IDC InfoBrief

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How banking has changed for good

Becoming an intelligent financial services player

IDC ANALYZE THE FUTURE

IDC Financial Insights

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Executive summary

The COVID-19 pandemic has challenged many aspects of the banking business model — from causing disruptions to branch operations and forcing workers into remote working, to accelerating the adoption of digital financial services as customers move to customer-driven digital interactions.

These changes, coupled with the entry of digital banks, introduced new competitive dynamics across financial services and underscore the inadequacy of current back-office operation and support systems.

Banks now more than ever need to re-evaluate their business models and explore technologies that can transform and enhance their legacy systems to become more digital, agile, and integrated to their innovation efforts.

This IDC Financial Insights InfoBrief takes a closer look at key trends driving changes across six banking lines — retail, corporate and transaction banking as well as payments, lending, capital and treasury markets — and five core themes that define any bank's competitive advantage in the next normal.

By 2022

IDC Financial Insights expects that

75%

of tier 1 Asia Pacific banks will deploy intelligent automation solutions at scale for increased automation, intelligent decision making, and improved operational efficiencies to achieve exceptional business value.

Transformation of banking amid the great disruption

Financial institutions have their work cut out for them. The pandemic has accelerated their digital transformation plans, pushing retail, corporate and transaction banking to move beyond solely revamping customer interfaces to comprehensively revise operation models.

Retail banking

- **Rising customer expectations of remote and 24/7 financial services** are driving investments into digital channels.
- **Platform interconnectivity** to enrich the functionality of digital platforms and to magnify APIs. By 2022, 60% of banks in the Asia Pacific will have integrated solutions from Fintechs and small technology vendors.
- With declining transactions, **branch networks are being optimized** to serve as an advisory hub rather than a transactional point. By 2021, 30% of in-branch transactions across Asia Pacific will be pre-staged on digital platforms and fulfilled at self-service kiosks at the branch.

Corporate banking

- Banks in the Asia Pacific region are building capabilities for niche offerings to address gaps in the market. For example, **greater ERP-bank integration**, magnifying the potential for faster turnaround time, and greater transparency of transactions.
- Technologies provide real-time analytics for **early warning and credit risk mitigation**, leveraging internal and external data to predict likely impairment of financial assets.

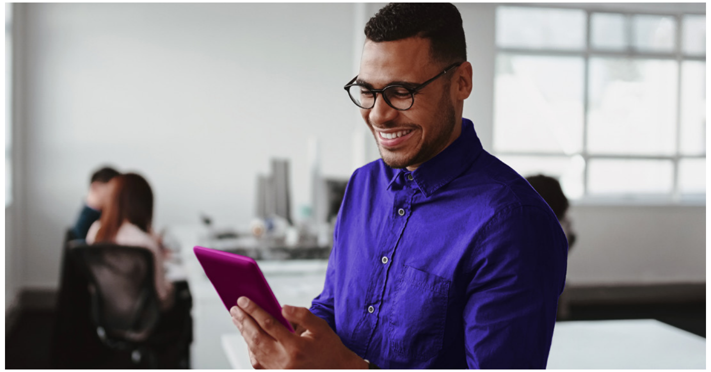
Transaction banking

- The rise in international trade for big corporations as well as small and medium-sized enterprises (SMEs) in the Asia Pacific region presents significant demand for cross-border transaction solutions that leverage digital platforms to manage cash flow.
- Integrated **multi-party platform** solutions can extend working capital facilities for both buyers and suppliers across the supply chain through collaboration, information sharing, and information visibility.
- Banks are now building **open trade ecosystems** by leveraging APIs and smart contracts to digitalize the trade lifecycle.

Finding new ways to optimize the balance sheet

These uncertain times are also calling on transformative changes across lending, payments, and treasuring and capital markets. The quest is on to transform into intelligent digital financial service players using digitalization, advanced analytics, and automation.

Lending



- To offer **digital lending**, banks that invest in end-to-end workflow automation have an advantage of speeding up processing time, limiting manual input of data. By 2022, over 50% of Asia Pacific lenders will enable digital platforms to transform the lending process.
- By 2021, 30% of banks will expand lending to non-traditional customers and small business borrowers through **predictive models** powered by artificial intelligence (AI) and machine learning (ML) on **alternative data** gathered by both banks and Fintech partners.

Payments

- Over 48% of banks in the Asia Pacific region have initiated projects to issue near-field communications (NFC)-enabled cards for contactless payments.
- With the introduction of the **ISO 20022** standard, tier 1 and 2 banks in the Asia Pacific region are building extended solutions to support businesses in invoice reconciliation as part of payments processing.

Treasury and capital markets

- Over 35% of banks in the Asia Pacific region believe that integrated analytics is a critical expectation of treasurers. IDC Financial Insights expects banks to introduce new offerings, such as **analytics as a service** and **insights as a service**.
- **Innovation in risk management** to tackle counterparty risks with the ability to develop real-time views of liquidity that leverages Big Data.
- By 2020, 15% of banks in the Asia Pacific region will enable AI and ML to optimize balance sheet management.

Five core themes for operating in the next normal of banking

Banks will stack up their competitive advantage over their peers, and rebuild their proposition to customers in 2020 and beyond.

1 Real time

The promise of real time is significant: instant payment and settlement, faster authentication of transactions, optimized cash flow visibility, real-time fraud monitoring, and anti-money laundering (AML) screening.

2 Self-service

Expanding self-service capabilities in all segments of banking through digitalization and integration. Besides mobile devices and web channels, integration with clients' proprietary applications for seamless processing capabilities and enhanced banking-as-a-service capabilities is part of delivering a frictionless digital customer experience.

3 Transparency

Providing customers with real-time visibility into their transactions and liquidity positions presents significant benefits in empowering them to manage liquidity and cash flow positions, leading to greater certainty of business decisions.

4 Empathy

A data-driven empathetic ecosystem paves the way for banks to not only understand their customers' needs but to also serve them better. In the race for customer retention and loyalty, banks that excel in communicating and delivering banking products and services at the right time and place will win.

5 Connectedness

An integrated financial ecosystem serving customers through connected marketplaces over the cloud for seamless lending, payments, trade, cash management and closely coupled banking services. Analytics and value-added services using third-party platform services unlock new opportunities for distribution and servicing.

1

Driving real-time capabilities for enhanced customer experience

As financial institutions digitalize their businesses and drive consistent and better customer experiences, consumers are embracing personalized real-time engagements and resetting their expectations for data delivery.

Payments

Real-time payments (RTP) centered around the ecommerce boom will continue to grow as banks adopt payment technologies to cater for immediate, continuous and uninterrupted processing of peer-to-peer (P2P) and corporate payments.

These, however, may depend on the progress the bank makes towards open banking, digitalization of other processes (e.g., Know Your Customers [KYC] checks), and participation in ecosystems.

IDC Financial Insights Prediction

By 2022

70%

of banks in the Asia Pacific region will adopt real-time payments, but only 25% will be able to productize it, despite two-thirds of customers being open to pay for related value-added services.

Fraud and risk management

- 8% of Asia Pacific banks believe that the introduction of real-time payments has resulted in increased fraud losses.
- The economic downturn has tested the agility and robustness of asset-liability management of banks, highlighting the need to respond swiftly to the crisis with heightened stress testing using new test scenarios.
- Risk management models are being enhanced to best balance the risk of stimulus lending to sectors that are most affected by the pandemic. IDC Financial Insights predicts that there will be significant investments in solutions that use advanced analytics for quicker decision making on lending.

IDC Financial Insights Prediction

By 2021

60%

of payment service providers will offer integrated fraud services that screen and block transactions in real time.

Value-added service

- Integrating accounting software with core banking platforms provides opportunities for direct monetization beyond accounts and payments.
- Integrated treasury operations enables enterprises to optimize their asset-liability management and capitalize on arbitrage opportunities, regardless of the operating or capital structure.
- Real-time value-added services is a valuable data asset that allows banks to track transactions and its utilization across the enterprise and extended financial ecosystem.

IDC Financial Insights Prediction

By 2023

$37b

Everything as a service (XaaS) is a completely different revenue model, resembling more of an outsourcing service provider. Revenues from XaaS models will be among the biggest new revenue opportunities in the Open Banking era, estimated around $37 billion.

Banks in the Asia Pacific region are escalating investments to compete on *real time* — focusing on payments, contextual marketing, risk management, fraud management, and product offers.

2

Pursuing self-service for better engagement

Self-service is nothing new, but what has changed is customers' expectations, and these expectations are now shaped by quality self-managed and self-controlled experiences outside of financial services.

Customer centricity

One of the biggest digital self-service trends to have emerged in recent years has been a reappraisal of customer service priorities.

Speed of service and accuracy of information are no longer the only benchmarks of success; the focus is on creating interfaces that are highly personalized to customers' banking needs, creating a seamless self-service journey from account initiation.

Over 65% SMEs in the region are keen to avail remote online credit facilities from their banks. By 2021, 25% of banks will be able to plug into the digital economy to provide remote online services to SMEs.

IDC Financial Insights Prediction

By 2023

$3.4b

will be invested into digital channels for online and mobile development as well as platform capabilities in the Asia Pacific.

Digital onboarding

The introduction of digital IDs and country-specific eKYC frameworks enable remote authentication and digital onboarding across retail and corporate banking.

In the Asia Pacific, biometric identity is now feasible in Australia, India, South Korea, Philippines, Thailand, and China, with many other countries looking into developing similar policies.

IDC Financial Insights Prediction

By 2021

65%

of banks will have implemented automated straight through processing (STP) for lending and disbursements, speeding up process flows for digitally initiated transactions.

Treasury services

Treasury as a service will help corporates optimize their cash management, stay compliant, and reduce liquidity risks. Banks can leverage their domain expertise and offer value-added services that leverage data analytics as well as their unique position in the supply chain to bring real value to customers.

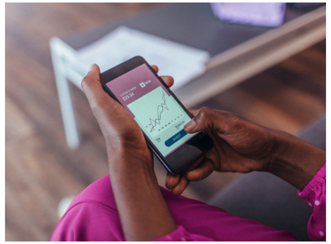
Corporate banking clients see massive value in providing self-service options and outsourcing day-to-day treasury operations. The IDC Financial Insights Corporate Treasury Survey 2019 found that 70% of treasurers are interested in treasury as a service, and 61% are interested in KYC as a service.

IDC Financial Insights Prediction

By 2023

$988m

will be invested into all aspects of cash management and treasury services for corporate clients across the Asia Pacific.



70% of Asia Pacific banking customers view banking processes as tedious. In the lead-up to the crisis, less than half of the banking customer base was active on digital banking channels.

3

Building trust through transparency

Ultimately, the push for greater transparency hinges largely on technology. Real-time liquidity and management systems are a must, as are systems which can effectively measure systemic and interbank risk. Banks must strive to increase transparency in their business because in the long term, this strategy will lead to better customer satisfaction, more efficient customer selection, and result in greater bank earnings.

Trust

- The principle of transparency reinstates trust in financial services.
- Corporate banking customers have long demanded more transparency, better access to funding, improved risk management and productivity support. Banks will have to revisit their product and services offerings or face growing disintermediation as treasuries increasingly source new solutions from the emerging digital treasury ecosystem.

IDC Financial Insights Prediction

By 2021

Almost all

tier 1 banks in the Asia Pacific region will offer integrated real-time capabilities to enhance transparency in transaction banking processes.

Data sharing

- Open Banking initiatives facilitate the sharing of non-confidential data between financial and ecosystem players on a larger scale. It is imperative that banking customers are aware of how the data gathered from them are being utilized.
- Leading banks in the SME space are looking to offer banking services that can integrate seamlessly with online accounting solutions — the key will be to negotiate the desired extent of data access from the accounting services provider and ensure clients have a compelling reason to provide consent to share their data.

IDC Financial Insights Prediction

By 2021

With increasing adoption of Open Banking,

35%

of Asia Pacific banks will offer online accounting solutions and ensure clients have a compelling reason to provide consent to share their data.

Transparency

- Trade finance remains one of the most opportunistic areas within corporate and commercial banking to leverage distributed ledger technology (DLT).
- Transparency in payments by providing certainty in the timing and pricing of the transaction enables an on-demand transparent pricing model for lending and investments.
- The level of digital adoption among SMEs varies across the region, with Australia on one extreme reporting around 45% for online channels, while adoption in Thailand is below 10%.

IDC Financial Insights Prediction

By 2023

The convergence of DLT, Internet of Things, and smart contracts will reduce cost for enabled operations by

60%

and will cut processing times in half for paper-heavy transactions such as letter of credit.

Asia Pacific banks believe that real-time capabilities across the business spectrum provide clarity and transparency to the end customers.

4

Engaging with empathy for customer assurance

Empathy is manifested through positive moments of truth, and culminates in next-best actions to move customers closer to fulfilling their requirements.

Driving loyalty

Data and technology play an integral part in helping businesses forge more human connections with their customers.

Customer experience has become increasingly important in digital financial services as customers expect a memorable experience. Differentiated experiences drive loyalty, and companies are seeing brand loyalty as a way to create a long-term competitive advantage, especially with increased competition from new digital banks.

By facilitating data from across the market ecosystem, banks stand to service their customers better, tailor interactions to customer needs and interests, and build trust. In short, data and technology are helping banks be more empathetic.

With empathy at the core, **real-time payments workflows** undoubtedly impact how banks and merchants address fraud within new payment ecosystems. New technologies and strategies will likely be needed to adequately protect customer interest and address the risks associated with the faster movement of money.

IDC Financial Insights Prediction

By 2021

40%

of banks in the Asia Pacific region will use a consent-based approach to maximize the value of contextualized customer journey personalization and automated conversations, increasing loyalty up to four times.

Only 20% of banks in the Asia Pacific believe they truly understand their customers.

Niche offering

As policies to empower SMEs and new regulations begin to take full effect, the pressure on banks to address these segments is increasing.

The ability to expand the context in which SME risk profiles are analyzed has been particularly valuable for banks amid the disruption and in view of government stimulus measures.

IDC Financial Insights Prediction

By 2021

75%

of banks will implement AI applications enabling intelligent decisions and automated processes for corporate KYC, reducing time to approve enrollment for new corporate accounts.

5

Seizing the power of connectedness

Open Banking is helping to redesign processes, promoting a more connected financial ecosystem. By leveraging APIs, platforms, and cloud, banks are delivering data-centric solutions to their clients, improving real-time access to data, optimizing decision-making processes, and tackling potential risks.

Platforms, ecosytems and API integration

- Banks are aggressive in building out their partner ecosystem to include other related banking applications. Specifically, APIs to create pre-built integrations that streamline data flow between systems.
- Banks are turning to treasury application software with advanced APIs to connect directly with payment systems and trade execution. Consequently, latency is reduced in the flow of information and money.
- Bank treasurers benefit from access to a partner ecosystem that is integrated with currency exchanges, risk management software providers, fraud detection solutions, and information services.
- Partnerships with lending marketplace aggregators make it easy for customers to select and compare financial products.
- Banks need to be a part of the wider financial ecosystem, which will enable them to reach potential customers with minimum effort or investment.
- Data sharing in the ecosystem will be critical, and banks need to build connectivity options (APIs) as well as services to enable SMEs to gain value. This could be the nature of exchanging data from ERP or finance systems and account receivables to improve credit ratings and increase lending while minimizing risk based on access to operational data.
- A shift to third-party platforms (cloud in particular) as a way to address security concerns.

IDC Financial Insights Predictions

By 2021

40%

of Asia Pacific banks will enable multiple channel borrower platforms to sell and service lending products.

By 2022

60%

of retail banking products and services would be rendered through banking-as-a-service platform over cloud by emerging challenger banks and digital banks in the Asia Pacific.

By 2024

60%

of in-store and online Asia Pacific merchants will accept multiple non-card retail payments operationalized by direct-from-bank schemes and ewallets, forcing change in traditional card models.

44% of the top 250 banks across the Asia Pacific are focused on completing their "connected core" transformation — working on platform-based and componentized modernization, and API-enablement.

Building new capabilities for intelligent financial services

Financial institutions have a lot to deal with: cost escalation, revenue pressure, rising customer expectations, and changing regulations. To stay relevant and cost-competitive, financial institutions will need to update their infrastructure to make it more responsive to the new normal.

Top 5 business priorities

1 Simplify legacy systems

IDC Financial Insights predicts that the current disruption will prompt incumbent banks to evaluate existing legacy systems and develop an actionable plan to make processes leaner, with a feasible timeline to make modular upgrades or undergo a complete overhaul. They will also develop new capabilities that run in parallel to meet business requirements.

Simplify legacy systems by enabling more modular core banking architecture.

2 Accelerate API usage

IDC Financial Insights predicts that by 2020, 55% of tier 1 and 2 Asia Pacific banks will subscribe to an API management platform, all to optimize their effort of managing APIs. Plug-in and plug-out API capabilities facilitate partnerships with third-party developers and Fintechs that can expand the reach of a bank's existing product portfolios.

Comply to mandates for access to customer data, but also use data from reliable third parties.

3 Work on cloud

IDC Financial Insights expects that 80% of the region's tier 1 and 2 banks can move quickly to cloud. Banks will seek cloud services as a recourse, particularly if scalability and availability requirements increase. Banks' portfolios of mobile and digital application capabilities — mobility solutions, next-generation payments, and Big Data analytics — are new and thus primed for cloud.

Use new frameworks for cloud adoption fit for financial services.

4 Adopt a platform model

By 2020, 65% of incumbent banks will build their hybrid integration platform for true interoperability across multiple products or suites. Cloud-based platforms will allow financial institutions to bring innovations to market quickly and test and adapt as they go. A platform model provides many opportunities to reduce costs through economies of scale.

Use platform thinking, not just for technology, but also for transforming the business model.

5 Deploy intelligent automation

The banking industry leads the way in AI adoption, with $5.6 billion expected to be spent on AI-enabled solutions by 2022, including automated threat intelligence and prevention systems, and fraud analysis systems. These investments are fueling rapid AI and ML innovation and are transforming the customer journey across the industry.

End-to-end regulatory reporting automation from source system data to report generation.

Essential guidance

IDC Financial Insights recommends the following strategies that will help banks evolve into an intelligent financial services player:

Accelerated disruption

Navigating business challenges as volatility intensifies

Keep pace with economic changes by increasing the speed of business operations, the speed at which changes are delivered, and the speed and scale of innovation.

Embrace cloud for agility, flexibility, and operational resilience, complemented by aggressive DevOps and an agile-based model.

The age of innovation

Driving the future enterprise

Strike a balance between digital and operational competencies. Master new competencies at scale to transform markets and reimagine the future through new business models and digitally enabled products and services.

Aim for disruptive innovation through partnerships to deliver digital products and services for an omnichannel customer experience.

The platform economy

Competing at hyperscale

The platform is where the future of software, infrastructure, and connectivity will evolve and where edge will be accessed, integrated, and optimized. "Platform thinking" is a fundamental shift in business strategy, moving beyond product differentiation and pricing toward ecosystem-based value creation.

Connect with third parties over cloud-based platforms for scalable and modular engagements. Leverage APIs for wider reach and larger scale.

Intelligence everywhere

Leveraging artificial intelligence

Accelerating progress in AI impacts experiential engagement, business processes, strategies, and more — autonomously creating a significant portion of new innovations.

Manage customer experience, threat, risk and compliance by orchestrating data using AI and ML and adopting intelligent automation.

Customer expectations

More convenience, customization, and control

Systematically collect, measure, and analyze data to create exceptional, personal, relevant, and compelling experiences to gain competitive differentiation.

Build the technology capabilities to get more intelligence about customers' needs. Capture and leverage data for context.