

Digital Economy Outlook

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Summary

EU Digital Regulation Agenda: leveraging digital technologies to strengthen the Single Market

2016 will be an intense year for the European Commission (EC) to turn the Digital Single Market strategy and the Green Paper on retail financial services into concrete regulatory proposals. The EC should make the most out of technological developments to overcome the existing barriers to the EU Single Market.

Digital onboarding of financial services: the electronic identity as a key element

Nowadays, consumers have the chance to shop online for countless goods and services. This practice, which is such an everyday phenomenon in other areas, is still not fully established for financial services. The main problem arises when consumers decide to strike up a business relationship with a financial institution via the internet. For such a straightforward step to be taken, the regulations have to allow banks to confirm remotely the identity of their new customers. Thus, a reliable digital identification mechanism is key to fully enabling online financial services.

Internet usage in Spain: generational approach

Internet usage constitutes a relevant factor that determines the expansion of specialized services, such as electronic banking. Over time, there is convergence in the use of Internet for the younger consumers and a dichotomous phenomenon is generated between this group and the older consumers. Education level is also an important element to take into account in this issue.

Update on a European instant payment scheme based on credit transfers (SCT instant scheme)

The Euro Retail Payments Board (ERPB) together with the European Payments Council (EPC) are developing a pan-European instant payment scheme in close contact with industry stakeholders. The EPC proposal for the design of a SCT Instant scheme, approved by the ERPB at its meeting on 26 November, establishes the basis for an instant payment scheme based on credit transfers, although it requires further development. This scheme is expected to come into force by the end of 2016. Spain is already taking steps to create its own instant payment system to be able to connect to the SCT Instant scheme and, thus, to all SEPA countries.

Neobanks: creating a digital bank from scratch

Among the FinTech firms, some aspire to become banks and to provide a purely digital alternative to traditional institutions. Up to now, the biggest stumbling block they had run up against had been the complexity and cost when it came to obtaining a banking licence, but in the UK steps have already been taken to simplify this process, which has spawned several "neobanks".

1 EU Digital Regulation Agenda

Leveraging digital technologies to strengthen the Single Market

2016 will be an intense year for the European Commission (EC) to turn the Digital Single Market strategy and the Green Paper on retail financial services into concrete regulatory proposals. The EC should make the most out of technological developments to overcome the existing barriers to the EU Single Market.

Since the digital ecosystem blurs geographical barriers, it is a powerful tool to overcome the existing EU market fragmentation in different economic sectors. Digital channels facilitate transactions between geographically dispersed agents. Yet regulatory and administrative obstacles still limit cross-border transactions, fragmenting the internal market. For this reason, the EC is working on several initiatives to remove or mitigate these obstacles and to make best use of new technology to strengthen the Single Market.

The Digital Single Market strategy

In May 2015, the Commission launched the Digital Single Market (DSM) strategy, aiming to remove the technical and legal barriers that prevent the European Union from constituting a single market for digital activities. As well as scaling up the market where digital business operates, the DSM strategy aims to address competition concerns – arising from the entrance of new market players and the role of online platforms and intermediaries – and to reinforce trust and security in digital services. The strategy is built on three pillars: guaranteeing better access for consumers and businesses to digital goods and services across Europe, creating the right conditions and a level playing field for digital networks and innovative services to flourish, and maximising the growth potential of the digital economy.

Despite the broad name of the strategy, most of its 16 initiatives are particularly targeted at a few sectors: e-commerce, the content and audio-visual industry and the telecoms sector. The EC is carrying out public consultations to gather views from all stakeholders before turning the DSM initiatives into concrete legislative and non-legislative proposals by the end of 2016. Along with more sector-specific initiatives, the Commission plans to establish a contractual public-private partnership on cyber security, to tackle restrictions on the free flow of data within the European Union and to launch a European Cloud initiative covering the certification of cloud services and the switching between providers. These initiatives will complete the Network and Information Security (NIS) Directive and the General Data Protection Regulation (GDPR), the formal adoption of which will take place in early 2016.

The **NIS Directive** – the first EU-wide legislation on cybersecurity – will increase cooperation between member states and lay down obligations for certain firms. Operators of essential services in the energy, transport, finance and healthcare sectors, and providers of key digital services like online marketplaces, search engines and cloud computing, will be required to take appropriate security measures and to report incidents to the national authorities. The requirements will be stronger for essential operators than for digital service providers, in line with the degree of risk posed by any disruption to their services. On the other hand, each EU country shall designate one or more national competent authorities and set out a strategy to deal with cyber threats. Cooperation between member states – both strategic and operational – will take place through a 'Coordination Group' and a network of Computer Security Incident Response Teams.

On the other hand, the **GDPR** will update and modernise the principles of the 1995 Data Protection Directive to guarantee privacy rights. It focuses on: reinforcing individuals' rights, strengthening the EU internal market, ensuring stronger enforcement of the rules, streamlining international transfers of personal data and setting global data protection standards. Businesses should benefit from a single set of rules when offering their services in the EU, regardless of where they are established. Moreover, companies will only have to deal with one single supervisory authority.

The Green Paper on retail financial services

In December 2015, the European Commission launched a Green Paper on retail financial services, aimed at overcoming the existing EU market fragmentation for insurance, loans, payments, current and savings accounts and other retail investments. The Commission finds evidence of fragmentation in the limited cross-border activity (less than 3% of consumers have already purchased credit cards, current accounts or mortgages from another member state), the differing prices across countries for identical or similar products and the constrained choices available to consumers in some member states. To overcome this market fragmentation, the EC wants to make it easier for providers to offer their services in other EU countries; and for consumers to buy the services offered in other member states and to take their financial services with them if they move within the EU.

Digital channels offer a great opportunity to foster cross-border activity without requiring banks to physically establish in other member states. Making the best use of new technology is therefore highlighted by the Commission as one of the ways to address the specific barriers that consumers and firms face in making full use of the Single Market for retail financial services. For instance, cross-border e-identification is one of the areas where the EC sees considerable potential for improvement. Some of the possible measures raised by the Commission are the extension of distance verification methods currently available in some member states, the successful take-up of the regulation on electronic identification and trust services (eIDAS Regulation), the removal of administrative limits on distance contracting and the development of further e-identity schemes.

As a first step in the roadmap for the Green Paper, the Commission will gather views from stakeholders in a public consultation open until 18 March 2016. Then, taking account of the barriers identified to cross-border activity and the proposed solutions, the Commission envisages releasing an Action Plan in the summer of 2016. Specific legislative and non-legislative measures are expected in the following years to strengthen the Single Market for retail financial services.

Developments in the payments' landscape

The new Payment Services Directive (PSD2), catering for regulation of the so far largely unregulated 'access to accounts' by third party providers (TPPs), was formally adopted in November 2015. It requires banks to grant TPPs access to the customers' accounts, enabling these providers to offer their payment initiation or account information services through the banks' infrastructure.

Member states have two years to transpose the PSD2 into their national laws and regulations. At the same time, the European Banking Authority (EBA) is in charge of releasing the guidelines and technical standards that will develop the Directive. As a first step, the EBA has already launched two public consultations to seek input on strong customer authentication and secure communication and on the cooperation and exchange of information between national supervisory authorities.

The EBA could further clarify pending issues to ensure security and customers' trust: i) the assignment of liability between the bank and the TPP in case of breach or fraud; ii) the definition of the strong authentication method that will be required between the TPP and the bank; and iii) the customers' data that TPPs will be allowed to retrieve when accessing accounts.

On the other hand, the European Central Bank (ECB), the European Retail Payments Board (ERPB) and the European Payments Council (EPC) are working on the development of instant payments in euro, which are expected to become a reality by November 2017. A new SEPA scheme for instant credit transfers will be created to avoid a fragmentation of solutions in Europe. The EPC plans to release the draft of the rulebook (the technical and business rules governing the scheme) by the summer of 2016. After a three-month public consultation, it should be available for voluntary adherence by EU payment service providers from November 2016, and will enter into force one year later. Simultaneously, the EPC will address several pending issues, such as the maximum number of seconds needed to process an instant credit transfer and the maximum amount in euro per transaction.

2 Digital onboarding of financial services

The electronic identity as a key element

Nowadays, consumers have the chance to shop online for countless goods and services. This practice, which is such an everyday phenomenon in other areas, is still not fully established for financial services. The main problem arises when consumers decide to strike up a business relationship with a financial institution via the internet. For such a straightforward step to be taken, the regulations have to allow banks to confirm remotely the identity of their new customers. Thus, a reliable digital identification mechanism is key to fully enabling online financial services.

Setting up a Google or Facebook user account, starting to use Skype, or shopping on Amazon are activities that anybody typically engages in from their PC, tablet or mobile. The financial services industry has also been offering its customers the opportunity to make monetary transactions via digital channels of this kind. However, signing up a new customer with a financial institution (for example, to open a checking account) and using these digital channels is not always possible. There are certain restrictions in place, which are typically to do with regulations to prevent money-laundering and the financing of terrorism, and which in particular entail an obligation to obtain a reliable identification of the customer before proceeding with the contracting of any product or making certain transactions.

This difference is crucial as regards other providers of products and services via the internet. Google, Facebook or Skype do not require verification of the true identity of people who use their services, and not even Amazon needs authentication of the actual ID of its customers when they shop, although it will obviously make efforts to ensure that buying is not fraudulent.

Within the orbit of financial services, once the customer's identity has been verified for the first time, the bank provides certain credentials and authentication mechanisms for subsequent interaction that often allow new products to be signed up for, or transactions to be made under previously acquired product arrangements, in a way that is akin to the other online services which we have already mentioned.

The regulatory framework that affects the registration of customers in the financial sector is not completely homogeneous worldwide. Certain countries ban registration through digital channels and require a physical meeting, so as to identify customers and check their ID documentation. On the other hand, in those places where virtual sign-up is permitted, it is sometimes hard to establish mechanisms for identifying customers that enable irrefutable determination of who they actually are when using such digital channels.

In those countries which have an electronic version of the official ID document that is issued by the government, this mechanism can often be used to effect remote verifiable identification of customers. Even so, in certain cases it is not always easy for consumers to use such electronic versions of their ID document, such as when their credentials are stored on smart cards (with a chip) and the consumer does not have a peripheral device that can read the card, or they simply wish to use their mobile or tablet instead of a traditional PC, which has become an increasingly popular trend of late.

In other cases, such as the UK or the United States, they do not have any official, government-issued ID document (other than their passport, which not all citizens possess), which means that alternative mechanisms have to be used, such as validation of customer details using information provided by third parties, or based on other documents that can help for ID purposes, such as driving licences. Such methods that rely on checking the information provided by customers via third parties can have the drawback of potential customers having to provide more information during the registration process.

Generally speaking, all of these due diligence mechanisms mean that over the course of the registration as a customer with a financial institution via digital channels, the customer experience pales somewhat when set against the standards laid down by the internet giants which most customers have at their disposal as a ready reference.

Besides identifying the customer, for full completion of the registration process online, there has to be legal coverage for electronic signing processes, so that the customer can remotely sign contracts which are associated with the products being proposed. To cite two extreme examples, the electronic signature can be as simple as ticking a box that says that the terms and conditions of the product to be contracted have been read and acknowledging agreement with them, or this can involve methods as sophisticated as using the digital certificates stored in secure elements for creating an electronic signature (such as an electronic ID card). In this regard, as occurs with the information which the financial institution has to gather from the customers with whom it begins a relationship, both the regulatory framework and the level of risk which an institution wishes to assume come into play, thus giving rise to certain differences among the processes used by the various banks in the same market.

In Spain, the government is establishing new means for identifying, authenticating and providing an electronic signature based on passwords agreed as an alternative to the electronic ID document, specifically using the [CI@ve](#) system. Moreover, it appears that the CI@ve system will offer cloud-based electronic signature services via centralised certificates and a cloud-based ID document. Should this system be opened up to the private sector, and become accepted as a reliable means of identification by the supervisory bodies in the case of the banking sector, it could make for smoother customer registration processes with financial institutions. On top of this, the latest version of the electronic ID document, 3.0, has a NFC (Near Field Communications) interface, which will facilitate interaction with it from those phones and tablets that feature such an interface and which are becoming increasingly common.

From a regulatory standpoint, in the European arena the [eIDAS](#) regulation (published in 2014) seeks to harmonise electronic identification systems across the member states, and strives for mutual recognition of online services offered by public bodies for the purposes of cross-border authentication. Among the goals of this regulation is that of building up trust in electronic transactions in the internal European market, by providing a common base to achieve secure electronic interaction between citizens, firms and arms of government and thereby enhancing the effectiveness of public and private online services, e-businesses and e-commerce in the EU.

As we have seen, there are certain issues which mean that the consumer's experience of embarking on a new business relationship with financial institutions via remote mechanisms is not as swift and convenient for them as in the case of their dealings with other sectors. One of the future challenges will be to establish means of irrefutable electronic identification so that the digital onboarding of new customers by an institution can be carried out subject to the guarantees which the law requires, while offering consumers a high level of convenience and straightforwardness.

3 Internet usage in Spain: generational approach

Internet usage in Spain by age and education

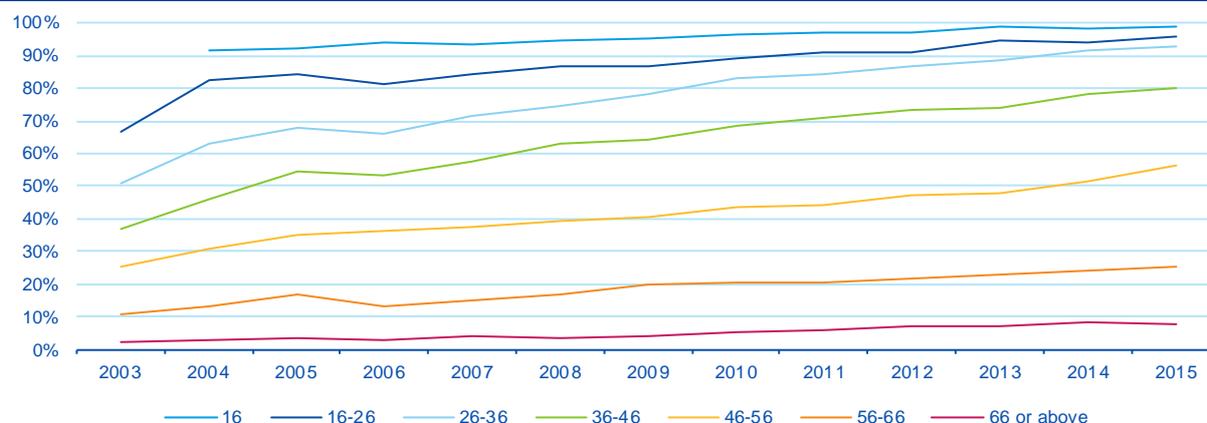
Internet usage constitutes a relevant factor that determines the expansion of specialized services, such as electronic banking. Over time, there is convergence in the use of Internet for the younger consumers and a dichotomous phenomenon is generated between this group and the older consumers. Education level is also an important element to take into account in this issue.

Consumer generations

Following the storyline of the November 2015 DEO and using data from the ICT – Households Survey (Spanish National Statistics Institute, INE) between 2003 and 2015, consumers (above 15 years old) have been sorted in several groups according to their age in 2003, using ten-year intervals except for the last group, which includes people aged 66 or above. From this classification in 2003, the age limits are moving from year to year according to the surveys in subsequent years. Through this exercise, we can control for generations of individuals and determine the evolution of their situation in this variable.

Figure 1.1 shows the behavior during the study period in response to the question of whether the respondent has ever used Internet.

Figure 3.1
Age distribution of Internet usage (%), 2003-2015



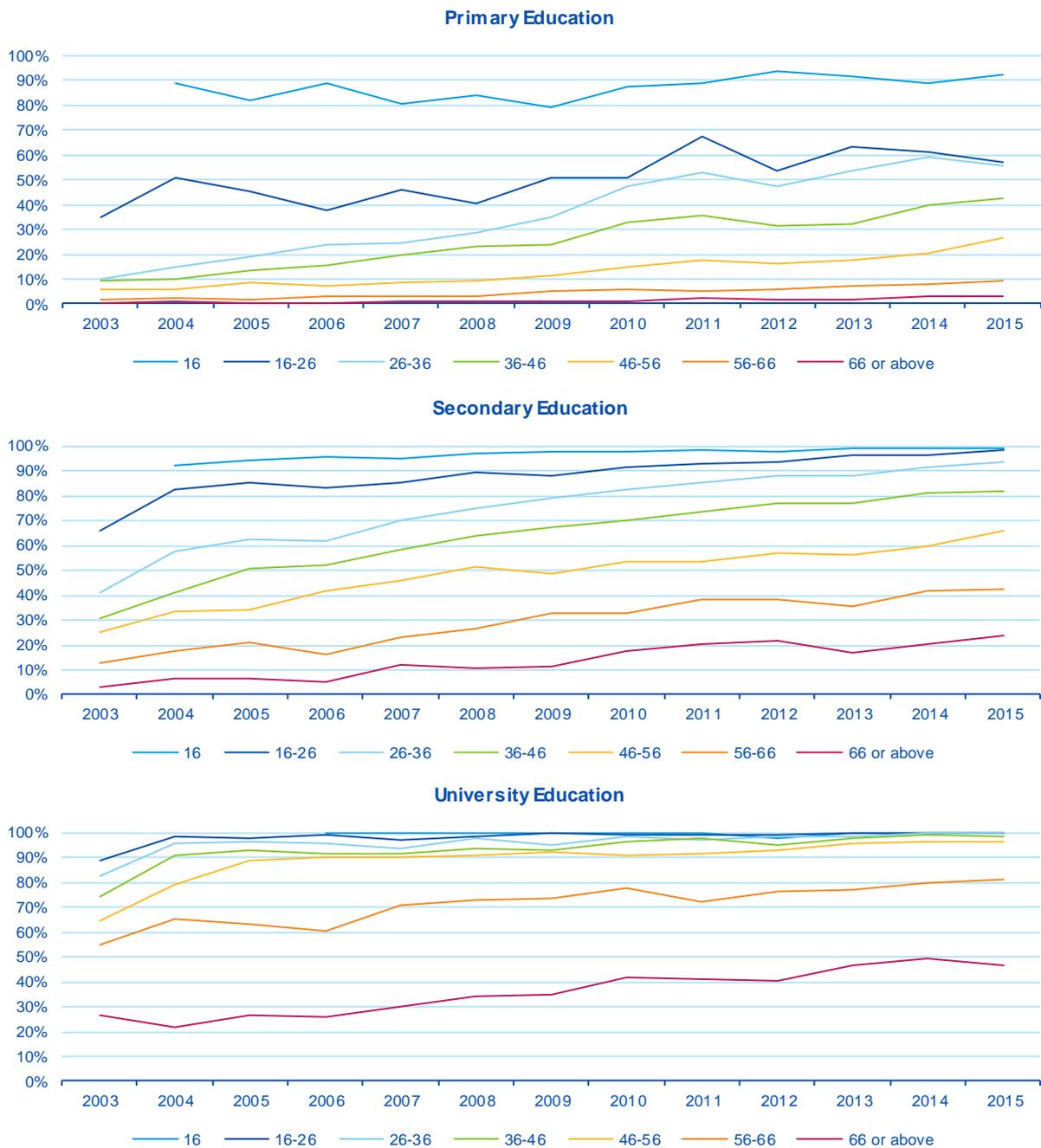
Source: BBVA Research based on ICT-Households (INE)

The results confirm the increase of the use of Internet in any age group between 2003 and 2015, without any sign of the effect of the economic cycle. The growth rate varies among age intervals and depends on the initial level in 2003. Over 80% of the people under 26 used Internet in 2003, and ended up converging to figures close to 100% by 2015. The highest increases occurred among people aged between 26 and 56, with an increase over 30 percentage points, because their initial situation was below 50% in 2003. The users over 55 years of age show a much lower growth rate. The final result is twofold. On the one hand, the difference among age ranges for the population below 36 years old has been virtually eliminated, it has been reduced from the range 36-46 years old and to a lesser extent for the interval 46-56. On the other hand, there is a gap in Internet usage with respect to the population aged 56 or more, leading to a clear dichotomy that did not exist previously.

Education and Internet usage

Another important variable is the education level. Three levels are considered: Primary Education or lower, Secondary Education and University education. The results are shown in Figure 1.2.

Figure 3.2
Education and age distribution of Internet usage (%), 2003-2015



Source: BBVA Research based on ICT-Households (INE)

As with Internet availability at home, there is a positive relationship between the education level and the percentage of people who claim to have used the Internet, regardless of age. People with a university degree have reached the maximum rates in all age groups except those aged 56 years or above. Generational differences discussed previously are observed much like in secondary education. Primary education shows a greater dispersion process between age intervals and only the youngest consumers have rates above 90% at the end of the period. This result suggests a delay in the evolution of Internet usage compared to the other two education levels, especially in the younger groups.

4 Update on a European instant payment scheme based on credit transfers (SCT Instant scheme)

EU and Spain's position to achieve instant payments

The Euro Retail Payments Board (ERPB) together with the European Payments Council (EPC) are developing a pan-European instant payment scheme in close contact with industry stakeholders. The EPC proposal for the design of a SCT Instant scheme, approved by the ERPB at its meeting on 26 November, establishes the basis for an instant payment scheme based on credit transfers, although it requires further development. This scheme is expected to come into force by the end of 2016. Spain is already taking steps to create its own instant payment system to be able to connect to the SCT Instant scheme and, thus, to all SEPA countries.

Instant payments definition

Instant payments are a key issue in financial services and several countries and companies are already adopting measures to achieve it. The ERPB aims to provide a common framework, together with the EPC and other stakeholders, to avoid fragmentation and allow interoperability in an integrated market. The discussion started when the ERPB requested the EPC in 2014 to develop a pan-European instant payment scheme. The EPC submitted a report in June 2015 followed by a proposal for the design of SCT Instant payment scheme approved by the ERPB at its 26 November meeting. Providing a common definition has been the first milestone reached in this direction.

The ERPB defines instant payments as “*electronic retail payment solutions available 24/7/365 and resulting in the immediate or close-to-immediate interbank clearing of the transaction and crediting of the payee's account with confirmation to the payer (within seconds of payment initiation). This is irrespective of the underlying payment instrument used (credit transfer, direct debit or payment card) and of the underlying arrangements for clearing (whether bilateral interbank clearing or clearing via infrastructures) and settlement (e.g. with guarantees or in real time) that make this possible.*”¹

This definition is an answer to the growing demands of digital customers who expect services anytime and anywhere. This definition embraces payment cards, direct debits and credit transfers. However, the design proposal introduces an instant payment scheme based on credit transfers. Traditionally, credit transfers were delayed in time and this interfered with their use for rapid payments such as those related to e-commerce. Allowing instant credit transfers opens up the field for new uses and services.

How will the SCT Instant scheme work?

This proposal aims to create a pan-European system to boost immediate payments between countries and relies on previous milestones reached by the Single Euro Payments Area (SEPA). For the first time, the message of the transfer of new funds and the funds themselves will be instantly accessible to the beneficiary, instead of the current execution lag of one day between the notification and availability of funds. The design is based on SEPA's credit transfer scheme and it is optional for participants in its first stage. All account servicing payment services providers (PSPs) incorporated and/or licensed in any SEPA country will be allowed to join this system. However, if one participant is not reachable under the SCT Instant scheme the transaction will be rejected. This project takes into account that each account servicing PSP willing to offer a SCT Instant scheme service will have to make investments. To make it easier for participants, the EPC will re-use as much as possible from the current SCT Rulebook. However, some differences have

1: EPC proposal for the design of an optional euro SCT Instant scheme. (2015). EPC, EPC 269-15 v 1.0. <http://www.europeanpaymentscouncil.eu/index.cfm/knowledge-bank/epc-documents/epc-proposal-for-the-design-of-an-optional-euro-sct-instant-scheme/epc269-15-v10-epc-proposal-for-the-design-of-an-sct-instant-scheme-in-europdf/>.

emerged, such as the immediate availability of funds, the maximum number of seconds to successfully execute an SCT transaction, certainty in the settlement of the funds on behalf of the beneficiary or maximum amount limits. The specific clearing and settlement mechanisms are out of the scope of the SCT Instant scheme, and it is at the discretion of each future SCT Instant scheme participant how to arrange its future incoming and outgoing SCT Instant scheme transactions.

Spain is already taking steps towards real-time payments

In Spain, immediate payments are a key issue in the development of the digital economy, and the financial system is in a strong position to confront this challenge. The Spanish central bank (*Banco de España*), together with industry stakeholder associations, decided in June 2015 to establish a strategy to develop a real-time payments system in Spain. Intrastate transfers are still the most common type in Europe, but SEPA's target is to lower barriers for cross-border SEPA countries' transfers and the Spanish proposal takes this issue into account. The first proposal was presented in July 2015 establishing the guidelines for two types of services: the basic service and value added services. The second type will use the structure of the basic service but will allow all participants to create innovative services to meet customer demands. The basic service will be developed under the control of Iberpay, which is already in control of the current national electronic clearing house (SNCE). This system will be developed following the requirements established by the European Union, using the credit transfer scheme and ISO 20022, and aims to provide interoperability not only within the Spanish financial system but also with all SEPA countries. This system will be connected to TARGET2, which currently offers three settlement windows. However, the Spanish project aims to reach real-time operation if TARGET2 allows it. Currently eCICLOM, Iberpay's technological platform, can already handle immediate transfers. The timeline to launch this system will be in the summer of 2017, and there are already different working groups focused on technology and regulation as well as a communications group in charge of reaching all stakeholders.

Next steps

The proposal for the design of a SCT Instant scheme is still at the planning stage, and further developments will be required to accomplish it. Detailed technical features such as exceptions and disruptions (e.g., message transmission issues, r-transactions) will be outlined in the EPC's SCT Instant Rulebook and related Implementation Guidelines.

An EPC processing mapping exercise in early 2016, in close dialogue with stakeholders, will resolve open issues such as maximum time allowed, how to address anti-money laundering obligations, checks required or maximum amounts. Similarly, this workflow is designed to operate between two instant scheme participants using the same clearing system. Several issues will be addressed for transactions involving more than one clearing system, such as the extra time required.

Other important issues, related to credit and liquidity risk caused by the immediate availability of funds, are still unclear. This proposal requires the ECB to steer coordination between clearing mechanisms, settlement mechanisms and the EPC to reach a suitable solution. Limits to the transaction amount will probably be the first measure to be addressed, but further actions will be required, especially when the transaction is carried out by different players.

Finally, the EPC will deliver a comprehensive project plan with milestones for the development of an SCT Instant scheme based on the outcome of the ERPB's meeting in November 2015.

5 Neobanks: creating a digital bank from scratch

Making banking licences easier to obtain paves the way for new players

Among the *FinTech* firms, some aspire to become banks and to provide a purely digital alternative to traditional institutions. Up to now, the biggest stumbling block they had run up against had been the complexity and cost when it came to obtaining a banking licence, but in the UK steps have already been taken to simplify this process, which has spawned several “neobanks”.

Introduction

A feature of the emerging companies within the financial sector (*FinTechs*) is that they specialise in a single product, where their greater flexibility and a better customer experience, as well as the lighter regulatory shackles, affords them a competitive advantage compared to the traditional banks. The segments of the banking value chain where most of these have sprung into being are in payments, and more recently lending to individuals and small businesses.

A major group among those companies which seek to become protagonists in the financial lives of people or their reference bank are the so-called “neobanks”. These banks aspire to meet the financial needs of a very large portion of the population who have no need for sophisticated products. They basically use digital channels, especially or exclusively mobiles, and above all target customers from among the younger generations who are more willing to accept a bank with no physical presence.

The range of products they offer is based on current and savings accounts, debit and pre-paid cards, basic services such as wiring money peer-to-peer, combined with various different financial management tools (help with savings schemes, and handling expenses and payments via alerts and messages etc.). Yet what makes them original is their focus on a better, more user-friendly experience, via mobile phones and other virtual channels, as well as their emphasis on transparency and bringing down commissions and fees. Using this approach they seek to build up customer loyalty and obtain data and feedback that can enable them to improve their services by tailoring them to consumers’ needs.

So far, the volume that such banks command in terms of customer numbers is small and what they offer is founded on basic services, mainly current and savings accounts. Nonetheless, their needs-oriented approach to customers, especially millennials, and their originality makes them worth consideration as potential competitors for the established banks.

Compared to the traditional banks, they have the advantage of not having a complex legacy technology burden, with data that is hard to exploit through being organised into silos, and the cost-saving that comes from not having a physical distribution network. Such modernity and simple technology systems, as well as non-reliance on a physical network, make them very well-placed to grow rapidly in new markets. Furthermore, right from the start they have attached importance to customer data which will allow them to tailor their products to customer needs and offer keener prices. Agility and efficiency of this type, as well as greater familiarity with the needs of digital customers, are what gives them the edge in competing with the traditional banks.

Two approaches: relationship-only and full service

Although they all describe themselves as banks, two broad groups are discernible. On the one hand, there are the companies that have no banking licence and only offer the customer a relationship-side service, either using a traditional bank for processing transactions or in a partnership model. In such a case, compliance with the regulations is ensured by the bank on which they base themselves. Such companies focus the value they can offer on a better user experience, and place emphasis on tools to help out with

financial management (PFM), such as [Mint](#), which evolve by boosting transaction management services. Examples of this are: [Simple](#), [Moven](#) and [GoBank](#) in the United States or [Number26](#) in Europe.

With the abundance of firms which offer financial services, building a bank by bundling up various services via APIs becomes feasible, where the way in which these are processed, or the bank through which they are supported, is transparent for the end user.

We also come across a development in terms of pre-paid cards, whereby basic current account services can be provided without the usual regulatory requirements. This is, for example, the case of [Bluebird](#), which is a product launched by Walmart and American Express to target relatively unbanked population segments in the United States, and which enables payments to be effected both into and out of the account.

On the other hand, the second model involves those who seek to become all-in, one-stop-shop banks from the outset, but without branch-based distribution channels and set up as mobile banks. These include examples such as [Fidor](#), a German bank founded in 2009, which is notable as an innovator and has been operating in the UK since 2015, or [mBank](#) in Poland.

To operate as banks, while not using the model as in the case of the first group to ensure consumer protection, banks of this kind must obtain banking licences, which in most countries is a complex process and financially costly.

To incentivise competition, the financial authorities in the UK (FCA and PRA) have changed the conditions for obtaining banking licences by lowering the capital requirements, extending the window for acquiring the capital necessary under Basel III and simplifying the process for obtaining a licence, which has made it possible to shorten the time for such processing from over two years (which is how long it took [Metro Bank](#) to obtain its licence as the first new bank to do so in 100 years) to six months under the new scenario. The new process for obtaining a licence consists of three phases²:

- An initial application, where the official form and the business plan are submitted to a committee.
- Application: this is submitted after the first phase has been satisfied
- Licence start-up: capital build-up period

From the publication of these rules until December, over 20 UK applications had been received and licences were given to [Atom Bank](#) in June 2015 and to [Tandem Bank](#) in December.

Atom Bank was founded by Anthony Thompson, co-founder of Metro Bank, and investors in it include BBVA (with a 29.5% interest), Anthemis Group, Woodford Investment Management, Polar Capital Group and Marathon Asset Management.

Tandem Bank, formerly known as OpenBank, was founded by, among others, Matt Cooper, who was previously with Capital One, and Ricky Knox, founder of Azimo. Investors in it include Route 66 Ventures.

We will have to wait to see whether other countries take up the lead of Britain's regulators and also simplify their procedures for obtaining authorisation to facilitate the entry of new banks.

The traditional players are also looking into the options for distribution models via purely digital channels, examples of these being [Hello Bank](#) (a subsidiary of BNP Paribas) or [UBank](#) (of Australian bank NAB). In these cases, the range of products on offer could be broader and take in more complex products such as mortgages, as they have the backing of their parent banks.

2: *Banking authorisation process*, Financial Conduct Authority, London, 2014 <<https://www.fca.org.uk/static/documents/banking-authorisation-process.pdf>>

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