

# >> WHOSE CUSTOMER ARE YOU? THE REALITY OF DIGITAL BANKING IN NORTH AMERICA//

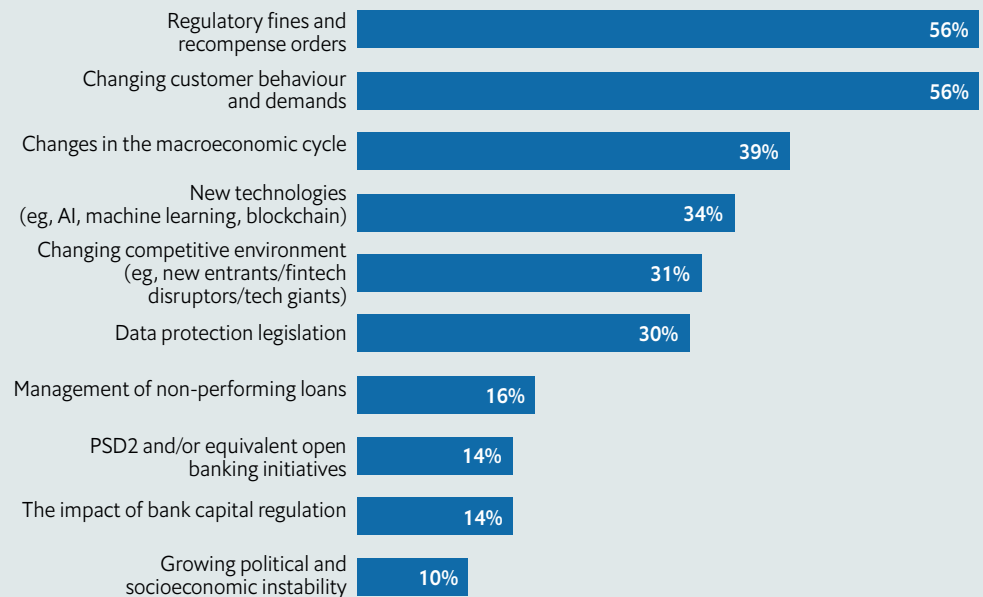
## North America: conquering the next frontier

People now expect more from their bank than they did even five years ago. As North Americans become ever more used to turning to the digital world for all aspects of their lives, the need for banks to make their online service offerings as good as their offline services, eg, mortgages and pension planning, seems obvious. These changing customer behaviours and demands should be fuelling change in the services and products retail banks offer their current clients. It should also be influencing their thinking in how they reach out to new clients.

Chart 1

### Which trends will have the biggest impact on retail banks in your country in the years to 2020?

(% of respondents)



Source: The Economist Intelligence Unit.

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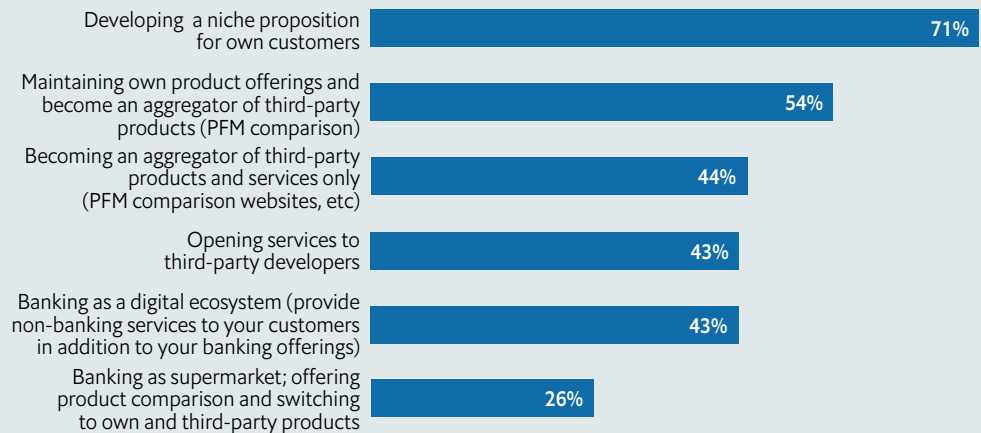
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Chart 2

**Strategy: How do you see your current business model evolving?**

(% of respondents)



Source: The Economist Intelligence Unit.

However, according to interviewees, despite the global prominence of Silicon Valley digital giants like Google and Facebook, the ability of US banks to provide an easy, one-stop digital journey is still under-developed compared with their European counterparts. North American respondents recognise the importance of product agility; 49% of retail bankers (as shown in Chart 6) cite product agility as a strategic priority for their companies. More North American bankers may believe (87%) that the platformisation of banking and other services through a single entry point will steer the market than their global counterparts (78%), but they haven't quite been able, for a variety of reasons, to fully utilise their home-grown technological prowess to their advantage.

These same bankers are pushing hard for a niche proposition for their own customers, with 71% of respondents citing this as the way they see their current business model evolving. North American survey respondents remain focused on their current markets and, as open banking has only begun to be part of the conversation, are less open to building national or multinational open digital ecosystems to populate their platforms. At present, they are not particularly keen on enticing outside developers, with only 43% looking to build a digital ecosystem versus 53% globally. But this may change as North American banks, particularly those with a global footprint, learn from Europe's open banking experience.

### ***An earlier mover advantage in payments***

Payments have become, for many, the way they interact most with their bank. Unlike many American banks, this was something that Canadian banks realised early on. Canadian banks quickly moved into industry e-payment solutions while the US still relies on competing private-sector technology.

Because there is no federal ID system in Canada, Canadians can also use their banking credentials to access online government services like immigration or the tax authorities. The banks want to take this further, formalising and tokenising banking customer identities with the assistance of government agencies.

**Table 1 E-payments: shared infrastructure versus unique solutions**

	Venmo (US)	Zelle (US)	Interac e-Transfer (Canada)
Value	US\$35bn	US\$75bn	US\$70bn
Volume (year-on-year increase)	+97%	+45%	+52%

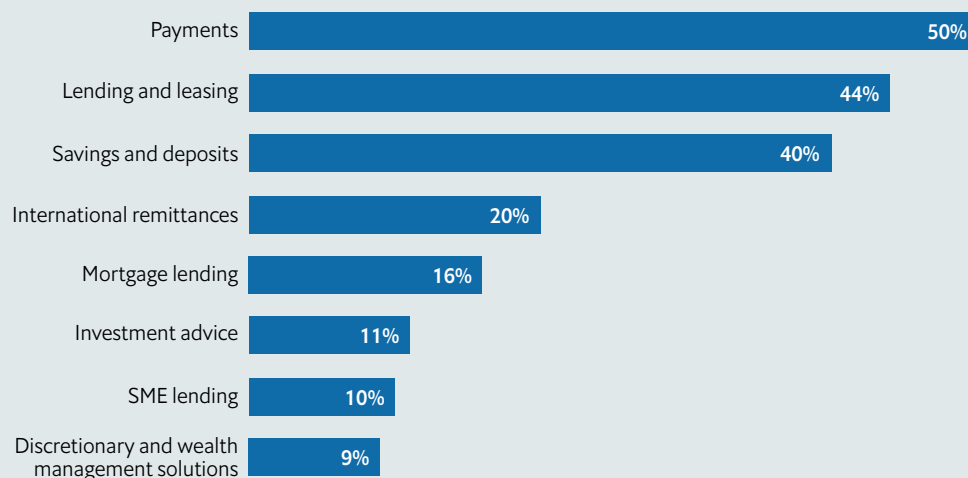
Sources: Venmo, Zelle, Interac

Despite Canada's more apparent willingness to embrace change, both nations need to fast track their regulatory and infrastructure upgrades if they are to remain appealing to their customers. This is especially important as new payment players are seen as the biggest competition in the years to 2020 by 61% of North American bankers.

**Chart 3**

### What is the main area where you expect new entrants to gain the most market share?

(% of respondents)



Source: The Economist Intelligence Unit.

However, North American bankers seem far more relaxed that their more profitable product lines can weather the rise of fintech. Only 9% of North American bankers think there will be an assault on top-end discretionary management, the lowest percentage of all regions surveyed

## SMART BANKING FROM CANADA

Canadians do not like to boast, but their retail banks have plenty to shout about when it comes to technology.

Peter Tilton, senior vice-president of digital at Royal Bank of Canada, disagrees with the 34%

of survey respondents who fear the loss of brand visibility that may result from open banking. He says this should not be the case. He thinks banks just need to work harder on their customer engagement.

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Royal Bank of Canada wants to wow its mobile customers with its new artificial intelligence (AI) capabilities. Pronounced “know me”, RBC’s NOMI helps customers to budget and save. More than a quarter of a million “insights” have been pushed to customer mobiles, alerting them to under- or overspends, duplicate transactions and more.

NOMI Find & Save goes one step further, using AI to analyse and predict spending behaviour to sweep money into an interest-bearing account. To date, it has helped clients find and save more

than US\$20 million. Monthly, savings are adding up to US\$130 a month on average, says Mr Tilton.

Integrating voice, app and customer call centres now means the bank also knows if a customer has been struggling with mobile technology and automatically directs them to the appropriate agent.

Shorter dwell times and a better customer experience is something Canadian banks should definitely feel proud about.

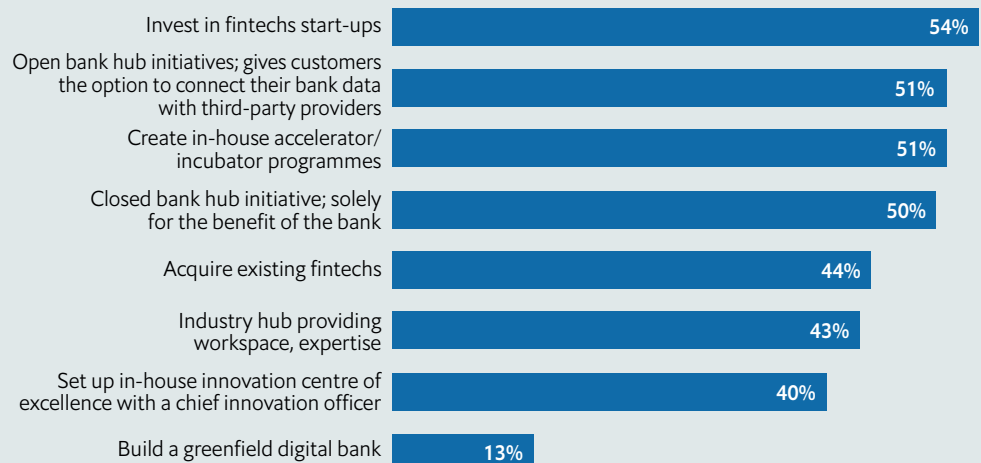
### Overcoming the regulatory conundrum

The ability of both US and Canadian banks to respond to changing consumer behaviour is limited by a mix of overlapping state and federal regulations. In the US in particular, the complicated regulatory framework has made the adoption of common standards difficult and may explain the high level of fragmentation seen within the banking and fintech market. However, the potential size of the market means that, despite the existence of the big banks like JP Morgan, Bank of America and Goldman Sachs, all of which have the money to build hubs and buy fintechs and programming talent, there are numerous new challenger banks and mobile banking services like Varo Money bank, ready to take them on. Even though the August 2018 ruling by the US Office of the Comptroller of the Currency (OCC) that it will accept applications for special purpose national bank charters from fintechs is now being challenged by the Conference of State Bank

### Chart 4

#### What is your bank’s innovation strategy?

(% of respondents)



Source: The Economist Intelligence Unit.

### THE DIGITAL BREAKOUT: INTEGRATING TECH HELPS REGIONAL PLAYERS GO NATIONAL

Scott Case has been busy since taking up the role of chief information officer at SunTrust in February 2018. The Atlanta-based bank serves the south-eastern states, but has wider digital ambitions.

The bank already has a successful track record of buying or collaborating with fintechs. It bought Lightstream, an online consumer lending platform, in 2012 to tap the growing national online unsecured loans market.

“We bought Lightstream before the term ‘fintech’ was really used as frequently as it is today. We had online capabilities already, but purchasing this platform has helped us leapfrog ahead in terms of the quality and client experience of our

consumer lending solutions,” says Mr Scott.

The bank also took a stake in Greenlight Financial Technologies in February 2018. The company has a smart debit cards for kids that allow parents to control what they spend and where. SunTrust has partnered with nCino, a processing fintech, to speed up commercial lending decisions.

“With any partnership, we create a lot of internal partnerships and alignments,” admits Mr Scott. “In addition to technology integrations, as we modify our internal structures to align to agile principles, areas such as procurement, legal, compliance, segment business leaders and tech are all coming together,” he says.

Supervisors, the retail banking sector has been permanently shaken up. The big banks now know they cannot sit on their laurels or depend on their current customer balances. They will have to consider in-house innovation as many of these often more agile, innovative developers will be looking to expand their roles and look to being more than mere suppliers.

#### **How to innovate yet remain secure**

In July 2018<sup>1</sup> the US treasury published its thoughts on how federal and state regulators should encourage innovation and still keep customers safe. And even though the US Office of the Comptroller of the Currency recognises that cyber security and the relationship between banks and fintech companies are risks<sup>2</sup>, it has not yet issued a single special purpose fintech licence that could improve oversight of new national digital banking services.<sup>3</sup> So, regardless of their size, they still face different rules and regulations depending on how or where they operate.

US bankers may be particularly scared by the billion-dollar fines handed to Wells Fargo for opening 3.5m accounts without customers’ permission.<sup>4</sup> Canada’s Financial Consumer Agency has also, rather belatedly, realised that an overly strong sales culture increases the risk of customers being mis-sold products.<sup>5</sup> The omissions and overlaps in regulation appear to cause greater concern to North American bankers than their global counterparts. North American bankers are more concerned than their global peers about the threat of regulatory fines and recompense orders (56% v 43% globally).

<sup>1</sup> US Department of the Treasury, July 2018, <https://home.treasury.gov/sites/default/files/2018-07/A-Financial-System-that-Creates-Economic-Opportunities---Nonbank-Financi...pdf>

<sup>2</sup> Reuters, January 23rd 2018, <https://www.reuters.com/article/bc-finreg-key-risk-areas-for-banks/cyber-security-fintech-and-laundering-key-risk-areas-for-banks-u-s-big-bank-regulator-says-idUSKBN1FC2LQ>

<sup>3</sup> Office of the Comptroller of the Currency, July 31st 2018, <https://www.occ.treas.gov/news-issuances/news-releases/2018/nr-occ-2018-74.html>

<sup>4</sup> Bloomberg, April 20th 2018, <https://www.bloomberg.com/news/articles/2018-04-20/wells-fargo-said-to-be-fined-1-billion-over-consumer-missteps>

<sup>5</sup> Bloomberg, March 20th 2018, <https://www.bloomberg.com/news/articles/2018-03-20/canada-s-financial-consumer-watchdog-to-beef-up-bank-supervision>

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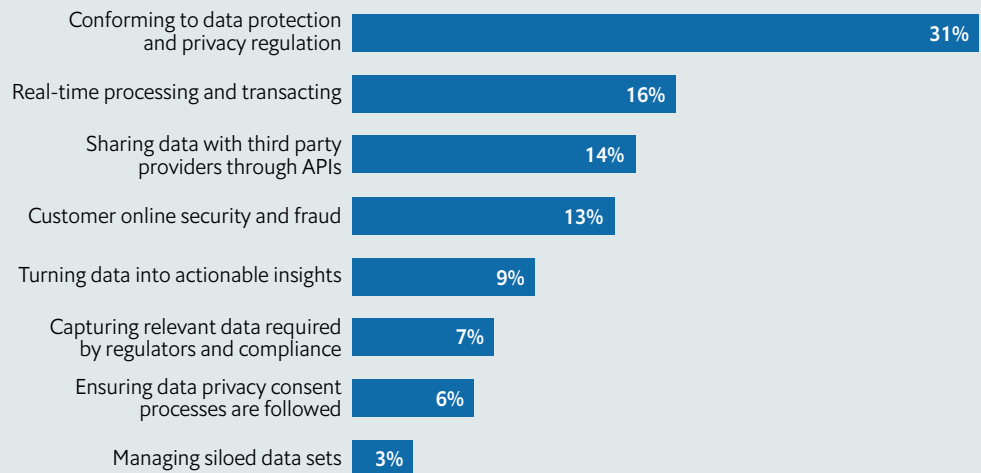
### **Data protection: moving towards a global standard?**

The US and Canada have not yet developed equivalents to Europe's Payment Services Directive on open banking or the General Data Protection Regulation (GDPR) that gives consumers control over their personal information. As a result, American bankers are more likely than most to struggle with a jumble of outdated data protection and privacy regulations. As noted in Chart 5, when asked "what is the biggest challenge your company faces concerning data and third-party access?", 31% cited conforming to data protection and privacy regulation. Only 21% globally cited this as their biggest challenge.

**Chart 5**

#### **What is the biggest challenge your company faces concerning data and third-party access?**

(% of respondents)



Source: The Economist Intelligence Unit.

<sup>6</sup> Zelle, <https://www.zellepay.com/get-started>

<sup>7</sup> US Bank Locations, <https://www.usbanklocations.com/bank-rank/number-of-branches.html>

<sup>8</sup> *New York Times*, April 22nd 2018, <https://www.nytimes.com/2018/04/22/business/zelle-banks-fraud.html>

<sup>9</sup> The Economist Intelligence Unit, "Your bank has your trust, can fintech make you love it?", 2017 <http://www.eiuperspectives.com/sites/default/files/Temnos%20global%20retail%20banking%20v6.pdf>

<sup>10</sup> *Financial Times*, June 29th 2018, <https://www.ft.com/content/671a7010-7b2a-11e8-bc55-50daf11b720d?segmentId=080b04f5-af92-ae6f-0513-095d44fb3577>

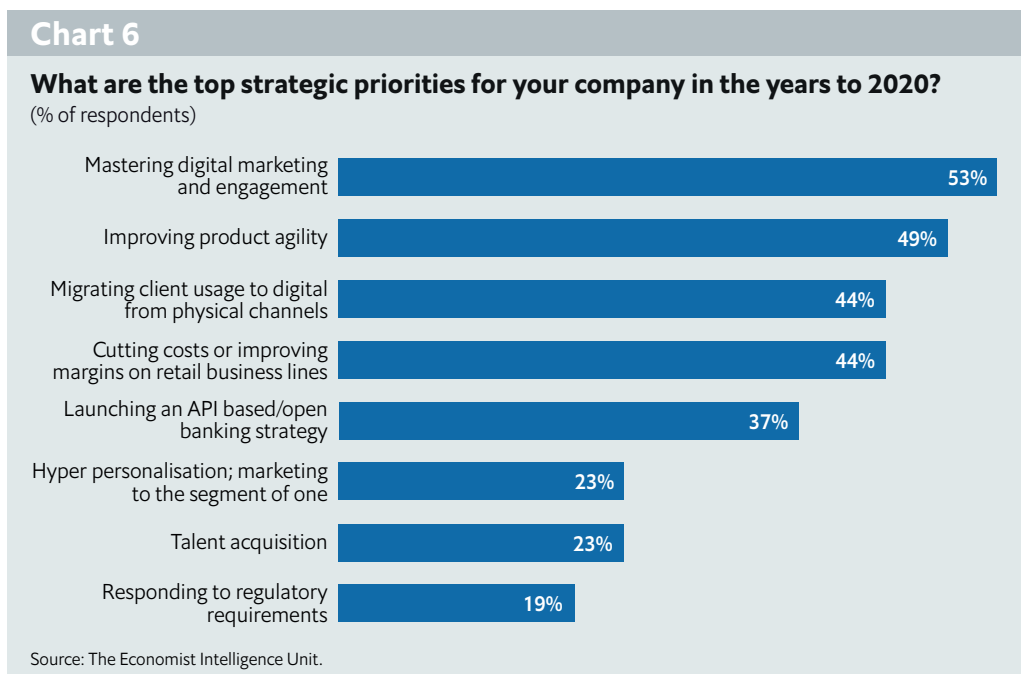
Recent data breaches, including the Facebook scandal, should force politicians and regulators into action. So too will growing concerns about login security at 120<sup>6</sup> of the US's 5,500<sup>7</sup> banks that rely on the Zelle app feature for peer-to-peer payments.<sup>8</sup> The banks, with their extensive compliance teams, may be better placed than the GAFAs when it comes to being custodians of our data.<sup>9</sup> And, given the multinational nature of the largest banks, they may find it easier and more cost effective to incorporate at least some of Europe's rules regarding open banking and GDPR now rather than wait for more expensive scandals to emerge.

In the US, individual states could take the lead if federal agencies will not. In California, residents may soon have the right to see what data companies hold about them and limited rights to sue in cases of security breaches.<sup>10</sup>

However, to build a truly modern banking system that supports digital innovation will require a national effort. Scott Case, chief information officer at SunTrust bank, says US banks are working together despite the confusing mash of federal and state regulations. However, despite this collaboration, the US is likely to trail the Nordic and other regions on the march towards cheap, cashless banking. Unfortunately, this

lack of nationwide consensus in the US is holding the country back: after 252 meetings and an exhausting 120,000 hours of deliberations,<sup>11</sup> the US Faster Payments Task Force still has not found a way to bring the US into the era of countrywide instant payments. And this lack of comprehensive, consistent regulation will continue to affect banks in the US. As noted by Mr Scott, “I think we’re going to have cheques for some time.”

Nevertheless there appears to be some recognition, as agreed by 37% of respondents versus 32% globally, that application programming interfaces (APIs) and open banking are an increasing necessity if mobile phones are to be the payment gateways that consumers can use in the real world.



### Look North

Despite an equally complex regulatory structure, Canadian banks have been more successful in working together to prepare for digital change. An example of this is the banking industry building its own non-for-profit central “rail” 15 years ago, therefore allowing its customers to be able to send peer-to-peer digital transfers. Canadian customers sent C\$92bn last year to phone numbers or email addresses via the Interac e-Transfer service,<sup>12</sup> all without the need for account information.

According to Peter Tilton, senior vice-president of digital at Royal Bank of Canada (RBC), one of the country’s “Big Five” banks, Canada has followed a different strategy to the US. “Our digital strategies don’t look South, we look more across the Atlantic or to Asia-Pacific,” says Mr Tilton. As a result RBC does more e-transfers in Canada alone than Venmo, a mobile payment service app owned by PayPal, does worldwide. This willingness to look outside its own physical borders, to learn from others, and the success it is bringing banks like RBC, should provide a good lesson for Canada’s southern neighbour.

<sup>11</sup> Faster Payments Task Force, <https://fasterpaymentstaskforce.org/>

<sup>12</sup> Interac, February 22nd 2018, <https://www.interac.ca/en/interac-e-transfer-platform-delivers-record-usage-in-2017>