Innovation in Retail Banking 2023

Qorus

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DIGITAL BANKING REPORT

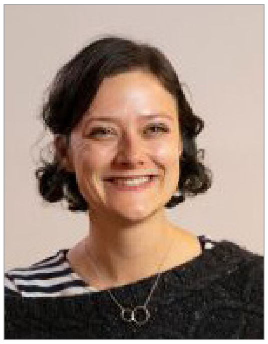
Innovation is important in banking because it drives growth, allows organizations to stay competitive, and helps solve complex problems in an ever-changing world."

— Jim Marous

Owner and CEO
Digital Banking Report
Host, Banking Transformed Podcast

Preface

Banks Finally See Innovation as a Driver for Future Revenue



Sarah Kocianski, Qorus

As we go through a period of widespread economic change that's already resulted in many financial services companies cutting expenditure across the board, it's important to remember that innovation is key to banks surviving, and thriving, in less favorable conditions.

Research conducted for this year's Innovation in Retail Banking report suggests banks are coming to realize that, with findings including the increasing conviction that investing in innovation is a driver of future revenue, as opposed to the long-held belief it's a luxury cost. That change of perspective is likely partly due to banks seeing increased success in their innovation efforts, another finding from our research.

The rolling out of digital customer touch-points is one such area where success has been marked. Sped up by widespread lock-downs during the pandemic, fully digital account opening is now common, as is the provision of omnichannel customer journeys.

There are other reasons to be optimistic that institutions' attitudes towards transformation are changing for the better — they are more willing to work with third parties, an approach which can speed up time to market for new products and services. Banks are also embracing the idea of more focused business models, and the consequent need for a more sophisticated, and open, approach to data.

That said, there are still some areas which need work, and now more than ever is the time to address them. Structural challenges continue to hinder banks' innovation efforts and wider attempts at digital transformation, in particular legacy systems, outdated processes and archaic cultures. These issues result in the inability to be agile, to move quickly and to understand and meet customers' shifting and increasingly urgent needs — all of which are vital for institutions trying to navigate ongoing economic turmoil.

Preface (continued)

On a more granular level, banks are struggling with holistic digital engagement that provides personalized experiences. In part that's due to an ongoing failure to take a customer-centric (as opposed to product or technology-centric) approach to innovation. The lack of historic investment in data collection, cleaning and analysis is also an issue for banks trying to create tailored products and services.

Holistic digital transformation is incredibly difficult, but there are examples of how it can be done, and lessons that can be learned from where it hasn't been so successful. This report doesn't shy away from the challenges, but instead identifies them and provides insight into how they can be solved, as well as evidence of where innovation initiatives have had positive results. The aim is to provide inspiration for the year ahead and enable as many institutions to achieve as much success as possible, despite difficult circumstances.

Sarah Kocianski is a fintech and insurtech strategist as well as the leader of the Qorus Open Finance Community. She shares an overview of the results of this year's research and reveals what she believes are the key findings of the new edition of the Innovation in Retail Banking report.

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Letter from the Jim Marous

Jim Marous

The focus on innovation in the banking industry has changed significantly in the last few years, driven by technological advancements, changes in consumer behavior and the impact of new competition. Despite increased economic uncertainty, our research shows that financial institutions understand that innovation is not an area that should be scaled back.

Our research shows that financial institutions are now investing more heavily in technology than ever before. This includes the development of mobile apps, digital banking platforms, and other digital tools to enhance the customer experience. Additionally, banks are increasingly using advanced analytics and artificial intelligence to improve their operational efficiency and to drive increased opportunities for customer engagement.

In recent years, many banks have recognized the benefits of collaborating with fintech companies to develop new products and services. This approach allows banks to leverage the innovative capabilities of these start-ups while still maintaining their existing customer base and regulatory compliance. The benefits also include increased speed to market and scalability of solutions at a time of change.

The overall focus on innovation is being driven by a desire for banks and credit unions to become even more customer-centric in their approach, placing greater emphasis on understanding and meeting the needs and preferences of their customers in a real-time environment. This includes offering personalized experiences, developing new products and services that address specific customer pain points, and providing more transparent and user-friendly interfaces. It also includes being able to proactively provide advice and content before a customer asks.

As we move forward, and as digital banking becomes more prevalent, the risk of cyberattacks has become a top concern for banks. As a result, many banks have increased their investment in cybersecurity measures, including advanced encryption and fraud detection technologies. While not covered heavily in this report, innovations in security have become foundational in nature.

Letter from the Jim Marous (continued)

DIGITAL BANKING REPORT

As regulatory bodies increasingly recognize the importance of innovation in the banking industry, they have taken steps to encourage and facilitate innovation. For example, many regulators have established fintech sandboxes, which provide a controlled environment for start-ups to test their products and services without the risk of regulatory non-compliance.

This year's Innovation in Retail Banking report is again sponsored by Infosys Finacle in cooperation with **Qorus.** This is the 14th year of this report, reflecting a unique period of economic uncertainty where innovation and digital transformation is more important than ever.

— Jim Marous

Owner and CEO
Digital Banking Report
Host, Banking Transformed Podcast

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Sanat Rao

When I reflect on the year that went by, I think it's apt to describe it by borrowing Charles Dickens' famous words —"It was the best of times, it was the worst of times."

On the positive side, the changing interest cycles resulted in growth in margins as well as revenues. The waning of the pandemic provided some respite from supply chain disruptions and commodity pricing shocks that had rocked the economies in past years. On the downside, the industry was plagued with issues such as unprecedented inflation, geo-political instability, and volatility due to incidents that rocked the crypto industry.

From an overall perspective, one may argue that the banking industry is in a far better position today as compared to any other year in the last decade. However, across regions, we find that the events of the last decade distanced pioneers and laggards further. Progressive banks that are digital pioneers with a strong customer focus, especially in Asia Pacific, North America, and Latin America, have continued to forge ahead as compared to their peers across the rest of the world.

As this Innovation in Retail Banking report reveals, there are some key areas that banks must focus on to bridge the gap and stay ahead of the curve.

Transform Better — Success with digital transformation

The report findings reveal that only 11 percent of respondents believe that their bank's digital transformation has been deployed at scale and is delivering to expectation. Therefore, one clear takeaway, is that the focus this year needs to be on investing to scale digital transformation success. Based on our experience of serving banks in over 100 countries, there are five key areas that banks must focus on:

I. Maximizing digital customer engagements to drive growth

II. Digitizing and automating ubiquitously to cut costs

III. Innovating continuously, to create new value and to stay competitive

IV. Leveraging the power of new technologies like cloud, API, and AI to unlock new possibilities

V. Building talented teams and purpose-driven culture to unlock the true potential of the organization

I encourage banks to use these research findings to prioritize areas and benchmark investments to meet the standards being set by pioneers.

Engage Better

With growing digitization, customer engagement has undergone a sea of change over the last few years. For instance, consider the fact that just 20 years ago, 50 percent of banking transactions occurred inside the branch. Today, that figure stands at barely 5-25 percent for most progressive banks, depending on which customer journey you consider, as most transactions happen via digital channels.

With trends such as embedded finance and open banking, we expect a majority of these transactions will move to non-bank, third-party channels. There is, however, some work to be done before this comes true. Less than 15 percent of respondents believe they have been extremely successful with digital customer engagement and digital account opening. For consent-based open banking access and seamless omnichannel experiences, this number is less than 8%.

Across the customer journeys, most financial institutions fall short of engagement success beyond the basic customer service interaction level as per our previous joint report with Qorus "Maximizing Digital Banking Engagement", authored by Jim Marous. The report also revealed that while 62 percent of banks have strong contemporary channels such as online and mobile banking in place, only 3 percent have had success with futuristic channels. This opens the industry to further risk of disruption as new-age players differentiate themselves with transformative channels such as open banking/embedded finance, and futuristic channels such as chatbots, AR, VR, etc.

Innovate Better

As the thrust on innovation increases, banks are increasingly seeing a blurring of lines between industries, thanks to rise of ecosystems. Beyond the growing digital maturity among large incumbents and challengers, there is greater competition from non-traditional competitors.

In hindsight, the pandemic acted as a catalyst for innovation. 65 percent of respondents believe that they are somewhat/substantially more successful at innovation than in the pre-pandemic period. Our research also found that 53 percent of banks anticipate innovation in product delivery and 23 percent see new products being the focus of innovation. Trends such as embedded finance also offer opportunities for co-innovation.

Operate Better

Digitization has rewritten the cost-efficiency norms in banking. The average cost-to-income ratio of the top 1,000 banks globally stands at 50%. For digitally advanced banks, this drops to about 35-45%. However, new-age digital-only banks perform remarkably well with their cost-to-income ratio at nearly half that of the established banks. Therefore, there is immense pressure on incumbent banks to match the new efficiency benchmarks.

Digital transformation has the potential to significantly improve banking operations by driving strategic alignments and reducing dependency on high-cost physical infrastructure. Banks can benefit with smarter processes, an augmented workforce and modern technologies. Beyond traditional automation levers, modern technologies such as blockchain can drive inter-organizational automation which will be key in the evolving banking ecosystems.

Technology

While banks today understand that technology will play a key role in shaping their future, progress on technology adoption has been slower than expected. Banks have invested in areas such as Cybersecurity (96 percent), Mobility (87 percent), 'Data, Advanced analytics and AI' (83 percent), Open Banking APIs (75 percent) and cloud computing (65 percent). However, several questions linger around the time taken to achieve a decent ROI.

Our study is unequivocal that symbolic investments will not deliver returns. For example, the study finds that enterprises must move at least 60 percent of their workloads to the cloud to start seeing real value. This is true for private, hybrid, public and multi-cloud environments. Also, the value increases with the adoption of software-as-a-service models, which leads to business operations running on the latest versions to help maximize value from technology investments.

Also, technologies such as cloud, AI, and machine learning yield benefits only when they are used in the right way. Therefore, increasing the pace of change also requires a truly digital and purpose-driven culture to implement the transformation.

In the post pandemic era, it is now time for banking leaders to refocus on the long term agenda for their businesses. Pioneers that continue to sustain their investments on innovation and business resilience will strengthen their competitive advantage against laggards. The research provides insights and case examples to prioritize the focus areas and benchmark innovation investments. Such investments need to be comprehensive so that banks are able to engage, operate, innovate and transform better progressively leveraging modern technology.

I hope you find these findings useful as you mature further in your digital transformation journey.

— Sanat Rao

Chief Business Officer
Global Head – Infosys Finacle

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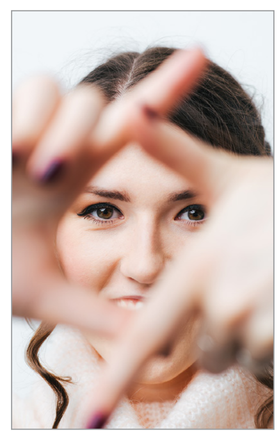
1
Innovation Strategies

The Future of Innovation During Times of Economic Uncertainty

Innovation has become a critical component of business growth in the banking industry. Beyond creating the 'next big thing,' innovation includes the creation of value through new or existing products, services and processes. It also must incrementally improve customer and employee experiences, back-office efficiency and revenue opportunities. Most importantly, banks need to innovate continuously and recompose their legacy business models to create new value for their stakeholders.

Traditional and non-traditional banking providers are increasingly responding to evolving customer needs and behaviors by creating new solutions at speed and scale. With a challenger mindset, these organizations are continuously rethinking back-office processes to enhance products and services that build engagement and create better experiences.

These efforts are expanding the set of potential financial partners that consumers and businesses consider using, resulting in shifting loyalties and market share.



Our research shows that while innovation leaders understand the importance of delivering improved experiences and products as quickly as possible, structural challenges continue to impede the speed and scale of innovation. Adding to the challenges of legacy cultures and processes, financial institutions are considering 'scaling back' investments in innovation as the industry faces uncertain economic times.

More than ever, those institutions that view the innovation process as a driver of future revenues (as opposed to a cost) will benefit the most as the economy returns to normal growth patterns.

The future of retail banking innovation has the foundation of internal and external data, advanced analytics, digital technologies, and new delivery alternatives. This will require them to modernize their technology landscape and lead with transformation initiatives that will enable them to fight for a share of "new-age banking", conducted as digital-first, embedded finance, marketplace banking, BaaS, among others.

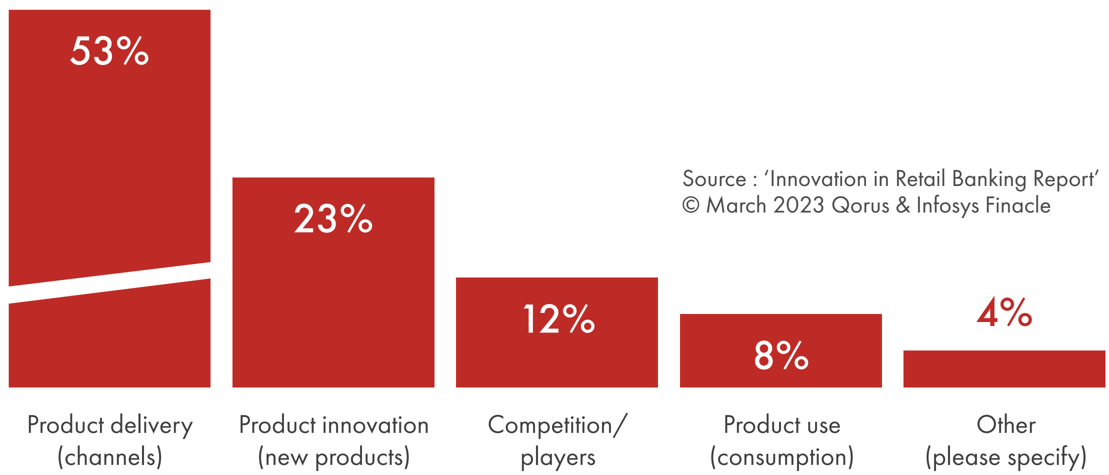
Areas of Innovation Emphasis

When we asked financial institutions globally what areas of banking will see the most innovation over the next five years, innovation around product delivery and product development were the overwhelming responses. Part of this could be attributed to the reality that every product and service needs to be delivered in a more digital manner as foot traffic at physical facilities continues to decrease.

Banks must combine data, analytics and modern technologies to understand the customer journey and achieve optimal engagement.

Chart 1: Financial Services Innovation Over Next 5 Years

In what area of banking do you see the most innovation taking place over the next 5 years?

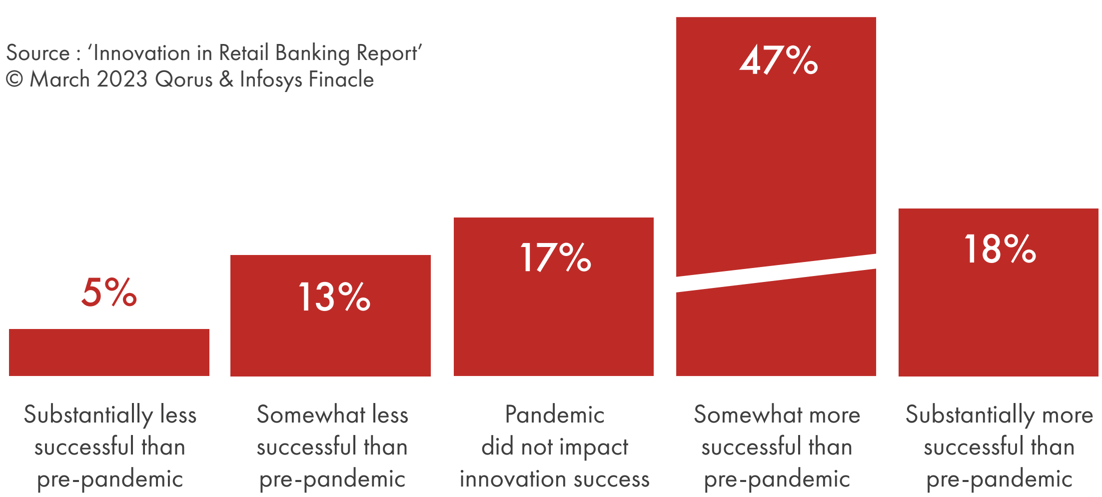


Improving Innovation Success

In this year's research, we found that banks and credit unions globally indicated that they have seen improved results from innovation efforts over the past two years. When we asked financial institutions about their innovation success over the past two years, 65% of organizations stated that their success was greater than in the past. Unfortunately, there are still close to one-fifth of financial institutions that are not having the success they achieved pre-pandemic.

Chart 2: Innovation Success Over Past Two Years

How would you rate your innovation success over the past 24 months? (Choose one.)



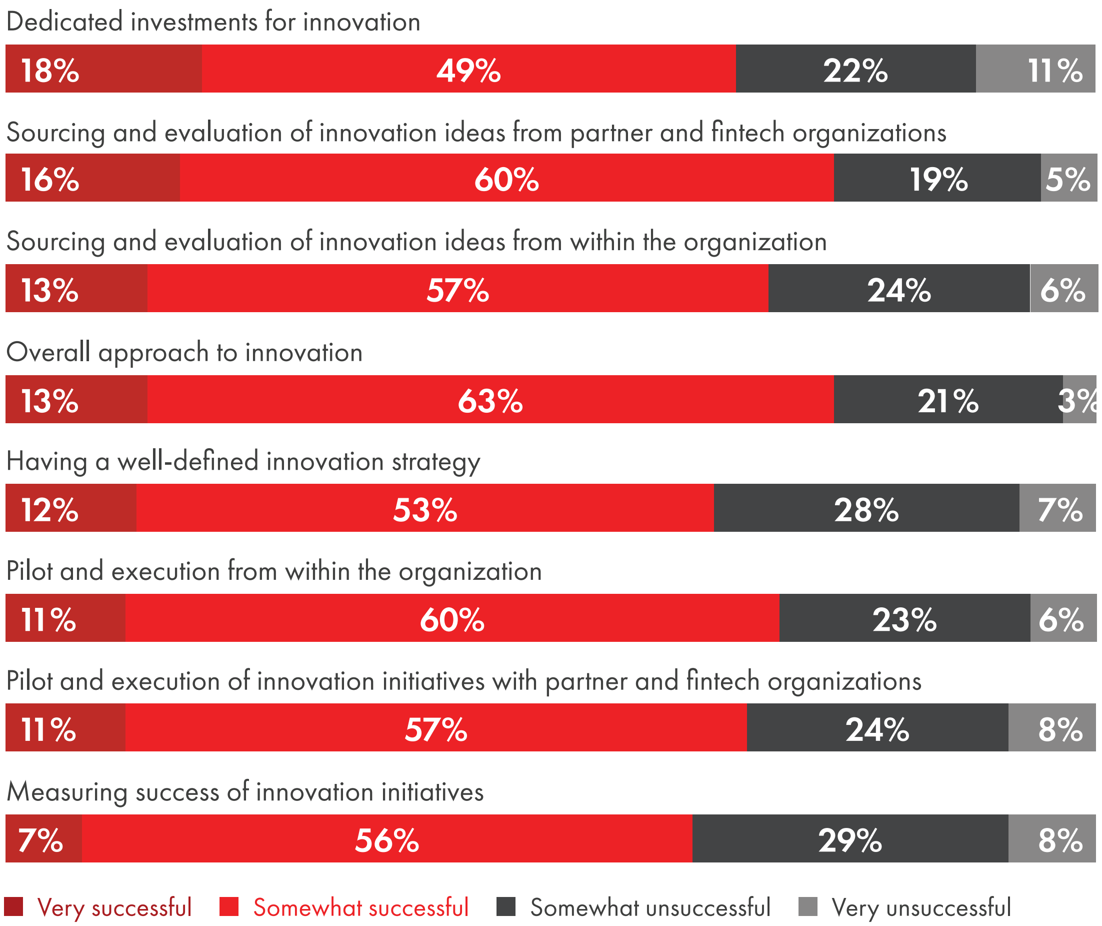
When we reviewed the different components that are the foundation of innovation success, 18% of financial institutions surveyed indicated that they are 'very successful' in getting dedicated investments for innovation initiatives, with another 49% stating that they were 'somewhat successful.' Interestingly, a third of institutions stated they were either 'somewhat unsuccessful' or 'very unsuccessful' in getting the needed funding. As seen in the past, the largest and smallest organizations are doing the best at committing dedicated investments to innovation.

Firms that stay focused on innovation will have a definite advantage as the economy returns to normalcy.

It was encouraging to see that 76% of financial institutions were successful in sourcing and evaluating innovation ideas from partner or fintech firms (up from 66%), with over three quarters having success with their overall approach to innovation and 65% having a well-defined innovation strategy. 63% of institutions stated having success in measuring the benefits of innovation initiatives.

As we broke out the areas of greatest success in executing innovation strategies, it was encouraging that most of the cultural elements of building an innovation mindset across the organization were vastly improved from previous years. We believe the lower level successes in measuring the impact of innovation strategies will change as organizations solidify their structure around innovation.

Chart 3: Success in Executing Innovation Strategies



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Increased Collaboration With 3rd Party Providers

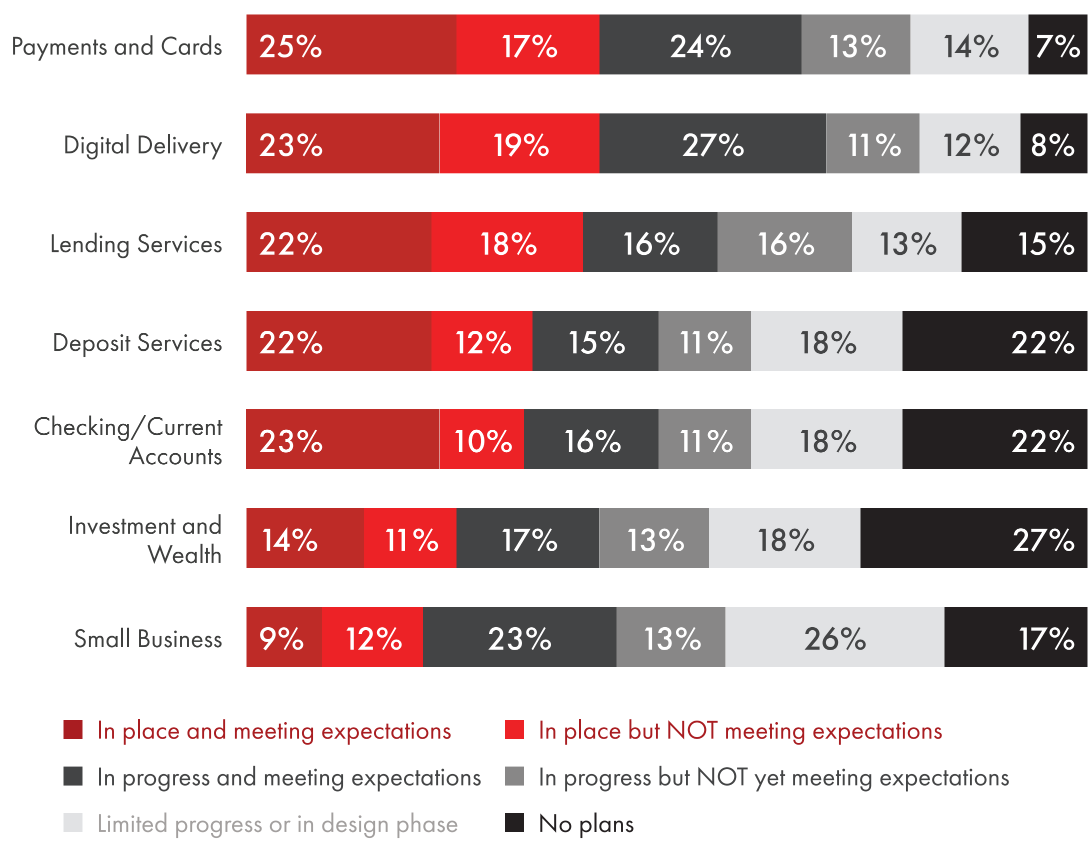
The speed of deployment of innovation solutions is more important than ever as the banking ecosystem is evolving faster each year. The good news is that when we asked financial institutions how they are using third-party providers and fintech firms, many organizations already have partnerships in place or in progress of implementation. The biggest areas of concern are deposit services and checking accounts, which drive new customer acquisition at most firms.

When selecting partners for innovation, it's important to look for firms that align with your core values and the key focus of your innovation agenda.

In most cases, the rationale for looking elsewhere for support was the desire for more innovative solutions to specific needs (digital account opening, cloud deployment, open banking functionality) and the need for speed and scale of deployment.

Chart 4:
Partnerships with Third-Party Providers Expanding

Please indicate the level of partnership you have with solution providers or fintech players in the following areas.



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2
Innovation in Digital Engagement

Innovation in Digital Engagement

Data, analytics, and new technologies are transforming the art and science of personalized customer experiences, enabling the creation of advanced forms of engagement beyond transactions. Innovation around customer engagement is holistic, predictive, precise, and clearly tied to business outcomes beyond sales.

Winning organizations are building the capabilities, talent, and organizational structure needed for this transition. Those that stick with traditional processes will be forced to play catch-up in the years to come.

More than Just Back-Office Modernization

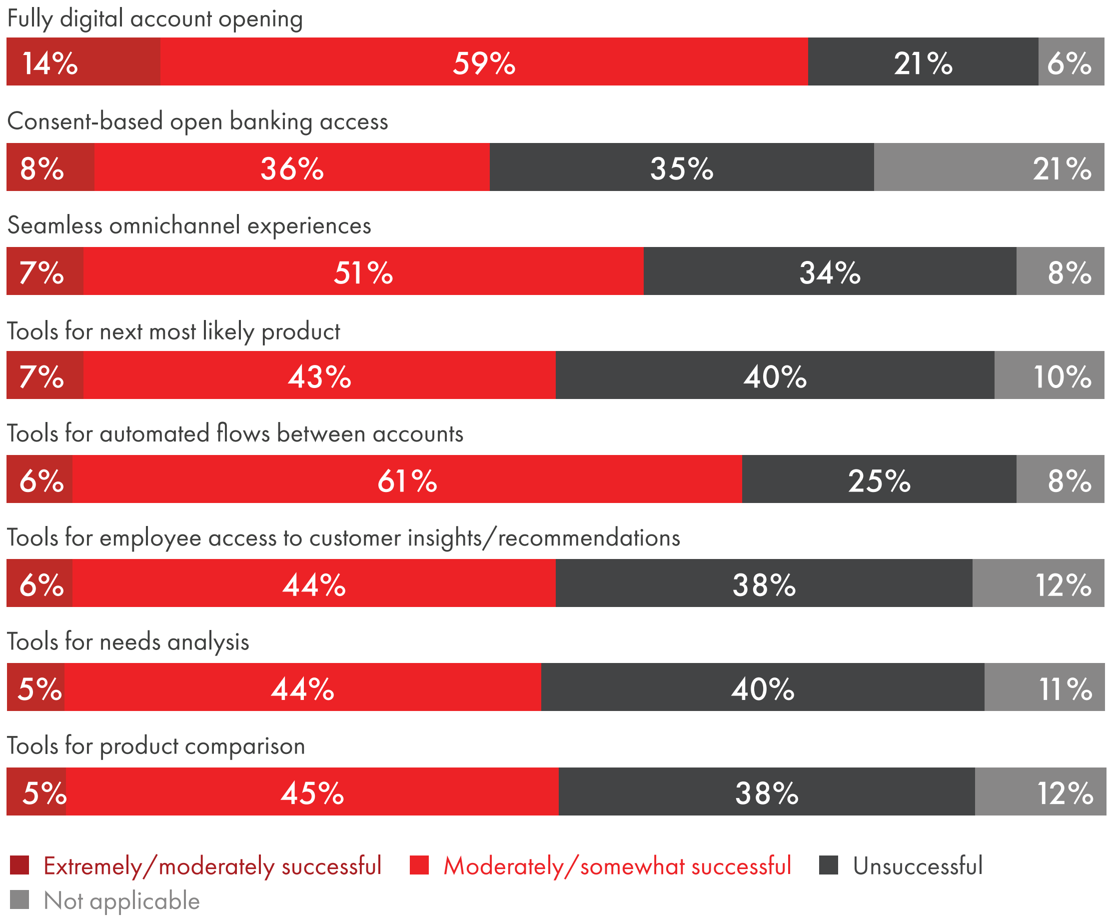
Innovation requires modernized platforms, simplified applications, and democratization of data. That said, outdated technology can't be an excuse for failing to innovate.

The goal is to provide value beyond just products and services, displaying empathy for customer needs that will strengthen the overall relationship, throughout the entire customer journey. The crucial importance of this capability is increasingly understood by banking leaders.

Data from our research reveals that by their own assessment, financial institutions are still falling short of what's required, but that progress is being made in several areas (digital account opening, tools for automated flows of data, omnichannel experiences, etc.). Innovation must focus on engagement across the entire customer journey and across channels.

Chart 5: Success with Digital Engagement Strategies

How successful is your bank with the below key aspects of digital customer engagement?



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Despite challenges around delivering greater customer engagement, financial institutions large and small are testing how to process all forms of customer interactions. The challenge for most organizations is doing the type of engagement required at scale. To deliver this level of engagement, most financial institutions need to invest in updating existing technology and architecture.

In addition, building a strong engagement strategy requires a shift from a traditional product-centric approach to a customer-centric approach that focuses on intelligent customer engagement. Done well, the result will be the ability to capture new growth opportunities by delivering greater value for customers now and in the future. Innovations in this area support a true omnichannel experience.

Omnichannel Innovations Across the Customer Journey

More consumers than ever have moved beyond branches as their primary channel for routine transactions and service. That said, the local branch remains valued for complex transactions, advice and resolving problems. In today's omnichannel environment, customers expect to be able to choose among self-service, banker-assisted service, or full-service — and the ability to move seamlessly between digital and human interactions.

Financial institutions need to innovate ways to better deliver high-quality customer experience with the flexibility to reliably support all touch points. Democratizing data availability and empowering people with technology are emerging trends — allowing customer support personnel to engage on all channels.

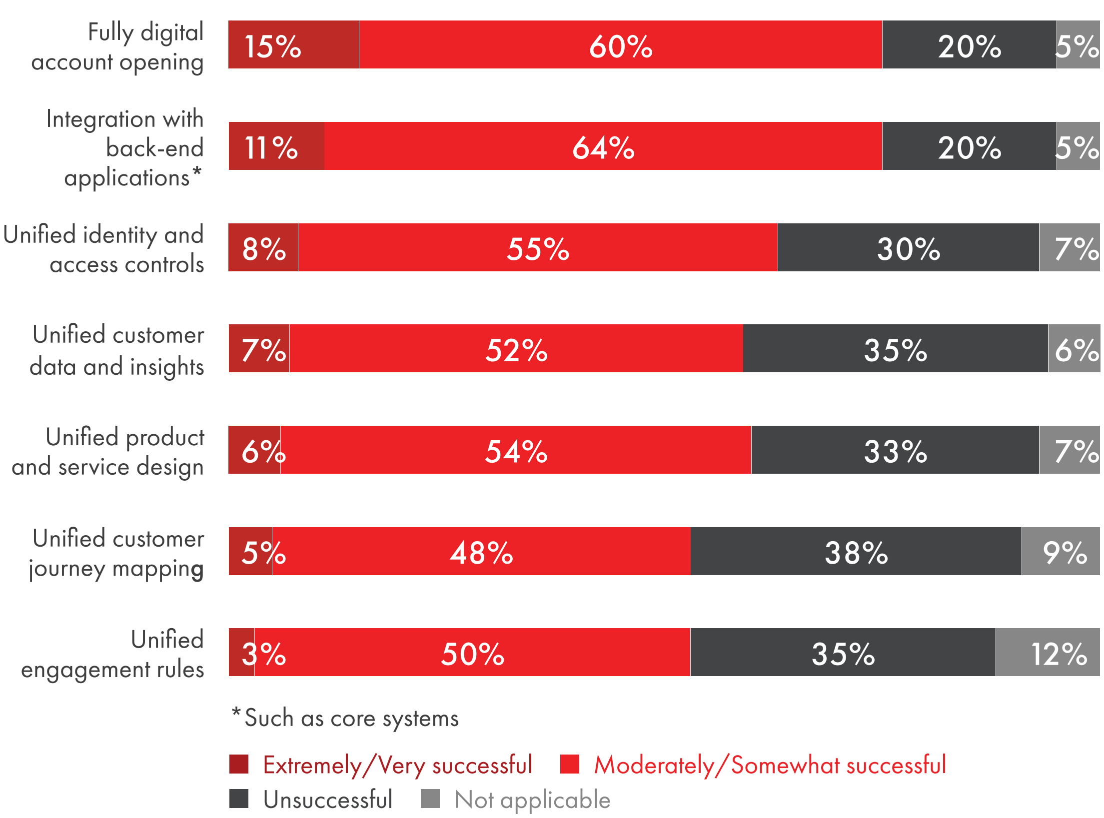
It is more important than ever that banks and credit unions act to avoid losing personal engagement associated with face-to-face contact. Using data and technology equipped to detect and quantify customer needs can help digital and human channels to work in concert, proactively engaging the right banker for the consumer at the right time.

The good news is that many financial institutions surveyed indicated a modest level of success in delivering omnichannel experiences. From new account opening to integration of front and back-office applications, banks and credit unions are focused on innovating new ways to communicate and deliver solutions using the channels customers prefer.

There are still gaps, but progress is being made.

Chart 6: Success in Delivering an Omnichannel Experience

How successful is your bank in unifying capabilities across channels to deliver a true omnichannel experience?



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Building Strong Engagement Strategies

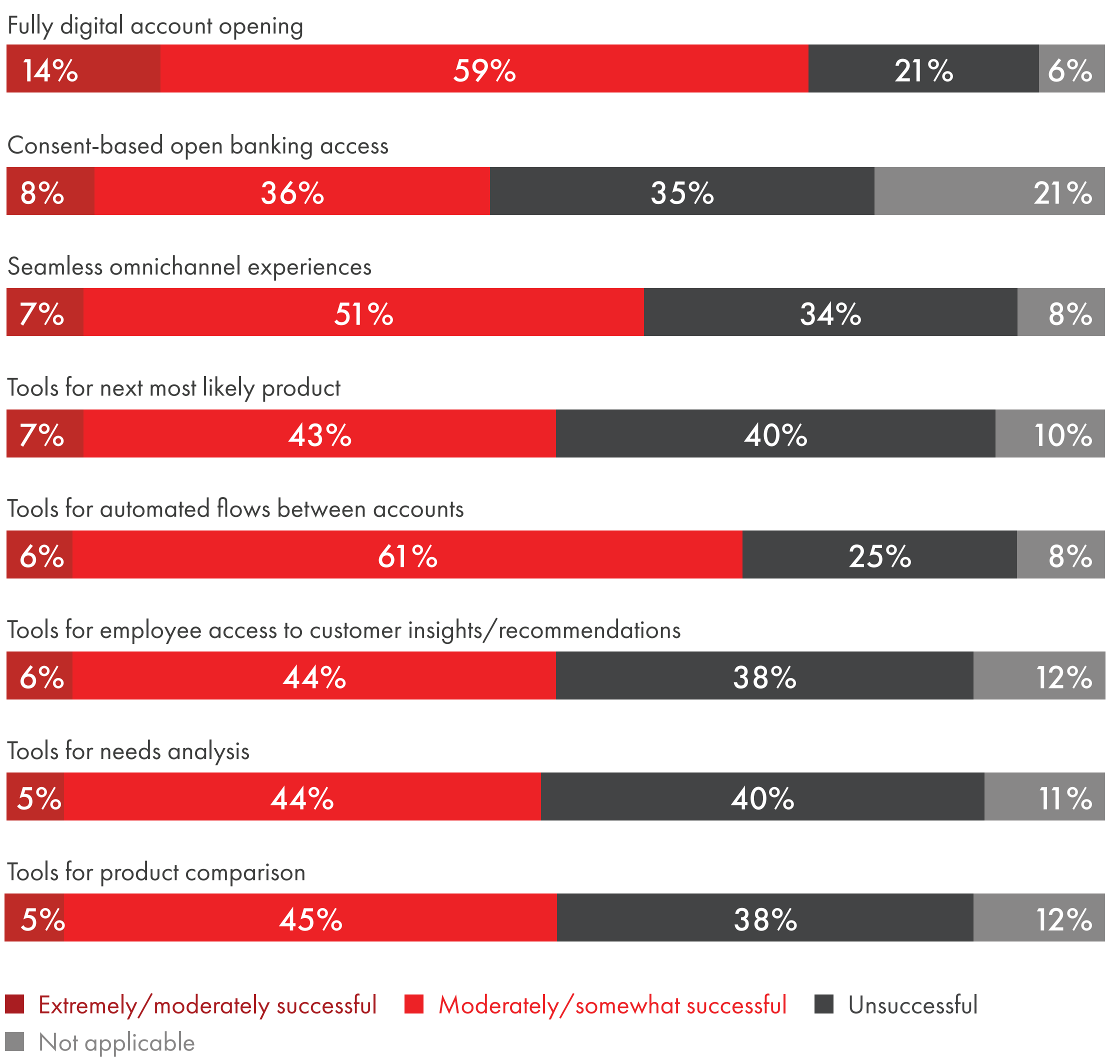
To deliver superior customer engagement, it is essential to adopt a comprehensive approach that includes multiple layers of organizational development. This involves establishing and aligning people, processes, and technology as the fundamental capabilities for driving preparedness and customer-focused interactions.

Furthermore, it is crucial to implement these capabilities in the context of the customer relationship lifecycle. Of course, it is also important to facilitate these interactions across a wide range of conventional, modern, and emerging channels that customers may use to engage with the bank. According to research, only a small fraction of banks (less than 15%) consider themselves proficient in various aspects of digital customer engagement.

Chart 7:

Success with Digital Engagement Strategies

How successful is your bank with the below key aspects of digital customer engagement?



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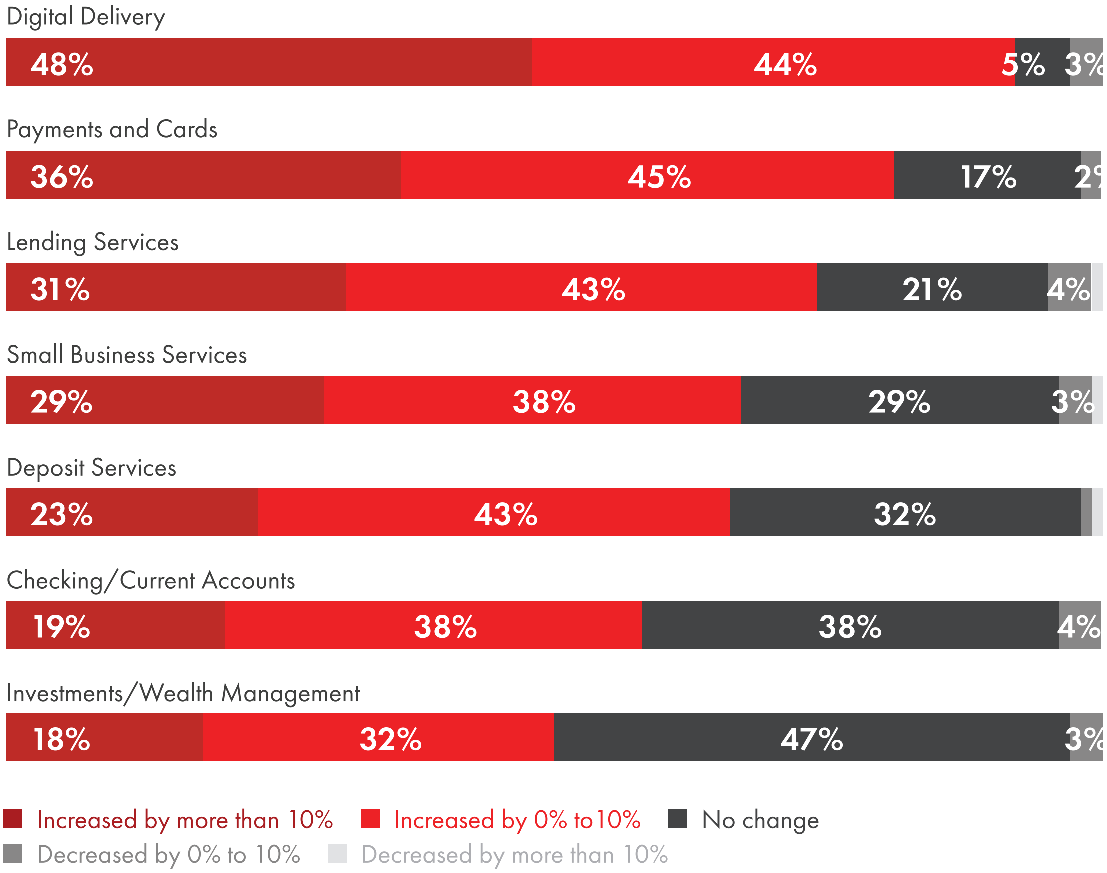
Creating real engagements with the right mix of people, process and technology across the customer lifecycle can significantly help banks deliver a superior customer experience. In line with this, research shows that 92% bankers will increase innovation investments in digital delivery, with 48% looking to increase investment by more than 10%.

Chart 8: Investment Change in Innovation

How will your investment in innovation change in 2023 compared to 2022 in the following areas?



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3
Business Model Innovation

Major Business Model Innovation

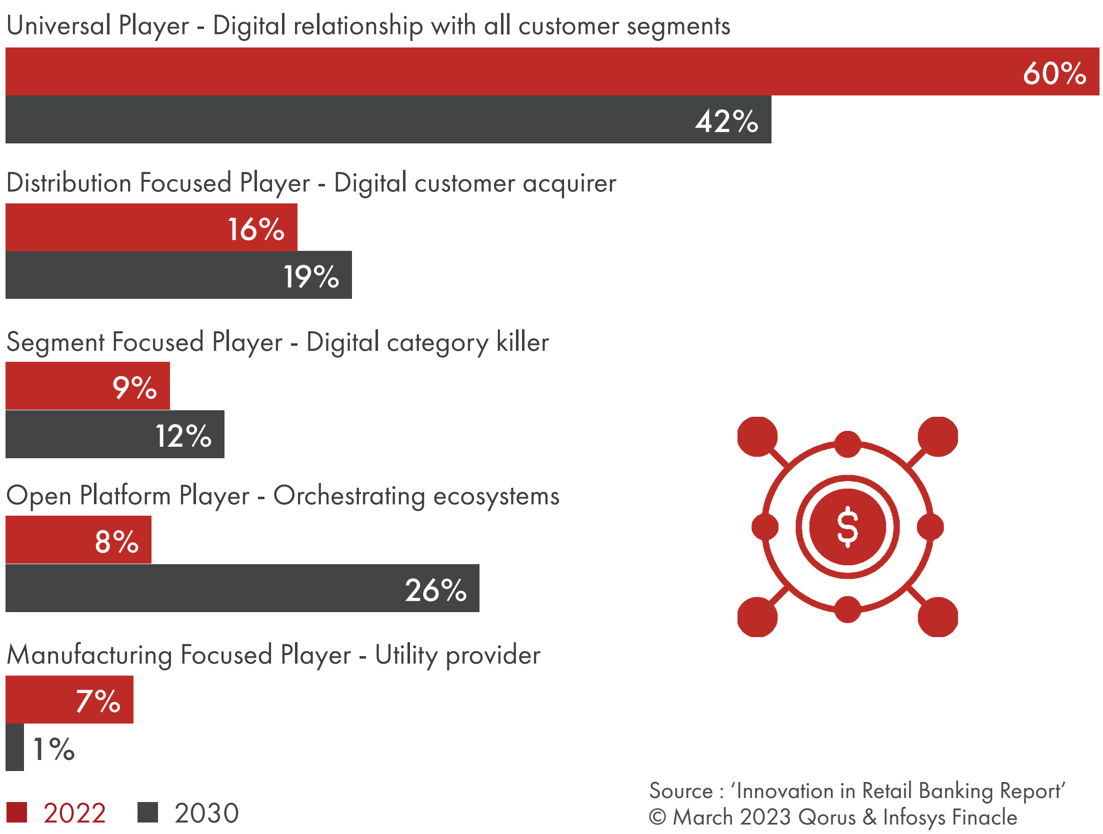
As found in last year's retail bank innovation report, financial institutions are increasingly looking to move to more of an open banking business model, re-prioritizing investment strategies and building third-party partnerships that will drive innovation and customer experiences in the future.

The move away from being a universal player — building digital relationships with all customer segments — is gaining momentum, with the use of application programming interfaces (APIs) now seen as a secure and standardized method to provide consumers more control over how their data is used.

While 60% of organizations considered themselves a 'universal player' today, with only 8% saying their business model was being an open banking player, more than 25% of organizations see themselves having an open banking model in 2030. Most of this shift is away from being a universal player — disrupting traditional banking business models forever.

Chart 9: Current and Future Business Model

What is your primary business model today and what will it be in 2030? (Select one.)



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Banks and credit unions are challenged to satisfy consumers with the traditional services they have used for decades, while also delivering the latest offerings that a growing portion of consumers desire. More than ever, consumers are willing to take their business to other financial institutions to find innovative products and services, with more consumers willing to use new financial services partners to get what they want.

A financial institution's leadership has a direct impact on the ability to create innovation and the success of innovations already undertaken. This includes both the top leadership of an organization as well as those in a lower supervisory position. A culture that encourages new ideas and a challenger mindset is now essential.

Better utilization of data allows banks and credit unions to offer a more personalized and differentiated user experience — and a better UX keeps customers more engaged. Every interaction provides valuable data, which then helps inform how a financial institution can better personalize the experience and drive engagement.

Bottom line, the entire future of innovation in banking hinges on the availability, democratization and deployment of data and solutions.

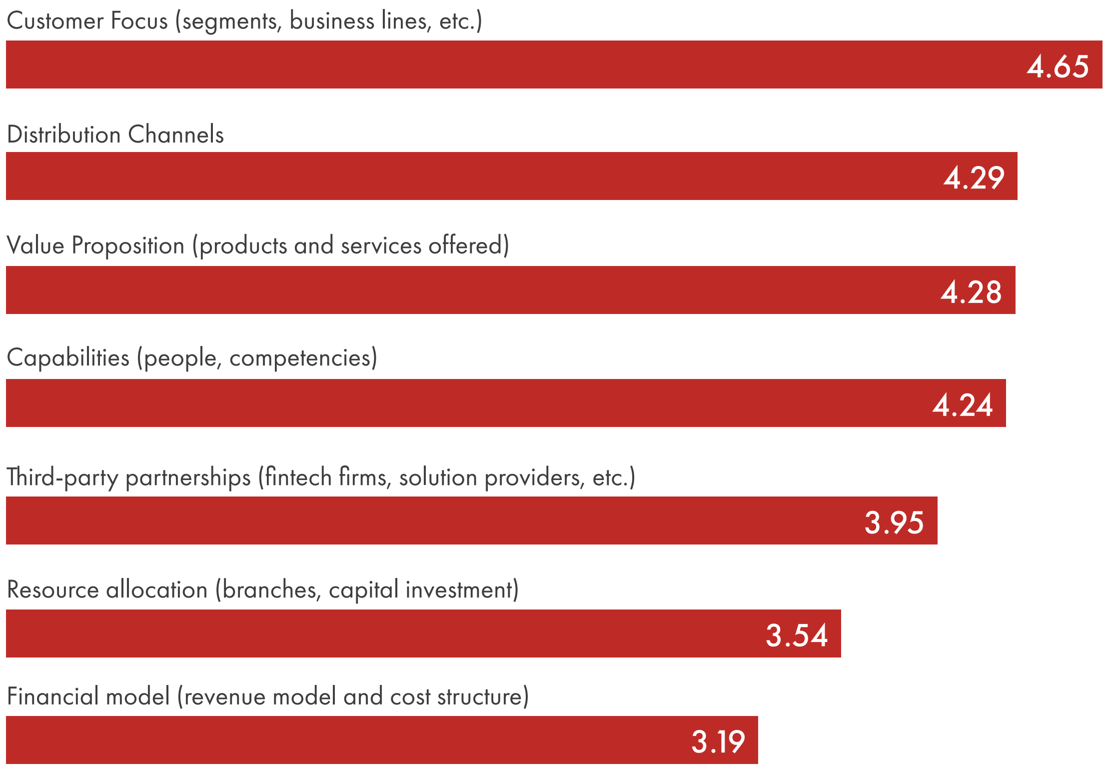
Rethinking Existing Business Models

The primary obstacle faced by banking executives today is keeping up with the pace of change in order to maintain relevance and stay ahead of agile competitors. To achieve success, banks must overhaul their traditional business models, which necessitates updating their technological infrastructure and prioritizing transformative initiatives that enable them to compete in the realm of "new-age banking," which includes digital-first, embedded finance, marketplace banking, BaaS, and other related fields.

It is crucial that each bank determines and matures its path for restructuring its business models based on the unique needs of its specific circumstances. This entails re-imagining customer engagement, operations, and transformational approaches accordingly.

Chart 10:
Evolution of Business Models Will Continue

On a scale of 1-5, please rank the components of your business model likely to evolve the most dramatically over the next five years.



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It is clear prioritizing the customer experience will be at the foundation of the evolution of business models going forward. Banking institutions will focus on improving the customer experience by offering personalized services, improving the value proposition, simplifying the distribution channels, and using technology to make banking more convenient and efficient.

Overall, the key to successfully rethinking a banking business model will be to stay attuned to the changing needs and preferences of customers, and to be open to exploring new opportunities and technologies that can help the business stay competitive and relevant at a time of ongoing change.

As financial institutions prioritize digital transformation initiatives, they must take into account the integration of the following megatrends:

- The growing importance of mobile devices and the increasing adoption of e-commerce.
- The importance and impact of social media in marketing and customer engagement.
- The threat of cybercrime and the importance of cybersecurity.
- The benefits of big data, artificial intelligence (AI) and machine learning, and the value of the democratization of insights.
- The potential of cloud computing to improve speed, scalability and efficiency.
- The changing nature of work, both on employees and customers.
- The future of emerging technologies such as the internet of things, virtual and augmented reality, Web3 and the vision of the metaverse.

4
Digital Transformation Trends

Digital Transformation Trends

Digital banking transformation requires banks and credit unions to rethink previous ideas about being flexible and being able to pivot quickly. Speed is just the beginning. The value of digital banking transformation also requires banking organizations to scale for growth.

Digital transformation remains a high priority in the banking industry for several reasons. The primary one is that it can help banks to improve the efficiency and effectiveness of their operations. By streamlining processes and automating tasks, financial institutions can improve the ability to be future-ready and to be able to improve customer and member experiences. Additionally, digital banking transformation can help banks and credit unions to better compete in a rapidly changing financial ecosystem. In recent years, the banking industry has faced increasing competition from fintech companies and other non-traditional players, including big tech organizations. By embracing digital technologies and processes, financial institutions can improve their offerings and how they deliver their services.

Finally, digital banking transformation helps financial institutions reduce costs and increase profitability. By automating processes and leveraging modern technologies, including automation, bank institutions can reduce their reliance on manual labor and lower operating costs. This helps maintain healthy margins, redeploy human and monetary assets, and stay competitive in a challenging marketplace.

The questions become:

- What stage are financial institutions in their digital banking transformation journey?
- What are the digital banking transformation priorities for 2023?
- What stands in the way of updating back offices for improved top-of-glass experiences?

Digital Banking Transformation Maturity

Financial institutions have made significant progress in their digital banking transformation journeys, but the level of maturity varies. Some organizations have fully embraced digital technologies and have implemented a wide range of digital solutions, while others are still in the early stages.

As with much of the change taking place within the financial services industry, the best results and highest level of maturity have been present at the largest financial institutions. Modest success has also been seen at the smallest banks and credit unions, while most mid-sized firms ($10 billion – $100 billion) have been lagging the industry as a whole.

Financial institutions have made significant progress in their digital banking transformation journeys, but the level of maturity varies among institutions based on size, commitment to change and investment levels.

There are several factors that can influence the level of maturity of financial institutions in their digital banking transformation journey. These include the size and complexity of the organization, the level of investment in digital technologies, the level of regulatory compliance already in place, and the level of customer demand for digital banking capabilities.

The good news is that there are a multitude of options available to work with third-party providers that can deploy digital banking transformation solutions faster than can be done if developed internally. Incumbent institutions can also partner with fintech and big tech competitors while modernizing their systems and processes at the same time.

When the Digital Banking Report asked financial institutions worldwide about their level of digital banking transformation maturity, we found that 18% of institutions believed their solutions were deployed at scale, with 61% stating that their solutions were partially deployed. Of concern was that 38% of organizations that believed they had deployed digital banking transformation solutions at scale were not receiving the level of results expected. Similarly, 31% of organizations with partial deployment had not received the results expected.

These percentages indicate that complexities involved in scaling digital transformation across the organization. At its heart, a successful transformation is about managing change better. It is an outcome of three things – clarity of vision and target operating model, change competencies - people, process, technology and data readiness required to support change, and robust governance.

Chart 11:

Stage of Transformation Journey

Which of the below options best describes the stage of your organization's digital transformation journey? (Choose any one.)

Source : 'Innovation in Retail Banking Report' © March 2023 Qorus & Infosys Finacle

At every level of digital banking transformation maturity, financial institutions are increasingly recognizing the importance of digital banking transformation strategies to become future-ready. Many financial institutions have invested heavily in digital technologies in recent years and are actively working to improve the customer experience using digital channels. However, there is still a significant amount of work to be done to fully realize the benefits of digital transformation.

Trends in Digital Banking Transformation

As we entered 2023, there were several underlying trends impacting the prioritization of investment and the progress made in digital banking transformation. One of the biggest underlying trends is the continued growth in the use and customer expectations around digital banking. As more and more consumers embrace smart-phones and other mobile devices, banks are increasingly focusing on developing mobile-first strategies and offering services optimized for mobile users. This includes capabilities such as mobile payments, mobile check deposits, and other features that make it easier for customers to manage their finances on the go.

A trend that is receiving a great deal of attention, but is still very challenging for organizations to embrace and deploy, is the use of artificial intelligence (AI) and machine learning. Beyond using AI and machine learning to enhance cybersecurity and reduce fraud, banks and credit unions are using advanced analytics to improve the accuracy and efficiency of operations and to provide personalized experiences for customers. This includes providing time-sensitive personalized product recommendations to customers to improve financial wellness.

The focus of digital transformation revolves around the customer journey and the need for increased engagement in a safe and secure environment.

When the Digital Banking Report asked global banking executives about their digital banking transformation progress in the past year, the greatest progress was around leadership support of digital transformation efforts (34% with significant progress) and improving the customer experience and engagement (24% with significant progress). Interestingly, the lowest level of progress was in transforming legacy systems (60% having moderate (43%) or significant (17%) progress).

It was encouraging to see that, while the improvement in the use of data, analytics and AI was not as high as expected, 75% of organizations stated they had made moderate or significant progress.

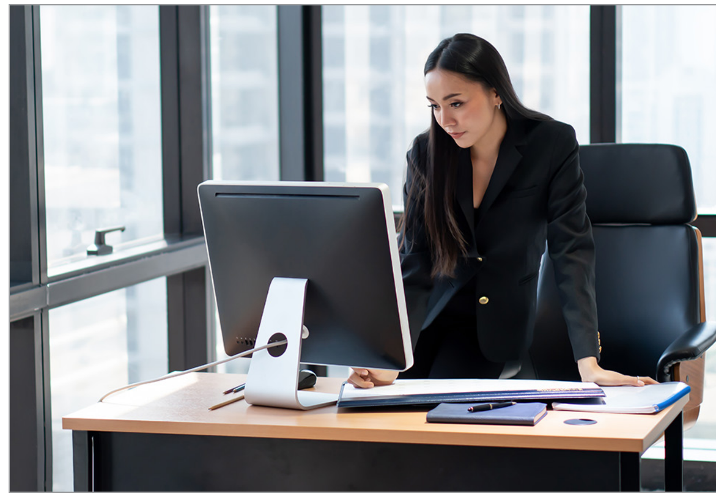
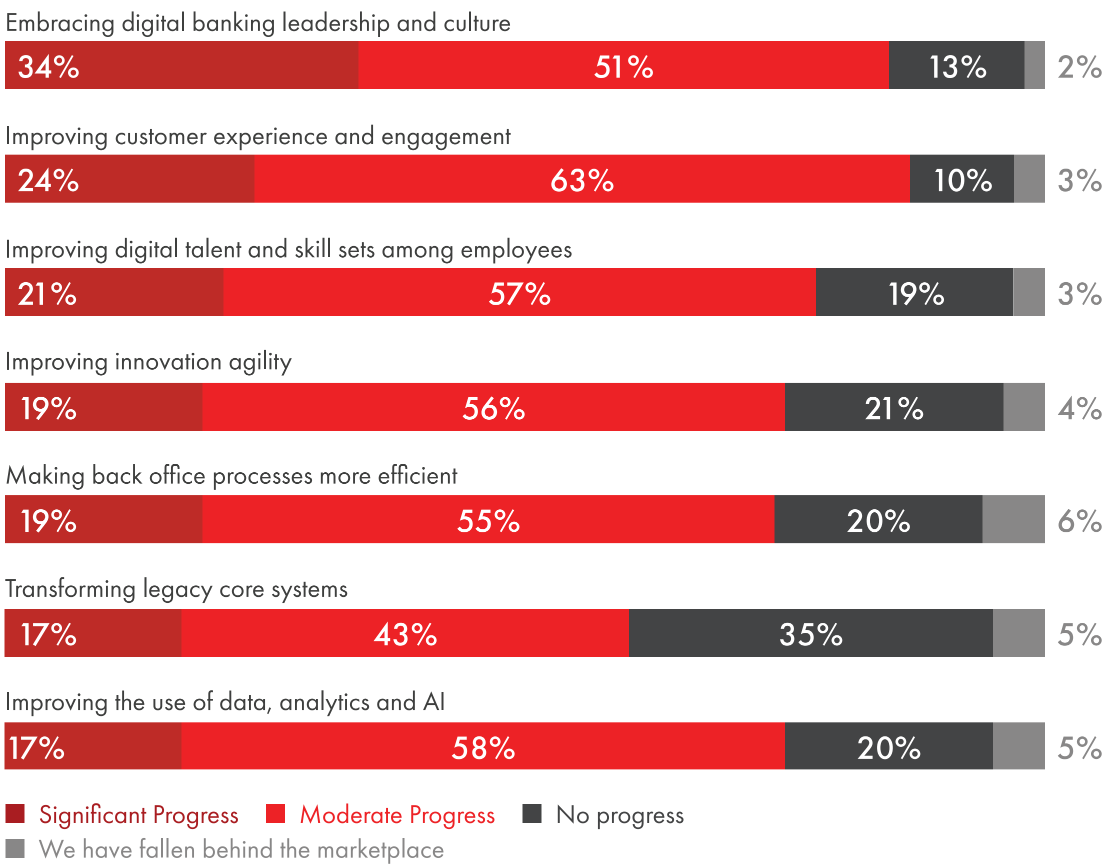


Chart 12:

Digital Transformation Progress Over Past Year

Please indicate your organization's progress in the following digital transformation areas over the past year.



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Challenges to Digital Banking Transformation Success

In our research, there are several major challenges that financial institutions face as they embark on their digital banking transformation journey:

1. **Cultural resistance to change:** Digital banking transformation requires significant changes to the way an organization operates, which can be difficult for existing leadership and current employees to accept. In both our research and in interviews done for the Banking Transformed podcast, we have found that it can be challenging to get everyone on board with the changes needed for the future and to ensure that the entire organization is aligned with the digital transformation strategy.

2. **Limited resources:** Financial institutions may struggle to allocate the necessary resources to support digital transformation initiatives, especially during times of economic uncertainty. This becomes more challenging when significant investments in technology or training are required.

3. **Complexity:** Financial institutions often have legacy systems that are mired in past business strategies. Frequently they are difficult to integrate with newer digital technologies. This can make it difficult to implement new digital solutions unless the solutions are integrated incrementally. This can introduce new complexities.

4. **Data and security concerns:** As banks and credit unions managed more and more data, concerns about data privacy and security grow. Ensuring the security of this data is imperative, but it can also be a challenge as organizations implement new digital technologies.

5. **Regulatory compliance:** Financial institutions must adhere to complex and ever-changing rules. They become more challenging as organizations implement new digital banking transformation technologies.

Overall, financial institutions must be strategic and proactive in addressing these challenges as they work to transform their internal and external operations using modern digital technologies.

5
Role of Modern Technologies

Role of Modern Technologies

The existing business model for most retail banks is negatively impacting both profitability and valuations. To become future-ready, banks and credit unions must rethink their distribution strategy, reinvent their business model and double down on ways to achieve operational efficiencies.

Recent trends in banking confirm that traditional banks can still dominate, despite significant competition from fintech firms and big tech players. But to do that they must be open to changing their physical distribution structure, legacy business models, inefficient back-office operations, and limited value propositions.

While geography and business models continue to play a role defining the winners in retail banking, operational excellence has emerged as an increasingly important factor determining which financial institutions are best positioned for the future.

In other words, the cost of delivering services, and the perceived value of these services to the marketplace, will drive market share and organic growth. This will require retail banks to operate from an advanced platform, leveraging new technologies and data capabilities that support the delivery of contextual digital products and services ... in real-time.

Legacy Banking Faces Profitability Headwinds

At a time when financial institutions of all sizes are trying to transform most of what made legacy banking successful in the past, there is an underlying threat as the performance gap between the world's most profitable banks, and the least, is widening.

While variations in profitability between financial institutions have always existed for an assortment of reasons, many of today's variations are being caused by operational inefficiencies, outdated business models, the inability to embrace change and product lines supported, i.e. the differences between core product profitability and deeper product engagements (embedded banking, mortgages, business banking, etc.).

In developed countries, existing cost structures are no longer sustainable. Organizations in the U.S., Europe and developed Asia must use modern technology to lower costs of distribution, manage data and analytics, create innovation at scale and speed, automate back-office functions, and create personalized customer engagement. Unfortunately, incumbent banks are often dragging their collective feet to compete effectively on the digital battlefield.

In emerging markets, such as Africa, Latin America and the Middle East, financial institutions must leverage profits from core banking services, such as checking/current accounts, credit cards, unsecured loans and basic savings plans to support new product expansion and cross-selling.

When the Digital Banking Report asked global financial institution leaders what digital banking transformation areas of emphasis would be extremely or very important in the next three to five years, cybersecurity (96%), mobile experience

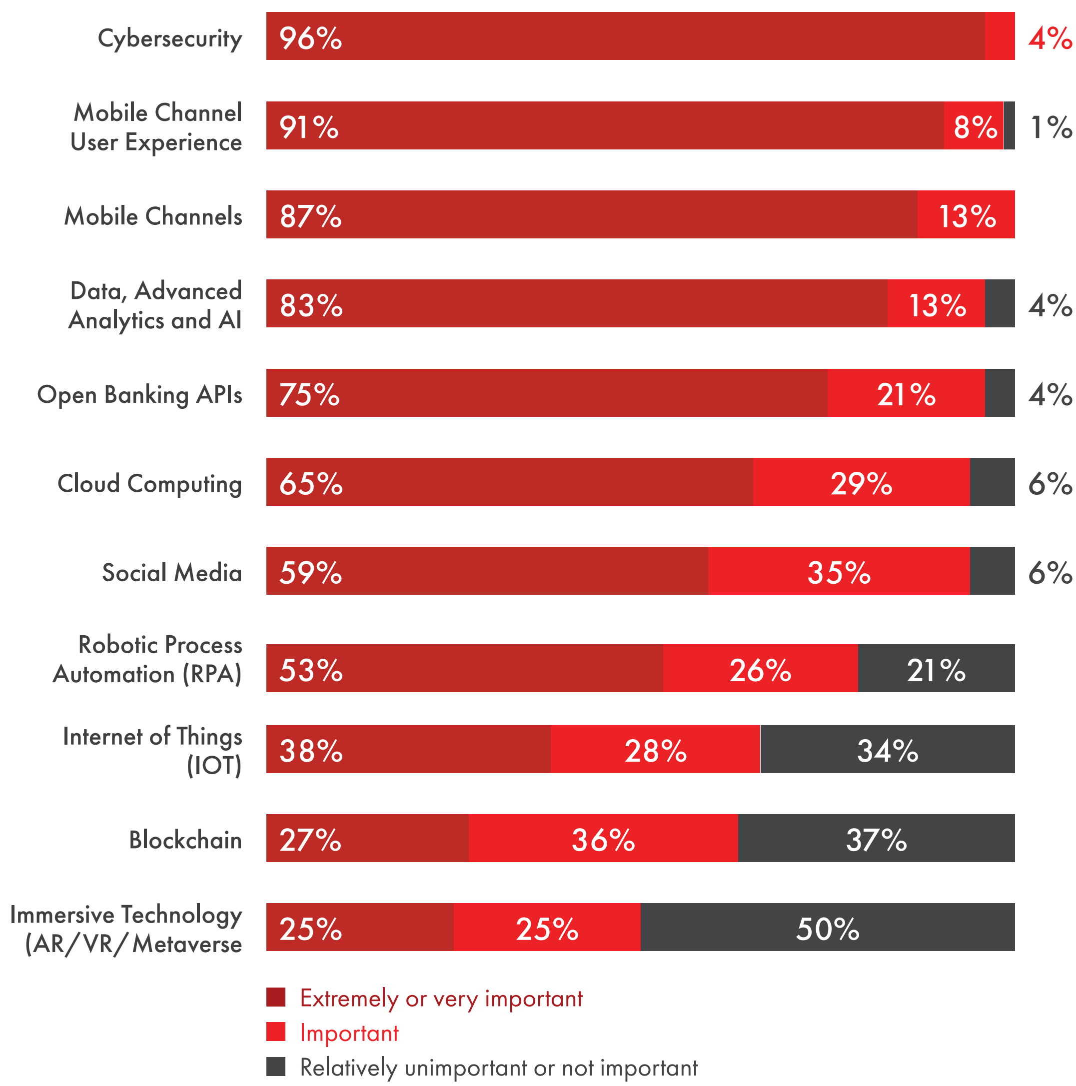
(91%), mobile channels (87%), and data and analytics (83%) were the top priorities. As more and more financial transactions are conducted digitally, it is becoming increasingly important for banks to prioritize security and protect their customers' data from cyber threats. As a result, financial institutions are investing in advanced security technologies, such as encryption and biometric authentication, to keep their customers' data safe and secure.

Another area of primary focus was open banking. Open banking has the power to enable banks to offer more innovative products and services to their customers, as well as to better compete with fintech companies and other non-traditional players in the market.

Chart 13:

Cybersecurity and Channel Experience Will Get Top Focus for Next 3-5 Years

Please indicate the level of importance of the following to your business in the next 3-5 years.



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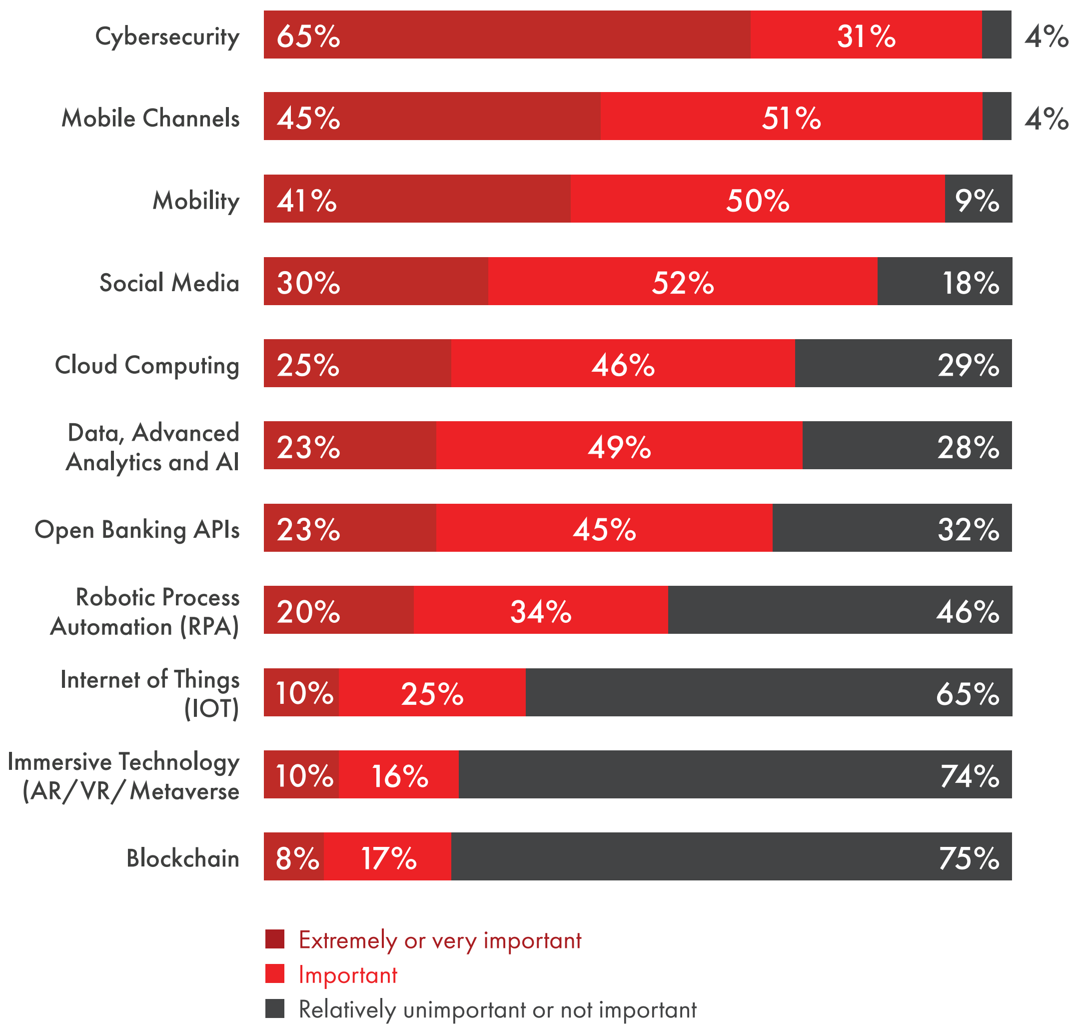
When we asked financial institution executives about the success of their digital transformation efforts, organizations overwhelmingly believed their efforts in cybersecurity and supporting digital channels were the most effective. There was significantly lower consensus on the success achieved in the use of social media, the deployment of cloud computing, the use of data, AI and advanced analytics, and the success with open banking APIs.

Chart 14:
Current Level of Success

Please indicate the current level of success that your organization is having in the following areas.



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Overall, these areas of focus and components of success indicate that the digital banking space will continue to evolve and change in the coming years. Banks that can adapt to these changes and leverage emerging technologies will be best positioned to succeed in this increasingly competitive market.

Cloud Computing Enables Future Success

Cloud computing has become a key component of digital transformation success. This includes the process of migrating data, applications, and IT infrastructure from traditional on-premise environments to cloud-based solutions. This shift offers numerous benefits for banks, including increased agility, scalability, cost savings, and enhanced security.

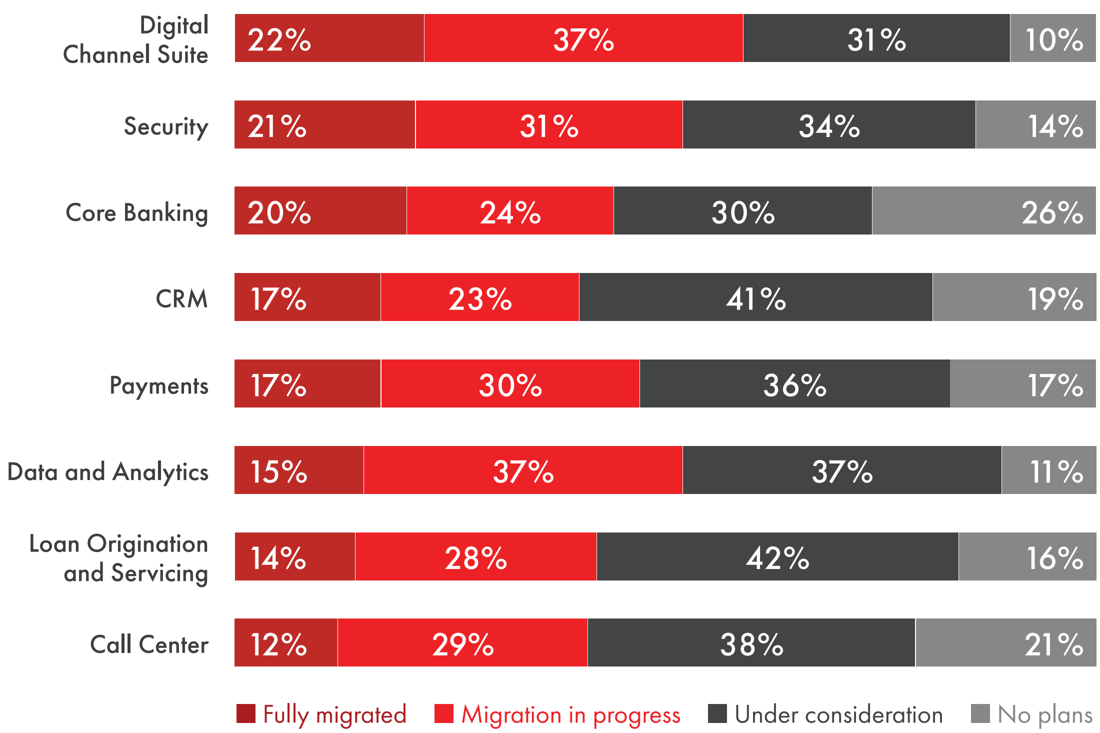
The banking industry has been relatively slow to adopt cloud technologies compared to other industries, due to concerns over data security, compliance, and regulatory requirements. However, in recent years, we have seen a significant increase in cloud adoption by banks, as they recognize the potential benefits of cloud computing.

According to our research, the level of adoption of cloud technology in some capacity ranges from 40% to close to 60%. This number is expected to continue to grow in the coming years.

Chart 15:

Status of Cloud Adoption by Banking Application

What is your organization's current cloud adoption status across various applications used by your bank?



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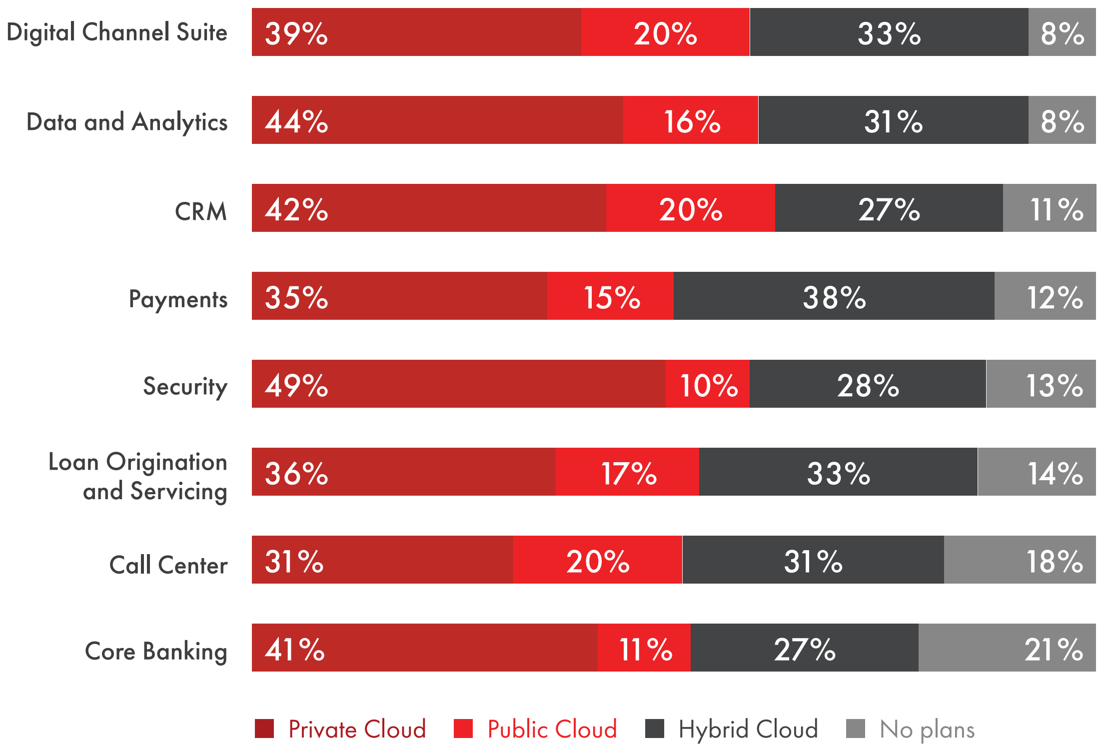
The use cases for cloud computing in the banking industry are diverse and growing. One of the most significant areas of application is in the digital channel suite and in data analytics, as banks increasingly rely on big data and machine learning algorithms to better understand customer behavior and improve risk management.

Cloud-based analytics tools enable banks to process vast amounts of data quickly and cost-effectively, giving them a competitive edge. Additionally, cloud-based infrastructure can provide banks with the flexibility and scalability needed to deploy new products and services quickly, without the need for significant capital investment. The majority of organizations are relying on private cloud implementation, followed by a hybrid model.

Chart 16: Type of Cloud Model Anticipated in 2025 by Application

What is your organization's preferred cloud model by 2025 across various applications used by your bank?



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While the benefits of cloud transformation are clear, there are also significant challenges that banks must overcome in the process. One of the biggest challenges is ensuring regulatory compliance and maintaining data security in the cloud environment. Another challenge is the complexity of migrating legacy systems to the cloud, which requires careful planning and execution to ensure minimal disruption to business operations.

In conclusion, cloud transformation is a critical component of the digital transformation taking place in the banking industry. While adoption rates are increasing, there are still challenges that banks must overcome to fully realize the benefits of cloud computing. By addressing these challenges and leveraging cloud-based solutions strategically, banks can improve their agility, scalability, and competitiveness in a rapidly evolving digital landscape.

Act Now to Become Future-Ready

Despite an uncertain economic environment, banks and credit unions must take action immediately to digitally transform their organizations in a way that will reduce operating expenses, increase customer engagement, build new digital solutions, and generate new sources of revenue. This will require a much greater commitment to leveraging data and analytics, creating a new technology platform, and rethinking existing back-office operating models.

The good news is that compared to fintech firms and even big tech competitors, legacy financial institutions still know more about their customers than alternative providers. More importantly, there is an existing trust and reluctance to change primary providers by existing customers.

Unfortunately, we are already seeing a shift in loyalty, where existing customers are 'testing the waters' of fintech and big tech providers. More than ever, banks and credit unions must leverage a comprehensive data infrastructure that will support data collection, storage, and advanced analytics, as well as a digital marketing engine to translate analytical insights into personalized messages that anticipate individual customer needs and intentions.

Since most legacy financial institutions do not have this data and analytics capability today — this is where third-party solution providers should be used to deploy these solutions at speed and scale.

These third-party providers include fintech start-ups, software vendors, and other companies that specialize in providing technology solutions to the financial services industry.

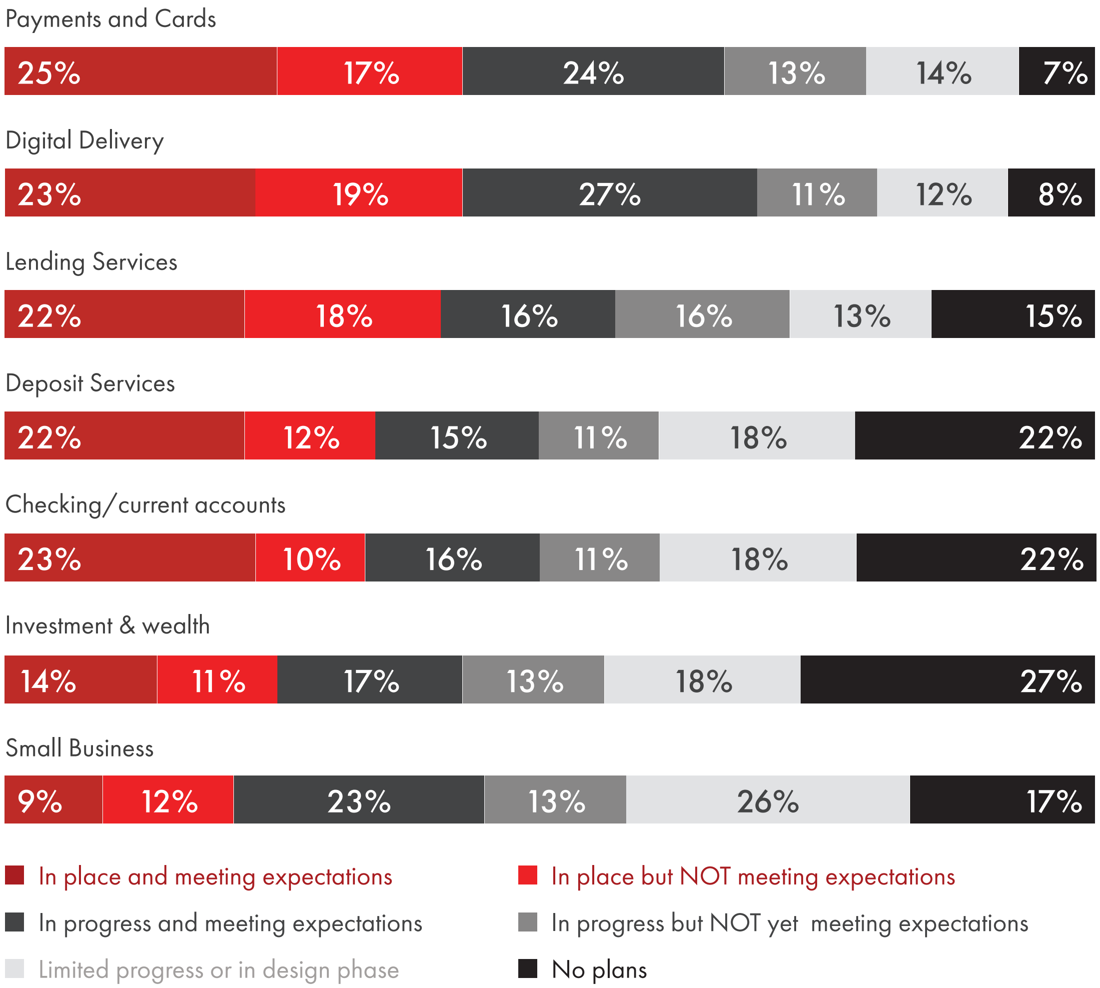
Collaborating with third-party providers can bring several benefits to banks, including:

- **Increased innovation:** Third-party providers often have specialized expertise in areas such as technology and data analytics, which can help banks to develop new products and services.
- **Improved efficiency:** Outsourcing non-core functions can help banks to focus on their core competencies and improve their efficiency.
- **Access to new markets:** Collaborating with third-party providers can help banks enter new markets or expand their offerings in existing markets.

Chart 17:

Partnerships with Third-Party Providers Expanding

Indicate the level of partnership you have with solution providers or fintech players in the following areas.



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Banks will need to rethink their value proposition, simultaneously simplifying and upgrading the customer experience while creating value and engagement through data.

Similar to the requirement for a strong data and analytic infrastructure, financial institutions must also have an IT infrastructure that is capable of a much faster processing capacity and for supporting faster, iterative innovation cycles. Again, few banks or credit unions are in the position to build this capability internally, so outsourcing should be considered to reduce the cost while providing flexibility.

Finally, traditional banks and credit unions must completely rethink existing operations and back-office processes to support the speed and agility required of a digital-first financial institution. Institutions must provide the support and culture needed for collaborative development of new ways of doing business, including the retraining and hiring of the talent required for a future-ready digital bank.

The legacy way of supporting the financial needs of consumers is no longer financially viable in a world that rewards banks and credit unions that build new digital functionalities quickly and at scale. Winners will be those institutions that can support all transactions and sales digitally, use data and analytics to personalize engagement in real-time, and rethink back-office operations for enhanced efficiency and effectiveness.

6
Final Thoughts: The Importance of Speed and Scale

The Importance of Speed and Scale

Organizations that embrace change, leverage new technologies, support an innovation culture, and move forward quickly with a challenger mindset will be better prepared for ongoing disruption that will increasingly become the norm in banking.

The importance of speed and scale for innovation and digital transformation is particularly heightened during times of economic uncertainty. In uncertain economic conditions, financial institutions face increased pressure to innovate and adapt in order to remain competitive and survive. Speed and scale in innovation and digital transformation can help banks and credit unions meet these challenges effectively.

Speed is important because the pace of change in technology is accelerating. Financial institutions that are slow to adopt new technologies risk falling behind their competitors and losing market share. By moving quickly, banks and credit unions can gain a competitive advantage and capture new opportunities. This requires a culture of innovation that encourages experimentation and risk-taking, as well as the ability to respond quickly to market changes and customer feedback.

In moments of incredible change, companies that are able to respond and pivot the fastest win.

Scale is also important because innovation that is limited in scope or impact may not provide a significant return on investment. By scaling innovation, financial institutions can achieve greater impact and reach a larger audience. This can involve scaling products, services, or processes, as well as scaling up the technology infrastructure needed to support innovation.

Digital transformation requires both speed and scale because it involves fundamental changes to the way financial institutions operate, interact with customers, and use technology. This can include everything from automating processes to developing new products and services to re-imagining the customer experience. By moving quickly and at scale, businesses can achieve digital transformation more effectively and efficiently.

Where to Begin

To maximize the potential of speed and scale, banks and credit unions should focus on making the changes that will have the greatest impact on these powerful dynamics. This usually requires a look within the back-office processes and procedures first. Organizations are usually best served by bringing all parties that will be impacted together and start with a blank sheet of paper.

Just as importantly, organizations should move from a product-centric perspective that values efficiency, to a customer-centric perspective that values engagement and experiences. This is what will truly help an organization achieve digital transformation at speed and scale.

More than ever, digital banking transformation and innovation are no longer optional — and the importance of being able to be nimble and have scalability has never been higher. To achieve the desired result requires that executive management leads from a united front supporting a digital-first culture. Buying modern technology is not enough.

By re-imagining the business model and understanding the impact that digital banking transformation can have on customers, employees, and the future of the business, banks and credit unions can move closer to be future-ready in an increasingly competitive marketplace.

7
About the Research

About the Research

The analysis in this report is based on a December 2022 Digital Banking Report survey of global banks and credit unions. The survey used the subscriber lists of **The Financial Brand** and Digital Banking Report, which includes organizations of all sizes worldwide. We also included organizations that are members of Qorus and clients of Infosys Finacle. No responses from non-financial organizations were included in the results, and only completed surveys were included. The responders were self-selected after receiving a nominal incentive of raw survey results.

Among overall survey respondents, 33% are from large national or regional banks, 17% are from credit unions, 26% are from regional banks and 24% are from community banks.

Chart 18:

Respondents by Type of Financial Institution

What type of financial institution do you work for?

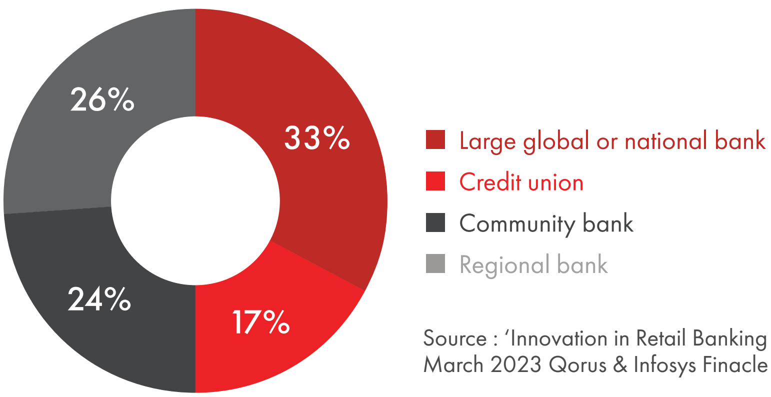

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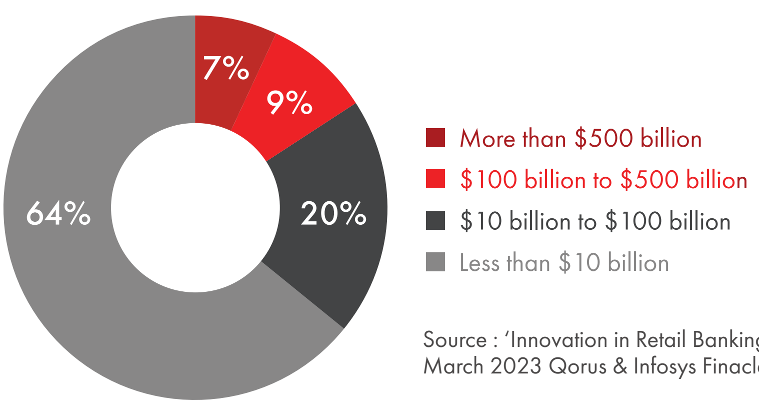
Chart 19:

Respondents by Asset Size

What is the asset size of your financial institution?



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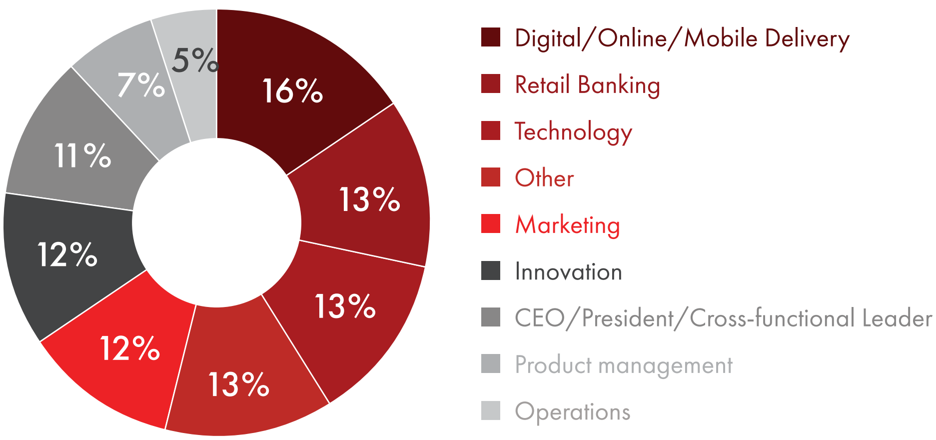
When we looked at the role/department of the respondents, we found 12% were in marketing, 16% owned the digital/online/mobile channels, with another 13% in charge of the retail banking area. There were 25% in charge of technology and innovation, with the remaining respondents being from multiple areas of the organization. We had 11% who were at the top levels of the organization.

Chart 20:
Role of the Respondent

Which of the following best describes your role at your financial institution?



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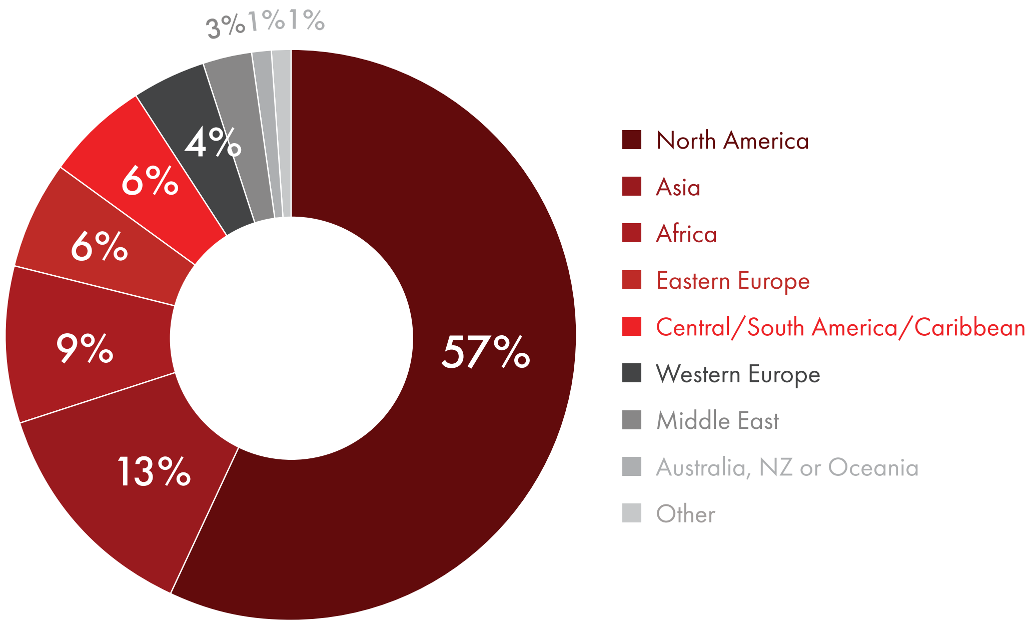
Finally, the respondents who participated in our research were globally head-quartered. While there was an over sampling from North America (57%), 10% were from Europe, and 13% were from Asia.

Chart 21:

Location of Respondents

Where is your organization headquartered?



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About Us

Qorus

A global non-profit organization established in 1971 by banks and insurance companies, Qorus (formerly known as Efma) helps its members to reinvent themselves to thrive — to go further, be faster and work together. Our global ecosystem brings valuable insights, inspiring events, rich data, and active global communities all in one place.

With over 50 years of experience, Qorus provides a neutral space for best-practice sharing and collaboration, while offering diverse knowledge and a global reach — to more than 1,200 financial groups in 120+ countries. Head-quartered in Paris, Qorus serves financial institutions on all continents, with offices in Andorra, Bangkok, Bratislava, Brussels, Dubai, Istanbul, Kuala Lumpur, London, Milan, Seoul, and Tokyo.

Learn more at **www.qorusglobal.com**

Infosys® Finacle

Finacle is an industry leader in digital banking solutions. We are a unit of EdgeVerve Systems, a product subsidiary of Infosys. We partner with emerging and established financial institutions to help inspire better banking.

Our cloud-native solution suite and SaaS services help banks engage, innovate, operate, and transform better to scale digital transformation with confidence. Finacle solutions address the core banking, lending, digital engagement, payments, cash management, wealth management, treasury, analytics, AI, and blockchain requirements of financial institutions. Banks in over 100 countries rely on Finacle to help more than a billion people save, pay, borrow, and invest better.

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About the Author

Named as one of the most influential people in banking and a 'Top 5 Fintech Influencer to Follow', Jim Marous is an internationally recognized financial industry strategist, co-publisher of **The Financial Brand** and owner and publisher of the **Digital Banking Report**.

DIGITAL BANKING REPORT

As a sought-after keynote speaker, author and recognized authority on disruption in the financial services industry, Jim has spoken to audiences worldwide. He has been featured by CNBC, CNN, Cheddar, the Wall Street Journal, the New York Times, the Financial Times, the Economist and the American Banker.

Through his podcast, **Banking Transformed**, Marous provides listeners with an opportunity to hear about the organizational impact of digital transformation. With new shows each Tuesday, Jim interviews his guests with the objective of digging deeper into the opportunities and challenges facing banking and other industries. You can download Banking Transformed on The Financial Brand podcast page or on your favorite podcast platform.

You can also follow Jim Marous on **Twitter** and **LinkedIn** or visit his professional website.

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