

Round-Table Discussion: Toward Business Innovation Triggered by the COVID Crisis



Josep Alvarez

Josep leads the UK Banking practice in NTT DATA. Josep has a degree in Telecommunications engineering and a Global Leadership Development Program with IMD Business School.

Josep's professional experience combines Business consulting and Digital transformation expertise advising major Financial Groups in Europe.

He has engaged in the development of solutions for the Banking industry within NTT DATA Group applying Disruptive technologies such as Blockchain and AI.



Jonathan Philp

Jonathan Philp is a Director in the Banking Practice of everis UK based in London. His focus includes regulatory and business change in institutional finance clients including investment and corporate banks, asset managers and market infrastructures and working with emerging fintech partners to develop innovative solutions and services.



SHIGENORI KARAKI

Director

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He had long been involved in the planning and sales of public and social infrastructure fields at NTT Data, and also served as a general manager of group business promotion and operational reform promotion in the corporate planning department at head office. In 2013, he was transferred to the NTT Data Institute of Management Consulting. Belonged to the Business Management division as a chief marketing officer, he promoted institutional reforms and corporate governance improvement for business development. He has also served as a General Manager of the Financial Services Industry & Economics Business division since 2018, and as a

Head of the Global Business Development Center since 2019.



After working in the international division of a city bank, he worked in New York for seven years as a resident officer. In 1997, he was transferred to a US consulting company for accounting and was involved in establishing the company's financial consulting division of Japan. Since then, he has been consistently involved in financial consulting. In 2005, he joined the NTT Data Institute of Management Consulting as a General Manager of the Financial Consulting division. He has been Head of the Global Financial Business Unit since 2012, and has also served as a Manager of the Singapore branch since 2014.

AKIRA YAMAGAMI

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This time, while COVID-19 is spreading throughout the world, we talked to the NTT Data Group UK everis in terms of the business environment in the UK and had a round-table discussion about the things that we can do for business and society through collaboration between groups.

Karaki Thank you for accepting our request this time. Today we will discuss three topics: "how to view changes in the social situation of with-COVID from a business perspective," "value of new product offerings and social benefits," and "possibility of future collaboration." The first thing I would like to ask you is how we should perceive the influence of with-COVID on the business perspective. I think our society will change significantly through this crisis. So what do you think the impact will be on our society or our business?

Influence on Business

Joseph Jon and I are partially responsible for consultation for banks in everis UK, which is under NTT Data UK. Jon is leading our compliance practice. He also runs our corporate investment for banks, and covers TouPay, which will be explained later. This product may provide an interesting solution for with-COVID which you just mentioned.

I am leading the bank related consultation practice, so I prepared a report for the impact of COVID-19 on financial services by gathering information about the current crisis. In this report, there are three topics for which we have seen a massive or significant shift during COVID-19. The first topic is the acceleration of the decline of cash. In terms of payments, the use of cash is banned in many retail shops and only debit or credit cards are accepted in the UK. This implies that there is a massive push for the adoption of different types of digital payments.

For the actual impact on payment during COVID-19, we are still waiting for the data of an industry body called UK Finance. This body is aggregating different payment methods including cash and information of financial service entities to provide global studies and publish the U.K. payment trends. Looking at the data we have in 2018, 28% of the transactions in the UK were still in cash. That has been a massive decline compared with those in the past, but one-

third of the transactions were still in cash.

Related to this trend, the decline of cash, you can see more innovative ways of payments such as contactless methods, including the credit card and mobile phone payment systems. I am certain that the current situation has been a massive push in shops to adopt their payment method during the lockdown in the UK because supermarkets and grocery shops have stayed open under the lockdown. Based on the feedback from some colleagues in the rest of the European countries, we have seen trends shifting to cashless payments. The latest event, the COVID crisis, has been the final push on the cash decline and the adoption of digital payments in the UK. This is interesting. We will see the actual impact when the data for 2020 is released.

Although we need to wait for the statistics of this COVID crisis period, the other thing we have seen is that more customers are shifting to mobile or digital interactions instead of visiting bank branches. According to the Financial Times, in the UK during the last 30 years (compared to the 1990s), 66% or two-thirds of the UK branches have been closed. Overall, in the last five years since 2015, we have lost one-third of the branches. That is incredible but it just gives you a sense of how fast this trend is happening. And this is obviously due to a combination of efficiency and the pressure for cost reduction, but another factor is the shift of people to mobile payments. Many people choose mobile payment as the key solution rather than internet banking. In a separate study from caci.co.uk, they foresee that in 2021, the next year, the amount of users attending branches will be the same as the amount of mobile app users. And personally...though this is just a guess...this trend has been accelerated because of the COVID lockdown. Many branches in the UK have been closed, except for key workers*¹.

These two trends are critical. The adoption of mobile/digital payments and closure of branches will take massive shifting in the ecosystem. Less cash looks to bring better control in terms of fraud and money laundering. That is a potential positive side, but obviously it needs to be proved.

Although not yet proven with the impact of COVID-19, there are other trends in the market.

In Europe, we see the spread of open banking where you have third parties piggybacking and connecting to the infrastructure of the banks through APIs*² and it is becoming a trend now. Obviously, if you start to have more people using these mobile apps as the digital interface with banks, all these services with fintechs as a third party will be able to provide new functionalities and drive new demand. This has not been confirmed yet. If further lockdown continues in Western European countries, it is quite possible that we will shift to more digital economy and to more digital interaction in banks. At this point, this is just a guess.

There is another thing we have seen. The interest rate has been reduced and this is challenging to the current macroeconomic method. This is good news for all the people who are asking for or borrowing money. However, it is challenging for banks due to the reduction in margin. Since March 2020, we have had a 0.1% interest rate, called the bank rate of the Bank of England, in the UK. This is the lowest it has been in the last 30 years. Jonathan, we have not seen such a low rate in the UK, right? I don't ever recall anything that low.

Jonathan No, I have not. In fact they are now talking about negative interest rates which we have already seen in some economies in Europe.

Joseph That situation will also be a challenge. As Jonathan said, Switzerland has been in that area. It provides the positive things, as we mentioned earlier, that people will have digital interactions with banks in a more seamless way. However, from the economical point of view, the negative side of this crisis will be there. This is the impact on the financial industry, but we also need to think about how we are going to respond or work from the finance perspective in the negative interest rate. That is something new for many companies and economies. We have not been in that area and it will be challenging to manage.

Karaki The UK situation is interesting. In the wave of digitalization, our business scheme has been changing for several years, but I think this business stream is being accelerated through this COVID crisis. And as a result, our social structure and business scheme are being forced to change. What do you think?

Joseph Yes, it is a new measure. Let me give you some examples to bring some color to your remarks. We often have meetings with CEOs and CIOs of retail banks for business. These people are asking to accelerate to bring part of the functionalities currently handled in branches or the interim banking portals to mobile. So, there is acceleration. Retail banks are asking for more functionality in the mobile app. They are pushing for more interaction through the mobile apps as business, and banks are providing more functionality there too. This is what we have seen now and it will drive the behavior of the users for sure.

The Value of New Product Offerings and Their Widespread Social Benefits

Karaki Thank you. I think there is a difference between Japan and European countries regarding this crisis. My concern is that many people in Japan do not understand this situation accurately. Thus some are afraid meaninglessly, and some are optimistic. It is important to keep things calm and logical. Japanese business should be stepped up to a new stage with new values different from before. I think this is a type of paradigm shift for our society. If possible, we should import an effective solution or system, or listen to the best practice from European countries. However, Japan sometimes remains conservative and we want to change such old habits. To do so, one of the actions we are planning to take is to put new products into the Japanese market. Yamagami-san is struggling with such activities. We would like to work with you and launch such new business schemes to revitalize the Japanese economy. I am expecting some collaboration for such activities.

Joseph I definitely want to collaborate. Incidentally, Jonathan has studied all these jobless schemes, and how they can influence economy. For the last three weeks, he has been conducting a thorough review on that.

Jonathan I was just going to add the point about banking and digital adoption. One of the things happening is that the wider digital application has been implied for the wider economy. I am thinking about the application not only to the retail industry, but also to other sectors because obviously the demand of payments comes from all channels that you are paying. In some countries in Europe, consumer spending has collapsed. In France, the year-on-year figure was down 34%. A one-third fall in retail in consumer spending is extreme and that is a massive blow to the economy. However, in other countries where government took actions to maintain employment, consumer spending has held up much better. I think the strength of the retail economy is at least digitally underpinned, if you understand. I noticed one thing recently in the area in which I live when I saw our dustbins being collected. In front of every house, there were lots of brown cardboard boxes. Why? One of the things that people do when they are locked down and not allowed to go out is to visit the Amazon website and buy lots of stuff. I mean it is not just us. I am not spending my

money on morning coffees anymore or lunch at work with my colleagues. Instead my family is spending it on things from Amazon. That is the real trend. What is happening now is those firms that are not or are lagging in being digitalized have really been exposed. I think they are trying to catch up with the wave of digitalization because it is noticeable that some digitalized firms have actually done really well to continue their business in the past one or two months compared to those non-digitalized types.

Amazon is obviously a successful example, but the supermarkets and groceries with digital channels have done greatly too. On the other hand, some firms are less able to be digitalized. The possible reasons may be that they have not made much investment in this area, or their business model simply does not really work in a digital model. I think they have struggled. For the latter example, the car rental company Hertz went bankrupt last week. Hertz was a massive global firm but they needed people to be traveling around the world to run their business. However, I am sure there are other firms that would have done extremely well out of this crisis, such as the supermarkets. The sales figures of big supermarkets in the UK are going up very strongly because they are digitally capable and can operate much more effectively in this sort of environment where we are not allowed to be out in the novel way. Then let me extend the digital point to some other areas as well. Both Joseph and I have children of school age. Our children are not in school but lessons are continuing in a digital way. Sometimes it is not very sophisticated, but it is getting better. I see universities in the same way. Cambridge University said there would be no more face-to-face lectures in this academic year. Again everything points to the digital channel here, and the question for me would be how much of that will be permanent, and how much of that will stick. It is viable to do all of these analog methods we used to do in a digital way in university. However, will people want to go to universities anymore or will they say actually no?

Karaki It is very interesting. I think a successful new business model overseas is also applicable in Japan. An external pressure can be very useful to prioritize business. Anyway, from now on, we will create a new business model and utilize it in many countries, especially in ASEAN countries in which we are running our business. The growth of those countries is substantial, and it is a big market. Therefore, we need to combine ideas and experiences in Europe and Japan to create convenient and handy products. The next topic will be the current activity for such creation, presented by Yamagami-san.

Possibility of Future Collaboration

Yamagami First of all, Jon and Joseph, thank you for supporting the TouPay activity for the last couple of weeks. We started discussion to create a new business between TouPay and us this February. TouPay is one of our business portfolio companies, and since last year we have already begun to consider a digital venture studio which is a collaboration among foreign startups, Japanese NTT Data IOMC (Institute of Management Consulting), and us. Because the stage of the digitalization in Japan is greatly lagging compared to other countries, it is not so easy to find new solutions domestically. So we decided to investigate the good companies abroad as the first step. Currently we have six companies leading our business portfolio including TouPay. Our company provides four financial services such as PFM^{*3} and core banking systems operated by UK companies, including TouPay and PULSE ID which are location-based loyalty program providers. Therefore, we have now started to develop a new product like TouPay.

I wanted to share this product with you. Maybe this activity should go global. In terms of TouPay, we have already started to share it with the large companies and banks in the Philippines and Indonesia. Also, in Japan, we are about to start a feasibility study with major banks to implement TouPay. This is the very beginning of collaboration. Additionally I wanted to utilize this huge business digitalization gap.

Jonathan I am interested in your business portfolio companies. What type of relationship do you have with them specifically?

Yamagami Actually, we are collaborating with FinMirai. This is a third-party company and led by the former Chief Innovation Officer of DBS. Two years ago we discussed this collaboration scheme in depth. The encounter of fintech and banks is like business matching and they normally have meetings. However, the success rate of the collaboration is very low...maybe below 20% because there are often mismatches in business matching situations. However, our process is something akin to reverse engineering, and we are conducting in-depth talks with banks. Then the banks become our studio's customer and both of us try to find the right solution worldwide together. Thus the matching rate becomes higher than expected.

Jonathan Okay, that is interesting.

Yamagami This is a new collaboration scheme, and actually my friend in Silicon Valley also tried to establish the same scheme two years ago.

Jonathan That would be very interesting to understand. I think our point of view about what is going on in the UK, especially now, can be a help as we go forward.

Yamagami You know, an entrepreneurial venture called 500 startups may be providing some new schemes, but they are trying to change direction due to the poor matching result. Therefore, 500 startups is running a venture studio beside the original business while still landing the old meeting events.

Jonathan I see. It means it is worthy, right? An overview of how far we have reached with TouPay in the UK indicates its worth.

Yamagami TouPay is a good example. Actually we have four business portfolio companies in the UK, so let us share this information with you. And we collaborate to develop new business together.

Jonathan Yes, please.

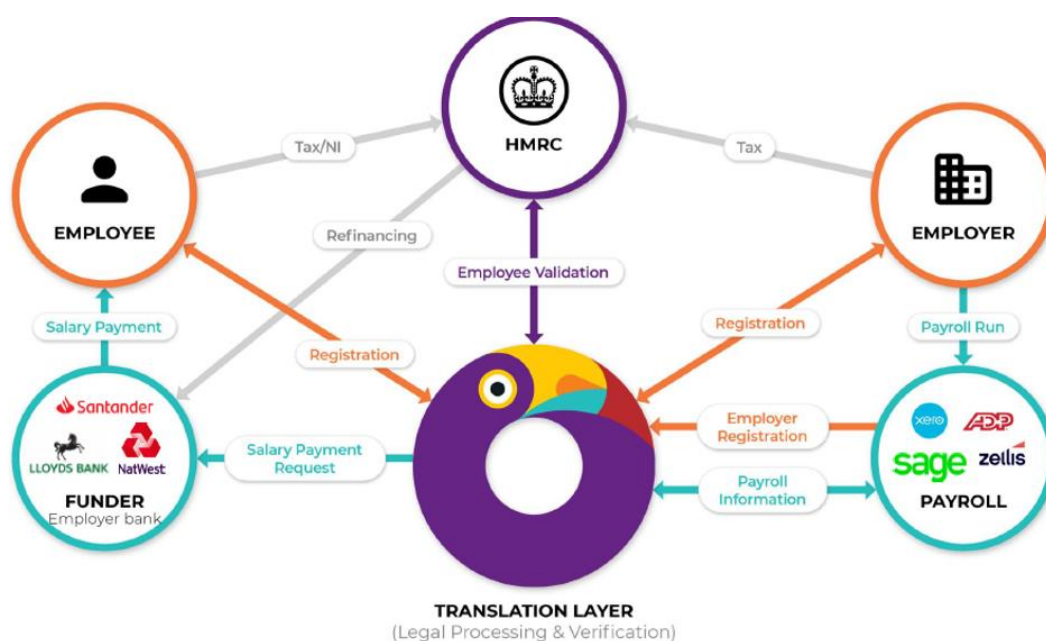
Yamagami One of my portfolio companies is working with Lloyds bank, which you probably know, and it provides core banking systems. This company is called Thought Machine established by an ex-Google engineer. Lloyds Bank accepted this new scheme in order to overhaul the co-working spaces of the existing banking system, rather than using the companies that were previously involved.

Jonathan That will be extremely interesting. We have done a lot of work, as Joseph will explain later, on our own core banking and open banking fields in the UK. In these fields, they are developing core banking infrastructure and sharing the transaction data. That sort of technology is very important. Joseph, I do not remember the company that our colleague Javier Prieto went to... I think that was a relative startup in the core banking space.

Joseph Yes, it is ncino, a banking solution for the salesforce based on salesforce infrastructure.

Jonathan It is interesting because a lot of activity is there. One thing we found for fintechs is that they usually have very interesting products but they struggle to wrap service capability around the products. Therefore, we can help them with implementation, service provision, and configuration, and we are offering such support for TouPay in many ways. Let me just explain where we are with TouPay. TouPay, now called TouPay as a company name, was originally the name of the branded product. It is a good fintech company which chooses a particular niche company in the market to collaborate with and create a new business. TouPay operates in the payroll financing field to handle how employees are paid. Let's assume you are an employee of a company and book/record your working time. What TouPay wants to do is to become a global standard to capture that time. For example, I work eight hours today and book that time in a mobile app or in my company's timesheet system. If I record it in the TouPay app, I will get some benefits too in terms of efficiency, accuracy, and transparency. They are trying to expand this system to banking people or financiers.

As such, the idea is that employees whose time has been confirmed in a central system would be able to be paid for that when they choose. They do not have to wait for the end of the month. People are paid at the end of the month because it suits the company. It is more efficient from the working capital perspective to pay people in arrears. It is more efficient from the operational perspective to pay people once a month and once a week. However, TouPay works for the individual. You can be paid monthly or, in the extreme, daily if you want, but probably weekly would be more rational. That is essentially the business model. Therefore, we have a platform that captures employee time and links employees to banks that finance from a salary advance on demand. That is their core model. (Figure)



Jonathan Then the COVID-19 problem came along followed by the lockdown, and TouPay realized quickly that their platform could be used for payroll financing firms. This is a channel that basically allows banks to lend efficiently to companies in the economy. The reason why it is important is, at the moment, that obviously we are seeing a lot of government action for funding in the UK. The movement has begun in other European countries as well for the governments granting loans to companies to keep them going during the crisis.

In the UK we have a COVID-19 measure called the CBILS⁴ scheme by which loans are provided from banks to small businesses. There are a number of other government schemes. Some of those involve banks and some others are

direct government lending. The idea is just to keep this system going through not only during the lockdown, but also the recovery period. Recovery will probably take a long time, and there are many uncertainties such as the possibility of a second spike...no one knows. In such circumstances, utilizing TouPay could be of some help because it could provide a channel for commercial banks to lend into companies at a very low interest rate. The core intellectual property in TouPay is this scheme of the loans by the banks with government funding.

Essentially that allows banks to loan firms suffering from the COVID crisis at very low interest rates to help them stay afloat. This would work only if there were a guarantee from the government to make it very capital efficient for banks. TouPay sits in the middle to take data from employers, employees, or payroll providers, and then calculates how much of a particular pay slip can be funded by the bank. To this end, they send the payment instruction to banks. Thus TouPay actually intermediates in the normal payroll process in quite a small way. However, allowing this additional lending to come into the economy will be an attractive prospect in the current crisis situation.

Yamagami Is this the scheme of request to pay?

Jonathan Well, it is the access to pay. Access to pay is the ability to get your money immediately if you want it. Let's say today is the 10th of the month. Suppose you worked for one week in that month and you do not want to wait to get paid till the end of the month. With TouPay, you can get paid in that week immediately because the labor time is booked in their system, and that is the access to pay. In old 2000 language it can be a B2C proposition. However, the firms' payroll financing is B2B. Those funds are lent to firms but will be eventually secured by the employees' rights through the employment law. Those funds will be the working capital for firms. However, the ideas of all government schemes for COVID-19 measures are not to let your workers go. If firms keep their employees to protect the lives instead of making them unemployed, there will be less impact of COVID-19 on the economy and we can speed up the recovery of this crisis. That is the basic idea.

Jonathan Our job as the NTT Data Group would be to help TouPay build the platform. To carry on this business, they need to support various participants such as firms, employees, banks, and payroll providers. Also they potentially need to provide some of the operational capability. At this point, we are ready to start building the operational processes. TouPay is a small company, and they do not have sufficient resources. They are trying to see how they can fund, at least to an acceptable level, building the platform. Of course we can consider the investments, but there is some risk in building the platform because we are obviously in a difficult environment for the investment right now. They need to find customers to use the platform as well as banks to fund the platform.

Otherwise, there is no service established. Ultimately what should be done is to link banks, employees, employers, and firms to lend out all together. So our task with TouPay is to bring these stakeholders into one picture to build the platform. And obviously we are trying to understand exactly how much profit we can make right now. How and to what extent we can make investment... but in this current environment we are just discussing them. One good thing about the TouPay proposition is that it is working well in the UK now. Because equivalent employment law exists right throughout European countries, we are discussing the operation in Spain, Greece, and Germany. I don't know about Japanese employment law, but it seems that this model can work in lots of different countries and jurisdictions around the world.

However, for me, the single trend we need to see about TouPay is banks. So far there is no bank committed to standing behind this product and actually make the loans across the platform.

Jonathan TouPay is talking to HSBC, Barclays, and other banks. However, so far, it does not seem easy to convince banks to become customers. It is still a difficult situation.

Banks want to see the actual platform. At this point, however, what we can say is we are going to build it. In order to

commit to building the platform, we need to have some guarantee that there is business and revenue at the end of it. That is the point...like we say, it's the chicken and the egg situation.

Yamagami Actually, there are similar situations happening here in Japan.

Jonathan We need to build the infrastructure in order for the platform and the solution to work.

Yamagami To what degree are you expecting to build your platform?

Jonathan Well, in the initial phase of what we are calling the minimum viable product, which is to align payroll lending, it looks like 750,000 Sterling up to about a million Sterling in order to deliver all of the necessary components. TouPay is looking at how much we can fund right now.

Yamagami If you provide this infrastructure, please let us leverage it in Japan.

Karaki Yamagami-san, you said this new model would be applicable to large Japanese banking corporations. However, I think Japanese companies have a "self-sufficient" type policy in which they do their own business. On the other hand, there is a shift to a style that promptly builds more efficient mechanisms as well. So, I think we can introduce new business models or create new business schemes together to achieve a balanced cooperation between large companies and excellent startups. Do you think it is possible?

Yamagami Yes, I think this story can be further developed. Hopefully in the future, everis and our company establish a joint venture to do business more speedily, as a smaller scale company, to strategically implement the concept to make it reality.

Karaki Yes, good idea.

Yamagami Before, in Dallas, I met a guy from everis who would like to work together on this scheme. He said "let's make a new joint venture in order to spread this scheme to the markets around the world. ASEAN and other vast markets are spreading between us." The consulting service requires human interaction and is very difficult. But bringing products to the new market is easier to penetrate, if we can do that.

Karaki That is right. If possible, we would like to continue such meetings and collaboration from now on. For example, unearthing the needs of society, and creating products and solutions together.... In the near future, I think it might be a good idea to establish a new joint team to take advantage of the combination of both companies.

Joseph Absolutely, it is a pleasure to share ideas. And we have to say we are very grateful for the introduction of TouPay in various places. That is an interesting possibility of which we were not aware, and Jon will be a bridge for the TouPay initiative. Thank you.

Karaki Thank you. After the COVID crisis, I want to come to London and meet you. Lastly, can you give some messages to the reader of this future info?

Joseph I love Latin, the old language in Europe. I will send you a positive quote for the current times from a lovely Latin book. It is a sentence I love.

"From the struggle, you will improve, you will get better like the phoenix bird"

Karaki Thank you for your wonderful quote.

- Workers of essential public services in the area
- Application Programming Interface: A function that connects software to software. It enables sharing of the authentication and chatting function between different software and services, and capturing numerical data from one side to be able to analyze the data with another program.
- Personal Financial Management
- The Coronavirus Business Interruption Loan Scheme

This round-table discussion was held online at the end of May 2020.