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Research Methodology

This is the first in a series of papers developed using a proprietary methodology that combines an industry-wide survey of banks, payment service providers and FinTechs in Benelux, Denmark, France, Germany and the UK. Quantitative data was complemented by in-market experience and conversations with leading FinTech companies, service providers and banks. Fieldwork was conducted during April and May 2020.

Interviewees

In addition to the industry survey, interviews were carried out with the following companies and individuals:

Thibault de Barsy,
Vice-Chairman & General Manager,
Emerging Payments Association EU

Per Christian Goller,
Founder & CGO, Aprila Bank

Panagiotis Kriaris,
Head of Business Development, Paysafe
Pay Later

Paul Le,
Chapter Lead: Data & Platforms, ING
Wholesale Banking, ING

Elliott Limb,
Chief Customer Officer, Mambu

Georg Ludviksson,
CEO & Co-founder, Meniga

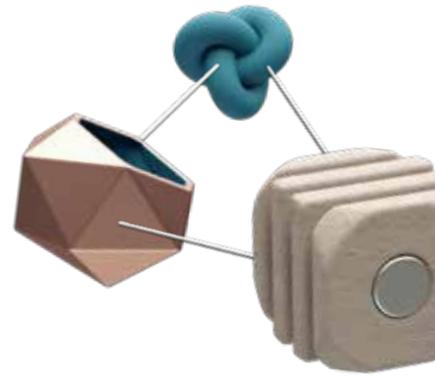
Jason Maude,
Chief Technology Advocate, Starling
Bank

Alex Mifsud,
Co-founder and CEO, Weavr.io

Dean Wallace,
Director Real-Time and Digital
Payments, ACI Worldwide

Juan Jimenez Zaballos,
Head of Financial Industry
Transformation, Santander Group

INTRODUCTION



At the start of the year, 2020 was still the hopeful dawn of a new decade. Its name was synonymous with clear vision and perfect eyesight. What better time to take an in-depth look at capturing value in financial services for a digital age. We, therefore, planned to conduct research amongst senior executives at banks, FinTechs, payment service providers (PSPs) and payment intermediaries in Europe for their thoughts on the development of digital strategies. We also planned to conduct face-to-face interviews with leading members of the financial ecosystem.

Of course, 2020 is now permanently associated with a global pandemic. Millions of businesses and millions more employees have found new ways of working together, while their customers – individuals and businesses – found new ways to transact. The value of digital has taken on new and very immediate meaning.

Our research commenced in the early weeks of the outbreak and subsequent lockdown. Inevitably, the impact of the virus on the operations of those we surveyed became a theme of the research. But our goal remained the same: to look at broader issues around the digitalisation of financial services, particularly the role that financial infrastructure – both proprietary and outsourced – plays in creating lean, agile organisations.

It is our hope that, by presenting these issues in a series of three papers, we can learn how digital success is increasingly determined by longer-term thinking around the infrastructure that enables it – and regain some of the clarity and confidence that 2020 originally offered.

Anders la Cour,
Co-founder and Chief Executive Officer,
Banking Circle



EXECUTIVE SUMMARY

Established banks have seen their markets, their reputations and their bottom lines repeatedly disrupted over the past decade, even before the global pandemic caused the biggest disruption of all. During that time banks have been changing their business practices, their culture and most of all their technology to create more responsive and flexible businesses that centre customers' requirements and experience.

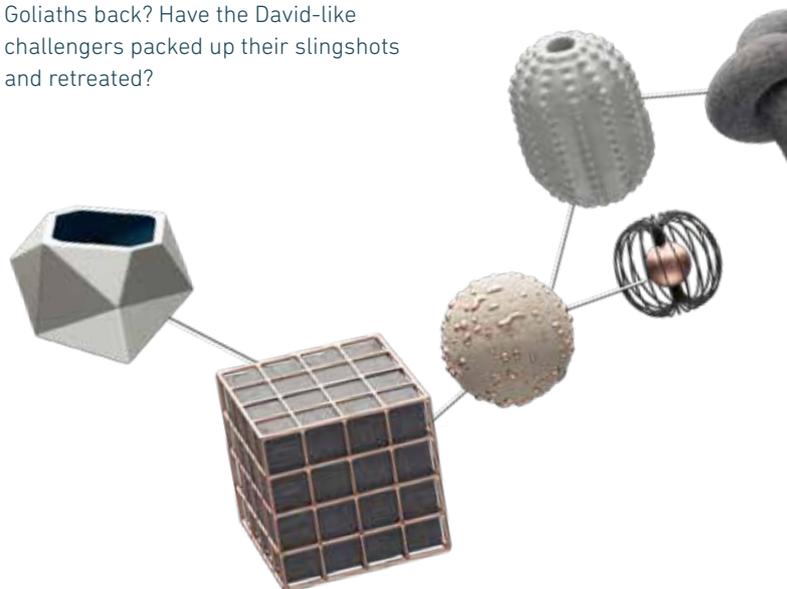
Many banks believe that these investments, and the capital reserves they have built up since 2008, have strengthened their position and ensured that they, rather than challengers and disruptors, are best placed to move successfully into an economically uncertain future.

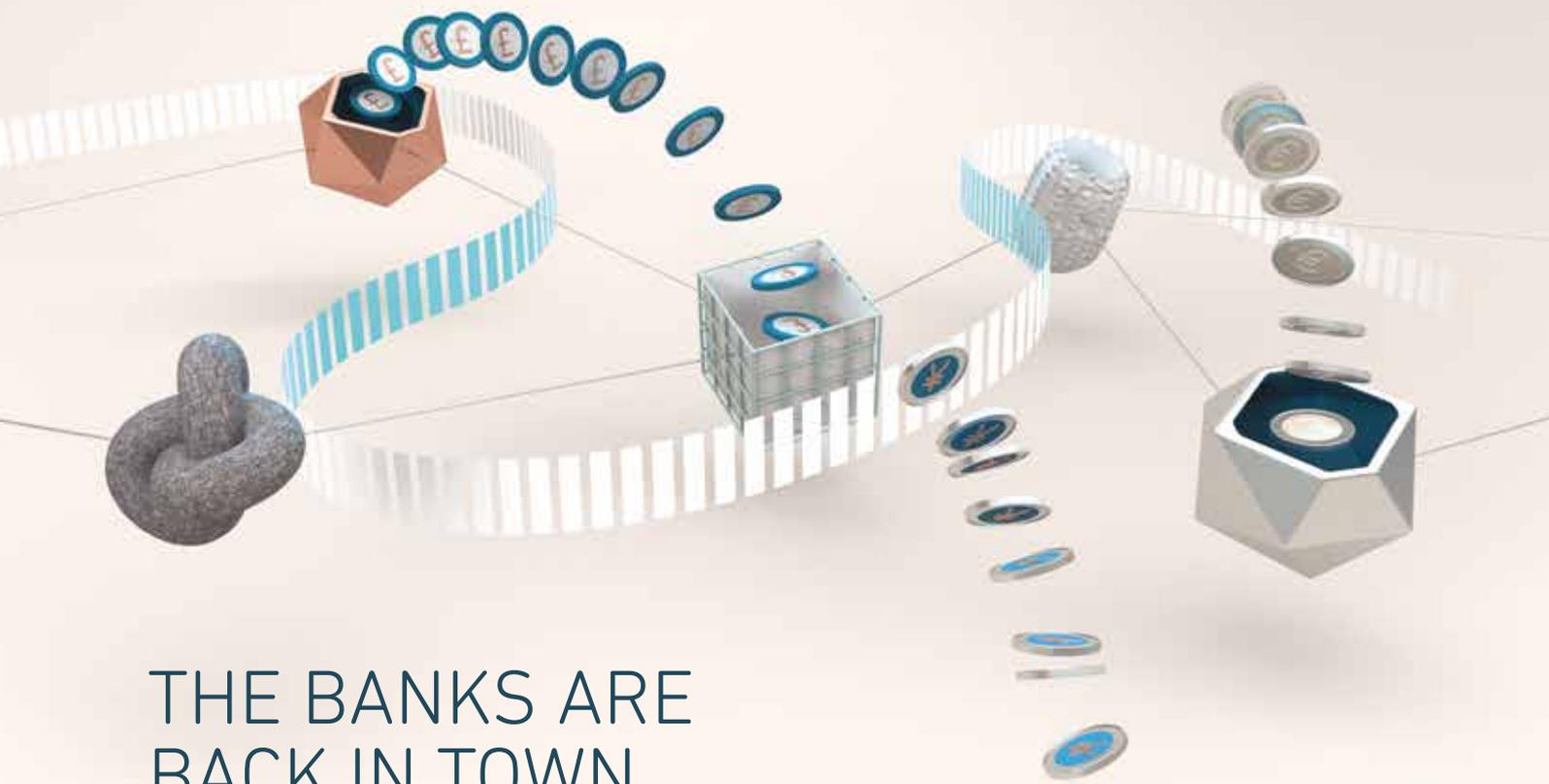
In this paper we look at how attitudes to digital technology have changed, particularly around the cloud and outsourced provision of commoditised banking services like payments. We consider the potential impact of government stimulus policies and the relative strengths of banks against other players in the finance ecosystem. And we take on board the views of a number of experts to see whether banks' apparent confidence is justified.

- Less than a third of financial institutions are now concerned about the pace of technological change in banking – dropping to 1 in 6 among commercial banks.

- Less than 20% are concerned about the competitive landscape.
- Close to 90% of retail and commercial banks use customer data to determine demands.
- 5% of retail banks are concerned about the threat of recession compared to 31% of FinTechs and 41% of PSPs.

There's a renewed sense of confidence among financial institutions and banking incumbents. In this paper we look at whether this confidence stems from balance sheets, new approaches to infrastructure, or the initial responses to the global pandemic. After years of disruption, are the industry Goliaths back? Have the David-like challengers packed up their slingshots and retreated?





THE BANKS ARE BACK IN TOWN

Often dismissed as the bastions of the 20th Century rather than harbingers of the 21st, banks have seen their markets, their reputations and their bottom lines disrupted again and again over the past decade and more. Then came the biggest disruption so far: a global pandemic that mothballed much economic activity, increased uncertainty, and turned much of the world's workforce into digital nomads.

The pandemic also – quite possibly – resurrected the fortunes of incumbent financial institutions. Or rather, it shone a light on ways in which banks have been changing their business practices and their technology to create more responsive and flexible businesses.

Our latest survey shows that worries about the chokehold of legacy systems – and the mindset that accompanies them – are passing. Instead banks are increasingly adopting the practices of lean digital businesses that can centre customers' requirements and experience, as well as withstand market shocks and slow-building change.

Leaner, fitter and more confident than ever

Retail banks in particular have a positive view of their own level of adaptability; more so than FinTech providers, PSPs and payment intermediaries. Indeed, a great deal of value is placed on agility,

flexibility and responsiveness among larger financial institutions, challenging the long held assumption that these are the qualities that digital-first disruptors bring to the market.

What's more, the established banks have overwhelmingly embraced customer-focused, data-driven ways of doing business – again something that until recently was seen very much as FinTechs' value proposition. Now, nearly nine out of ten retail and commercial banks are clear that data is key to their ability to predict what customers want and that their role is to develop their business in response.

All this may well account for the optimism and confidence shown by banks about their ability to weather the current and future storms. Certainly only 5% of retail banks are concerned about the threat of recession compared to 31% of FinTechs and 41% of PSPs.

READY FOR THE RE-BUILD

Having embraced the new vision offered by their challengers, partners, customers and other new FinTech disruptors, fewer than one in three financial institutions now feel that keeping up with the pace of technological change in banking or transitioning from traditional to digital delivery channels is one of their most pressing challenges. Changing regulations and customer demands take those honours. And that number drops to one in six among commercial banks.

What's more, banks appear to have come to terms with some of the biggest challenges they face. Even though giants like Amazon, Google and Apple are angling for an ever-larger slice of the payments pie, only one in five financial organisations said they were now worried about competition from new entrants.

Throwing off the shackles of legacy...

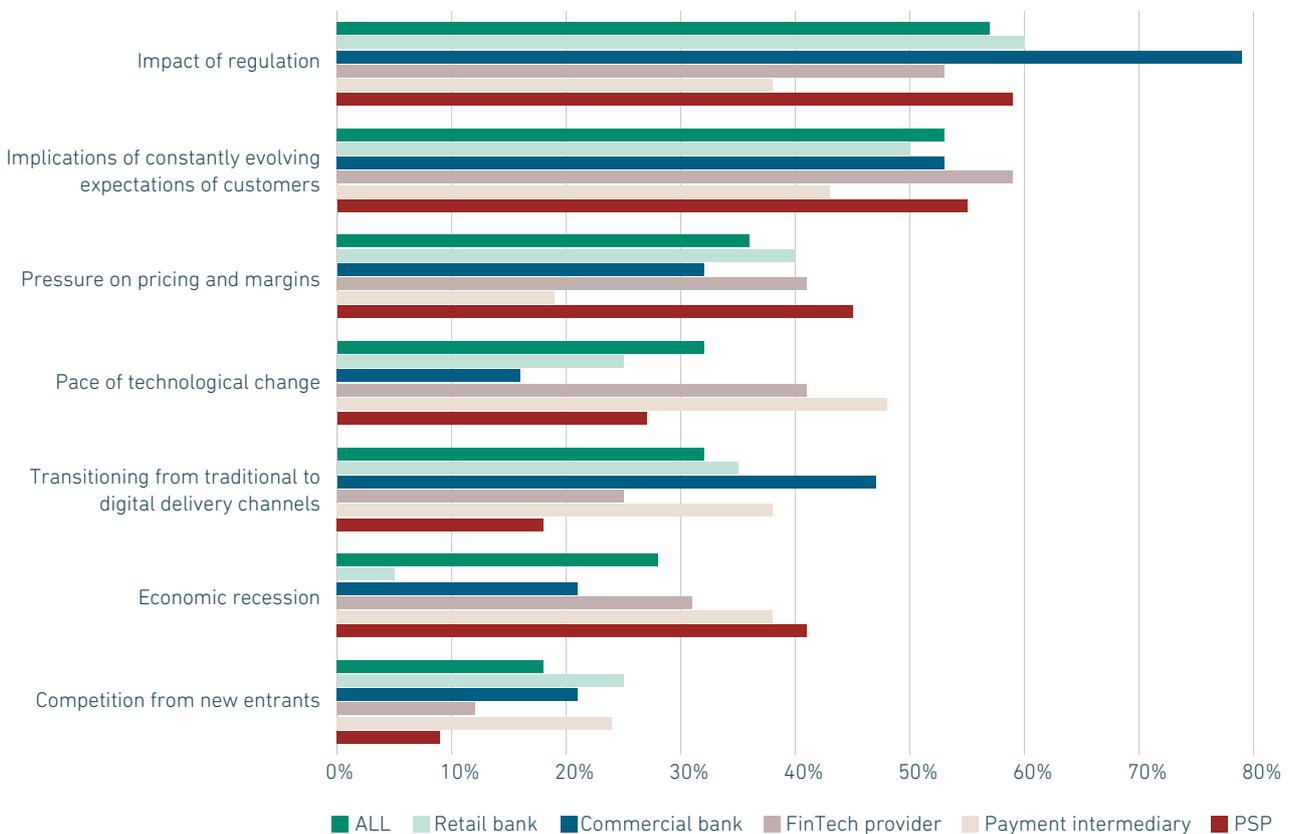
The survey shows that the most confident banks are those that have made heavy investments in their tech stack or developed the mindset and re-aligned their infrastructure requirements, to make more use of third party services and platforms to be able to respond to changing demand. Only a very small number are still exploring what they need to do to be more responsive; an even smaller number told us that their legacy systems remain a block on their ability to keep up with change.

It's a reflection of the long-term move away from the monolithic systems of the past. They are no longer seen as a

hindrance to building technology design and architecture into business planning. In other words, the institutions believe they have addressed one of the biggest challenges to staying relevant in the era of open banking – the crippling burden of legacy systems and legacy thinking.

Banks are no longer playing Jenga with their internal systems - where one new block or one more change could bring the whole edifice crashing down. For many, the challenges of legacy have been conquered largely thanks to the embrace of cloud-enabled systems, the arrival of services variously labelled as Banking as a Service (BaaS), Platforms or Payments as a Service (PaaS), or Infrastructure as a Service (IaaS), and engagement with outsourced provision.

What is in your opinion most challenging about banking in the current macro-environment?



Source: MagnaCarta, Banking Circle Research 2020

READY FOR THE RE-BUILD

This has enabled new ways of looking at key elements of their internal financial infrastructure. For example, to deliver cross border transactions, banks have to manage different standards in multiple markets, integrate diverse technology systems, formats and protocols, and connect different clearing houses – even in a comparatively unified market such as Europe’s. Using new digital platforms from outsourced providers, banks can mitigate these challenges without the need for heavy infrastructure investment.

... and building the new Cloud City

When we interviewed Thibault de Barsy, Vice-Chairman & General Manager at Emerging Payments Association EU, he told us that in his view, “The eruption of the cloud is the real game changer for the digital industry”.

That’s because building or adding to maintenance-intensive, old-fashioned and hard-to-configure physical network presence for each market is costly, time consuming and consequently very risky – especially when the economic outlook is so unpredictable. The cloud-based alternative, however, takes many of those problems away.

Not everything should be outsourced of course. But commoditised services – like payments and cross border transactions – can be delivered by specialist providers, leaving in-house resources to focus on the value-add, differentiating solutions. In other words, outsource the rails, keep the brains in-house.

Doing so enables businesses of all sizes to scale up, scale down, move sideways and cross multiple markets without constantly reconfiguring their systems and business operations. In a fast-moving environment this kind of digital infrastructure is key to building agile organisations that can capture new pots of value as they appear, and then pivot their resources according to shifting patterns of demand.

Financial fundamentals and pandemic panic

Embracing digital, relying on data, and rationalising infrastructure – whether physical, financial or digital – has put the banks in a much stronger position to withstand current and future shocks to their business. Nonetheless, only 4% told us that they already have an advanced tech stack that enables them to ‘come at this from what their customers want or need’. So there is still work to do.

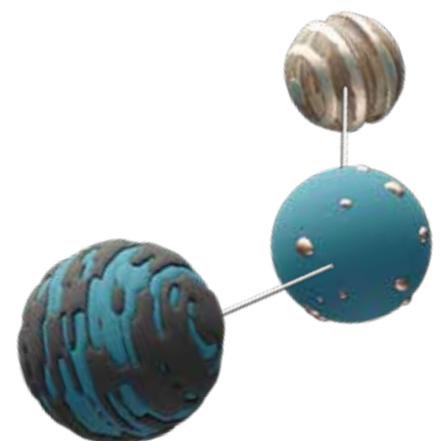
We cannot forget either that post-pandemic recovery is not entirely in the hands of the institutions: much depends on regulatory and evolving government policy. For example, currently regulators are being more favourable to state aid being put together to avoid a slow recovery. That may help banks re-assert their position in the ecosystem. In certain countries aid is being dispensed directly; in others the banks have been called up to provide or dispense loans. Either way, that comes with significant influence and lobbying power.

But there’s also the question of whether the current crisis advantages the digitally native firms that have been built from the outset on the concepts of agility. After all, the driving force behind the market changes of the past decade or so has been the idea of ‘virtualisation’ – freeing organisations, large and small, from the constraints of physical infrastructure. A process that has levelled the competitive landscape and allowed smaller providers to compete with large incumbents – at least, that is the belief of around half the senior professionals who took part in our survey, especially those working for FinTechs themselves.

The survey also showed that nearly nine in ten think the ability to scale is important or even very important to future business success.

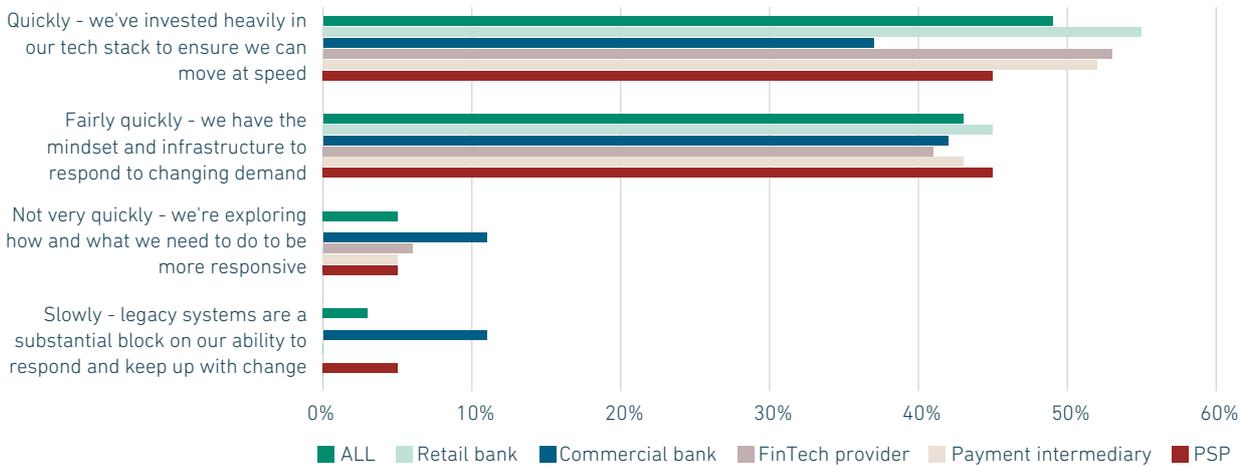
“The eruption of the cloud is the real game changer for the digital industry”

Thibault de Barsy,
Emerging Payments Association EU



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How quickly are you able to adapt to industry change?



Source: MagnaCarta, Banking Circle Research 2020

The challenger view

So who will have a good crisis? We asked prominent members of the industry for their views. Alex Mifsud, CEO and founder of Weaver.io argues in favour of the FinTechs. He told us that although the power of banks and governments has increased in the crisis, they are not necessarily ready for this change. "We don't get the sense that banks are well tuned to the digital economy."

"Anyone who gets excited about AI is like someone that will get excited about hammers. AI can be a solution to a problem, but you need to make sure you have the right problem."

Jason Maude,
Starling Bank

At Starling Bank, Jason Maude, who is the challenger's Technology Advocate, thinks that there is room for more collaboration within the entire ecosystem, and that, although the message about the centrality of data to modern banking has clearly sunk in and been acted upon, he is slightly suspicious of the reliance on quantitative data. "At some point you need qualitative data. Talking to people." As our survey showed, that was still a fairly low priority for banks across the board.

Maude also thinks that the industry is too much in thrall to hyped and buzzword solutions rather than the fundamentals of getting a digital strategy right. "Anyone who gets excited about AI is like someone that will get excited about hammers," he told us. "AI can be a solution to a problem, but you need to make sure you have the right problem."

The challenger banks themselves also have much better business models today which means faster time to market, according to Elliott Limb, CCO at cloud banking platform provider Mambu. Echoing Maude, he points out that: "They're more agile, and offer a better customer experience. The successful ones have composable business models and are open to collaboration."

"They're more agile, and offer a better customer experience. The successful ones have composable business models and are open to collaboration."

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Mambu

"We don't get the sense that banks are well tuned to the digital economy."

Alex Mifsud,
Weaver.io

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The incumbent perspective

What banks still have in their favour is their balance sheets. Georg Ludviksson is the CEO & Co-founder of Meniga and is clear on the business fundamentals at play right now. Banks are generally well capitalised and have strong balance sheets, he says, and from his experience they feel ready for recession.

That's a solid contrast to many of the early stage start-ups that are a feature of the FinTech community. With no solid income streams many may find it very difficult to bring new investors to the table, although more established scale-up businesses may find opportunities for growth – even if that is through consolidation, acquisition or a buy-out.

“Banks are better prepared this time but the firms that survive or come out of this the strongest will be those that provide a digital-human mix. In this situation, companies need more support and financial partners to be closer than ever.”

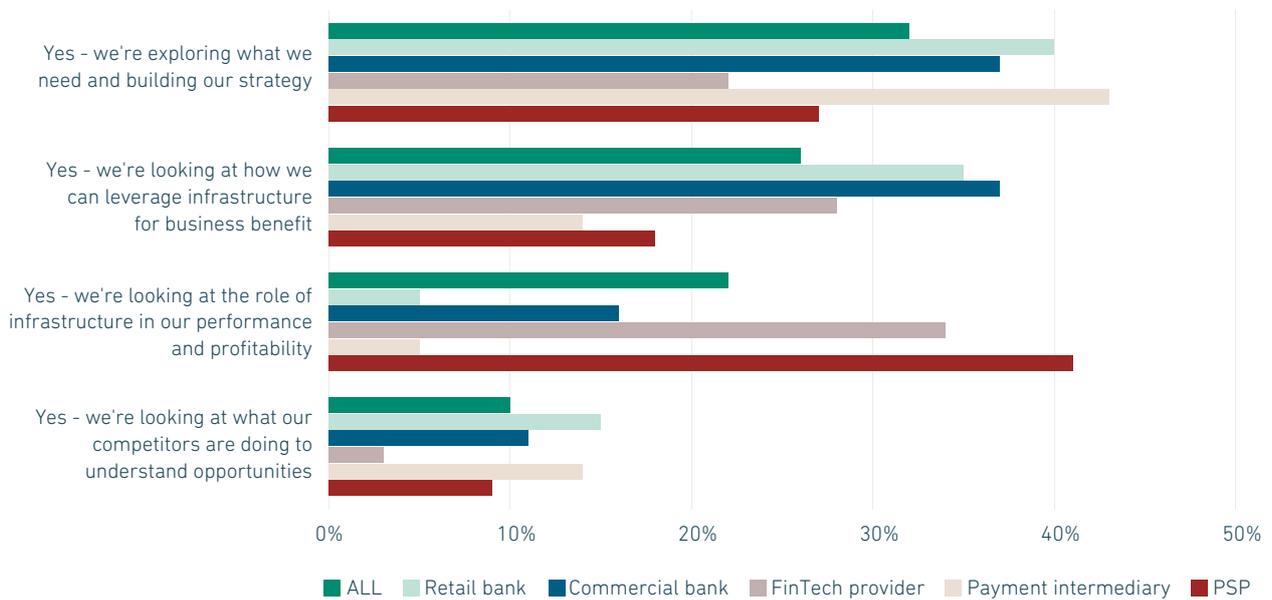
Juan Jimenez Zaballos, Santander Group

“Banks can weather it better than most,” Ludviksson told us. “They learned from the last crisis.”

Juan Jiménez Zaballos, Santander’s Head of Financial Industry Transformation, agrees – and is cautiously optimistic about banks’

ongoing role and their embrace of digital technology. “Banks are better prepared this time but the firms that survive or come out of this the strongest will be those that provide a digital-human mix. In this situation, companies need more support and financial partners to be closer than ever.”

Are you building technology design and architecture into your business planning?



Source: MagnaCarta, Banking Circle Research 2020

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Flexible by design

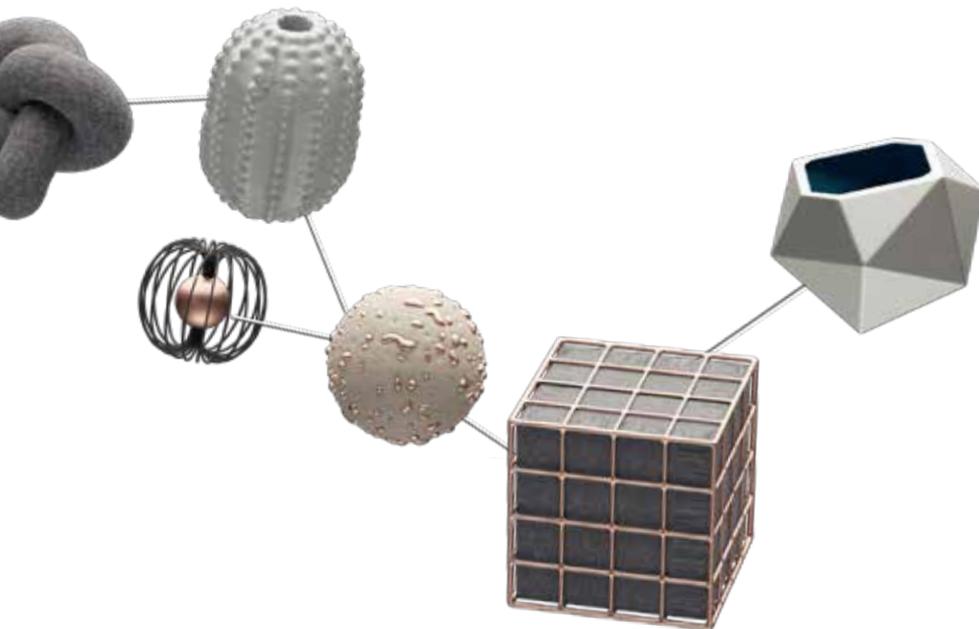
Our survey confirmed that the financial services business model increasingly depends on foundational infrastructure that can build organisations that are bigger than the sum of their in-house parts – in particular, infrastructure provided as a service that can take the pain out of very specific areas of banking. Designed from the basic understanding that technology is ever-evolving and that what is normal today may need replacement or upgrading tomorrow, it is a vital tool in a rapidly changing landscape.

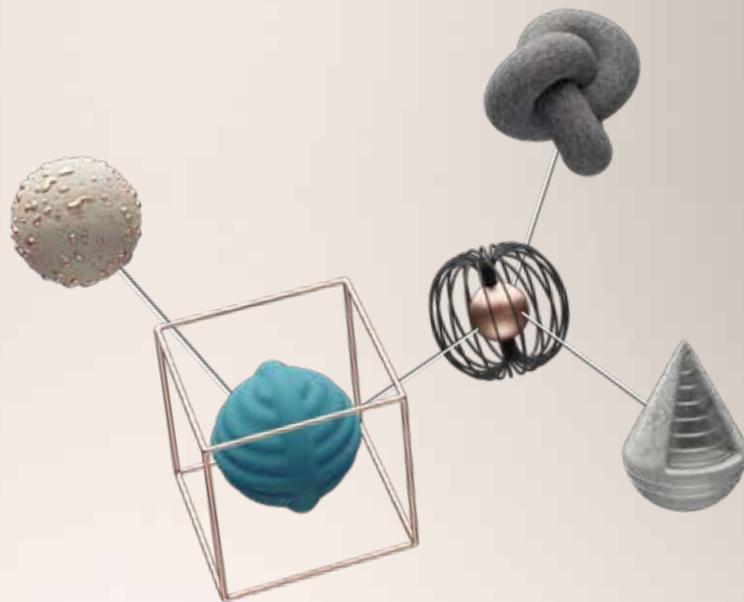
The final word goes to Paul Le, the Chapter Lead: Data and Platforms, at ING. He told us: “The best chance to succeed is [to have] an extended channel where clients and banks can interact, and make sure that customer experience is high, and the process is efficient.” To achieve that, he argues, “Banks have to rethink their infrastructure, how to make data flow work better.”

Judging by our survey, banks had already started that journey. In the next paper in our series, we’ll take a more detailed look at the relationship between the technology powering the modern financial enterprise and cloud-based delivery.

“The best chance to succeed is [to have] an extended channel where clients and banks can interact, and make sure that customer experience is high, and the process is efficient.”

Paul Le, ING





About Banking Circle

A fully licensed bank, Banking Circle is a next-generation provider of mission-critical financial services infrastructure leading the rise of a super-correspondent banking network.

As a provider of Banking as a Service solutions, Banking Circle gives Banks and Payments businesses access to a range of banking services – multi-currency bank accounts, local clearing, cross border payments and flexible business lending – compliantly and securely, without the need to build their own infrastructure and correspondent banking partner network.

Bespoke, flexible, scalable and future-proofed solutions enable financial services businesses to do what they're really good at – serving the end client successfully and efficiently – thereby allowing them to seize market opportunities.

Bypass old, bureaucratic and expensive systems and enable global banking services for your clients.

www.bankingcircle.com