



EMBRACING TECHNOLOGY IN FINANCIAL SERVICES

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SEASON 2, EPISODE 3 TRANSCRIPT

Digital banking - what's all the hype about?

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Tim: What is a neobank and will they create excitement or complexities in the marketplace? Join me with my guests, Alex Trott and Ellie Scott, as we explore a new era in digital banking.

Presenter: Welcome to Embracing Technology in Financial Services, a podcast brought to you by Accenture where leading experts share insights on business issues facing Australia's financial services industry and beyond. Now here's your host, Tim Broome.

Tim: I'm really excited to be joined by Alex Trott, who leads our banking practice here in Australia and New Zealand, and Ellie Scott as the Open Banking lead. Alex, back for a second go. How are you?

Alex: Very well, thank you. And pleased to be invited back again.

Tim: Thank you. And Ellie, how's things?

Ellie: Brilliant, looking forward to getting involved in the podcast initiative.

Tim: And, so you're recent visit to Australia.

Ellie: Yes, so very fresh. Arrived about six months ago and yeah, looking forward to seeing some of the trends in the topic we're discussing today from Europe, how they've come over to Australia in recent months.

Tim: So, you've gotten away from winter?

Ellie: Yes. So, it's been quite great. I braved the English winter and then pretty much came straight over to what was probably arguably better than the British summer. All happy there.



Tim: Alex, how long have you been here now?

Alex: Nearly two years this time, since I relocated from Hong Kong to Australia.

Tim: Okay. Well I'm at 14, 15 years now.

Alex: So, a veteran.

Tim: So, the winters for me now here are cold. I've gotten used to it.

Ellie: I'm not looking forward to that.

Tim: So, Alex, on our last episode [[How well do you really understand your consumer?](#)] we talked around the [consumer survey](#) and the four different types of consumer that we see out in the market. We've had a question come in, which I'm going to pass your way. So, this is from Tina in Melbourne. In the current climate around trust issues amongst the big financial institutions, are we likely to move towards sceptic traditionalist behaviour? What do you think?

Alex: A very good question. And I think, as you said, we spoke last time about the personas, some being sceptics, traditionalists and some sort of more progressive in terms of how they see banking and the banking services. I think trust is actually a concept that flows across all of these and therefore what we will see in the future is the banks working with looking at those types of segments or the types of segments that they have to try and personalise their services, their communication, their brand to those again to try and rebuild trust in that way. So, I think it's an issue that happens across all of those different personas rather than one in particular. And I see that, again, the personalisation being the answer to that.

Tim: Okay, thanks. Ellie, any thoughts on that one?

Ellie: Yeah. So, I guess there is also different continuums of people's propensity to trust. It probably quite depends on what the product is that they're talking about in that particular point in time. But yeah, I guess increasing personalisation and making the banks sort of have a think more about the art of who they want to be and where they would like to focus those services and use data more effectively, I think will definitely help sort of remediate some of the trust issues that are apparent in the market at the moment.

Tim: Okay. And I looked at this question from the perspective of, if I'm a pragmatist, I still just want to get the job done as quickly as possible. The fact that there's been some challenges going on around the industry, it doesn't change the fact that I still just want to get the job done, doesn't make me different.

Ellie: And maybe the pioneers, which was sort of roundabout 23 percent of the market. There probably will be those that on the back of trust events are probably those are more likely to quickly jump ship and experiment and have a look at new offerings, new propositions and which they're sort of primary banking products. But the pragmatists, such as yourself, are probably more likely to weigh up the odds and the impacts of potentially doing that.

Tim: That's me. Okay. Topic for today, we really want to explore what it is to be a digital bank and the terms neobank, all of these are starting to swirl around together. So, Alex, can we start off with what exactly do we mean by a digital bank?

Alex: That's probably the big question, isn't it? And one that everyone's asking and actually do they want to be a digital bank as well. So, I think working out what it is and whether it's actually that attractive. So digital bank is a broad term, which really reflects some of those challenger banks that existing banks are creating. So digital attacker banks, it covers the terms around the sort of neobanks, new Fintech banks and really, I think a broad term in terms of also those existing banks that are looking at digitising as well end-to-end. But broadly I think we can look at it as an organisation that's providing banking services through digital means. So, without human intervention and therefore one that is really... sort of provides those services through the mobile or website type mechanism without the need for that human intervention.

Tim: So, the assumption is no branches.

Alex: Absolutely.

Tim: Okay.

Alex: As one characteristic. But there's many, many more.

Tim: Okay. Ellie, so you came over from the UK. I think that the industry there is probably a little bit ahead of Australia in terms of the availability of banking licenses, which is just starting to come over here, but is probably a bit more mature over there and Open Banking was maybe two or three years ahead of here. How different is it there to here?

Ellie: So, I guess the digital landscape, obviously an influx. Over the last seven years, there's been a real, real increase in a number of institutions that are, as Alex said, it's that designing from mobile first in mind. And it doesn't mean they necessarily don't have complimentary other channels that they support their customers, but it's that sort of digital led mobile user experience mentality that they focus on. I guess in terms of the market, what we've seen is there are a lot of players that sort of sought out to want to be the next big bank and ensure that they're sort of customer facing, but a lot of the realisation has been that more and more institutions were actually looking at where their offering would pay more broadly in the value chain. And actually, a lot more have focused on partnering with other institutions and being part of a broader ecosystem rather than necessarily seeking to be this sort of customer facing neobank.

Tim: So, was Open Banking an enabler of that or something happening at the same time?

Ellie: Both. So, it was happening at the same time, but Open Banking definitely was the catalyst to enable the ease of integration of services and it sort of has been a key thing to bring together the broader sort of development community. More and more banks have been focusing more and more on, for example, their developer portals and actually using that as a primary channel to enable actually other people to help innovate and promote their brand, without sort of a means of them having to go to market themselves. So, more and more people are sort of focusing on other elements of the value chain and actually coming to terms with the fact that they're banking as a service or whatever their core offering may exist in other people's channels.

Tim: Okay. So, Alex, if that's where the UK is at now, where is Australia at?

Alex: It's certainly in its infancy, but again, over the last 18 months especially, we've seen a number of new start-up banks come to market going through the licensing process with a number of sort of full banking licenses being issued, so to be deposit taking. And I think it's now really got to the point where the market has expectations and consumers have expectations around what these new banks will offer. It's about bringing those to the market and actually really then starting to see the new propositions that are coming out. So, as we saw in the UK, actually the new propositions were quite attractive. There were other sort of incentives to switch to the neobanks especially. And I think we will see that very soon as the key propositions come to market.

Tim: Okay. So, you mentioned neobanks. Could you define neobank and is it a subset of the broader digital bank?

Alex: I think it is a subset. And what I would say is the neobanks are those sorts of standalone new banks that are coming to market. They're applying, they're going through the licensing process and they have a core customer proposition that they believe is differentiated to the market. So, you take some of them where they're really going to focus on some certain segments or they're going to focus on certain products or they're going to focus on basically doing banking in a more friendly, interactive, digital, everyday way. So, there's things that they feel that their brand can offer that maybe the big traditional banks might not.

Tim: Do these neobanks stand the risk of compartmentalising themselves in the life journey that we have? There are decisions that we take where maybe I do want to go and sit down with somebody. And, I'm reflecting on when it comes down to getting your first mortgage, most people would rather sit down with an advisor, understands the permutations, what it's all going to mean. I'm not necessarily sure that's something that you would just click a button on an app, say, "Yeah, I'll take that fairly large loan."

Alex: And I think this comes back to the question around persona, around segment. So, I think what you'll find is there are certain people that become very comfortable with their digital life. So be that not just banking services but everything else that they do in a digital means and actually find those things actually second nature. But you're absolutely right. There will be some segments of the consumer population that do want to sit and talk face-to-face. And I think this really comes down to advice and this is where the interesting, I think, dynamic will come I think for single products, for simple products, for transaction.

Again, you may have many products that create a relationship, but actually many of the neobanks will focus on specific use cases that are the simpler to transact via digital. It's the broader set of advice and those advice categories where again many people still want the face to face interaction. So, I think there's a big market for the neo's, for the digital banks, but I don't think it's going to cover 100 percent of the population.

Tim: And you mentioned I guess quite specific products. On the assumption that people need more than one product overall in their life, are you suggesting that people would have multiple relationships with multiple different banks?

Alex: Absolutely. And I think this is certainly something that's being seen in other markets that are a little further ahead. If you sort of play forward a few years with the advent of Open Banking as well, where you can request data to come from different financial institutions and be aggregated in one place, actually if you can see the totality of your financial holdings across multiple institutions, actually you don't feel that you need just a relationship with an individual organisation. And you can actually go out and say get your best home loan deal in one place, get another, I suppose, transaction account that supports my favourite charity cause from over here or other things that become more meaningful to you. But then you can still aggregate that data together in a very simple way using Open Banking in the future.

Tim: Yeah, okay.

Ellie: And that really increases the importance of PFM [personal financial management] offerings. As with the aggregation of data, you want to make sure that you're the bank with the app that the customers are going to see that cross aggregation of data or what you're going to end up seeing is customers will be viewing your bank in somebody else's app. So it's really very much seen across Europe as a hygiene factor to make sure one of the first steps as part of the Open Banking journey is that sort of cross account aggregation and making sure that you're providing a compelling offering that isn't simply this is all your data in one place, but actually taking it to the next level and providing analytics and categorisation and also next best actions.

For example, leveraging data to see that you spend X amount a month on transport, but actually if you were to buy a monthly pass or an annual pass, you could save this much a year. And the likes of Monzo have really done a great job of that in the market, and because of that, many people have downloaded and are now members of Monzo purely for their sort of aggregation and customisation services.

Tim: Okay, interesting. So, you mentioned PFM. What is PFM?

Ellie: Sorry. Personal financial management.

Tim: Okay. Thank you.

Ellie: Or the other term, which is BFM, which is business financial management, which we see as a big opportunity as many people who have invested more sort of in the retail customer space.

Tim: Okay. Gotcha. Alex, can we get on to what actually is success for a digital bank?

Alex: Again, exactly. What does success look like? For many of them, it is obviously longevity lasting through the capital that they've got and starting to generate real revenue. But I think a number of them start out, and this is probably true of the broader Fintech market, trying to challenge the big financial institutions, trying to compete to say, "We're going to take a market share from you." And I think that does happen to some extent, but many of the Fintechs and things out there now are looking to collaborate as well. So, success for them may actually being brought into a broader financial group, success may be being standalone and turning revenue and looking at a long-term profitability. But I do think it is so important for them to work out what that sort of business plan is in terms of success and how they either again look for an exit or look for building true market share.

Tim: Okay. And you mentioned looking for an exit then. We tend to see when there's a flurry of excitement around either a new technology or a new business or whatever, slowly over time they get scooped up and I guess the winners get scooped up and the losers disappear.

Alex: Yes.

Tim: Have we seen this happening globally yet?

Alex: I think there's certainly a trend of some large financial organisations realising that they can achieve, sort of, the creation of a digital bank or getting into the digital market through bringing a Fintech or digital bank onboard. So, investing in it heavily, working together rather than necessarily building it themselves. And I think this is one of the really interesting, sort of, I suppose, characteristics of these digital banks. What they're looking for is they have new technology, they have new sort of operating models, they have a very simple decision-making structure within them, which allows them to be super nimble and really customer focused. And that's a big challenge for many large banks. And it's those practices as much as anything else that the banks would be looking for when they collaborate.

Tim: And how about the commercial versus retail lens, Ellie?

Ellie: So increasingly I guess a lot of that's probably been more regulatory driven. So, with Open Banking, the first sort of tranche has been very much focused on the retail segment. But I think more and more organisations are realising from a demand perspective and terms of maturity of the market, the sort of commercial and SME [small medium enterprise] space, there's a lot of opportunity around helping aggregation of accounts. So that's the BFM, business financial management I mentioned earlier, and liquidity management, there's a lot of demand across Europe where people have been coming up with some fantastic solutions. And I think from a statistics perspective in terms of readiness for Open Banking, there's, as I said, more maturity in the market.

I think probably only 10 percent of the population would necessarily have an understanding from a retail perspective of what Open Banking is, but you're probably looking at more like 60 - 70 percent of the population in the SME, in the commercial space. So, increasing demand.

Tim: Thanks Ellie. Look we are towards the end of our time. So, I'd like to finish off on a question around risk and compliance. Now I know that the large institutions are weighed down by the cost of this and the spiralling costs. Is it exactly the same in the neobank landscape or are they operating in a slightly different realm?

Alex: It's a good question and one that I think many of the Fintech's and these neobanks are, they're not struggling with, but they're understanding the landscape. There's no doubt that the regulatory framework for the larger universal banks is more complex because of the range of services that they provide and the different types of customers that they look after. That said, even if you're looking at a single product or a single proposition within a neobank, you still have clear regulatory guidelines and interpretations that you absolutely have to apply and it's very, very important to get that right. You look at... and I put both regulation and data security in a similar sort of bucket here. There's some absolute non-negotiables and I think there are a number of examples where that's failed in Europe. The organisation really struggles to continue because the trust, again, right back to your first point, trust is lost through missing regulatory obligations or data privacy and data security.



Tim: Okay. Well I think that wraps things up for this episode. I think broadly what we're saying is the neobank landscape is going to keep growing. It's not going to slow down, especially in Australia. We've seen licenses coming recently that for many, many years we haven't had a whole lot of change. So, the change is now here and for all of us, it's really going to give us more options, more choice, and we can really pick the services that we want, where we want them.

Alex: Absolutely. From a consumer point of view, it's going to be exciting. From an industry point of view, it's going to be exciting. And I think it's going to drive the game up for the whole industry, not just these neobanks as well.

Tim: Yeah, it's good for all of us. And Ellie, any closing thoughts?

Ellie: Well I'd actually be interested to hear from some of the listeners and get a sentiment as to the excitement of the increasing number of banks to the market. Do people think Australia has enough banks or are people excited about the potential future propositions that are to come?

Tim: Ellie, that was a brilliant question. Listeners, please reach out to us, share your thoughts on this topic because it's a really great area, loads of change coming. But I'm afraid that's all we've got time for this week. So, for Alex, really appreciate your time.

Alex: Thank you very much.

Tim: And Ellie, thank you very much.

Ellie: Thank you.

Tim: If you'd like to hear any more on the topic of neobanks, please feel free to reach out to me, Tim Broome, Alex Trott, or Ellie [Eleanor] Scott, and you can find us all on LinkedIn. Thank you very much. Goodbye.

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