FINASTRA

Financial Services State of the Nation Survey 2023

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Executive summary

Worldwide, a convergence of rapid innovation and customer-centricity is transforming financial services. Banking as a Service (BaaS), embedded finance, and artificial intelligence (AI) are taking center stage, enabling financial institutions to offer the seamless, personalized experiences that customers increasingly demand, on platforms that they already use.

Finastra's 2023 Financial Services State of the Nation survey finds that financial decision-makers are excited about this changing landscape, and that they regard 2023 as a year of action. The industry is moving beyond the observation and planning phase with regard to BaaS and embedded finance – this year sees an acceleration in the implementation of these innovations. 48% of financial institutions globally have enhanced or implemented BaaS capabilities into their offerings, a significant jump from the 35% recorded in 2022 – with similar growth seen in embedded finance.

This momentum extends to AI, with global implementation rising markedly in the past 12 months. Decision-makers perceive generative AI specifically as another lever to meet increased customer expectations for tailored, personalized services. The use cases which excite decision-makers extend well beyond this however, and vary considerably by market. It is clear that generative AI is seen as a means to advance other key focus areas for financial services, such as data collection and analysis for environmental, social and governance (ESG) and anti-money laundering (AML) initiatives.

In this area too, 2023 is a year of action. The race to implement generative AI is already underway. Only 6% of financial institutions worldwide say they're not interested in adopting it. However, capitalizing on this opportunity requires a nuanced understanding of associated security and computational challenges, emphasizing the need for strategic partnerships.

Looking forward, a cautious optimism prevails in the financial services landscape, with over half of institutions planning to resume full investments by H1 2024 following a period of constraint. BaaS, embedded finance, and AI remain steady as future investment priorities, reinforcing their enduring relevance. Importantly, financial institutions continue to look outward, prioritizing industry collaboration and ESG initiatives, even amid economic challenges in some markets, underlining a shared optimism for progress through innovation, openness and collaboration.

This year's Financial Services State of the Nation survey sees financial institutions actively shaping the future of finance by leveraging innovation to drive a shared vision of customer-centricity, openness, and positive impact. They are not merely adapting to the transformational technological changes, they are actively leveraging them to meet key priorities.

Section 1

Innovation, artificial intelligence and meeting new customer expectations

Financial institutions are excited about the rapid pace of technological and cultural change and the opportunities ahead.

Advances in technology often generate headlines about how they will change the way we work. However, this year's Financial Services State of the Nation research demonstrates that most decision-makers in financial institutions worldwide are excited about the opportunities these changes present.

Nearly nine in ten decision-makers are excited personally about the pace of technological and cultural change within financial services (87%) and almost as many say they are excited for the opportunities it will bring for their financial institution (83%) and the wider financial services industry (81%).

Excitement is highest in the US, and some Asian and Middle Eastern markets. Enthusiasm for the opportunities that fast technological and cultural change in financial services will bring for society as a whole are highest in Hong Kong (93%), whereas excitement for decision-makers on a personal level and for the financial services industry specifically is highest in Saudi Arabia (93% and 92% respectively).

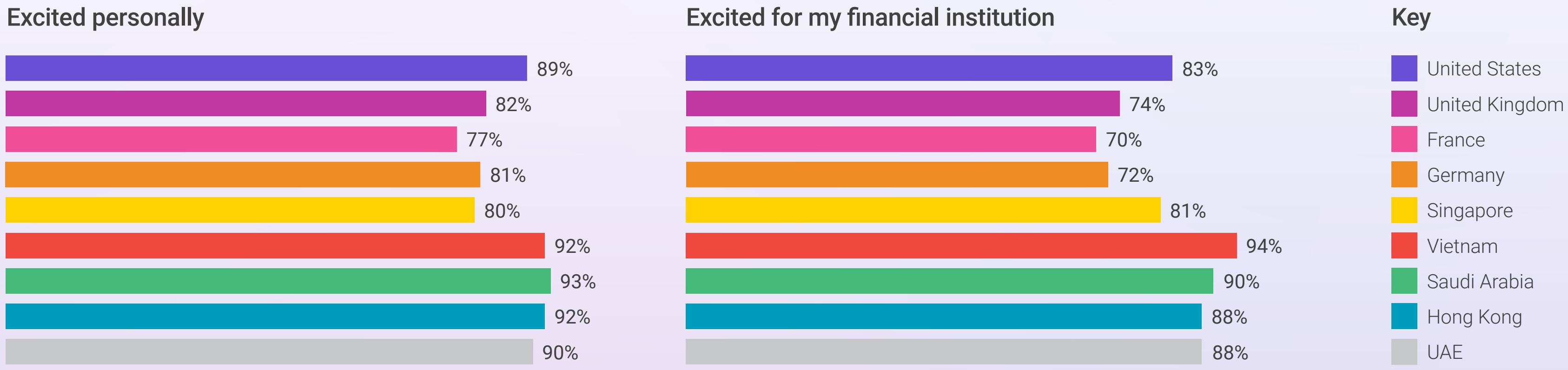
Decision-makers in Vietnam are the most likely to be excited about the opportunities for their individual financial institutions (94%), which may suggest that organizations here feel readier to benefit from rapidly-evolving technologies and cultural change than elsewhere.

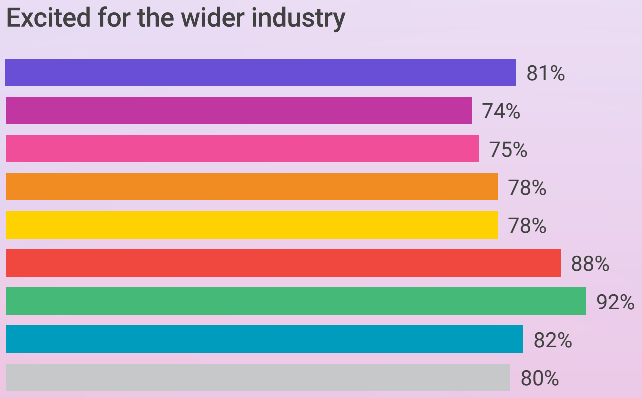
As the chart below shows, enthusiasm is also high in other markets. It's notable however that France, Germany, the UK and Singapore are slightly more cautious. This is consistent with the attitudes that decision-makers in these markets have tended to display across previous installments of Finastra's Financial Services State of the Nation Survey.

Notably, in France and Germany, decision-makers are more likely to be excited on both a personal level and for the wider industry than for their own financial institution. This may suggest that decision-makers in these markets see the potential positive impact across the industry, but recognize that their own organizations may have to do more to capitalize upon the opportunities that rapid technological advancements offer.

Excitement for opportunities from fast technological and cultural change in financial services

Excitement for opportunities from fast technological and cultural change in financial services, by market





These high levels of enthusiasm raise a question: what exactly *are* these new opportunities for financial institutions?

Technological innovation can provide a wide range of operational efficiencies, but this year's research finds that a key reason for the excitement lies in the potential financial firms foresee in better meeting dynamic and evolving customer expectations.

Decision-makers see new technologies as a means to meet increased customer expectations

Improving customer experience is important for any business, but financial institutions have many competing priorities.

In our State of the Nation 2022 research, decision-makers in this highly-regulated environment identified security as the primary concern and consideration – in terms of both personal data and stable, secure banking. Next in the hierarchy of needs came easy access to finance, followed by other banking solutions and transparent terms and fees.

The importance of improved customer experience and personalization didn't go entirely unrecognized, with three in ten financial decision-makers identifying this as a driver of meeting customers' needs (31% and 29% respectively). However, five other factors came above this on the list of customer needs; while financial firms were well-aware of the need to offer better customer experiences and more personalization last year, security, stability of banking apps, and other areas were more immediate, top-of-mind priorities.

This picture has changed in 2023. Financial decision-makers demonstrably regard improving customer experience and increasing personalization as more pressing priorities than they did previously. When asked what customers expect from their financial institution, two in five decision-makers (39%) identified improved customer service and personalization.

More significantly, this is the second-most widely identified customer expectation by financial institutions in 2023, after trust that institutions can effectively safeguard customers' finances.

During times of economic uncertainty, as much of the world has faced post-pandemic, maintaining this trust with customers is particularly important for financial institutions – and Section 3 discusses how decision-makers intend to navigate this landscape. But the fact that customer experience and personalization has now moved to the second most important driver perhaps reflects the increasingly competitive arena in which to acquire and retain customers, particularly in a market disrupted by agile competitors delivering new levels of customer-centricity.

For context, improved customer service and personalized experiences are now expected by customers in higher numbers than crucial factors such as data security and transparency about terms and fees. This is not to say that these have become unimportant – they remain major focusses for financial institutions – but that delivering these must now be through a more customer-centric lens.

> ***"When asked what customers expect from their financial institution, two in five decision-makers (39%) identified improved customer service and personalization."***

What financial institutions believe are the priorities for their customers

Security, transparency and easy access to finance remain key, but the need to give customers an improved service and personalized experiences requires a renewed focus. According to financial firms in France, Singapore and Saudi Arabia, these are the most important criteria for customers – in these markets, personalized experiences and improved customer service are even more widely cited customer expectations than trust.

Our findings show that financial decision-makers plan to leverage new technologies in order to meet these rising expectations of outstanding customer experiences and personalization, and thereby to ensure that products and propositions remain relevant and compelling in the years to come. In addition, Banking as a Service (BaaS) and embedded finance are increasingly seen as central to financial institutions' plans and the rising expectations they face.

40%
Customer trust that they can effectively safeguard personal and/or corporate finances especially during economic downturns

39%
Improved customer service and personalized experiences

38%
Transparent terms and fees

38%
Security of personal and corporate data/privacy

37%
Easy access to loan advisory/lending services

35%
Easy access to finance/treasury services

35%
Ability to access embedded finance options (i.e. finance embedded at point of sale or within ERP systems)

34%
Ability to easily track/monitor expenditure

34%
Ethical values/seen to be helping the local community/finance for good

34%
Use of the latest technologies

33%
Features that support/advise on the growth/management of cashflow

29%
Availability of a wide range/'ecosystem' of products

"The growth in BaaS and embedded finance adoption shows that financial institutions understand the value of accessing new distribution channels and offering third-party value-added services through their own channels. While recent economic headwinds have constrained technological investment, institutions are still prioritizing rolling out BaaS and embedded finance use cases. This reflects the industry's move away from the 'euphoria stage' and towards use cases that drive client value. This is validated by several use cases Finastra has helped launch for clients and partners and our continued momentum."

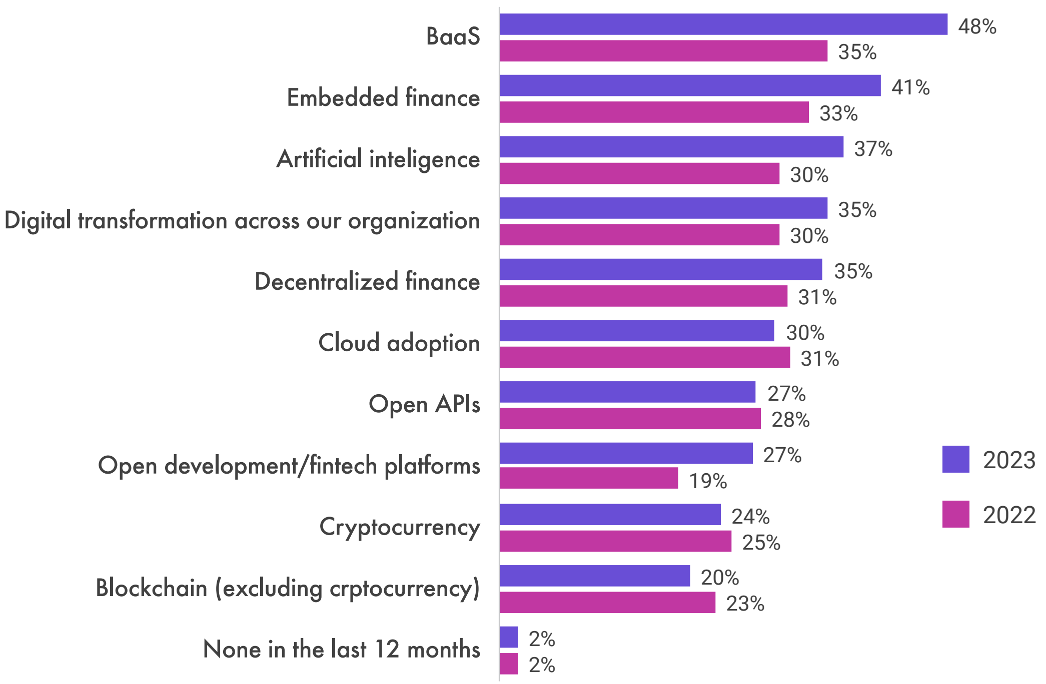
Radha Suvarna,
Chief Growth & Product Officer, BaaS and Value Added Payment Solutions, Finastra

BaaS and embedded finance are on the rise as customers seek seamless experiences

Last year's Finastra State of the Nation research identified BaaS and embedded finance as technological trends disrupting the financial services industry.

This year, these technologies have grown in significance, with financial services organizations adopting them in far higher numbers. Compared to 2022, decision-makers are considerably more likely to have either deployed, or improved, these technologies within their organizations during the past 12 months, jumping by 37% and 24% year-on-year.*

Technologies improved or deployed at financial institutions in the last 12 months



*Note: percentage increases and percentage-point increases are slightly different, and the percentage increases noted above should be interpreted carefully. An increase from 35% to 48% is a 13-percentage-point increase, but a 37% increase.

Globally, nearly half (48%) of financial institutions have either deployed BaaS or improved their capabilities in this area in the past 12 months, a sizeable increase from the 35% recorded in 2022. The US is leading the way in this area, with close to two thirds (64%) having improved or deployed BaaS, significantly more than in most other markets. The financial services sectors in Vietnam (55%) and Saudi Arabia (53%) have also seen particularly high levels of activity in this area over the last year.

Improved or deployed Banking as a Service in the last 12 months

Global	48%
France	48%
Germany	35%
Hong Kong	51%
Singapore	40%
UAE	49%
United Kingdom	34%
United States	64%
Saudi Arabia	53%
Vietnam	55%

Faced with the task of meeting increased customer expectations for much more seamless experiences in financial services, BaaS and embedded finance are timely enablers. They offer the means for financial institutions to integrate their services into the apps, websites and other platforms that their customers already use. This way, businesses can satisfy customers' expectations by meeting them where they already are, not vice versa.

Moreover, as these models become increasingly advanced, and the functionalities they provide become simpler to integrate, organizations are now able to offer more all-encompassing tailored propositions. BaaS and embedded finance enable financial institutions to provide more personalized experiences, capable of more accurately tailoring services to end customers' precise expectations, preferences and situations.

Crucially, these models also offer a faster way of doing this than before. Over four in five (81%) decision-makers say that both BaaS and embedded finance enable quicker time-to-market; leveraging these technologies eliminates the need to build banking products from scratch.

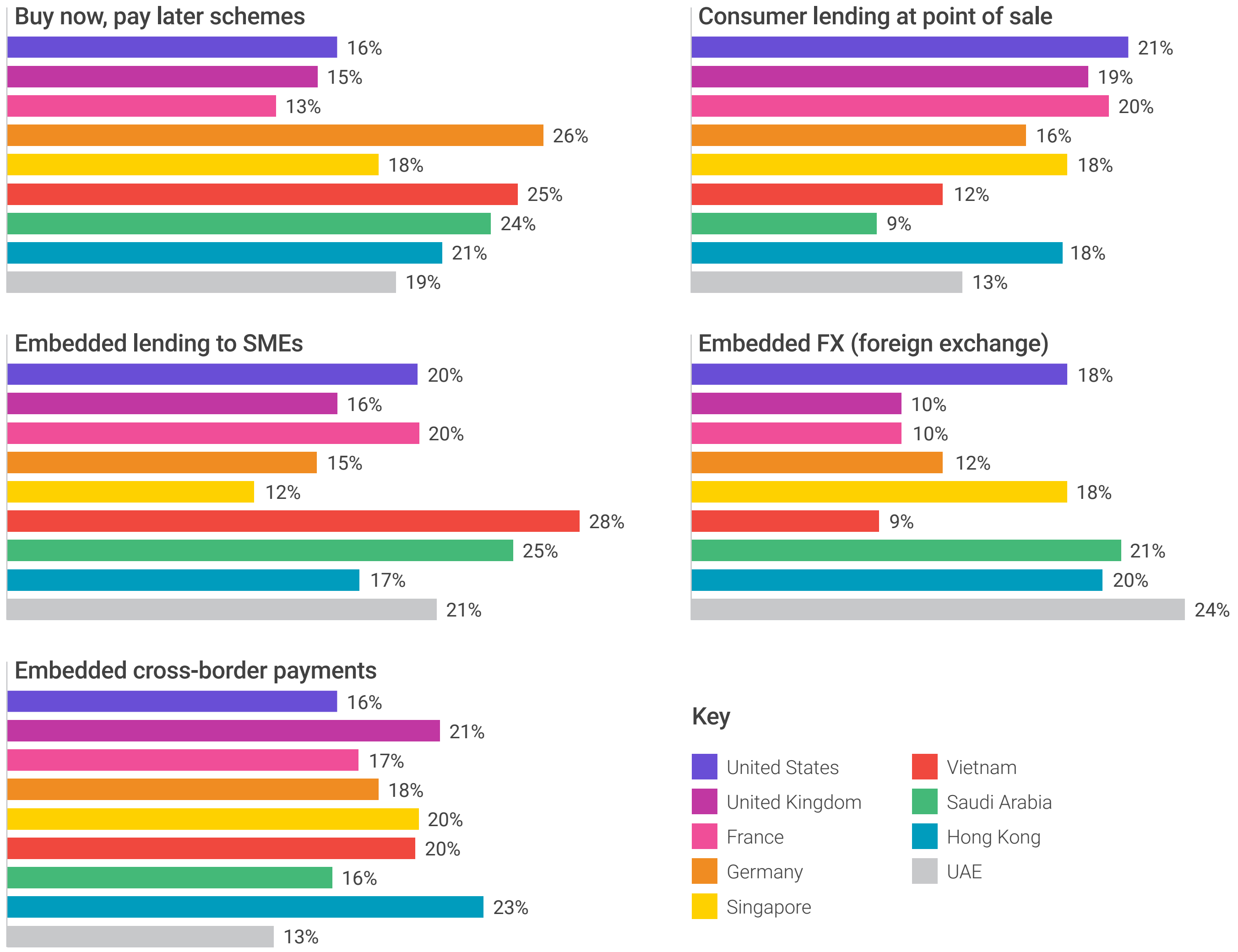
Most advanced BaaS and embedded finance use cases, by market

The BaaS and embedded finance use cases which are most advanced differ across markets, but it is notable that there is a lack of consensus within each market about which use case is most advanced.

In France, consumer lending at the point of sale and embedded lending to SMEs are seen as more advanced than any other use case. The former is also the most advanced use case in the US, while the latter is in Saudi Arabia and Vietnam.

Decision-makers in the UK, Singapore and Hong Kong have made the most ground in embedded cross-border payments, whilst in Germany 'buy now, pay later' schemes are regarded as the most advanced, and finally, in the UAE, embedded FX leads the pack.

While these use cases may be perceived to be further ahead in some markets, it is telling that no use case is lagging far behind at a global level. Only 4 percentage points, based on a global average, separate the most advanced use case - 'buy now pay later schemes (20%) - and the least - embedded FX (16%).



"Embedded finance takes time to be fully realized; our own extensive research showed that banks take an average of six years from the point of investment. It's a complex undertaking that requires reframing value propositions and leading on use cases, rather than just selling APIs. The product mentality needs to shift to an ecosystem-win mentality."

Paolo Sironi,
Global Research Leader, Banking and Financial Markets, IBM Institute for Business Value

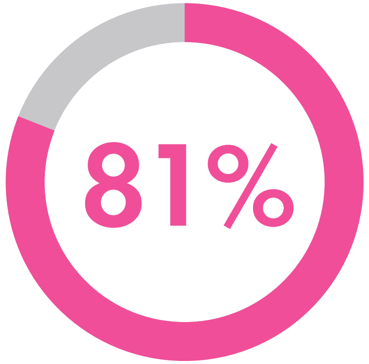
The talk is over – financial firms are now taking action to meet rising customer expectations

Dialogue on the importance of BaaS and embedded finance to customers is not new. A similarly high proportion of decision-makers are aware of customer demand for these technologies compared to last year, despite a marginal decrease from 83% to 81%.

But this year, there has been a gear shift, as deployment and improvement plans have accelerated. If 2022 was more a year of observing and planning, 2023 is the year of action for BaaS and embedded finance.

In the case of BaaS in particular, moving from one in three (35%) deploying or improving it last year to approximately half (48%) this year, this is a clear sign of its potential value in a more fragmented financial services environment. Adoption is increasing as financial institutions increasingly recognize its importance and wide-ranging use cases.

Financial institutions can see that the landscape is changing, and understand that they must deliver financial services the way their customers want them, and whenever and wherever they want them to remain competitive and relevant.



Banking as a Service and embedded finance is already expected /demanded by our customers

Financial organizations are rapidly exploring the benefits of AI

Much like BaaS and embedded finance, deployment of AI and improvements in AI capabilities have also increased notably year-on-year, rising from 30% to 37% at a global level.

Compared to 2022, financial institutions in the UAE and UK have made the biggest strides in deploying or improving AI, with the proportion of institutions beginning or progressing their AI journeys increasing year-on-year from 25% to 45% in the UAE and from 22% to 37% in the UK. Notably, around half in Saudi Arabia (55%) and Vietnam (44%) have made these moves too.

While decision-makers in some markets are less likely to be improving or deploying AI than last year, this isn't to say that these decision-makers are disinterested in these technologies. For instance, in the US, many smaller institutions may be adopting a "wait and see approach" when it comes to deploying AI, taking the opportunity to learn what bigger institutions do first.

Advances in AI are expected to support the rise of BaaS and embedded finance going forward, adding value to these technologies. For example, financial institutions can leverage AI at the front end for a better customer experience in BaaS. Additionally, its use in embedded finance can support credit decisions and fraud detection.

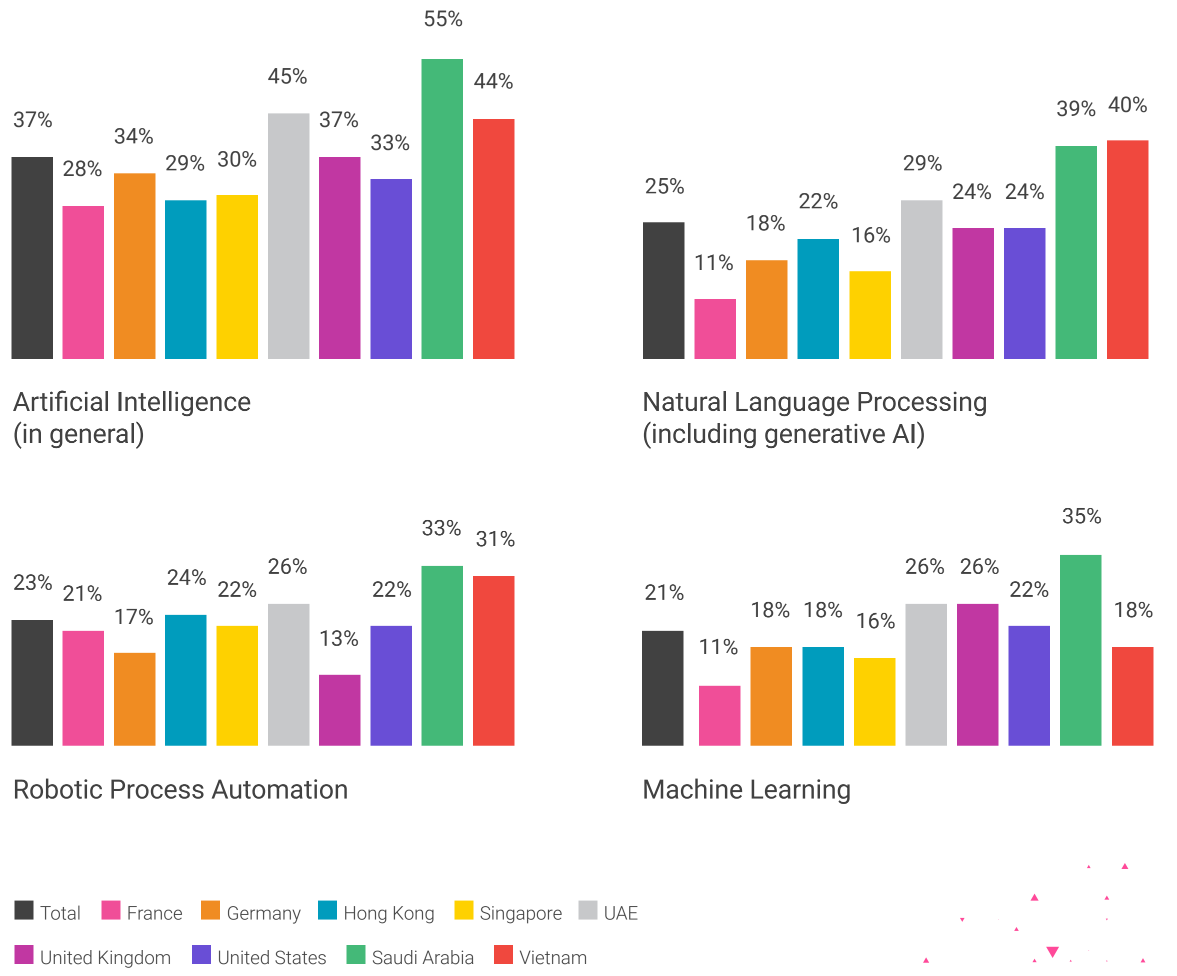
Financial institutions improving or deploying AI in last 12 months by market (2023 vs 2022)

	2023	2022
United States	33%	34%
United Kingdom	37%	22%
France	28%	34%
Germany	34%	27%
Singapore	30%	41%
Vietnam	44%	NA
Saudi Arabia	55%	NA
Hong Kong	29%	28%
UAE	45%	25%

AI improved or deployed by organizations in the last 12 months

When looking more granularly at the specific AI technologies that have been deployed and improved in the past year, 23% of respondents have accelerated Robotic Process Automation (RPA), and around one in five (21%) have either deployed or progressed their capabilities in machine learning. Saudi Arabia appears to be ahead of other markets in both its RPA journey (33%) and machine learning advances (35%).

But ahead of RPA and Machine Learning, and rather unsurprisingly given the emergence of generative AI, is Natural Language Processing (NLP). 25% of respondents say they have rolled out or improved their capabilities in NLP, including generative AI (25%) with Vietnam pursuing it most aggressively (40%), followed by Saudi Arabia (39%).



Decision-makers perceive generative AI specifically as a key means to meet increased customer expectations for tailored, personalized services. A third of decision-makers who are interested in generative AI say that they are either using it, or planning to use it, to provide enhanced customer service (e.g. through personalized chatbots) (32%). Nearly as many say this too of personalized marketing (28%). These figures are highest in Vietnam – 45% and 41% respectively – which happens to be the market most likely to be focusing on NLP.

Innovation is supporting financial institutions' intent to better meet customer demand. As the next section discusses, it therefore comes as no surprise that the vast majority of financial decision-makers are rapidly exploring the implementation of generative AI within their organizations.

Concluding thoughts

While continually improving customer experience is crucial for every business, this is the year that sees financial institutions prioritizing more personalized, seamless experiences for their customers.

The landscape has changed rapidly, so financial decision-makers have taken swift action, using technology to improve the customer experience and expedite time-to-market. Many are leveraging BaaS and embedded finance to expand and enhance their institution's services whenever and wherever customers expect to receive them, creating more seamless journeys.

Moreover, financial institutions' increased adoption of AI is also providing support for their customer-facing services. The next section explores how generative AI in particular can bring benefits in this area, but also to a wide range of internal processes.

Section 2

The race to adopt generative AI

Decision-makers in financial services believe generative AI offers wide-ranging benefits. As well as enabling financial institutions to personalize customer experiences at the front-end of their services, our research shows that decision-makers recognize myriad benefits over and above this.

The generative AI use case that financial institutions are currently utilizing – or planning to utilize – in the highest numbers, involves leveraging it to collect and analyze ESG data for criteria classifications or decision-making (36%). With ESG and sustainability a firm fixture on the boardroom agenda (see Section 3), the potential for generative AI to extract information from unstructured data, including often-fragmented ESG data sources or siloed IT systems, is seen as a very compelling use case.

Supporting financial institutions in their efforts to streamline the onboarding process whilst reducing financial crime is another widely mentioned use case, with one in three (33%) decision-makers who are using or exploring generative AI interested in its potential to leverage data relating to Know Your Customer (KYC) or Anti-Money Laundering (AML) purposes. And, as fraud continues to become more sophisticated, the supporting role that generative AI could play will only grow in interest.

The potential to automate tasks is also a widely cited use case of generative AI, with 34% of decision-makers using or planning to use the technology in this way. Much like other industries, financial services organizations are looking to leverage generative AI to reduce administrative tasks and boost productivity, and more generally to enhance IT operations where possible. These use cases, whilst slightly more pedestrian in nature, play a vital role in creating efficiencies and unlocking innovation, and their potential to close the innovation gap between traditional institutions and more agile competitors should not be downplayed.

The chart opposite shows the proportion of financial decision-makers utilizing or planning to utilize each of these use cases is relatively consistent at a global level – there is no standout single use case. This is not surprising, given the infancy of generative AI, and it is likely that future State of the Nation reports will see a shift as the potential applications are explored, trialed, and rolled out at speed.

Generative AI use cases (current and planned): Top 5

36% To collect/process/analyze data for ESG criteria classifications or decision-making (e.g. to make ESG investment or lending decisions)

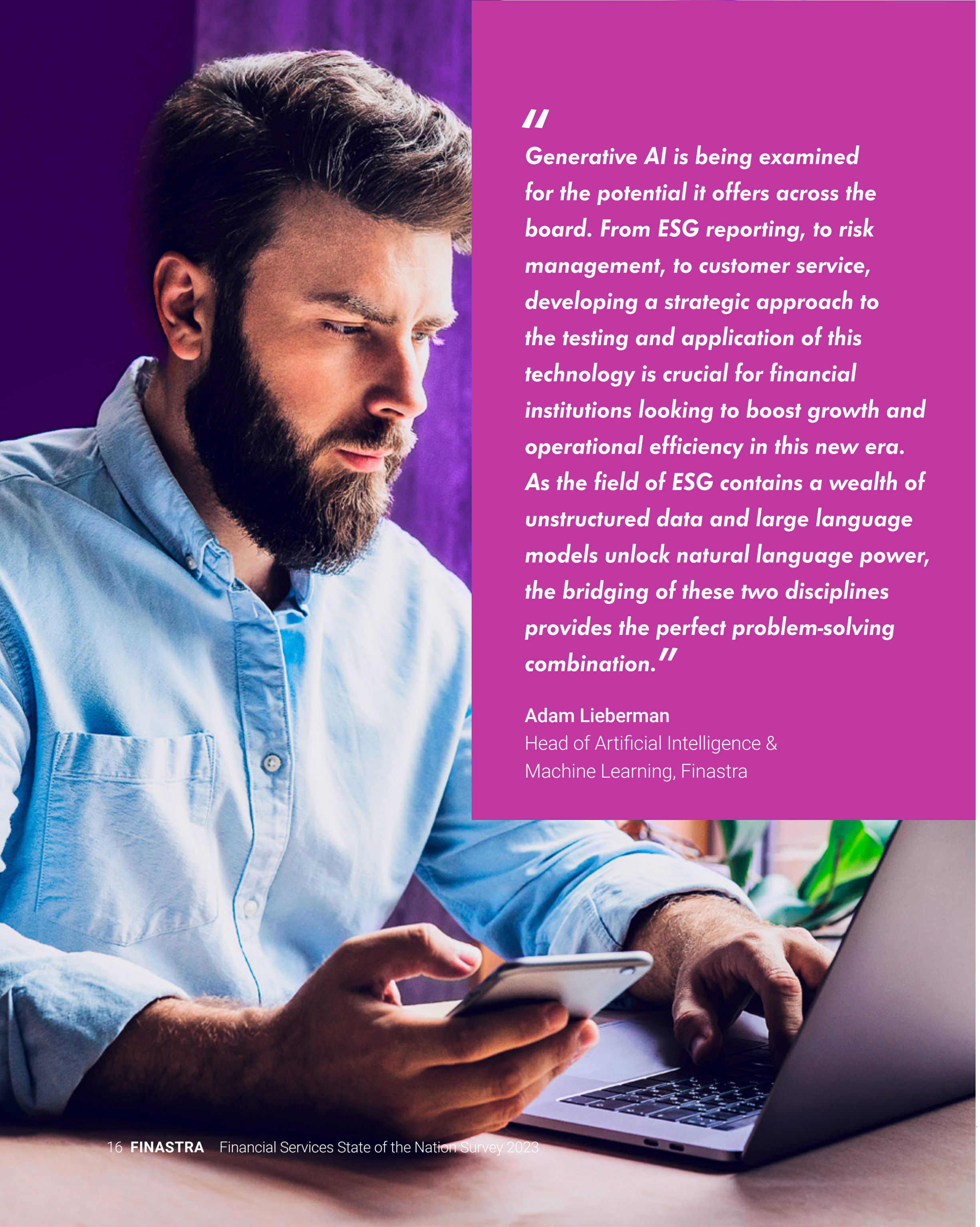
34% To automate manual or repetitive tasks (e.g. document checking or documenting code functionality)

33% To enhance IT operations (e.g. process automation or infrastructure optimization)

33% To collect/process/analyze data for Know Your Customer (KYC) or Anti-Money Laundering (AML) purposes

33% To improve risk management and decision making/predictive analytics

Note: this question is based on financial decision-makers who have adopted generative AI in their organization or are open to doing so. It excludes those who are uninterested in adopting generative AI.



> *"Generative AI is being examined for the potential it offers across the board. From ESG reporting, to risk management, to customer service, developing a strategic approach to the testing and application of this technology is crucial for financial institutions looking to boost growth and operational efficiency in this new era. As the field of ESG contains a wealth of unstructured data and large language models unlock natural language power, the bridging of these two disciplines provides the perfect problem-solving combination."*
>
> **Adam Lieberman**
> Head of Artificial Intelligence & Machine Learning, Finastra

Other use cases seen as interesting, but less prominent, were noted as:

- **32%** Enhancing the customer experience
- **30%** Generating synthetic data for KYC or credit decisioning
- **29%** Streamlining development ops, including code generation and debugging
- **28%** Personalized marketing
- **26%** New product development
- **22%** Creating brand or marketing materials

Much of the industry hype has been around the last four use cases shown above, but what we are seeing is that banks have different visions for its potential that include leveraging unstructured data for ESG, boosting anti-fraud capabilities, and operational efficiency gains.

Looking at current and planned use cases in individual markets reveals that there is slightly more nuance to this picture, however: there are notable differences between markets in terms of the top uses for generative AI.

Collecting, processing and analyzing data for ESG criteria classifications or decision-making is the most widely cited use case in both the US (42%) and Saudi Arabia (47%). Elsewhere, however, the main use cases differ. Automating manual or repetitive tasks is a popular use case in all Asian and Middle Eastern markets included in the survey, and it is the single most common current or planned use case in Hong Kong (41%) and the UAE (43%).

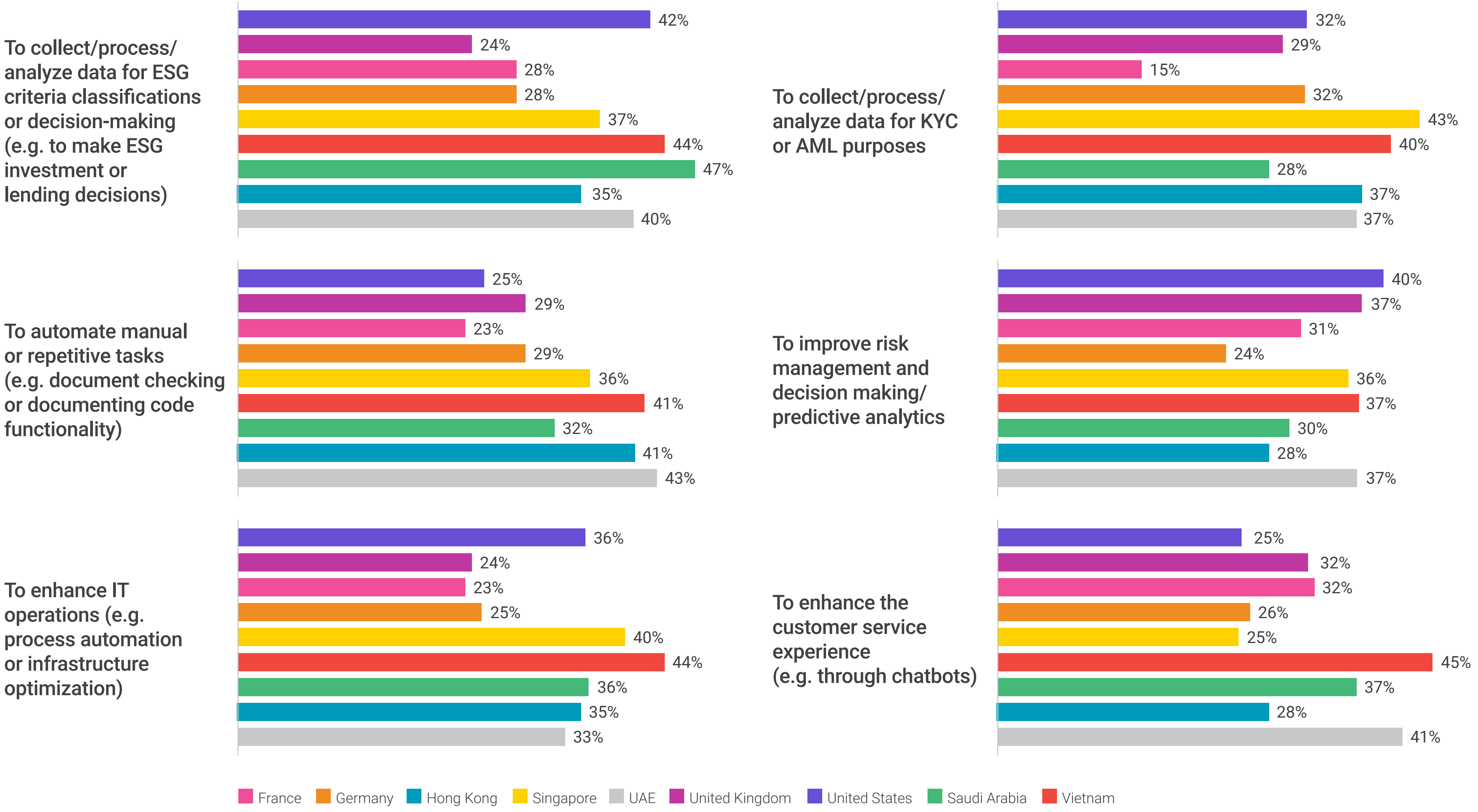
In both Germany and Singapore, generative AI's applications in combatting financial crime are particularly prevalent, with the most widely identified use case being collecting, processing and analyzing data for KYC or AML purposes (32% and 43% respectively). This figure is higher in Singapore than for any other market.

Financial institutions in the UK and France are most likely to be planning improved risk management and decision-making processes (37% and 31% respectively). Meanwhile, decision-makers in Vietnam are focusing on enhancing the customer service experience (45%) in higher numbers than any other use case, for example through generative-AI-powered chatbots.

Generative AI use cases (current and planned), by market

These charts show the differences by market in full. In the coming years, it will be fascinating to observe how generative AI is used across financial services worldwide, and which use cases – whether current or as yet undiscovered – become more advanced in individual markets. Again, at a global level, no use case looks set to lag far behind any other, but this isn't the case within individual markets.

Of course, successful implementation of generative AI, irrespective of the specific application, will depend on how effectively and responsibly financial organizations can implement it in their front or back-end operations. Implementing a technology which is evolving so rapidly and has such powerful capabilities brings unique challenges – chiefly, ones relating to data privacy, computational capacity and legality. Choosing the right model, from developing proprietary Large Language Models (LLMs) to partnering with firms that integrate generative AI into their products and solutions, allow financial institutions to reap the benefits of generative AI at their own pace and scale.



Note: this question is based on financial decision-makers who have adopted generative AI in their organization or are open to doing so. It excludes those who are uninterested in adopting generative AI.

The race to incorporate generative AI into financial organizations has already begun

For most financial firms, implementing generative AI is a pressing priority. This is no surprise given the wide-ranging opportunities that decision-makers have identified. Four fifths of decision-makers say their institution is interested in the technology (83%) – whether that means it is already fully implemented, being researched or trialed, or is something that is of interest but yet to be explored.

Only 6% of financial institutions worldwide state that they are not interested in adopting generative AI.

Decision-makers in Asia and the Middle East are particularly interested, with the vast majority of financial institutions in Vietnam (91%), Saudi Arabia (88%), the UAE (86%) and Hong Kong (83%) implementing or being open to the technology.

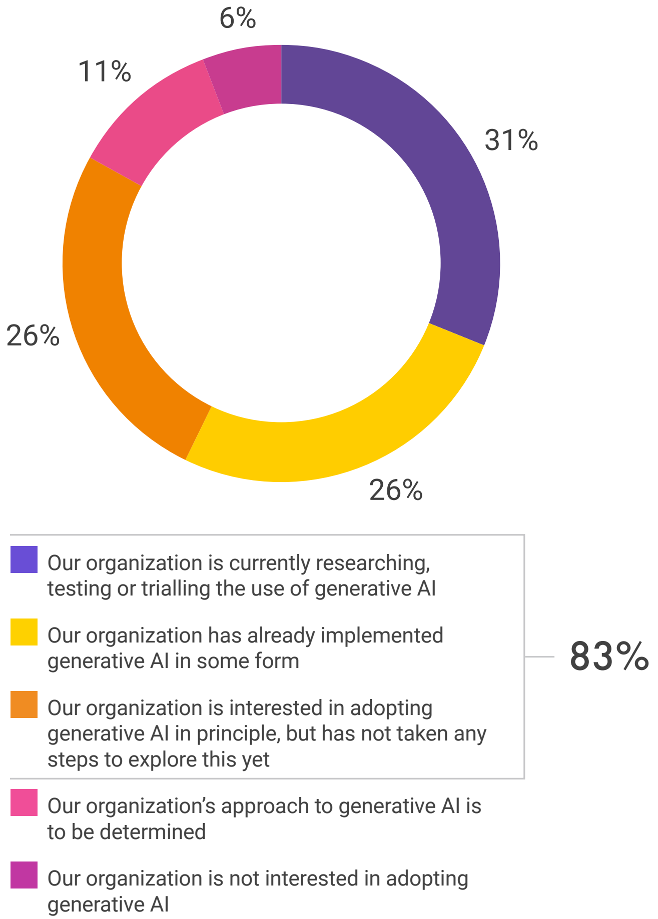
This is not to say that financial institutions elsewhere are uninterested – at least three quarters of decision-makers in every individual market tested say that their financial institution is open to adopting generative AI.

In Europe, Germany could lead the way, with 89% of financial firms open to implementing generative AI. France (74%) and the UK (75%) are not too far behind, with a similar appetite in the US (76%).

Though there is strong openness to adopting generative AI across financial institutions worldwide, organizations are at very different stages of actually implementing this technology.

Just over a quarter (26%) have already incorporated generative AI in some form. The greatest proportion, however, are at the stage prior to this: 31% of financial institutions are currently going through a phase of research, testing or trials, with the ultimate goal of ascertaining how this technology could support their business practices. Meanwhile, a further quarter of financial institutions (26%) are interested in adoption but are yet to take any concrete steps towards exploring it.

Interest in adopting generative AI across organizations



Organizations that are at these opening stages would benefit from being aware of the unique challenges posed by generative AI as they look to shape their approach. The importance of choosing the right partner to harness the power of this technology cannot be overstated.

Such accelerated levels of interest in a new technology are rare, let alone such an expedited interest-to-implementation cycle at a global level. Over half (57%) have already implemented generative AI in some form or are at the research phase as a minimum.

Many people only started hearing about the potential of generative AI earlier this year, when ChatGPT made headlines around the world. However, it appears that many financial decision-makers have been quick to act, perhaps enabled by a more open financial technology architecture and appetite for innovation, both of which have tracked upwards since we started this research in 2019.

One thing is clear: the potential benefits of this technology are widely recognized, and the race to implement it and reap the rewards is on.

The rapid advancement of generative AI stands in stark contrast to the fragile economic circumstances that have shaped the last year. Section 3 discusses how financial organizations are balancing the need to innovate and pursue their priorities, while weathering the challenging conditions.

Concluding thoughts

The benefits of generative AI for financial institutions are widely recognized by decision-makers worldwide. Given the widespread recognition of the potential value and impact of generative AI among financial institutions, it is no surprise that four fifths of decision-makers say their organizations are open to implementing the technology (83%).

It's particularly notable how quickly generative AI is being actualized, with more than half of financial institutions surveyed (57%) already having either implemented the technology or stating they're at the research phase. Globally, the most common current or planned use case for generative AI is collecting, processing and analyzing data for ESG criteria classifications and decision-making. However, decision-makers recognize myriad different use cases, and the most prevalent vary considerably by market.

The US and Saudi Arabia are prioritizing generative AI's applications for ESG, Hong Kong and the UAE are prioritizing its application in automating manual or repetitive tasks, Germany and Singapore are more focused on using it to combat financial crime, the UK and France are most likely to be planning improved risk management and decision-making powered by generative AI, and Vietnam is focused on utilizing it to enhance the customer service experience.

Irrespective of how precisely they intend to use generative AI, financial institutions looking to implement the technology successfully need to be attentive to the unique security and computational challenges that are associated with it. Navigating these considerations will be essential in the years ahead as the technology rapidly evolves.

Navigating the road ahead

Uncertain economic conditions continue to constrain investment – but there is optimism about the mid-term outlook.

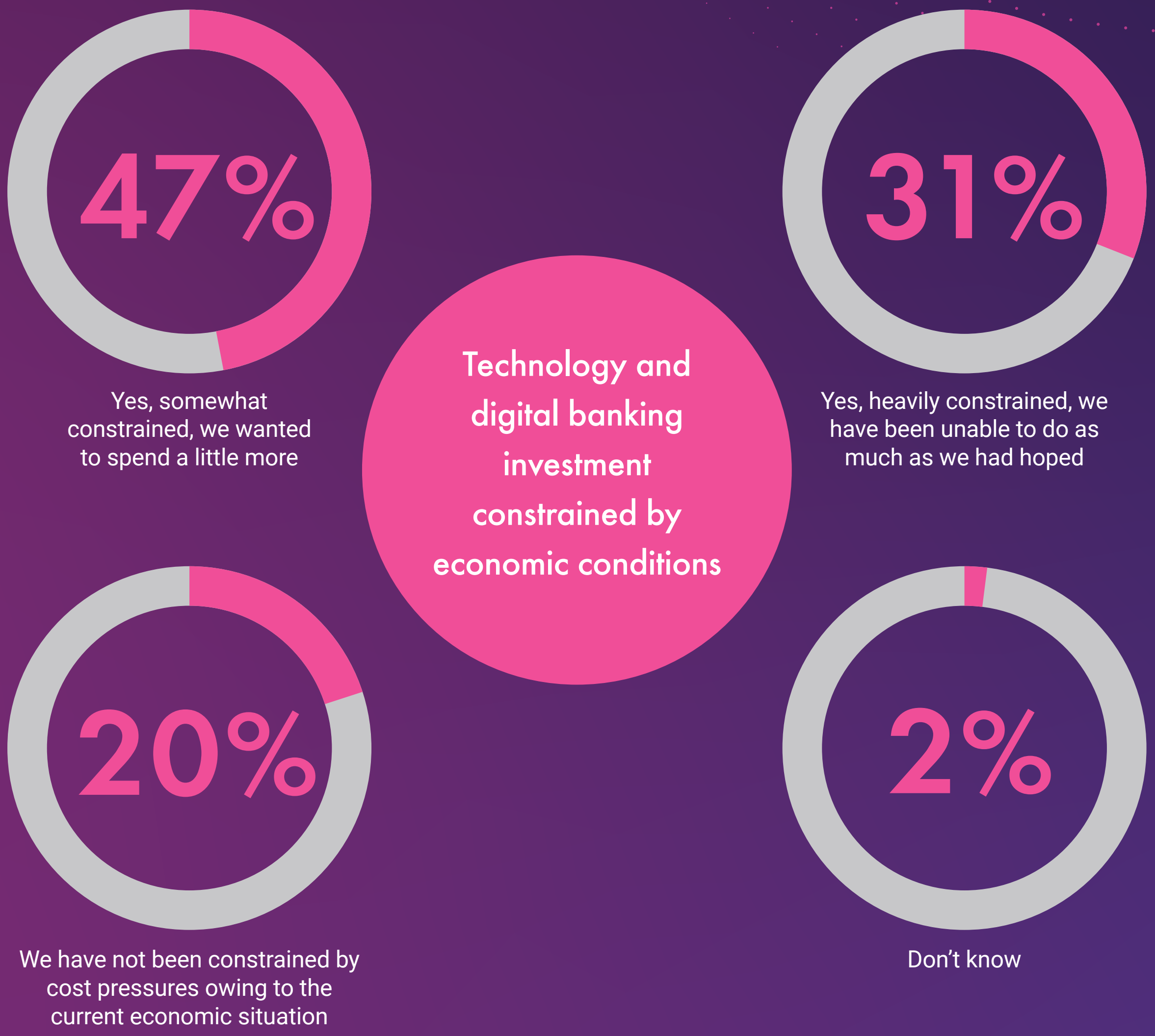
Although one in four financial institutions have implemented generative AI in some form (26%), the overall outlook is mixed for investments in technology and digital banking.

Decision-makers report that the economic climate is adversely impacting their ability to invest. This could mean that they are not able to make as much progress adopting new technologies as desired, or are taking a more focused or prudent approach to investments in the short term.

Close to four in five (78%) say that current economic conditions are constraining their financial institution's investments in technology and digital banking to some extent, with 31% saying that they have been heavily constrained.

Attitudes to investment in the face of these economic conditions vary by market, with financial institutions more bullish in some markets than others. Decision-makers in Saudi Arabia are the most likely to say they have not been constrained by cost pressures on their technology and digital banking-related spend this year (34%).

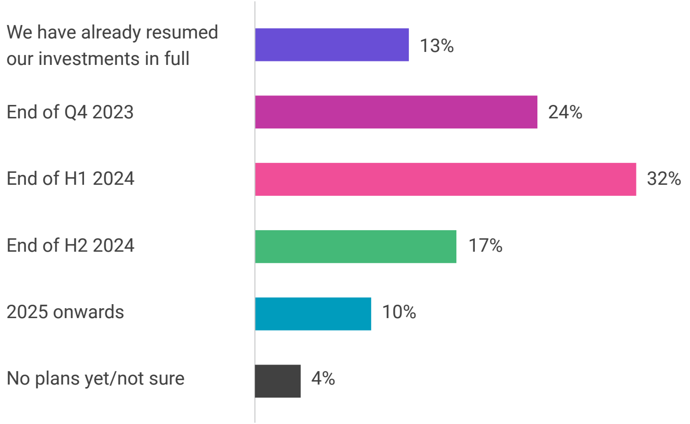
The specific areas in which spending has been constrained are the same ones which Section 1 identified as increased areas of focus for financial institutions this year. Of those decision-makers who have seen their investment constrained by market conditions, two in five have had to reduce their spend on BaaS (40%), and one in three have had to reduce their spend on embedded finance (35%) and AI (33%). Despite the potential that institutions see in these technologies and business models, a cautious approach to capital investment prevails, particularly during periods of global economic uncertainty.



The opening section of this report said that 2023 marks a move from mere talk and planning about BaaS and embedded finance, towards increased action to actually deploy these technologies and improve capabilities in these areas. The present economic uncertainty is an important qualification to this – it is the case that financial institutions are increasingly acting to deploy and improve these technologies, but the extent to which organizations can do so has been limited by economic constraints.

However, there is optimism across markets in the short-medium term. Over two thirds (69%) of financial institutions expect their investments to resume in full at some point before the end of H1 2024.

When decision-makers expect investment to resume in full



As the world's biggest economy in terms of GDP, it is an encouraging sign that US financial institutions are among the most likely to have resumed their investments in full already. Almost a quarter of financial decision-makers in the US (23%) and Singapore (24%) report that normal investment levels in technology and digital banking have returned. However, only 6% in Germany, 7% in the UK, 8% in France and 9% in Hong Kong say the same.

Those in the US (44%) are also much more likely than in all other markets to say constraints to investment have lasted less time than expected, though decision-makers in Saudi Arabia (29%) are also more likely than most to say this. This optimism suggests that financial institutions in the US are well-placed to capitalize on their position. One of the strongest opportunities to improve BaaS, embedded finance and AI capabilities – including but not limited to generative AI – may be in the US market.

Crucially, current economic conditions are not negatively impacting financial institutions' plans for technology and digital banking investment in the long term. Almost nine in ten (86%) financial institutions intend to increase investment in growth activities back to previous levels before 2025.

It is also important to note that continued constraints do not mean that financial decision-makers have stopped all investments, just that they are yet to resume in full. As explored in Section 1, the proportion of financial institutions deploying or improving several important technologies has grown since 2022.

And given the rapid pace at which technology is advancing, plus the benefits and efficiencies it can bring, one thing is clear: decision-makers see continued investment in technology, when possible, as an important way to progress past current economic circumstances.

Despite restricted investment, BaaS and embedded finance are key for financial services in the next year

The areas of technology seeing the biggest year-on-year increases in deployment during the last 12 months are BaaS, embedded finance and AI (as covered in Section 1). These are also the areas that financial decision-makers are most likely to anticipate rolling out or improving in the next 12 months.

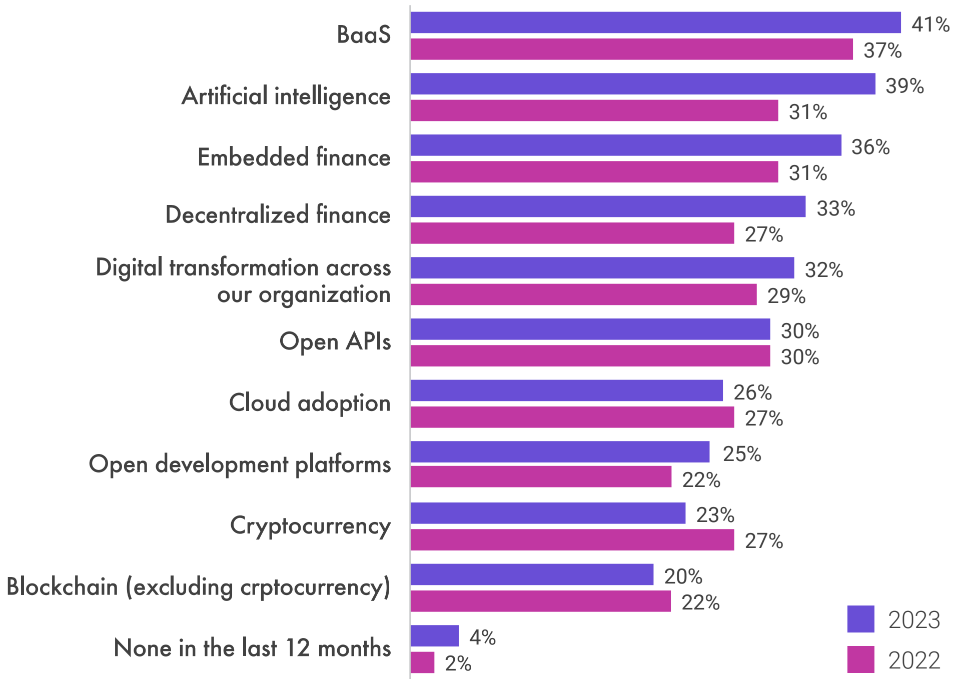
This sustained focus highlights the pivotal role that financial decision-makers project these technologies to have. Again, the US market is bullish, with 48% expecting to act on BaaS in the next 12 months, along with a similar proportion in all Asian and Middle Eastern markets (46-51%) except Singapore (32%).

Embedded finance is projected to remain high on the agenda, but AI will be a close second priority just behind BaaS.

In terms of AI, similar to those acting during the last 12 months, approximately one in four plan to deploy or improve NLP capabilities, including generative AI (27%) and RPA (25%). More than one in five (22%) have either deployed or progressed their capabilities around machine learning.

No matter where they plan to invest, there is clear consensus among financial decision-makers on the path forward in one key regard: the vast majority see BaaS and embedded finance as a means to grow their business and generate additional revenue (84%). In spite of the economic conditions, there is widespread optimism that these business models, underpinned by technology, can help provide a path to growth.

Technologies set to be improved or deployed in the next 12 months



> *"The ability to move with agility leads the technology agenda in 2023-24 and reflects the wider cultural changes underway in the industry. Financial institutions are increasingly open about their desire to become more responsive and nimble, and recognize that they need to adapt their approach if they are to succeed. One example of this shift in mindset is the growing investment into areas such as embedded financial services, open banking/finance, and other partnership-based models."*
>
> **Kieran Hines,**
> Principal Analyst, Celent

ESG also continues to be a key focus, with AI set to support financial institutions' goals in these areas

Despite constraints to investment and the present economic outlook, financial institutions are not turning inwards. Instead, decision-makers still believe it is as important as ever to maintain a strong commitment to their communities.

Almost nine in ten (86%) decision-makers believe financial services and the banking sector are about more than just finance – specifically, that they also have a duty to support the communities they serve. This is a similar proportion to last year, so this mindset is not a new one and looks set to continue for the foreseeable future.

A similar number of decision-makers (85%) agree it is important for financial services and the banking sector to support ESG initiatives, and for them to actively seek to improve in these areas. These results being consistent with those from last year shows that financial decision-makers' support for ESG is strong and unwavering despite the widely recognized economic challenges. Agreement is strongest in Hong Kong (93%), Saudi Arabia (92%) and Vietnam (90%).

Agreement that it is important for financial services and the banking sector to support ESG initiatives and keep improving, by market

Hong Kong 93%	Saudi Arabia 92%	Vietnam 90%
UAE 89%	France 84%	United Kigdom 81%
Singapore 79%	Germany 77%	United States 71%

Linked to this, there is also a strong perception that ESG-focused finance can benefit both financial institutions and communities. At a global level, four in five (79%) agree that a focus on ESG and sustainability will be the next big disruptor in the sector.

Specifically, 82% agree that 'green lending' provides an opportunity for growth and revenue generation. Again, decision-makers in Hong Kong (90%) are the most likely to agree.

Furthermore, financial institutions' investments in generative AI align well with their commitment to ESG. As covered in Section 2, decision-makers expect the strongest use for generative AI to be related to ESG data.

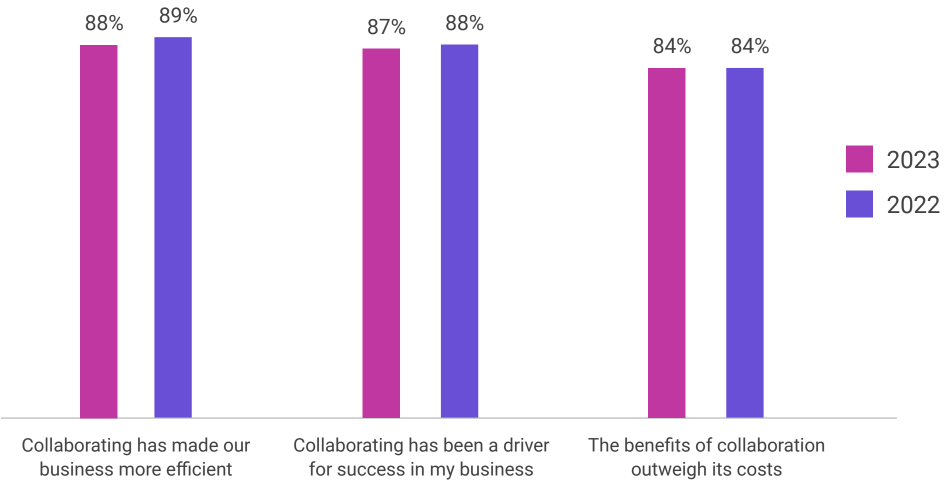
In summary, the industry shows no sign of deprioritizing commitments to the wider community in fragile economic conditions, regardless of cost constraints. Moreover, there is optimism that advances in technology will enable organizations to make further progress towards their ESG objectives in the future.

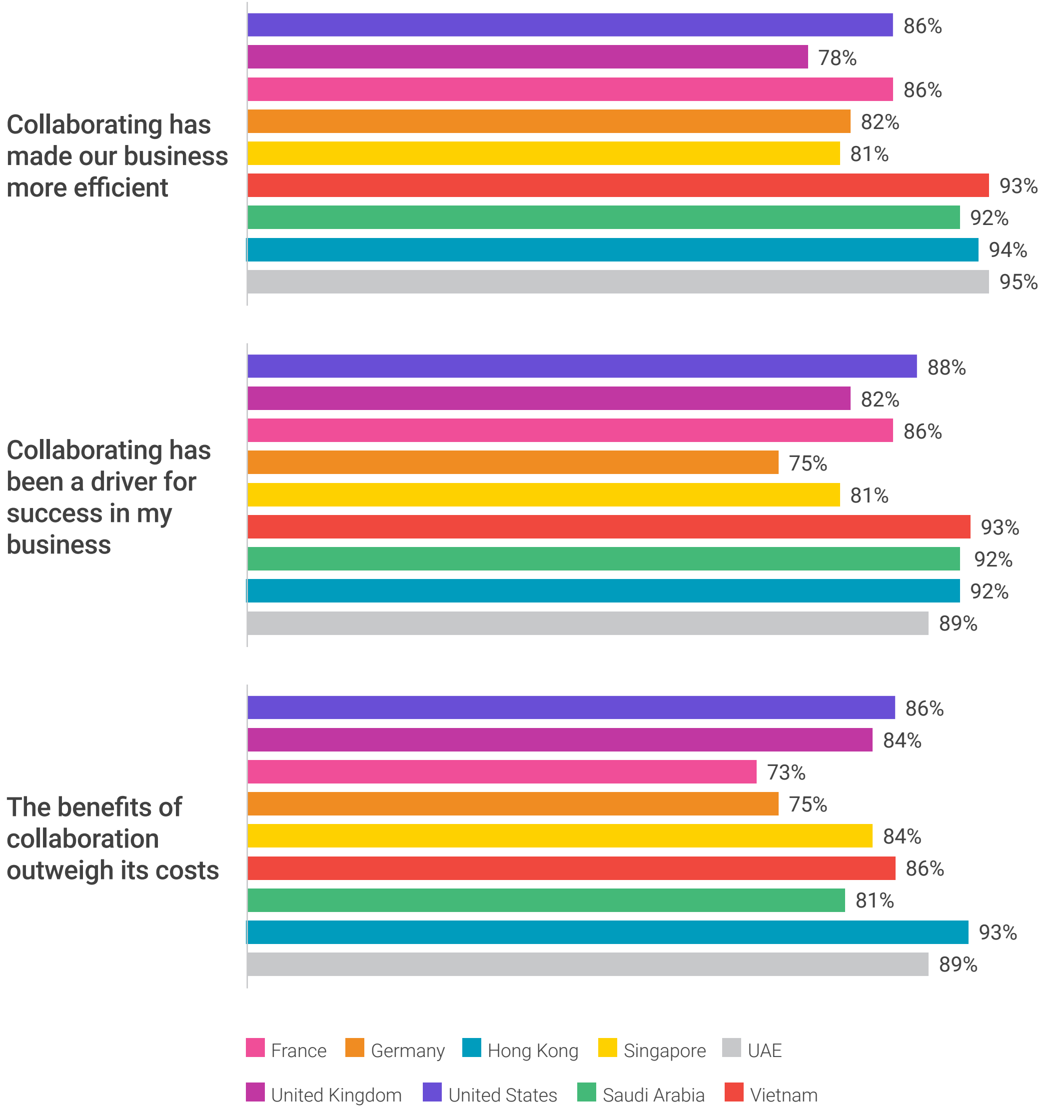
Financial firms want to continue collaborating to meet customer expectations and drive growth

Financial decision-makers also recognize that during a challenging economic climate, collaboration remains essential. Once again, organizations are continuing to look outwards rather than inwards.

Nine in ten decision-makers say that collaboration has made their business more efficient (88%), and that it has driven success (87%). The vast majority (84%) also continue to say that the benefits of collaboration outweigh the costs, making any investment in collaboration less of a risk. Again, this being consistent with last year is noteworthy in the context of challenging economic conditions – collaboration has not been deprioritized.

Financial decision-makers' views on collaboration





Financial institutions in Asia and the Middle East are particularly supportive of collaboration with other organizations in the financial services sector, along with those in the US. In Europe, financial decision-makers in France are the most likely to agree that collaboration has made their business more efficient and been a driver for success (86% for both).

Factors that would accelerate appetite for more collaboration

Improving the customer experience again emerges as a driver for action here, with this being the most widely identified objective of further collaboration among financial services organizations. Over two in five financial institutions say the promise of an improved experience for customers would accelerate their appetite for collaboration with other organizations in their sector (44%).

The next most widely cited drivers are the pursuit of new services and revenue streams to support growth (39%) and extending reach for end customers – for instance, enabling customers to benefit from embedded finance offerings placed in contextual journeys beyond the specific institution's channels, or embedding others' services within their own channels (39%).

What this full picture tells us is that, whilst collaboration is still seen as a conduit to better business operations, such as regulatory compliance and risk mitigation, institutions still see driving growth through customer-centric propositions as the main advantage.

Open Finance continues to be perceived as important, and it is seen as most essential in the markets which recognize its importance for collaboration

Finastra's State of the Nation research in recent years has illustrated the persisting importance of Open Banking and Open Finance for financial institutions. At a global level, this continues to be the case – the proportion of decision-makers who said Open Finance was a 'must have' for their organization was 48% in 2022, remaining flat in 2023.

Once again however, a more complex and volatile picture emerges when looking at markets individually. The proportion of decision-makers in each market who think that Open Finance is at least somewhat important is similar to in 2022, but the proportion who regard it as a must have, as opposed to important but not essential, has changed markedly across markets.

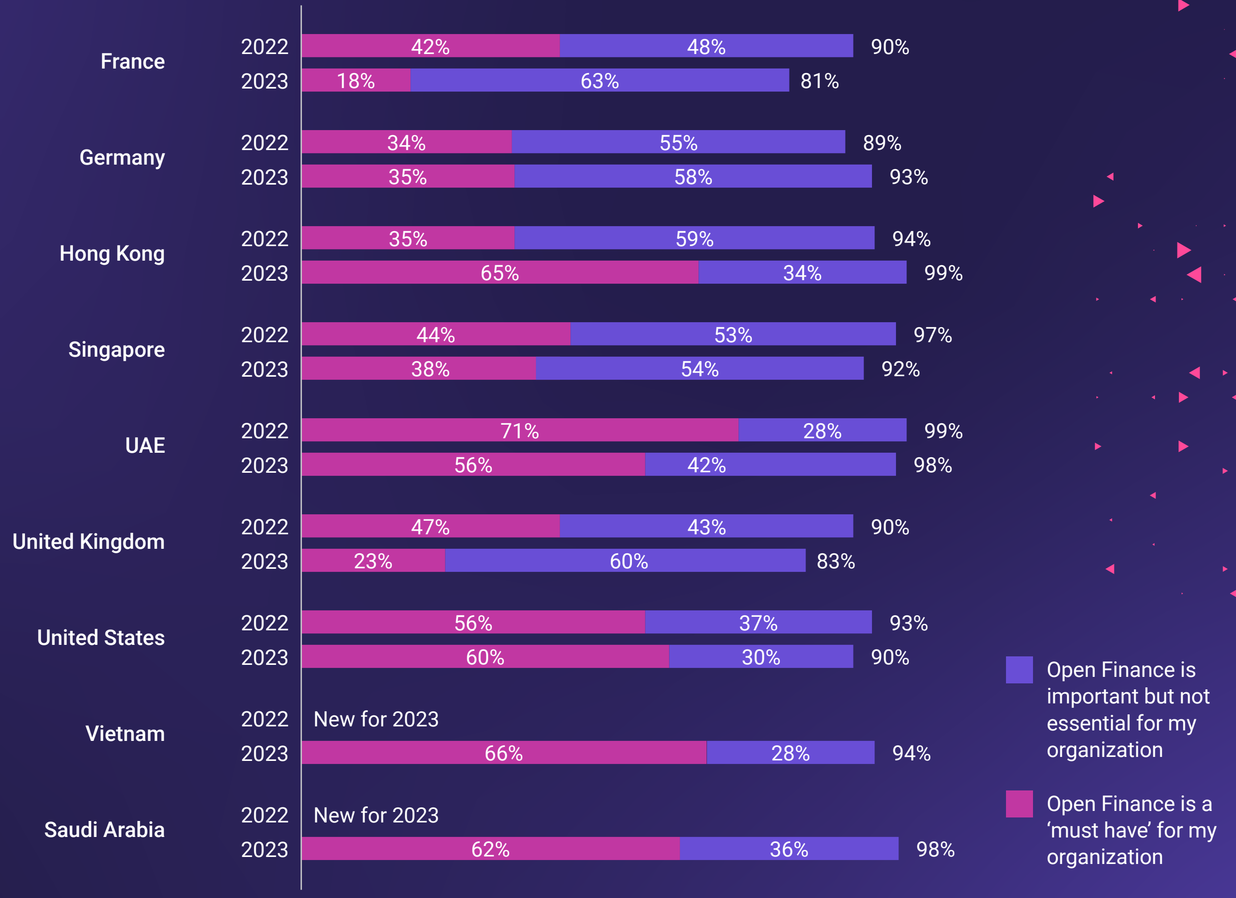
In the UK and France in particular, the proportion who regard Open Finance as a must have has fallen substantially (from 47% to 23%, and 42% to 18% respectively), but the proportion who think it is important but not essential has risen in turn.

What has driven this shift in thinking is unclear. It may be that it is simply a reflection of the economic outlook in certain markets. Financial institutions in both the UK and France are more likely than average to say constraints to investment have lasted longer than expected, for example, and are less likely than average to say that they plan to increase investment in growth after the current economic downturn.

In other markets, the picture reverses. Hong Kong sees a large increase in the proportion of financial institutions regarding Open Finance as a must have. Similarly to the UK and France, the change from 2022 here is not in whether decision-makers think Open Finance is important or not – there was strong consensus that it was important in 2022, and that continues to be the case this year – rather, the shift is from important to essential.

The two new markets to the research for 2023, Saudi Arabia and Vietnam, are similarly likely to regard Open Finance as a 'must have' (62% and 65% respectively). These markets, alongside Hong Kong, are the three biggest advocates of Open Finance – with over three in five decision-makers likely to say as much in each country.

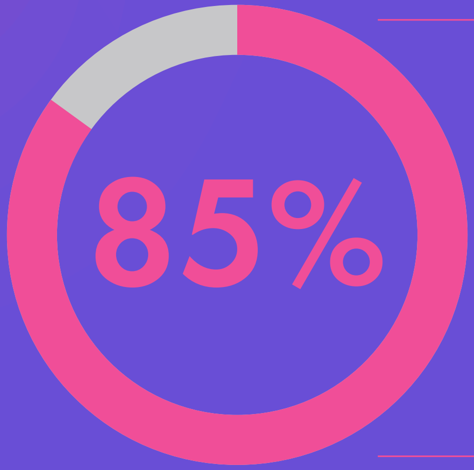
Importance of Open Finance



Note: The percentage figure listed to the right of each bar shows the combined total who say Open Finance is important or a must have.

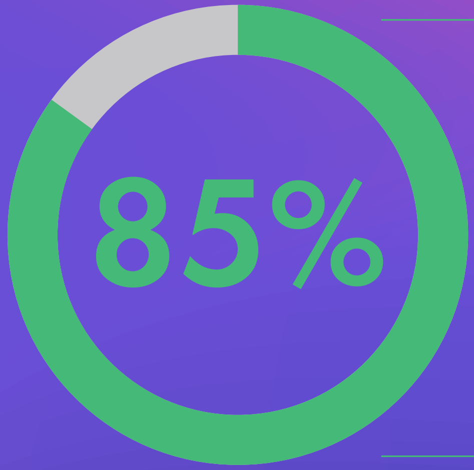
Regardless of the regional variations, one point remains universal; by embracing Open Finance, decision-makers are more able to reap the benefits of increased collaboration across their sector. The vast majority of decision-makers (85%) agree that Open Finance is making financial services more collaborative and having a positive impact on the industry – consistent with attitudes last year.

Agreement that Open Finance is making financial services more collaborative and having a positive impact



Top 3 in 2022:

1. UAE (94%)
2. Singapore (90%)
3. US (87%)



Top 3 in 2023:

1. Vietnam (91%)
2. Hong Kong (89%)
3. Saudi Arabia (88%)

Financial institutions in Vietnam (91%) are the most likely to agree with this notion, followed by those in Hong Kong (89%), and Saudi Arabia (88%). Notably, these are the three markets where Open Finance is most likely to be regarded as essential in 2023. There is a clear link between the belief that Open Finance promotes collaboration, and the subsequent importance for organizations.

Open Banking services are being widely offered to customers, with cashflow management a key use case

Much like Open Finance, previous editions of Finastra's State of the Nation research have demonstrated the continued perceived importance of Open Banking. Given this, it is no surprise that a high number of financial institutions report that they offer Open Banking-enabled services to a large proportion of their customer base.

The vast majority of financial institutions (85%) say that at least a quarter of their customers are using Open Banking-enabled services today. And 46% of financial institutions say over half of their customers are using them.

Open Banking is perceived to offer a wide range of benefits, including in areas such as peer-to-peer payments as well as more personalized products and services. The three use cases which decision-makers say have had the most impact for their financial institution to date are better cashflow management for business customers (13%), account aggregation (12%) and identity verification (11%).

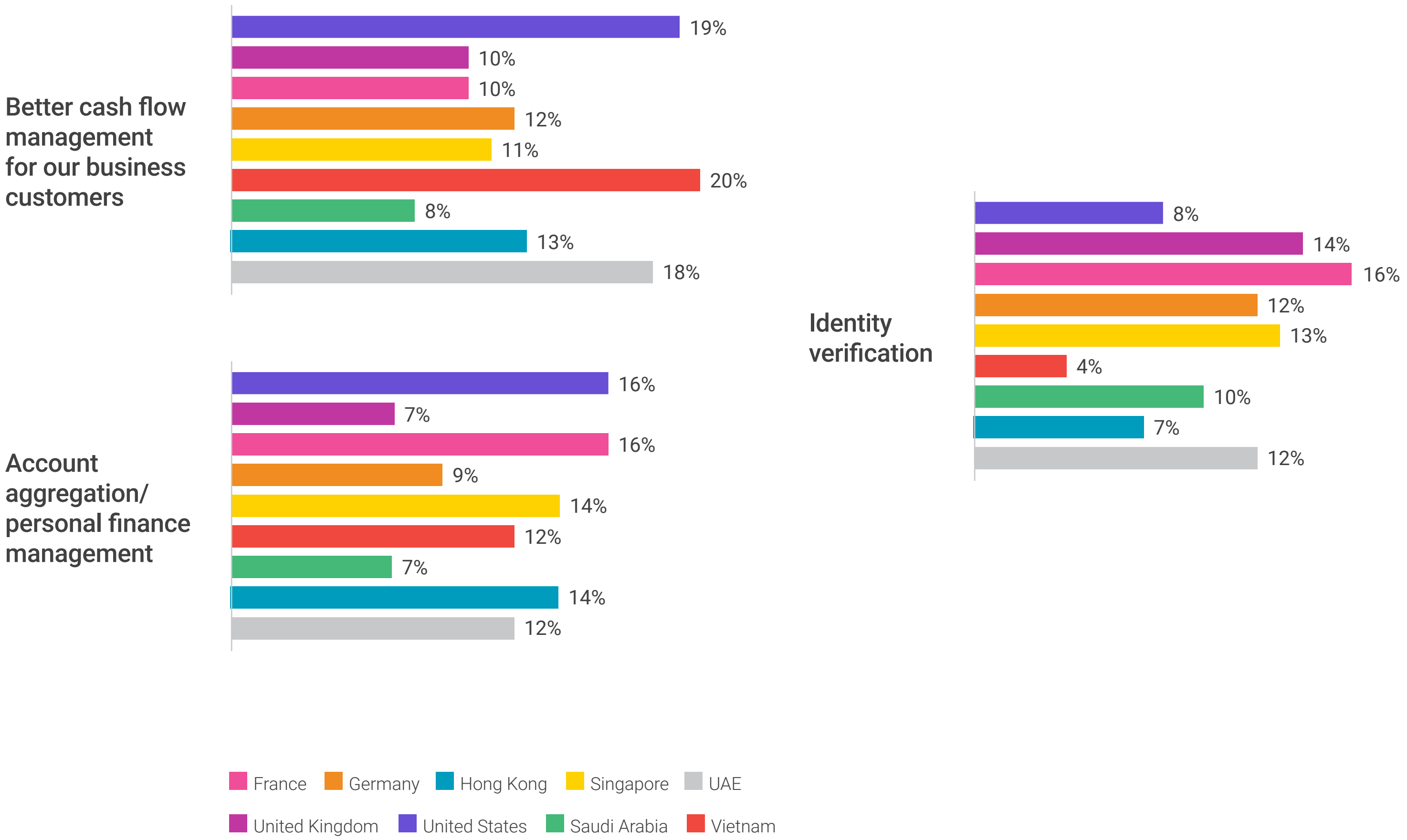
Again, this varies by market. Providing better cashflow management for business customers is the use case regarded as most impactful by approximately one in five institutions in the US (19%), UAE (18%) and Vietnam (20%). Conversely, those in Saudi Arabia are significantly less likely to identify this as the main use case (8%).

The most widely cited use case in the US is account aggregation or personal finance management solutions (20%). Those in France (16%), Singapore (14%) and Hong Kong (14%) are also more likely to identify this use case as more impactful than any other.

Financial institutions in France think Open Banking's applications for identity verification have had the biggest impact (16%), as is the case in the UK (14%).

In navigating the road ahead, understanding the varied regional perspectives on the impact of Open Banking is crucial, as each market charts its unique course to shape its future.

Open Banking use case with most impact in financial institutions, by market



Concluding thoughts

Financial institutions globally continue to be cautious with investments, particularly in the areas of BaaS, embedded finance and artificial intelligence, with the exception of US, Singapore and Saudi Arabia institutions, who are the most likely to have resumed spending in full. Yet, despite the regional disparities, the outlook is optimistic with over half of remaining financial institutions planning to resume their investments in full by the end of H1 2024.

Despite the continued restraint, investment in BaaS, embedded finance and AI remains a key priority for financial services over the next 12 months. Organizations' appetites for ESG initiatives and collaboration look set to withstand economic challenges too. Financial services continue to look outwards rather than turning inwards, remaining buoyant about the effects and impact of collaboration.

Furthermore, the widespread recognition of generative AI's potential to improve organizations' ESG capabilities aligns well with institutions' continued sense of responsibility in supporting communities and championing green finance initiatives.

Attitudes in Open Finance reflect this open, outward-looking attitude. While the perceived importance of Open Finance remains widely important globally, the markets in which it is seen as essential in the highest numbers are also those markets which recognize its role in deepening collaboration in the financial services sector.

"Despite the challenging economic climate, it's clear from our research that investment in AI, BaaS, and embedded finance remain key priorities for financial services organizations over the next 12 months, particularly as they seek to further enhance and personalize the customer experience. Finastra shares the industry's ongoing commitment to ESG initiatives, to collaboration around Open Finance, and excitement in using advanced technologies like AI to help deliver on the opportunities ahead."

Simon Paris,
Chief Executive Officer at Finastra

Conclusion: what does this mean for financial services organizations?

As the global financial services landscape continues to shift rapidly, Finastra's 2023 Financial Services State of the Nation survey illuminates key trends and insights that decision-makers in financial services organizations need to account for in order to maintain a competitive offering to customers.

This year's survey underscores a pivotal moment in the industry, where innovation and customer-centricity converge. For financial decision-makers, this signals not only a shift in mindset, but a call to action.

We conclude this year's report with a roadmap for decision-makers – these are the items that should be near the top of financial institutions' priority lists:

1. **Embrace Banking as a Service (BaaS) and embedded finance:**

   The surge in BaaS and embedded finance adoption underscores the importance of incorporating these innovations into offerings to customers. With 48% of institutions globally enhancing or implementing BaaS capabilities, organizations cannot afford to simply observe – to keep up with competitors and ensure that offerings align with new customer expectations, improving capabilities in this area and ensuring that they are properly integrated into propositions is key. Understanding the opportunities and how best to seize them is better achieved by leveraging an open platform that supports these models.

2. **Unlock the power of artificial intelligence (AI):**

   Much like BaaS and embedded finance, financial institutions are increasingly taking action to benefit from artificial intelligence capabilities in 2023 – and so organizations who continue to merely observe risk being left behind. As generative AI in particular gains traction, financial decision-makers should recognize it as a key lever for meeting customer expectations. With 83% of decision-makers at least interested in implementing this technology, it could prove a valuable tool in value differentiation, operational excellence and expedited reach and relevance.

3. **Ensure your organization has the open technology to seize the benefits of innovation:**

   The race to benefit from the innovations impacting the industry this year highlights the need for collaboration and partnership across the financial services industry, a theme which has repeatedly been emphasized in Finastra's Financial Services State of the Nation research. The value of collaborating and openness are recognized across the industry. However, benefiting from this requires more than an outward-looking mindset – it also requires open technology. Given that most innovation will happen outside of your own walls, organizations need to ensure that they have the technology, tools and expert ecosystem to grow and succeed.

4. **Continue to prioritize ESG initiatives:**

   This year's research emphasizes that financial institutions continue to look outward in terms of environmental, social, and governance (ESG) initiatives, and regard ESG as a priority even where investment in innovation has been constrained. Decision-makers should not let ESG slip down their priority lists, given the importance most financial institutions attribute to initiatives in this area. Generative AI could pay dividends in its potential to leverage data from siloed systems or organizations.

Finastra's Financial Services State of the Nation research not only identifies key trends for 2023 but provides a roadmap for financial decision-makers. By aligning their actions with the recommendations derived from the survey, financial decision-makers can not only adapt to transformative technological changes but actively leverage them to meet their key priorities and drive the shared vision of customer-centricity, openness, and positive impact.

Survey methodology

Definitions used in our research

- **Embedded finance:** seamless joining of traditional financial services, such as payment processing, with other services; often in non-financial apps or websites.
- **Banking as a Service (BaaS):** the provision of complete banking processes, configured as a service using an existing licensed bank's secure and regulated infrastructure with modern API-driven platforms.
- **Generative AI:** a type of artificial intelligence that produces new content in response to given inputs, with ChatGPT being a prominent example.

Survey methodology

1. A total of 956 professionals (at managerial level) in financial institutions and banks across the US, UK, France, Germany, Hong Kong, Singapore, Saudi Arabia, Vietnam and the UAE were surveyed. These financial institutions represent a gross total of around USD$33 billion in turnover over the last 12 months, employ approximately 2.4 million staff and have approximately 240 million client/customer/member relationships.
2. As a result of rounding up percentage results, the answers to some questions might not always add up exactly to 100%. Respondents were also able to select more than one answer for some questions.
3. Comparative analysis was made from results of a similar survey run by Finastra in August 2022 which was also conducted online amongst financial institutions and banks across the same markets, except for Saudi Arabia and Vietnam.
4. The research was conducted by Savanta via an online panel (August to September 2023).

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Finastra is a global provider of financial software applications and marketplaces, and launched the leading open platform for innovation, FusionFabric.cloud, in 2017. It serves institutions of all sizes, providing award-winning software solutions and services across Lending, Payments, Treasury & Capital Markets and Universal Banking (Retail, Digital and Commercial Banking) for banks to support direct banking relationships and grow through indirect channels, such as embedded finance and Banking as a Service. Its pioneering approach and commitment to open finance and collaboration is why it is trusted by over 8,000 institutions, including 45 of the world's top 50 banks. For more information, **finastra.com**

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