

# Doing banking differently

Leaders in banking join The Banker's virtual roundtable to discuss the drivers for change in the industry and how both incumbent and challenger banks need to innovate and think differently in order to deliver the type of financial services their customers are demanding.



David Arnott, CEO, Temenos

**"WE NOW SEE MORE AND MORE BANKS REQUIRING CLOUD-NATIVE SOFTWARE AS A WAY TO FUTURE-PROOF THEIR BUSINESS, LOWER THEIR COSTS AND BECOME MORE AGILE AND EFFICIENT"**

## What has been the main driver of change in the banking industry in the past 10 years?

Luke Bunbury: I think it is the push towards greater competition. For example, the Australian government has focused on encouraging more competition through regulatory change, part of which is lowering the barriers to entry.

Another driver is consumers' changing habits – not just millennials, but also centenarians. Most don't think about buying a financial product; but when they have a need for one, they often use their social media networks to get advice. Advertising has less relevance, as customers identify financial needs and solutions differently from the past.

David Arnott: I agree. For example, open banking – driven by regulation in Europe, Australia and other jurisdictions – is all about increasing competition in the banking market. Customers want broader banking services from an ecosystem of financial services providers, as well as non-traditional players. These are converging trends: regulators are encouraging competition; new business models are developing; and changing behaviour means customers are willing to accept new banking concepts.

Marina Gracias: I would add the tremendous loss of consumer trust in banks after the financial crisis has had a huge impact. Fintechs and challenger banks have emerged to fill the gaps in traditional banking services and to show consumers that there are alternatives to the big banks. These new entrants are meeting the needs of digitally savvy customers, some of whom bank only via mobile or online.

Simen Munter: I believe the demand for increased customer convenience has been a

major change driver. The focus is now on making life easier for customers across all financial services segments. Remaining relevant in an increasingly competitive environment boils down to how we make people's lives easier, by making banking more convenient.

## How are customer needs evolving and how are banks adapting in response?

Mr Munter: When customers think about banking, they want it to be an enabler in their lives, not a blocker. The Nordic market is interesting because cash is rapidly disappearing, and digitalisation is happening very quickly and extensively. My 85-year-old mother pays her bills digitally, for example. These changes in customer behaviour are the reason we are changing our core banking platform – to be fit for the digital future.

Mr Arnott: Customers' lives are being shaped by technology developments in other, non-banking areas. To Simen's earlier point, they don't want friction and are increasingly prepared to pay a little more for financial services that meet their personal expectations.

The initial response of banks to this was to try to be more like the Googles or Amazons of this world. But while these platform organisations are slick and nimble, they don't have the deep banking expertise that customers need. Banks need to take their core competence – a full suite of banking products and an understanding of regulation – to support the whole customer relationship. They just need to become nimbler and take advantage of the new technologies emerging.

Mr Bunbury: As a challenger bank, we are offering services in a way not possible for traditional banks today. Opening an account with an incumbent bank is still challenging and can take two to three weeks. At Volt, customers can open an account in less than 60 seconds. We use the latest technologies, such as optical character recognition, and weave them into an elegant solution. For example, populating forms with passport information, using a selfie photo and matching it to the passport, and then tracking that back through government records. It is super-fast and secure.

We also think differently about the customer journey, focusing on our customers' goals. We understand that customers want to buy a house, not a mortgage. As such, we think of ourselves as "life journey managers", not product managers.

Ms Gracias: Varo's core customers are millennials and digital natives, who tend to be very hands-off with their money and more



Luke Bunbury, co-founder & deputy CEO,  
Volt Bank



Marina Gracias, general counsel, Varo Money



Simen Munter, chief operating officer  
of personal banking, Nordea

likely to adopt mobile banking services compared to other groups. Building on our own extensive research, we are designing products that fit customer needs and help ensure they are doing the right thing with their money. For example, we offer an automated budgeting tool that sits across their bank accounts.

### How is cloud technology enabling new business models in banking?

Mr Arnott: Cloud significantly reduces the barriers to entry, as an organisation can cherry-pick the services they wish to offer and come up with a new banking proposition at a relatively low cost. In the past, architectures were not scalable, and the investment required only made sense if you did everything – branches and the whole suite of products across the different customer lifecycles. Today, the biggest obstacle to new entrants – that of infrastructure cost – has been removed because of cloud. We now see more and more banks requiring cloud-native software as a way to future-proof their business, lower their costs and become more agile and efficient.

Ms Gracias: Cloud technology allows us to offer no-fee banking because we can achieve greater efficiency at a lower cost. We pass the benefits of this on to our customers. Cloud also allows banks to scale more quickly. Moreover, it brings agility and speed to new banking business models. For example, we can update our fraud detection model within just a few days. In addition, an increasing number of supporting technology providers in the banking ecosystem are cloud based and so they are able to integrate seamlessly. In many cases the configurability of these systems provides functionality that allows products and features to be brought to market more quickly.

Mr Munter: Cloud is transforming the

way we think about infrastructure, as well as how we share and mutualise the data available to us. We are excited about the opportunities that are being driven by cloud, which is not only about running applications in the cloud. If everyone is using the cloud, connectivity is much easier across applications and ecosystems, which helps create a seamless experience for customers.

Mr Bunbury: Cloud enables us to do much more – particularly when compared to the days of stack and rack on-premise data centres. Volt will be the first pure multi-cloud bank in Australia with every part of our service will be in the cloud, including failover systems. It gives us a range of benefits, such as speed, stability, cost efficiency and security. We are working with our technology providers to ensure we get the best out of cloud. And, we are also working closely with regulators to get them comfortable with our use of cloud, especially around issues such as customer data sovereignty and privacy.

### How are banks thinking differently and challenging the status quo?

Ms Gracias: Varo has a social mission to help improve our customers' financial lives – and we're fundamentally aligned with customer success. If the status quo in traditional banks is charging fees and offering only a few basis points on deposits, then Varo is the opposite. We have no fees on banking and encourage people to save with a great rate, using free automated tools to do it. The other part is great customer service. The appetite for our model is real as we pursue a national bank charter and look to expand our own products, as well as leaning into ecosystem partnerships. Many partners are new entrants themselves and we can connect via application programming interfaces and quickly

improve our whole offering.

Mr Bunbury: Volt Bank differentiates itself by providing a comprehensive solution, with savings, unsecured lending and mortgages, compared to other banks that have a narrower product set or those that are just digitising existing processes. Also, our solutions are not just technology for tech's sake. We want to make life simple for our customers. And while technology can be overpowering and intimidating for some people, our aim is to make it intuitive and responsive.

Mr Munter: Incumbents generally struggle with their legacy infrastructure, so Nordea has tackled this head-on by changing our core platforms. Many other banks are shying away from such a course of action, but over time this will make them slower and less able to adapt to the changing marketplace. We are also embracing open banking. Importantly, we have learned a lot on our journey and in our interactions with non-banks, which will allow us to create better, frictionless solutions for our customers.

Mr Arnott: Increasingly incumbent banks are using technology to review their customer segmentation and the breadth of their offering, as well as tailor the customer experience. They are envisaging what their customer base and their business model will look like in five years' time and working back from that, rather than rolling forward the existing customer experience. The successful ones will play to their core strengths, build an ecosystem of partners, and use technology to become nimbler and responsive to changing customer needs.

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