



WHITE PAPER

# WHAT LIES AHEAD FOR THE BANKING INDUSTRY IN 2021?

It is time to step back and take a look at 2020, consider the lessons learnt and the trends likely to emerge in the banking sector in the next 12 months. Banks must demonstrate a solid understanding of the current industry landscape and stay aligned with customers' needs and expectations in order to differentiate themselves against competitors. COVID-19 may have accelerated digital transformation but trends that were already in play last year may not be here to stay – as it will be those that evolve rapidly that will get ahead and stay ahead. More than ever, it is not only about competitive advantage but, for some, it may be about survival.

## ACCESSIBLE CASHBACK

ATM deployers cannot afford loss of access to cash for communities, if and when ATMs disappear, offering cashback at retailers of all sizes is one way to avoid this. For instance, the requirement to make a purchase in order to obtain cashback has long been lifted in Germany, instead there are cashback limits put in place. Whereas the UK continues to roll out new schemes to address the issue - consumers received £3.8 billion of cashback when paying for item in 2019, it is the second most used method for withdrawing cash in the UK after ATMs. Therefore, properly implemented cashback alongside support from retail could help reverse the reductions in access to cash in remote and rural communities in particular.

Nevertheless, financial institutions should not shift the burden onto small businesses as they are already under a lot of pressure to respond to changing consumer behaviours and, of course, the pandemic. Small stores full of consumers would face challenges handling access to cash requests if everyone were to ask - the benefits to the retailer should be more footfall and lower costs of cash handling.

## INITIATIVES DRIVEN BY THE COMMUNITY

Analysts predict that there will be an ongoing decline in the penetration of UK branches over the next four years so actions need to be taken immediately to not encourage this trend.

In response to the decline of ATMs, LINK (UK's national switch, owned by the ATM deployers themselves)





has founded a [delivery fund](#) to allow all communities to request help with accessing cash. Any member of the public can get in touch directly with LINK, via their MP or local council, to file a case for an ATM to be sited (or re-sited) in their area. This initiative is bringing out the best in communities and there are already success stories being shared online.

Similarly, regional and national initiatives have been launched to reinvent legacy banks that cannot profitably operate a branch (or even an ATM). This will be a lengthy process as the re-opening of branches or ATMs in many remote communities will be delayed while some of these bodies build their alternative banks. The barriers to entry are vast, not least the requirement for a banking licence, which means the model favoured by many cannot be expected to happen much before 2024.

The only way to mitigate and manage branch closures and the rise in alternate providers is to consider new, lean, and agile models. Our [next generation bank branch](#) must be more agile - cheaper to run, smarter, smaller, automated, full-service, and available 24/7 to pay its way in the community.

Millennium BCP in Portugal has deployed new model branches built around their MTM devices (Millennium Teller Machine) as part of its long-term plan to modernise its business. The bank recognised that many branches built on the legacy model were not self-sufficient = it recognised that consumer behaviours and habits meant that new sites should be considered for their new branch models. This in turn inspired a new kind of customer-centric format for the future - a 24/7 branch supported by remote banking overnight. This resulted in greater footfall and, before COVID-19, the new style delivered productivity gains and increased deposits. As transactions were managed by personnel by day and remote teller assistant by night, the branch was cheaper to run – Millennium BCP has now rolled this model out around cities in Portugal to improve customer loyalty and retention score. Further developments are expected to accommodate new customer behaviours during the pandemic, which will benefit Millennium and its users, who rate in the best for customer service in Portugal.

Lean, smart, remote, around the clock branches are the future, and the principle of white labels is absolutely integral to this. [Business Banking Hubs](#) are available in the UK, they are a shared space providing business and corporate customers more flexibility to manage their day-to-day finances. In shared branches the user experience can “follow the customer”; sharing the space with a third party commercial or community enterprise should lead to an upswell in community hunger for this.

## DIVIDING UP THE ATM INFRASTRUCTURE

ATM infrastructure sharing is an active, international trend being rolled out in the Netherlands, Belgium, Sweden, Finland, and Indonesia. In Belgium, the Batopin initiative sees a network of bank-neutral ATMs, previously managed by its four biggest banks, run on a single software platform. A similar exercise already existed in the Netherlands two years prior, its major banks merged their ATMs under the 'Geldmaat' label. These bank-neutral ATM estates are one solution to the obstacles faced when running ATM and branch estates in a world where banking is more accessible and competitive than ever. It can guarantee continuous access to cash to their customers without the cost burden of running channels, which their new competitors do not even offer. Through pooling, the industry landscape is changing, and banks' costs are reducing.

Furthermore, other technology-led approaches are delivering value, including increasing adoption of cloud-based technologies, removing the need to rely on massive on-premise infrastructure, skills, and services. Pooled ATM business models provide many benefits, and as discussions progress in different markets, bank and ATM deployers will certainly be watching with interest at the progress made in Indonesia and Belgium when considering next steps. There needs to be more use cases that prove this is a profitable approach that can indeed reduce costs while maintaining access and improving customer experience.

## AI IS HERE TO STAY

COVID-19 has accelerated digital transformation across all industries, so artificial intelligence will remain a key business investment as financial institutions seek out amplifications of the technology. In the next 12 months, expect the continuing slow adoption of AI to do repeatable and predictable processes. AI is already being deployed to provide cash predictions to forecast when and where cash is needed; predictive tools are not only time and cost-effective but can also be used for pre-emptive equipment maintenance. This facilitates the scheduling of engineering calls before a failure, enhancing availability, and reducing costs. AI will also help businesses to monitor the mood of customers using facial recognition, which could allow banks to determine how to address the customer, what services they should promote, and when.

## THE FUTURE OF TELE-BANKING

Customer experience is central to any business model so banks must have a good channel mix; a digital platform is not enough as they are susceptible to IT disruptions and failures. Tele-banking has always proven to be an important lifeline and back-up when things go wrong. Without it, customers could become disenfranchised.





Technology has allowed financial institutions to transform the banking experience significantly over the last few decades to reduce costs and increase efficiencies. Albeit these advancements have also led the user experience to become more and more impersonal. Over 50 years ago, ATMs took us outside the branch, then tele-banking provided customers with remote interaction. Most recently, internet and then mobile banking mean that some demographics seldom engage in person with their bank and the distance between the supplier and customer even during engagement can literally be thousands of miles. This lack of human interaction has had a detrimental effect on building customer loyalty.

Therefore, a first in and first out channel policy is rarely the best option for attracting new and keeping existing customers because banks need to evaluate each one and see its value to customers and provide choice. Older channels, such as tele-banking, should not be the first to disappear, and there may well be a revival alongside video-banking in the new 24-hour branch model.

As online banking gives way to mobile banking, one could argue the case that this is the channel that might start to disappear sooner. Channel choice will differ by generation, demographic, and other factors but it remains key that varying options are available and that there is always a reliable alternative available.

## WHAT'S NEXT FOR ATMS?

Legacy ATM infrastructures need to be upgraded to allow the channel to modernise and play a role in the next generation of delivery channels. ATMs and assisted service devices must offer a full range of banking services, not just cash. Automating all teller functions using self-service technologies, supported by video- and tele-banking, is likely to accelerate.

2021 is all about customer well-being, simplifying processes, and making physical, as well as digital, lives more secure - each customer journey should be bespoke. Given the impact of COVID-19 across all industries and access to cash being an on-going issue, the stakeholders will need to work harder than ever to find viable solutions.

## FINANCIAL INSTITUTIONS REMAIN POPULAR TARGETS FOR CYBERCRIMINALS

During this unprecedented time, everyone is making transactions digitally and cybercriminals are looking to take advantage of vulnerable digital users. It is therefore important to look at banking and cybersecurity from different angles. Especially when cybercriminals are looking to target various



aspects of the industry. In particular, internal and omnichannel platforms add an extra layer of complexity to managing cybersecurity as they need to be available to users around the clock and there are multiple actors involved.

ATMs are not the only target for criminals, even if the increasing number of attacks such as the 'man in the middle attack', 'black box attack' or jackpotting confirm the need for financial organisations to not only update their ATM hardware and software, but also closely monitor and regularly inspect their ATM machines to ensure they are not at risk. With criminals coming up with innovative ways to attack ATMs, the trends mentioned will only continue to rise.

However, with the increasing prevalence of home office and remote working, bank employees only have access to their systems through remote access. This area also reveals weaknesses that can be exploited by cybercriminals. Special cybersecurity solutions on employees' computers will be unavoidable.

## THE NEXT GENERATION BRANCH APPROACH

On the way to becoming a next generation branch, financial institutions will have to protect themselves even more from cyber-attacks. For example, assisted self-service devices, which are fully owned and secured by a financial institution, will be the interface between the customer and the bank in the bank of the future. These devices must be sufficiently secured in order to gain the trust of customers. The security aspect may become an important differentiator against other channels, such as online or mobile, which the customer is also responsible for protecting.

In terms of risks, financial fraud would obviously remain to be one of the key factors for a cyber-attack, but an even more damaging threat for the lean bank branch concepts of trust and security would be a targeted attack. This would lead to a customer data breach, business continuity interruption, reputational damage for the financial institution, and loss of customer confidence in the service (versus other banking channels).

Assisted self-service devices are physically accessible and dependent on remote communications and interconnection with the IT infrastructure, inheriting some of its risks and vulnerabilities. An effective OT cybersecurity strategy needs to be put in place, where a comprehensive and robust cyber-protection approach is an absolute must, but it needs to be complemented with the proactive monitoring of the device; in terms of service availability and security status, and the ability to have real-time access to investigate and remediate any potential security incident.

Financial institutions will have to look more intensively at cybersecurity and corresponding solutions this year and actively work to ensure that both their customers' personal data and their systems are protected.



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