



#BUILDYOUROWNBANK

Building your own bank may not be as difficult as you think...

Cut to the chase

Collapse time to market

Reduce complexity

Simplify technology

BUILD YOUR OWN BANK

B.Y.O.B

BUILD YOUR OWN BANK

- THE JOURNEY STARTS HERE

WELCOME TO BUILD YOUR OWN BANK (BYOB)

One of the most exciting areas in the financial industry today is the renaissance in customer propositions and choices, as non-traditional challenger banks enter the industry and established players race to create dynamic new offers. In this overview, we invite you to share our thinking and methodology around bringing new banks and new banking offers to a highly competitive market.

Through the course of this introduction to BYOB, we show that it is completely possible to develop, launch and operate a new banking service from the ground up in a matter of weeks, not years or decades. You don't need the most expensive and complex technology. Nor is an army of back office staff a requirement.

There are still some deeply rooted misconceptions that are holding back innovations and limiting the appetite to take advantage of the unique opportunities ahead. These opinions need to change.

Join us and discover how you can embark on the journey to Build Your Own Bank.

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**The current banking eco-system
represents the most favourable
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SO YOU WANT TO BUILD YOUR OWN BANK?

There's never been a better time

The banking industry is on the cusp of widespread change. In April 2014, the Financial Conduct Authority – FCA - confirmed that some 29 organisations had applied for authorisation to become new banks in the UK. This followed the FCA and Prudential Regulation Authority's mandate to boost competition in the financial services industry. It may be that the new contenders will use established core banking platforms. They may have sufficient capital to design their own systems. Or they may be aiming to offer niche propositions. Whatever the specific approaches, one thing is certain: **the current banking eco-system represents the most favourable conditions for invention we have seen for some time.** These conditions include lingering customer resentment towards established players, the need for strong brands to diversify their revenue sources, wider product accessibility for customers, and improved product usability. This 'perfect storm' of advantageous circumstances is there to be taken advantage of. Winners will gain real traction with customers and they can do so at a rapid pace. But, above all, the proposition will have to be **relevant.**

Getting the Basics Right

Enter 'reinvention of retail banking' into a search of financial services thought leadership and you will find a broad consensus: better integrated technology wrapped in a customer-centric proposition leads to lower costs, increased consumer loyalty and higher returns. Retail banking is trying its utmost to embrace fresh approaches through a new and healthy appetite for technological simplification and enhanced customer offerings. Some are innovative, some are not. The pivotal issue is that researching, creating and implementing customer offerings can be done quicker than ever before, if the right steps are adopted. In a situation where speed is of the essence, new communication channels can grant access to the targeted customer base - fast.

Putting the customer at the forefront of proposition development means those companies with a strong loyalty base can leverage their inherent advantage - their brand already resonates with their target audience. Launching new banking offers, supported by a trusted brand, means more diverse players than established financial services providers can embrace rapid proposition methodology. In fact 'non-trationals', those who do not have banking as their core product offering, and who need to diversify to expand their revenue sources, are in a privileged position.

Our experience helping to launch non-traditional banks confirms a significant trend. **New financial services offerings are being made with the support of brand values that are already deeply ingrained within the existing customer base. As a result, adoption rates are higher than average.** Post adoption, the all-round experience can reward customers beyond basic transactions. For example, 'differentiated currencies' can be crucial to adding a loyalty hook and boosting business. This can go beyond the new banking service(s) and into the company's associated wider offerings.

The Bigger Picture

The customer proposition and related distribution strategy should be underpinned by a service model, and a technology layer, that are both robust and **agile.** Here, prospective new banks hold another inherent advantage over their more established competitors. Existing players are often stifled by legacy systems and large, never-ending change programmes.

There is of course no doubt that building a new bank presents many challenges. Letting customer propositions guide the operational and technical requirements will help face these challenges head on. In terms of generations of banking thought leadership, this is almost revolutionary. However it works. It can be distilled into a clear methodology and we're going to share some of the highlights. It's been done before, with great success. Now it is time to **Build Your Own Bank.**

THE 10 STEPS

The financial crisis. Memories of the worst of it may, just, be starting to fade. But its legacy is likely to be felt for decades, through the reshaping of the banking landscape. We all know the key features of change; Regulation has hardened and proliferated. Banking customers have high demands, conditioned by experiences in other sectors. And in perhaps the most profound change of all, new and nimble players – including so-called ‘non-trationals’ - have successfully entered a previously closed market. Yet attractive as this may seem, any investor wanting to start a new bank should be concerned about three main barriers to entry:

- The capital required to start a bank
- The banking license required from the British regulators
- The brand strength needed to inspire customer trust

A strong brand wrapper around a well-capitalised bank with a license to trade: these are the critical foundations of challenger bank viability. Yet, our experience shows that any start-up bank determined to thrive requires additional attributes. It should offer clear differentiation through a killer proposition. It should be supported by relevant operations, solid risk policies and procedures. And it should meet the standards of modern technology. That’s no small checklist. So, where to start? We believe (and our proven experience confirms) there is a sequence of steps to follow to establish a successful new banking entrant in record time. We have done it before. **In order to help other challengers succeed, we have packaged our experience in a reusable methodology and a set of supporting tools.** Here, we walk through our approach.



1. VISION

Basic yet essential, a clear vision is a summary of what makes your business unique - and uniquely valuable - to your target market. It is your promise to your customers. It answers the pivotal question, “How do your business services benefit your clients better than anyone else’s can?”. The vision is the internal articulation of your USP. For example, Capco has developed a unique approach, deeply rooted in the needs of target customers, to define your ‘reason for being’. By applying our approach, we can articulate a differentiated Unique Selling Proposition and an inspiring vision for your teams.



2. FEASIBILITY PLANNING

Feasibility planning clearly defines key objectives and assesses both the internal and external feasibility with the goal to formulate a business strategy. Guided by the vision, a start-up bank should define its budget and other measurable parameters, including liquidity and capital requirements. A commercial plan can then be created around the financial needs of the business. For example, this might manifest itself through launching the new bank on the back of a competitive lending proposition to drive income, then following with savings and current account propositions to bring capital. Capco has created a specific feasibility toolkit and templates to identify and size target markets, develop business and commercial plans, and prioritise the relevant operating model and capability requirements.



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3.

REGULATORY SUBMISSIONS

Newcomers will not be unaware that the banking industry is regulated heavily - by the FCA (Financial Conduct Authority) and the PRA (Prudential Regulation Authority). The majority of poorly prepared applicants are turned down quickly. Everything is reviewed and tested. The spotlight shines intensely across financial forecasts, the backgrounds of the bank founders and directors, projections, bank policy statements, notarised signatures, and a very detailed business plan.

Several feet of paperwork are required to start your own bank and every inch has to stand up to scrutiny. Capco has used, documented and tested the regulatory templates required. The list is long and includes (amongst others): Funding Plan, ICAAP, ILSA, Large Exposure Policy, Liquid Asset Buffer Policy, Stress Testing Models, and a Regulatory Business Plan.

4.

PROPOSITION DEVELOPMENT

The process of building your own bank must be informed by a crystal clear picture of who is going to be served by it. The best new propositions are aligned tightly with customer needs and deliver something not yet offered by competitors. Relevant innovation requires a deep understanding of your target market segments, their behaviours and needs.

A great injection of creativity is imperative to building anything new and appealing. So, while we are experts in rapid proposition development using methods such as conjoint analysis to help accurately predict demand for new propositions, our approach is also creative.

5.

CUSTOMER JOURNEYS AND PROCESS MAPPING

Successfully charting the desired customer experience is a critical differentiator for any new challenger bank. We typically start by developing relevant personae (detailed representative customer profiles) to help understand the world through their eyes. We use human-centred design techniques to develop customer journey maps. Such maps capture and describe all the experiences a customer can expect to have with the organization, as well as charting the emotional responses they trigger. Operational processes are also developed. Here, we focus on understanding where any potential gaps might occur between the customer journey and the underlying process. In this way, we can clearly see where processes need to be improved.

6.

RISK AND COMPLIANCE

Risk and compliance go indivisibly with the territory. Successful banks manage risk effectively and protect their stakeholders in the process. Strong risk management necessitates sound, top-down and all inclusive corporate governance, together with solid controls. In previous experience we have developed risk management frameworks, supported by clear models for each type of risk. In turn, they need to be supported by all the requisite policies, procedures and key risk indicators. These models can be deployed readily within any start-up bank, cross product, or in a silo as required.



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7. BUILD

Every build should be customer-focused and proposition-led. If speed to market is your mantra, then consider using third party operations in support of your propositions to encourage a faster pace. It certainly makes better sense than adopting an existing approach that is just not fit for purpose. But there is a caveat that comes with the rapid build process: repeating it over and over again 'from scratch' is simply unsustainable. Instead, the challenger bank will benefit from the support of a technology partner who can mobilise quickly and apply experience. At Capco, we have worked extensively and successfully with a modular, out-of-the-box 'base' solution. This can be readily adapted to suit the specific needs of an individual client. As a result, the build can happen at pace – retaining design agility to support future propositions **without** constant re-engineering.



8. TEST

The key to a successful test is to treat it as a source of valuable information and insight, rather than a mere process stage gate. There are two complementary and equally important aspects. First, we need to know with certainty whether the process design and underlying mechanisms are capable of delivering the customer proposition robustly and with expected quality that will resonate with the target pilot base. Secondly, we need to know that we have a viable technology model. From experience, performance should be scrutinised through rigorous test cycles using the adoption of different appropriate testing methodologies, such as Agile, and reinforced through small test pilots.



9. MARKET

So the offer, the surrounding brand, the vision, the promise and the core values have all been identified, captured and articulated. The test phase has yielded insights into customer reactions, and the key learnings have been fed back and incorporated. Now is the time to create engaging, customer facing collateral that makes the offer really live in the awareness and perceptions of the target customer base. And while high impact collateral – from web based material to direct mail to social and print media platforms – is being finalised, channels to market and direct targeting strategies are being prepared for rollout. At this crucial stage, we usually deploy teams of dedicated specialist designers and content developers, to bring the brand into full focus and support the proposition with relevant creative work.



10. LAUNCH

Launch is naturally the pinnacle of the whole process. By this stage, there is considerable emotional as well as financial investment. Everything is believed to hinge on what happens in the first days and weeks after the new proposition hits the market place. At this point however, the process is certainly not over. Focus is needed on tracking performance in the market and taking precise actions to gain rapid traction. Constant improvement is a key goal, enabled by low latency feedback mechanisms that capture target customer reactions and translates them into rapid corrective actions. This is also the time to be considering the next phase - refining repeatable processes that can be applied to the next iteration of customer propositions. Capco has extensive, proven and successful experience of bringing new financial service propositions from challenger banks to their target markets, at pace and with real brand impact. Our objective in every case is to ensure that launch is just the beginning of a rapidly unfolding story, one of profitable revenue capture and brand growth.



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BRANDING THE BANK

Historically, rates have had precedence as the lead value of most financial propositions. Branding has taken a back seat, or not had a seat at all. Today however, transformational change, explosive change even, has impacted the market. Customers have more touch points with banks than anybody would have thought possible even a few years ago. Now, a traditional industry has come to a very contemporary realisation: fail to build your brand, or worse still, lose its meaning to your customers and relevance to their lives, and there will simply be nowhere to hide.

Reputation is everything

Why is there a perception that other industries outside banking have shown themselves to be more effective at building brand awareness and gaining brand promoters? The truth - there is no special 'brand magic' that can substitute for the reality of delivery excellence. Beyond the banking sector, the successes of many major retail brands have been underpinned by delivering on promises time and time again, breeding loyalty.

What's interesting is when this loyalty is channelled into banking - the forces involved are powerful enough to sweep away the barriers to financial services market entry. For example a previously closed circle of service providers has been blown wide open by the arrival of non-traditional, challenger brands. Included are some of the most famous retailing brands: Sainsbury's, Harrods, Tesco, and Marks and Spencer. These challengers embody the idea of leading in financial services through the power of brand.

Realising the brand potential

Despite the clear advantage of pre-existing brand strength, established banking powerhouses and new, non-traditional banks can both follow a similar path to success. One of the key realisations required is the need for absolute and ongoing brand consistency. Understanding and then acting on the culture and values of your organisation needs to be for life. It doesn't have to be an activity that gets partially completed on inception (or a new bank offering) and then forgotten. Instead, align the bank's culture and values to a set of customer principles. Then, base all processing outcomes on these principles rigorously and consistently. By doing this, any new proposition can embody

the kind of brand and experiential promise that modern consumers demand. The growth potential that an exercise in brand clarity and consistency can release is overwhelmingly powerful and from experience, can also be an eye-opener for bad habits.

Don't talk too much

A challenger bank backed by the brand strength of a prominent retail business can ride the wave of existing success. But it cannot do so indefinitely. Sooner or later, it will need to build its own distinctive brand. And the messaging must be right, articulated correctly and placed at the heart of all customer communication.

The basic 'hygiene factors' of effective brand communication may seem routine. But they are fundamental and they should form part of the "health check" for all touch points. What are some of the key issues? Build a relationship but do not bombard the customer. Before sending any correspondence – from the routine to the sensitive – ask the important questions in advance. Does the customer really need this communication at this time? Is it accurately targeted to the customer profile? Does it reflect the brand and the values the bank is trying to embody? Bluntly, will this letter (or email, or phone call or direct mail) surprise and delight, or just risk annoying the customer? And what about those customers who are brand promoters? Loyalty must not – cannot – be taken for granted, as rewarding brand advocacy is fundamental to keeping today's customers.

The background features three stylized human figures in a light green color. Each figure consists of a circular head and a rounded, open-bottom torso. The figures are arranged with one on the left, one in the center, and one on the right. The central figure is slightly behind the other two. A large white circle is positioned in the lower right area, partially overlapping the central and right figures. Inside this circle, there is a quote in red text, flanked by red quotation marks.

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REWARDING CUSTOMER LOYALTY

Rewarding customer loyalty

How does a new bank (or any bank) attract and then keep its customers? Offering the lowest savings rate or the longest balance transfer deal may work short term. But can lasting loyalty be embedded through tactical attractors alone? And how does a challenger bank grow their customer base and their portfolios through the art of cross-selling? The answer is simple – create an eco-system.

At the heart of every challenger bank's offering should be something to make that proposition 'sticky' - a unique aspect that represents the brand values. The brand in question could be luxury, recognised all over the world and renowned for unrivalled customer experience. It could be a local community brand that focuses on 'down to earth' service, based on intimate customer knowledge. In both cases, the DNA of success is the same. And the route to effective cross selling may well lie in a rewards-based customer loyalty scheme, embedded within the bank's core.

Best-laid loyalty schemes

Evidently, loyalty schemes in the retail sector are prolific. By contrast, within the banking world they are still few and far between. Examples of those that have been successful include, unsurprisingly, schemes offered by non-traditional challengers. From our experience, most propositions that we have worked on went to market with integrated loyalty schemes. Based on redeeming benefits in retail stores, these schemes reward customers for banking account activities, thus growing both sides of the bank/store business. Meanwhile, examples of successful loyalty programmes from established banks (not ultimately connected to a wider retail business) include cashback incentives and personalised special offers.

Our research shows that a growing number of banking customers are motivated to accumulate reward points. Firstly, these points are viewed as a valuable virtual currency used to redeem products or services.

A secondary attraction is the perceived status value of some rewards schemes. (Think of George Clooney's character in the film 'Up in the Air', where he tries to collect 10 million air miles to join an elite club and see his social status rocket.) Consumers relish the sense of exclusivity or social success that possessing very high numbers of points can generate.

Real-life challenger reward programs

Our experience with non-traditional banking offers has brought us many challenges. But none has proven more rigorous than developing plans to take the rewards points of one UK-based challenger to a whole new level. In practical terms, this involved turning points into a virtual currency that can be transferred, stored and traded electronically. Just like any virtual currency, it was determined that points would have a defined monetary value. This value can be accrued and redeemed electronically and is accepted only within the brand. This logic and behaviour sequence is at the heart of a 'Brand Accelerator' concept: a customer experience booster that will be offered to the bank's customer base to drive loyalty and product uptake and usage.

True service differentiators

A rewards scheme can be a real service differentiator when a bank holds an intrinsic knowledge of their customers and they can individually match store rewards to preferences. In turn the bank can create value for the wider organisation. In summary, customers spend points accrued, as a result of banking services, elsewhere across the bank's ecosystem - thus earning more points at time of 'purchase' (redemption). Participation in the rewards scheme will keep customers coming back to the rest of the business for further products. The journey is a virtuous circle – propelled by accrual and redemption of points and the connection between the bank, the wider organisation and the customer -the creation of an eco-system based on a 'differentiated currency'. It's schemes like these that build a true end-to-end brand experience.



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OPERATIONS - KEEPING THE BANK TICKING

IT'S EASIER THAN YOU THINK

Creating engaging customer propositions demands an operational structure that is fit to support. And the key word here is support. No operational design that credibly promotes itself as customer-centric at heart can be technology led. So what is the advantage of having truly customer centric operations? It's a double win, for tomorrow (flexibility and future proofing) and today (true customer relevance). Tomorrow, systems designed and built with agility and flexibility in mind will be ready to accommodate the changing demands and preferences of customers without major re-engineering. Today, they predictably support service based on a deep-rooted understanding on what makes your customers tick.

This, finally, is the 'Holy Grail' of technology that actually reflects and enables the business that is paying for it. Often, when supporting rapid proposition development, the challenge is to implement operations quickly and without employing an army of back office staff, along with expensive new systems. The good news - in our experience, this can be done.

A bottom up approach

To put this in context, we can use case studies from our past. Firstly, working in ecosystems of smaller collaborative FinTech companies, each fulfilling separate parts of the proposition and supporting operations, according to their deep specialist expertise. This approach has enabled our clients to open and service accounts faster. For example, a lender who wanted to start new a lending proposition saw the following key components of the application process put in place in a matter of weeks. They were set up through technology-focused suppliers, without the need to build in-house capabilities and they included:

- Using the back office of an existing financial services provider to service accounts and provide telephone support

- Using a web based payments provider to allow the bank to take one-off payments from customers, such as valuation fees

- Using a smartphone scanner app to give the bank functionality to scan in customer documents and place them into a workflow

- Implementing a workflow tool developed by us to track and process mortgage applications, thus allowing the bank to hire cost-effective temporary staff instead of experienced case handlers

- Purchasing a fully compliant APR calculator with regulatory guarantees, via a web portal

- Purchasing a secure document transfer system to enable documents to be shared between customers, solicitors and the bank

The availability of out-of-the-box and outsourced solutions is enabling challengers to get off the starting blocks faster. It also allows existing banks to focus on their core areas of competency while, for example, they make use of utility providers to process payments. This helps to take the operational burden and cost away from the core of the bank.

Perhaps, as new and more successful agile approaches emerge, it's no surprise that the traditional model of large operational centres running back offices is dying. The proliferation of FinTech start-ups offering cloud based applications and simple web interfaces is making it possible for banks to operate in collaborative and federated ecosystems. It's simple in concept: each step of a process can be performed by the supplier who has the deepest relevant expertise and the most cost efficient and simple implementation.

The background of the image features several large, interlocking red gears of various sizes. The gears are rendered in a solid red color against a white background. A large white circle is positioned in the upper-middle section of the image, containing the main text and quotation marks.

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Core Banking Prowess

What if you are a non-traditional, and you are attempting to integrate a new core banking platform with existing non-financial based systems? The key is to remain customer focused and customer led at all times. This means, as a challenger bank, you should be giving your solution providers a challenge of their own. Ask them how they can offer flexible and agile out-of-the-box solutions, using a base of core ops that can be tailored to a specific profile of customer as required. In our experience of working with one solutions provider in particular, this approach is very possible. But it does need a rigorous implementation programme in order to match the kind of speed that's possible to achieve by using multiple outsourced solutions.

The Elephant in the Room

How you actually build your operations might well be influenced by the capital that you have. Now although the perception is that the more capital you have available, the shinier the system can be, we have shown that there is another way. You don't need to spend as much as you might have been expecting in order to implement ops that are fully effective and completely fit for purpose. Are resource-conscious solutions inevitably 'quick and dirty'? Forget 'dirty' if by that term you mean rushed or in some way inadequate. But they certainly are quick. And that's a good thing. Because there's no doubt that launching rapid propositions effectively is inextricably linked to the robust, reliable and rapid implementation of supporting systems.



NOW LET'S START BUILDING

We hope this initial overview to building your own bank has been informative and thought provoking.

What are the next steps? We have stories to tell of real market impact, rapid consumer uptake and sustained brand growth – all based on a collaboration between our expertise and experience and the ambition and aspirations of our clients. Each story clearly shows how BYOB has helped to increase customer focus, drive positive differentiation, reduce time to market and grow target consumer uptake, market share, brand profile and revenue.

You may be a challenger bank, determined to grow new financial services offerings in the UK market. You may be a non-traditional market entrant, with the goal of leveraging your existing brand strengths in a new environment. Or you may be an established player looking to take a fast track approach to the introduction of a fresh offer to your existing market.

Whatever your situation today, you will want to realise the future opportunities presented by the most dynamic consumer banking environment in decades. Talk to us now. Start to discover how we can most effectively support you as you Build Your Own Bank.

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