Market Commentary

Transformation in consumer banking, just what the customer ordered for 2021

Financial institutions may be glad to put 2020 behind them, but the dawn of a new year is doing little to lessen the load that financial institutions are carrying.

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Accenture, 2020

While the rapid adoption of digital capabilities during the COVID-19 crisis ensured consumer access to banking services, initiatives may not have moved the needle for many financial institutions. Financial institutions now rank their digital readiness as lower than they did in 2019, according to the Digital Banking Report,[1] a self-assessment likely influenced by advancing consumer expectations.

In Europe, for example, the use of Fintech apps rose seventy-two percent during Covid-19 lockdowns.[2] Likewise, the use of contactless payments grew thirty percent while adoption of online payment tools escalated twenty percent.[3]

Trends like these have significant impact on financial institutions as consumer expectations continue to evolve with increasing digital adoption.

While consumer trends will certainly influence much of banking transformation strategies in 2021, there is another more urgent driver for digitization.

According to information supplied by McKinsey & Company, seventy-five percent of consumers who began using digital channels during the COVID-19 crisis will continue to do so in the months and years to come.[4]

Economic experts predict that the current low interest-rate environment will continue throughout 2021, compressing banking margins at a time when many financial institutions are looking at credit losses on loans. By some estimations, banks could witness $320 billion in write-offs, representing 2.4 percent of current credit books.[5] In this atmosphere, driving digital efficiencies from the front office to the back office could carve out cost savings to pad profitability and help financial institutions transform consumer banking.

As we look toward 2021, here are the five most important areas for financial institutions to invest their transformational budgets.

Next generation banking automation

Gartner predicts that sales from robotic process automation software cloud reach $2 billion in 2021.[6]

"The key driver for RPA projects is their ability to improve process quality, speed and productivity, each of which is increasingly important as organizations try to meet the demands of cost reduction during COVID-19," said Fabrizio Biscotti, research vice president at Gartner.

The most innovative solution providers are combining the benefits of RPA with artificial intelligence (AI) to deliver smarter workflows that simplify banking processes and increase compliance.

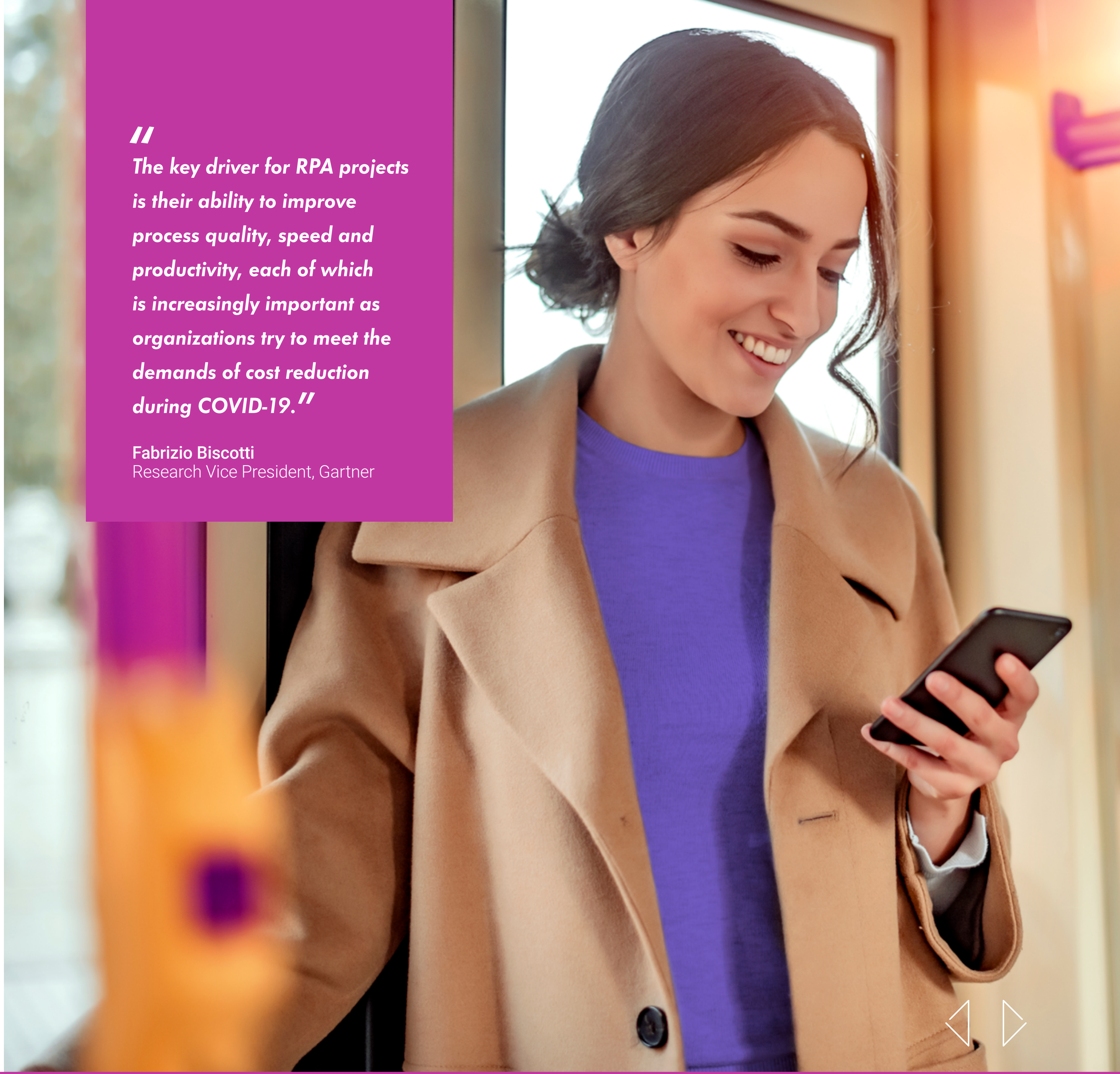
This next generation of banking automation offers financial institutions significant opportunities for cost savings as RPA alone can reduce costs by twenty-five to fifty percent according to the Institute for Robotic Process Automation & Artificial Intelligence.[7]

Moving toward the cloud

As established financial institutions now look toward the future, they realize the need for rapid evolution. Traditionally, financial institutions have relied on home-grown infrastructure, but wieldy legacy systems now impeded bank agility, inspiring forty-eight percent of banking executives to invest IT budgets in the cloud.[8]

Cloud agility is founded in open APIs. APIs provide a connection layer where banks can plug into available platform services in a matter of days. This microservice approach is vital to financial institutions locked into service contracts as it provides a means for meeting emerging needs with best-in-class offerings.

However, financial institutions will also benefit from moving to end-to-end cloud-based processes. The efficiencies realized from improved data handling as well as process automation reduce operating costs and put the financial institution in the running for greater profitability.



"The key driver for RPA projects is their ability to improve process quality, speed and productivity, each of which is increasingly important as organizations try to meet the demands of cost reduction during COVID-19."

Fabrizio Biscotti
Research Vice President, Gartner

Infrastructure security is another advantage of cloud-based applications. On average, financial institutions spend $18.5 million annually to combat cybercrime, according to Accenture.[9]

Cloud providers, such as Microsoft Azure, invest heavily in cyber security to ensure the safety of banking processes and customer data. Even regulators value the security of the cloud and are recommending that financial institutions move to cloud-based services.

Open banking innovation is the future

The move toward cloud adoption in 2021 will also be spurred by trends in innovation. The Fintech industry is booming with products and services designed to attract customers and increase bank or credit union efficiency and profitability. The problem for most traditional financial institutions is the nature of their architecture. On-premise infrastructure is closed to innovation, due to the complexity associated with building out new products and services.

Fortunately, cloud-based APIs provide a connection layer where financial institutions can plug and play a variety of Fintech solutions. While large national financial institutions are investing in the development of their own cloud-based open APIs, the majority of financial institutions will realize better return on investment from industry partnerships.

> *"Sixty-two percent of financial institutions indicated that analytics would be a priority financial investment into 2021."*
>
> World Retail Banking Report, 2020

Taking this approach offers added benefits in longevity. While the latest app or product may meet consumer needs for the first few years, technology quickly grows stale due to the rapid pace of change. Open banking within the cloud provides financial institutions with a steady stream of innovation, either in the form of continuously updated apps or new offerings.

Without out the need for standard service-based contracts, financial institutions can easily adopt new products as necessary. Financial institutions can take advantage of an extensive innovation catalogue to drive deposit and loan growth in new business and consumer markets.

Open banking also reduces the cost of acquisition for financial institutions. The vendor agnostic nature of APIs supports easy integration with third parties, requiring no changes to banking core systems.

Data analytics power growth strategies

Analytics powered by artificial intelligence (AI) and machine learning make it possible for financial institutions to turn data into real time interpretations, delivering both descriptive and predictive insights. Sixty-two percent of financial institutions responding to the World Retail Banking Report in 2020 indicated that analytics would be a priority financial investment into 2021.[10]

New solutions can be integrated directly into the core for unparalleled internal insights but can also derive additional enlightenment from external sources, such as payment systems. A broader set of inputs can paint a clearer picture of customer engagement, preferences and life stages, aiding in audience targeting and enabling financial institutions to offer proactive guidance.

The use of targeted analytics will be essential in 2021 as financial institutions seek growth, helping financial institutions to predict future successes while mitigating risk.

Preparing for a potential RegTech mandate

Over the past year, the number of regulatory technology companies entering the market has risen. Driven by an increasing cyberthreat and advancements in AI and machine learning, vendors are making strides with financial institutions, often replacing internal matrices requiring inefficient manual intervention.

With AI and machine learning, solutions are continuously updated, supplying real-time inputs. Given the strength of these applications in identifying financial crime, both from within and outside the organization, it is highly likely that many regulatory authorities will begin to require the use of supported solutions over the next few years.

Overall, technology adoption will lead the way for financial institutions in 2021, driving down costs and aid in customer acquisition.

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