

sopra  steria

07

CONVICTIONS

for the future of banking
2023

“ In this year’s DBX report, we find that nothing is ‘business as usual’ for banks. Global shifts in geopolitics, wars, regulatory developments and economic headwinds weigh heavily on the finance industry. As such, banks are under sustained pressure to future-proof their business models by increasing resilience, shoring up existing revenue streams and developing new ones.

Confidence in existing models – in particular digital ones – and in the future may be low, but by relying on tried-and-tested strategies, such as collaborative business models, many banks will be able to weather the storm. Our seven convictions for the future of banking are more relevant than ever, and provide banks with a blueprint on how to push forward into a prosperous and profitable future. ”



Eric PASQUIER

Chairman,
Sopra Banking Software

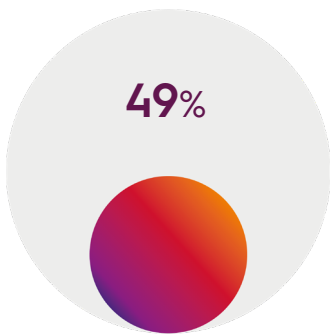
Executive summary

In October 2022, Forrester Consulting delivered a study commissioned by Sopra Steria, entitled “The Future Of Digital Banking, Revisited”. This study was part of our annual DBX report, where we provide a holistic view of the financial services industry, drawing on surveys conducted with nearly 800 leaders from the banking sector, as well as 12,500 customers. Each year, we condense our findings to align and support our “seven convictions for the future of banking,” a grouping of key tenets that we believe are fundamental to the future of our industry. Here, we outline each of these Convictions, along with key statistics from Forrester’s study to support them.

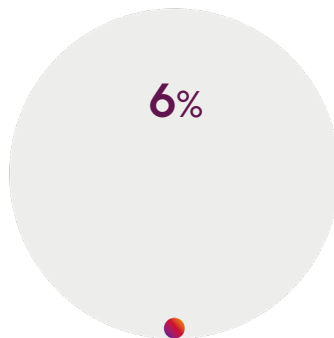
Digital banking maturity assessment

As part of our report, Sopra Steria and Forrester uncovered and grouped banks' respondents into five different categories of readiness: Explorer, Technologist, Strategist, Specialist and Pioneer. The table opposite shows some key stats about each category, as well as a brief description.

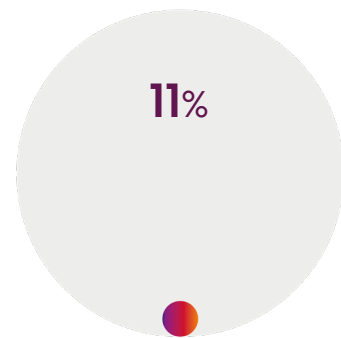
Throughout the following pages, we will consider how each category of digital banking readiness relates to our seven convictions.



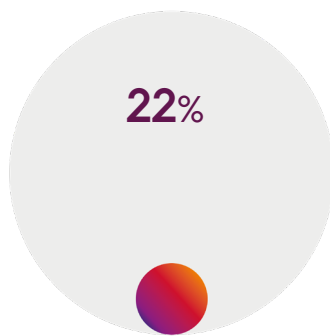
Explorer



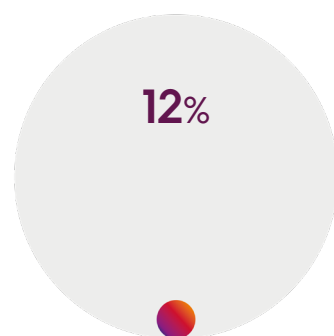
Technologist



Strategist



Specialist



Pioneer

	% of total sample	Key facts
Explorer	49%	<ul style="list-style-type: none"> • Developing a clear strategy and vision is a fundamental priority • Must focus on building a digital-first, collaborative culture and mindset • Need to establish, invest in and nurture their collaborative ecosystems.
Technologist	6%	<ul style="list-style-type: none"> • Strong in technology and processes, but weak in strategy and culture • Requires buy-in of senior leadership to accelerate path to future-readiness • Need to build skill and competence and cement cultural change to fully transform.
Strategist	11%	<ul style="list-style-type: none"> • Strong strategic and cultural foundation but processes and technologies are not yet fully formed • Next step will be to balance vision with underpinning technology • Need to assemble stronger tech stacks through the right investments, partnerships, and expertise.
Specialist	22 %	<ul style="list-style-type: none"> • Strong in all areas but yet to perfect ecosystem engagement • Focused strategies, strong technology competence and internally optimized • Need to get better at seeking out and curating partnerships.
Pioneer	12%	<ul style="list-style-type: none"> • Future-ready. Current priorities sorted and a clear future vision for their operating model • Significantly ahead in mastery of both digital and CX capabilities, prioritizing progress evenly across the board • Embraces partner ecosystems, nurturing relationships to deliver value.

Conviction

We believe that disruption is leading banks toward the construction of integrated business ecosystems, where combined solutions of their services or third parties are offered within one seamless experience.

Customer Experience (CX)
Ecosystem & Marketplace (EM)

01

“With the onset of open and embedded finance, it’s no longer an option for banks to ignore collaborative business models and partnerships. Engaging with the financial services ecosystem is essential for banks to meet their customers’ increasingly complex demands.”



Eric BIERRY

Chief Executive Officer,
Sopra Banking Software

Disruption in banking

In last year's review of our seven convictions, the major disruption we discussed came from challenger banks providing customers with a new wave of innovative products and services that appealed to digitally savvy banking customers. This year, the landscape has shifted. While new industry entrants remain a concern for financial incumbents, macro-economic uncertainties have emerged as the primary disrupting force.

Just 27% of respondents say that they don't expect to be impacted by the looming recession/depression, while one-third are anxious about the economic landscape.

With regards to geopolitical and economic threats, which of the following statements, if any, describe your organisation's attitudes and actions?

33% We are anxious there will be a severe economic recession/depression

27% We don't expect to be impacted by the looming recession/depression

Banks turn to innovation

While many banks we surveyed are responding to the geopolitical and economic threats by cutting costs, nearly half are going on the front foot, by increasing their offering of digital tools and services.

How banks are responding to geopolitical and economic threats.

We are increasing our offering of digital tools and services to help our customers manage their finances

43%



We are working to increase our operational resilience

31%



We are halting decisions or investments that we would otherwise make

30%



We are reconfiguring supply chains in response to ongoing disruption

30%



We are going from growth mode to adaptive or survival mode

29%



We are reducing our headcount

26%



We are cutting back on digital transformation budgets

26%



We are cutting back on technology budgets

26%



Increased reliance on third-party vendors

Compared to last year, banks plan to rely even more heavily on third-party vendors to mature their own digital capabilities (65%) and plan to build fewer capabilities themselves (29%). When it comes to tackling the latest disruptions facing the industry, it seems that constructing and integrating with ecosystems has become more important than ever.

Uncertainty among Explorer category

Across all categories of readiness, banks prefer to augment digital capabilities in collaboration with third-party vendors, rather than outsource completely or build in-house. However, there are notable differences in preference between the categories that lead us to some interesting conclusions.

- Among all categories, Explorers say that they have no plans to invest in digital capabilities more than any other group, highlighting their lack of digital maturity
- More so than any other category, Technologists plan to build digital capabilities in-house
- Surprisingly, Explorers are the least willing to entirely outsource the building of digital capabilities to third-party vendors.

02

We believe that full digital Customer Experience is key for banks, as trust is a strong differentiator in an industry going through perpetual disruption. Engagement is vital as clients expect fast decisions within an end-to-end, humanized digital experience.

Customer Experience (CX)
Ecosystem & Marketplace (EM)

Conviction

“Customer expectations continue to march forward, and so to does the need for banks to rise in their digital capabilities to meet these expectations. However, with increased threat from the geopolitical and economic landscape, the question for banks is how they provide a world-beating customer experience without compromising their day-to-day business operations.”



Laurence NICLOSSE

Director of Customer Experience
for Banks, Sopra Steria Next

Emerging technologies is key for customer experience

Customer experience (CX) remains a key initiative for banks, as industry incumbents and new entrants alike seek to gain new customers, as well as retain existing ones.

The question is, how do they go about it? While banks are prioritizing a number of CX-related initiatives, our research shows that focusing on emerging technologies is the favored approach.

How banks are responding to geopolitical and economic threats.

Leveraging emerging technologies to engage customers

25%



Improving the financial wellbeing of customers

21%



Increasing upsell and cross-sell conversions on digital and mobile channels

16%



Building a new generation of digital platforms for customer-facing systems

16%



Innovating new digital products and services

15%



Creating smart/connected products and services

15%



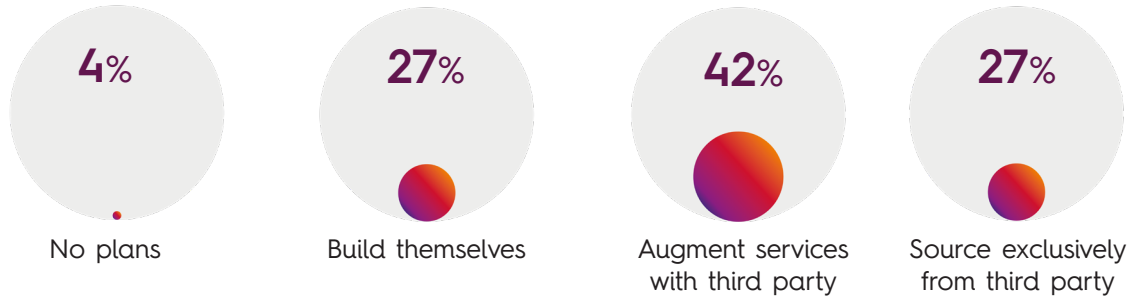
Improving CX with partners

Our research shows that ecosystems and collaborating with partners will be key for banks across the board in 2023, and CX will be no exception.

Potential partners should take note, too, as nearly all our banks' respondents (89%) say that CX capabilities are either important, very important or critical when it comes to choosing a third-party vendor to enable a digital ecosystem.

Furthermore, the majority of banks (69%) plan to work with a third-party when developing key CX-relevant capabilities – nine points higher than last year.

How do banks plan to improve customer onboarding and know-your customer (KYC)?



Pioneers value collaboration, especially when it comes to CX

For Pioneers, leveraging emerging technologies to engage customers is shown to be a higher priority than it is for other categories.

Is leveraging emerging technologies to engage customers as part of your organisation's future vision and roadmap a priority initiative for your bank?
(Grouped by categories who answered "Yes")



Furthermore, our research shows that almost all (97%) of Pioneers believe that collaborative business models enable them to improve CX, compared to under three-quarters (73%) of other categories. This highlights the increasing importance that more digitally mature banks are placing in ecosystems.

To what extent do you agree that ecosystems and collaborative business models enable your organisation's to improve customer experience?
(Showing "Strongly agree" and "Somewhat agree")



Conviction

We believe that Business Process Outsourcing is transforming operations into a digital business model and “As-a-Service” is becoming the leading delivery mode, offering banks new ways to achieve operational efficiency, to reduce Time-to-Market, empowering new business models.

Business Models (BM)

Digital Innovation & Transformation (DIT)

03

“The wide-spread adoption of new technologies such as APIs and Cloud Computing allows not allow banks to lower their time-to-market and the related investments to launch new business services, while better controlling their operations risks and costs. Indeed, the pay-what-you-consume approach now also applies to banks’ IT infrastructure and software, increasing the industry’s velocity towards tomorrow’s finance”



Yann METZ-PASQUIER

Executive Vice President,
Digital Banking Global Business Unit

Bolstering existing operations

In the face of the aforementioned geopolitical and economic threats, future proofing is now more important for banks than ever. While some banks are responding by generating new revenue streams, and others are cutting back on costs across the board, nearly a third (31%) of our banks' respondents say that they are working to increase operational resilience to help bolster existing processes and business activities.

Achieving operational excellence

In order to succeed in future proofing the practical side of their business, banks are incorporating different operational improvements as part of their future vision and roadmap. Our research shows us that the main focus for most banks is localizing sourcing to remove reliance on overseas providers, but that also areas such as improved business APIs and GRC technology solutions are a big part of their strategies.

Which of the following initiatives are you prioritizing as part of your organisation's future vision and roadmap?

Localize sourcing to remove reliance on overseas providers

23%



Improving ESG factors

20%



Investing in automation workflows

20%



Diversifying our sourcing to ensure the use of multiple suppliers

20%



Investing in improved business APIs to connect to partners digitally

19%



Investing in/expanding use of GRC technology solutions

19%



Improving the use of data and analytics technology

19%



Redesigning physical workplace to be more conducive to agile methodologies

17%



Increasing operational resilience

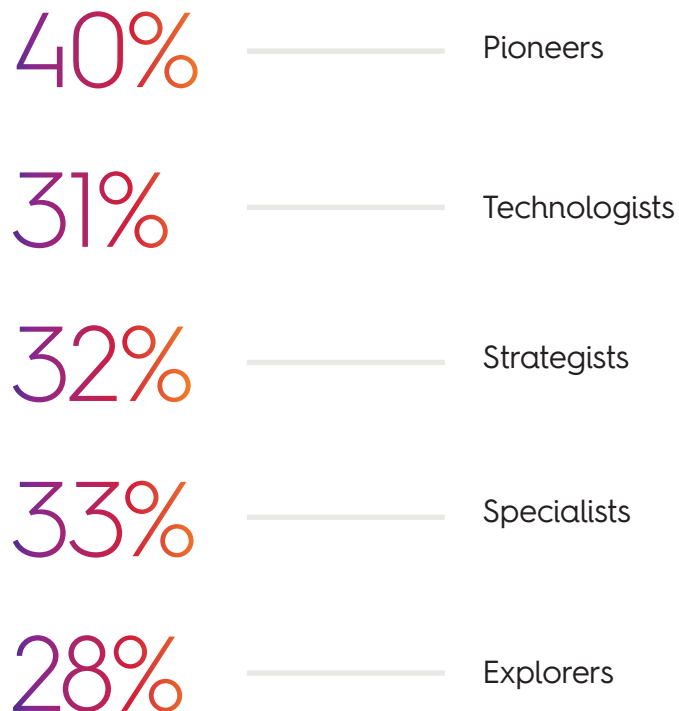
13%



Significant gap between Pioneers and Explorers

When looking specifically at how different banking categories plan to react in terms of operational resilience to geopolitical and economic threats, we see a large difference between the most mature banking category and the least. While Pioneers are proactively planning to weather the storm by increasing operational resilience, others are focusing elsewhere.

How different banking categories are increasing operational resilience in response to geopolitical and economic threats



04

We believe that banks are the front line in consumer protection and fraud reduction. Tomorrow, they will not only protect financial assets but also customers' data and online identity, as the need for security and resilience is growing stronger while regions are moving toward common, open standards for the secure exchange of financial data.

Customer Experience (CX)
Compliance, Regulation & Security (CRS)

Conviction

“As banks increasingly adopt APIs, Open Banking, and integrate third-party partners to deliver innovative data-driven services, they must continue to focus resources on maintaining and improving their security infrastructure. The evolving threats-potential requires that banks remain vigilant in strengthening their defences to protect their customers’ data and services from potential security breaches.”



Patrick DONOVAN

Chief Executive Officer,
Axway

Security remains a high concern for banks

Ensuring security remains a priority for banks. In fact, our research shows that improving security measures has been a number one priority for banks in both 2022 and 2021, highlighting the constant and ever-evolving threat posed to the financial industry.

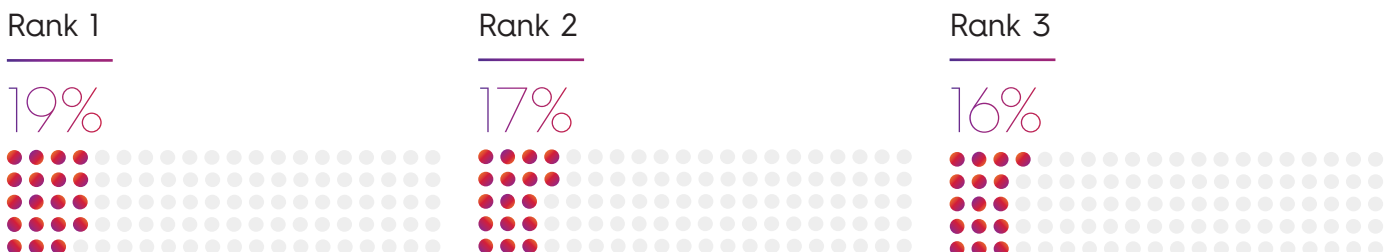
How much of a priority is improving security for your company?



Leveraging cybersecurity as a growth opportunity

These past two years where banks have been concentrating on bolstering their security infrastructure have not come from nowhere. For many years now, banks have been working hard to position themselves as the financial service industry leaders when it comes to tackling cybercrime and fraud. And banks are increasingly leveraging this position as an important business opportunity. Nearly three-quarters (71%) of banks’ respondents expect that integrating cybersecurity with business strategy will be among the top-five highest growth initiatives in the coming years.

How banks rank “Integrating cybersecurity with business strategy” as an expected high-growth initiative over the next five years.



Rank 4

13%



Rank 5

6%

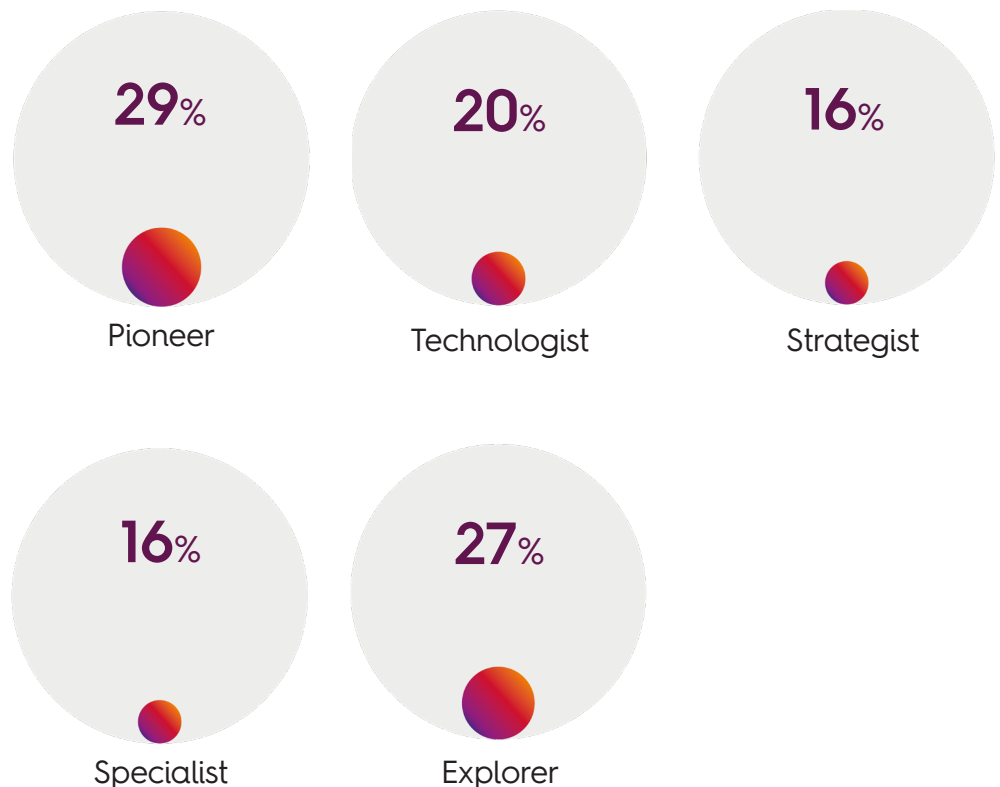


Explorers and Pioneers focus on data protection

That Explorers are focusing heavily on the challenge of ensuring data security shows us that they are, predictably, not as mature as other bank categories when it comes to protecting their customers. However, the fact that they are aware of this issue is a positive sign of things to come.

Pioneers are also particularly concerned by ensuring data security, which highlights a different trend in the banking sector: It remains a constant concern, even for the most digitally mature banks. This could also be linked to the fact that Pioneers lead the way when it comes to integrating cybersecurity with business strategy (34% of Pioneers consider this a priority initiative, compared to 26% of other categories).

Bank categories by those who consider data security their biggest challenge.



Conviction

We believe that banks should seek a broader role, delivering integrated value in developing and orchestrating true digital ecosystems. Embedded finance is a new way of distributing financial products, while modular banking and open finance will offer means to gain agility, launch new solutions and reach new customers.

Business Models (BM)
Ecosystem & Marketplace (EM)

05

“ We see so many banks making a concerted effort with embedded finance. They know it’s an essential quality that will be key to the strategy of future banking. ”



Guillaume YRIBARREN

Deputy Managing Director,
Galitt

Embedded finance is key to digital transformation

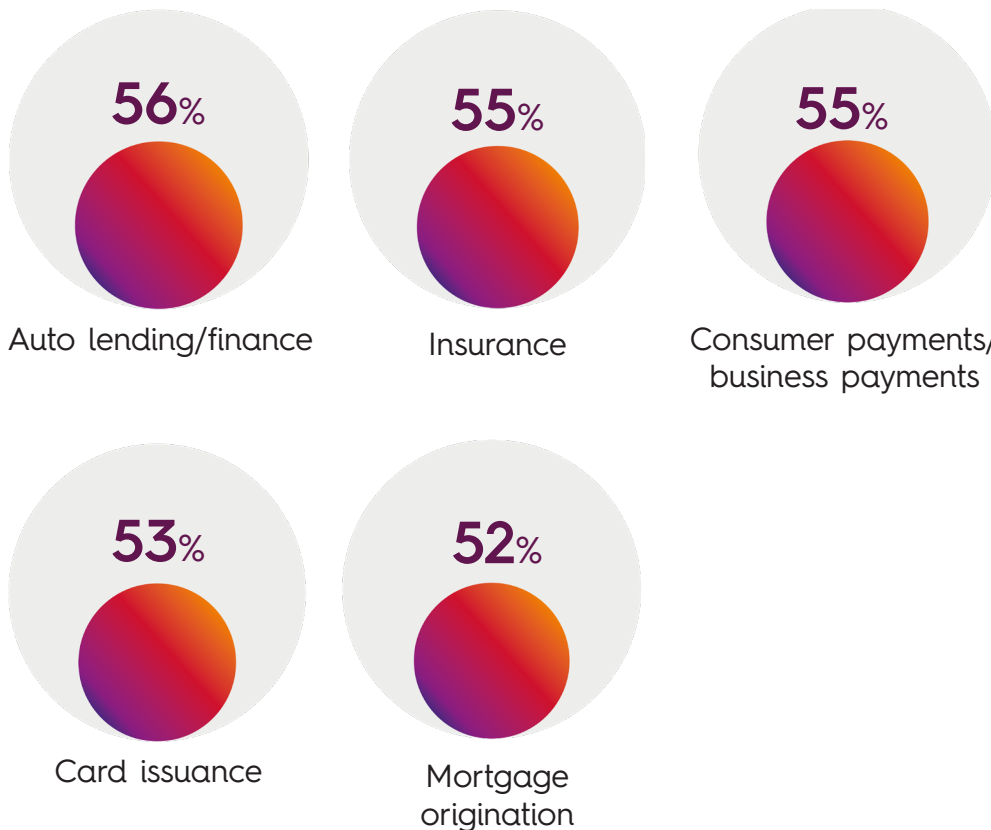
The future of banking is digital, and embedded finance is an essential component of banks' digital transformation. 74% of banks agree that "as-a-service" will become the leading deployment/delivery mode in the future.

Indeed, half of all banks already source SaaS capabilities for their own products and services, and offer their capabilities to third parties, enabling new revenue streams.

SaaS capabilities providing new revenue streams

While nearly half of our banks respondents (49%) say that they are already integrating SaaS capabilities into their products and services, even more (52%) are outsourcing SaaS capabilities to third parties.

To what extent does your organisation provide and/or consume the following capabilities?



Threat of disintermediation

Despite the fact that the majority of banks are outsourcing SaaS capabilities to third parties, just under three-quarters of our respondents (74%) say that they see collaborative models as an existential threat. Today's bank finds itself in a strange position, where it relies on the Banking-as-a-Platform model to generate revenue, while also viewing it as a potential means of its own disintermediation.

How much do you agree that models enabling third-parties to integrate your capabilities, products or services are an existential threat?

Strongly agree

31%



Somewhat agree

43%



Neither agree nor disagree

17%



Somewhat disagree

5%



Strongly disagree

3%



How different banking categories approaching outsourcing of capabilities

Our research shows that the most digitally mature banks, Pioneers, are more likely to offer BNPL, auto lending, insurance and account servicing capabilities to third parties via SaaS. It's also notable that the second category to offer these Banking-as-a-Platform capabilities are the least mature banks, Explorers.

	BNPL lending (%)	Auto-lending finance (%)	Insurance (%)	Account-serving capabilities
Explorer	57%	63%	66%	64
Technologist	47%	53%	63%	35
Strategist	42%	48%	42%	47
Specialist	47%	56%	54%	47
Pioneer	51%	57%	55%	52

06

We believe that digital transformation and innovation foster the growth of non-linear business with scalable solutions and high value-added services. Agile and rapid innovation cycles are required to ensure survival by providing unique, well-structured, seamless products and services.

Digital Innovation & Transformation (DIT)
Technology Foundations (TF)

Conviction

“While many banks are counting on innovation to navigate their way out of difficult economic times, they will also need to work with a strong and experienced partner to help them deliver to best-in-class products and services.”



Neetu WADIA

Chief Marketing Officer,
Sopra Banking Software

Banks to invest in innovation

We've already seen that nearly half of banks are combating the threats of geopolitical and economic disruption by doubling down on innovation. Our research also shows that many of them plan to do so by investing heavily over the next 12 months. "Leveraging emerging technologies to engage customers" was among the highest priority initiatives when it comes to upcoming investment plans for banks.

How do you expect your investment in "Leveraging emerging technologies to engage customers" to change over the next 12 months?

Increase of more than 10%

31%



Increase of between 6% and 10%

40%



Increase of between 1% and 5%

23%



Stay the same

6%



Where and how banks plan to push innovation

While the vast majority of banks plan to invest in all the emerging technologies listed in the infographic, it's interesting to note that approximately half plan to build in-house, while the other half plan to outsource to an external provider.

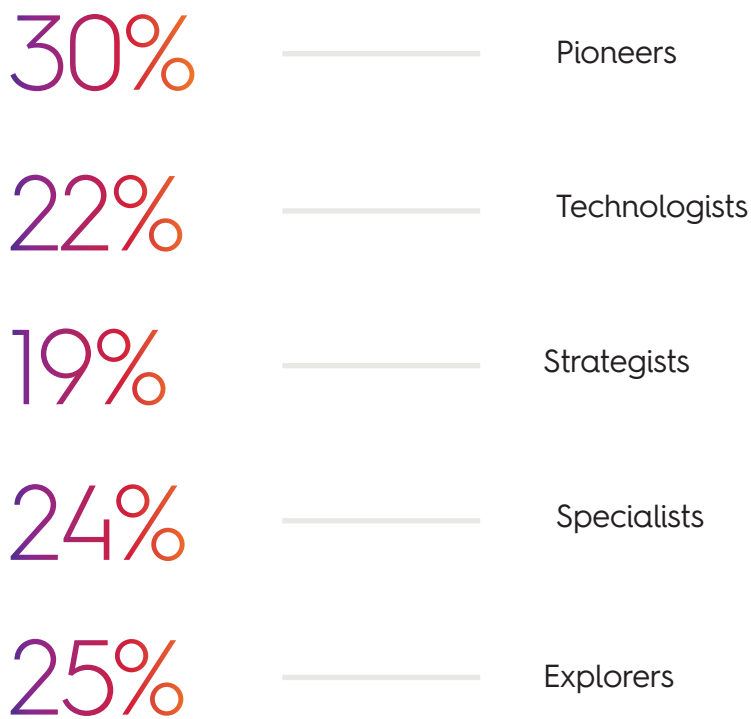
Emerging technology/trends, and how banks plan to invest over the next 12 months

	Outsource to another provider (%)	Build in-house (%)	No plans to invest (%)	Don't know (%)
5G networking	48%	40%	11%	1%
AI/ML	44%	46%	9%	1%
AR/VR	43%	45%	10%	2%
Blockchain/distributed ledger technologies	43%	46%	10%	2%
CBDC-related capabilities	40%	46%	11%	2%
Edge computing	41%	46%	12%	2%
Enhanced data security	40%	50%	9%	1%
IoT	42%	47%	10%	1%
Low-code development platforms	43%	44%	12%	1%
Other crypto	42%	44%	11%	3%
Quantum computing	43%	40%	15%	1%
Regulatory technology	42%	48%	9%	1%
RPA	44%	43%	11%	2%
Stablecoins	46%	41%	10%	2%

Pioneers leveraging innovation more than others

Compared to Explorer and Intermediates, Pioneers deem emerging technologies as a higher priority.

How “Leveraging emerging technologies to engage customers” is considered a priority initiative by different banking categories.



Conviction

We believe that legacy technology hinders banks' ability to evolve and makes it difficult to seek new models of growth. Banks will decrease Time-to-Market and deliver cost-optimised production by updating capabilities, enabling componentisation along with an enhanced use of innovative technologies, BaaS, shared and platform-oriented architecture.

Technology Foundations (TF)
Ecosystem & Marketplace (EM)

07

“ While the banking industry is moving towards componentisation and platform-oriented architecture, legacy systems remain a significant impediment to achieving full digital transformation. To fully leverage the potential of innovative technologies, thus decreasing Time-to-Market and delivering cost-optimised production, banks must prioritise modernising legacy systems and ensuring their compatibility with new platforms. ”



Mohammed SIJELMASSI

Chief Technology Officer,
Sopra Steria

A significant barrier to development

When asked about their biggest challenges in digital banking, almost a quarter of banks (24%) identify legacy systems as a barrier slowing down their development. However, upgrading, replacing or consolidating legacy business applications and systems is ranked just 12th among other priorities as part of banks' future vision and roadmap.

Top five priorities, plus "upgrading, replacing or consolidating legacy business applications and systems", as part of banks' future vision and roadmap.

Integrating cybersecurity with business strategy

28%



Using ESG elements to differentiate our customer-facing products and services

25%



Leveraging emerging technologies to engage customers

25%



Enabling API access for third parties to integrate our financial products and services into their platforms

24%



Localize our sourcing to remove reliance on overseas providers 12th

23%



Upgrading, replacing or consolidating legacy business applications and systems

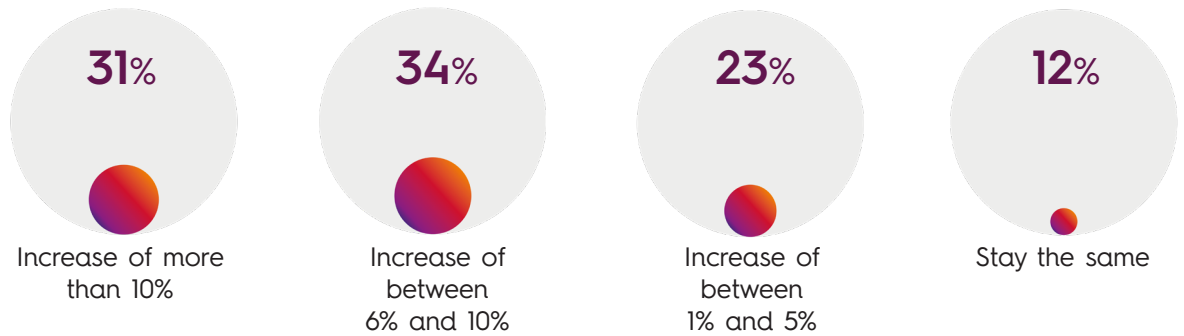
19%



Banks plan to invest in new IT systems

Despite the fact that, overall, legacy systems are not at the top of banks' priority lists, our survey does show that banks plan to invest in upgrading, replacing or consolidating their IT systems over the next 12 months. Indeed, 65% plan to increase investment by at least 6%.

How banks plan to invest in upgrading, replacing or consolidating legacy business applications and systems over the next 12 months.

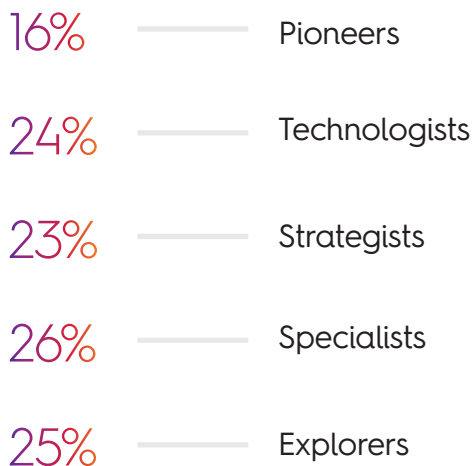


Pioneers least concerned by legacy systems

Our research by banking category shows us that Intermediate and Explorer categories are all concerned to a similar degree by legacy systems. However, the most advanced category, Pioneers, expresses significantly less concern.

Does this mean that Pioneers don't recognize the value of a cutting-edge IT system? No. It's more likely that most Pioneers have already put in place the measures required to upgrade, consolidate or replace their legacy systems.

To what extent are "legacy systems that slow down development" considered a bank's biggest challenge when it comes to digital banking, by banking category.



Conclusion

Banks have not progressed as much as they would have liked to from 2021 to 2022. Especially when it comes to digital transformation. What passed for “good” last year is now superseded by digital innovations and experiences that continue to raise the bar, consequently banks are less confident in their ability to execute, as they struggle to tackle ongoing transformation and constantly evolving consumer expectations simultaneously.

As we have seen, many banks are choosing to batten down the hatches, future proofing their organisations by bolstering operational resilience, reconsidering investments and cutting back on budgets. This cautious approach may well work in the short term, but it cannot turn the tide : The industry is continuing to move, and banks will need to move with it if they are to be successful.

Key themes around digital capabilities, ecosystems and generating new revenue streams remain integral to the future of the industry. We have seen that the vast majority of banks are aware of this – it is just a question of how they go about advancing in these areas during uncertain times.

“There’s no doubt that these are challenging times for banks. The financial services industry is facing significant threats, both geopolitical and economic. As we’ve seen in this report, many are fearful of what is to come. We’re also, however, seeing a new-found strength, resilience and determination from banks. Refusing to lie down and accept their fates, many are doubling down on their investments in digital capabilities, as well future proofing their businesses from an operations point of view.”



Pierre LAHBABI

Group Financial Services Lead,
Sopra Steria.

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for the future of banking

2023

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