

The Great Banking Reset

By Binesh K,
Strategy, CEO's Office,
SunTec Business Solutions



Changing customer expectations and increasing competition from Fintechs and technology giants over the last decade left banks with no choice but to go digital. But the pace of transformation was uneven with only 50 percent of banks across the world making any notable advancements until last year.¹ With the outbreak of COVID-19 and the ensuing disruption, it has become evident that technology is key to continuity and resilience. As the world attempts to recover from this extraordinary situation, the banking sector, which is the nerve center of global economy, must accelerate its digital transformation efforts to spur revival and shape economic growth in the coming years.

The Banking Advantage

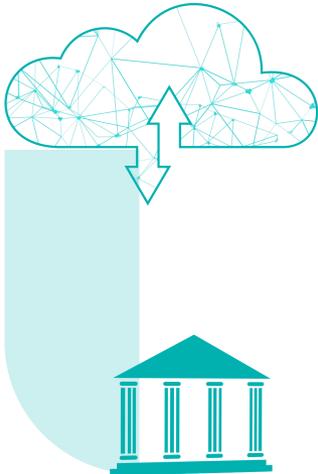
Banking is one of the oldest industries in the world and has weathered many crises over the centuries, including the one in 2008. The sector has remained stable and enjoyed a high degree of customer trust. This is one of the biggest advantages that modern banks have today. In the years to come, banks will continue to be financial intermediaries, even as they transform and grow the scope of their operations to become ecosystem orchestrators. The future of banking is more transparent, open, secure, seamless, real time, data driven, and deeply integrated with customer behavior. For this to happen, banks must integrate new technology into every aspect of functioning to deliver personalized customer experiences and build a comprehensive ecosystem of products and services.



Personalized customer experiences



Secure & transparent



The Technology Roadmap

Cloud computing is the foundation of any digital transformation technology and has already seen widespread adoption within the BFSI sector. Globally, the finance cloud market was estimated to be around USD 15.12 billion in 2018 and is expected to increase to USD 54.93 billion by 2024.² And the ongoing pandemic has accelerated the sector's cloud adoption drive. There are some early indicators of the emergence of a Banking-as-a-Service model and this trend may develop further in the months to come.

Additionally, some emerging technologies will play a key role in redefining the banking sector and banking services in the years to come.

Artificial Intelligence, Machine Learning:

Data is proving to be a game changer across all sectors as it is the foundation of emerging technologies like Artificial Intelligence, Machine Learning and Quantum Computing. Traditional banks with their rich data pools can leverage these technologies to leapfrog into unlock unprecedented insights into customer behavior. These technologies are key to implementing customer centric strategies ranging from hyper personalization of offers and services, to smart prices, bundling and more. In fact, the global market for AI in banking was estimated at USD 6.67 billion in 2019 and is expected to grow to USD 22.60 billion by 2025.³

Unfortunately, the rise of AI in banking will also result in greater threats as bad actors increasingly try to leverage AI to breach a bank's defenses. Banks will need to implement processes to regulate the AI algorithms in use to minimize the risk of learned biases developed by the system itself. Of course, this is a significant challenge for regulators and the sector will have to monitor the developments closely over the next few years to identify the best strategies for minimizing risk.



Blockchains:

Another important thing to note here is that fact, that as the sector moves forward with a focus on being ecosystem orchestrators, the scope of data will expand. Banks must increasingly use not just data from their own infrastructure but also from external sources to create a comprehensive map of their customer's behavior patterns. Securing this data is of utmost importance. Technologies like blockchain will be critical in ensuring

data privacy and security even as banks use advanced analytics to draw insights about customer behavior. The implementation of blockchain technology in banking which has so far faced issues with scalability, interoperability, and lack of proper regulations, will now see widespread use in retail and corporate banking, riding on high trust and transparency. Blockchains hold tremendous value across areas such as KYC, fraud detection, remittances, and risk management.



5G:

The widespread adoption of low latency and reliable 5G networks will open many new avenues for the banking industry as well, including cross-industry collaborations which were unthinkable in the past. The lightning-fast speeds, and greater reliability offered by 5G networks is essential for deploying cutting edge analytics solutions at scale and for powering technologies like IoT, VR, AR, AI and more. Another technology advancement to look forward to is WiFi6, which will improve local connectivity at home or at the office to accelerate the seamless use of digital devices for customers from anywhere.

Voice, NLP (Natural Language Processing) and Virtual Reality (VR) – Customers today want superlative experiences across all touchpoints. They want self-service, ease of use and seamless engagement across their banking journey. Voice technologies, NLP and even Virtual Reality technologies can be harnessed by banks to deploy contextual and intuitive services such as customer authentication and automated customer care. Banking platforms using voice-based technologies can greatly enhance customer journeys and embed the spirit and ethos of the brand into every customer interaction.

Over the next few years, banks must accelerate the pace of their digital transformation efforts. They must also prepare for the eventual shift to platform-based banking. But legacy core banking systems cannot support modern applications. Banks must consider adopting third party solutions to modernize or replace the core as they move to an ecosystem orchestrator role.



Forging New Partnerships:

As the technology landscape evolves and matures further, newer more agile banking organizations will emerge to base their business models on technology innovations. The challenger banks could eventually become mainstream players in the industry. In fact, new age players like Monzo, Chime, Revolut and others are already offering customers services like savings and current accounts, payments, cards and loans, and many continue to consolidate their footprint in an increasingly competitive marketplace. But while these challenger banks and fintechs are digital natives and have the expertise to leverage technology for focused and innovative offerings, they lack the massive customer network, depth of financial products and deep pockets that traditional banks enjoy. The real growth opportunity for banks lies establishing a symbiotic relationship with these new players. Banks can benefit from the agile technologically advanced platforms used by challenger banks and fintechs and on the other hand they can benefit from banks' networks, and product portfolios.

This decade will see far reaching transformation within the banking sector. The sector's ability to use modern technology and data to make the customer experience contextual and real-time will determine the success of banks in the next decade. In addition to accelerated digitization there will also be a systemic change in how banks operate, how the sector is regulated and governed and how talent is identified, recruited and trained for the future of banking.



Sources:

¹Businesswire

²Businesswire

³Research and Markets

Binesh K

Binesh holds a management degree from IIM-L and has worked in Management Consulting, EdTech & Insurance sectors