2021 and Beyond: The Fintech Industry in a Post-COVID World

FINTECH FUTURES | REPORTS

Introduction

There is no doubt that the financial services industry is approaching 2021 with a completely different mindset to the one it had in January 2020. The global landscape has changed. The ongoing coronavirus pandemic has fundamentally changed how businesses evaluate their future strategies going forward into a new decade.

Throughout 2020 we heard that the pandemic is "accelerating" the adoption of digital technologies. While that may be true, it has also exposed the areas in dire need of change. Banks and financial institutions will look at their legacy technology with an ever-critical eye this year. Can the same technologies that kept things ticking over for the past ten, 15, or 20 years be trusted to get them through 2021 and beyond?

Two of the largest M&A deals in 2020 involved the payments industry. Visa paid $5.3 billion for a (now cancelled) tie-up with Plaid, while Worldline splashed $8.6 billion to buy Ingenico. The payments landscape is a diverse one, despite mega-mergers seeking to consolidate the market further.

Consumers have shifted their preferences from the physical to the digital. Cheques and cash is out, cards are in. New digital wallets, interbank transfer services, payment rails, and credit providers are providing increasing pressure to industry incumbents.

Those same changing consumer preferences create pressure on firms to provide up to date and easy to use interfaces, applications, and journeys for their users.

User experience and interface design is becoming a key battleground in the cold war of customer retention, as traditional banks throw their weight behind aping digital newcomers.

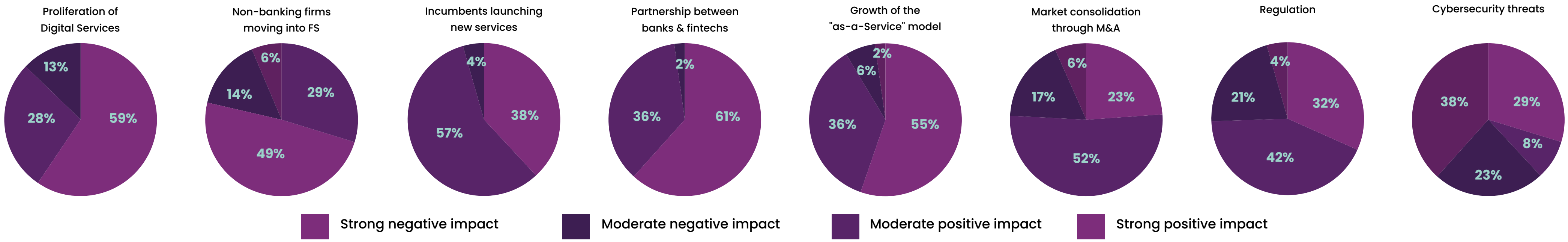
Brexit has become a reality, and as the UK seeks to carve its own path regulatorily from the EU, those in compliance departments should be ready to weather a storm of new regulation, and meeting dual requirements to continue coordination across their European operations. A new administration in the US, set on rolling forward for stringent regulation, should also be factored into things.

Cybercriminals continue to focus their attention on financial institutions. While the industry has some of the tightest protections, all it takes is one loose link in the chain for the bad guys to get away with reputationally damaging breaches of data. As banks swing towards a more technological focus, where does the responsibility for keeping out the hackers lie?

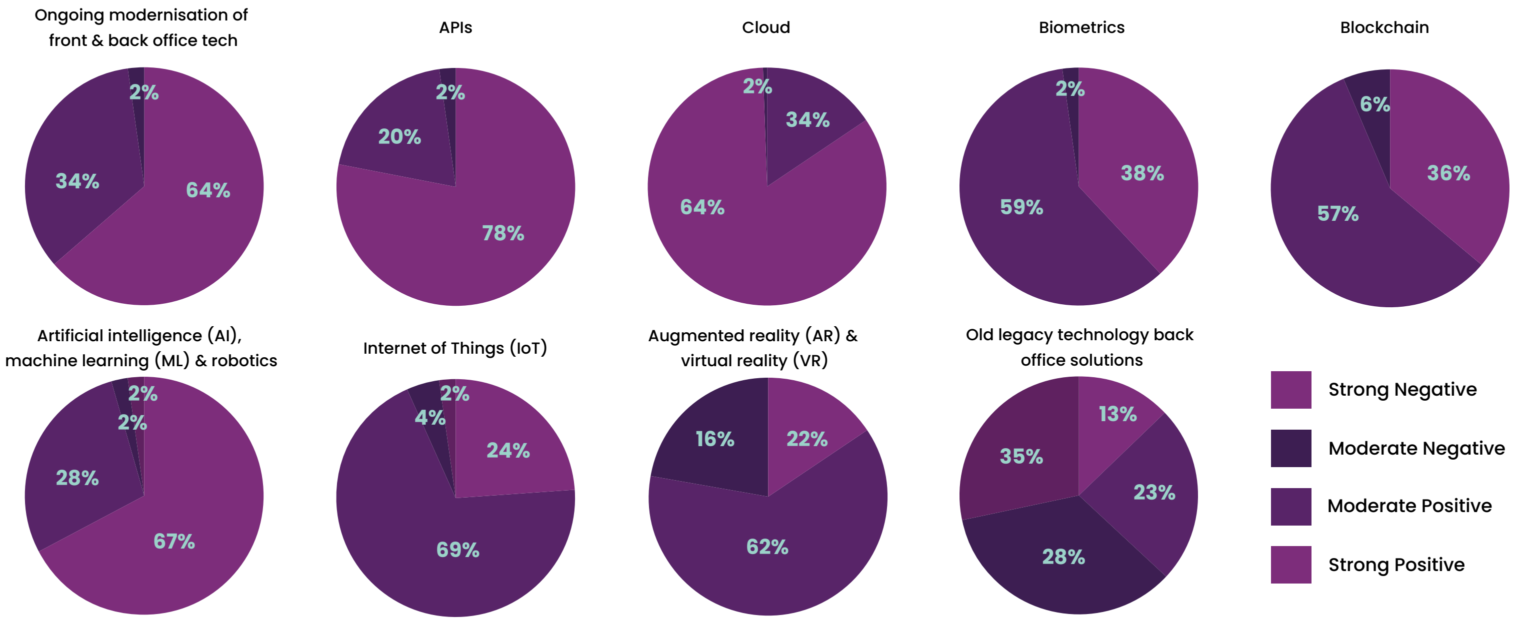
FinTech Futures has polled the industry for its input on the trends, technologies, sectors, and strategies crucial to success in 2021. From digital banking to the back office, from cryptocurrency to cybercrime, we've gone to the market to find out what's making the industry tick.

The Digital Landscape

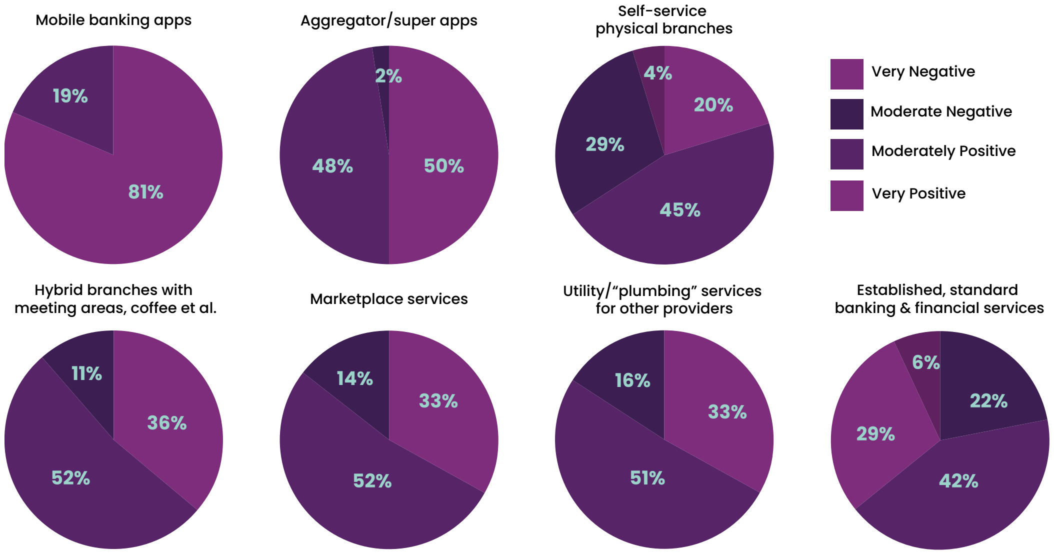
What kind of impact will the following developments have on the global banking market over the next two years?



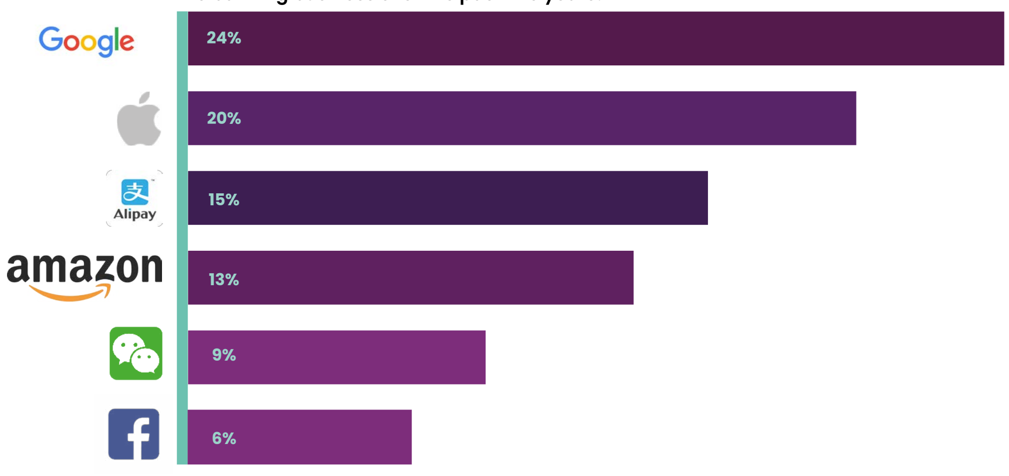
What kind of impact will the following technology developments have on the global banking business over the next two years?



How would you rate the future growth prospects of the following types of service over the next two years?



Which of the following companies, in your view, has had the biggest impact on the banking business over the past two years?



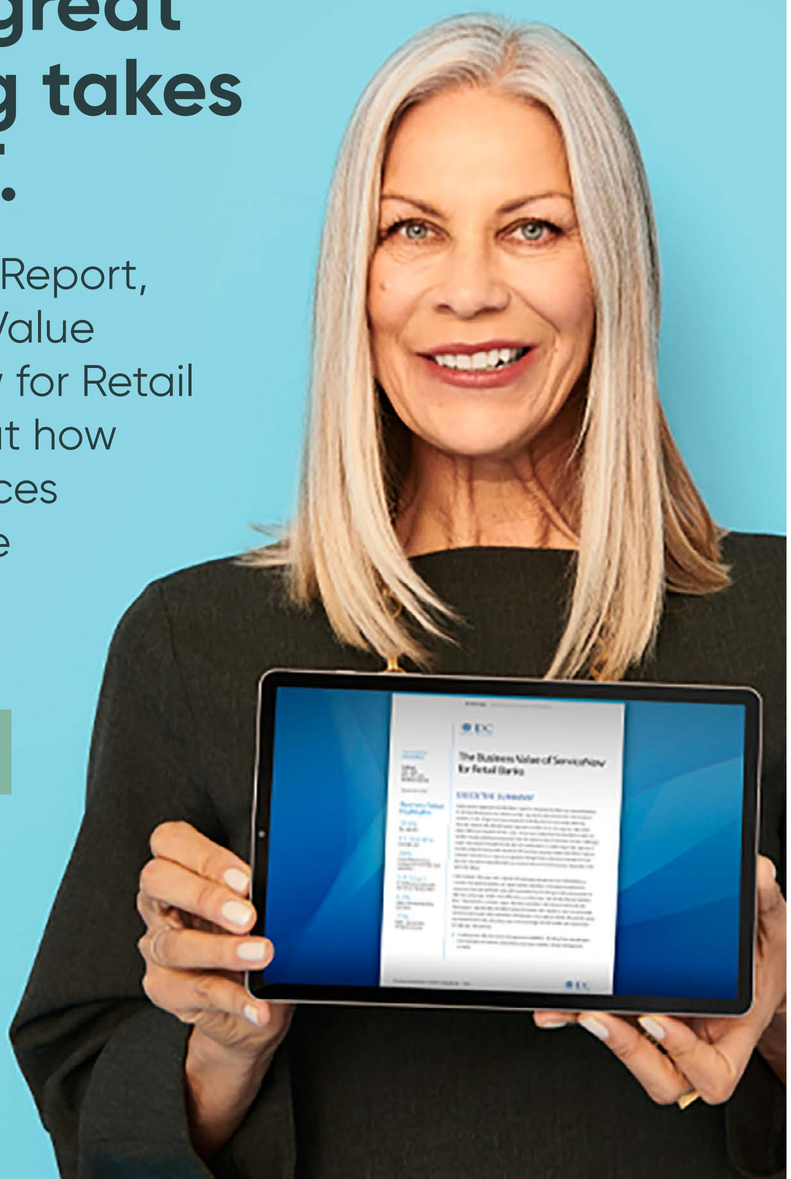
Perhaps more than any trend in the industry, the provision of digital services has seen an unprecedented acceleration over 2020. This is reflected in the predictions of our respondents, with more than 40% believing digital and traditional will either merge until indistinguishable. A similar number also believe age of traditional tech is over, and that by 2023 it will be in total decline.

The greatest impact expected on the market, according to our audience, will be in the partnership between banks and fintechs. 98% of respondents think it will have a positive impact going forward. Other major positive impacts include new service launched by incumbents (95%), as-a-service models (91%), and digital services (87%).

Concerns remain over regulation and the threats of cybersecurity. 25% of respondents believe compliance issues may have a negative impact over the next two years, while 61% worry about how security may affect the future.

When it comes to the technology affecting the future of the industry, with 62% of respondents believing legacy technology will be a hindrance. APIs and cloud will be leading the charge in changing the sector for the better, says our audience, with 78% believing APIs will have a strong positive effect, and 63% believing cloud will improve tech in the future.

Despite their ubiquity, mobile apps remain the leading tech for positive change. 100% of our respondents believe the mobile channel still have plenty of room to grow. Other technologies set to grow in importance are aggregator apps (97%), hybrid branches (88%), marketplaces (85%), and utility services (84%).



Why banks need stronger digital foundations

When I joined Lloyds Banking Group to lead digital transformation programs in 2012, a major simplification effort was underway, making it easier to do business with the bank's 40 million-plus global customers. Developing end-to-end customer journeys became the focus of the rapidly evolving digital bank.

Today, 250-year-old Lloyds is one of the world's most digitally enabled banks, accelerating its ability to respond to customer needs. Putting customers first while helping Britain prosper has been the driving message behind Lloyds' strategy under CEO Antonio Horta-Osorio. It's an approach that seems more important than ever today.

While the outcomes of Lloyds' digital journey have been transformational, one key aspect of technology management was clearly missing back in 2017, when the bank's then-CIO asked me to review the way we managed a complex technology ecosystem that supported more than 4,000 IT applications.

The biggest issue was that Lloyds, like many financial services companies, lacked the ability to manage IT data coherently and consistently. Of course, Lloyds wasn't alone. Many banks maintain highly complex applications running on top of aging on-premise IT infrastructure. Moving to the cloud can help, but without visibility and control, cloud migration quickly becomes a complicated and expensive task.

That's why every financial services organization that aspires to digitally transform must first gain control of its technology data. At Lloyds, that process took three years, but with a back-to-basics strategy, we finally solved the data fragmentation problem and became a bank with absolute control over its IT environment.

That doesn't mean things don't break. But by implementing a single technology-management platform for the enterprise from ServiceNow, Lloyds now has a powerful view of critical business processes and tech infrastructure that supports them. That has led to significant improvements in control, cost reduction, and regulatory compliance, and given Lloyds a foundation for continuous improvement.

Even more interesting has been the dramatic improvement in the work experience at Lloyds. Productivity has replaced frustration; people at all levels of the organization benefit from a single, reliable, and real-time view of critical business processes and the technology estate.

The COVID-19 crisis, in which the bank has had to relocate more than 100,000 people to work from home, has demonstrated the power and scalability of the platform. After 25 years of managing technology transformation programs across a range of industries, I was so impressed with the platform we used from ServiceNow that I joined the company in early 2020.

Here are a few lessons from my journey at Lloyds:

Focus on business outcomes - Making a compelling argument with business executives and the CIO and securing the investment funding you need only comes if you can articulate your outcomes in business terms.

Breaking down delivery silos - Technology solutions must be designed to integrate with the employee and customer view.

Correcting the culture - As a transformational leader, offering win-win outcomes for IT and the business helps to increase trust and foster a collaborative rather than an adversarial mindset.

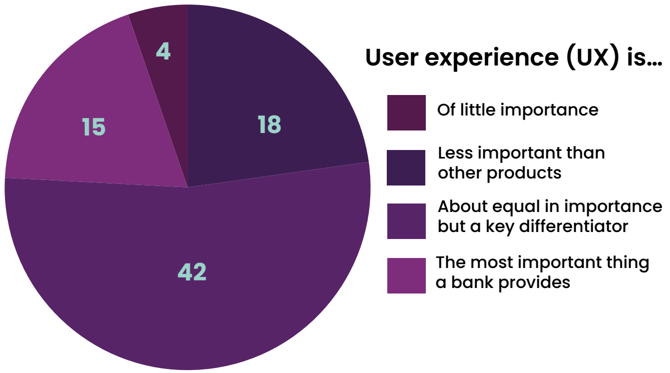
The human factor - Being transparent and addressing poor behaviors, in a collaborative way, is critical if organizations are to unlock the potential of digital transformation.

Starting with a common understanding of what you are managing and need to change can help reduce complexity and costs—but only if we are willing to share what we understand with everyone in the organisation.

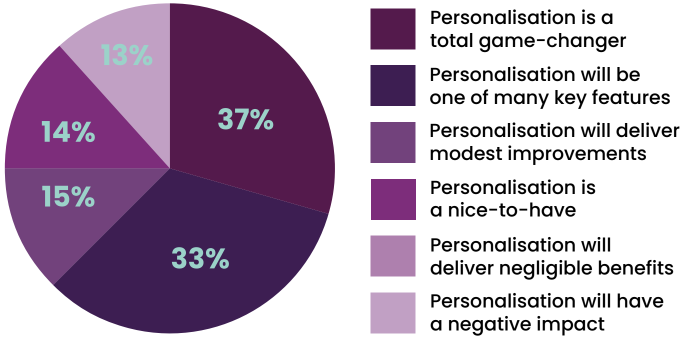
This article first appeared on *ServiceNow's* WorkFlow blog

Keith Pearson, ServiceNow financial services head, Europe, Middle East, Africa

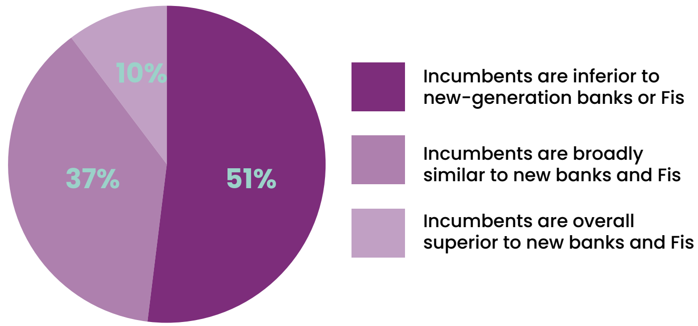
Customer Experience & UX



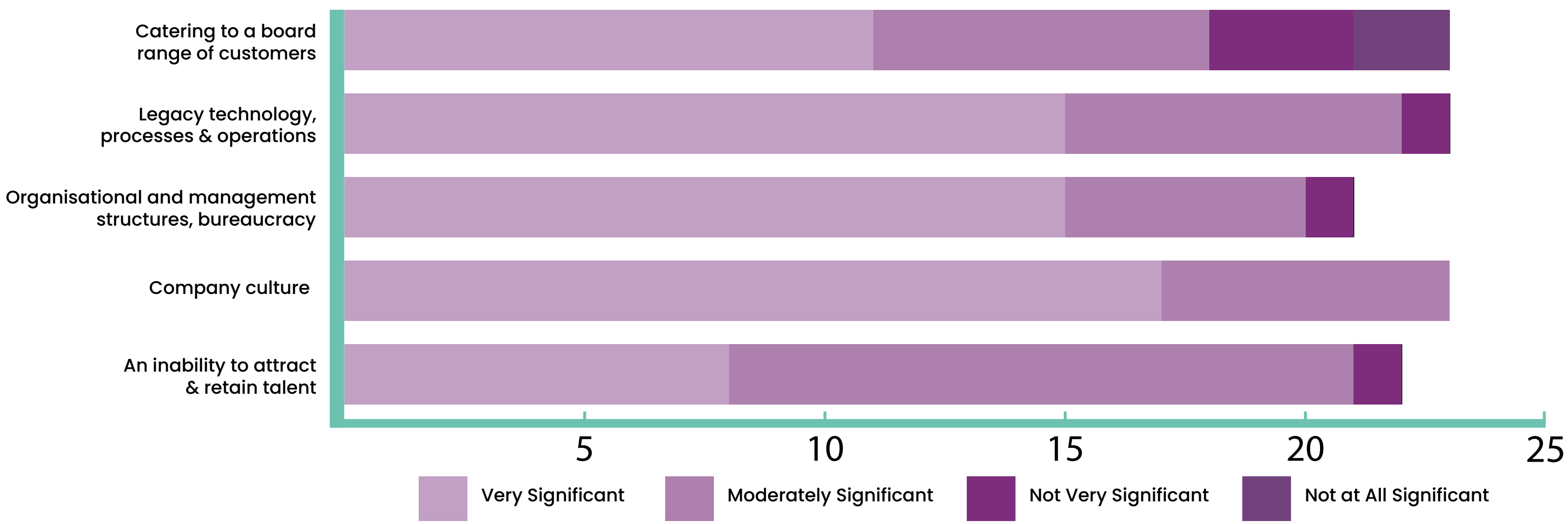
The importance of personalisation



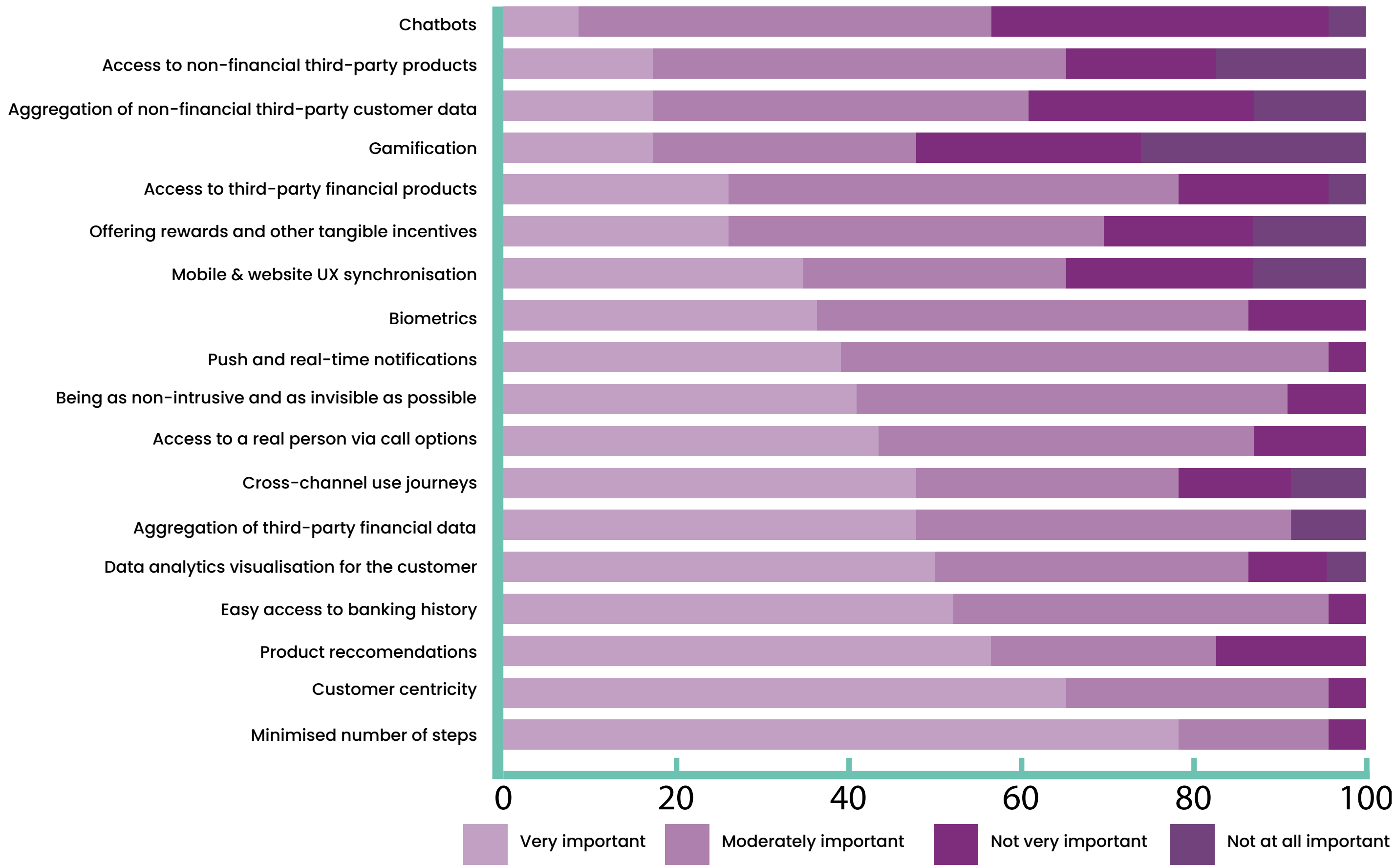
How do incumbent banks compare with new entrants when it comes to UX?



For incumbents, how significant are the following UX challenges?



How important are the following elements in creating a compelling banking UX either now on in the future?



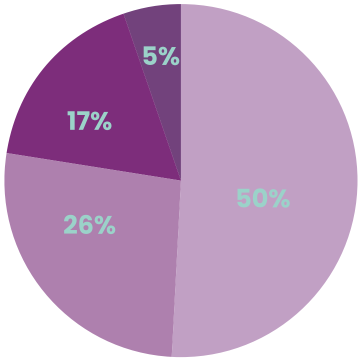
Offering a unique customer experience is growing in importance for players in the industry. 65% of respondents call the channel a "key differentiator" for banks going forward. A third of those in our survey label it a "total game changer", with another third believing it to sit among other major parts of a bank's strategy.

Traditional financial institutions are still falling behind the challengers, as 51% of our respondents say they have some way to catch up to neobanks' UX. According to our audience, the first change banks must take is reducing the number of steps a user must take in their apps (78%). The next-best move is to ensure customer centricity (65%), and to offer customer further recommendations (56%).

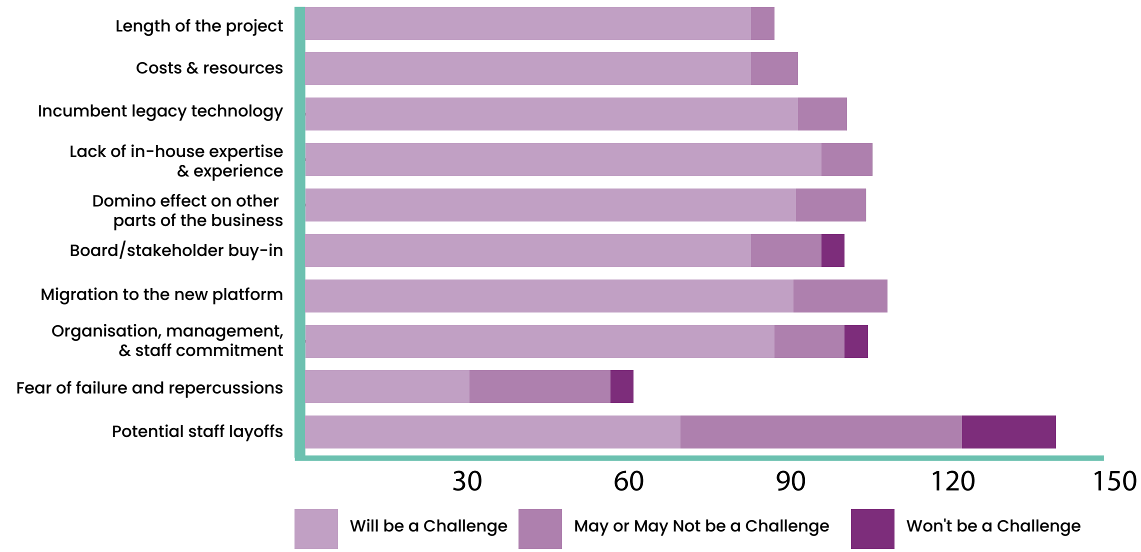
Yet legacy appears as a hiccup again for banks. This time in the old ways of an entrenched company culture. 74% believe traditional company culture holds back UX change. Similarly, 71% believe bureaucracy does the same, while 65% say technology prevents proper change.

Back Office & Core Banking

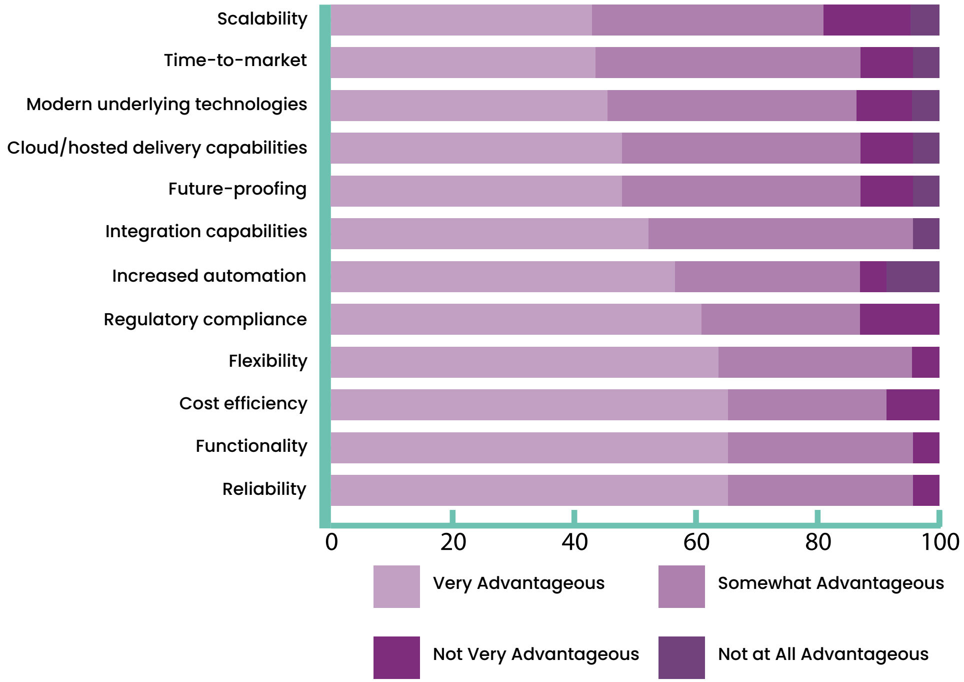
Which statement best expresses the future of core banking in the industry?



What do you see as a challenge when it comes to core transformation?

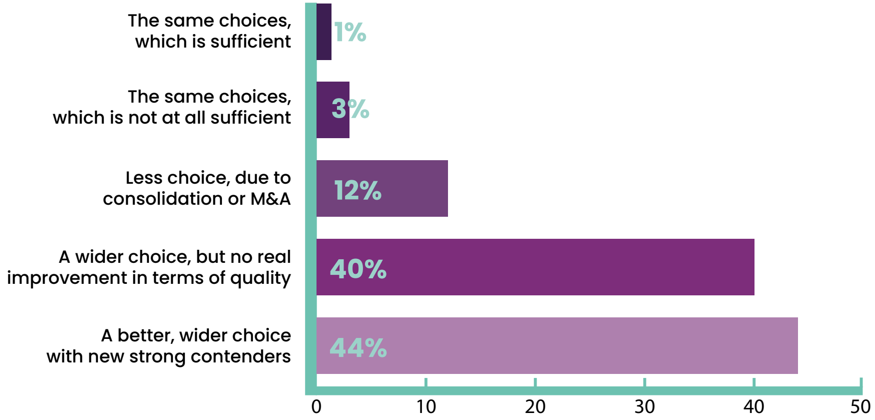


How advantageous are the following traits of a modern core banking system?



What is your expectation of the banks' appetite for core banking transformation over the next five years?

How do you envisage core banking software choice in the market over the next five years?



If there was one word/phrase to describe the current core banking software landscape, what would it be?

Back office and core banking transformation appears to still cast a shadow over the industry. 50% of respondents believe it is essential firms change their core banking systems, while 26% say it is a major contributor to success.

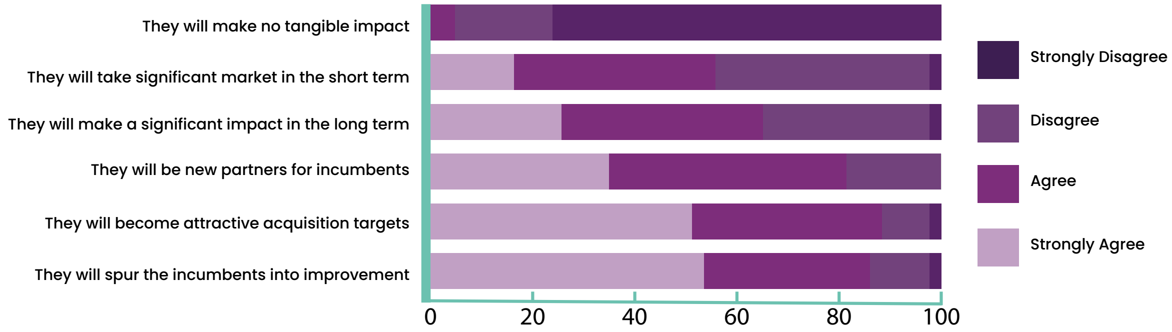
Cost efficiency remains a top priority for those selecting a new system, with 65% believing it to be "very advantageous" as a trait in a platform. Functionality (65%), reliability (65%), flexibility (63%), and regulatory compliance (60%) are also major factors for our audience. The least favourable aspects of a system are scalability (42%), time-to-market (43%), and modern underlying technology (45%).

The greatest challenge to back office change is board and stajeholder buy-in, with 95% of people highlighting it as a major barrier to adoption. Organisation, management, and staff commitment is also a potential problem, 91% of respondents think it poor practices among staff is a major issue. Cost (91%), project timelines (90%), and existing legacy technology issues (87%) are also highlighted as barriers to be overcome. Only staff layoffs (17%), and fear of failure (4%) were picked as a lack of challenge for change.

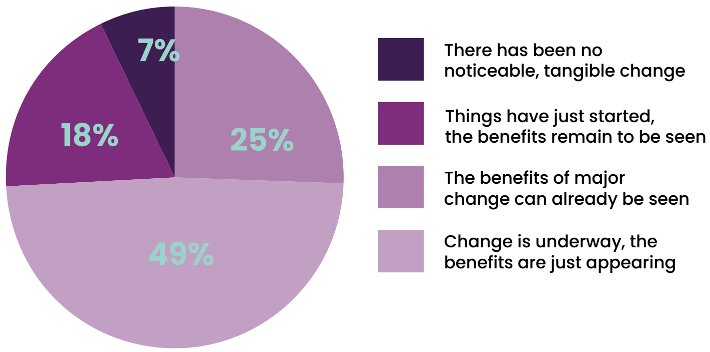
46% of respondents believe change will increase in the next five years, while 35% think that change will continue at the same pace, but will a greater focus on the back office. When it comes to the core banking software market, 84% believe there will be a better, wider choice of platforms in the future. Of that 84%, 44% believe new strong contenders will arise, while 40% think quality will remain roughly the same.

Payments & Innovation

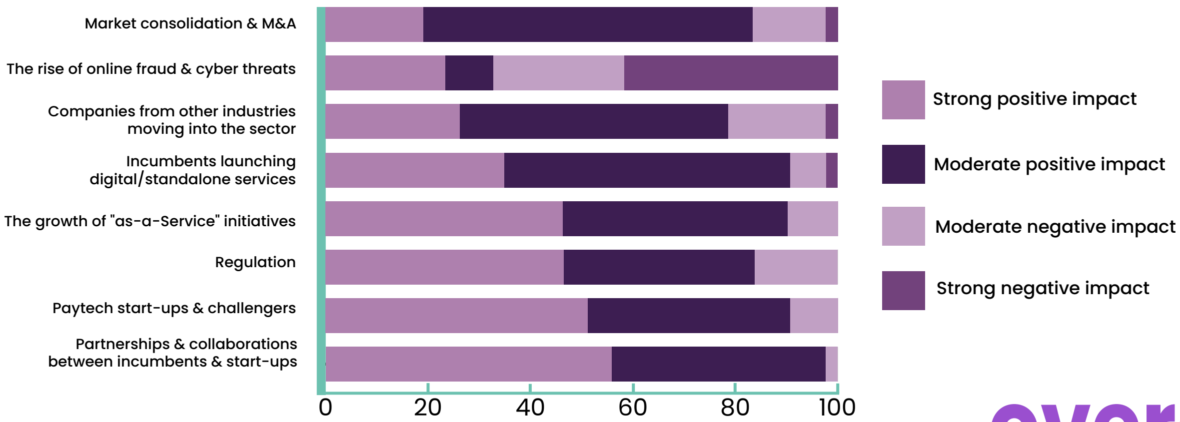
What is your view on the likely impact of the new paytech challengers on the incumbents?



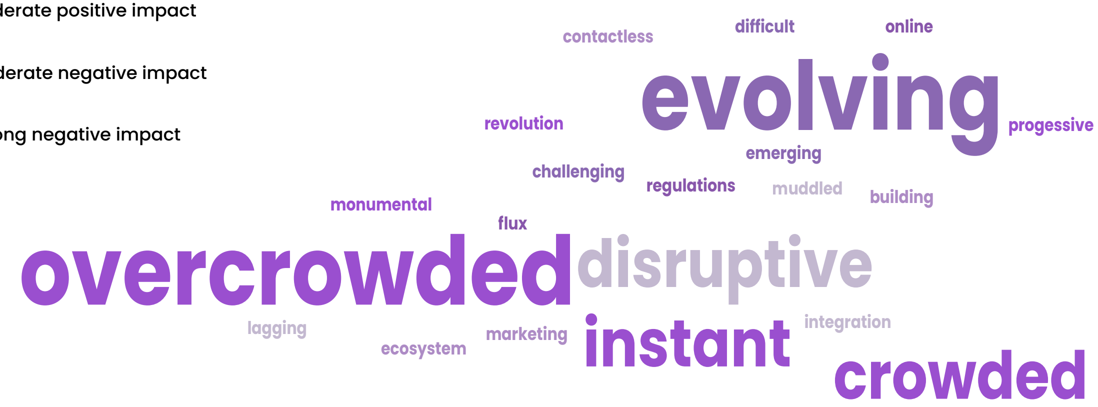
Which of the following statements best expresses your view on how far has the payments transformation has come in the last two years?



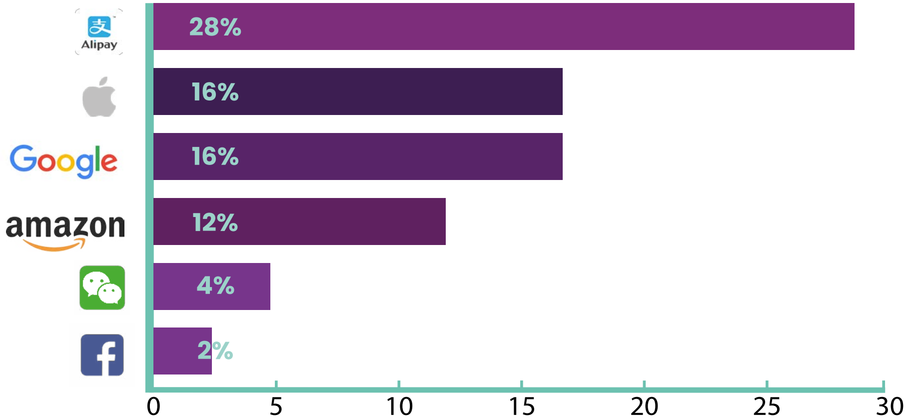
What impact will the following developments have on the payments banking market over the next two years?



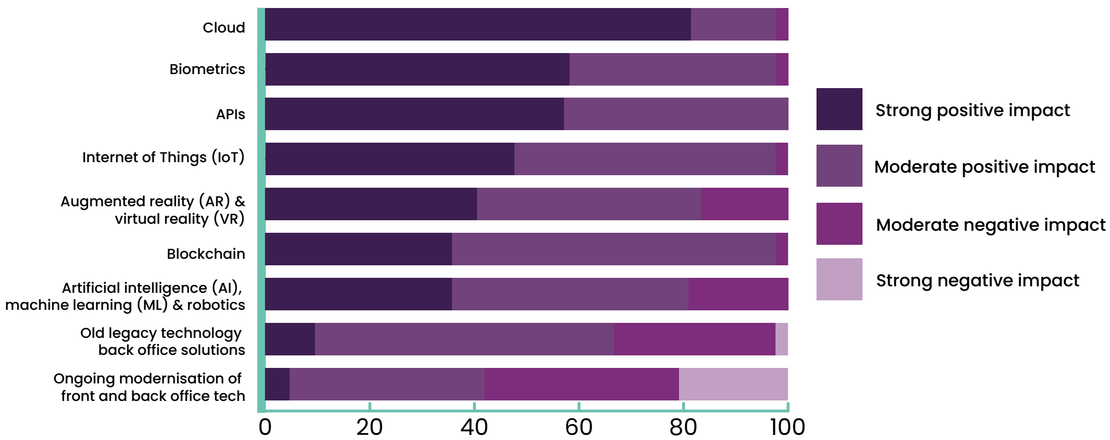
If there was one word/phrase to describe the current paytech landscape, what would it be?



Which of the following companies, in your view, has had the biggest impact on the payments sector over the past two years?



What impact will the following technology developments have on the payments business over the next two years?



Payments is becoming an ever-more important aspect of the industry. Changes overt the past few years, including the proliferation of APIs and initiation technology, have seen mega-mergers and funding rounds happen. 48% of respondents believe there is yet more to come, though great change us underway.

Partnerships and collaboration between incumbents and start-ups has the greatest potential to change things for the better, say respondents. More than half (56%) say it will have a strong positive impact. 51% believe start-ups can have great impact on their own too, without partnerships.

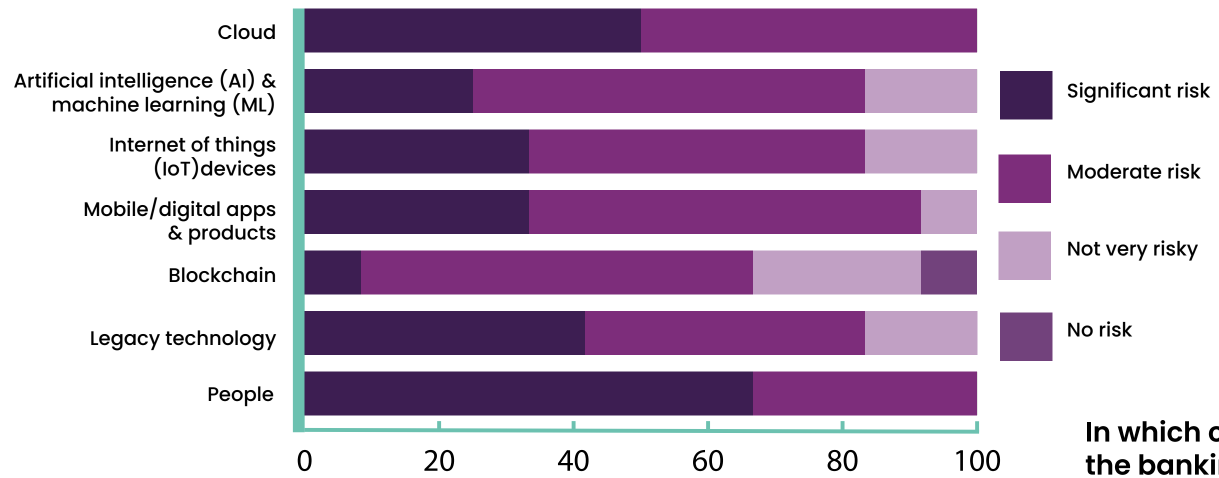
In terms of challenges, 66% think cybersecurity remains an issue, and could have a strong of moderately negative impact on development. 19% also feel the entrance of new companies, like telcos and Big Techs, could have a negative impact on the industry.

In terms of technology, the cloud (81%) stands apart as a development our respondents believe will have a major positive impact on the industry. Biometrics (58%), APIs (57%, and the Internet of Things (47%) are also major influences. Legacy tech rears its head again as a negative, with 30% believing it to have a moderate negative penalty. 37% also feel that ongoing modernisation is having a poor effect on the sector.

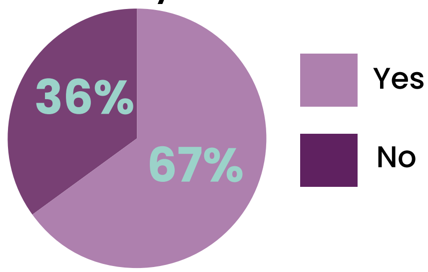
Our audience strongly believes new entrants will either spur incumbents into improving their payments technology (53%) or become tempting acquisition targets (51%). Meanwhile, of the Big Tech companies muscling their way into the industry, 28% feel Ant Group and Alipay are having the greatest influence on how the sector operates.

Cybersecurity

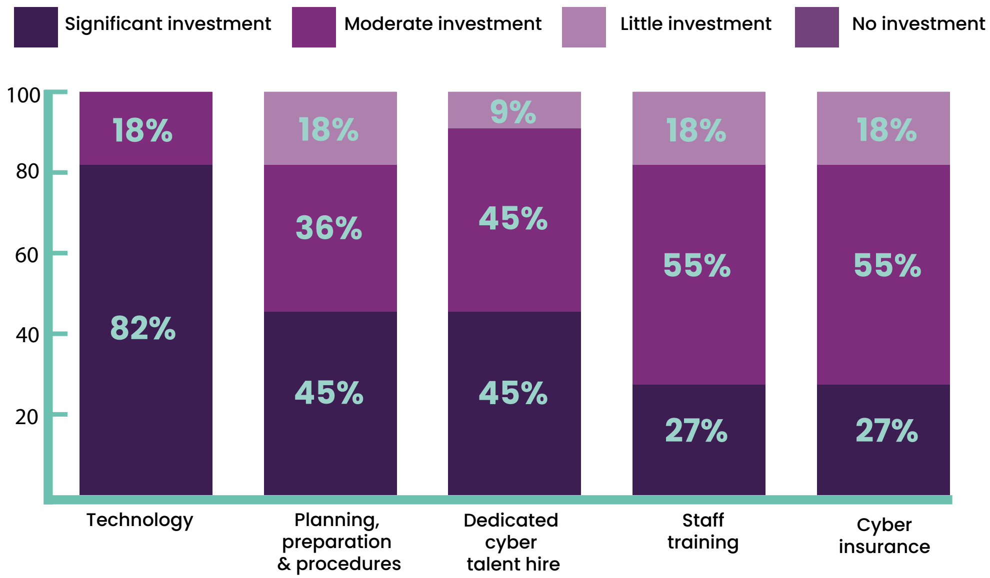
What level of cyber risk do the following areas pose?



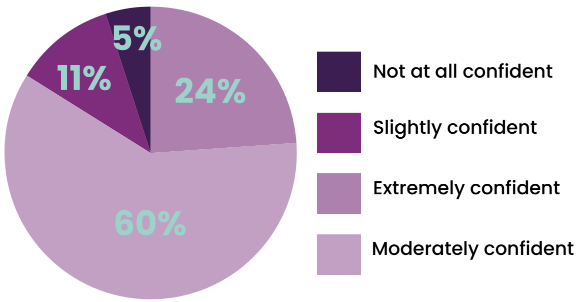
Should governments get more involved in helping to combat cyberthreats?



In which cyber-related areas do you expect major investment in the banking sector over the next two years?



How confident are you in the financial services sector's cybersecurity posture?



The threat posed by cybercriminals has appeared throughout the survey as having negative impacts on the industry. Despite this, 60% of those asked say they are "moderately confident" in the security abilities of the fintech sector. A further 24% are extremely confident in the ability of banks to hold off the bad guys.

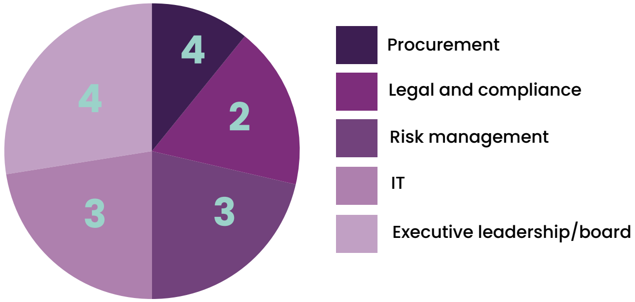
In terms of the greatest risk, cloud technology is struggling to shake off accusations of insecurity thrown at it in its early days. 100% of those who answered said cloud posed either a significant or moderate risk in technology stacks. More than 95% of those asked also point at people within the organisation as a major security risk.

However, the adoption of new technology is worth the potential pitfalls, according to our audience. 60% say that experimentation and innovation outweigh any problems. Only 24% believe that new technology is too risky.

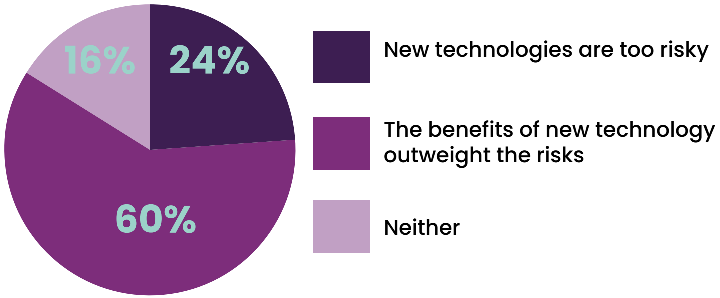
That sector can expect to have the greatest investment from companies in the future. 85% of those asked think that tech infrastructure will gain major backing from the banking sector in the next two years. Planning (45%) and talent (45%) were also outlines as areas of new investment.

When it comes to what organisational area should take ownership for cyber risk, respondents ranked executive leadership as highest. The buck stops with those at the top, while the those selecting and procuring the software ranked bottom as those who should take responsibility. When it comes to governments getting involved, our audience feels intervention is a good thing, with 67% believing government should help the industry against cybercrime.

Which area of an organisation do you believe cybersecurity ownership should reside?



Do the potential benefits of new technologies outweigh the potential cyber risks?



About FinTech Futures

FinTech Futures is a digital publishing platform for the worldwide fintech community – from the industry veterans to those just entering the space, and everyone in-between!

We provide daily news, in-depth analysis and expert commentary across a comprehensive range of areas.

Our broad readership and solid reputation, combined with in-depth coverage across fintech on a worldwide scale, makes us the leading resource for technology buyers, sellers, developers, integrators and other specialists across the sector.

Our website attracts nearly one million monthly page views and our daily newsletter is delivered to over 42,000 key decision-makers in the financial services and technology sectors. The brand is active across the key B2B social media platforms, with over 45,000 followers on Twitter @FinTech_Futures and over 41,000 members in our LinkedIn group.

FinTech Futures Website: www.fintechfutures.com
Twitter: @FinTech Futures
LinkedIn: @fintechfutures

About the Author

Alex Hamilton is deputy editor at FinTech Futures. He has been reporting on the financial technology sector for more than five years across a variety of industry publications and has written extensively on digital transformation, cybersecurity, and enterprise technology. He holds a masters degree in ancient history from the University of Nottingham.

He can be contacted at: alex.hamilton@fintechfutures.com

FINTECH FUTURES | REPORTS

Reports & Surveys

Sponsorship opportunities are available for our surveys and well-researched topic-specific reports.

Visit **fintechfutures.com/reports-calendar** for a full list of our reports in 2020

TO REACH NEW PROSPECTS TALK TO:

Jon Robson
Head of Sales
Email: jon.robson@fintechfutures.com
Tel: +44 (0)20 3377 3327

Sam Hutton
Business Development Executive
Email: sam.hutton@fintechfutures.com
Tel: +44 (0)20 7017 7017