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Banking sector still has ‘some way to go’ to demonstrate value to society and rebuild trust

Challenger banks examine the impact of 2008 Global Financial Crisis on banking culture.

The banking sector has changed, but there is still more to do, according to a panel of challenger bank executives and risk consultants at a panel event examining whether banking culture has changed since the 2008 Global Financial Crisis (‘GFC’). The event coincided with the 10-year anniversary of the flash sale of Bear Stearns, one of the major early casualties of the crisis.

Speakers included Philip Acton, CEO of **CivilisedBank**; Jon Hall, Managing Director at **Masthaven**; Graham Olive, Deputy CEO at **OakNorth**; Damien Burke, Partner and Head of Regulatory at **4most**, and; Gary Wilkinson, CEO of **Redwood Bank**.

Panelists noted that although recent scandals spanning across various industries have demonstrated that bad behaviour is not something exclusive to banking, trust in banking remains low.

Philip Acton, Chief Executive Officer, CivilisedBank said: *“According to our research, a quarter of UK business executives still think nothing has changed in banking since the crisis, and 3 in 10 are undecided as to whether behaviour has changed for the better. Many of the familiar complaints such as a focus on profit over integrity, closure of branches and poor customer service remain, all of which indicates that despite good work being done this has not resonated with the wider public.”*

Gary Wilkinson, CEO, RedwoodBank said: *“There’s no doubt about it, the fall-out that occurred once Bear Stearns got bought out by JP Morgan, ripped a huge hole in Britain’s finances. Slowly and surely, and with new challenger banks leading the way, the mainstream banks have done a lot to refocus and rebuild their businesses over the last 10 years. Together, the industry is looking to put the doom and gloom of the last decade behind it.”*

Jon Hall, Managing Director, Masthaven said: *“High street banks will take generations to see a return to trust. As new challengers we don’t have a legacy to overcome and customers are positively electing to use us, but we mustn’t forget the lessons of the recent past and we must seek to earn that trust anew at every touchpoint.”*

Each speaker also noted that, since the GFC, the banking industry has been subject to vast regulatory and technical change which has already had an impact, in particular the emergence of challenger and specialist banks stepping up to fill the void.

Graham Olive, Deputy CEO, OakNorth said: *“Banks remain hamstrung by a lack of confident decision making and an inability to effectively manage some aspects of the regulatory environment – for example, there’s no real appetite for residential development and extremely painful account opening procedures.”*

“The speed of technological change is also leaving them unable to develop coherent strategies for some of their niche markets. The ‘one stop shop’ banking model is broken, and in a few decades time there will be students graduating who will never have held a current account because they haven’t needed one. This has created the conditions for the rise of challenger and specialist competitors.”

PSD2 and the changes in Open Banking were cited in particular as providing an opportunity for challenger banks to benefit.

Damien Burke, Partner & Head of Regulatory, 4most said: *“From a market competition perspective, arguably the most important piece of regulatory change has been the recent introduction of open banking, enabled by PSD2, which has the potential to remove barriers to entry for challenger banks and threaten the dominance of established players.”*

“By forcing the major banks to allow third parties (including challenger banks) to access the data of customers, it greatly levels the playing field between larger and smaller banks and allows challengers to offer consumers more appropriate and competitive products.”

Philip Acton of CivilisedBank concluded: *“A lot has been done to take stock and to rectify what went wrong in 2008, but it’s important to remember that the next crisis won’t be like the last one. We mustn’t think that by fixing the problems of the past we fix those of the future.”*

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About 4most:

4most Europe is a specialist credit risk and regulatory consultancy with a wide range of experience in delivering successful and cost effective projects for its UK and international clients. Founded in 2011, 4most have grown rapidly to become the UK's largest credit risk regulatory consultancy with over 125 dedicated credit risk and modelling specialists. The firm prides itself on creating value for clients through long term partnerships and delivering uncompromising results.

About CivilisedBank:

CivilisedBank was granted a banking licence by the Bank of England in May 2017, which is a significant step for the bank and paves the way for it to build its infrastructure and launch to customers in 2018. The new UK business bank with a Local Banker network is focused on the SME market and funded by SME and retail savings. CivilisedBank will serve businesses through savings and loans, transaction banking, overdrafts, current accounts with deposits and foreign exchange. The bank will also address the UK retail market with a range of savings products.

CivilisedBank aims to make business banking more Civilised by putting customers first.

Its network of Local Bankers will be incentivised to provide one-to-one service to SMEs in their communities, supporting each individual customer using real time information. Its vision is to use technology to empower customers and staff while providing a previously unseen level of relationship banking to SMEs.

About Masthaven:

Masthaven launched as a retail bank in 2016. It offers award-winning saving and lending products. Prior to that, Masthaven Finance has provided a flexible and personalised approach to bridging loans and secured lending since 2004. Today, the bank's knowledgeable and experienced specialists are committed to providing customers with flexible and fixed term savings accounts, bridging loans, development finance, and mortgages. The bank is authorised by the Prudential Regulation Authority, and regulated by the Financial Conduct Authority and the Prudential Regulation Authority (Register no. 719354). Masthaven was named 'Best Bridging Lender' in the Coreco Awards (2017); 'Most Innovative Savings Provider' in the MoneyNet Personal Finance Awards (2017 and 2018); and 'Best Specialist Lender' in the MoneyNet Personal Finance Awards (2018). Masthaven Finance featured in 2015's The Sunday Times' Virgin Fast Track 100 (at number 81). Masthaven Bank was ranked 240 in Financial Times' FT1000 list (2017).

About OakNorth:

Launched in September 2015, OakNorth is a UK bank that provides fast, flexible and accessible debt finance (from £500k to £30m) to fast-growth businesses and established property developers / investors.

Since its launch, the bank has:

- Turned cash flow positive in month 11 (August 2016) and repaid all its accrued debts;
- Grown its loan book to over £1.2bn, directly helping with the creation of 5,100 new homes and 4,000 new jobs in the UK;
- Secured £364m in investment from a number of investors, including: GIC, Toscafund, Indiabulls, Coltrane, The Clermont Group, and Indiabulls, valuing the company at almost \$1.3bn;
- Raised deposits from c.15,000 savers;
- Won numerous awards and been recognised as one of the UK's fastest-growing businesses being listed on both the Leap 100 (2017) and Tech City UK's Future Fifty (2018).

The bank was founded by Rishi Khosla and Joel Perlman, themselves entrepreneurs who were inspired to launch OakNorth following the challenges they faced in securing debt finance from high street banks for their previous business, Copal Amba (which scaled to c.3,000 employees and was acquired by Moody's Corporation in 2014).

It is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

About RedwoodBank:

Redwood Bank was launched in August 2017, becoming Britain's newest business bank for SMEs and completing its 'mobilisation' phase just over four months after securing its initial banking licence in April 2017. Redwood Bank offers secured SME mortgages for business owners, as well as for experienced commercial and residential property investors. It aims to deliver fast and efficient mortgage decisions to help their business customers seize property opportunities and also offers competitive business savings accounts. Redwood Bank was founded by Gary Wilkinson and Jonathan Rowland. It has a unique private-public ownership structure in which Warrington Borough Council has a one-third stake.