



Watch Out for the Challengers

Travers Clarke-Walker, Chief Marketing Officer at Fiserv, says it's becoming easier for new financial services players to navigate the market

The UK's retail banking landscape has changed dramatically in recent years and it continues to evolve. We have seen the arrival of challenger banks – new, often digital entities focused on customer service and experience – as well as institutions with a narrow focus that take one element of finance (such as peer to peer lending) and do it well.

In some ways, it is easier than ever to start a bank, which means traditional financial service providers need to really

think about their strategies. Two developments are having an impact: Finance Minister George Osborne's recent vow to increase retail banking competition by issuing 15 new banking licenses in the next five years, and the UK Competition and Markets Authority (CMA) investigation into the retail banking services available to SMEs and consumers.

If you then match this with the amount of growth happening in

the [fintech](#) sector, and in mobile banking in particular, we have an optimistic outlook for UK banking and opportunities for challenger banks.

However, there are many factors to consider for those brave enough to bring a new bank to life:

- The current state of the market, including a decline of cash and low adoption rates for current account switches >



- Key challenges, such as the license application and banking regulations
- Incumbents versus challengers: Collaboration or competition?
- Technology innovation: Best to build internally or partner with a third party?

1. Learn About the Process

The application process for setting up a new bank is certainly easier than it has been before, but that's not to say it's now easy to obtain a banking license. New entrants need to know how to overcome this potential obstacle.

In addition to regulatory advancements in pre-application support, there is now a significant array of well-versed advisory firms in the application process – firms that have learned from those to have gone before and whose expertise can be readily accessed.

There are intrinsic and strategic advantages to starting a bank now, including advances in technology.

2. Address Financing and Legal Requirements

When starting a new bank, it's important to consider both how you set up relationships with your financing partners and the legal and management structures of the bank.

A lot of time can be spent addressing how the bank will be financed, which is often done by participating in multiple funding rounds and other sources of investments. Other issues that need to be managed and led by the bank's founders include dealing with the regulatory requirements, as well as understanding the tax environment.

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3. Put the Customer First

Customer mobility is an important issue for new banks. Start-up banks must understand that customers are often unwilling to leave behind existing banking relationships.

Switching levels are at only two per cent for personal current accounts and four per cent for business current accounts. With this in mind, the focus must be on customer service, putting the customer at the heart of everything you do and fostering a culture of constant innovation.

4. Tap into the Community

New entrants expect to work alongside traditional institutions and to utilise those institutions' existing infrastructures. They also expect to be part of the traditional institutional makeup, not in complete opposition to it.

There is also a community to be found among new entrants; they should work

together to foster growth as opposed to being in competition.

5. Understand the Importance of Technology

New banks need top-class technology to differentiate themselves and meet the needs of their customers, especially as many will look at adopting a digital front, middle and back office, as well as digital distribution for most banking functions. All banks – existing and new – also need to consider emerging technology, such as blockchain and the application program interface, and how to use them.

By taking the right steps when entering the market – either with new technology or as a new entrant – there is real opportunity for success. ■

This blog was originally published on Fiserv's website. Find out more [here](#)



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