The London Institute of Banking & Finance

The 2020s banker

Introduction

The pandemic aside, retail banking is undergoing a profound change. Most transactional retail banking services can now be carried out efficiently on a smartphone. But not only that, a higher cost of capital and increased regulatory demands in the wake of the financial crisis – together with demand for digital services – means that banks' business models have to change.

Financial regulators, in order to encourage the provision of better and cheaper services to consumers, have made it easier to bring new fintech services to market. They have also made it possible for consumers to share their personal banking data with service providers outside their bank, opening it up to non-banking organisations.

That means that – despite the barrier to entry that heavy regulation represents – many of the services that banks offer can be commoditised and offered by new players.

So the traditional structure of the industry – with extensive branch networks and cash handling – is changing.

What will the retail banker of the future offer to clients that an app or new entrant – FinTech, big tech or another player – cannot?

What will retail banks need their employees to be able to do for customers?

The changing landscape in banking

There are currently over 1 million employees in the sector – so it's a big employer – but jobs are reducing. Between 2001 to 2019, employment across all areas of banking in the UK fell by approximately 100,000[1]. Most banks were undertaking large scale restructuring programmes, which, despite assurances given during the pandemic, look set to continue[2].

According to government figures, in 1986 there were 21,643 bank or building society branches in the UK. In 2019 there were 10,405, a fall of 52%. Those numbers continue to fall[3].

Just like other retail outlets, bank branches need to generate a certain amount of revenue per square metre. If customers are carrying out nearly all their banking transactions online, branches become uneconomic.

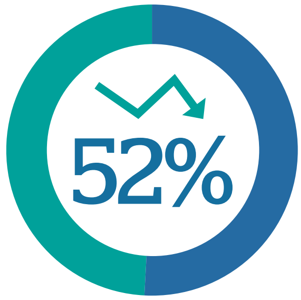
But not only that, a higher cost of capital and increased regulatory demands in the wake of the financial crisis – together with demand for digital services – means that banks' business models have to change. They need to provide secure, 24/7 digital access to everyday financial services. But those are likely to be low-margin businesses in which costs will have to be kept low.

While it's true that automation should help trim the cost base, it will also put pressure on banks to differentiate their premium services. But, more broadly, the financial transaction data banks hold makes them uniquely placed to help people make better financial decisions over the course of their lives.

So segmentation of the customer base is therefore likely to be a key focus for banks, along with developing new skills among their workforces.

The impact of challengers

They've also been fighting off 'neo' or 'challenger' banks and new payment offerings from big tech firms, although the widely mooted Armageddon-impact of these has yet to be realised. The outcome is likely to be more symbiotic: banks will support regulated services that big tech firms do not want to supply – as



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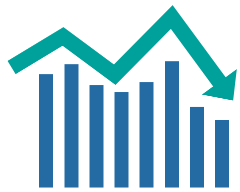

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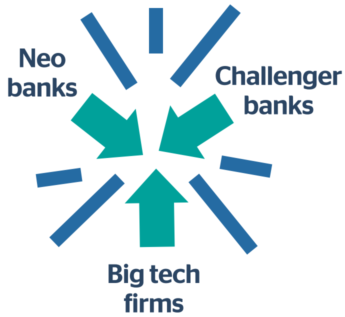

1 Cherowbrier, J. (2020), Statista: UK financial sector: total financial services employment in the UK 2001-2019. [Online] Available at: https://www.statista.com/statistics/298370/uk-financial-sector-total-financial-services-employment/

2 Clarke, P. (2020) Bank job losses hit six-year high. Financial News [online] 13 May 2020. https://www.fnlondon.com/articles/bank-job-losses-hit-six-year-high-despite-vows-to-halt-cuts-during-pandemic-20200513

3 House of Commons Library Briefing Paper Number CBP08570 (2020): Branch bank and ATM Statistics [PDF]. Available at: https://commonslibrary.parliament.uk/research-briefings/cbp-8570/

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in the collaboration between Google and US banks, which is due to launch in 2021.

Fintechs are making inroads into financial services, but banking has proved a tough nut to crack. Though lending by UK challenger banks has more than doubled[4], it started from a low base. The pandemic has also exposed weaknesses in some neo bank business models. In particular, some of them are heavily reliant on interchange fees. Indeed many new entrants are already struggling to make a profit and trying to adjust their business models[5].

The incumbents are well placed to mount a strong defence. They have a large existing customer base, which so far has proven to be quite 'sticky', and hold a wealth of customer data that new entrants just don't currently have access to (although open banking is changing that picture, albeit slowly).

As noted in 'Banking Disrupted? (Petralia et al)[6], "while digitally native firms often have an edge on data skills, banks may retain an advantage in handling soft, context-dependent information that cannot be reliably tracked from quantitative metrics".

So challengers are making inroads, but it's by no means a take-over.

What is clear is that digital banking is becoming the primary route for most day-to-day customer transactions and banks are having to adapt, not only for technological reasons.

According to the Financial Services Skills Taskforce[7] three megatrends are disrupting financial services businesses, changing the way they organise, work and relate to customers – the first two being technology and data, and globalisation.

Banks may want to look to other industries with new entrants and increased competition, for ways to improve profit margins. For example, in many industries, there is a 'premium' service that offers more than basic functionality but less than the more exclusive services aimed at those in the 'high net worth' category. There are lots of potential opportunities in the banking sector for segmenting the customer base and differentiating their products and offerings, beyond the current 'premier' current account offerings[8].

However, charging a premium price usually means having a premium brand. If big tech companies do become the public face of retail financial services, as the deal with Google suggests they might in some markets, segmentation will become more complicated. Excellent customer service will also become much more important.

Service at its heart

The third megatrend is demographic change.

Banking is, at its heart, a service industry, driven by the needs of the population it serves – businesses and individuals. On an individual level, our society is ageing – and both financial and other needs typically become more complex as we get older. Not least because of the accumulation of wealth in later years, but also because of the financial challenges of living for longer – and not always in good health.

Statistically a 50-year old Briton is expected to live to age 84[9] so they'll have to fund around 14 years in retirement. However, healthy life expectancy is currently only 63.3 years for males and 63.9 years for females in England. So that's potentially living between 16 to 20 years in poor health.

That means making provision for having to retire earlier than expected and/or for long-term care. In money terms, that usually means having a long-term investment strategy that accepts some element of risk, and having less inflation-exposed cash. That's a complex financial 'ask' most consumers won't have the knowledge or confidence to tackle. The upshot is poorer pension outcomes and increasing pressures on society safety nets.

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4 BDO: Lending to customers by UK challenger banks reached record £115bn last year. (2020) [online] Available at: https://www.bdo.co.uk/en-gb/news/2020/lending-to-customers-by-uk-challenger-banks-reached-record-115bn-last-year

5 Fintech2020: Finance Trends Beyond the Coronavirus [online] 30 September 2020. Available at: https://digit.fyi/fintech2020-finance-trends-beyond-the-coronavirus/

6 Petralia, K., Philippon, T., Rice, T., and Veron, N. (2019), Geneva Reports on the World Economy 22, Banking Disrupted? Financial Intermediation in an Era of Transformational Technology, INTERNATIONAL CENTER FOR MONETARY AND BANKING STUDIES & Centre for Economic Policy Research

7 Financial Services Skills Taskforce (2020) Final Report [pdf]. Available at: https://www.thecityuk.com/assets/2020/Reports/43e976fdcd/Financial-Services-Skills-Taskforce-final-report.pdf

8 Premier account offerings such as, Santander Select and Nationwide FlexPlus.

9 What is my life expectancy? And how might it change?' Calculator. ONS (2017) Available at: https://www.ons.gov.uk/peoplepopulationandcommunity/healthandsocialcare/healthandlifeexpectancies/articles/whatismylifeexpectancyandhowmightitchange/2017-12-01

Research we conducted among over 50s in 2018[10] found that when planning for retirement and later life, most don't take financial advice. They had not begun to think about preparing for later life care or preparing for some of the financial demands that go hand-in-hand with getting older, despite having significant assets available to them.

We also found that while older Britons are good at counting the pennies, their caution and low appetite for investment risk means many missed out on one of the longest bull markets in history. Instead, their savings languished in cash accounts with record low interest rates that have often failed to keep up with inflation.

Those findings suggest that significant proportions of the population will have neither sufficient income nor savings to retire comfortably, are under-prepared for the financial challenges they may face in later life and are unrealistic about how far their savings will stretch. And that is before pension funds face an ongoing ultra-low-interest-rate environment..

So we have a growing demographic of ageing consumers, with low financial confidence and knowledge who will need help to manage their finances and the demands placed on them later in life.

Even if the delivery of financial products is likely to be increasingly digital – who will customers turn to when they need help? A bank they've had a relationship with for most of their life – or a brand they at least know well – or a newcomer with a limited track record?

Priorities for banks

According to research by PWC[11], banking priorities are now as follows:

1. Developing a customer-centric business model
2. Optimising distribution
3. Simplifying business and operating models
4. Obtaining an information advantage (they arguably have one)
5. Enabling innovation, and the capabilities required to foster it.
6. Proactively managing risk, regulations and capital

At least two of those priorities relate to segmentation – or should do.

The traditional banking sector has a clear advantage over new-comers – not least their long history of providing services in local communities, their existing customer base and the 'comfort blanket' – of regulation and the compensation regime.

Consumers know that banks need to be properly licensed and are closely regulated. They are very aware that they can get access to compensation if things go wrong. And they expect / trust banks to look after their money, and their data. Customers in this sector tend to be sticky – once they bank with you, it takes quite a lot to get most customers to switch.

So, despite mis-selling scandals and some technical issues, banks clearly benefit from long-standing relationships and a track record of looking after people's money and data.

Can we say the same of newcomers, some of which aren't even licensed banks?

And, of course, the incumbent banks' access to a long history of customer data can help them not only provide slicker, more digital, services, but do the segmentation they need to.

But business models can't be changed overnight, even with technology. Banks will need the support of highly skilled professionals to grasp the opportunities ahead. Those professionals will need a thorough grounding in banking practice and in managing customer relationships, as well as digital proficiency.

But there's a war for talent brewing – the skills gap in financial services increased by 30% between 2015-2017 while the dependency on skilled workers is already high and will increase.[12]

Why professionalism and training will underpin the future of banking

Consumers now expect all financial service providers to offer sleek and secure smartphone apps and digital services that support their day-to-day needs. Those needs include hygiene factors, such as balance information, payments, money transfers, along with the ability to change overdraft or card limits, automate saving and freeze bank cards. As Barclays puts it: over 50 of the most common banking tasks can be done via mobile and online banking.

What computers do is to crunch a lot of numbers very quickly. They carry out routine operations for which explicit rules can be defined. It was long believed that they would never be able to carry out "non-routine" tasks like driving a

10 Over 50s think they need a £500k windfall to make financial advice worthwhile (2018) – LIBF and Seven Investment Management Available at: https://www.libf.ac.uk/news-and-insights/news/detail/2018/11/26/over-50s-think-they-need-a-500k-windfall-to-make-financial-advice-worthwhile

11 PWC: Retail Banking 2020 Evolution or Revolution? 2020) Available at: https://www.pwc.com/gx/en/banking-capital-markets/banking-2020/assets/pwc-retail-banking-2020-evolution-or-revolution.pdf

12 Financial Services Skills Taskforce (2020) Final Report [pdf]. Available at: https://www.thecityuk.com/assets/2020/Reports/43e976fdcd/Financial-Services-Skills-Taskforce-final-report.pdf

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car or deciphering handwriting, leaving those, together with complex communications and problem-solving tasks, for people. But we all know that is changing.[13]

Still, full automation and integrated AI is some way off and humans still beat computers for technical expertise, balancing risks and providing comprehensive and complex advice.

Human support

And while automation enables companies to provide simple, mass market, services at a lower cost, as things stand, automation can actually increase the need for human support staff. Using humans for very complex, or small-scale tasks, rather than programming high-powered computers is often still cheaper.[14]

But aside from the brain versus processing power 'battle', the need for soft skills is growing alongside the move to automation and digital services. Computers cannot empathise or understand social and emotional context.

According to McKinsey[15]: *"Financial services have been at the forefront of digital adoption, and the banking and insurance sector is likely to see significantly shifting demand for skills through 2030. The financial-services sector contains a range of potential uses for AI, especially in forecasting risk and personalizing the marketing of products to customers. The number of workers such as tellers, accountants, and brokerage clerks will decline as automation is adopted. The need for a workforce that uses only basic cognitive skills, such as data input and processing, basic literacy, and basic numeracy, will likely decline, while the number of technology experts and other professionals will grow, as will the number of occupations that require customer interaction and management. This increase will drive strong growth in the demand for social and emotional skills".*

There may be fewer roles in banking, but those roles are more diverse and need a broader range of skills. And that's increasingly being recognised by government and regulators, as well as the industry itself.

13 Autor, D.H., Levy, F., Murnane, R.J. (2003), 'The Skill Content of Recent Technological Change: An Empirical Exploration'. *The Quarterly Journal of Economics*, 118 (4), 1279–1333. Available at: //economics.mit.edu/files/11574

14 Ludwig, C. (2020), 'The Myth of Full Automation: the Roboadvice Case'. *BankUnderground*, 31st January. Available at: //bankunderground.co.uk/2020/01/31/the-myth-of-full-automation-the-roboadvice-case/#more-5966

15 McKinsey Quarterly. Available at:https://www.mckinsey.com/featured-insights/future-of-work/five-fifty-soft-skills-for-a-hard-world?cid=fivefifty-eml-alt-mkq-mck&hlkid=cef888bd59094532974a66cd92a85ac5&hctky=9436545&hdpid=e22dd221-7a6d-4ae3-be49-bb6528ea2894

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As noted by John Glen MP in the final Financial Services Skills Taskforce report[16]: *"Today... the sector faces new challenges. Three megatrends - technology and data, globalisation, and demographic change – are disrupting financial services businesses, changing the way they organise, work and relate to customers. These changes are driving dramatic shifts in ways of working and the skills that underpin them. Those that will become the most successful, and the sector's likely future leaders, will be those that combine technical and functional knowledge with digital fluency and strong inter-personal skills. They will use these skills to harness new trends that benefit their customers and clients."*

At the World Conference of Banking Institutes (WCBI) last year, he urged the banking industry to focus on qualifications and upskilling staff to help ensure the sector remains 'future proof'.

Is a return to professional standards and training the new norm?

In the last few years, the industry has been re-engaging in the professionalisation of staff. While industry is adapting to the new landscape by cutting headcounts, there's also an increasing recognition that those who are left need to be more knowledgeable and have a far wider range of skills. Those skills include understanding risk management, sustainability, and governance and ethics, as well as being highly capable in digital banking and in managing customer relationships via remote channels.

Well trained professionals are well-placed to help consumers manage increasingly complex financial needs, but also, in this digital age, to avoid scams and costly mistakes. Not only that, companies know all too well that there may be hefty liabilities to face if they do not actively manage mis-selling risks, so staff play a vital role in minimising fines and compensation payments.[17]

Better qualified and more experienced staff are of course better placed to avoid bear traps, but also to identify opportunities and really focus on providing a great service to customers with complex needs.

People power is still very much required in banking – and a refocusing of business models to segment their products and services is a potential way forward for an industry that has been struggling to make their current business models add up.

The Financial Services Skills Taskforce[18] highlights critical focus areas to tackle the skills shortage and talent crisis, including the technical upskilling and retraining of staff, strengthening the sector's purpose and culture, attracting, motivating and retaining the widest and deepest pool of talent, and addressing poor diversity within senior leadership.

The Taskforce argues that having more people with the relevant capabilities will benefit firms through reduced recruitment and employment costs, increased productivity and accelerated training and development, and improved deployment of the existing workforce.

Increasingly banks are recognising that, and are starting to use their internal training programmes to help staff move towards achieving professional recognition via formal qualifications. We're already working with some of the largest companies in the sector in this way.

However, the Taskforce also highlights that investment in training is currently low and the third lowest per employee of any sector (£1,300 v £1,530) and the second lowest spend per trainee (£1,860 v £2,470) and the skills, knowledge and experience required by employers and the pathway to securing these skills is not clearly set out.

But if there is a growing consensus that well qualified staff are an essential element of ensuring success now and for the future, and a continuous learning mindset will be essential, how can education bodies help?

How banking qualifications have adapted

As previously noted, the original banking qualifications established by our founding body (Institute of Bankers leading to ACIB - Associate of The Chartered Institute of Bankers) were the 'gold standard' in the sector. Over the last 140 years – since we were first founded – our qualifications have evolved to focus on the core skills required by bankers today, and to reflect the different ways people study and learn.

We've recently revised and updated our banking qualifications to provide a flexible route to upskilling staff and providing them with the knowledge, skills and professionalism to be effective now and for the future.

From foundation to advanced level, we've designed our qualifications so that students can study while working full-time.

While all our qualifications can be stand alone, we've also created a framework to enable qualifications to be combined towards higher levels, including a tailored pathway to

16 Financial Services Skills Taskforce (2020) Final Report [pdf]. Available at: https://www.thecityuk.com/assets/2020/Reports/43e976fdcd/Financial-Services-Skills-Taskforce-final-report.pdf

17 Mortimer, R., (2020) Warning of legal risks in serving insistent clients. FTAdviser [online] 4 February 2020. Available at: https://www.ftadviser.com/your-industry/2020/02/04/advisers-warned-of-legal-risks-around-insistent-clients/'

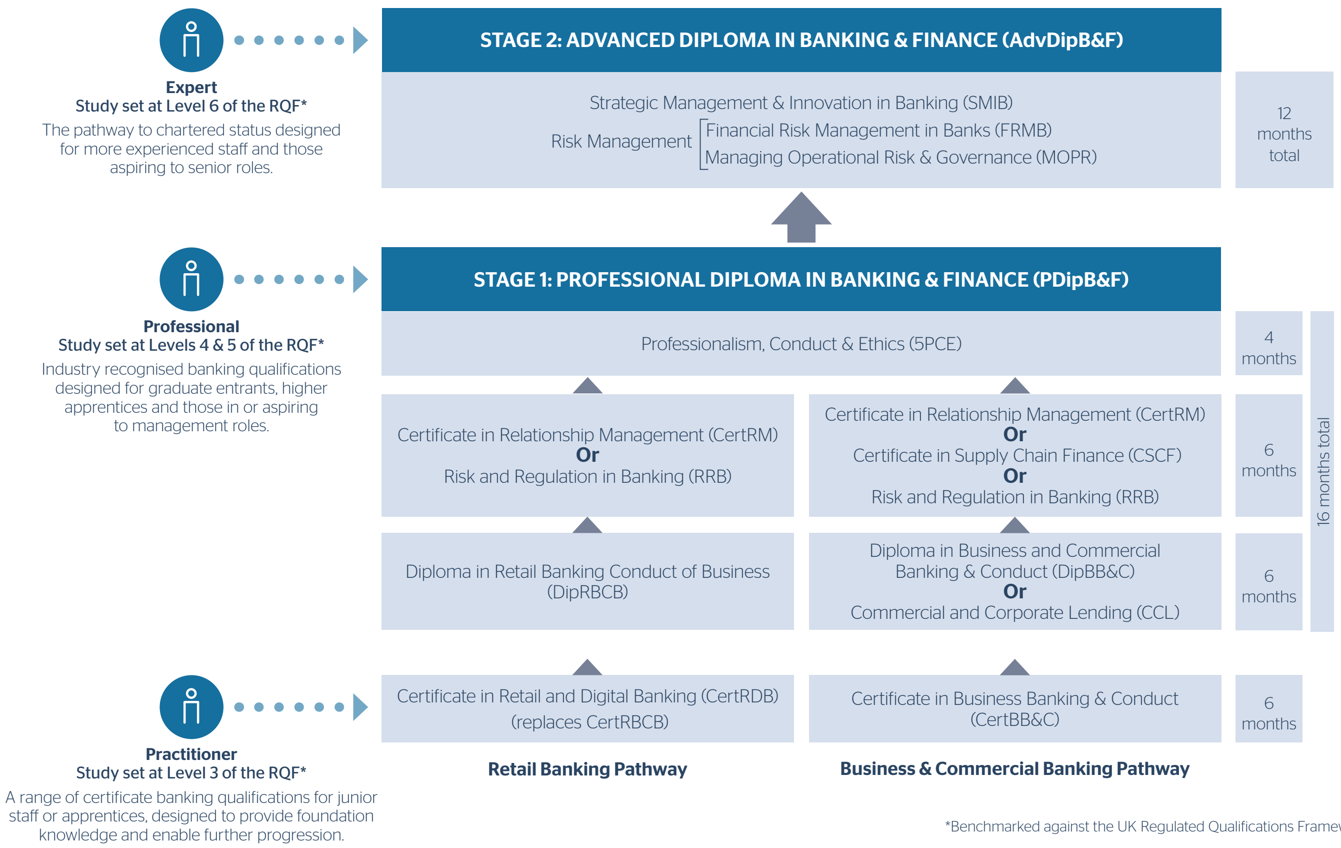
18 https://www.thecityuk.com/research/financial-services-skills-taskforce-final-report/?utm_campaign=11277733_CEO%20newsletter%20-%20February%202020&utm_medium=email&utm_source=TheCityUK&dm_i=J8I,6PPYD,2T7IAA,QSWOI,1

chartered status – allowing professionals to gain recognition as experts in their fields.

The modern-day ACIB is now the Level 6 Advanced Diploma in Banking & Finance (AdvDipB&F). Leading to chartered status, this programme can now be completed in 2½ years (previously four years). That pathway is set out below

These qualifications provide a foundation in banking conduct, regulation and risk management, and progress into strategic considerations and higher levels of risk management.

On completing the AdvDipB&F students will be eligible to apply for chartered status.



*Benchmarked against the UK Regulated Qualifications Framework (RQF)

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Case study

Steve Wilson has spent most of his working life in banking (34 years at RBS). He sets out his views about the importance of qualifications in the sector.

I have always been a great advocate of the LIBF over a 35-year career span – believing their qualifications to be the most rewarding and beneficial in the sector. Ever since I qualified back in the early nineties the desire to progress academically has remained unaltered and has played a significant part in fuelling my ambitions, determination and desire to achieve even more both internally and externally.

Having achieved what was then the original 'gold plated' qualification – the 'ACIB' – back in 1992 it would have been easy to say even back then, "job done" and accept the accolades that came with it! However, the financial services industry has moved on and with it the need to remain relevant within the sector. There have been a number of 'reincarnations' of banking and the challenges that come from the pace of change are now evident. Since my original academic endeavours, I have successfully passed the LIBF's MSc in Banking Practice & Management which embraced a whole host of more up-to-date subject matter which still holds good today.

Since then, and once again to retain that 'status' of being considered a professional with his finger on the pulse, within both the industry and to a larger extent my own employer, I have embarked upon and successfully completed the LIBF's Chartered Banking qualification which consists of two stages – the Professional and then the Advanced Diploma in Banking & Finance.

This involves the completion of entirely relevant industry-specific modules at both Level 5 & Level 6 which include such subject matter as conduct & ethics through to managing operational risk, governance and financial risk management in banks. All three, plus the others required, have both academic and intellectual rigor, and once successfully completed do bring a certain sense of achievement and hopefully recognition.

Any diploma which is worth holding requires a certain element of ongoing personal commitment and determination. However, the perseverance required is rightly recognised by both the industry and my own employer. This has enabled ongoing progression, along with an inner belief and confidence that comes from the successful completion of industry-leading professional qualifications.

Remaining relevant has not only facilitated additional opportunities for me within the bank it has also supported my leadership credentials with my own teams. They themselves have evidenced the benefits of increasing their own professional status by taking-up the challenge of obtaining the rightly sought after Chartered qualification.

The support provided by the LIBF is unequivocal with the learning material being entirely relevant, coupled with the opportunity to interact with fellow bankers along the way. The support I have received from my employer the RBS Group has been as equally unstinting. We have both benefited from my ongoing commitment in the pursuit of remaining 'relevant' to the challenges of an incredibly dynamic marketplace.

The desire to be considered a 'professional banker' therefore doesn't diminish over time, if anything it encourages you to raise the bar even higher. As such I am now completing the 'Strategic Management & Innovation in Banking' qualification which in reality couldn't be more relevant to our sector at present.

Steve Wilson MSc ACIB CFLIBF
Director Commercial Banking
South West & Wales Trading Team
RBS Commercial & Business Banking - England & Wales

Find out more

libf.ac.uk/banking

"I have always been a great advocate of the LIBF over a 35-year career span – believing their qualifications to be the most rewarding and beneficial in the sector."

Authors: Ouida Taaffe, Rob Thompson and Heather Tilston