



The Virtual Banking Revolution

The Customer, the Bank
and the Future



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This man was Rob Farbrother, a former operations director of Citibank. In 1985, Farbrother helped form an organization known as Funds Transfer Sharing (FTS): a consortium of financial institutions that wished to benefit from participating in a shared ATM network. In 1989 FTS underwent a management buy-out to become Nexus Payment Systems International, which established a successful track record in marketing a wide range of electronic payment services to customers world-wide. In 1991 Nexus announced a 'strategic alliance' with Sligos which made Sligos a majority shareholder of Nexus. This move was followed on 14 June 1993 by an announcement that Nexus had changed its name to Sligos Payment Services and had increased its stake in the organization to 89 per cent. Nexus was subsequently bought out completely by Sligos. The sale of his equity in Nexus made Farbrother (and some of the other directors who had participated in the management buy-out) a rich man. However, he simply went on working. The attitude which Farbrother brought to creating FTS is extremely revealing of the role of ATMs in a strategic sense.

Farbrother's first key appointment in electronic banking was at the Abbey National Building Society (now the Abbey National), where he played a lead role in automating the institution's cashiers' desks. In a revealing interview with me, Farbrother discussed some of the formative influences on his thinking as an electronic banking specialist. One of these was George Orwell's *Nineteen Eighty-Four*, about which Farbrother comments:

The book had an effect on me I am sure Orwell did not intend his readers to feel. I saw in it a vision of a society where automation played a crucial role. *I decided then that I wanted to become a part of that automation, rather than a victim of it.* But I did not want the automation to be oppressive. I felt strongly that if the right people were in charge of the automation process, that process might be a benefit to mankind, rather than something oppressive. (my italics).

One's first impression is that this is a curious response to *Nineteen Eighty-Four*; further reflection reveals, however, that it is a profound one. Orwell is a pessimist, at least as far as the effect advanced technology could have on mankind was concerned, while Farbrother is an optimist. Of course, what is remarkable about *Nineteen Eighty-Four* in the context of a report such as this is that Orwell's book is remarkably *devoid* of technology: apart from the all-seeing and all-hearing telescreen. Computers, for example, are not mentioned once in the book. Yet Farbrother instinctively felt that the depiction of the future in Orwell's famous novel *had* to be a technological one: it was as if his own views regarding how technology would develop in future were overwhelming Orwell's bleaker vision.

What is unquestionable is that when 1984 actually arrived, the world – or at least the world of the developed industrialized West – fitted in much more closely with the blueprint of what Farbrother instinctively expected

than what Orwell's gloomy broodings appeared to have foretold. Technology generally was making people's lives easier across a wide range of human activity.

More specifically, by 1984 virtual banking was already well on the way to being established as an easy and convenient means for people to gain access to banking services, and – ironically, perhaps, in view of Orwell's message of future society composed of three rigid class differences represented by the Inner Party, the Outer Party, and the 'proles' – was a significant force for the creation of a more egalitarian society. People no longer went to their banks cap in hand, hoping for the chance to be allowed to open an account; the banks had to compete actively for customers and knew that customers were likely to move their business and their funds to another institution if they became disillusioned with their existing one.

Indeed, by 1984 technology had shown itself to be at least as much of a beneficial force as a malign one: the party ideologues of *Nineteen Eighty-Four* had, in effect, found that they could enjoy richer pickings by finding out what the public wanted from technology and implementing this to the benefit of the public rather than by adhering to a repressive and soulless ideology. As for the 'telescreen', there was one in almost every living-room – and frequently one elsewhere in the home, too – but it was merely providing entertainment (and would in time provide a home-based remote banking information resource), and it operated on a strictly one-way basis.

Comparison of the world of *Nineteen Eighty-Four* with that of the actual 1984 is probably unfair. Anyone reading Orwell's book will realize that it is more an exaggerated depiction of the war years in Britain – and a warning of what life could become like if such a climate persisted indefinitely – than an account of what is really likely to happen in the future. Orwell himself was subsequently strenuously to deny that his book represented what he really thought was going to happen in the future: that the novel was instead essentially a warning.

What really matters here, though, is the fundamentally optimistic approach to technology adopted by Farbrother (who, incidentally, was born in 1948, the year *Nineteen Eighty-Four* was written) and his commitment throughout his career to the principle that technology can and should be delivering benefits, not problems. Where better to put those beliefs into action than in the banking sector, which deals with that most emotive and important of human needs: money?

Farbrother left school in 1965 after taking his O Levels, and went into computing, rising to senior programmer status at food giant Tesco. He entered the financial technology business in 1969, when he joined the Abbey National Building Society. He stayed there until 1983, when he was recruited by Citibank as operations director with a special developmental responsibility.

It was during Farbrother's time at Citibank that the process began which led to his participation in the early days of the national shared ATM network LINK (profiled in detail above) and to the foundation of the independent consortium FTS. In 1984, Citibank, seeing the considerable lead the major UK clearing banks had established over it in providing retail financial services, made a policy decision to help organize a network of retail financial institutions which were also anxious to gain the maximum competitive impetus over the largest clearers. Citibank's aim was to be an integral part of a network of institutions that would take advantage of the latest developments in electronic payment systems (i.e. virtual banking) in order to compete with the established clearers.

Farbrother, who in 1984 was appointed chairman of the FTS ATM evaluation team, now comments:

In the early 1980s there was a real fear at Citibank – and in many other institutions which were not major clearers – that if action was not taken quickly to redress the competitive balance, they ran the risk of being swamped by the large banks who were denying them access to the banking industry's umbrella organizations.

In particular, the large clearers enjoyed what was in essence a 'built-in' advantage over their second-rung rivals.

For one thing, if customers had their salaries paid into their accounts at a clearing bank from their employers' account at another clearing bank, the money would be in the employees' accounts on payday. If, on the other hand, the salaries were paid into a building society from employers' clearing bank accounts it would not be in the employees' accounts for another two days. The reason was that at this time building societies (and other institutions which were not major clearers) were not allowed to join the Bankers Automated Clearing System (BACS) and therefore did not receive the same rapid clearing privileges which the major clearers enjoyed.

Another serious competitive problem under which the non-clearers laboured was the simple point that – as we have seen – by the early 1980s the clearing banks had deployed ATMs extensively throughout the UK, thereby in effect extending their branches' opening hours – an extension which was increasingly tending to be round-the-clock.

One of the most fundamental points to be made about technology is that it is available to everybody. Farbrother and several of his Citibank colleagues came enthusiastically to believe that payment systems technology offered a huge potential for smaller financial institutions – including even the smallest ones – to compete with their larger rivals (note: worldwide, Citibank was of course in no sense a small institution, but in the UK it was and has remained so, mainly because it does not have a major presence on the UK high streets).

As Farbrother puts it:

If these small institutions could join forces and set up technological infrastructures which they could share with one another, there was every reason to believe that they could offer their own customers a comparable – and perhaps even superior – level of service to that provided by the large clearers.

It is worth pointing out that in 1984 the political and regulatory climate in the UK was also right for the development of new, technology-based networks within the retail banking sector. Political and regulatory factors are not necessary prerequisites for the development of such networks, but they certainly help.

In the 1983 General Election the ruling Conservative government had been given one of the strongest mandates ever given by a UK electorate. High on the new government's priorities was the reform of the financial sector: a sector which was felt to be based far too much on outdated trade practices, some of which appeared to restrict new entry and inhibit trade.

This thinking was to have its most dynamic expression in the 1986 'Big Bang' – in which the operation of the Stock Exchange was radically deregulated and automated – and the passage into law of the 1986 Financial Services Act in the same year, which specified a new regulatory framework for the investment business. However, the retail financial industry was also coming under government scrutiny. In particular, the UK building societies – which had always had the greatest aggregate share of the UK savings cake, but which had always been encumbered by regulations that essentially confined them to a role as savings institutions and mortgage lenders – were clearly regarded by the government as representing a considerable reserve of institution strength.

In 1985 the Childs Report was published, which recommended sweeping measures to give the UK building societies the opportunity to run accounts offering a full range of banking services. This year also saw the intensification of the ideas of Farbrother and his colleagues and the planning for the launch of LINK and FTS, with the latter operating as an entry gateway into LINK for institutions which – either for internal political reasons or for reasons of cost – did not wish to become full LINK members. FTS offered institutions a deal which had to be regarded as giving value for money: an initial membership fee of £50,000, and a written commitment to installing a minimum of 10 ATMs during the first year of membership. With ATMs costing about £25,000 each in the mid-1980s, this meant that an institution would be able to offer its customers access to the nationwide LINK network for about £300,000: not big money by the standards of the financial sector, although the costs of issuing cards, and developing and marketing accounts would, of course, be in addition to this.

Farbrother played a key role in the final planning of the two new organizations: so much so that, with the blessing of Citibank, he was

invited to work for FTS full-time. From a conceptual standpoint, one of his most important contributions as chairman of the ATM evaluation team was to lead the team to the conclusion that the route to the most productive and profitable deployment of ATMs would stem from deploying them as consumer-orientated facilities and not as technological innovations as such.

Farbrother says:

The team arrived at this conclusion from its own instinctive beliefs, and also from observations such as that the first ATM deployed in the US which achieved real success during the 1970s in terms of attracting consumer transactions was known as 'Tilly the Teller'.

He adds:

The point is that in the US, once ATM networks of any size started to be created they were 'humanized', with the result that many of the shared ATM networks in the US had and have user-friendly brand names: 'Magic Line' is one that springs to mind. In the UK, however, the need to orientate ATM networks around customers was recognized later than in the US. For example, the UK clearers which began deploying ATMs in the late 1960s and 1970s made no comparable effort to humanize their networks, but branded them rather unimaginatively with the name of the relevant bank, perhaps with the word 'cash' added. One has the impression that the idea that ATMs were a completely new delivery service offering hugely exciting marketing possibilities and the potential to provide what could be a seven-days-a-week, 24-hour service, hardly appears to have occurred to the banks at all in those days.

And he concludes:

The reasons for this lack of insight into what ATMs really meant to financial institutions are not difficult to find. The big clearers were sure they were the leading providers of retail financial services in the UK, and regarded themselves as having an unassailable position in this respect. This being so, they did not see any reason to explore in depth the potential ATMs and ATM networks offered as competitive weapons. Looking back, I realize that one reason why FTS was able to move ahead so rapidly on the electronic banking front, and why – by 1986 – we were already well on the way to deploying electronic banking systems that represented a formidable competitive challenge to the status quo in the UK banking scene, was that we had understood that electronic banking systems *were as much marketing tools as service delivery tools*, and above all had to be directed around winning acceptance among customers. In specific terms, this meant that, from the outset, our ATMs were open for more hours in the day, and for more days in the week, than the big clearers' ATMs, and offered a wider range of services through the ATM than theirs did.

The creators of LINK and FTS shared the vision of founding a network and electronic banking infrastructure that would allow member institutions and their account holders to access the benefits offered by electronic banking systems (initially solely through a comprehensive and multi-function shared ATM facility, later through other types of virtual financial service), while simultaneously keeping the expense of deploying the technology reasonable and proportional to the institution's ability to pay. The financial benefits would stem directly from the fact that the network would be shared by numerous institutions which would reap the benefits offered by economies of scale.

Above all, the beneficiaries of the new system would be members of the public, who would gain access to an increasingly extensive shared national ATM network via financial institutions which had not been able to provide this service before the creation of FTS or LINK because the institutions did not, alone, have a sufficiently large share of the market to justify the high capital costs of setting up their own, dedicated, ATM network.

Between 1986 and 1989, FTS changed from being purely a consortium organization which acted as an ATM manager and a gateway for LINK, and became what was in effect a virtual banking facilitator: offering a wide range of services to retail institutions which wished to extract the maximum competitive edge from virtual banking. Throughout this business development process, the role of FTS as a gateway to LINK continued to remain central to its activities.

Early in 1996, having spearheaded what can reasonably be described as a revolution in the British banking industry, Farbrother moved to pastures new. He set up an organization which was originally called CashStop! and later, following a comment from a customer that this name did not precisely describe the function of the service, PayPoint. This is a new free national bill payment network for providing payment facilities so that customers can pay the bills of leading UK utility and service companies. The need for the organization arose partly from a general belief that utility companies' bills should be capable of being paid at many locations, and also because many utility organizations were moving offices out of town and city centres to showrooms located in business parks and shopping centres and consequently it was becoming difficult for people to pay their bills other than by visiting their post office or by posting their payment. With typical foresight, Farbrother focused on the need of the customer. To date, PayPoint has done very well and looks like being another success for him.

My overall philosophy throughout my business career has been to create structured networks which benefit not only the member organizations but also the customers, and which provide ample scope for member organizations to compete like crazy behind the

common branding. This seems to me the right way for things to happen, facilitating competition but bringing everybody the benefit of shared networks, whatever the basic function of the network might be.

This comment says a very great deal indeed about how banks should compete with one another by means of operating ATM via shared networks.

Strategic guidelines: making the most of ATMs

How can banks make the most of ATMs? I propose the following guidelines:

- 1 Ensure that your ATMs operate round the clock and on every day of the year, and take every step to minimize periods when the network is out of service.
- 2 Operate on-line as much as you can: ideally all the time.
- 3 Take active steps to research what particular functions your customers need from the ATMs you operate and provide those functions.
- 4 Avoid charging customers for using ATMs: it is in your financial interests to get customers out of your branches and using your cash machines.
- 5 Ideally avoid charging your customers for transactions that take place over an ATM operated by an organization with which you share within a network. If you are insistent on making a charge for this, keep it low.
- 6 If you are a small bank, take every opportunity to compete with larger banks by offering a regional or national service via a regional or national shared ATM network.
- 7 Remember that many of your competitors may not yet realize how useful international ATM sharing is for their customers. You may be able to win an edge over them by offering such an international facility.
- 8 Be constantly vigilant about seeking out opportunities to offer services via your ATMs which rival banks will not be offering.
- 9 Make maximum use of lobby ATMs, including ATMs with specialized functions. They are popular with customers because they speed the transaction time in the bank and they relieve the burden on your cashiers.

- 10** Do your utmost to create new types of account that make the most of virtual banking services such as your ATM network. One clever way of promoting these new accounts is to offer people who join a free cheque for a few pounds (or equivalent) and inviting them to deposit it into one of your ATMs. When they've deposited it there, it's their money.
- 11** Support a shared ATM branding in which you participate and compete vigorously behind it.

Rob Farbrother (49), is something of a virtual financial services guru. Details of his career to date were included earlier in this book. They can be summarized as having worked in information technology operations with the Abbey National Building Society and Citibank before moving to head the ATM consortium Funds Transfer Sharing (FTS) in 1986. As we have seen, FTS has now metamorphosed into Sligos Payment Services Limited, the UK arm of international payment systems organization Groupe Sligos, and then into Atos UK.

In April 1996 Rob Farbrother became managing director of PayPoint, a cash payment facility service aimed at providing a virtual payment facility for unbanked people (i.e. people with no bank accounts) to pay the bills of large utilities such as British Gas, BT and electricity boards.