

THE DIGITAL BANKING ADOPTION GUIDE 2019

DRIVING THE FUTURE OF DIGITAL BANKING



PRODUCED BY



ABOUT THE DIGITAL BANKING ADOPTION GUIDE

The digital revolution is under way. The last decade has seen tech savvy fintechs increasingly challenge and compete with incumbent, established financial institutions. The shoe is now on the other foot. To keep up with the pace of change in finance, it's incumbents who must chase the tails of the digital first fintechs.

In the aftermath of the 2008 financial crash, the foundations were laid for a major shakeup of the status quo of the financial industry. A combination of the regulatory straightjacket placed on incumbents, public mistrust in established institutions and talented out of work financial professionals created a primordial soup for financial technology.

In the wake of changing consumer demands and democratising regulation, financial institutions must now offer a digital first financial product to stay competitive. But it's not only the consumer-facing aspects of finance that are shifting. The technological landscape of finance's backend is evolving as organisations move towards cloud-based software and AI data analytics.

For *The Digital Banking Adoption Guide* we confidentially surveyed respondents from financial institutions and fintechs to assess the way that organisations are engaging with digital products, how it has influenced policy and how it impacts their relationships with customers.

The Digital Banking Adoption Guide highlights the disruption and opportunity to come in fintech in the next few years. Covering a range of talking points from challenger and incumbent banks to technological innovation and Brexit, keep reading and understand how financial institutions and fintechs are engaging with tech.

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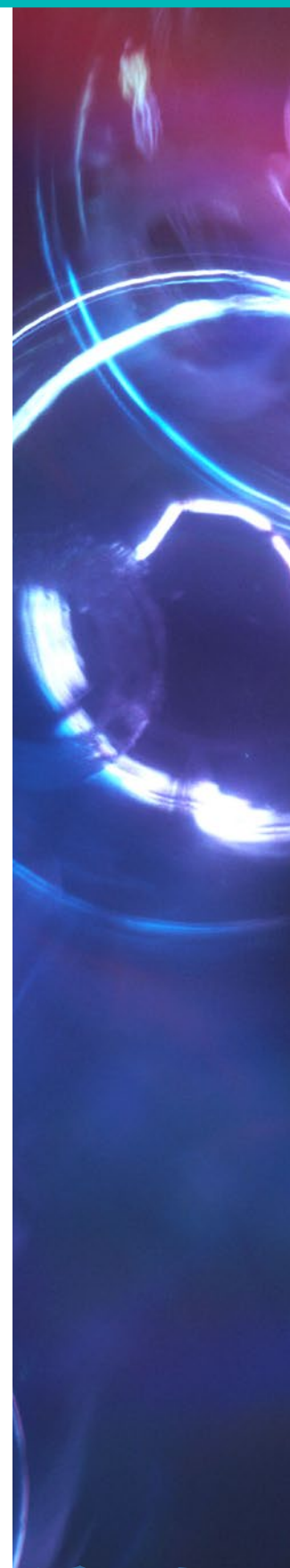
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INCUMBENT BANKS

As challenger banks chip away at more of the market share, incumbents find themselves scrambling to modernise and keep up with the pace of change. Consumers demand a different financial product than they did 20 years ago.

Digital first services and easy, anytime access to funds has replaced the demand for one-to-one interactions with financial professionals. Challenger banks are digital natives, and legacy banks must move towards a digital first approach to stay ahead of the curve.

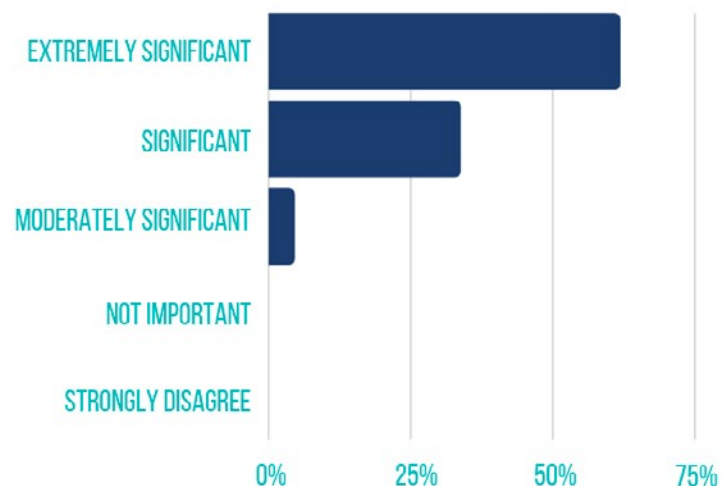
We asked respondents how significant certain factors were in preventing legacy banks' digital transformation. Of *legacy infrastructure, entrenched C-suite, lack of investment, regulatory challenges and lack of skills or resource* the former two were rated as the most significant.

LEGACY INFRASTRUCTURE

We found that the biggest obstacle to digital transformation for incumbents was *legacy infrastructure*, with 85% feeling that it was *significant* or *extremely significant* in preventing digital transformation. The result signals to a perception in the market that banks need to reorient their technical process to appeal to a modern customer.

There is a market opinion that incumbent banks are entrenched in legacy systems. In the age of ease of access and user experience, they must adapt to suit this brave new world quickly, or get left behind. Decades of consumer loyalty can only last so long, and Generation Z are unbound by it.

LEGACY INFRASTRUCTURE



"One of the main goals of digital transformation is to not re-create the next generation of legacy infrastructure but to focus on customer value creation driven by a component based architecture which can evolve or be changed over time by simple API integration."

*Stephane Malrait,
Head of Market Structure and Innovation
Financial Markets,
ING*

"Legacy infrastructure is an obstacle. But I don't believe it to be the biggest hindrance. It presumes digital is all about technology. The biggest block is the need to shift individual and institutional mind-sets."

*Abhijit Akerkar,
Head of Applied Sciences, Business Integration,
Lloyds Banking*

INCUMBENT BANKS

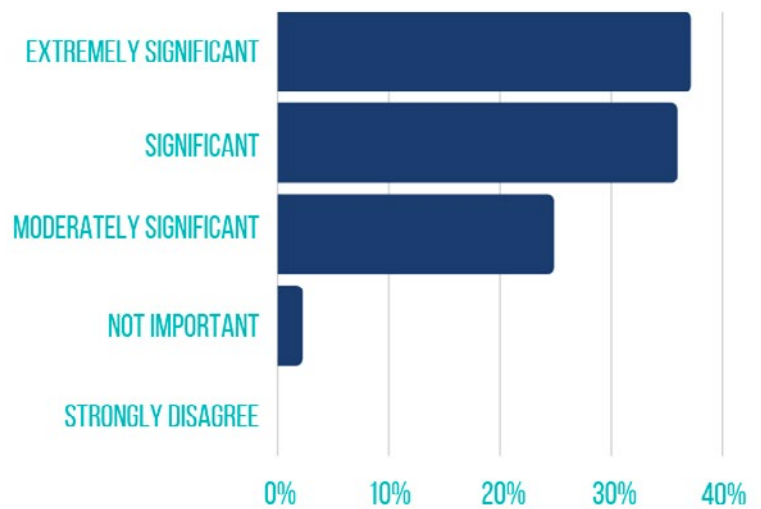
C-SUITE, INVESTMENT, RESOURCES

There was relative parity between the remaining factors preventing digital transformation in incumbent banks. An *entrenched C-suite*, *lack of investment* and *lack of resources* were seen as *significant* or *extremely significant* by 65%, 64%, and 63% of respondents.

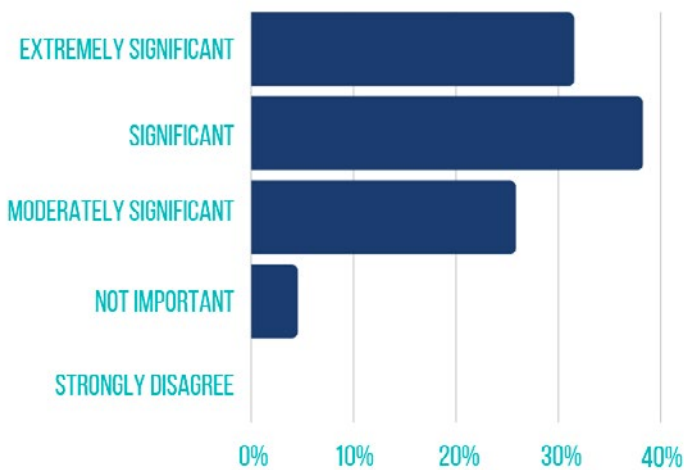
Incumbent financial organisations are no longer seen as the state of the art, progressive institutions that they once were. Investment focus has cooled as competing financial services and models in the form of fintechs and challenger banks hit the zeitgeist.

Despite this, most consumers still bank with incumbents. But to stay relevant, the legacy bank will have to appeal to the digital native consumer as Generation Z becomes a larger proportion of their target market. The only way to do this is modernisation and digital transformation.

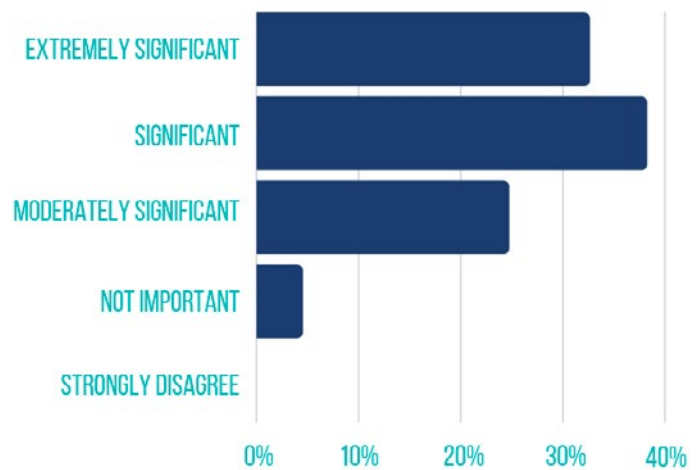
ENTRENCHED C-SUITE



LACK OF INVESTMENT



LACK OF SKILLS OR RESOURCE



CHALLENGER BANKS

In the blistered financial landscape following the 2008 crash, trust in incumbent institutions was damaged. Many talented financial professionals were out of work and regulatory straightjackets were placed on the existing banks. The situation presented an opportunity for a new wave of financial institutions and products. Enter challenger banks and fintechs.

In recent years, the competition has stepped up. British challenger behemoths Monzo and Revolut look to expand internationally, and Starling, Atom and N26 join them in an elite group of challengers that have raised many hundreds of millions in funding.

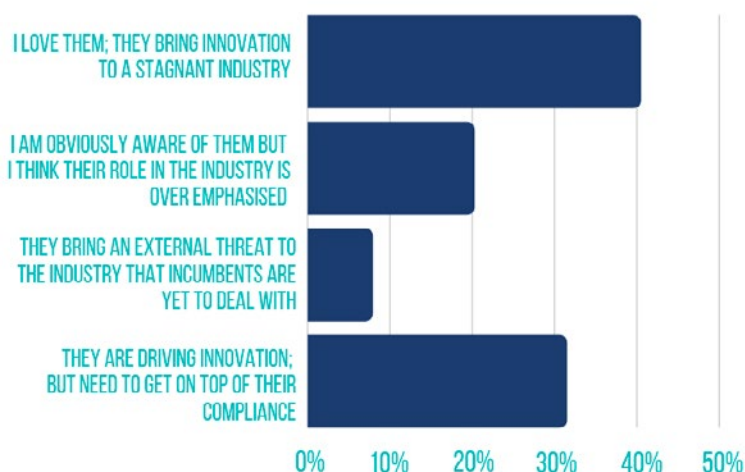
INNOVATION IN A STAGNANT INDUSTRY

Our survey sample was made up of financial institutions and fintechs, with 87% of them key decision makers. We asked them for their opinion on challenger banks.

40% responded with *I love them; they bring innovation to a stagnant industry*. Alongside the second most voted for response – 31% said *they are driving innovation; but need to get on top of their compliance* – a largely positive picture of challenger banks is painted.

They are seen as breathing new life into a stale industry. Innovation is happening in finance at a rate never seen previously, and challenger banks and fintechs are leading that charge.

WHAT IS YOUR OPINION ON CHALLENGER BANKS?



"Regulatory compliance is of the utmost importance for a business and the financial crisis has helped us realise this the hard way. As open international markets continue to expand and become increasingly competitive, banks are looking for ways to keep up with these changes whilst maintaining a competitive advantage. This is where technology comes in, technological advancements have allowed compliance staff to become more time and cost efficient in the daily analysis they carry out, allowing the business to succeed whilst also staying in the regulators' good books. First movers in particular are already reaping in these rewards of innovation centric regulatory reporting tools, allowing them to have a head start in the fourth industrial revolution whilst the rest of the industry catches up."

Diana Paredes, CEO, Suade Labs

CHALLENGER BANKS

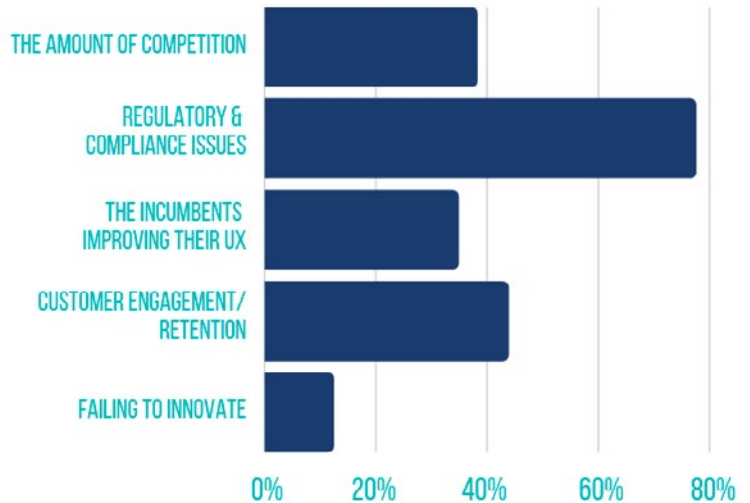
REGULATORY AND COMPLIANCE ISSUES

Despite this, it's not plain sailing for the new kids on the block just yet. When asked what the biggest obstacles to the growth of challenger banks were, 78% of our survey participants said *regulatory and compliance issues*.

It was by far and away the answer that drew the most responses. *Customer engagement* and *competition* garnered the second and third most, clocking in at 44% and 38%.

Compliance issues are seen as a genuine barrier to the ascent of challenger banks. The findings are made starker when compared to the response in the previous question – 31% saying challenger banks needed to get on top of their compliance.

OBSTACLES TO THE GROWTH OF CHALLENGER BANKS IN THE COMING YEAR

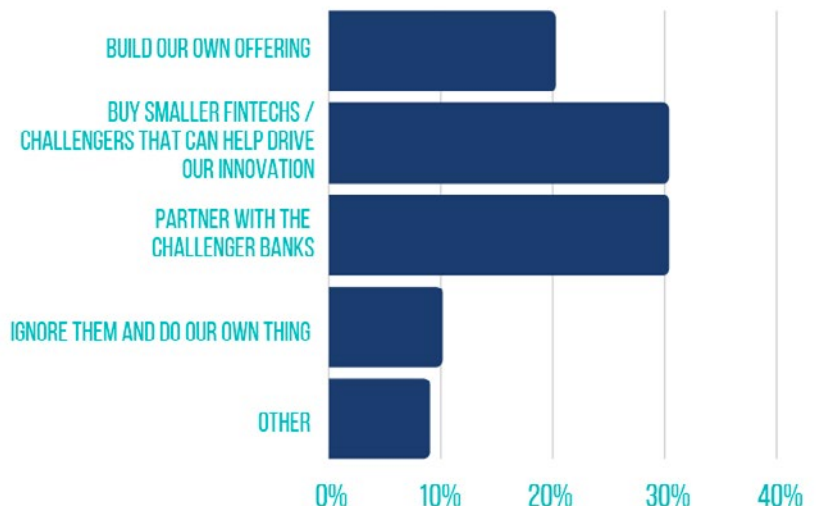


COLLABORATE TO INNOVATE

61% of respondents told us that their organisation's strategy in dealing with challenger banks was to collaborate in some way, be that partnering or buying.

The industry recognises the role that innovative fintechs have played in modernising finance, and for the most part are looking to work with them. Increasing interoperability in the form of open APIs is making collaboration easier. Likewise, PSD2 and open banking is pushing financial institutions towards collaboration.

WHAT IS YOUR STRATEGY TO DEAL WITH THE THREAT FROM CHALLENGER BANKS?



GOOGLE, APPLE, FACEBOOK, AMAZON

Most of our lives in the western world are inextricably entwined with these tech titans. They're multi-faceted organisations that engage us through a variety of touchpoints. It stands to reason that they would become a part of our financial lives as well.

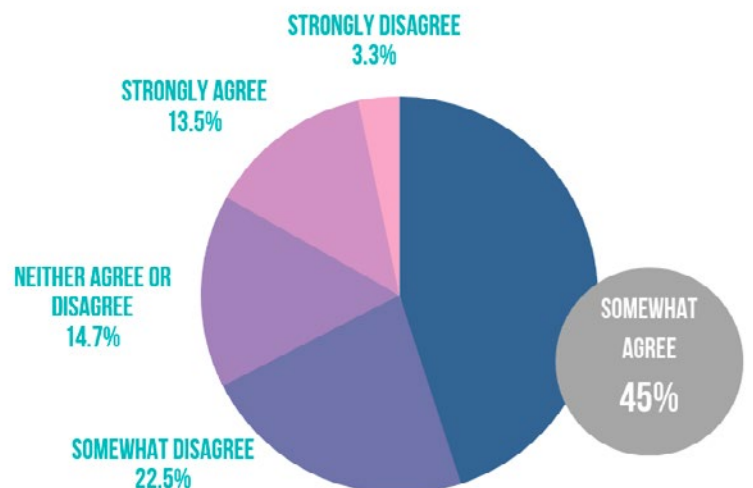
Google Pay was launched as long ago as 2011. Apple launched a credit card to US customers in August this year. Facebook introduced Libra in June. Amazon has a payment card powered by Visa. GAFAs are well on the way to cementing themselves in day to day financial process. We asked our market sample if in the next 5 years they would have in some way replaced the traditional bank.

THEY'RE ON THE WAY

58% of respondents either *somewhat agreed* or *strongly agreed* that GAFAs would in some way replace traditional banks in the next 5 years. In contrast 26% said that they *somewhat disagreed* or *strongly disagreed* with the statement.

The challenge against incumbent banks isn't just coming from upstart fintechs shifting the financial landscape. The perception is that tech giants will also have a role to play in the near future as the digital revolution takes hold of the financial sphere. The question is whether the future of finance is in all out competition or, in the same way incumbents are embracing fintechs, in collaboration. Time will tell.

IN THE NEXT 5 YEARS WILL GAFAs HAVE IN SOME WAY REPLACED THE TRADITIONAL BANK?



"They all have investment arms... there is immense investment in tech, and hence fintech. Google's parent company is "Alpha Bets". As I understand, tech companies go after a problem and solve it in a fundamental way, without the baggage that incumbents have. It's very hard to move away from the baggage incumbents have and what capital markets expect you to do is grow."

Dr. Henna A. Karna, Chief Data Officer, AXA XL

SPENDING MONEY ON TECHNOLOGY

The financial industry is going through a digital revolution. At the heart of this lies technology. For an organisation to prosper in the current market, the take up of cutting edge technology is essential.

This is particularly prevalent in the finance industry. With the emergence of consumer focused, digital first financial technology, in the last decade innovating to get ahead of the competition has never played a more crucial role.

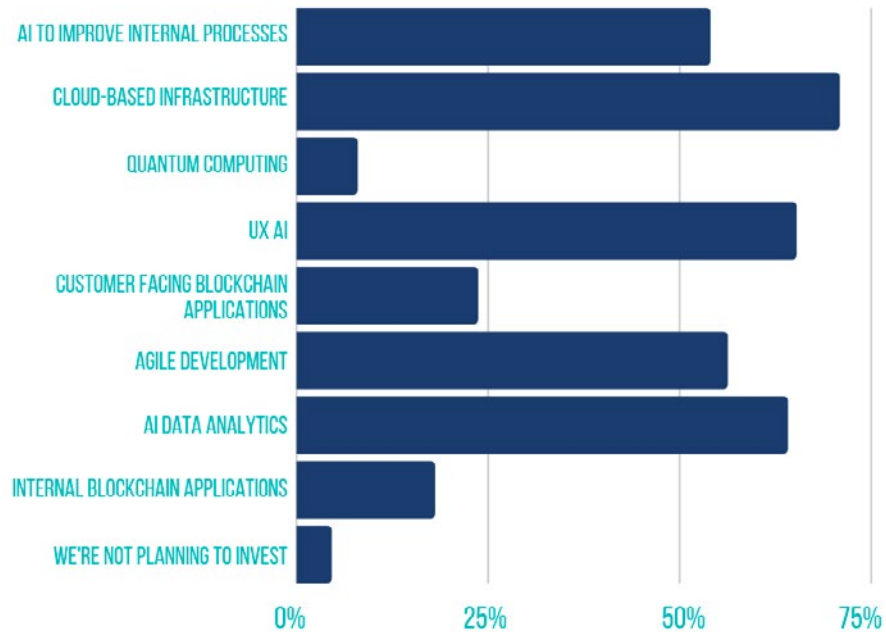
Spending money on technology is a key driver as incumbents move away from clunky legacy systems. We asked our respondents to tell us which technologies they are looking at investing in in the next year.

THE CLOUD AND AI

The most popular response was *cloud-based infrastructure*, with 71% of industry professionals telling us they were looking at investing in it. This signals to the emphasis placed by the market on modernising its internal process.

With 65% and 64%, *UX AI* and *AI data analytics* clocked in as the second and third most common responses. Clearly AI will play a massive role as financial organisations look to modernise their process. A technology that will impact the backend and frontend function of the financial institution, AI's end to end scope is highlighted in the survey findings.

WHICH TECHNOLOGIES ARE YOU LOOKING AT INVESTING IN THE NEXT YEAR?



"In the next year, the top 3 areas for investing are: cloud for operational efficiency improvement, AI for customer experience, and data analytics, which are less radical technology but have real value for financial services."

Vicky Zhang, Innovation Lead, Enterprise Solutions, RBS

SPENDING MONEY ON TECHNOLOGY

COST

69% of survey respondents told us that their company spend on technology to *reduce operational costs*. The result compares to paytech professionals telling us that *cost* was the greatest inhibitor to technology adoption in *The PayTech Adoption Guide*.

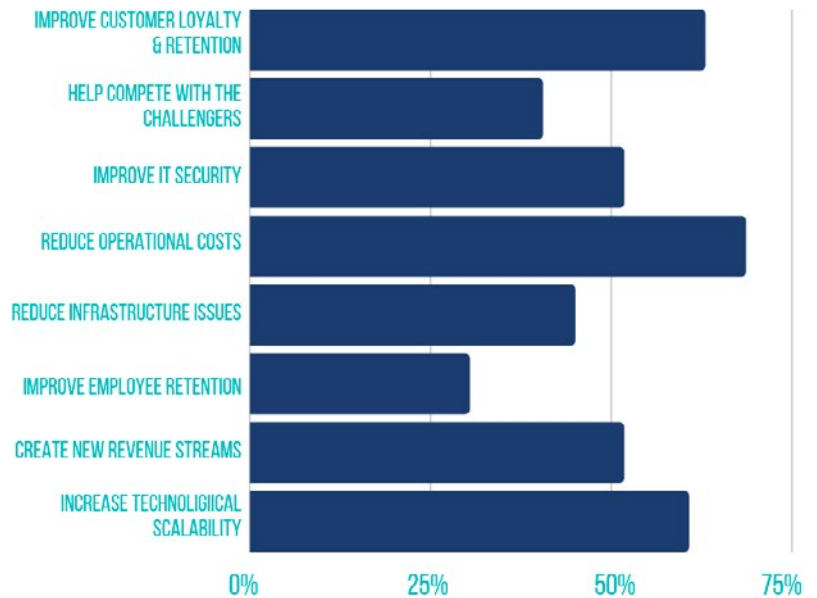
However the idea of cost is framed - in the positive or negative - it is one of the major concerns for any company looking to update its legacy systems. Any attempt by financial institutions or fintechs to become tech savvy are generally offset by the weight on the balance sheets.

Improving customer loyalty and increasing technological scalability were seen as the next two biggest factors encouraging investment in technology.

Financial institutions and fintechs buy technology to reduce cost, appeal to the consumer and scale. These are the affecting factors that solutions providers must be aware of as they appeal to incumbent and challenger financial institutions alike.

Most organisations want to grow, and all organisations want to encourage customer loyalty. Spending on technology can inspire both of these, but all benefits sit on the opposite side of the scales to cost.

WHY DO YOU INVEST IN TECHNOLOGY?



"Banks have made considerable progress in digitising for cost, although many are still stuck in pilots. Banks are less far along in digitising for value, i.e. meeting more customer needs. It is later that will unleash significant returns on."

*Abhijit Akerkar,
Head of Applied Sciences, Business Integration,
Lloyds Banking*

"Traditional retail banks still struggle to adopt technology that has been mainstream for years while potential disruption from GAFAM and initiatives like The Libra Foundation looms on the, not very distant, horizon."

Johan Lorenzen, VP Digitalization and Innovation, Handelsbanken

ARTIFICIAL INTELLIGENCE

Artificial intelligence is playing a larger and larger role in the financial sphere. From chatbots facilitating dialogue with consumers in the absence of a human contact and smart contracts to personalisation and a stronger UX, AI is a crucial aspect of a modern financial product.

AI has the potential to improve the end to end financial process, from customer facing UX to back end internal data analytics. We asked our survey participants where in banking they saw AI having the most impact.

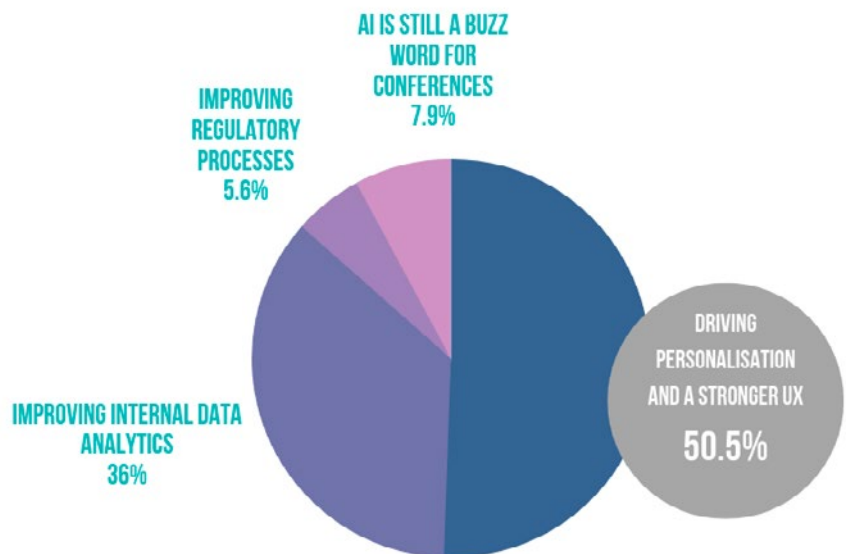
END OF IMPACT

51% of respondents told us that AI will have the biggest impact in *driving personalisation and a stronger UX*. 36% said that it would be in *improving internal data analytics* that AI would cause the biggest ripples. 5% of the market sample saw the improvement of *regulatory process* as the area AI will be most affecting in.

The findings point to both front end and back end financial process being impacted by AI, as the move to digital first platforms and solutions becomes ever more present. By contrast only 7% felt that AI is just a *buzz word for conferences*.

AI will have a far reaching impact in banking. Whether through personalisation or internal process, artificial intelligence will be intrinsic in offering a modern financial product to the digital first consumer.

WHERE WILL AI HAVE THE MOST IMPACT IN BANKING?



"It's early days still. Predictable data sets are starting with robotics automation but the learning pieces are in much earlier stages. There is incredible amount of AI today where we are mapping language and structure. Deep learning, certainly at scale, has just started. The way AI becomes of value is based on scale. And it comes down to data. How do we get the right data for the AI to be trained?"

Dr. Henna A, Karna, Chief Data Officer, AXA XL

ASIA AND FINTECH

Almost a quarter of the world's fintech unicorns are based in Asia. Most of those, along with the most valuable fintech in the world, Ant Financial, are based in China.

Asia and fintech have a good relationship. Without such entrenched financial infrastructure as much of the western market, Asia's population has cut a relatively straightforward path towards the future of finance. A DeVere report suggested that in India over half of the population is using fintech, compared to a global average of 33%. Usage is high, and investment is booming.

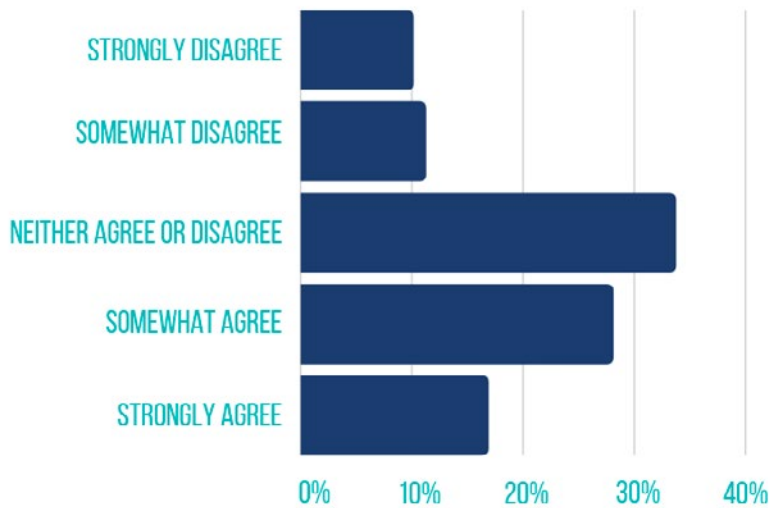
Whilst Asia is certainly a hub of innovation in financial technology, will it become *the* hub? We asked our respondents whether Asia would be the future centre of fintech innovation.

CENTRE OF INNOVATION

45% of our market sample either *somewhat agreed* or *strongly agreed* that Asia would in the future become the future centre of fintech innovation. 55% *disagreed* or *neither agreed* or *disagreed*.

Asia has widespread fintech adoption, and plays host to a large portion of the most valuable fintechs in the world. However there are also major hubs of innovation in Western Europe and the Americas. While Asia is on the up, the survey's findings show there is still some sentiment that the epicentre of fintech lies elsewhere in years to come.

ASIA WILL BE THE FUTURE CENTRE OF FINTECH INNOVATION



"Almost 45% of respondents agree that Asia will be the future centre of fintech Innovation, it would be interesting to see how the fintech ecosystems interact across the globe."

Vicky Zhang, Innovation Lead, Enterprise Solutions, RBS

OPEN BANKING

Open banking is poised to become a generational shift in the way we complete financial process. Coming in with PSD2 regulation, the initiative seeks to democratise banking platforms with account aggregation and seamless payments.

So far in 2019 we have begun to see real world use cases, as the biggest banks in the UK have opened up their customer data via the open banking rails. For the first time a consumer can see one bank's financial product in another's app. Times they are a changing.

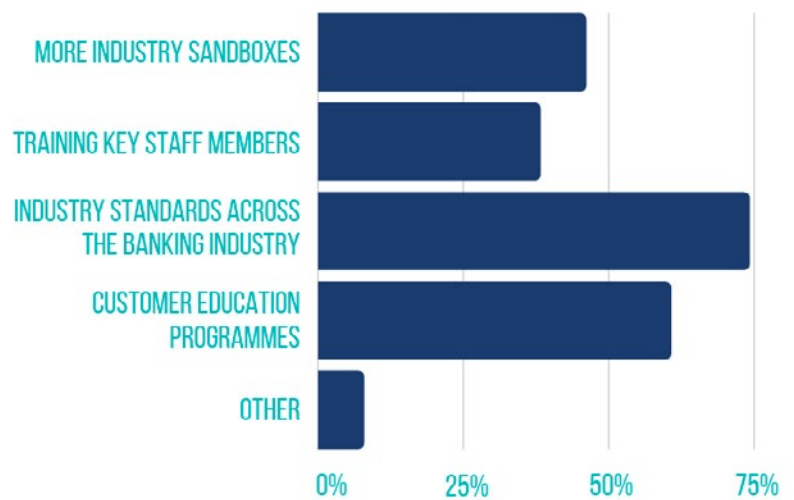
But there is still a way to go with widespread adoption. Hitting critical mass is going to be key to open banking take pride of place in the lives of the everyday consumer. We asked our respondents what more can be done to make open banking a success.

COMMON STANDARDS AND CONSUMER EDUCATION

74% of our market sample told us that *common industry standards across the banking industry* would help make open banking a success. 61% said another factor was customer education programmes. The two most selected responses, they both signal at work to be done on either side of the fence - the industry backend and consumer engagement front end.

Training key staff members and *more industry sandboxes* came in at 38% and 46%. There is a feeling in the market that internal education has a role to play in making a success of open banking alongside public education.

WHAT CAN BE DONE TO MAKE OPEN BANKING A SUCCESS?



"I think the biggest challenge is the building of trust for emerging brands. We know that despite strong customer experiences, it is still a huge investment challenge to acquire customers and encourage a switch for emerging companies."

Stephen Scott, Chief Digital Officer, Avios

BREXIT

Brexit's big. Whatever happens when – or if – we leave Europe, the ramifications will be felt throughout every aspect of British life. The financial sphere is not isolated from this.

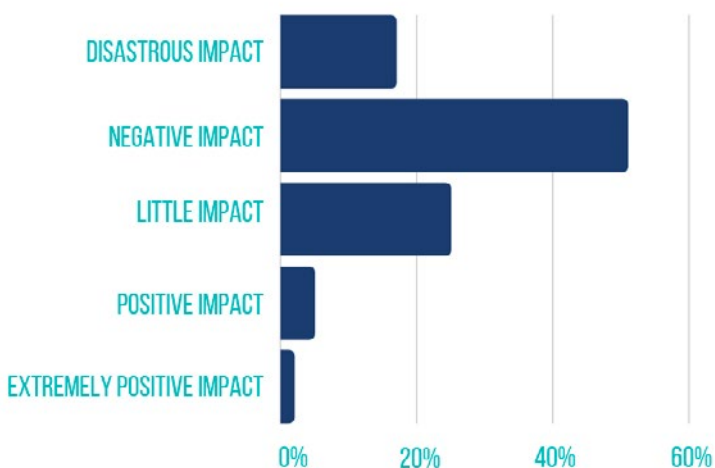
But, as spoke about in *The PayTech Adoption Guide*, finance is an industry that's fortunes are not always so inextricably linked to close trade and political ties with Europe. Investment in UK fintech this year has boomed, and despite worries in 2016 that the uncertainty of Brexit would drive away traditional financial institutions, it hasn't yet happened.

INDUSTRY WIDE ANXIETY

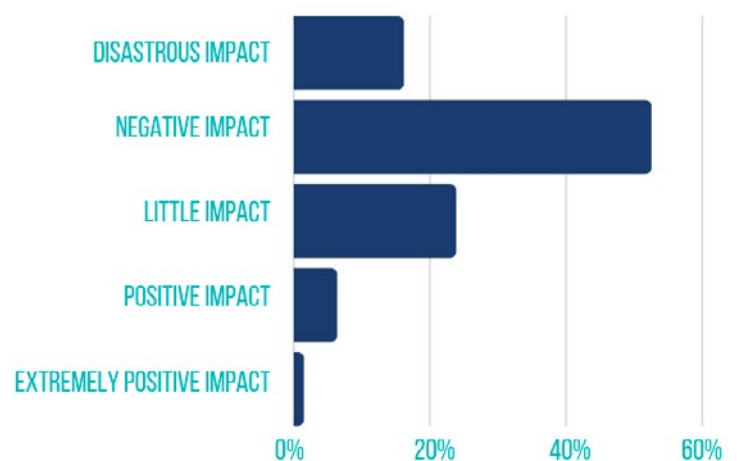
That doesn't mean that there isn't industry wide anxiety surrounding Brexit among fintech professionals. *The PayTech Adoption Guide* survey saw 69% of respondents tell us Brexit would have a *negative or disastrous impact* on the UK finance industry. Coming from a completely different pool of participants, 68% of responses in *The Digital Banking Adoption Guide* saw Brexit as having a *negative or disastrous impact*. Responses of Brexit having *little impact, positive or extremely positive impact* match up almost identically as well.

The results are remarkably similar. If you held the two graphs up against each other you wouldn't be able to tell which was which. The concern surrounding Brexit is palpable. Anxiety about leaving Europe is not limited to any single vertical of fintech. It's industry and country wide.

WHAT WILL BE THE THE IMPACT OF BREXIT (DX)



WHAT WILL BE THE THE IMPACT OF BREXIT (PAYTECH)





CLOSING REMARKS

Digital engagement across the financial spectrum has never been more important in offering a relevant financial product and keeping up with innovative competition. The financial axis are tilting, as Asia becomes a global fintech powerhouse, and incumbent institutions across the globe face a very real threat from tech first finance.

While change brings external threat, it also facilitates the conditions for innovation from within. The move towards a digital first product, tech savvy internal process and a consumer first approach will play into the hands of forward thinking incumbents and fintechs.

The new kids on the block, challenger banks, have been chipping away at the incumbent's market share for most of the last decade. As the digital native makes up more of the customer base, the financial offering must adapt to suit an alternative consumer.

Where once the fintech scene saw tech first financial startups attempting to pinch unhappy and underserved customers from incumbent financial institutions, fintech is no longer a niche market. Challenger bank titans from across the globe now directly compete with the traditional bank for a slice of the financial market.

It's not only digital financial institutions who are challenging the status quo, the tech giants GAFA are also looking to make their mark in finance. All four have financial products up and running, so it's no surprise 58% of the market sees them to some extent replacing traditional banks in the next 5 years.

Spend on technology is a key facet to any successful financial institution or fintech. Cloud based software and front and back end artificial intelligence have the attention of the financial industry as organisations seek to modernise their offerings and appeal to a new customer base.

Regulation is also driving the finance sector's digital transformation. Open banking has unlocked customer data from the historically cagey traditional banks to allow better choice and consumer first products. However, there is a feeling that industry and public education is needed for the regulation to really kick on and change the way consumers bank and pay.

The discussion will continue at DX Connect 2019, part of FinTech Connect. Taking place on 3-4 December, the event sits at a vantage point to look back at the year's fintech developments and look forward to the New Year's innovation.

This will be split into two separate conference streams over the whole two days. Digital engagement; which will be, looking at front end, consumer focused financial services. This will include keynotes from the founders of Starling Bank and Credit Karma, alongside CxOs from Monzo, Goldman Sachs, and Atom Bank.

Digital re-engineering; which will be looking at back end infrastructure challenges facing financial services. This will include keynotes from CxOs at Barclays, Credit Suisse, OakNorth, Alibaba and Nordea.

REGISTER FOR FINTECH CONNECT

CONTRIBUTORS



Fintech Finance works with renowned executives in the industry to provide key decision-makers globally within leading financial services organizations with reliable and accurate intelligence on emerging trends and breakthrough technologies, helping them to make informed decisions.



FinTech Alliance, in partnership with the UK Government, is a multifaceted digital engagement platform that brings the global FinTech ecosystem together to explore, engage and do business. This will be the first-ever community-driven platform for the whole FinTech Industry, where all profits made will be reinvested back into the FinTech sector, providing a fully inclusive environment to support FinTech growth and empower UK business with comprehensive information, services and intelligence.

SPECIAL THANKS TO:



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Vicky Zhang,
Innovation Lead, Enterprise Solutions, RBS



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ABOUT FINTECH CONNECT

FinTech Connect is the UK's leading fintech conference & exhibition where large teams from major financial institutions go to make informed buying decisions on the latest innovations on the market, and where fintechs come to accelerate dialogues with digital buyers with responsibility across digital transformation, payments, financial security, regtech and blockchain.

The 2019 event is to be held on 3-4 December at ExCeL London and will bring together 6,000+ of the fintech community to share best practice, showcase new products and solutions and shape financial services of the future

ABOUT IQPC

FinTech Connect is organised by multinational media and events business, IQPC Ltd.

IQPC has offices in Berlin, Doha, Dubai, London, Miami, New York, Singapore, Sydney, and Tampa. IQPC leverages a global research base of best practice to produce an unrivalled portfolio of problem-solving conferences, data products and online communities. Each year IQPC offers approximately 2,000 conferences worldwide as well as webinars, online events and related online programs.

The team behind FinTech Connect has over 100 combined years experience of organising strategic conferences and large scale trade shows, predominantly in technology and finance.



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