2022 PREDICTIONS

THE FUTURE OF BANKING

AURIGA
the banking e-volution

THE BANKING INDUSTRY HAS SEEN MANY CHANGES IN 2021, BOTH IN EUROPE AND AROUND THE GLOBE. WE WITNESSED CASES OF BANKS MODERNISING THEIR INFRASTRUCTURES, THE ADOPTION OF ATM POOLING INITIATIVES, AND A CONTINUED FOCUS ON ACCESS TO CASH BY GOVERNMENTS AND CONSUMERS ALIKE. THAT SAID, AS WE APPROACH THE END OF THE YEAR, AURIGA PROPOSES FIVE KEY TRENDS LIKELY TO BE SEEN IN 2022 WITHIN THE FINANCIAL SERVICES INDUSTRY.

Cash deserts

Customers should have the right to pay using their preferred method. Retailers and businesses that do not accept cash payments are not putting their customers first. There has been a boom in digital-only challenger banks, mobile banking, and online services over the last few years but many still prefer in-person banking or experiences with a human touch. Auriga believes there is an increasing resistance to digital payments as the only choice from consumers and a growing number of merchants encouraging the use of cash. Cash usage may have receded at the start of the pandemic, but there is a resurgence underway internationally. The amount of cash being circulated through ATM networks is now rising in aggregate, while the numbers of ATMs fall. RBR's Global ATM Market and Forecasts research predicts that the compound annual growth rate (CAGR) of worldwide cash withdrawals will be 2% by 2026.

The retreat of bank branches and the removal of ATMs are reminiscent of the great swathes of the country losing their local railway services more than fifty years ago in the UK. Businesses ought to learn the lesson of the Beeching Plan cuts and how the loss of proper infrastructure harms local economies, this is something that the government now wishes to reverse. Banking customers are regularly being given the option to go paperless but are not asked if they are ready to lose face-to-face banking services. Indeed, some might argue access to cash and financial services should be regarded as a utility like transport or energy.

The role of branches and ATMs are being challenged and could be under threat. The operational costs for running ATM fleets are high and soaring, as banks must meet the additional costs of preventing and mitigating fraud and cyber-attacks on physical machines and their IT networks. Banks are continuing to close cash machines rather than action policies that enhance their security, minimise total cost of ownership, as well as improve, modernise, and personalise customer experiences.

Although banks claim these branch changes are necessary to future-proof the network and evolve with changing times, helping to cut costs and increase efficiencies, there will be tremendous impact on customers who need access to bank services or cash locally. So, it should come as no surprise that branch closures and ATM removals come at the expense of customer service, loyalty, and accessibility - resulting in an accelerated migration of clients to alternative providers.

Banks should therefore use their branches to exploit a renewed appetite for personal service and aim to use that to win back customer loyalty rather than sending their most valued (and valuable) customers into the arms of their new and inexperienced competitors. It is possible to build a next generation branch network that is sustainable and profitable.

Contactless payments

Contactless has become a reality as it is very convenient and the preferred payment choice of many people. Provided it is regulated, effective provisions and practices are in place, it is possible to contain fraud risks. This is likely to remain a tool used for lower value payments and, thus, will not have much of a significant impact on the demand for cash.

In October 2020, UK consumers were granted a new £100 contactless payment limit, which was only recently lifted from £30 to £45. According to Visa, there is an evident growing demand for contactless transactions across Europe, with over 80% of in-store Visa payments now contactless. In France and Germany, the number of contactless transactions has increased by two thirds and almost half respectively year-on-year.

Whilst it is practical, contactless payment is a growing risk to consumers who are already subject to fraud. The exposure has been, by definition, increased. Banks have, of course, implemented measures such as allowing a maximum number or value of contactless transactions before pin validation is required. In some cases, consumers can even set their own limit at a lower level. However, those that have found a way to access payment cards through close proximity just got a big boost.

Another issue is that contactless becomes less, rather than more, attractive to some consumer groups who may feel uncomfortable with this additional exposure. Cash is vital to some and, the choice of many, so should remain easily accessible to all. The impact of this contactless payment increase must be carefully monitored and not be allowed to become another tool used to turn consumers away from cash.

#NextGenBranch

The financial services sector is likely to see more and more banks closing branches because of the reduction in customers using legacy banking channels, cost pressures, reduced footfall, as well as the emergence of digital-only services. Even though closing branches is considered a way to reduce costs and increase efficiencies, it damages customer loyalty and business reputation.

Banks will need to completely review their branch strategies. Reduction in real estate investments should be accompanied by increased investment in technology and automation to deliver a new lean model branch for both retail and business customers. Banks should be more imaginative when building a next generation branch network that is sustainable and profitable. It is simply critical that they maintain access to cash and banking services for all communities, from inner cities to the most rural areas. Bank branch networks need to consider new ways to engage with customers, who will be seeking personalised customer service and valuing human interaction more fervently than ever before.

A way forward is Auriga's #NextGenBranch solution as it encourages the development of a state-ofthe- art, customer oriented, remotely supported digital branch. It can provide access to banking services 24/7 by leveraging advanced assisted self-services and new technologies including video banking, AI, and branch automation solutions. Customers can be serviced remotely, even outside opening hours, and it can help banks to cut the costs of running a branch by up to 40%.

#NEXTGENBRANCH IS UNIQUE IN A NUMBER OF WAYS:

SEAMLESS All banking channels are managed on a single software solution that enables a real omnichannel banking experience, in both digital and physical environments, including branches.

SHAPED TO FIT A solution born to be tailored in the bank's space, services, and hardware network. Devices and modules can be freely chosen to respond to a bank's strategies.

STRATEGIC The bank has a dominant presence over key territories and maintains a competitive offer in the world of digital-native banks.

SERVICE-ORIENTED Automated routine banking services and assisted self-service devices to become the centrepiece.

SUPERIOR An investment in a top-level platform that integrates technologies such as AI, IoT, and the cloud to support business processes and support end-to-end banking services. It leverages a next-generation self-service banking platform aimed at improving the end-to-end channel banking experience for consumers and enabling banks to define an integrated channel strategy, optimising and transforming their branch and self-service offerings.

SHARED Depending on the size of the branch, the optimised spaces can be used to offer useful and added-value services to the community or can be shared with other entities, ensuring that banks can make branches profitable and keep them open.

SECURED It offers a holistic protection model that goes beyond just cyber security, integrating sensors and cameras for remote monitoring.

The #NextGenBranch model

The **#NextGenBranch** model uses smart digital self-service banking inside the branch, therefore increasing efficiency. Banks can improve the banking experience for customers and manage costs by spending IT budget on solutions entirely independent of the hardware used; that can streamline all channels together. This way, customer information is shared and available on each one, allowing banks to create one source of truth for each customer and track the complete customer journey. When a customer enters a #NextGenBranch, staff can very quickly and easily access their personal information on a device, including what products and services they use and what questions they have previously asked. This provides banks with the opportunity to offer new, relevant services and even upsell, enhancing the level of customer service.

Virtual banking

As banks seek to deliver new virtual banking services in their customers' homes, they will need to provide the same quality of service in their own branches; ensuring all customers can access complex banking services in a secure environment.

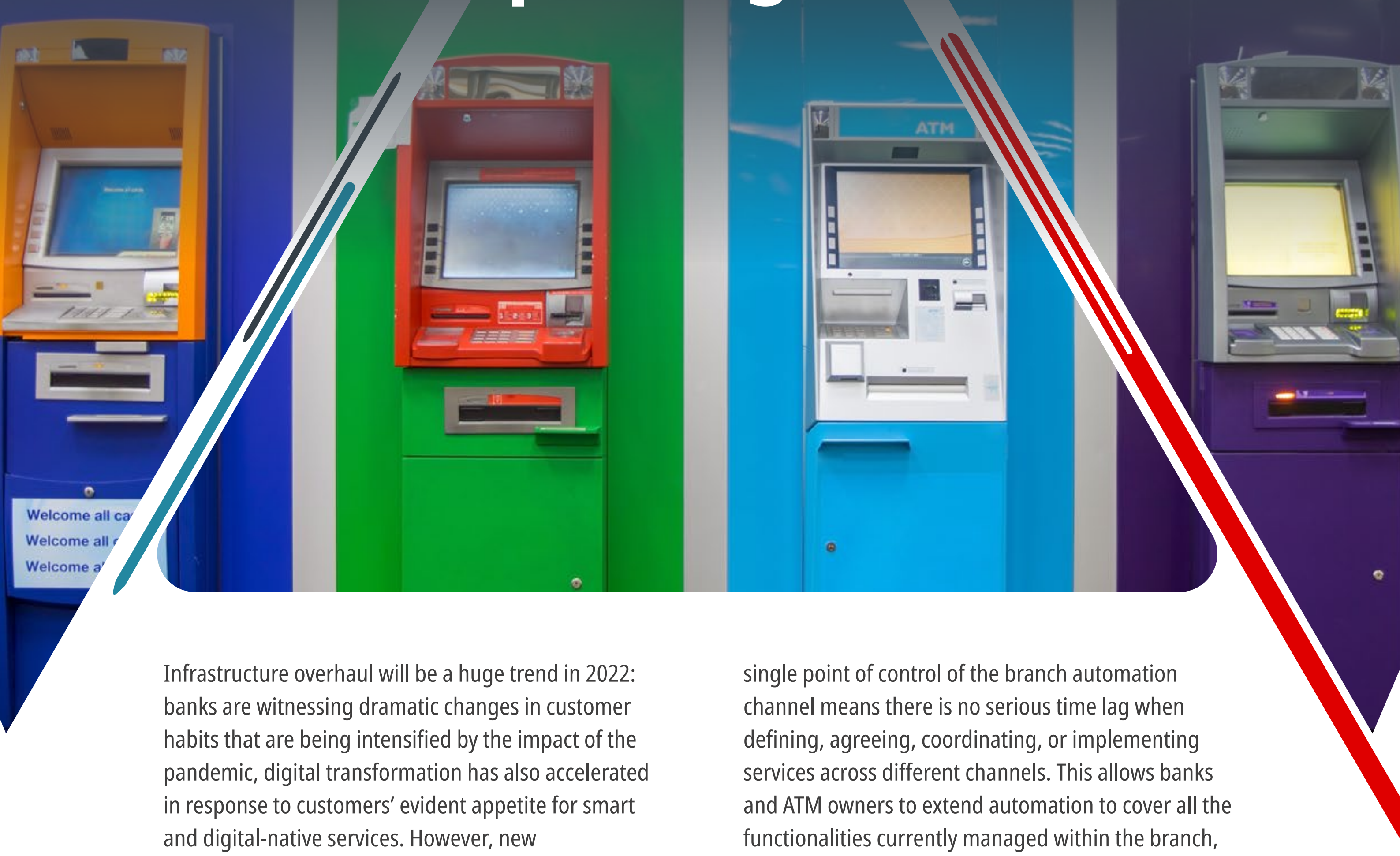
Large retailers and businesses across Europe are redefining the customer experience by offering video-based services that replicate the in-store experience, where sales assistants can be on hand to provide real time advice. This trend is likely to catch on in the banking sector as well to allow customers to conveniently use services from the comfort of their home, in a secure and safe environment.
However, this opens up another opportunity for cybercriminals. Distributed endpoints (including laptops, smartphones, and Internet of Things (IoT) devices) pose a constant security risk to both individuals and financial institutions. They act as ideal "entry points" for cybercriminals, fraudsters can target any device that can be manipulated to gain access to the entire network.

Attacks against the financial sector intensified during COVID-19. Unit 42, Palo Alto Networks' research arm, discovered that cybercriminals across USA, Canada, and Europe are making and demanding more money than ever. There has been a 171% year-over-year increase in the average ransom paid for organisations from US$115,123 in 2019 to $312,493 in 2020. With the highest ransom paid doubling from $5 million (2019) to $10 million (2020).

Banks are continuing to innovate in-branch video banking and virtual banking from home to ensure they operate on a fully secure infrastructure. For example, when using video banking, customers would communicate with the bank's consultants via video for transactions that are more complex; the entire interaction is safe and specifically tailored to the individual's needs. It can also reduce branch management costs, maintain consumers' access to financial services, and generate new revenue streams by customising modern ATMs with add-on services. Financial institutions store a huge quantity of confidential data relating to customers and employees so CISOs and their teams must be aware of, and put in place, preventative cybersecurity measures. They are prime targets for a litany of attacks, such as ransomware, which blocks access to infected endpoint resources unless a ransom is paid.

Cybercriminals can also target bank employees by sending out phishing emails or malicious attachments, aimed at devices that can be manipulated to gain access to the entire network. This presents an ongoing risk to both individuals and financial institutions. Providing adequate security measures to protect every workstation in an organisation is an essential mission. Secure workstations are the foundation of secure networks. If a hacker can access a workstation, the entire network could be compromised. Any security solution must include antivirus, backup prevention, firewalls, remote maintenance and monitoring.

Infrastructure overhaul and ATM pooling



Infrastructure overhaul will be a huge trend in 2022: banks are witnessing dramatic changes in customer habits that are being intensified by the impact of the pandemic, digital transformation has also accelerated in response to customers' evident appetite for smart and digital-native services. However, new developments in ATMs with the purpose of preserving and expanding access to cash and services are inhibited by legacy infrastructure.

Without this upgrade, the channel will be unable to modernise and function alongside the next generation of delivery channels as they arrive. It is also necessary to support innovative strategies like the lean bank branch or ATM pooling. Flexibility and efficiency can be achieved only when modern technologies can be fully leveraged. More and more financial institutions are realising this when embarking in these modernisation and optimisation processes.

The next generation ATM infrastructure enables a modular approach that can accelerate time to market for branch automation and self-service innovations. A single point of control of the branch automation channel means there is no serious time lag when defining, agreeing, coordinating, or implementing services across different channels. This allows banks and ATM owners to extend automation to cover all the functionalities currently managed within the branch, meaning that banks can deploy new lean branch concepts that automate the transactional banking services. This can include 24/7 availability of routine and complex services by leveraging video banking technology that can enable subject matter experts, in fields like large loans or mortgages, to be shared and made available on demand across all branches.

Another opportunity banks should consider is ATM pooling, which is already a reality in countries such as Belgium, Finland, and the Netherlands. Banks can join forces to renew or modernise their infrastructure of legacy environments at a reduced cost, whilst simultaneously guaranteeing continued access to cash. ATM pooling happens when two or more banks decide to hand over the ownership of their ATM fleet to a separate entity, which will operate this shared fleet. This approach aims to further reduce the cost of ownership and management of physical ATM estates by sharing operating costs and pooling capital expenditure.

The Geldmaat initiative, a cooperation between three major banks to guarantee the availability and accessibility of cash for their combined customers, in the Netherlands has proven the success of ATM pooling. Other use cases validate this strategy, BPCE in France are externalising the complete management of their ATM channel and Belgium's four largest banks have formed a separate company called Batopin to rationalise their self-service networks and ensure 95% of citizens are within five kilometres of an ATM.

ATM pooling also allows banks to ensure cash services are maintained for the future, in an efficient and cost-effective way, particularly for customers in locations where relatively low demand would render a legacy branch or multiple bank ATMs unprofitable. It can be the driver for revitalising a bank's ATM fleets, the location of ATMs can be remapped to better serve communities and change customer behaviour. This approach can unlock the flexibility to relocate ATMs to sites with higher footfall, that might include retail or office parks and new transportation hubs, to become a revenue generator. And if ATMs can be pooled, why not deploy the same infrastructure to pool branches?

What's next for 2022?

In the next 12 months, with the proper choices, banks can adapt their infrastructure to deliver key banking services, including opening and managing accounts, bill payments, and loan applications, more cost-effectively for communities that risk being underbanked.

The ability to preserve and expand access to cash and services is inhibited by legacy infrastructure. Digital self-service banking can be at the heart of branch transformation initiatives. In many places, multi-functional self-service devices are helping to introduce an extensive number of services and capabilities 24/7 at a lower cost and still provide greater customer convenience, enhancing and complementing in-person interactions. Digital technology can keep local banking services open in rural areas, self-service banking terminals can bring down operational costs while maintaining services, and branches can be remade as community hubs that multiple bank brands can share.

Financial institutions should invest in technology and alternatives to avoid banks losing connection with customers and communities, which suffer from a loss of access to not just cash but financial services that are vital to local economic health. In this digital age and how the pandemic has accelerated the use of new channels, customers demand consistency between mobile and physical channels that they use for their essential services and especially banking. Having ATM software and infrastructure that enables seamless alignment with current and future needs is going to be imperative for current and future banking.

The onus is therefore on banks and ATM owners to consider more imaginative strategies and next generation technology to preserve and improve access to cash, while reducing the cost per transaction of maintaining a self-service or branch channel and address changing customer habits. This requires overcoming challenges that stem from how ATMs have been neglected and siloed compared to other digital channels that banks have embraced over recent years.

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