

# Your Future, Now



## DEFINITIONS

### RETAIL BANKING

Retail banking, also known as consumer banking, is the provision of services by a bank to individual consumers. Services offered include savings and checking accounts, mortgages, personal loans and debit/credit cards.

Source: Investopedia

### TRADITIONAL RETAIL BANKS

The UK retail banking sector is dominated by a few very large banks. The big five are Lloyds Bank, Barclays Bank, HSBC, Santander UK and The Royal Bank of Scotland (RBS).

### CHALLENGER BANKS

The term challenger bank generally refers to any bank that isn't one of the big five. They are a broad church that includes non-bank brands, digitally focused and specialist players. Some are old and established while others are brand new.

### FINTECH

FinTech companies depend on technology and software to operate. They are generally more flexible and scalable. In relation to retail banking they are adopting three main strategies;

- Competing directly with other industry players
- Collaborating with other industry players
- Offering complementary services in areas including compliance, payments and data analytics

In this report we are referring to FinTech companies operating in the retail banking space.

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# Understanding Change in the Retail Banking Sector

The UK retail banking sector is being transformed by a range of powerful forces. The economic environment continues to bring uncertainty; regulatory requirements are evolving; customers are demanding greater personalisation combined with excellent customer service; and at the same time technological innovation is challenging traditional business and delivery models while ushering in a further set of challenging competitors. Where does this leave the banks? To remain relevant and robust in this new operating environment, retail banks must continue to innovate both products and processes; implement a marked cultural change; drive an unstinting focus on cost reduction and efficiency gains; and develop an operational model that nurtures innovation, responds to regulatory impacts, is technologically advanced and highly customer-centric. Quite a challenge.

Against this backdrop banks must rethink their real estate. Branch networks will need to be further rationalised and repurposed, despite the sensitivities that such moves bring. Back office functions will need to be seen as more integral to a successful banking operation than they have perhaps been to date. Head office functions meanwhile will need to be reviewed in terms of cost, regulatory compliance and may be subject to relocation. Furthermore, as the fortunes of retail banks become more dependent upon innovation and technological delivery, they will need to access and accommodate non-traditional tech and creative talent and this will force change in both location and working environment.

This is a time of great change in retail banking. That change will be clearly in evidence in the real estate decisions of the retail banks. In light of this, we are pleased to introduce you to our latest sector research offering, which explores the future of the retail banking sector and the operational and real estate implications of this transformation.

## **This report provides:**

- An overview of the five most disruptive trends shaping the retail banking sector over the next five years. These trends are the result of extensive desk based research and detailed engagement with industry experts and insiders. They provide a clear view on the future sector dynamic.
- A monitor on how these trends are currently playing out in the market, including major news stories, top transactions and real estate market gossip. This provides real evidence of how the sector is responding to change.
- An editorial explaining how retail banks are finding their cool again, increasing the urgency to implement innovation-led occupational models.

**It is a time of great change for the retail banking sector.**

**The aim of this research is to provide full exposure to the forces of change, illustrate market responses and provide practical tips on how to respond.**

A woman in a grey jacket is using a smartphone to pay with a card terminal. Another woman in a white top is smiling in the background. A white coffee cup is on a saucer in the foreground.

# Five Trends Shaping Your Future

In partnership with insight and innovation consultancy FreshMinds, we undertook extensive research into the medium term future of the retail banking sector. The scale and impact of sector change is summarised in the following five trends.

# 1

## **The competitive threat from challenger banks, FinTech and new market entrants will reach unprecedented levels.**

Retail banking will become increasingly competitive and dynamic, elevating the risk of losing vital market share. In 2015, total pre-tax profits for challenger banks rose by £194 million while the big five saw a drop of £5.6 billion<sup>1</sup>. While traditional banks are encumbered by their past, the new breed of retail banks are starting from scratch; centred on the customer, technology and agile innovation.

The competition will be emboldened by changing consumer demands and technology. Regulation will continue to open up the market to competition, from the UK's open banking reforms to the European Payment Services Directive (PSD2). Both initiatives will force retail banks to share their customer data with third parties such as retailers and technology companies.

As competitors eat into market share, traditional retail banks need to drive efficiency while changing the business model to focus on the customer and areas where they can gain distinct competitive advantage. A PwC report calculated that banks need to reduce costs by 15-20% and in some cases by as much as 30-40% in order to remain competitive<sup>2</sup>. As a result, successful banks of the future will be a lot leaner and relentless in their pursuit of efficiency and productivity. In parallel, traditional retail banks will accelerate transformation strategies and invest in customer service, technology and data analytics.

Life will not be free-wheeling for the so called challengers, who are within themselves a varied group. In an increasingly congested market not all will thrive, resulting in a dynamic and ever changing marketplace.

<sup>1</sup>KPMG: A new Landscape. Challenger banking annual results.

<sup>2</sup>PwC: Reshaping your cost base for today's market realities

# The continued rise of the challengers

## The Challenger Landscape in Retail Banking

### Example companies in each category

#### THE ESTABLISHED CHALLENGERS

- ALLIED IRISH BANK (UK)
- ALDERMORE BANK
- BANK OF IRELAND UK
- CLOSE BROTHERS
- THE CO-OPERATIVE BANK
- CYBG  
(CLYDESDALE AND  
YORKSHIRE BANKS)
- FIRST DIRECT
- HANDELSBANKEN
- MASTHAVEN BANK
- METRO BANK
- ONESAVINGS BANK
- PARAGON BANK
- SECURE TRUST BANK
- SHAWBROOK BANK
- TSB
- VIRGIN MONEY

#### DIGITALLY LED

- ATOM BANK
- BABB
- FFREES
- FIDOR BANK
- IAM BANK
- MONZO
- N26
- REVOLUT
- STARLING BANK
- TANDEM
- ZOPA

#### SUPERMARKET BANKS

- ASDA MONEY
- JOHN LEWIS FINANCE
- M&S BANK
- SAINSBURY'S BANK
- TESCO BANK

#### SPECIALISTS

- BANK OF LAMBETH
- BRITISH BUSINESS BANK
- CAMBRIDGE & COUNTIES BANK
- CHARTER SAVINGS BANK
- CIVILISEDBANK
- COCONUT
- COMMUNITY SAVINGS  
BANK ASSOCIATION
- HAMPSHIRE COMMUNITY BANK
- HAMPSHIRE TRUST BANK
- LINTEL BANK
- MONESE
- OAKNORTH
- REDWOOD BANK
- THE SERVICES FAMILY
- THINKMONEY
- TRIODOS BANK

#### FINTECH COMPANIES OFFERING BANKING RELATED SERVICES

- AZIMO
- CURRENCYCLOUD
- CURVE
- DIPOCKET
- FAIRFX
- FUNDING CIRCLE
- IWOCA
- IZETTLE
- KABBAGE
- KANTOX
- KREDITECH
- LENDINVEST
- LOOT
- MARKETINVOICE
- POCKIT
- SOLD0
- TIDE
- TRANSFERWISE
- YOYO WALLET

#### THE NEXT WAVE?

Large digital platform companies and other non-banking corporates, many of whom are already active in the payments sector, could extend further into retail banking.

# 2

**Retail banking services will become highly bespoke and personalised, as set product portfolios become a thing of the past.**

Increased choice, digital accessibility and regulatory changes that make it easier to switch providers will empower customers to become more demanding. A new breed of customer will demand seamless digital delivery, excellence in customer service and greater personalisation. Banks that do not provide the best customer experience risk losing revenue and customer loyalty. Four of the top five reasons why banking customers consider switching to a non-bank provider relate to customer experience<sup>3</sup>.

Outside of challengers and new market entrants, we expect to see large scale restructuring and cultural change as traditional retail banks completely re-wire operations away from product silos and towards customer-centricity. Product focused organisations are generally one size fits all, fixed around silos and rigid. Customer-centric organisations are flexible, cross-functional, innovative and put the customer at the centre of the organisation, viewing everything from their perspective.

Challengers and new entrants will have to ensure they sustain a relentless customer focus in order to secure growth and trust. Gleaning valuable customer insights from the vast quantities of data that banks hold will be fundamental to success, resulting in this part of the back-office coming to the forefront. Accordingly future in-demand skills will include client-insight and analytics personnel.

# 67%

**of global banking customers would share more data with banks in return for new benefits.**



Source: Accenture global study of nearly 33,000 financial services customers across 18 markets.

<sup>3</sup> Source: EY and Efma: Tailoring the data driven customer experience.

# 3

## Retail banks face an innovation imperative and will respond through widespread restructuring, partnerships and acquisitions.

The retail banking ecosystem is expanding, creating an intensely competitive marketplace where each player is pulling out the stops to acquire loyal customers. To survive and flourish retail banks must continually innovate, developing differentiated services and solutions that meet ever-changing customer needs. In response, we anticipate seeing an increase in the following innovation strategies;

- Greater collaboration between banks, FinTech, academia, customers and even other industries. Perfect marriages include incumbents who have scale, brand and vast amounts of valuable customer data combining with FinTech companies who have the tech know how, excellence in customer services and ability to attract young digital talent.
- Greater funding of promising FinTech companies with options to take equity-stakes.
- In-house innovation initiatives such as staff incentives, the creation of firm-wide innovation strategies and the provision of 'lab' space to encourage and nurture new ideas.
- Acquisition of tech-savvy companies by mature banks in order to directly access innovation and remove competing products from the market place.

# 86%

of incumbents expect to increase FinTech partnerships in the next three to five years.



Source: PwC Global FinTech Report 2017.

# 4

**Direct, digital access to customers will place further pressure upon existing branch networks and shift attention towards investment in technology, process infrastructure and tech talent.**

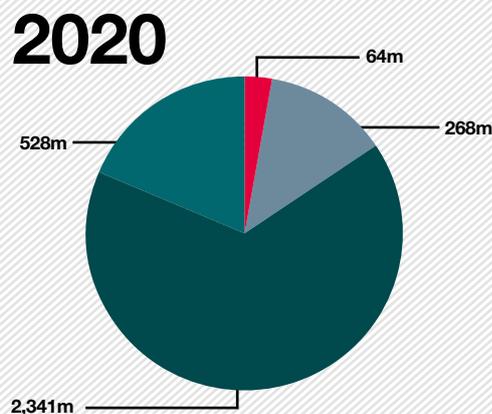
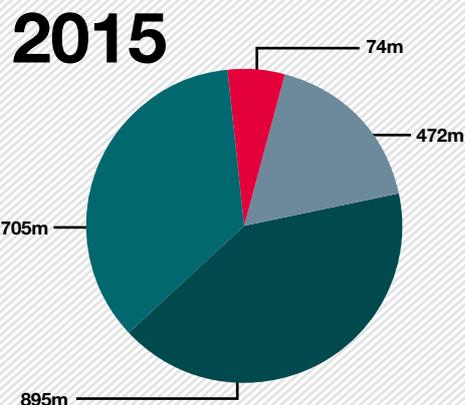
Mobile and online banking will become the primary distribution channels for retail banks. In 2010 there were 86 million mobile consumer-bank interactions, in 2015 this rose to 895 million and by 2020 it is projected to be over 2 billion<sup>4</sup>. This will require a seamless digital experience as customers demand access via multiple devices 24 hours a day.

Traditional retail banks will accelerate their digital transition, forced to undergo radical transformations of their back-end IT infrastructure in order to optimise their operations to the new digital landscape. A shift to digital will demand a greater proportion of digital talent in a highly competitive market. All industry players will have to look at their talent attraction and retention strategies, and in particular how they can compete with technology companies, for the best employees.

Banks have already significantly reduced their branch networks and this will further accelerate. That does not mean the branch is dead, but its form and function will pivot towards being a place for showcasing the latest technology, offering information and advice focused on higher value products and incorporating more collaborative areas for customers.

Over the near term branches, could actually offer retail banks operational advantages through direct engagement with customers on new ideas and in meeting demand for a branch presence in poorly connected regions.

**Consumer-Bank interactions by distribution channel 2015-2020 (Millions)**



**Key**



Source: BBA.org

<sup>4</sup> Source: BBA.org

# 5

**Banking process automation and artificial intelligence will gain momentum, delivering cost savings and improved operating efficiency whilst also offering opportunities to differentiate in an increasingly competitive marketplace.**

Faced with the rising costs of regulatory compliance, separation of retail and investment banking divisions and IT transformation, banks will use robotic process automation and artificial intelligence to deliver the next wave of cost savings and operating efficiency. Robotic process automation involves the automation of processes using software. It generally requires a human to input instructions. Artificial intelligence is technology that learns from its experience and feedback and has certain cognitive abilities. Applications vary from automating manual, time-consuming processes to conversing with customers in the form of chat bots.

We believe that the workforce will be redefined as a result of such technological advances to focus on higher value work, with new teams created to manage and develop automation and artificial intelligence tools.

The advance of robotic process automation and machine learning offers banks a unique opportunity to gain a competitive advantage through analysing the vast amounts of data that can be produced via these technologies to deliver differentiated and personalised customer solutions and services.

## 75%

**of costs at financial services firms could be cut by robotic process automation.**



Source: KPMG: Rise of the robots.



# Trends in Action

The five trends we have identified are already impacting on retail banks. What follows are a series of sector and property market observations which illustrate initial operational and real estate responses.

# 1

## The competitive threat from challenger banks, FinTech and new market entrants will reach unprecedented levels.

A new retail banking ecosystem is emerging as a wave of challengers gain banking licenses, platform companies enter the market, the rapid growth of FinTech start-ups continues and more established challengers scale-up. That being said, some challenger banks are encountering teething problems while several traditional retail banks reported improved earnings. The industry is entering an exciting and dynamic phase.

### November 2017

#### **N26 is preparing for a UK launch.**

The bank set up a waiting list for prospective customers. Launched in Germany and Austria in January 2015, N26 began as a current account with a Mastercard.

Source: Finextra

### October 2017

#### **Metro Bank announced a 10% rise in deposits during Q3 2017.**

The challenger bank reported an increase in deposit growth to £10.8 million quarter on quarter. Underlying pre-tax profit was up 77% to £7.2 million.

Source: Evening Standard

### October 2017

#### **Uber launched a credit card.**

Uber has partnered with Barclaycard US to launch a rewards-heavy Visa credit card.

Source: Finextra

### October 2017

#### **Barclays reported a 31% increase in third quarter profit.**

Barclays reported Q3 2017 profit before tax of £1.11 billion, up from £837 million a year ago. The bank also confirmed its plans to create a separate entity within the group to allow it to “ring-fence” its UK retail bank.

Source: FT Adviser

### October 2017

#### **Lloyds Bank reported strong Q3 2017 profits.**

Q3 2017 profits were £1.95bn, representing a 141% year-on-year increase. The cost-to-income ratio fell by 1.8 percentage points.

Source: CITY A.M.

### August 2017

#### **Challenger bank Redwood opened for business.**

Redwood will focus on the SME market. The bank is wholly-owned by Redwood Financial Partners, in which Warrington Borough Council has a 33% stake. Redwood is headquartered in Letchworth and its main focus will initially be in that county – and Bedfordshire, Buckinghamshire, and Warrington, where Redwood has also opened a Warrington and North West regional office.

Source: Banking Technology



#### August 2017

##### **Worldpay agreed a tie-up with Vantiv for \$10 billion.**

U.S. credit card processing company Vantiv agreed to merge with Worldpay. The combined company will process some \$1.5 trillion in payments and 40 billion transactions through more than 300 payment methods in 146 countries and 126 currencies, with a combined net revenue of over \$3.2 billion.

Source: Reuters

#### July 2017

##### **Revolut's crowdfunding campaign was oversubscribed.**

More than 40,000 Revolut customers pre-registered for the crowdfund, meaning that £17 million has been pledged so far. Revolut is a digital wallet that lets users receive exchange and send money in a variety of currencies. The company has been adding new features including personal IBAN accounts, travel insurance and business accounts.

Source: TechCrunch

#### May 2017

##### **Civilised Bank granted a banking licence.**

The bank, backed by investment manager Warwick Capital Partners, will focus on small businesses. While it will not have any physical branches, it will have employees who visit the lender's customers at their premises. Chris Jolly, its Chairman, who has previously worked for Merrill Lynch, said: "We want to return to a civilised way of banking with personal service backed by effective technology."

Source: The Telegraph

**New entrants and established challengers are driving fresh demand for space. Common real estate requirements include; flexible, agile space reflective of modern ways of working; design and fit-out that demonstrates the company's brand and culture; hyper-connectivity and a location that can attract and retain premium talent. In Central London, established challengers appear to be favouring traditional financial services locations as they relocate to accommodate expansion plans, whereas start-ups are more dispersed.**

#### September 2017

##### **Starling Bank agreed to take space at 2 Finsbury Avenue.**

The bank will occupy 14,500 sq ft on the 3rd floor of the building.

Source: Property Week

#### July 2017

##### **Atom Bank remained committed to Durham.**

Atom Bank secured space at the Rivergreen Centre, on the outskirts of Durham City. The open-plan office has been crafted to promote collaborative working and flexibility for future use.

Source: The Northern Echo

#### June 2017

##### **Aldermore Bank secured space at the Monument Building.**

The established challenger bank signed a lease to take 10,428 sq ft of office space at the Monument Building in the City of London. The space will accommodate its growing London office.

Source: Knight Frank/BQLive

**June 2017****Finastra took three floors at 4 Kingdom Street, Paddington.**

The software FinTech signed a lease to occupy the first, second and third floors at 4 Kingdom Street, totalling 42,400 sq ft. Finastra, formed in 2017 by the combination of Misys and D+H, develops software for financial institutions, including 48 of the world's 50 largest banks.

Source: Knight Frank/CoStar

**March 2017****Aldermore acquired additional space at Spring Gardens.**

Aldermore Bank signed for 12,000 sq ft at 40 Spring Gardens in central Manchester. It now occupies 24,000 sq ft of space in the building. Ian Rolls, head of group services at Aldermore, said: "Since moving into 40 Spring Gardens during 2016 our local business has gone from strength to strength and the efficiency of the large floorplates and the quality of the building has really assisted the productivity and wellbeing of our team here in Manchester".

Source: Knight Frank/Place North West

**February 2017****Monzo relocated to City Road, EC1.**

The challenger bank took short term space in a property four times the size of its old office. The office is located in the heart of London's technology district.

Source: Knight Frank/Property Week

**February 2017****Hampshire Trust Bank moved into new headquarters at 55 Bishopsgate.**

The specialist bank moved from its 7,500 sq ft office at 131 Finsbury Pavement to a custom designed 21,000 sq ft headquarters at 55 Bishopsgate. The new office provides room for expansion, following positive financial results in 2016.

Source: Knight Frank/City A.M

**Traditional retail banks continue to enhance efficiencies from two of their largest expenditures; talent and real estate. Strategies include outsourcing or relocating certain operations to lower cost locations, being smarter about the use of space and consolidating portfolios. Recent nearshoring activity has been in relation to UK ring-fencing rules. Cost reduction activities cannot come at the expense of driving growth and innovation, which are vital to the future of retail banks. A careful balancing act is required.**

**August 2017****Royal Bank of Scotland to cut 40% of its IT staff in London.**

The Royal Bank of Scotland is planning to cut nearly 900 IT jobs in London by 2020, according to union Unite. The bank has been offshoring IT staff in India and reinvesting in UK hubs outside of London.

Source: Finextra

**June 2017****HSBC is in the process of moving workers from London to Birmingham.**

In order to comply with UK ring-fencing rules HSBC is investing £200 million in a new UK base in Centenary Square. Staff from London will join the existing workforce already in Birmingham. Birmingham was chosen because of its strong start-up community, depth of financial services talent, solid transportation links and excellent housing, education and amenities.

Source: Financial Times

**March 2017****Barclays Bank to exit from North Cardiff.**

Barclays Bank is to close its mortgage centre at Llanishen, Cardiff by the end of the year with the loss of 180 jobs. The closure of the Llanishen centre, which deals with personal mortgages, is part of a restructuring that will see the work transferred to other parts of the UK. Barclays said the closure would improve the efficiency of its contact centre operations and its services to customers.

Source: Knight Frank/WalesOnline

**March 2017****Lloyds Bank announced plans to cut almost 2,000 IT jobs.**

Almost 2,000 IT workers at Lloyds Banking Group are to have their roles transferred to IBM and then all but 193 will be offshored. The majority of the jobs affected will be from data centres in Copley, Yorkshire and Edinburgh.

Source: Computing

**November 2016****Barclays to cut 25% of its London office space.**

The bank agreed to sublet office space in Canary Wharf to the UK government. According to Bloomberg, the move will save the bank about £35 million a year.

Source: Bloomberg

# 2

## Retail banking services will become highly bespoke and personalised as set product portfolios become a thing of the past.

Certain players are restructuring, putting the customer at the centre of the organisation while investing in the required talent. This is resulting in the launch of new products and technology that maximise the customer experience along with the strategic expansion of customer contact centres and office space that reflects and drives customer-centric behaviour.

### October 2017

#### HSBC rolled out a new mobile banking app.

The new app offers improved functionality including the ability to add new payees, and a 70% reduction in login time.

Source: Retail Banker International

### July 2017

#### TSB introduced iris recognition on its mobile banking.

Customers with a Samsung Galaxy S8 or S8+ smartphone will be able to unlock their banking app using the Samsung Pass iris scanner. It is a move away from lengthy personal IDs and passwords typically required to access online banking.

Source: The Telegraph

### June 2017

#### HSBC is recruiting 500 jobs in Scotland.

HSBC's recruitment drive will include expanding its 'centre of excellence' for customer contact in Hamilton, South Lanarkshire. It is the company's third expansion programme in Scotland in the past few years.

Source: The Scotsman

### March 2017

#### TSB is creating more than 100 new jobs at its Sunderland contact centre.

The new roles will cover various aspects of the business from general banking to fraud prevention. Kerry Sharkey, head of telephone banking said "The new jobs will help us bring better banking to more people – meaning more people will benefit from TSB's excellence products and services".

Source: Peterlee Mail

### February 2017

#### Santander became the first bank in the UK to allow customers to pay using their voice.

The bank has updated its SmartBank app so that account holders can use voice commands to check their balance as well as authorize payments to existing payees.

Source: The Express

### February 2017

#### NatWest is hiring people to assist customers.

NatWest is hiring about 1,000 technology experts to help customers use online and mobile banking in branches. The bank said that by the end of April, there would be an expert in each NatWest branch in England and Wales.

Source: Global Banking News



One Central Square, Cardiff

### January 2017

#### **Clydesdale Bank opened a new customer-banking centre in Edinburgh.**

The bank opened a flagship customer-banking centre on George Street. The centre includes a boardroom which business customers can use free of charge as well as break-out meeting areas with complimentary refreshments. The new branch offers free Wi-Fi, and features digital screens providing live product information.

Source: India Banking News

### September 2016

#### **Julian Hodge moved into new headquarters at One Central Square, Cardiff.**

The only bank with its headquarters in Wales moved its 140 staff to the One Central Square office scheme at the wider Central Square regeneration project - in an investment that brings all its operations under one roof. Reflecting the company's core values was central to design and fit-out. The Core Principal of Julian Hodge Bank is a determination to foster and maintain personal relationships with customers.

Source: Knight Frank/WalesOnline

# 3

## Retail banks face an innovation imperative and will respond through widespread restructuring, partnerships and acquisitions.

Proactive retail banks are invigorating innovation strategies. In this environment real estate is becoming a vital tool to fast-track innovation via accommodating partnerships, attracting and retaining human capital, encouraging collaboration and increasing agility. One size does not fit all, but broadly the following occupational models are emerging:

- Incorporating dedicated collaboration space into existing offices
- Occupying alternative workplaces such as coworking facilities
- Establishing a network of innovation outposts
- Relocating to new innovation-led headquarters
- Partnering with accelerators and incubators

Developers are capitalising on the growing demand for innovation-led space, resulting in the growth of accelerators, incubators and labs.

### September 2017

#### Innovate Finance agreed to take space at 2 Finsbury Avenue.

Innovate Finance, the UK membership association for the global FinTech community, will take 1,600 sq ft on the seventh floor at Broadgate's 2FA. The development is situated on the doorstep of the City and Shoreditch.

Source: Property Week

### July 2017

#### Manchester's latest FinTech space is getting ready to launch.

The new space is based on the ground floor and the first level of the XYZ building in Spinningfields. As well as FinTech companies, it will also target digital, professional services and tech businesses. It is the first of a series of coworking clubs to launch across the North West and London under Allied London's 'All Work' umbrella.

Source: Manchester Evening News

### June 2017

#### Investcloud opened an innovation centre at Shaftesbury Avenue.

The FinTech firm acquired 9,302 sq ft at 77 Shaftesbury Avenue in Q1 2017. Investcloud picked the location in order to appeal to designers, developers, data architects and financial services players. The new space will act as a hub for European financial institutions, wealth managers and FinTech start-ups to collaborate with the company on innovative solutions as well as continue to be their European HQ. It will mirror their first technology accelerator in Los Angeles.

Source: Crowdfund Insider

### June 2017

#### Royal Bank of Scotland and NatWest joined up with US based RocketSpace to open a FinTech campus in London.

The campus is housed in NatWest's Regents House, occupying the basement, reception area and two upper floors. The space will be able to accommodate high-growth tech companies as they scale-up.

Source: Banking Technology



### May 2017

#### **Barclays opened Europe's largest coworking space for financial technologies.**

Barclays opened Rise London in Shoreditch. The purpose built 30,000 sq ft space on Luke Street will bring together a range of FinTech start-ups along with the bank's corporate clients, to work on Barclay's customer and business opportunities to help create the future of financial services.

Source: City A.M.

### May 2017

#### **Royal Bank of Scotland launched Scotland's first FinTech hub.**

The FinTech accelerator will be based at the bank's newly fitted Gogarburn HQ building. The specialist hub will bring together industry leaders and networks and marry them with Entrepreneurial Spark's tried and tested approach to build, grow and scale businesses. The UK and Scottish governments back the hub.

Source: India Banking News

### March 2017

#### **Serviced office company iHub expanded into Birmingham.**

Manchester based iHub launched its first operation in Birmingham city centre. The facility based in Colmore Gate offers hot-desking, private offices, meeting rooms and well-designed communal areas. Colmore Gate is situated in the heart of the highly sought-after Colmore Business District. The company is aiming to attract FinTech start-ups amongst other industry sectors.

Source: Birmingham Post

### April 2017

#### **The Financial Conduct Authority is targeting new FinTech hubs in the UK.**

The financial watchdog identified the Edinburgh-Glasgow corridor and the Leeds/Manchester area as places 'where 'Fin' and 'Tech' collide'. The FCA plans to send its innovation team to the areas for regular visits to support development.

Source: Business Insider

### February 2017

#### **Visa opened an innovation centre in London.**

The 1,000+ square metre space at Visa's HQ in Paddington Basin will enable Visa staff to work side-by-side with financial institutions, merchants and other partners to develop new payment solutions. The space features live demonstrations including virtual reality and biometrics.

Source: Banking Technology

### November 2016

#### **Lombard Risk Management launched a technology hub in Birmingham.**

The RegTech company launched its new technology centre in the recently refurbished Alpha Tower from where it will develop and produce a new generation of products. The company said it was attracted by Birmingham's talent pool. The Alpha Tower is a 28-storey tower providing 196,000 sq ft of office accommodation. It is surrounded by shops, restaurants and excellent transport links.

Source: Birmingham Mail

# 4

**Direct, digital access to customers will place further pressure upon existing branch networks and shift attention towards investment in technology, process infrastructure and tech talent.**

**Large scale branch closures continue, resulting in headcount reductions. Remaining branches are being reworked with technology and excellence in customer services at their core. A small number of banks are bucking the trend, investing in branches, pop-up solutions and customer experience centres.**

#### **September 2017**

##### **Yorkshire Bank opened a new B store in Birmingham.**

As well as being a fully operational branch the new store will showcase digital innovations. There will also be a banking centre for business customers alongside facilities such as meeting rooms, conference facilities and event space.

Source: Birmingham Post

#### **August 2017**

##### **Metro Bank opened a hybrid branch in Birmingham.**

In addition to the bank itself, there will be training facilities for approximately 200 people to serve planned future openings elsewhere in the Midlands.

Source: Birmingham Post

#### **April 2017**

##### **CYBG launched a customer lab in Kensington.**

The lab in Kensington High Street allows customers to have a direct input in the future products it offers and technologies it develops.

Source: The Herald

#### **April 2017**

##### **Lloyds announced 100 branch closures as it cuts 325 jobs.**

The reductions form part of a three-year cost-cutting programme that will see 12,000 jobs cut and 400 branches closed by end of 2017. To ensure customer still have access to a physical presence, Lloyds is launching micro branches, manned by two people. The micro format, modelled on an existing branch in Paternoster Square in the City of London, will use as little as 1,000 sq ft of space.

Source: The Guardian

#### **March 2017**

##### **Royal Bank of Scotland to shut 158 UK branches.**

Royal Bank of Scotland will close 158 branches in the UK, affecting 472 jobs. The bank cited more customers opting to transact digitally as the reason for the closures, with a spokesperson saying, "the role of the branch is fast moving to a centre for advice, away from basic transactions."

Source: CityA.M.

#### **December 2016**

##### **Santander UK opened the first of its newly designed customer-centric branches in London.**

The branches will offer state-of-the-art digital facilities, and an innovative design to place the customer at the centre. Customers entering the new branch are greeted in a special reception area before being directed to a range of tailored services so they can decide how they want to bank. Facilities include online banking via new digital workstations.

Santander company website



**In parallel large investments are being made in technology and digital talent, indeed many banks now consider themselves more like technology companies than traditional financial services operators. This new way of operating requires a new occupational model. Making the right location decisions and transforming the workplace will be key to attracting and retaining the best talent in a highly competitive marketplace. Many are deciding to locate digital teams in space outside of their existing portfolios.**

#### **June 2017**

##### **Natwest launched a digital centre of excellence at Trinity Quay, Bristol.**

Employees at the new hub will develop and roll out a new online banking solution to over 100,000 of the bank's consumer and corporate customers, followed by a new mobile banking app and other digital platforms. The new centre will bring 80 digital jobs to the city, including software engineers, test analysts, solution designers and business analysts.

Source: Knight Frank/Design Week

#### **May 2017**

##### **Barclays announced plans to create 2,000 technology jobs in the UK.**

Barclays said it would be creating 2,000 technology jobs to draw upon the talent pool in the UK. Half of the positions have been filled, with the rest being hired in the coming three years. The CEO wants to bring technology development back in-house.

Source: CityA.M.

#### **October 2016**

##### **HSBC Digital signed a lease for 65,000 sq ft at the Blue Fin building, London.**

HSBC Digital, the FinTech arm of the bank signed a lease for 65,000 sq ft of space at the Blue Fin building on London's Southbank. The space will accommodate 3,000 staff that form the nucleus of a digital group. The Southbank market has seen considerable regeneration and redevelopment in recent years and now accommodates a diverse tenant base.

Source: Knight Frank

#### **September 2016**

##### **HSBC to relocate into a new home, in the biggest real estate transaction in Sheffield over 10 years.**

HSBC made a major investment in its centre of excellence for IT services in Sheffield, signing a 15-year lease on a new building in Sheffield's Retail Quarter, which is due to be ready in spring/summer 2019. The building includes a rooftop terrace and a gym as well as retail units to include shops, restaurants and bars.

Source: The Star

#### **September 2016**

##### **Co-op Digital secured 16,143 sq ft of space at the Federation building in Manchester.**

The digital team will work in online product development under the name Co-op Digital. The team will occupy the fifth and sixth floors. Federation is part of NOMA's office offer to creative and digital companies with flexible floorplates.

Source: Knight Frank/Place North West

# 5

**Banking process automation and artificial intelligence will gain momentum, delivering cost savings and improved operating efficiency whilst also offering opportunities to differentiate in an increasingly competitive marketplace.**

**We are witnessing an uplift in the pace and extent of adoption of robotic process automation to deliver the next wave of efficiency and cost savings required to compete in the new banking ecosystem.**

**Artificial intelligence is permeating client-facing services, with several players experimenting with chatbots and robo-advisors. This is being merged with a human touch 'where required' to create the optimal customer experience. New in-house teams are being set up that focus on gaining personal data insights in order to differentiate as well as develop automation and artificial intelligence technology.**

**July 2017**

**Santander acquired three start-ups, all with a focus on machine learning.**

Santander InnoVentures is investing in Pixoneye and Curve and Gridspace. The investment fund is one of the more active bank-backed investment vehicles, according to CB Insights. The latest acquisitions show that the company is focusing on companies that use machine learning to better understand customer behaviour. The bank also reported that it is not too far away from being able to build strategies around an audience of one, after testing its data-led strategies with its marketing agency Carat.

Source: Bloomberg

**July 2017**

**Citigroup is recruiting for a 'smart automation centre'.**

The bank is looking for staff in London, as well as Tampa, Singapore, New York and Budapest. Positions require varying levels of technology skills; however, they are looking for people that are entrepreneurial. The centre will develop and deploy robotic technology throughout the bank.

Source: Business Insider

**June 2017**

**Citi implemented MasterCard's artificial intelligence tool to combat fraud.**

The artificial intelligence tool, known as Decision Intelligence will be used to protect customers from fraud in the UK. The tool helps financial institutions increase the accuracy of real-time approvals of genuine transactions.

Source: MarketLine News and Comment

**June 2017**

**NatWest piloted artificial intelligence compliance technology.**

NatWest is trialling Recordsure's RegTech recording and analysis solution to improve and monitor the quality of information and advice provided during regulated customer conversations. The technology records face-to-face and telephone conversations and stores them in a secure space.

Source: Banking Technology

**May 2017****CYBG launched new products that use artificial intelligence to learn about customers.**

CYBG launched a new current account, instant savings account and app called B. Using artificial intelligence it learns how you manage your money over time and builds the capability to warn you if you have insufficient funds in your account or to tell you about ways to avoid unnecessary charges.

Source: The Irish Times

**January 2017****HSBC established a technology advisory board to focus on artificial intelligence and block chain technology.**

HSBC announced the appointment of a panel of experts to take advantage of technological innovations. According to the official announcement, the Technology Advisory Board will provide advice and guidance on HSBC's technology and digital strategy, helping the bank to leverage emerging innovative technologies such as artificial intelligence (AI), biometrics, blockchain technology and data science.

Source: HSBC Company Website

**October 2016****Royal Bank of Scotland announced plans to pilot its first artificial intelligence chat bot, Luvo, with customers.**

Royal Bank of Scotland will use IBM's 'Watson' – a platform that analyses unstructured data – to power its service, which will be able to answer specific customer questions, such as 'how do I authorise my card to be used overseas?', Questions that are more complex will be directed to a human who can answer them.

Source: DowJones



# Trend in Focus

Retail Banking is Finding  
its Cool Again.

**“ There is an urgent need for retail banks to aggressively innovate; industry players must occupy the right space to make this happen. ”**



Author: **Jennifer Townsend**,  
Associate, Occupier Research  
Knight Frank

Following the financial crisis banking became something of a dirty word. Now it is exciting, dynamic and cool. So cool in fact that Will.i.am became a strategic advisor at Atom Bank and apparently discussing which challenger bank you are with is now a chat up line. New offerings are entering the market at a more rapid rate, along with a wave of trendy, digital led banks.

A number of factors are driving this change; a new generation of customers are demanding a fresh banking experience, technology is lowering barriers to entry and competition is increasing. In part this is because regulators are pushing for a more level playing field. PSD2 regulation will force banks to share their data with third-parties via APIs. This data 'if used correctly' will help identify and develop new ideas.

In response, retail banks are embarking on a renewed drive to innovate and elevate the customer experience. There is a particular focus on banks looking outside their walls, collaborating and sharing data with a broader range of partners. What is more, banks are recognising that real estate has a key role to play in nurturing an innovative culture. We are increasingly seeing the retail banks take cutting-edge space in cool, tech dominated markets or sub-markets.

So what is the optimal occupational model for retail banks to maximise innovation? Well one size does not fit all and each bank will take a nuanced approach depending on their maturity, innovation and growth plans. The first step is therefore to understand strategic objectives. Depending on the direction, we anticipate a preference for the following models:

#### **Creation of large centres of excellence for innovation**

For those retail banks that feel the best way to protect market share is to have the maximum influence and scale, establishing large centres of excellence for innovation that are the epicentre for value creation will be the way forward. These buildings will house internal teams and external partners, facilitating co-creation. In addition, they will be open to the public, firmly anchored in urban locations, featuring customer-centric space such as experience centres and social areas. Sourcing and securing the best creative talent will be essential and therefore a core part of location and design and fit-out decisions. If these players want to be the engine of new ideas in the sector then maximising productivity of employees will be key, resulting in a strong emphasis on health and wellbeing in the workplace and monitoring performance. Live examples include HSBC locating its ring-fenced UK banking operations in 210,000 sq ft of space in Birmingham city centre. The building will include teaching spaces as well as a new public square and 'urban meadow'.



### **International innovation networks**

Some players may feel it is better to separate innovation, preferring instead to fragment in order capitalise on niche markets and accelerate ideas. In this model, innovation is predominately nurtured outside of existing real estate portfolios, in smaller scale alternative workplaces such as accelerators, incubators and coworking space. Location is dependent on where the talent, expertise and partners are with much more reliance on fluid project teams. A retail bank may occupy multiple spaces in a number of cities. Deutsche Bank operates four innovation labs; the first in Berlin, one in Palo Alto, one in New York, and another in London focused solely on blockchain technologies.

### **Incorporating dedicated collaboration space into existing offices**

Despite clear concerns in respect of data-security, some banks will seek to offer space within their own buildings that can be accessed by technology start-ups and skills. This approach may support the re-use of vacant space within the existing portfolio of retail banks.

### **Hybrid model**

Of course, all models can be deployed at once to create the optimal solution.

Whatever industry players decide, the new, cool and exciting world of retail banking deserves a cool and exciting real estate product. Innovation will not be supercharged in dull, open plan battery farms. Successful ideas will be created and nurtured in inspirational agile space where people and stakeholders are drawn together.



# UK Retail Banking: Market Overview

## 1.CENTRAL LONDON: LEADING THE WAY

**LONDON IS THE LOCATION OF CHOICE FOR THE MAJORITY OF THE UK'S LEADING FINTECH, CHALLENGER BANKS AND ESTABLISHED PLAYERS.**

**Location of some of the major UK retail banking occupiers (includes the traditional banks, FinTech occupiers and challenger banks. Size of bubbles represent concentration of occupiers).**

1

**WEST END**

Amicus Finance  
Azimo  
Ebury Partners  
Fonix  
Iwoca  
LendInvest  
Masthaven Bank  
NatWest Bank  
OakNorth  
Pockit  
Santander UK  
Tandem Bank  
Virgin Money  
Yoyo Wallet

2

**MIDTOWN**

British Business Bank  
iZettle

3

**CITY CORE**

Aldemore Bank  
Allied Irish Bank (UK)  
Axis Bank UK  
Bank of Ireland UK  
ClearBank  
Close Brothers  
FairFX

Funding Circle  
Hampshire Trust Bank  
Kantox  
Lloyds Banking Group  
Metro Bank  
Monese  
Optal  
Private & Commercial Finance Group  
Royal Bank of Scotland  
Shawbrook Bank  
Standard Chartered Bank  
Starling Bank

4

**ALDGATE/WHITECHAPEL**

Currency Cloud  
Handelsbanken  
Transferwise

5

**SHOREDITCH/CLERKENWELL**

Coconut  
Curve  
GoCardless  
MarketInvoice  
Monzo  
Tide

6

**SOUTHBANK**

APS Financial  
DiPocket  
Zopa

7

**CANARY WHARF**

Babb  
Barclays Bank  
HSBC (In the process of moving retail banking operations to Birmingham)  
Revolut



**WEST END:**

**West End Core** – West End Core refers to Mayfair and St James’s, the area bounded by Oxford Street, Regent Street and Park Lane in W1 and by Green Park, St James’s Park and The Mall in SW1.

**North of Mayfair** – North of Mayfair refers to the area north of Oxford Street, west of Portland Place.

**Fitzrovia** – Fitzrovia also known as Noho, refers to the area north of Oxford Street, east of Portland Place.

**Soho** – Soho refers to W1B, W1F and W1D.

**Euston/King’s Cross** – Euston/King’s Cross refers to NW1 and N1C.

**Victoria** – Victoria refers to SW1 (excluding St James’s) and SW1X.

**Bloomsbury** – Bloomsbury refers to the area of WC1 bounded by Euston Road, Southampton Row, New Oxford Street and Tottenham Court Road.

**Strand/Covent Garden** – Strand/Covent Garden refers to WC2, west of Kingsway.

**Paddington** – Paddington refers to W2.

**Kensington/Chelsea** – Kensington/Chelsea refers to SW3, SW7, W8, W11, W14.

**Knightsbridge** – Knightsbridge refers to SW7 and SW1X, which includes Belgravia.

**White City** – White City refers to W12.

**Nine Elms** – Nine Elms refers to SW8.

**MIDTOWN:**

Midtown refers to EC1N, EC4A, EC4Y, WC1 (excluding Bloomsbury), and WC2 (excluding Strand/Covent Garden)

**SHOREDITCH/CLERKENWELL:**

Shoreditch/Clerkenwell refers to EC1 (excluding EC1A and EC1N), and EC2A.

**SOUTHBANK:**

Southbank refers to SE1.

**ALDGATE/WHITECHAPEL:**

Aldgate/Whitechapel – Aldgate/Whitechapel refers to E1

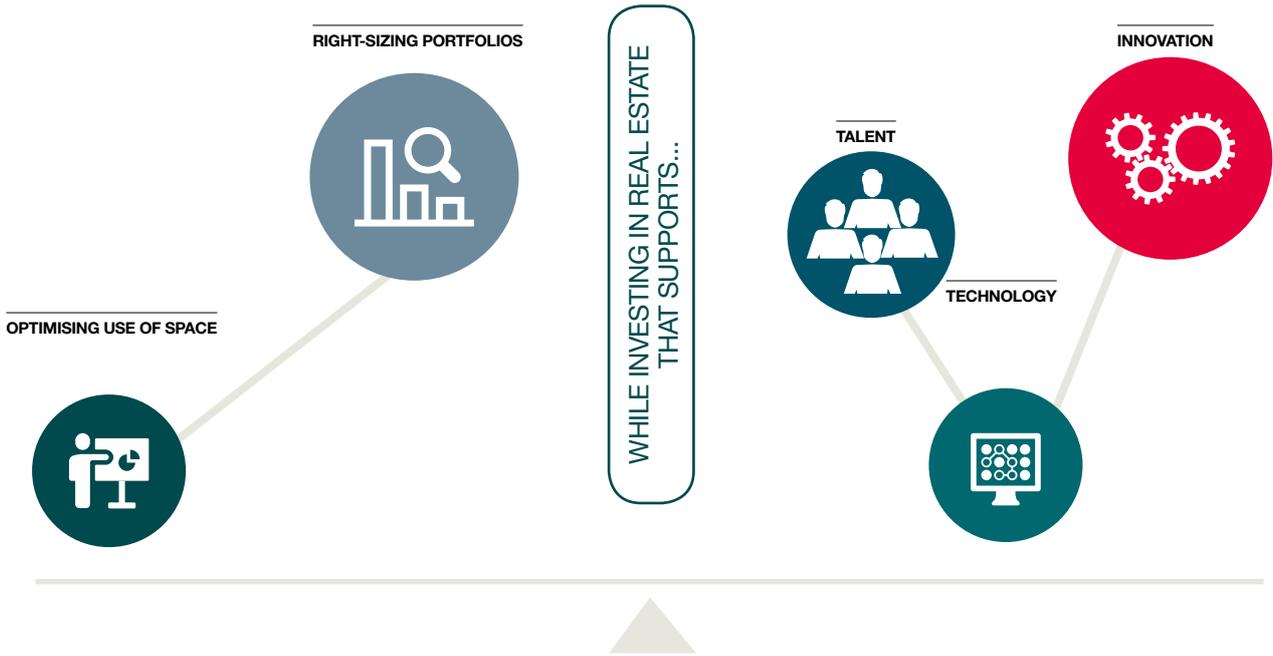
**CITY CORE:**

City Core refers to EC2 (excluding EC2A), EC3, EC4 (excluding EC4A and EC4Y), and EC1A

**CANARY WHARF:**

Canary Wharf refers to the area comprising Canary Riverside, Westferry Circus, Columbus Courtyard, Cabot Square, Canada Square, Blackwall Place and Heron Quays (East).

TRADITIONAL BANKS ARE BALANCING GROWTH AND RESILIENCE



NEW ENTRANTS ARE DRIVING DEMAND FOR A WIDER RANGE OF OFFICE SPACE

Notable leasing transactions involving challenger banks and FinTech occupiers

OCCUPIER	Hampshire Trust Bank	Aldermore Bank	Finastra	Starling Bank	Metro Bank
ADDRESS	55 Bishopsgate EC2	The Monument Building Monument Street EC3	4 Kingdom Street W2	2 Finsbury Avenue EC2	20 Old Bailey EC4
DATE	Q3 2016	Q2 2017	Q2 2017	Q3 2017	Q3 2017
SIZE	21,000 SQ FT	10,428 SQ FT	42,400 SQ FT	14,500 SQ FT	75,518 SQ FT

## 2. UK REGIONAL CITIES: GAINING MOMENTUM

TRADITIONAL RETAIL BANKS CONTINUE TO RESHAPE THEIR PORTFOLIOS, LEADING TO ACTIVE REQUIREMENTS IN UK REGIONAL CITIES.

Key drivers of occupier decisions:

REGULATION / TALENT / TECHNOLOGY / RESTRUCTURING / COST / INNOVATION

### VIBRANT REGIONAL FINTECH HUBS ARE EMERGING.

Example FinTech/challenger bank occupiers and collaborative workspaces in the UK regions



#### OUTER LONDON AND SOUTH EAST

##### EXAMPLE FINTECH/ CHALLENGER BANK OCCUPIERS

Civilised Bank, OneSavings Bank, Shawbrook Bank

##### EXAMPLE COLLABORATIVE WORKSPACES

Entrepreneurial Spark, Eagle Labs

#### WALES AND SOUTH WEST

##### EXAMPLE FINTECH/ CHALLENGER BANK OCCUPIERS

Triodos Bank, Moneyhub, Nationwide UX centre, Crowdcube

##### EXAMPLE COLLABORATIVE WORKSPACES

Temple Quarter, Entrepreneurial Spark, SETquared, Central Cardiff Enterprise Zone

#### BIRMINGHAM AND MIDLANDS

##### EXAMPLE FINTECH/ CHALLENGER BANK OCCUPIERS

Cambridge & Counties Bank, Charter Savings Bank, The Services Family, Paragon Bank, Secure Trust Bank

##### EXAMPLE COLLABORATIVE WORKSPACES

Alpha Works, Silicon Canal, Assay Studios, Spaces by Regus, Aston Digital Plaza, Entrepreneurial spark, Eagle Labs

#### MANCHESTER AND NORTH WEST

##### EXAMPLE FINTECH/ CHALLENGER BANK OCCUPIERS

Hello Soda, Aldermore Bank, OakNorth, DueCourse, ThinkMoney, Co-operative Group

##### EXAMPLE COLLABORATIVE WORKSPACES

Barclays Rise, Entrepreneurial Spark, The Vault at XYZ, Eagle Lab, Innospace, The Landing, Spaceportx

#### NORTH EAST

##### EXAMPLE FINTECH/ CHALLENGER BANK OCCUPIERS

Virgin Money, Atom Bank, First Direct, Frees, Yorkshire Bank

##### EXAMPLE COLLABORATIVE WORKSPACES

Entrepreneurial Spark, Sheffield Digital Campus, Steel City House, St Pauls Place, Platform, Duke Studios, Dotforge, Futurelabs, Electric Works, Leeds Digital Hub, Union Street

#### SCOTLAND

##### EXAMPLE FINTECH/ CHALLENGER BANK OCCUPIERS

Clydesdale Bank, Virgin Money, Money Dashboard, TSB, Tesco Bank., Avaloq

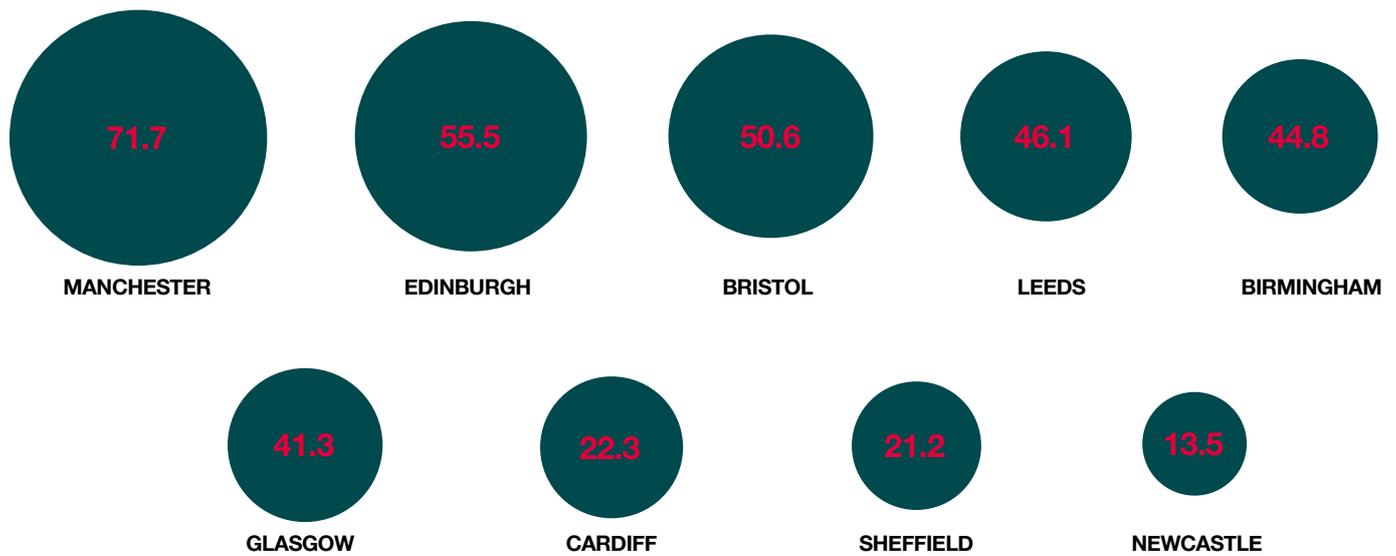
##### EXAMPLE COLLABORATIVE WORKSPACES

CodeBase, Virgin Lounge, Entrepreneurial Spark, Seed Haus, RookieOven

### 3. LOOKING TO THE FUTURE

#### CITIES WHERE TECHNOLOGY AND FINANCE COLLIDE WILL BE AT AN ADVANTAGE IN ATTRACTING RETAIL BANKING OCCUPIERS

March 2017 – Employment in finance and information and communications, thousands



Source: Oxford Economics, March 2017

TO ATTRACT RETAIL BANKING OCCUPIERS UK REGIONAL CITIES WILL ALSO NEED TO OFFER:

PHYSICAL AND DIGITAL INFRASTRUCTURE

AFFORDABILITY

AVAILABLE CAPITAL (MONEY)

LIFESTYLE

ACCESS TO TALENT

# Contacts



## National Offices

**Emma Goodford**

**Partner, Department Head**

+44 207 861 1144

emma.goodford@knightfrank.com



## Cardiff

**Mark Sutton**

**Partner**

+44 29 2044 0135

mark.sutton@knightfrank.com



## Manchester

**David Porter**

**Partner**

+44 161 833 7725

david.porter@knightfrank.com



## Aberdeen

**Eric Shearer**

**Partner**

+44 122 441 5948

eric.shearer@knightfrank.com



## Edinburgh

**Simon Capaldi**

**Partner**

+44 131 222 9621

simon.capaldi@knightfrank.com



## Newcastle

**Patrick Matheson**

**Partner**

+44 191 594 5015

patrick.matheson@knightfrank.com



## Birmingham

**Jamie Phillips**

**Partner**

+44 121 233 6403

jamie.phillips@knightfrank.com



## Glasgow

**Colin Mackenzie**

**Partner**

+44 141 566 6024

colin.mackenzie@knightfrank.com



## Sheffield

**Peter Whiteley**

**Partner**

+44 114 241 3903

peter.whiteley@knightfrank.com



## Bristol

**Martin Booth**

**Partner**

+44 117 917 4990

martin.booth@knightfrank.com



## Leeds

**Eamon Fox**

**Partner**

+44 113 297 2433

eamon.fox@knightfrank.com



## Research

**Lee Elliott**

**Partner**

+44 191 594 5015

lee.elliott@knightfrank.com



## Central London

**Richard Proctor**

**Partner, Head of Central**

**London Tenant Representation**

+44 20 7861 5159

Richard.Proctor@knightfrank.com





 @KnightFrank  
KnightFrank.co.uk

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