

7 key trends

that will shape digital and
open banking in 2023

In this white paper, we look at **7 key trends** that are expected to shape the digital and open banking sector in 2023, and **how banks and financial institutions can leverage them to future-proof their business models.**

IN A NUTSHELL

Tougher economic conditions lead banks to :

- Grow their ecosystems by partnering with third parties
- Support ecosystem development by investing in :
 - » Open banking compliance
 - » Data exchange with third parties

7 key trends that will shape digital and open banking in 2023

There is no doubt that 2022 was a turbulent year for the global economy, driven by a range of factors that include the ongoing war in Ukraine, a supply chain crunch and an energy crisis that combined to push up inflation to record levels and resulted in a cost-of-living crisis.

According to our annual global banking survey of nearly 800 senior decision makers, **banks are bracing for tougher economic conditions this year** by cutting costs, reducing head counts, boosting operational resilience, and prioritizing the creation of new revenue streams.

To achieve this, **almost two-thirds of banks (65%) will turn to third parties** rather than building homegrown solutions, with investments feeding through to higher-tech vendors with capabilities that can help banks attain their ecosystem ambitions, as challenges become more acute.

Meanwhile, almost all respondents to the survey, conducted with research consultancy Forrester, **plan to invest in features that support ecosystem development**, such as open banking compliance (**94%**) and data exchange with third parties (**93%**).

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01 The rise of platform-based banking

When it comes to improving customer experience... What are banks doing to make banking faster, more accessible and convenient?

Since the start of the Covid-19 pandemic, banks have ramped up their digital strategies by **partnering with third-party B2B fintechs** to **improve the user experience and make banking faster, more accessible, and convenient.**

This is set to increase in 2023 as regulations continue to ease, allowing banks to :

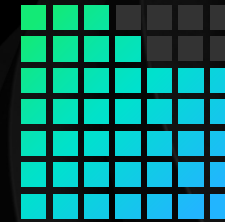
- **Collaborate more with higher-tech vendors** to **extend their ecosystems through API platforms.**

- **Provide access to open banking** in an effort to **improve the customer experience** by personalizing their journey and creating innovative use cases to reach strategic targets.

According to 2022 DBX survey :

- **Improving customer experience** is either important or very important for **89% of banks** when it comes to choosing a third-party vendor.
- **Leveraging emerging technologies** to engage customers is **a priority** for many advanced banks.

Partnerships with third-party vendors is one way forward for banks as they seek to become resilient against inflation and attempt to keep their businesses stable and less vulnerable to market fluctuations, at a time when defaults would weigh more than loan demand. While in-house solutions are costly and time consuming, banks can quickly and easily integrate with these 3rd parties to offer better user experiences to customers in a cost-of-living crisis and build new business opportunities.



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of banks believe it is either important or very important to improve customer experience when it comes to choosing a third-party vendor



→ Discover more about our 2022 DBX study

02 Shifting from creativity to resilience in innovation



In 2022, many banks were caught off guard by supply disruptions, a shortage of staff, disrupted customers and rising expenses.

This has led to senior decision makers switching their innovation efforts from creativity to resilience to capitalize on growth opportunities.

To counter the downturn, 43% of respondents to our DBX survey are increasing their digital tool and service offerings to help customers manage their finances.

At the same time, 31% of banks say they will have to split their attention between **increasing operation resilience and reconfiguring their supply chains (30%), while also cutting back on budgets (26%) and headcounts (26%).**

However, resilience alone is not enough to future-proof business models, and the creation of **innovative revenue streams through partnerships with higher-tech vendors** should be a priority. We predict banks will go further by focusing more on strategies to support :

- Cryptocurrencies.
- Environmental sustainability.
- The financial well-being of customers.

What are banks doing to future-proof their business model?



→ *Discover more about our 2022 DBX study*

03 Sustainable banking and corporate social responsibility

What are banks doing to increase growth through green banking?

Banks will continue to prioritize corporate social responsibility (CSR) and environmental, social and governance (ESG) strategies amid wider public awareness of climate change and its impact on the environment.

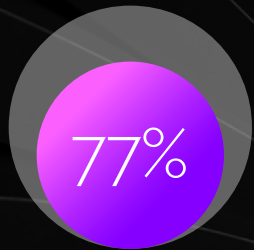
“This could involve creating products and services that **promote sustainable practices and reduce the environmental impact of banking operations**,” according to a report by Finextra.

Meanwhile, green banking will also be a focus as lenders introduce solutions that **encourage sustainable living and help to reduce the carbon footprint of customers**, FinTech magazine says in its report on 2023 banking trends.

There’s no doubt that financial services firms and banks have a big role to play in sustainability in 2023 and beyond.

By mitigating ESG risk, banks have an opportunity to **boost returns, drive transparency and change behaviours** – and in the process, **increase growth and win consumer trust** by turning commitments into concrete action.





of banks say they will make embedded fintech a foundational part of their digital transformation



of banks say they will incorporate it into their strategies

04 Demand for embedded fintech to surge

Is it worth incorporating embedded fintech into banks' business models?

The last few years were all about banks exploring the benefits of embedded finance when a nonfinancial company offers financial services directly to consumers. And with good reason, embedded finance **promises stronger customer loyalty, new revenue streams and insight into customers' payment behavior.**

However, we predict there will be a surge in demand for embedded fintech this year.

Embedded fintech, which adds products and services to a bank's website, mobile apps, and business processes – think bill negotiations, data breach and identity protection, wealth transfer and subscription management – is poised to become **a multitrillion-dollar industry**

over the next few years as banks increasingly view it as **a viable option over embedded finance.**

Many see it as an opportunity to **increase financial literacy and build collaborative business models** that will help them to meet ever-changing consumer expectations and increasing customer journey standards.

However, our research found that there is an element of fear that this collaborative business model could pose an “existential threat” to their business.

That said, there is no turning back and most banks are aware of the advantages such models bring; 76% of respondents have acknowledged the opportunity it presents.

To this end, 77 % say they will make such models a foundational part of their digital transformation and 74% will incorporate it into their strategies.



05 Growing awareness of financial well-being

The pandemic highlighted the importance of financial well-being as millions of people were either laid off or furloughed and found themselves struggling to keep up with debt payments or meet day-to-day living costs.

Record high inflation has compounded the issue and sparked a cost-of-living crisis, leaving many to be anxious about their financial situations.

Respondents to our 2022 DBX survey said organizational resilience was not their only priority in 2023; they also want to **improve the financial resilience of their customers**.

Improving the financial well-being and savviness of customers is a great opportunity **to drive engagement, create new value, increase loyalty, and future-proof revenues**.

Two-thirds of respondents in our DBX study say :

- They plan to **emphasize the creation of inclusive and accessible financial products and services** that **help customers manage their mid- to long-term finances (66%)**.
- They strive to **increase financial literacy (64%)**.

This approach will also help innovative banks **to stand out from their rivals and build customer loyalty**.

What are banks doing to improve the financial resilience of their customers?



→ Discover more about our **2022 DBX study**

06 Cybersecurity to remain in the spotlight

When it comes to cybersecurity... What are banks doing to help secure the “ubiquitous nature” of modern enterprises?



→ Discover more about our **2022 DBX study**

While less severe compared with 2022, cybersecurity continues to be an issue for banks and financial institutions, driven by concerns over expensive data security breaches.

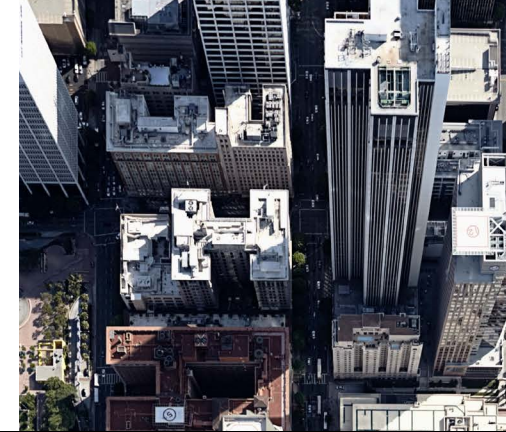
With the average cost of a data breach hitting almost **\$4 million**, according to IBM, **24%** of respondents to our DBX survey said they had concerns about ensuring cybersecurity across their networks to protect data.

In 2023, the **Zero Trust model** will increasingly be seen as a viable option for banks' cybersecurity strategies.

Zero Trust is a framework designed to **help secure the “ubiquitous nature” of modern enterprises** such as meeting the challenges caused by evolving business models, shifting workplace dynamics and complex IT environments.

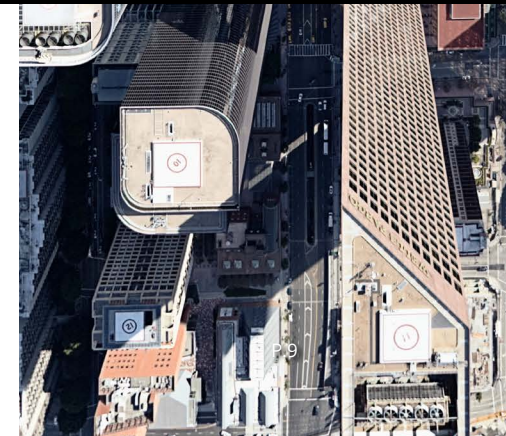
It also enables banks to :

- **Fortify their network infrastructure and data exchange** via APIs that involve other applications or third-party services through fintech partnerships.
- **Increase productivity.**
- **Reduce risks.**
- **Boost business agility.**



\$4 million

is the average cost of data breach



07 The future is Gen Z

*What **new revenue streams** are banks planning to introduce?*

Tech-savvy Gen Z is coming of age and legacy banks should have this digitally native cohort in their sights as they are already using neo banks to manage their money for the agility and ease-of-use they offer.

From Apple Pay and other digital wallets, Gen Z has embraced mobile payments and digital banking more than any other generation – in fact, they already outnumber millennials globally.

Legacy banks leveraging the power of partnerships with fintechs now have a massive opportunity **to offer this younger generation just what they expect — hyper-personalized, seamless experiences and tailored products and services** tapping into the Gen Z target will enable banks **to gain both a fresh group to upsell to, and a plentiful new revenue stream.**



Conclusion

Despite the continuing economic headwinds in 2023, it is important that banks don't lose sight of their long-term plans as they shift their priorities to **operational resilience**.

However, responding to customers' needs during financially difficult times will go a long way in **building trust and loyalty in 2023**, while a focus on well-being tools lays the foundation for a perfect open finance use case.

Sopra Banking Software has developed a range of **innovative software solutions** for all types of banks seeking to accelerate their digital transformation in 2023. This

includes our **SBP Digital Banking Suite**, a next-gen engagement platform that empowers financial institutions to become innovative leaders, evolve towards an extendable platform bank, and ensure security, resiliency and success, all while providing the delightful, relevant customer experiences today's customers expect.

By partnering with an experienced industry player like Sopra Banking Software, banks can benefit from our wealth of knowledge and expertise to ensure success in digital transformation and cement their position as an innovative leader for years to come.





Sopra Banking Software is the partner of choice for more than 1,500 financial institutions worldwide. The rich variety of our solutions, the strength of our conviction and our passion for innovation enable us to support our clients on a daily basis and in their future projects, as well as in their goals regarding financial inclusion. Our customers, based in over 80 countries around the world, benefit every day from our technologies and software, as well as the expertise of our 5,000 employees. Sopra Banking Software is a subsidiary of the Sopra Steria Group, a European leader in consulting, digital services and software development. With more than 50,000 employees, the Sopra Steria Group generated a turnover of €5.1 billion in 2022.

To find out how we can help your bank to create market-beating digital transformation strategies, visit www.soprabanking.com or contact us at hello@soprabanking.com

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