The challenge for the Challengers

In the years that followed the financial crisis it was believed that the banking sector had become stagnant and did not offer enough choice to consumers. New entrants were needed to increase competition, encourage diversity and innovation, and to pave the way for banking reform. In 2013 barriers to entry were relaxed.

Firms like Atom, Monza and Metro have already been successful; with many more poised to capitalise on a more open market. Some of these so called 'Challengers' are competing with a full suite of services, where others are offering specialist products or single channel distribution. However, as the Challengers bring their latest propositions to market the Legacy Brands are striking back with fresh products and updated ways of servicing customers. The window of opportunity remains but it is narrowing. New firms must also overcome challenges of their own.

Setting up a new bank requires significant upfront investment ahead of achieving scale; and one of the critical costs carried is compliance. Robust regulatory controls need to be established early to protect the firm. Not doing so risks costly remediative action and reputational damage, which can quickly destroy smaller less resilient organisations.

Another challenge is that of overcoming customer inertia. While customers today are very open to building a relationship with new providers, they demand more. Attracting customers relies on a significantly differentiated product and retaining them requires superior standards of customer service. Beyond any regulatory expectations there is a commercial imperative to taking an outcomes-based approach; as favoured by the FCA.

The regulator has the same expectation of all firms and while there is some call for proportionality in regulation fair customer outcomes is critical. Establishing and operating the right control frameworks requires dedicated effort, and many smaller firms can quickly struggle for bandwidth when in their initial growth phase. In addition, with the financial crime mandate ever increasing, firms are under pressure to carry out more rigorous customer due diligence. Where KYC processes are not automated, this can be particularly resource intensive.

New entrants recognise that they are coming into the sector at a time of intense regulatory focus. While this adds burden, new firms are inherently more agile and have the benefit of being free from legacy issues. By getting the right frameworks in place early on and continuing to monitor that their systems are fit for purpose firms can build a robust business that mitigates conduct risk exposure for the future.

RFS provide more recently established firms with a cost effective and credible alternative to the larger management consultancies. We can help you build and operate the right operational risk frameworks, with measures that stand up to regulatory rigour. A core area of expertise is outcome testing which we can implement across your business to monitor that systems, controls and processes are driving fair customer outcomes; yielding opportunities for improvement and providing evidence to the regulator that you're putting customers first.

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