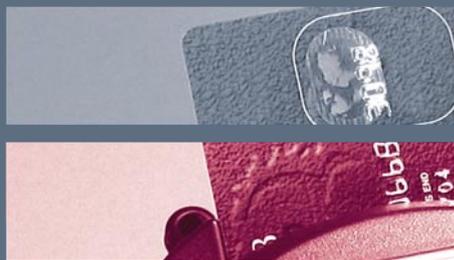


Banking Automation **BULLETIN**



Are shared branches the way of the future?

The efficiencies of the AI empowered bank

Will India's stalled ATM growth affect financial inclusion?

Mobile money continues to transform access to banking

The shifting patterns of cash replenishment outsourcing

Country profile: Croatia

Banking Automation

BULLETIN



Are shared branches the way of the future?

The launch of the UK's first 'Business Banking Hub' in Birmingham on 11th March could have huge implications for the future of bank branches. The new branch is the first of six to be rolled out in the

country over the next few months – the others are planned for Bristol, Crosby, Leicester, London and Manchester – and will allow pre-selected corporate, and especially small business customers, from Barclays, Lloyds and NatWest banks to deposit and exchange notes, coins and cheques in a shared branch facility.

The relatively low-key launch may partly reflect that this is officially just a pilot due to run until the end of the year, but also gets to the heart of a dilemma facing banks. On the one hand they recognise that their branch closure programmes hurt customers, especially business customers, but at the same time these banks are still competitors and would prefer customers to use their existing networks if possible.

Several features of the new hub branches are worthy of a particular mention. Firstly, they will be open from 8am until 8pm seven days a week – an explicit recognition that business customers have different needs from other consumers. Access will be via specially issued cards, which adds complexity but provides additional security in an environment where greater volumes of cash increase risks.

All transactions in the new branches will be self-service, meaning a broad range of cash and cheque handling terminals will be available to service the diversity of transactions required. Interestingly, the branches will be unmanned, but support will be provided by a third party to help customers use the machines.

That leads to a final observation, which is that these shared branches are essentially being outsourced, as they will be managed by specialist cash management companies, including G4S and Vaultex.

For years, banks have been reluctant to outsource core banking channels such as ATMs and branches – in these business banking hubs they are doing both. It is too early to say if the concept has a long-term future, but if banks are unable to find other ways of making their branch networks profitable, then sharing costs may be the answer.

Dominic Hirsch, Editor

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Banks have increasingly diverted resources related to financial inclusion towards the development of electronic payment channels rather than the ATM

► **Electronic payments have grown in use**

Alternative forms of payment are also growing in usage, despite the continued popularity of cash in India. The number of electronic payments made using cards or other electronic means, such as the recently launched United Payments Interface (UPI), has also dented the business case for deploying ATMs. UPI makes it much easier for consumers to use their mobile phone to make payments.

The number of debit cards issued in India has also grown extremely strongly in the last five years. Part of this growth is down to the issuance of the domestic scheme called RuPay. In addition, there is a specific government programme in place called Pradhan Mantri Jan Dhan Yojana (PMJDY) that aims to expand financial services and make it affordable to access. As part of this, free RuPay debit cards are issued with no minimum balance requirements.

Banks have also been increasingly diverting resources related to boosting financial inclusion towards the

development of their electronic payment channels rather than the ATM. Smartphone penetration has been rising rapidly, as has mobile connectivity, and the authorities are keen to promote the use of electronic payments.

Boosting financial inclusion electronically

For many years it was the received wisdom that financial inclusion in India was highly correlated with access to cash deposit and withdrawal services, either at the branch or at the ATM. As the costs of the ATM channel have grown and as use of electronic payments has increased, banks are looking at different ways to boost access to financial services. This may be a wise move given that the share of the population that is younger and more receptive to electronic payments is growing. More than half the population is under 25 years of age. Nevertheless, cash remains the most popular method of payment, and banks need to ensure they do not neglect the vast numbers of those that still need access to it. ■

MERCHANT PAYMENTS ECOSYSTEM

Regulation shapes industry strategy

Banks are busy achieving PSD2 and GDPR compliance, and new entrants are seeing these as delivering a cornucopia of opportunities

The 2019 edition of the *Merchant Payment Ecosystem (MPE)* was back in Berlin from the 19th to 21st of February. Over 1,000 attendees from more than 40 countries descended on the Intercontinental Hotel to exchange views and learn from over 130 speakers and to hang out with the odd robot and dinosaur.

MPE now has a trusted and well-liked band of industry heavyweights on board to facilitate proceedings, including David Birch of Consult Hyperion, Ghela Boskovich of Femtech, Paul Rodgers of Vendorcom and many more.

Kicking off the conference, Mr Birch reflected on the way the ecosystem has evolved since last year, stating, "In 2018 PSD2 and GDPR seemed a little distant and hazy, but this year they are shaping and constraining the strategic routes available to us." With the looming September 2019 deadline, the discussions have evolved from technical API to the strategies and tactics to focus on across Europe.

Regulation: PSD2 and GDRP begin to bite as SCA looms

While in previous incarnations of MPE many of the regulatory concerns seemed remote, it was clear that mainstream banks are now busy achieving compliance with PSD2 and GDPR, and new entrants are seeing these as delivering a cornucopia of opportunities. With the deadline for Secure Customer Authentication (SCA), a component of PSD2, now just 200 days away, participants across the ecosystem engaged in a lively debate on how to adapt against the backdrop of card scheme surveys which indicate that three quarters of e-commerce merchants are unaware of many of their mandates.

Steve Cook from Facetec suggested, "SCA will deliver more security for payments and less friction than people might think". Meirav Peled of Riskified sees it as 'GDPR on Steroids' and quoted research estimating a 30% decline in transaction approval

owing to the impact of SCA.

The steps merchants might take to deal with SCA were discussed, with some presenters advocating the continued need for merchants to score risk, while others challenged this approach given that issuers have the legal responsibility to make the risk decision and have a 'final say'.

In open banking we trust?

Rigo van der Brock of Mastercard provided the first industry keynote and looked at the role that trust – the real currency of commerce – plays, in particular in e-commerce, and suggested that it presents the *"invisible challenge that delivers a smooth customer payment experience"*

In a panel discussion, Dagmara Kowatzky, also from MasterCard, pointed out that trust is key in open banking, and that it is best built up in a collaborative ecosystem and facilitated by a smooth user experience. One noteworthy example of what is in store is IATA Pay, jointly developed by the International Air Travel Association and Deutsche Bank, a horizontal sector play combining PSD2 APIs and instant credit transfer to deliver a direct-to-account payment offering. Taking a peek below the bonnet, Bankingblocks' Daria Rippingale pointed out that in order to truly thrive in an increasingly API-centric environment, banks need to do better than a new lick of paint: *"Until banks modernise their core banking platforms, they might as well be putting lipstick on a pig"*.

The pursuit of omni-channel and the seamless experience

In line with previous incarnations of MPE and the industry more generally, participants keenly discussed the way customers experience commerce at different touchpoints. Paul Prodrick from Elavon provided an overview of an integrated cross-country payment infrastructure and the lack of a fully integrated infrastructure, while Angus Burrell

of Valitor looked at how to support merchants' omnichannel needs and channel hopping, while avoiding ending up in a consumer cul de sac.

Ghela Boskovich, summarising the Payment Service Provider discussion, pointed out that against the background of an ever-evolving line-up of payment methods both online and face-to-face, one answer for small merchants is to tap 'as-a-service' backends, focused on the value-added services of onboarding, monitoring and finance. And furthermore they should not own the infrastructure, but leverage SaaS models that standardise the process while allowing for customised front-end experiences.

Dr Christine Bailey of Valitor gave a crucial sanity check of the actual consumer pain points as studied in the firm's after payment emotional experience survey. A highlight of the survey was the insight that 50% of consumers see 'no free returns' as the most annoying issue, with 60% vowing not to shop at such a merchant again. Dr Bailey also cautioned merchants to *"mind the generational gap"* with Gen Z having very different expectations from the babyboomers.

Start-up innovation corner: MuchBetter triumphs

Start-ups and fintechs were well represented throughout the show but took centre stage during the innovation corner on day two of the event. Five firms vied for top awards: Konsentus, MuchBetter, myGini, paybyrd and token. Jens Bader of MuchBetter provided a compelling pitch that won the popular vote for this impressive next gen payments app.

In addition to the big trends that were discussed at MPE, what is arguably small change for the industry – spontaneous acts of generosity – was raised as an overlooked topic by Silvia Mensdorff of ACI. She asked, *"Can cashless payments ever be kind?"* It is hoped that steps towards a fully fledged offering will have been taken by the time MPE2020 comes around. ■

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One answer for small merchants is to tap 'as-a-service' backends, focusing on onboarding, monitoring and finance



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