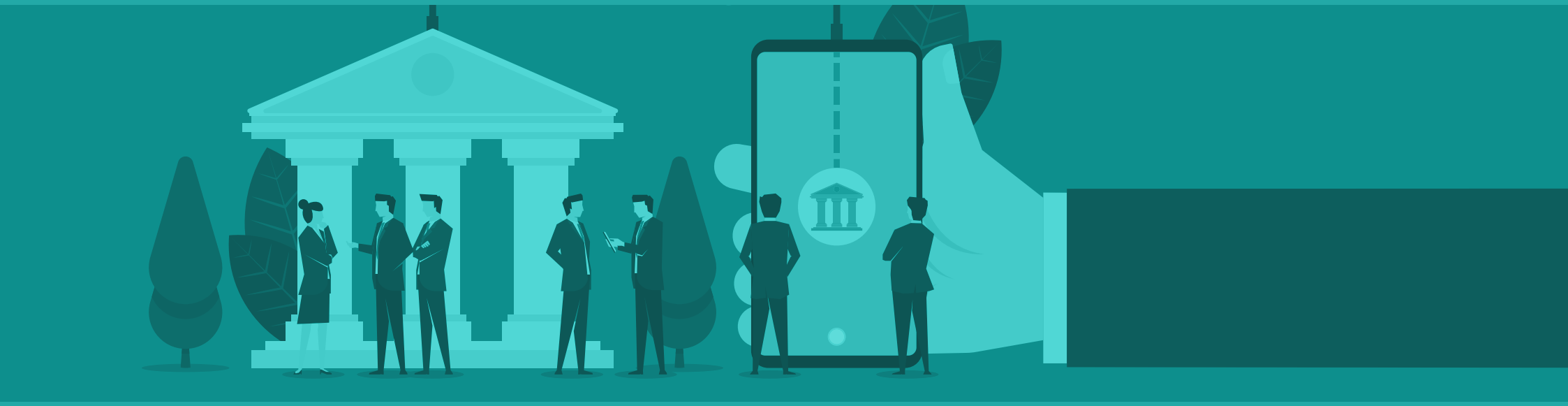
Impact Study

In association with: SunTec Business Solutions

Getting tech right: Selecting the right software products to fulfil the digital demands of banking



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01 | Introduction

While Covid-19 may have been a shock to the system for incumbent financial institutions, the pandemic only served to reinforce growing pressure to digitally transform their operations.

Thanks to rapid digitisation of services across the board (from healthcare, to entertainment, to transport) the profile of the typical consumer is evolving into a far more sophisticated and demanding user. As a result of this evolution, retail consumers and corporate clients alike are hoping to leverage more from the relationship they share with their banks.

While younger, digitally native financial institutions are well positioned to adapt and mould their offering in line with this shifting profile, incumbents weighed down by legacy technology and infrastructure are finding the pivot more challenging. This needn't be the case.

Rather than resisting change, incumbents that accept that the ubiquity of big tech and the client-centric ecosystem are permanent, are likely to reframe their mindset into delivering consumer-centric services effectively.

Competing on this level means incumbents are forced to replicate the advantages offered by neobanks and challenger banks into their corporate offering, allowing them to attract and retain clients.

Addressing the new habits and behaviours of clients doesn't come without investment, however, and incumbents are also leveraging the expertise that comes with working alongside technology providers as partners to assist in the delivery of new products and services.

The shift from a product-driven mentality toward a consumer-centric outlook is already visible in banks' push toward upgrading their core infrastructure for tech agility, adopting cloud-based solutions for flex and scalability, building and integrating APIs with third-party services, and investing in analytics capabilities to better understand their consumer base.

The deployment of technology solutions by banks to address this new consumer-centric paradigm illustrates that rather than being led by regulatory, industry or political pressure, clients are voting with their wallets and banks know more than most, that it pays to be an early mover.

This impact study will explore the key trends shaping the push toward a new financial services industry, and the key technologies that banks can deploy to evolve into more customer-centric institutions.

02 | Key trends shaping financial services from the inside-out

A distributed workforce

The impacts of Covid-19's push toward a distributed workforce is manifold. Banks were not only pushed to revamp their technological offering not only to meet an entirely digital customer base, but were required to provide for a workforce in lockdown and operating of the office. Quickly pivoting toward a digital-first model for sales and service, remote advice, and physical distribution meant banks had to reassess and redeploy both employees to suit this 'new normal'.

A distributed workforce meant banks had to re-examine their risk profile, as exposure to new types of digital threats became greater with employees working from home and potentially via unsecured networks.

Despite being a significant reset, the shift demonstrated that combining effective human resource with technology can and continues to present a sound operational model that is in keeping with the increasingly digital-first nature of financial services, and better equipped to meet the expectations of a highly digital customer. An integral element of this evolution has been the transition to cloud-based platforms and solutions. Cloud adoption has become a non-negotiable for banks seeking to adapt to a distributed workforce, but also for organisations to bolster the resilience of their digital services while leveraging the speed and scale that cloud offers.

Corporates going digital

Across the corporate sphere, the digitalisation of supply chains with tools such as virtual accounts and e-invoicing are fast becoming the norm, as organisations recognise the need to enhance the efficiency of transactions while improving the transmission of sensitive data.

Regulators are increasingly requiring the adoption of more robust transaction-compliance processes, both to protect against new threats and to maintain a more transparent view over the movement of funds within, into, and out of a given organisation. Additionally, e-invoicing tools work to drive cost rationalisation of complex banking supply chains, automate data feeds for a bank's treasury system, provide an early overview of working capital requirements, and significantly reduce transaction errors through efficient integrity checks.

In a similar vein, virtual accounts eliminate the need for banks to maintain a sea of costly and laboursome physical accounts. Embedded within the client's main bank account, virtual accounts provide an alternative to separate cash management solutions, helping to streamline account opening and improve reconciliation processes. Importantly, the flexibility, control, and innovative features that virtual accounts can offer help cater to the highly-digital appetite of clients.

Buy Now Pay Later

The Buy Now Pay Later explosion is perhaps the biggest payments trend to emerge from the pandemic, and is emblematic of the way in which consumer appetite and demand has evolved significantly in recent years. More so than traditional forms of credit, BNPL has opened the gates for consumers to split the cost of a purchase over a fixed number of months, generally without facing the same interest charges and fees often associated with credit card use.

Despite widespread concern over lack of regulation in the space, particularly given the robust uptake of BNPL products by younger and more vulnerable consumers, the payment solution is proving to be wildly successful. Hundreds of BNPL payment providers have cropped up since the pandemic took hold, satiating consumers' desire to purchase what they want, when they want it.

Teamed with the proliferation of e-commerce and home delivery, the BNPL trend correlates to and underscores this evolution of consumer expectation and the ability to access cash fast, friction-free and on-demand.

Consumers have high-expectations and are spoiled for choice

These forces accumulate into an overarching shift across the financial landscape: if companies (be they financial or non-financial institutions) fail to meet customer expectations by delivering services precisely where and when the customer demands, they will simply look elsewhere for a better experience.

Fortunately, meeting these expectations is no longer a fantasy for traditional banks. With increased collaboration between financial institutions and technology providers, incumbents (especially those burdened with legacy systems) now have the opportunity to partner with third parties to roll out new products and services faster and more securely than ever before.

03 | Building out APIs for integrated services

Since the establishment of open banking and its assortment of adaptations across the globe, the API economy has thrived, allowing customers to have more control over their data, products, and financial services than ever before.

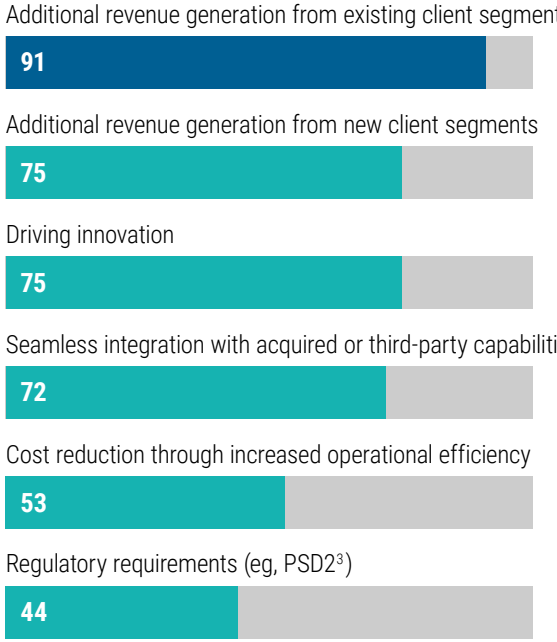
According to **Deloitte**, not only is building APIs on top of existing systems to unlock data assets the go-to modus operandi for clients looking to maximize their legacy technology, but the approach goes hand in hand with building microservices. The microservices-based approach to enterprise architectures smooths the journey toward replacement and/or upgrade of monolithic solutions.

Banking as a Service is a strong example of how APIs integrations are not only revolutionising the operations and revenue models of non-financial institutions, but those of banks too. Allowing banking services to be embedded into a corporate customer's platforms, corporates can then link enterprise, treasury, and accounting systems with financial information historically held firmly within the confines of banks.

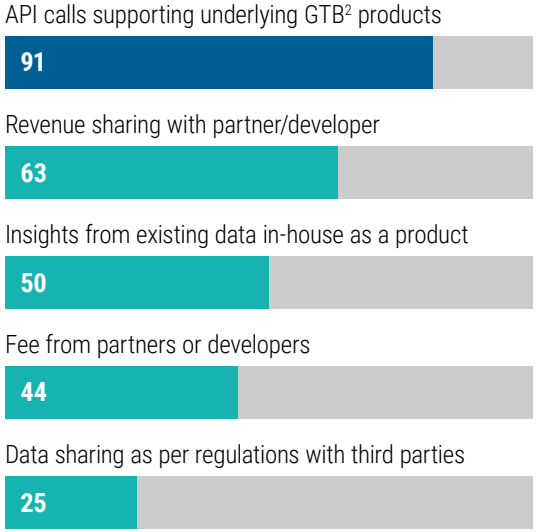
McKinsey reports that currently just over 50% of a bank's B2B APIs are used to connect internal systems. However, this will significantly shift over the next three years as most new APIs will be used to connect banks to external systems. Further, over 90% of respondents stated that they use or plan to use APIs to generate additional revenue among existing customers, with 75% stating that they are already looking for revenue streams from new customers.

The top objectives and monetisation strategies of surveyed banks emphasize revenue generation.

What are the key objectives of your API efforts?
% of respondents[1]



What are your top 3 monetisation strategies for APIs?
% of respondents



Source: McKinsey state of APIs in Global Transaction Banking Survey

[1] Respondents were asked to rate the importance of objectives on a scale of 1 to 5, with 1 being the lowest importance and 5 being the highest. The percentages are for respondents rating an objective 4 or 5; n - 40.

[2] Global Transaction Banking

[3] Payment Services Directive 2 is a European regulation for electronic-payment services. It seeks to make payments more secure in Europe, boost innovation, foster competition, and help banking services adapt to new technologies

Source: **McKinsey**

Notably, 75% of respondents also noted the role of APIs in their ability to innovate. Unlocking financial services in this manner means that banks have the opportunity to serve their customers more effectively than ever before. To do this successfully, however, banks must recognise the importance of improving their 'back-end' capabilities in order to serve their end-customers where their customers choose to do banking. Increasingly, this is within the applications and brands they know and frequently use.

Banks must become accustomed to collaboration with third parties within this new ecosystem, leveraging technology through partnerships to integrate consumer-centric financial services.

04 | Why cloud-based solutions are non-negotiable

While often categorised as a trend, cloud technology and its deployment across financial services has become a far more integral pillar of digital transformation over the past few years.

Offering scalability, security, and a straightforward approach to migration, means that the use of Platform-as-a-Service (PaaS), Software-as-a-Service (SaaS) and Integration-as-a-Service (IaaS) models among others have emerged as popular solutions to streamline banks' services rapidly.

Connection to multiple servers through cloud-based infrastructure ensures that banks can access, process, and protect their data with ease, given that computing capacity no longer inhibits the ability to deploy solutions safely and at pace.

When considering which third parties to work with for the deployment of cloud-based solutions, extensibility with leading cloud platforms such as IBM Cloud, Microsoft Azure and Amazon Web Services (AWS) is essential and reduces friction, limitations, and compliance challenges that are prevalent in the highly regulated financial services sector.

Regulations such as GDPR and the AML directives, financial messaging and payment card standards (PCI DSS) and a plethora of guidelines, present a challenge web of rules and requirements for financial institutions to navigate. Selecting a third party to deliver cloud-based solutions that understand and cater for the rigorously compliance-driven sector is essential. Not only does this guarantee that banks are meeting security standards effectively, but additional layers of security processes,

vulnerability assessments, and penetration testing offered by certain cloud-based solution providers serve to reinforce security protocols around data protection.

In addition to cloud agnosticism, extensibility and security, high availability has never ranked higher on the agenda for financial institutions. As evidenced throughout the pandemic, customers have shifted toward digital e-commerce in a fundamental, and likely permanent way. As with all digital products and services, it is increasingly common that when an announcement is made or campaign is launched, sites are inundated with surges of customer activity. During these periods it is vital that service remains constant and uninterrupted or firms risk losing not only customers or sales, but reputational damage (which is very difficult to rebuild).

The open architecture of cloud-based platforms increasingly offer clustering, fail-over, load-balancing and hybrid as industry standard, yet platforms which also provide features such as Kubernetes are also able to provide multi availability zone deployment for disaster recovery and product clustering with auto-scaling.

On demand scalability also presents the opportunity for banks to resolve any workload flux which may emerge during these periods, to provide consistent and resilient systems which serve banks' highly demanding digital customers of the future.

Open architecture of cloud-based solutions is also attractive to financial institutions as it reduces the friction of cloud migration regardless of where a firm may be in their digital transformation journey. It also ensures smooth interoperability, making it a welcoming and efficient ecosystem in which banks can innovate and collaborate. Finally, the lack of significant upfront infrastructure investment required to deploy cloud-based solutions means that the financial resource can be allocated to other areas of the bank.

06 | Personalisation of services

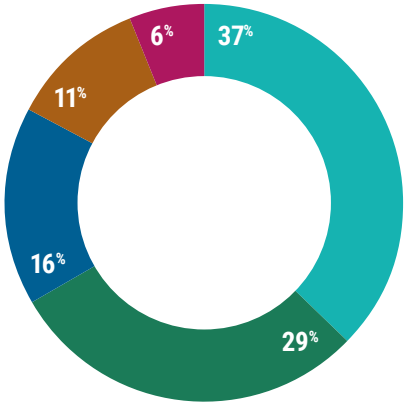
Banking has evolved into a service which is personalised, on-demand and embedded. Since Covid-19, banking has confirmed its status as no longer restricted to physical branches but in the fingertips and at the disposal of customers' high-demands. McKinsey argues that roles in bank branches are predicted to decline over the next decade, with the average branch size expected to shrink from six full-time equivalents to four by 2030. The anticipation of a permanent shift from branch banking demonstrates how catering to customers with a strong digital appetite has never been more important.

Additionally, this pressure bleeds into servicing corporate clients. As employees become increasingly accustomed to fast and seamless services in their private lives, banks feel extra pressure to extend the same level of retail customer experience to their corporate clients. This is no small ask.

Rolling out the same level of service for corporates as they would retail customers entails significant challenges, with key distinctions in the way large corporate clients must be managed compared to the retail class.

How customers want to interact with their banks

I want my bank to be more like:



Amazon
I know what I need, but I'm open to some relevent automated feedback

A personal shopper
I know I need something, I just don't know where to start

A supermarket
I know what I need, and I know it will have it

My Doctor or Dentist
I don't enjoy going, but I know I need to go regularly for important help

My gym
I want it to be an important part of my regular routine

Source: BCG Retail Banking Advisory survey; BCG analsys
Note: n = 1026. Because of rounding, the percentages don't add up to 100.

Source: **Boston Consulting Group**

User experience plays a central role in this new world, and banks must understand and leverage the benefits of personalisation through data insights and technologies like artificial intelligence (AI) and machine learning (ML) in order to remain competitive.

Thanks to the sophistication of these new technologies, the ability of banks to personalise offerings based on the specific needs and interests of each unique customer is no longer out of reach.

Grounded in developing a deep understanding of each customer's unique needs and orchestrating a set of tailored experiences across digital and human channels, Boston Consulting Group (BCG) explains that personalisation potentially creates a win-win scenario for banks and the customers they serve. The Group estimates that for every $100 billion in assets that a bank has, it can achieve as much as $300 million in revenue growth by personalising its customer interactions.

To achieve effective personalisation, banks must aim to build greater control over their data to create a unified view of the customer. By working toward relationship-based banking, financial institutions are better positioned to provide contextual offerings generated through insights from specific customer journeys, not only serving the customer with services they crave where they crave them but also increasing revenue growth.

Personalised pricing is another key area where bespoke offers can set a bank apart from competitors. Strong relationship-based pricing can be achieved with customer relationship data is integrated from across siloes, with fees and charges automatically calculated based on customer-specific parameter. These tailored pricing models mean that specific customers are carefully catered to, and they build a unified view of the customer while cementing customer trust and loyalty in the brand.

Benefits also extend to corporate clients, as technology driven solutions are now able to deliver specific, choice-driven deals for some of banks' largest clients. Through end-to-end management, banks are able to leverage automation throughout the deal process while intuitive simulators offer the ability to continuously gauge profitability, viability and value of deals early on in the deal process. This real-time visibility coupled with the reduction of revenue leakage, customisation, simulation potential and reduction of operational risks, makes for overarching efficiency and assists in managing the complexity of juggling multiple deals in a secure way.

Personalisation extends to benefits and loyalty management. Historically, retail customers have largely realised benefits in the form of standardised point-based systems, incentivising use, and growth through volume. Contemporary loyalty programs have evolved significantly, meaning that both retail and corporate clients alike are set to benefit from customised programs that gauge and reward activity on a far more granular, personalised level.

Sophisticated technology can now provide banks with a detailed understanding of each unique customer across their tenure, product ownership, usage, and relationship value, which allows banks to predict their behaviours. Programs tailored specifically toward the unique characteristics of each client can not only reduce churn and build trust, but can reward customers for their overarching banking relationship rather than their behaviour within a single business line.

Time if of the essence however, and BCG makes clear that in order to capitalise on the competitive advantage of personalisation, banks must act quickly to reap first-mover advantage.

07 | Conclusion

Financial institutions have been faced with unparalleled challenges and fundamental changes to their operational models and the profile of their customer base over the past 24 months. While the Covid-19 pandemic was a shock to the system, it presented the opportunity for banks, especially incumbents with legacy systems, to reassess their digital transformation strategy and re-prioritise to quickly pivot and capitalise on this new environment.

Thanks to the prevalence and increasing sophistication of technology solutions offered by third party providers, banks are well positioned to explore symbiotic partnerships with these providers and evolve into more advanced institutions which can serve their digital customers of the future.

About

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For more information, please visit us at **www.suntecgroup.com** or email us at **marketing@suntecgroup.com**

For more information

Finextra Research
77 Shaftesbury Avenue
London,
W1D 5DU
United Kingdom

Telephone
+44 (0)20 3100 3670

Email
contact@finextra.com

Follow
@finextra

Web
www.finextra.com

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