

TRANSITION
TRANSFORMATION

TRANSITION TO TRANSFORMATION

Unveiling the Future of Banking and Financial Services



FINANCIAL TECHNOLOGY FRONTIERS

BANKING FRONTIERS



Preface

Transformation is a Journey without Destination - *Marlyn Ferguson*

Marlyn Ferguson aptly stated that transformation is a journey without a destination, and in today's dynamic landscape, it couldn't be truer. What was once cutting-edge technology is now considered tech debt. Organizations entering this journey today must stay on the cusp of innovation, adapting to the ever-changing technological landscape.

The 'Transition to Transformation' report series, undertaken by Financial Technology Frontiers and Banking Frontiers, delves into the transformation journey of organizations in the financial services sector. Our inaugural study focuses on banks, payment technologists, and systems integrators as they transition from legacy technologies to the forefront of the payment revolution, encompassing digital payments, blockchain, digital currencies, and more.

Concluding Remark:

"In the ever-evolving world of finance and technology, our journey continues, and your insights drive our progress. Together, we navigate the path from transition to transformation, shaping the future of the financial services sector."

The 'Transition to Transformation' report series, conducted by Financial Technology Frontiers and Banking Frontiers, explores the transformation journey of the banking sector. At the core of strategic discussions within the banking sector lies a pivotal question and challenge: How can banks continue innovating their products and pricing strategies – essentially, the core offerings they present to customers – while simultaneously revolutionizing the fundamental backbone of their operations – the core banking infrastructure?

This study seeks to comprehend the approaches adopted by banks in various areas, ranging from core technology modernization to payment transformation, to the revolutionizing of experiences through robust customization. This study provides invaluable insights into the challenges, opportunities, lessons learned, accelerators, and pitfalls encountered on the path from transition to transformation.

The report draws on qualitative inputs from leading banks across Europe, the Americas, Asia, and the Middle East, in addition to input from global systems integrators, payment service providers, and technologists in this field. Our interactions with industry leaders have been enlightening, and we express our profound gratitude to the organizations that provided steadfast support. We also acknowledge the significant contributions of our team members – Shilpashree Jagannathan, Rashmi Mishra, and Pretha Nair – in bringing this report to fruition.

We eagerly anticipate your feedback, whether it's praise or constructive critique, to enhance future editions of this report for the better.

Thank you for your continued support and engagement.

Babu Nair
Founder, MD, and Head of Research,
Banking Frontiers and Financial Technology Frontiers



Land acknowledgments

We acknowledge that we are on the traditional territory of many nations including the Wendat, Anishinaabe, Haudenosaunee, and the Mississaugas of the New Credit.

Toronto is covered by Treaty 13 signed with the Mississaugas of the New Credit, and the Williams Treaties signed with multiple Mississaugas and Chippewa bands. We also acknowledge all Indigenous Peoples who call this land home.

As settlers, it is important to reflect on our place within this history and to actively work towards reconciliation, decolonization, and allyship with Indigenous communities.

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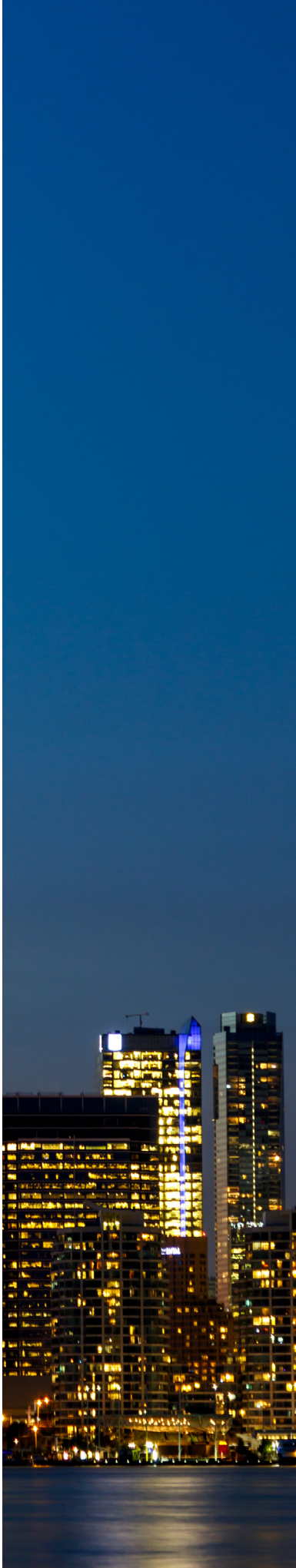
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Research Methodology

Spanning the month of September for data collection from the guests who attended Sibos2023 conference between September 18 and 21 at Toronto, our study has engaged with a diverse array of stakeholders, including seasoned bankers in the Enterprise Banking Sector and Technology Service Providers to Banks.

Our dialogue included insightful conversations with 8 CXO-level professionals from global banking institutions and 6 technology service providers. Of the 14 people who spoke to us, 11 of them spoke to us in person at Sibos, three of the interviews was conducted over Zoom, a few days after Sibos.

	Questions for Bankers in the Enterprise Banking Sector
1	Which technological and operational shifts are evident within the realms of Corporate Banking, Cash Management, Trade Finance, Payments, and Transaction Banking?
2	As banks strive to revamp employee, product, and customer experiences, how are they leveraging real-time technological frameworks?
3	What main hurdles do institutions encounter during these transformative phases, and what strategies have proven effective in addressing them?
4	Considering the importance of real-time interactions, how do banks guarantee a continuous and instantaneous experience for their clientele?
5	When curating bespoke customer experiences through specialized offerings and pricing structures, what mechanisms do banks employ, and what challenges typically arise?
6	In the journey of personalizing experiences, which department—business or technology—usually spearheads the initiative, and is the decision predominantly business-driven or technologically inclined?
7	How do banks perceive the contribution of consulting firms in guiding their transformative endeavors during these shifts?

	Questions for Technology Service Providers to Banks
1	As sectors like Corporate Banking, Cash Management, Trade Finance, Payments, and Transaction Banking evolve, what transformative efforts have you observed?
2	Have you noticed regional variations in how banking institutions approach these technological and operational transitions?
3	As pivotal contributors to payments, transaction banking, and corporate banking, how do you distinguish your services in domains like Payments, Corporate Banking, Trade Finance, and relationship pricing?
4	In your perspective, what are the predominant challenges banks face during their transformation journey, and how do they navigate these obstacles?
5	How are institutions redesigning their solutions to deliver enhanced experiential services to their end-users? Within the scope of these transformations, which factions—business or technology—generally assume a central role, and how do they synergize to ensure smooth transitions?



EXECUTIVE SUMMARY

Enterprise Banking Sector: Pioneering the Evolution

The Enterprise Banking Sector, encompassing Corporate Banking, Cash Management, Trade Finance, Payments, and Transaction Banking, is currently in the midst of technological and business transformation. As the industry pivots towards real-time technology infrastructure, banks are pioneering new employee, product, and customer experiences. Yet, this journey is not without its challenges. Organizations grapple with the need to seamlessly integrate real-time experiences while offering tailored solutions and pricing. A critical inquiry arises regarding the leadership in this endeavor – do business or technology teams take the helm? Moreover, the role of consulting organizations in facilitating these transformation initiatives is a topic that merits further exploration.

Technology Service Providers: Enablers of Progress

Technology Service Providers to Banks play a pivotal role in shaping this transformation. They observe distinctive initiatives in Corporate Banking, Cash Management, Trade Finance, Payments, and Transaction Banking, each adapted to the unique geographies they serve. Service providers differentiate themselves through offerings in critical areas such as Payments, Corporate Banking, Trade Finance, and relationship pricing. As transformation efforts unfold, understanding the dynamics between business and technology teams becomes paramount. Collaboration between these teams emerges as a linchpin for successful transitions.

Key Findings

API Integration:

- API technology plays a pivotal role in streamlining processes both internally and externally.
- Almost all the banks we spoke to recognize the imperative to introduce solutions like API to enhance operational efficiency and elevate customer experiences.

Regulatory Compliance:

- Regulatory transformation is a driving force for change in the financial sector.
- Compliance with changing norms, such as the adoption of ISO 222, is forcing banks to undergo transformative changes.

Legacy Systems:

- Almost all banks acknowledge being saddled with legacy systems.
- Kafka and streaming technologies are transforming the banking and financial services industry by enabling faster, more efficient, and more accurate data processing and analysis. This not only enhances operational efficiency but also significantly improves risk management, customer service, and compliance with regulatory standards.
- Integration of legacy systems with modern technologies, facilitated by advancements like API, is enabling banks to modernize without overhauling their entire business architecture.

Elevating Customer Experiences:

- Creating a seamless client experience is a key focus for banks.
- Technology teams are leveraging cloud technology for scalability and speed in the delivery of products and services.

Data and Analytics:

- Leveraging data and analytics is crucial for an exceptional banking experience.
- There is an emerging focus on creating innovative, customer-centric products and services. Key to this approach is the adoption of advanced platforms that enable financial institutions to customize their offerings to the customers' needs in an adaptable manner for continuous improvement and engagement.
- Advanced backend technology and data processing capabilities are essential for extracting meaningful insights from transaction-related information.

Customised Experience and Pricing:

- Enhancing customer experiences through customized offerings and pricing strategies is critical for modern banking.
- The customer experience is not just complementary but integral to the entire value package—combining product offerings and pricing—that customers receive. It is this synergy between an exceptional user experience and the value proposition that ultimately cements a bank's standing in the customer's financial journey.
- Diverse pricing models, value-added offerings, and balancing cost vs expectations are key strategies.

Innovations in Propositions and Pricing:

- This approach empowers banks to broaden their revenue streams through novel fee structures, diverse pricing strategies, and innovations in product bundling and propositions.
- It offers customers a suite of inventive financial solutions tailored to their everyday needs.
- Additionally, it strengthens the bank's capacity to retain its current customer base and attract new clients through this competitive differentiation.

Business and Tech Collaboration:

- Customizing customer experiences is a collaborative endeavor between business acumen and technical expertise.
- The interplay between business and technology is pivotal, ensuring client-centricity remains paramount.

Role of Consulting Organizations:

- Consulting organizations play a pivotal role in guiding transformation initiatives, offering industry-specific insights and structured approaches.

Regional Dynamics:

- Regional factors such as regulatory environments and resource availability influence how financial institutions approach transformation.
- Growth markets lead in embedded finance initiatives, but there's a gap between bank priorities and customer expectations.

Privacy and Security:

- Privacy and security continue to be paramount concerns for both banks and customers as they move forward in the space.





The overwhelming consensus among the interviewed banking professionals was a unanimous acknowledgment of the formidable challenge posed by legacy systems.



A substantial majority expressed their willingness to consider engaging a consultant, provided they could offer a distinctive value proposition.



The primary hurdle encountered by bankers when contemplating the inclusion of a consultant is a notable deficit in comprehending the intricate workings of banks' internal systems vs consultants'.

Navigating Technological and Business Transformations in Corporate Banking and Financial Services

In the ever-evolving landscape of corporate banking and financial services, the buzzword on everyone's lips is APIs. The future, it seems, is about channeling transformation through an API-first approach, embracing real-time operations 24/7, and ensuring high resilience. **"Roughly 75% of banking APIs are used for internal purposes, and banks plan to double the number of internal APIs within five years. Nearly 20% of banking APIs are used externally to support integration with business partners, including suppliers. Banks also have plans to double the number of these APIs by 2025. Finally, 5% of banking APIs are used externally to generate revenue," said a recent research report compiled by McKinsey titled "What's new in banking API programs?"[1]**



1. https://www.mckinsey.com/capabilities/mckinsey-digital/our-insights/tech-forward/whats-new-in-banking-api-programs

Regulatory Compliance and Enhanced Customer Experiences



In the realm of cash management, the focus has shifted towards meeting regulatory compliance standards like ISO20022. However, this transition is not just about ticking boxes; it presents an opportunity to elevate customer experiences. By aligning with regulatory requirements, banks can provide enhanced services that not only meet standards but also exceed customer expectations.

As the financial industry hurtles towards a future dominated by APIs and digital transformation, many banking institutions are leading the charge. The adoption of real-time payments, enriched data insights, and seamless API integration are poised to reshape the landscape of corporate banking and financial services. With careful planning and strategic implementation, banks can ride the wave of change, ensuring they remain at the forefront of innovation.

Modernizing Payments

Payments have taken center stage in modernization efforts. Banks are now exploring the vast potential of open banking, harnessing the power of APIs and microservices. This transformation revolves around three critical tracks.

1. **Real-time Payments Revolutionizing Liquidity Management**
   Real-time payments are set to revolutionize liquidity management. With interest rates at an all-time high, businesses are seeking the ability to make and receive payments instantaneously. This capability has become essential for maintaining liquidity in today's competitive market.

2. **Enriched Data for Comprehensive Insights**
   Access to comprehensive payment-related data is crucial for companies. This includes information on invoices, credit card transactions, and more. The key is to provide this data seamlessly, without the need for multiple communications. By doing so, payment reconciliation becomes more efficient, reducing processing times and workloads.

3. **APIs and Embedded Services for Seamless Integration**
   Real-time payments facilitate a deeper integration between the bank and the customer. APIs play a pivotal role in streamlining this integration. For instance, customers can seamlessly incorporate payments into their internal workflow. Through an API, functionalities like authorizing invoice payments can be seamlessly integrated into their systems, providing immediate confirmation of payment execution.

60% of the bankers we spoke to agree that Regulatory compliance is important.

Streamlining KYC Compliance with Advanced Technology

Streamlining KYC compliance has been a longstanding concern for commercial banks. However, advancements in technology, particularly in AI and machine learning, have paved the way for a more efficient KYC screening and compliance process. This technology is now poised to address the concerns that have persisted over the past decade. A recently published **white paper**[1] by Thomson Reuters Institute Compliance & Risk suggests that KYC rules are playing a bigger role in the compliance and security of financial institutions.



Integrating Legacy Systems with Cutting-edge Technologies

Externalization: Externalization strategises moving certain operations, services, or functions outside the core banking system. This is often done through APIs and microservices architecture. The idea is to separate non-core functionalities from the main banking platform to make them more accessible, flexible, and responsive to change. Key aspects include:

- APIs: Banks use APIs to expose their services and data to third-party developers, fintech companies, and other banks. This allows for the creation of new services and products that can interact with the bank's core system in a controlled manner.
- Collaboration: Externalization facilitates collaboration with fintech companies and other third-party providers, enabling banks to offer a wider range of services.
- Innovation: By externalizing certain services, banks can innovate more rapidly, adapting to new technologies and customer demands without overhauling their core systems.

Core Modernization: Core modernization, on the other hand, involves updating and upgrading the core banking systems that handle critical banking operations like processing transactions, maintaining accounts, and managing customer data. This is a complex process due to the legacy nature of many banking systems. Key aspects include:

- Upgrading Technology: Replacing outdated systems with modern, flexible, and scalable solutions, often moving from monolithic architectures to microservices.
- Improving Agility: Modernized core systems are more agile, allowing banks to respond quickly to market changes and regulatory requirements.
- Enhancing Customer Experience: Modern systems can provide a better foundation for customer-facing applications, leading to improved user experiences.
- Data Management and Security: Modernization typically includes better data management capabilities and enhanced security measures.

Both externalization and core modernization are crucial for banks to remain competitive in a rapidly evolving digital landscape. Externalization allows for quick adaptation and innovation, while core modernization ensures that the foundational systems are robust, agile, and capable of supporting new technologies and business models. Together, they represent a balanced approach to transformation in the banking sector, addressing both the need for stability and the demand for continuous innovation.

[1] https://www.thomsonreuters.com/en-us/posts/wp-content/uploads/sites/20/2022/11/Know-Your-Customer-White-Paper-2022.pdf

Canada's Digital Banks

The emergence of virtual banks in Canada has not only captured international interest but also revolutionized the banking sector with their digital-first approach. Operating exclusively online, these banks offer a range of cost-effective services, including checking and savings accounts, and bank transfers. Despite lacking physical branches, customers can easily sign up online, receive a debit card by mail, and manage their finances around the clock using dedicated smartphone apps, as highlighted by Monito[1].

One key to the success of these neo-banks is their focus on simplicity and niche strategies. Many leading neo-banks are carving out their market share by offering straightforward products or services tailored to specific customer needs. However, this approach also presents a unique challenge: how to sustain innovation and determine the right products and pricing structures for diverse customer segments. The integration of advisory services and innovative platforms for customizing product and experiences is vital in creating dynamic and adaptable organizations, fostering a culture of continuous improvement within banks.

Some of the top virtual banks in Canada, as identified by Monito[1], include:

Koho: Offers a no-fee everyday account, unlimited free e-Transfers, zero-interest overdraft protection, and a user-friendly app for expense tracking, embodying simplicity in banking.

Neo Financial: Provides a suite of financial services, including a high-interest savings account and a credit card with cashback rewards and no annual fee, targeting customers seeking value-added benefits.

Tangerine: Facilitates access to mortgages and loans, catering to those with more complex financial needs.

EQ Bank: Known for its competitive savings account rates, appealing to savers looking for higher returns.

Simplii Financial: Offers free ATM access, addressing the needs of customers who value traditional banking conveniences in a digital format.

The success of these virtual banks in Canada underscores the importance of a focused strategy, customer-centric products, and the ability to continuously innovate in the digital banking landscape.



[1] https://www.monito.com/en/wiki/best-online-banks-canada

Elevating Banking Experiences with Real-Time Technology Infrastructure

In an era of rapid technological advancements, the banking landscape is undergoing a transformation towards real-time, seamless, and user-friendly experiences. This report sheds light on how banks are embracing cutting-edge technology to launch new employee, product, and customer experiences, while prioritizing 24/7 real-time capabilities.

Enhancing Client Experience:
A key focus for banks is to create a seamless client experience that is easy to use and devoid of complex terminology. This involves the development of workflows that are intuitive and user-friendly. To achieve this, forward-thinking product teams, enriched by individuals with international experience, are driving the digitalization of client journeys. Simultaneously, technology teams are leveraging cloud technology for scalability and speed in the delivery of products and services.

Harnessing API Technology:
API technology plays a pivotal role in streamlining processes both internally and externally. Banks are recognizing the imperative to introduce solutions like API to enhance operational efficiency and elevate customer experiences.



Data and Analytics:
The foundation of an exceptional banking experience lies in leveraging data and analytics. Transaction-related information, coupled with behavioral insights, empowers banks to make informed decisions.

Advanced backend technology and data processing capabilities are essential to extract meaningful insights from this wealth of information.

Integration with Legacy Systems:
Many banks still rely on legacy technologies. Integrating these systems with the latest digital transformation technologies, such as generative AI and Central Bank digital currency, poses challenges. However, advancements like API have significantly eased the integration process, enabling banks to modernize their systems without overhauling their entire business architecture.

The journey towards elevating banking experiences with real-time technology infrastructure is purposeful and ongoing. While challenges persist, the industry is making remarkable strides in integrating cutting-edge technology with legacy systems. This holistic approach ensures that the banking sector continues to evolve and adapt to meet the ever-changing demands of clients and the broader financial landscape.

Besides APIs, component banking significantly aids in managing legacy systems. With its modular approach in the banking industry, various banking functions and processes are broken down into individual, interchangeable components or modules. This concept is akin to building a customizable banking system where each component serves a specific function, such as payment processing, customer relationship management, loan origination, risk management, or compliance.

Another similar approach to consider is composable banking. Composable banking is an approach in the financial services industry where banking capabilities are designed and implemented as modular, interchangeable services. This concept is grounded in the idea of composability, which involves creating a system from smaller, reusable components that can be combined and recombined to meet specific needs. In the context of banking, this translates to constructing a flexible, agile banking ecosystem.

While both composable and component banking approaches share the philosophy of modularization and flexibility, composable banking places a stronger emphasis on rapid adaptability and seamless integration, leveraging modern technologies, whereas component banking focuses more on the modularity and efficiency of individual banking functions. Upgrading legacy banking systems with these approaches ensures that the undercurrents of technology transformation do not affect customer experiences.

Navigating Challenges in Financial Institutions' Transition to Digital Transformation

In the fast-evolving landscape of modern banking, the need to transform while ensuring uninterrupted services is akin to **"re-wiring with the lights on while the plane is in mid-air."** This vivid analogy encapsulates the formidable task of modernizing technology stacks, enhancing workforce capabilities, and introducing innovative customer experiences, all while maintaining operational continuity.

The primary challenge lies in migrating flows and systems from legacy environments, rooted in back-end and hosts, to the dynamic realm of cloud-based, distributed services. This transformation demands substantial resources to run concurrently with other strategic initiatives.

To foster a digital-first culture, financial institutions are cultivating forward-thinking mindsets among employees. Encouraging discussions on industry trends and emerging technologies is integral to this cultural shift. These institutions aspire to emerge as regional digital trailblazers, disrupting traditional banking paradigms.

However, implementing cutting-edge technologies faces hurdles within the existing infrastructure. Ensuring flexibility and adaptability within internal systems is paramount for seamlessly incorporating advanced solutions. Streamlining these processes internally is essential to extending new technologies to customers.



Re-wiring with the lights on while the plane is in mid-air is a phrase I have heard often and it sums up the challenge of ensuring we keep transactions and services operational while at the same time modernising the technology stack, building people capability and introducing new propositions and customer experiences.

Adrian Smyth,
Head of Domestic Payments and Innovation, Natwest Bank

The multiplicity of currencies, diverse regulatory requirements, and intricate technical implementations further compound the challenges. Achieving regulatory compliance while delivering customized services necessitates meticulous coordination among product management, IT, and business units.

In the realm of digital assets, the nascent market presents unique complexities. Investments must align with projected returns, advocating for a measured, experimental approach over rapid transformation. The integration of legacy systems poses an additional hurdle, requiring meticulous synchronization of new infrastructure with existing tax, accounting, reporting, and compliance frameworks.

Change management emerges as a pivotal yet challenging aspect. Establishing cross-functional teams, comprising experts from various domains, is crucial for innovation. Collaboration and a unified company culture have become paramount, replacing siloed work environments of the past.

Ultimately, the scarcity of domain experts poses a perpetual challenge. Prioritization becomes imperative, given the finite availability of these invaluable resources. Identifying and allocating these experts efficiently is key to successful digital transformation.

In navigating these challenges, financial institutions stand poised to revolutionize the industry, ushering in a new era of seamless, customer-centric banking. This transformative journey necessitates strategic planning, meticulous execution, and a resilient workforce committed to driving innovation in the financial landscape.

To address the challenges and navigate the complex landscape of digital banking transformation, financial institutions can consider the following actionable strategies or paths forward:



Embrace Agile Methodologies: Financial institutions should adopt agile practices to ensure flexibility and responsiveness to rapidly changing market demands and technological advancements.

Invest in Cloud Computing: Migrating to cloud-based solutions can offer enhanced scalability, security, and efficiency, aiding in the modernization of legacy systems.

Cultivate a Digital-First Culture: Encouraging a culture that embraces digital innovation can be pivotal. This involves training and re-skilling employees to be adept in new technologies and digital trends.

Strengthen Collaboration with Fintechs: Collaborating with fintech companies can provide access to cutting-edge solutions and innovative approaches to banking services.

Focus on Customer-Centric Solutions: Developing solutions that prioritize customer experience and personalization can help in retaining current customers and attracting new ones.

Enhance Data Analytics Capabilities: Leveraging data analytics for better risk management, personalized services, and informed decision-making can significantly benefit banks.

Prioritize Cybersecurity: With the increasing reliance on digital platforms, enhancing cybersecurity measures to protect sensitive data and maintain customer trust is crucial.

Adopt Regulatory Technology (RegTech): Implementing RegTech solutions can aid in efficiently managing regulatory compliance, reducing risks and operational costs.

Experiment with Blockchain and Digital Assets: Exploring blockchain technology and digital assets can open new avenues for services and operations in the financial sector.

Develop Strategic Partnerships: Building partnerships with technology providers, other banks, or non-financial entities can create synergies and facilitate shared innovation. How Banks are Addressing

These Challenges:

- Banks are at different stages of digital transformation journey, such as updating their IT infrastructure, adopting cloud services, and integrating AI and machine learning for better service delivery.
- Banks are focusing on omnichannel strategies to provide seamless customer experiences across various platforms. Role of External Product and Consulting Organizations:
  - Consulting firms play a crucial role in guiding banks through digital transformation, offering expertise in areas like system integration, change management, and technology deployment.
  - External product organizations provide specialized software and technology solutions that banks can integrate into their existing systems for enhanced performance and service offerings.
  - These external entities often act as catalysts for innovation, bringing in fresh perspectives and state-of-the-art technologies that banks might not have in-house.
  - Banks are shifting away from a 'lift and shift' strategy and are instead adopting a phased approach to microservices for their transformation initiatives, with a strong emphasis on data quality.

Customized Experience and Pricing

In the rapidly evolving realm of modern banking, the primary focus has shifted towards enhancing customer experiences, where the real game-changer lies beyond just pricing strategies. At the heart of this transformation is the concept of value-added offerings - a crucial differentiator in today's competitive landscape.

Value-Added Offerings: The Core of Customer Experience
The essence of modern banking's value proposition now revolves around providing tailored experiences that extend well beyond traditional pricing models. Financial institutions are increasingly recognizing the importance of integrating exclusive benefits, valuable add-ons, and special offers into their services. These elements are not just additional features but are central to creating a more enriched, personalized customer experience.

Data Management: The Foundation for Tailored Services
Underpinning these value-added offerings is the effective management of customer data. Ensuring accuracy and compliance with permissions is critical. This meticulous data management forms the bedrock for developing and delivering these enhanced, individualized experiences.



Most banks run old systems that are not interconnected properly. They are subject to manual hand offs and dont have a chain of custody between what is negotiated with the corporate client and what is delivered. In this process, no matter what the value chain is, there are breakages and snaps in the links.

V. Balasubramanian
EVP and Chief Technology Officer at Zafin

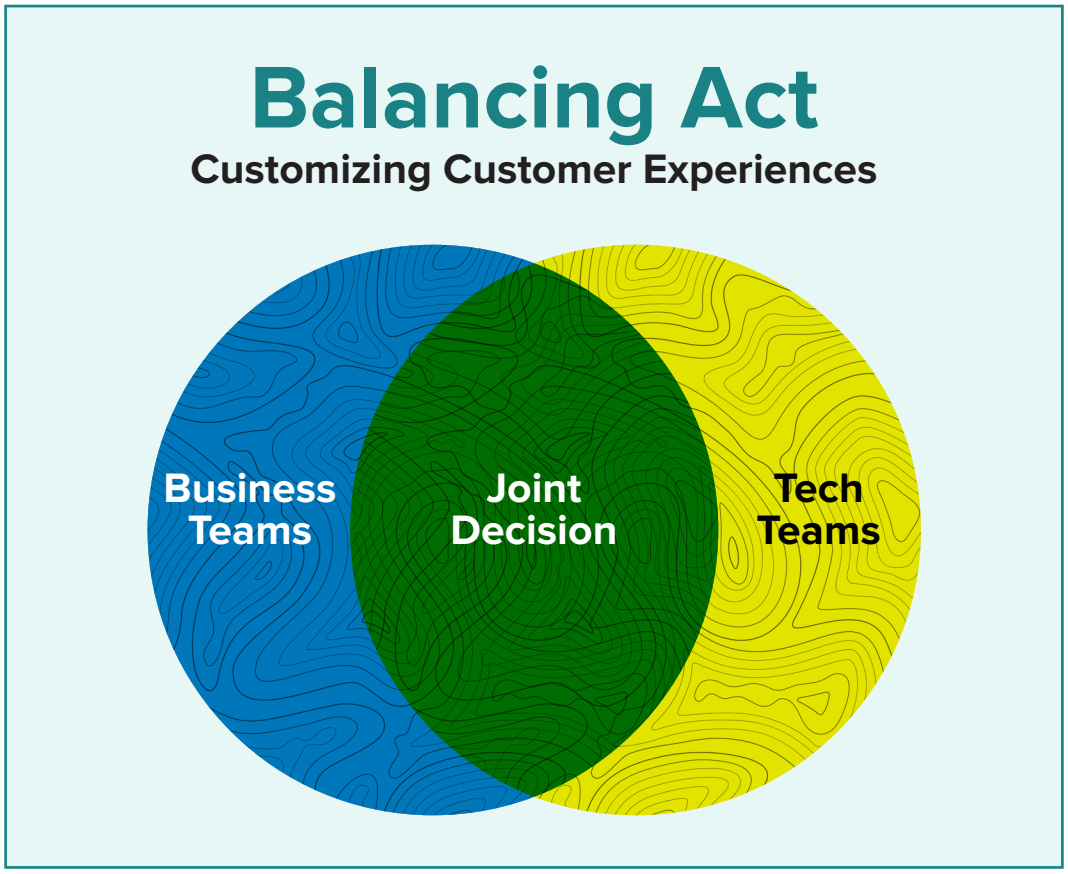
Leveraging Customer Feedback and Market Trends
Institutions are tapping into customer feedback and market trend analysis as key drivers for their strategies. These insights are instrumental in shaping the nature and type of value-added offerings, ensuring they are aligned with customer expectations and market demands.

Innovative Pricing Models in Conjunction with Added Value
While pricing remains a significant aspect, it's no longer the sole focus. For instance, middle-market clients may appreciate simplified, all-inclusive pricing structures, while large corporates might value more customized pricing schemes. However, these pricing strategies are now part of a larger package that includes various value-added components.

The Delicate Balance in Corporate Banking
In corporate banking, where pricing sensitivity is high, the challenge lies in balancing cost-effective services with high-value offerings. This balancing act involves navigating through increased operational costs due to controls like AML and Fraud Control, while simultaneously providing exceptional value through additional offerings.

Digital Assets and Evolving Pricing Models
In the nascent domain of digital assets, pricing models are still in flux, with factors like custody influencing fees. Here, too, the focus is gradually shifting towards creating value beyond just the pricing, anticipating the development of more sophisticated models as the market matures.

In navigating these multifaceted challenges, financial institutions are not just revolutionizing pricing strategies but are fundamentally transforming the banking experience through value-added services. This approach, underpinned by data-driven insights and innovative offerings, is setting the stage for a new era in banking where customer experience is at the forefront of every strategy.



In the ever-evolving landscape of modern banking, customizing customer experiences has emerged as a key strategy for financial institutions aiming to maintain a competitive edge. However, this raises an important question: Who should spearhead this initiative – is it primarily a business-led or a technology-driven endeavor? Opinions among bankers are split. Half believe that business teams should take the lead, citing their direct understanding of client needs and market trends. The other half argue in favor of technology teams, emphasizing the critical role of innovative tech solutions in driving customer engagement in today's digital era.

Yet, this debate is not just binary; there are multifaceted considerations at play. Firstly, it's important to recognize that decision-making in this area often depends on two aspects: the role of technology and the influence of business. In many scenarios, these teams hold equal sway in shaping customer experience strategies. While technology teams provide the necessary tools and innovations, business teams bring insights into compliance, market dynamics, and client relationships.

In several instances, the decision-making process is compliance-driven, necessitating a balanced input from both business and technology perspectives. The business side, while often taking the lead, must consider technology's capabilities in terms of continuity and integration. Conversely, technology teams need to ensure that their solutions align with business objectives and market viability. Furthermore, the integration of these perspectives – which some refer to as 'integrating the spice' – is vital.

The underlying idea is that while technology can create outstanding customer experiences, these must be backed by competitive product offerings and pricing strategies. Hence, a hybrid approach is frequently advocated, where technology and business collaborate, ensuring that any growth-oriented decision receives comprehensive approval and support from both sides.

In conclusion, while opinions vary with some favoring a technology-led approach and others advocating for a business-driven strategy, the consensus leans towards a collaborative model. This model acknowledges that successful customer experience initiatives in banking require a synergy between technological innovation and business acumen, ensuring that both the 'tech side' and the 'business side' contribute equally to the decision-making process.

Business Needs Pave the Way

The journey always commences with understanding business needs. This critical step sets the stage for tailoring customer experiences. It encompasses defining the problem statement and discerning client demands. These initial insights fuel the subsequent phases of the customization process.

Tech's Role: Platform Building and Flexibility
The technical team assumes a crucial role in crafting the platform. Their focus is on creating a configurable framework that allows for diverse journeys and experiences. This entails ensuring that the architecture is flexible and highly adaptable. The objective is to strike a balance between standardization and accommodation of specific client requirements.

Business Takes the Helm in Customization
While technology lays the foundation, the true customization process is steered by the business. Product management and sales teams dive into defining the client's unique journey and experience. They collaborate closely with the client, translating needs into a tailored solution. This phase is where the envisioned customer experience takes tangible form.

> **Legacy surely is a big-time issue. Banks and vendors have different methodologies of working around it. Some banks may need Open heart surgery but are currently doing it with a band aid.**
>
> **Nadish Lad**
> *Managing Director - Global Head of Strategic Business*

The Interplay: Business and Technology
The interplay between business and technology is pivotal. The conceptualization phase leans towards the business side, driven by their intimate knowledge of customer demands. As ideas transition into reality, technology steps forward to execute the envisioned customer experience. Both domains wield influence, harmonizing their strengths in the pursuit of tailored solutions.

Agile Development: A Unified Approach
In progressive institutions, the concept of agile development reigns supreme. Cross-functional teams, encompassing developers, business, compliance, and control experts, collaborate seamlessly. Here, no entity takes precedence. Instead, all stakeholders are actively engaged in discussions, ensuring that client-centricity remains paramount.

Incorporating Real Customer Perspectives
A critical aspect often overlooked is integrating real customer perspectives. Prototyping and journey development benefit immensely from actual customer feedback. This can be facilitated by incorporating proxy customers or directly involving real clients in the process. Their insights play a pivotal role in refining and perfecting the customized experience.

Transparent Collaboration with Clients
In select cases, where clients possess unique challenges, a collaborative approach is adopted. Partnerships are forged, and projects are co-developed in transparent synergy. Clients are active participants in the journey, fully aware of the steps taken to deliver the tailored solution.



In essence, the journey of customizing customer experiences is a collaborative endeavor where business acumen and technical expertise intertwine. Together, they navigate the intricate terrain of client-centricity, ensuring that the end result is a finely tuned, bespoke experience that sets financial institutions apart.

The Role of Consulting Organizations in Banking Initiatives



Strategic Leverage of Consulting Organizations
Consulting organizations, seasoned in orchestrating large-scale transformations, play a pivotal role. Their experience becomes a guiding force, ensuring that initiatives are not only effective but also aligned with industry best practices.

Hybrid Approach: Marrying Internal Proficiency with External Perspectives
The adoption of a hybrid approach emerges as a prevailing trend. External consultants are enlisted to provide insights into market trends and emerging technologies. However, the true litmus test lies in the integration of these insights into existing systems—a feat predominantly accomplished by internal teams.

Balancing Act: The Dual Nature of Consulting
The introduction of external perspectives can be a double-edged sword. While it offers fresh viewpoints and alternative problem-solving approaches, consultants may lack an intimate understanding of the organization's intricate dynamics. Striking this balance is paramount to the success of transformation initiatives.

Resource Augmentation: A Critical Consulting Advantage
In today's rapidly evolving business landscape, specialized resources are more crucial than ever. Consulting organizations play a vital role as strategic partners in this context. Their ability to quickly mobilize large teams is a significant asset, particularly for businesses facing resource shortages that could stall their projects or growth. This agility is especially beneficial in emerging areas such as digital assets, where specific expertise and rapid adaptability are key. Consulting firms bring not only the necessary manpower but also specialized skills and knowledge, providing a critical advantage to companies navigating complex and dynamic markets.

The Organizational Maturity Factor
The choice between internal teams and external consultants hinges on the maturity of the organization. Change, being inherently complex, may be best navigated with a carefully balanced blend of both. Some organizations may find internal teams better suited to certain initiatives, while others may benefit from the specialized expertise of external consultants.

Driving Transformation: An Informed Choice
In essence, the role of consulting organizations in banking transformation is far from uniform. It is contingent on various factors, including the nature of the initiative, the organization's maturity, and the specific expertise required. Ultimately, a thoughtful evaluation of these considerations empowers institutions to make informed choices that align with their unique transformational journey.

Navigating Transformation in Banking and Financial Services

In the dynamic landscape of banking and financial services, a notable shift towards transformation is underway. The evolution is driven by a confluence of factors, primarily regulatory mandates and customer expectations for seamless, tech-driven experiences.

Regulatory Transformation: A Driving Force
Regulation is a catalyst for change in the financial sector. Institutions are adapting to meet evolving norms and standards. The adoption of ISO 222, a standard for instant and RTGS payments, exemplifies this shift. Banks are realigning operations to ensure compliance with the latest industry demands.

Customer-Centric Innovations: A Paradigm Shift
Consumers are increasingly tech-savvy, expecting digital solutions to streamline their financial activities. Personal finance apps and QR code-based payments are now commonplace. This has sparked a drive within institutions to create context-rich experiences. The goal? Providing clients with a comprehensive, 360° view of their financial landscape.



Diverse Transformation Trajectories

In the banking and financial services sector, transformation initiatives typically navigate through one of four main routes: Compliance-based, Revenue/Cost Optimization, Fintech Collaboration, and Community Initiatives & Competitor Response.

Compliance-based Transformation:
a. Focuses on ensuring adherence to evolving regulatory requirements, which is crucial for maintaining the integrity and legality of banking operations.
b. An example is the adoption of ISO 222, enhancing global payment processing standards.

Revenue/Cost Optimization Transformation:
a. Involves strategic balancing of operational costs with the deployment of value-adding solutions.
b. Cloud technology adoption exemplifies this route, with its notable cost optimization effects, evidenced by a 70% adoption rate in 2023.

Fintech Collaboration:
a. Banks are increasingly partnering with fintech firms to leverage innovative technologies and agile methodologies.
b. This includes integrating advanced digital payment systems and AI-driven risk assessment tools, enhancing customer experience and operational efficiency.

Community Initiatives & Competitor Response:
a. Banks are engaging in community-based initiatives, aligning services with local needs and sustainability goals, thereby enhancing their social footprint and market presence.
b. Additionally, proactive responses to competitive movements in the market are crucial for maintaining a competitive edge, such as adopting emerging technologies faster than rivals.

Each trajectory represents a strategic response to the unique challenges and opportunities in the rapidly evolving landscape of banking and financial services. The successful integration of these approaches can significantly enhance a bank's operational efficiency, market adaptability, and overall sustainability.

Revenue Generation and Technological Integration

Strategic investments are flowing into areas such as Accounts Payable (AP), Open Banking, and Ecosystem play. Blockchain, while promising, is still in refinement stages. Meanwhile, the pivotal role of AI and ML in harnessing data is steering innovation.

Experiential Pricing Models
Banks are exploring innovative pricing structures to cater to diverse customer needs. From flat fees to relationship-based models, institutions are reimagining pricing strategies to remain competitive and adaptable.

Transitioning with Foresight
A critical aspect of this transition lies in the approach to core systems. Rather than a simple "Lift and Shift," banks are adopting a nuanced strategy. By integrating new core systems alongside existing ones, they ensure a smoother transition and a holistic customer view.

Unlocking Value through APIs
APIs are proving transformative, enabling seamless market entry for customers. Open APIs, in particular, represent a significant leap in innovation, enhancing accessibility and functionality.

The Rise of Embedded Finances
Banking executives worldwide recognize the importance of embedded finances. While 70% acknowledge its significance, only 20% have fully operational initiatives. Asia Pac and Latin America are leading regions in the deployment of embedded finance solutions.

Digital Trade Finance: Pioneering the Future
Digital trade finance platforms have emerged as critical channels of communication between corporate clients and banks.

In this era of transition, banks and financial institutions must remain agile and innovative. Embracing regulatory shifts, harnessing technology, and adapting pricing models are key steps in ensuring a prosperous future in financial services.



Regional Dynamics in Banking Transformation

As the global banking landscape undergoes a profound transformation, it's crucial to acknowledge that this change isn't uniform across all regions. Diverse factors, including regulatory environments, resource availability, and regional demands, influence how financial institutions approach this transition.

Corporate Banking: Slow but Steady
While corporate banking has been slower in embracing transformative changes, the expectations of consumers, especially those within corporates, are evolving rapidly. These clients now demand seamless interactions and enhanced servicing from their banks. The aim is to streamline processes, elevate client experiences, and capture a larger share of their business.

Cloud Adoption: Leaders and Trailblazers
The United States and the United Kingdom stand as pioneers in cloud adoption within the banking sector. Africa, too, exhibits notable strides in cloud utilization. However, this adoption is intricately tied to the regulatory landscape in each region. For instance, the usage of cloud technology is contingent on compliance with local regulations.



At Mashreq, our Global Transaction Banking services are on a major digital transformation. By the beginning of 2025, the entire Global Transaction Banking product suite, whether that be cash management, collections, documentary trade, or open account trade, will be operating entirely in the cloud. So we'll be running cloud native API, and native platforms across all the products.

Victor Penna
Co Head of global transaction banking, Mashreq

Blockchain and Payments: Global Consistency
When it comes to payments, the core of payments hubs remains remarkably stable. Its primary function is to orchestrate and navigate the evolving regulatory landscape. While blockchain is emerging as a crucial infrastructure for Central Bank Digital Currencies (CBDCs), its integration hinges on regulatory frameworks.

Region-specific Considerations
A Gulf Case Study

VAT compliance emerged as a pivotal concern in the Gulf region. By integrating solutions tailored to address this specific challenge, banks in the Gulf gained a leadership advantage and accelerated their progress in the embedded finance space.



Embedded Finance: Regional Dynamics

Growth markets are often at the forefront of embedded finance initiatives. However, an intriguing finding reveals a perceptible gap between what banks prioritize in embedded finance and what consumers expect. While banks emphasize peer-to-peer payments and 'buy now, pay later' models, consumers are placing greater emphasis on customer service, mobile wallets, and rewards programs.



Architectural Constraints: Breaking Free from Monoliths
Monolithic architectures, with their limited APIs and microservices, present a bottleneck for financial institutions seeking to capitalize on embedded finance opportunities. Embracing a more modular approach could unlock greater potential for collaboration with the broader financial ecosystem.

Privacy and Security: Unwavering Priorities
Amidst this transformative journey, privacy and security remain paramount concerns for both banks and their customers. Striking the right balance between innovation and safeguarding sensitive information will be pivotal in shaping the future of finance.

In navigating this transition, regional dynamics play a pivotal role. Recognizing these nuances enables financial institutions to tailor their strategies, ensuring a seamless and successful transformation in the evolving world of banking and finance.

CONCLUSION

The financial services industry stands at the threshold of a profound transformation. With technological advancements and regulatory shifts driving change primarily, edging out the competition and the quest for business growth with innovation are also key drivers behind the transformation. Financial institutions are constantly chasing new goalposts to stay competitive and relevant in this dynamic landscape.

One of the pivotal shifts is the integration of APIs. Recognizing its transformative potential, banks are leveraging APIs to enhance operational efficiency and deliver seamless customer experiences. This not only streamlines internal processes but also allows for more agile and responsive interactions with clients.

Moreover, the importance of regulatory compliance cannot be overstated. Adapting to changing norms and standards is a non-negotiable for banks, as illustrated by the widespread adoption of ISO 20022 for payment processing. This regulatory-driven transformation is not only a necessity but also an opportunity for institutions to evolve their operations and services.

Legacy systems, long perceived as hindrances to progress, are being reevaluated. Integration with modern technologies, facilitated by advancements like APIs, is enabling banks to modernize without the need for a complete overhaul. This balanced approach ensures continuity while embracing innovation. Lift and shift or open-heart surgery is not an easy and possible solution as it may seem, nor is a Band-Aid approach sustainable. The challenge is to manage a seamless experience during the transition, and hence organizations approach it phase-wise where Microservices Architecture plays a strategic role. There is no one solution, and all the solutions are objective-driven.

Customer-centricity remains paramount. Enhancing client experiences through customized offerings, intuitive workflows, and user-friendly interfaces is key. The interplay between business acumen and technical expertise is pivotal in crafting tailored solutions that resonate with clients. Ultimately, clients don't appreciate the effect of undercurrents in transformation rocking their experiential journey. Customizing experience is a priority for most of the banks. Application of AI is quite visible in different stages across different organizations studied in this research.

At the heart of the financial services industry's profound transformation are three pivotal elements: core modernization, leveraging cloud and SaaS models, and embracing change in work methodologies.

Firstly, the necessity of core modernization and addressing legacy technology debt is undeniable. The traditional approach of 'rip and replace' has proven ineffective, leading to the rise of a more nuanced 'hollow out and simplify' method. This strategy is key for financial institutions seeking to modernize efficiently without the risks and disruptions often associated with complete system overhauls.

Secondly, the shift towards leveraging Cloud and SaaS deployment models is becoming increasingly popular. These models offer flexibility, scalability, and cost-efficiency, crucial for banks to adapt quickly to evolving market needs and technological advancements. The adoption of these models signifies a strategic move towards more agile and resilient operational frameworks.

Lastly, success in this transformative era hinges on the willingness of financial institutions to embrace changes in their ways of working. This involves not just adopting new technologies but also fostering a culture that is open to innovation and agile in response to the dynamic financial landscape. Institutions that successfully navigate these changes position themselves at the forefront of the industry, equipped to deliver enhanced customer experiences and maintain competitiveness.

In sum, the financial services sector's journey towards a new era is underpinned by these three core tenets: modernizing core systems while mitigating legacy tech debt, embracing Cloud and SaaS technologies, and cultivating an adaptive and innovative work culture. These strategies are integral for institutions aiming to excel in a landscape characterized by continuous technological evolution, regulatory changes, and the ever-present imperatives of security, compliance, and customer-centricity.



ACKNOWLEDGEMENTS

The successful realization of the "Transition to Transformation (T2T)" report by Financial Technology Frontiers and Banking Frontiers was made possible through the collaborative efforts of esteemed industry luminaries who closely collaborated with the teams at Financial Technology Frontiers and Banking Frontiers. Their meticulous execution and unwavering attention to the most intricate details played a pivotal role in bringing this project to fruition.

We extend our profound gratitude to the distinguished bankers and technologists who actively participated in this extensive research endeavor. Their exceptional expertise and invaluable guidance have been instrumental in shaping the course of this research project, which was conducted alongside the SIBOS conference. We are also indebted to the diligent Public Relations teams from these organizations, whose tireless efforts ensured that all engagements transpired seamlessly, collectively influencing the outcome of this project.

Among the distinguished list of bankers who generously shared their insights, we are particularly thankful to those who chose to contribute anonymously:

Adrian Smyth, Natwest - Head of Domestic Payments and Innovation

Raouf Soussi, BBVA - Head of Strategy for Enterprise Payments

Victor Penna, Mashreq - Co-Head of Global Transaction Banking

Saurabh Shukla, Bank of Baroda - CGM and CTO

Tatjana Dobrovolny, Raiffeisen Bank - Compliance Senior Expert

Christos Christou, Lulu Finance - Group Chief Compliance Officer

Sabih Behzad, Head of Digital Assets & Currencies Transformation, Managing Director, Deutsche Bank

We also extend our gratitude to the following technology service providers who generously shared their perspectives:

Alexon Bell, Quantexa - Chief Product Officer, FinCrime & KYC

Vikram Aligh, FIS - Senior VP

Nadish Lad, Volante - Managing Director, Global Head of Strategic Business

Sudheer Padiyar, Suntec - Senior VP

Shanker Ramamurthy and **Hans Tesselaar**, IBM - Global Managing Partner Banking, Executive Director Banking Industry Architecture Network

Michael Mandell, Komgo - Sales team member

V. Balasubramanian - EVP and CTO, Zafin

Special thanks go to **Arjun Bhaskaran**, **Dr. LS Subramanian**, and **N. Mohan**, whose critical feedback and constructive suggestions significantly elevated the quality of this report.

We would like to express our gratitude to **Rashmi Mishra** and **Hardik Shah** for their pivotal role in coordinating meetings with bankers at SIBOS 2023, which played a crucial role in gathering essential information for our research.

We greatly appreciate the profound insights and dedicated work of **Shilpashree Jagannathan**, who conducted insightful interviews with bankers, compiled the research, and coordinated with various teams, thereby instrumental in making this research possible.

We acknowledge the invaluable assistance of **Puru Shah** from the content team for his collaboration with the Canadian team and technical support, as well as **Somnath Roy Choudhury** for his assistance in designing this report.

Finally, this report was conducted under the visionary leadership of **Babu Nair**, the Founder of Financial Technology Frontiers and Banking Frontiers. His unwavering commitment to excellence has been the driving force behind the success of this project.



FINANCIAL TECHNOLOGY
FRONTIERS

For North America, Europe & Middle East:
+1 (437) 518-8951
info@fintechfrontiers.live

For India, Asia, Australia & Africa:
+91 89767 73382
info@fintechfrontiers.live

info@fintechfrontiers.live
www.fintechfrontiers.live
facebook.com/ftf
twitter.com/fintechfrontiers