permission for their phone's camera to be activated during a trial, so Atom can see whether the customer is finding the new features intuitive and easy to use.



Other experts suggest an approach more like Spotify, the music streaming service which makes recommendations for the customer based on their listening history. This might involve a bank making recommendations based on what the customer has spent money on in the past, either scouring the internet for cheaper deals or recommending products and services other people in a similar social demographic or part of the country have enjoyed.

Monzo runs an online forum where customers can suggest and discuss services they would like to see in the future. One idea floated was a system which made it easy for customers to create multiple savings accounts for different categories, such as holidays, Christmas or for a deposit to buy a home. At the moment, customers usually have to go through the rigmarole of opening a new account each time they wished to do this.



But how can anyone be confident that customers want this assistance? Over the years Peter Neufeld, Head of EY's Digital Customer experience business, has been involved in qualitative research investigating what thousands of customers from all walks of life want from their banks.

Neufeld argues that many customers do indeed want a much closer relationship with their banks. “All the research I’ve been involved with over the years convinces me that people want banks to work to invest more in their financial well-being. They want their banks to help them achieve their financial goals – helping them save more, buy a home, even live longer.

“Ultimately, they want confidence that they are making good financial choices – that they have explored all the financial options effectively. They want something that real people call advice.”

Box 5: A co-creation culture



Banks are working more closely with customers than ever before to develop apps, online banking and other services. This style of working, often called “co-creation”, aims to ensure banks invest and develop services much more in keeping with their customers’ expectations and needs.

“The beauty of apps and other digital services is that it’s so much easier to trial services, get feedback from customers and then develop your services accordingly,” says Jane Howard, Managing Director, Branch and Private Banking at Royal Bank of Scotland.

“There is much potential to find out what works with customers and then adapt it to fit their needs.”

Many customers want to get involved with vetting prototype services and helping to shape the way banking services are delivered in the future.

4. A new type of assistant

But how would this “advice” be imparted? Several of the digital experts interviewed for this report said they expect to see the development of personalised **digital assistants** – avatars that customers communicate with through an app or similar platform.

“I think we will see a rise of the assistants,” says Adrian Joseph, a partner at EY specialising in artificial intelligence, analytics and big data.

“These are assistants who can aggregate all the different elements of my financial life and give me personalised insights into how I spend my money and manage my finances.

“These are services the customer can train over time to root out offers that we’re definitely interested in and shield us from those that are irrelevant.”

Joseph argues this is little different from what search engines are already offering by aggregating a customer’s personal interests.

Several of the digital experts who contributed to this report argue that this type of innovation could be profoundly beneficial to millions of people across society, effectively providing a financial concierge service until now available only to the wealthiest people.

“Over 50 per cent of the UK population live payday to payday – they have no money at the end of the month,” says Matt Cox, Head of Insight and Innovation at Nationwide.

These are services the customer can train over time to root out offers that we’re definitely interested in and shield us from those that are irrelevant.

“So, if you can use technology and that data to work with different organisations to help customers save money and make their money go further, you can make a big difference to a huge number of people.”

Box 6: New help
to vulnerable
customers



Technology also brings new possibilities to help vulnerable customers. A number of banks are looking at ways of restricting spending for customers who feel they want help in this way.

For instance, payments could be blocked after a certain time of night, or payments voluntarily prohibited to organisations such as bars or gambling websites.

Techniques are also being looked at that would make it easier for approved carers of the elderly or infirm to access the banking services of the person they are caring for (with that person's informed consent).

"Technology gives you more potential to adapt to customers' personal needs," says Tristan Thomas, Head of Marketing and Community at Monzo Bank. "We need to look at how this works and exactly what help customers want – but this is all possible."

Conclusion

We've seen how millions of customers are turning to mobile banking and other forms of technology to give themselves greater flexibility and choice about how they manage their finances.

We've seen a glimpse of what types of services we will see in the future and how banks are increasingly co-creating their digital platforms with their customers.

We've also seen that a range of new banks, fintechs and larger tech companies are influencing the way we spend, move and manage our money.

While there are many exciting and intriguing possibilities about how banking will develop in the years ahead, banks will remain focused on providing services that are safe, secure and in keeping with what all customers want. The importance of the customer relationship remains

at the forefront of banking and payments. Innovations in technology are helping banks to provide services to customers that are more convenient, helpful and tailored to the individual's needs and the way that people live their lives nowadays.

Indeed, there will be no shortage of organisations willing to offer banking services to customers in the future. The game-changing innovations that could transform the way we bank in the 21st century could come from long-established banks, new challengers, fintech start-ups or the big tech firms.

With so much new competition and choice, the customer now has more opportunity to shape the way they bank than ever before.

