



## Newsletter Article

April / May, 2016

### THE DEATH OF BANK PRODUCTS HAS BEEN GREATLY UNDER-EXAGGERATED

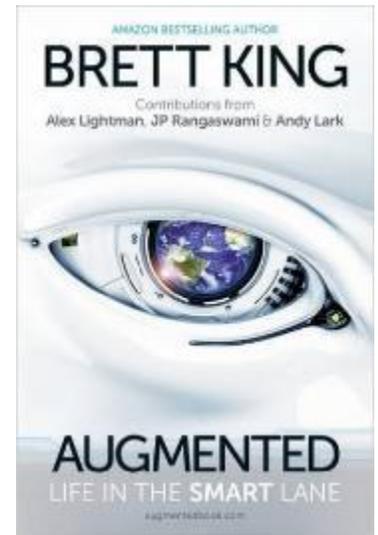
By Brett King (Excerpt from [Augmented](#) published with permission. All Rights Reserved)

#### ABOUT THE AUTHOR

**Brett King** is CEO and Founder of the fintech startup “Moven”, a four times bestselling author, international keynote speaker on financial services, and host of BREAKING BANK\$, his radio program with over 9 million monthly listeners. Brett’s books include Bank 2.0, Bank 3.0 and the recently released Augmented.

This article is an excerpt from Brett King’s newest book, [Augmented: Life in the Smart Lane](#), scheduled for release on May 6, 2016.

Since 2005 I’ve been predicting the decline of branch banking. For almost 10 years I fought bankers who decried my assessment that branches would cease to be the most important channel in banking, to be replaced by far more efficient mechanisms for revenue generation and relationship. Today the discussion is increasingly resorting to a sort of desperate plea—“but branches aren’t going to *die completely, are they?*” No one is saying branches will grow. Consider the following chart that plots advisors across two dimensions: productivity and compensation.



The United Kingdom, the United States, Spain, and a host of other countries are seeing the lowest number of bank branches in decades. For the UK [you’d have to go back 60 years](#) to find lower numbers of bank branches than we have today, and 2014 saw [the use of bank branches fall 6%](#) in a single year—the biggest reduction ever. In the US banks like BofA, Chase and Wells have cut more than 15% of their branches in just the last 4 years, bring their branch levels back to that of the early 1980s. While the US has only seen declines of 1–2% per year in branch numbers, branch footprint may be a much better indicator of the waning support for branches. Wells Fargo has reduced their branch square-footage by 22% in just 6 years, and for BofA it’s [one-fifth of their branches that have already disappeared](#) in just the last 5 years.

*“We don’t know how to grow without [branches]... But, we have taken the total square footage of the bank from 117 million square feet at the time of the merger with Wachovia in January of ’09, to about 92 million square feet today, and we’re continuing to go down from there.”*

John Stumpf, Wells Fargo CEO—[ClearingHouse.org interview](#)

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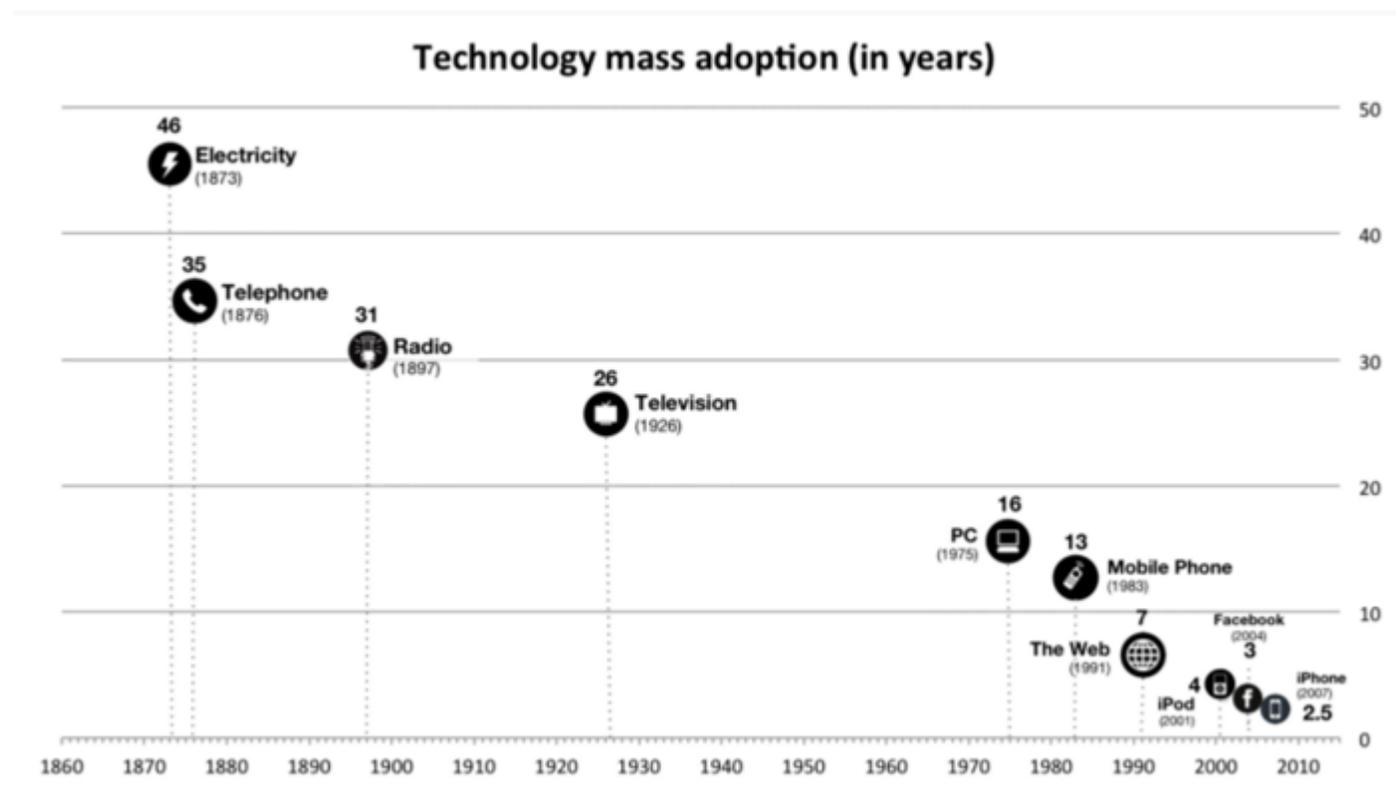
The reason we're reducing branch numbers and square footage is obvious—customers just aren't using branches as much as they used to. They don't need to. It's not a branch design problem; it's a customer behavior problem.

When it comes to customer behavior, however, the greatest challenges for banking are yet to come and they aren't channel-based, they're product-based.

## Products That Make Sense in a Digital World

By 2020 we're going to see 50 billion new devices connected to the Internet—everything will be smart. Smart Fridges that order your groceries or can tell you what you can cook with the remaining items inside, sensors you wear on your wrist or in your clothes that monitor your health and activity, cars that will talk to each other and drive themselves, smart mirrors that will show you how you look in that new shirt, robot drones and pods that will deliver you groceries or Amazon order—the world will be filled with smart stuff.

We live in a world where new technology emerges and is adopted in months today, versus the years it took previously. It's all moving so quickly. As more and more technology is injected into our lives, we become acclimatized and just accept the increased role technology has to play. This is known as technology, adoption diffusion.



*Technology (product) adoption is constantly accelerating (source: Augmented)*

As we move to this technology-optimized world, we'll start to redesign where and how humans fit in society. Banking will be embedded in our life. We'll walk into a store, pick something off the shelf and walk out with the payment auto-magically affected. Our fridge will order groceries on our behalf. Our smartphone will soon be able to book us flights or a ticket for a train journey just by us asking it to do so. AI-based advisors will consistently outperform human advisors. Underpinning all of this is an expectation that banking, payments and credit will just work, in real-time, solving my problems and helping me manage my money everyday.

As this happens, products will make way for experiences. Here are **3 quick examples**:

## The Uber of Banking is Uber

A recent [Quartz \(qz.com\) article identified that up to 30% of Uber drivers in the US have never had a bank account](#)—many operated previously as taxi drivers in the cash economy. To be a driver on Uber, however, they need a minimum of a debit card to get paid. So Uber has had to solve this problem by allowing drivers to sign up for a bank account as part of the Uber driver application process, in real-time. Unsurprisingly, this makes Uber the largest acquirer of small business bank accounts in the United States today, bigger than Wells, BofA and Chase combined.

You probably never thought of Uber as an acquirer of small business bank accounts, but if you're an Uber driver and Uber can give you a debit card that enables you to get paid—then why would you go to a bank branch to open an account instead? It also means that as an entrepreneur bank account the next obvious move is to design day-to-day banking into Uber's app instead of standing alone as a typical bank account or mobile banking app.

For the millions of [permalancers](#) or [gigging economy workers](#), it's highly likely that the first time a freelancer opens a bank account will be directly in response to a new 'gig' or job offer—if that employer (like Uber or AirBnB) offers you a bank account as part of the sign-up process, why would you stop signing up for Uber, drive to a branch and sign a piece of paper?

Uber is [offering car leases to its drivers](#) also—allowing drivers with no vehicle to sign up and get car financing backed by demand from Uber. This is what the new banking experience looks like for small business entrepreneurs. Uber is effectively doing all the sourcing for bank relationships, and has become an acquirer for bank accounts, leasing and insurance. An Uber driver has no reason to come to a bank branch for his needs today thanks to Uber's commitment to experience design simply enabling the needs of a new driver.

## Bye Bye Credit Cards

As the world starts using NFC, closed loop App payment systems, Apple Pay, Samsung Pay and Android Pay increasingly, were pretty quickly going to eliminate the need for plastic all together—we'll just download a token or a payment app to our phone, linked to our bank. We won't use a card number, because it just isn't secure anymore. We'll tap our phone, authenticate via our fingerprint, and receive a notification that the payment has been successful.

If we download our cards (or tokens) to our phone, then it won't be a credit or debit card—does it need to have the same properties as those legacy 'physical' products? Not likely. Let's think about how we use a credit card today and how we might redesign that utility in a real-time world.

The two primary use cases for a credit card today could be illustrated thus:

1. I'm at the grocery store, swiped by debit card and the transaction was declined because my salary hasn't yet hit my bank account. I need to buy these groceries for the family today, so I'll use my credit card and worry about why my salary hasn't hit the account later, or
2. I really want this new iPad Pro, but I can't afford it based on my current savings. If I use a credit card, I can pay it off over the next few months

If we're redesigning this in a mobile, real-time world we wouldn't need to sell a customer a credit card at all because we'll just fulfill in real-time.

The grocery store scenario becomes an Emergency Cash credit facility—a real-time overdraft or line of credit that we deliver in one of two ways. We either preempt the cash shortage because we know the customer regularly shops at Tesco or Whole Foods and spends \$600 or £300, but only has say £100 quid in his account. Either that, or we offer it in real-time when the tap of the phone to pay at the POS fails due to insufficient funds. We can eliminate rejection of a typical credit card application, because we only will offer the Emergency Cash to someone who qualifies. That's a huge deal because [between 15–30% of applicants get rejected for a credit card](#) typically.

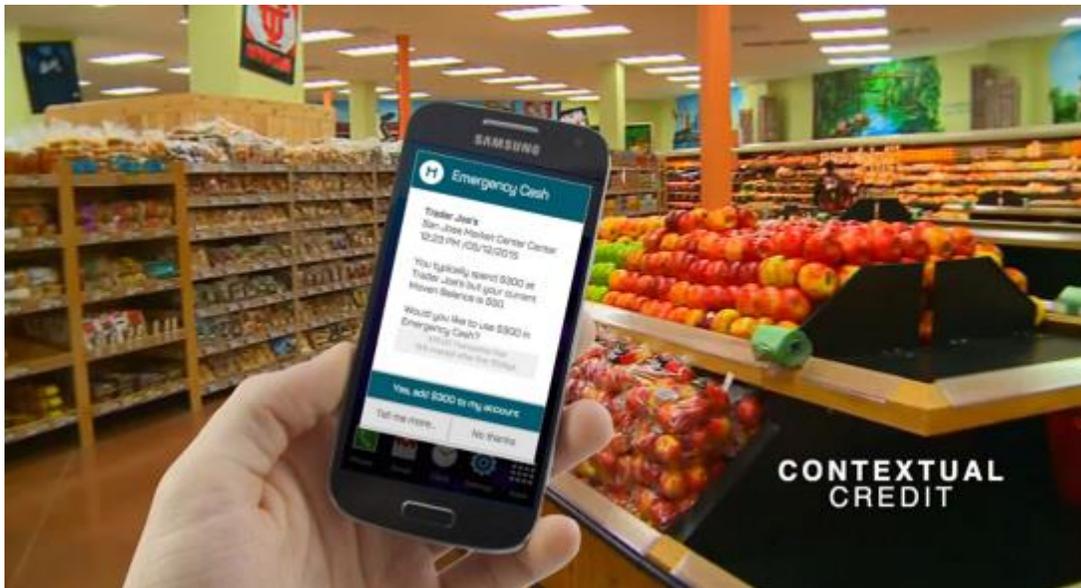


Figure 1: It turns out you don't need a 'card'—you just need access to credit (credit: [Moven.com](#))

For the **In-Store Financing** scenario there are a ton of new approaches that fit the real-time approach better than a credit card.

We can allow people to put a **wishlist** on their phone for all the stuff they want to save for, and when they walk into a store where a wishlist item is available we can then offer a discount combined with

**contextualized credit offering.** We can **learn from previous purchase or search history** and anticipate a purchase where an **instantaneous line of credit** option might be attractive. We can use a preferential low or zero-interest 12-month financing deal getting them to switch payment vehicles at the point-of-sale, or we can **trigger an offer based on geo-location.** We can use **iBeacons** and match an offer with a customer to give a preferential deal where credit is built in. We can match savings with credit—let's say you've saved \$300 towards that new smartphone; we can offer the remaining \$300 you'll need in real-time as you walk in the store.

*"We'll probably be the last generation to use the term credit card and debit card...It will probably be debit access or credit access, and it will likely be loaded on to a mobile device."*

John Stumpf, CEO of Wells Fargo at Goldman Sachs Financial Conference, Dec 8, 2015

Basically we will need to totally redesign the way we message credit facilities to customers, the way we determine risk (based on behavior), and the value proposition we offer to a customer—it's all now about how I enable you in this moment. Not requiring the customer to think ahead, applying for a product for when you might need a line of credit.

From a mechanic's perspective we can better match risk and behavior to the type of credit line, we can eliminate the need for a physical product or any conventional application process at all, and we can use behavior, location or moments of desire/doubt (not product features) to trigger an offer.

In this world, a real-time world of engaged customers, why would you ever sell a piece of plastic to a customer ever again? You would still sell credit, just not 'card'.

There's another angle to this that retail banks and lenders will have to come to terms with. Airline miles won't sell a 'digital' credit card in the medium term, because they are not part of a real-time engagement model. Rewards may, but only if they are contextual and immediately relevant—i.e. offer me a discount for something you know I want to buy, but only when I walk into the store that is selling it. Millennials won't be sold on delayed gratification on airline miles when they realize they can probably get a better deal buying the ticket directly instead of through very expensive airline miles.

## When your self-driving car has a bank account

While owning a car will definitely be an option in the future, many millennials and their antecessors will opt to participate in a sharing economy where ownership is distributed, or where self-driving car time is rented.

*"[In 15–20 years] any cars that are being made that don't have full autonomy will have negative value. It will be like owning a horse. You will only be owning it for sentimental reasons"*

Elon Musk, Tesla earnings call Q3 2015

Let's take a scenario in 2025 where a millennial subscribes to a personalized car service guaranteeing access to a self-driving car for certain number of hours each day, or where he or she buys a 'share' in a self-driving car with some friends or colleagues.



Figure 2: Will your children ever own a car? I don't know, do you own a horse?

The car picks up the millennial and takes her to work, and is alerted that the car will be required again in approximately 6-hours time. After dropping the individual at her shared workspace for the day, the car goes off and collects two more of the collective owners of the vehicle and delivers them each to their required locations. At this point the car makes a decision to find a charging station and recharge for an hour. It drives to a local car park where supercharging stations are location and hooks in. As the car made its last drop off, it had already worked out that it would need to recharge, and had negotiated with the car park's machine interface, negotiating a price for both the parking facility and energy it would need.

A company owns the car park itself, but they have allowed individual investors to own or lease a supercharging station connected to a solar grid on the roof of the car park, to offset the costs of retooling the car park with charging stations. Each supercharger has its own wallet linked back to it's owner(s) and the energy used by the self-driving car as it recharges, is paid for in KWH directly between the car and the supercharging station, as is the same for the car parking fee paid to the garage owner.

The self-driving car then, calculating it has approximately 3.5 hours before it will be required by one of its owners again, logs in to Uber and makes itself available for a 3-hour block as a self-driving resource. It is immediately called out to a pickup, and after 3 hours has earned \$180 in fees, which it puts away in its wallet.

The wallet in the self-driving car is not linked to a single individual owner. It is a collective account. Any earnings it makes are used to offset ownership costs, energy costs, parking and registration fees, etc. The owners just top up the self-driving car's own wallet on a monthly or weekly basis as required, but the self-driving car's ability to pay for energy, or earn income for rental time is independent of a typical identity structure or bank account. It is an IoT (Internet of Things) wallet or value store.

The wallet in the self-driving car is analogous to the debit card you carry around in your wallet today, but there is one big difference. A human/person **does not own this wallet**, it is linked to the car and may or may not have multiple human owners and the identity of those owners could change frequently, but it doesn't have to have a human owner linked at all theoretically. In today's banking world this might be marginally possible, but only through a torturous series of contracts, declarations and identity verification processes that would essentially require all of the owners of the vehicle, and the self-driving car itself, to personally front up at a bank branch. That's clearly and absolutely ludicrous.

Whether a self-driving car, a smart fridge that orders your groceries, a smart house that both consumes and generates data and energy, a solar array, or any AI that negotiates specific transactions, these all will need independent access to the banking system, along with their own bank account.

This obviously raises some very interesting questions.

You can't ask a self-driving car or a fridge to identify itself at a bank branch with a signature, so will it have its own identity?

Will the self-driving car have to pay tax on the money it earns as part of a sharing economy, or will this be passed on to the collective owners?

## If you're a bank, 2016 is the year you start redesigning every single product in your wheelhouse

The future is about putting the bank in the lives of our customers with zero friction (ok, well minimal friction) every day. That means we have to come to terms with the fact that *anytime we stick a piece of paper in front of a customer it is **pure friction***, and it certainly won't allow us to execute revenue or relationship on a mobile phone, iPad or in a self-driving car in the moment. Let me state that again to be crystal clear...

### Paper and signatures have no future in the banking world—at all.

Are you sure? Yes. Not least of all because with facial recognition, image recognition on drivers' licenses/passports, and other identity verification technology (geo-location, social media, heuristics, etc) **a physical Identity Verification (IDV) is now 15–20 times riskier than a digitally led IDV process**. Why do you think every customs department in the world is going to biometric verification of passports at borders? The answer is simple. Humans are the single weakest link in the security process—the most prone to errors, the least likely to pick up a false ID document.

Think about that. The single riskiest thing banks do today is have a face-to-face account opening based on a piece of paper.



Figure 3: Figure 3: AliPay uses facial recognition for better payments security. (credit: Alibaba)

Keep in mind that every FinTech competitor you have doesn't use paper or signatures already—they're way ahead of the curve on this. They've got no legacy process to circumvent.

**If you have a physical representation of a bank product (card, checkbook, bank statements, application form, sales brochure, etc) prepare for that to disappear by early next decade almost entirely.**

The component utility of banking namely **a value store, a payment, a line of credit, a savings rate, etc.** will be integrated into experiences defined by context. The future of product design isn't products at all, it's experiences—money experiences, payment

experiences and credit solutions.

By 2020 you won't call your bank accounts 'checking' accounts. By 2022 banks won't have a head of cards or a cards division. You won't differentiate between small business bank accounts and retail banking—customer behavior is what will differentiate the use of a value store. A mortgage will be part of a home buying experience, not a separate experience. If you choose to own a car, you'll order a car with or without financing, but you won't ever sign a piece of paper—the only thing you'll need to do is nominate how much you want to pay each month and where the money for those payments will come from.

This is going to take a complete, from the ground up, rethink of every product in the business as we re-task it for real-time engagement, and it has already started. 2016 is the year where bankers start to have to deal with it in earnest.

This is what disruption in banking really looks like...

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