FINASTRA

Build a formula to win

Orchestrating digital transformation in corporate and commercial banking

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Research methodology

East & Partners conducted 783 interviews with 260 major banks of multiple tiers globally, coupled with 393 North American Community Markets (NACM) credit unions and institutions.

All interviews were conducted over the phone or face-to-face by an accredited East & Partners interviewer, speaking with the banks' Head of Coverage or Product, CTO and ESG Head.

Field work was executed over an eight-week period concluding in January 2023.

Staying ahead of the digitization race

The global corporate banking industry faces several macro challenges, including higher interest rates, ongoing regulation and the need to seriously address the Environmental, Social and Governance (ESG) agenda. Changing expectations from corporate organizations for different types of banking products and services are creating more pressure, particularly as new market entrants and fintechs provide superior experiences.

There can be no doubt that the only way to succeed in such a complex and fast-moving marketplace is to digitize operations, simplify and standardize data, and adopt a platform approach with open APIs that will enable integration between core banking systems and third-party applications.

Only then will financial institutions be in a position to work with real-time or near real-time data, open up systems for corporates to access the data they need for their own treasury analyses, and provide the insights that senior decision makers need for accurate forecasting and planning.

The end goal is an IT platform that supports streamlined and friction-free operations and agile development. More than ever before, banks need business and tech to pull together in the same direction to achieve their strategic aims. Just like any winning team, banks have to orchestrate the component parts of their offering into an ecosystem that can deliver more for their customers than any one solution, bank or company can do in isolation.

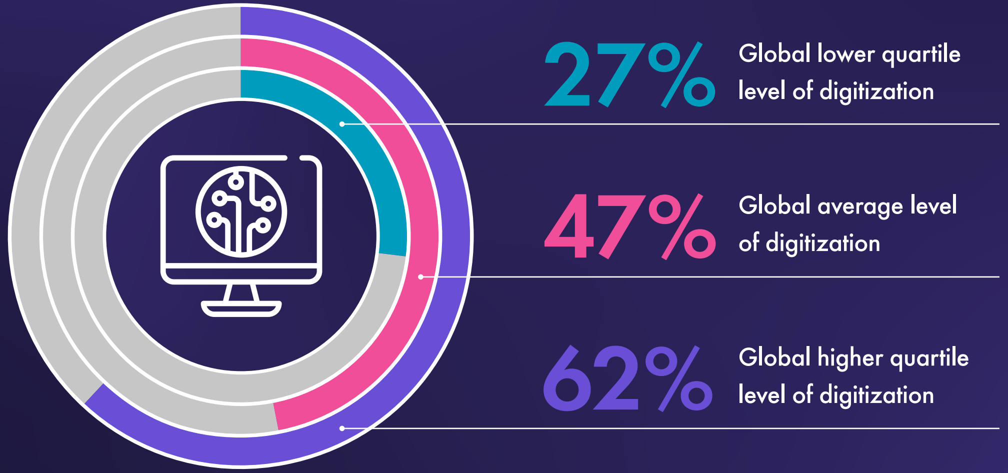
To understand how far banks have travelled on their journey towards digitization, Finastra partnered with East & Partners to survey senior business and technology professionals from financial institutions across the globe.

The survey reveals where and why banks are onboarding fintechs, how much they are spending on digitization, and the scale of the ESG opportunity.

Tracking the race towards digitization

When asked how many of their customer-facing processes are digitized, the average response globally was just under half (47%). However, there is a noticeably wide spread of responses, with the highest quartile of digitized banks reporting that they have digitized 62% of processes on average. On the other hand, the lower quartile of digitized banks has automated just 27% of customer-facing processes.

Percentage of customer-facing processes that banks have digitized



Coverage Heads, Product Heads and CTOs say their banks are falling well behind schedule in the digital race

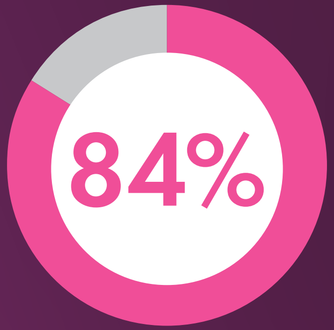
Banks' progress on digitization is more likely to be behind schedule than ahead, according to Chief Technology Officers (CTOs). Only one in five global bank CTOs say they are ahead with their digitization progress, while 54% say they are behind, and this figure falls to 9% when posed to business leaders with roles as Head of Product and Head of Coverage or Front-Office. The largest proportion of both CTOs (33%) and business leaders (41%) report that they are behind schedule on their digitization agenda by more than a year.

Although there is clearly headroom for further digitization and automation, for the vast majority (84%) of banks, straight-through processing (STP) is a primary focus, with the aim of achieving almost 60% STP across all processes.

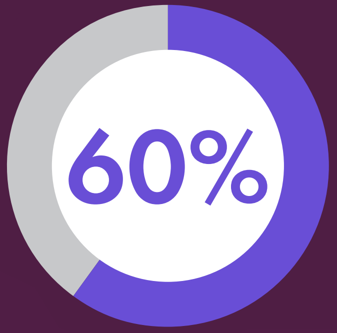
CTOs claiming to be ahead of digitization progress — 2/10

CTOs claiming to be behind of digitization progress — 5/10

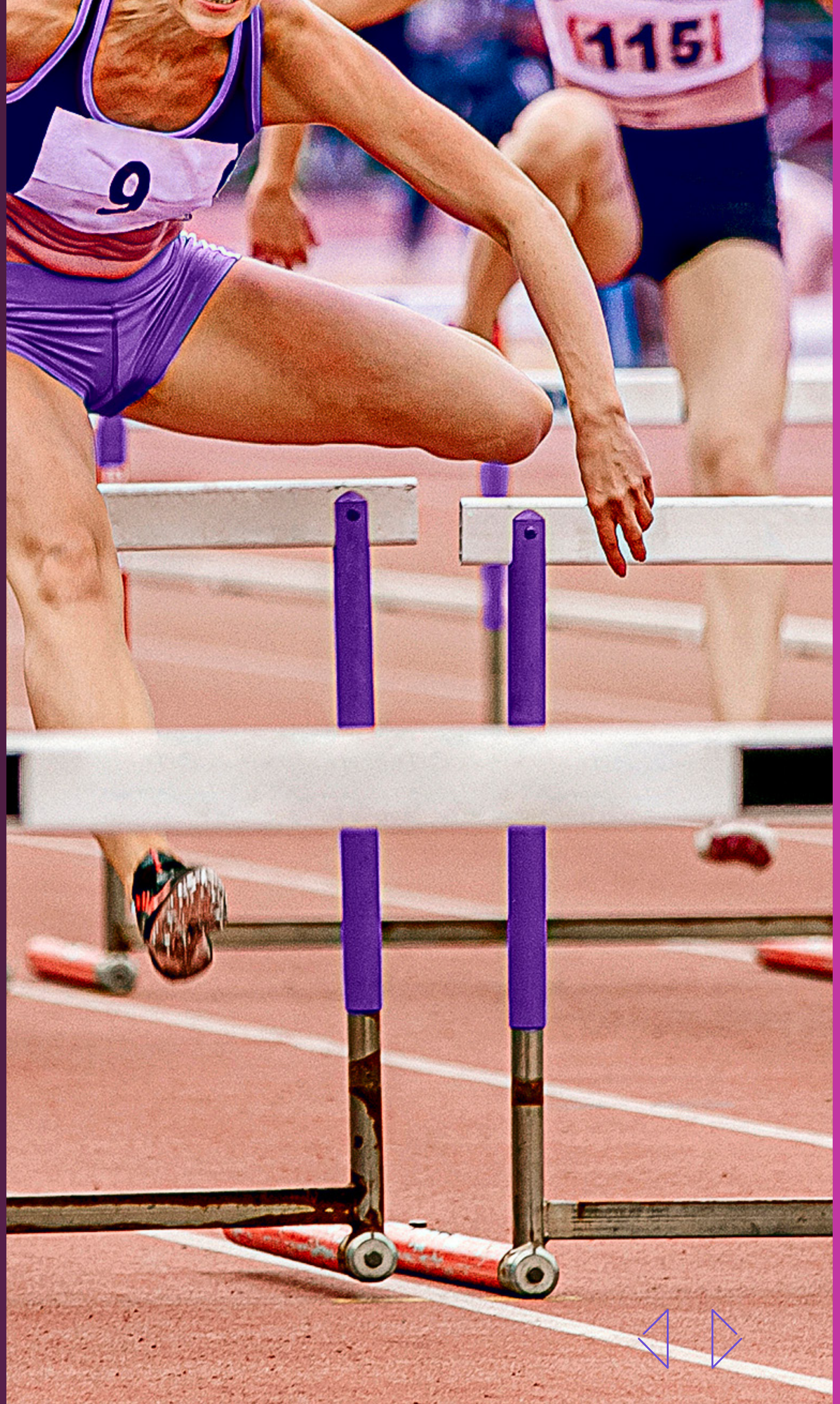
Product and Coverage Heads claiming to be ahead of digitization progress — 1/10



Of banks set SPT as a primary focus



Is the target rate of STP across all processes set by banks



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To get on top of digitization and modernization, banks are looking to integrate fintech solutions rather than build their own

Most banks are connecting to multiple fintechs already to reach their digitization goals through a team of partners.

Three quarters of global banks intend to connect to an average of three fintechs or service providers within the next 18 months to achieve digitization and STP goals. This leaves a quarter that do not plan to connect fintechs to their core systems, although this is primarily a trend for banks based in the Middle East (37%) and Africa (32%).

Again, there is a clear spread between banks in the upper quartile of responses that will connect to an average 4.8 of fintechs, and those in the lower quartile (1.6). Banks in Europe are more likely than those in other regions to connect to more fintechs, with an average of 4, rising to a high of 7.

The benefits of adopting a collaborative banking model are well understood by more than half (56%) of global bank CTOs, who plan to integrate third-party fintech apps into a platform of integrated fintech solutions in the future. Buying and integrating solutions is a less popular approach, with 30% of CTOs choosing this route. Building apps in-house is the least likely option, cited by just 14% of CTOs. The upshot is that nearly all banks understand they cannot achieve the efficiency and automation they need in order to win business, without working together with technology companies. Each fintech provides a specialist role within a bank's customer journey.

"It's all about getting the bank truly embedded inside the customer; anything that helps achieve this and ensures stickiness in our relationship is of high value and we're finding our fintech partners are proving quite adept in incorporating this into their implementations."

Head of CIB
US Regional Bank

3/4 

of global banks are planning to connect to fintechs in the next 18 months

Bringing star players into the fold: Why are banks choosing to partner with certain fintechs?

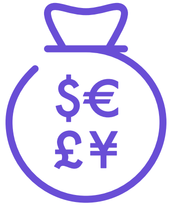
The motivations for integrating fintech solutions include a range of issues across functions, with most associated with cost reduction (46% of respondents), cost-effectiveness (43%), access to technology experience (41%) and regulatory compliance (37%).

Finding the right fintech player for the job
When it comes to prioritizing the fintechs they plan to onboard, banks are most likely to choose partners that can deliver online portals and banking channels (55%), followed by transparency across transactions, such as informing customers of onboarding progress (45%) and end-to-end connectivity / value-add services (44%).

There are some noticeable variations between the priorities of business leaders and CTOs for choosing fintechs: 80% of business leaders would prioritize online portals and channels, compared to 51% of CTOs, while 62% of CTOs would prioritize the ability to produce real-time data such as balances, compared to 37.5% of business leaders.

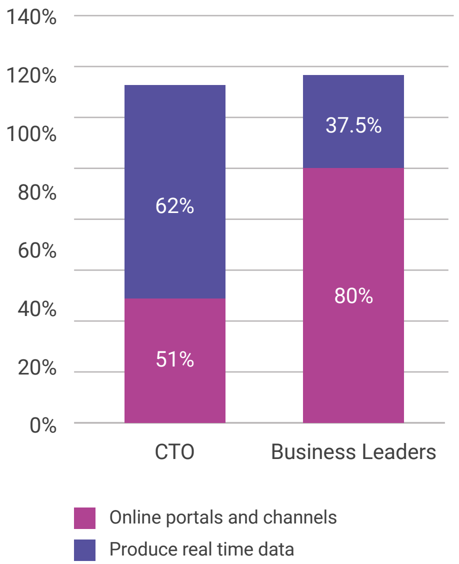
Investment in digital transformation
Banks' generally ambitious plans for digital transformation are reflected in their average reported budgets of $378 million per year, with a return on investment (ROI) expectation in the first year of around 20%.

These figures raise some interesting questions, one of which is why, given reasonably high budgets, are digital projects failing to reach their goals and falling behind? Another is whether banks' ROI targets are too ambitious, given most banks are focusing on low hanging fruit such as portals and onboarding?



20%
is the target ROI set by banks for investment in digital transformation

Priorities for choosing fintechs



Barriers to successful progress

One of the biggest, most difficult barriers for banks engaged in digital transformation to overcome is regional differences in legal and compliance regimes. Banks cited that these differences make technology implementations difficult, especially in the APAC region (91%) compared to the Americas (72%).

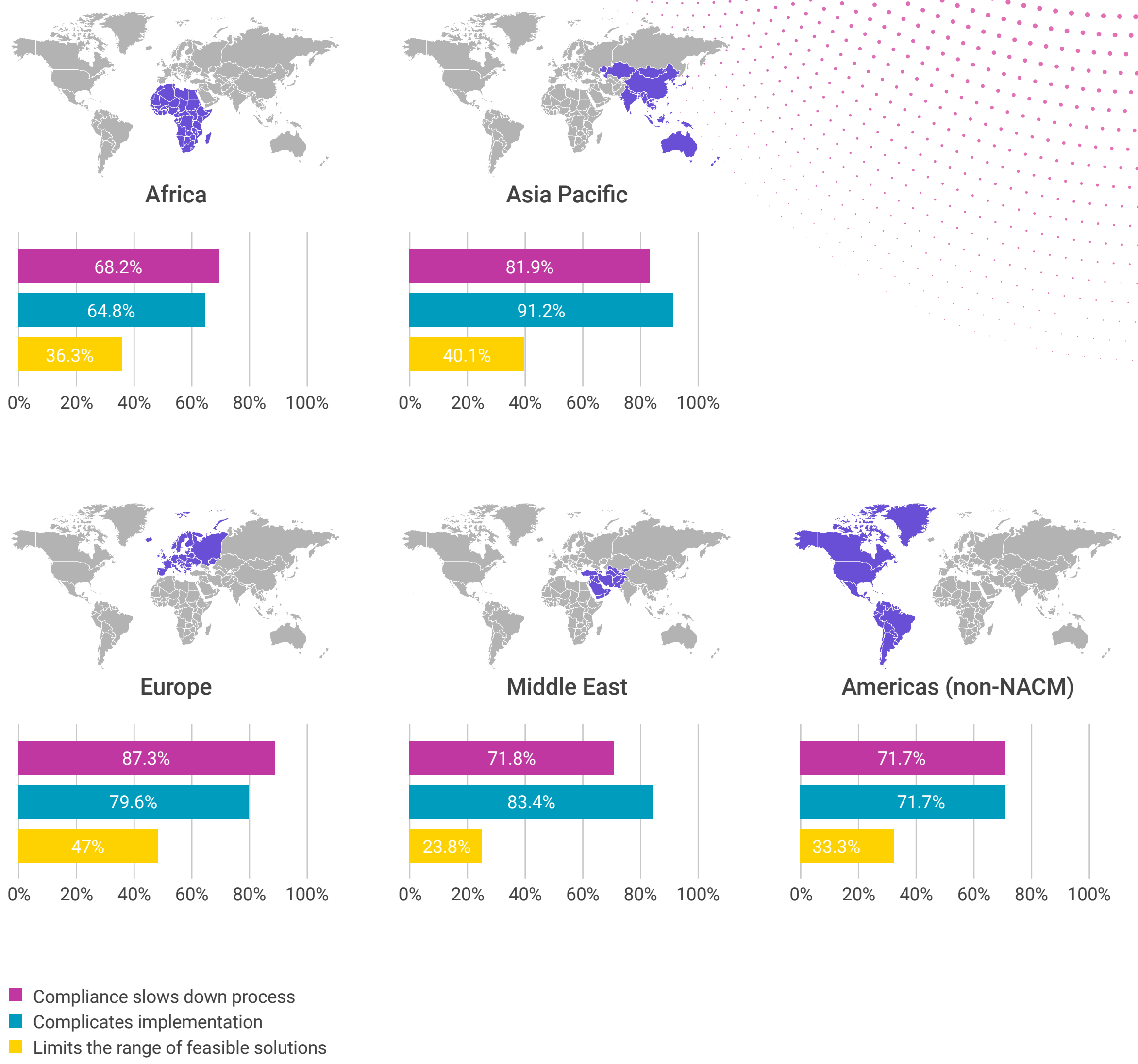
Regional differences in legal and compliance regimes were also said to slow down progress for four-in-five APAC banks and limit the partner solutions that can be used.

Interoperability, budget constraints and upgrading legacy systems are the top three challenges that banks report when integrating fintech solutions into their product offerings. Shortage of expertise is another problem that banks are wrestling with.

At the same time, different teams within some banks are focused on different outcomes and see different challenges, which may be diluting overall efforts to reach common goals.

Almost a third of banks (31%) said that one of the biggest barriers for them was internal coordination / cooperation when integrating fintechs with internal product offerings, while 20% said that a lack of a strategic direction and plan was holding them back.

This finding is underlined by contrasting responses from business leaders and CTOs on which fintechs they would prioritize when onboarding. This raises the question of whether teams are competing for finite resources, and if this slows down progress? It could be said that the lack of a clear strategic direction and plan creates a drag on banks' ability to transform operations.



How successful banks are deploying tactics to beat the challenges

It's evident from our research that the general direction of travel towards digital transformation in the global banking sector is positive, but that there are some obstacles still getting in the way and hampering progress.

In some cases, product, coverage and CTOs appear to be pulling in slightly different directions that are predicated by their own objectives rather than the common good.

A coordinated effort that is focused on agreed outcomes for internal and customer-facing processes is clearly the best way forward. This begins with a clear-eyed analysis of the bank's current operational model and an assessment of where it is heading in the future, in terms of customers, partners and resources.

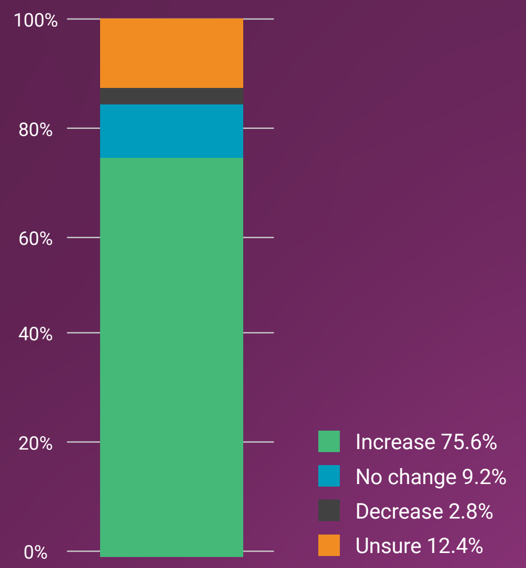
Orchestrating technology integration at scale through collaboration
One of the best options for banks that are struggling with progress is to partner with companies who are experts in bank digitization, rather than manage the fintech relationships themselves. They need a partner to innovate with them, but also to orchestrate their digitization efforts across different functions and fintechs.

Partnering removes some of the very real barriers cited by banks, including the shortage of expertise and regional differences in legal and compliance. The right partner will constantly invest in understanding such differences and building their insights into the platform that they provide.

A platform partner will also maintain an ecosystem of third-party, ready-made apps and services that can be simply and easily implemented with core systems. The platform play is already by far the most popular method of innovation by banks who want to digitize. This approach allows the bank to integrate new solutions at scale and would be particularly useful for ESG-related solutions, which many banks are crying out for. To execute an orchestrated approach, banks should look to work with fintechs who have a breadth of expertise in not just building top-class solutions for the bank, but also in integrating those solutions with the banks' ecosystem.

Even a few years ago, demand for environmental, social and governance (ESG) scoring systems was low, and the data relatively simplistic. Today, the requirement to prove their position on ESG metrics and provide ESG-related products has risen to the top of the board agenda.

Banks need new tactics to enable them to successfully innovate



How much banks expect to change their exposure to green lending in the next 12-18 months

ESG-related products can include:

- **Green loans** – to fuel initiatives designed to have a positive impact on the environment, such as wind farms or clean transportation networks
- **Social loans** – which underpin activities designed to address issues of importance to the general public, such as affordable housing
- **Sustainability-linked loans**, or SLLs – which should be ambitious, material, and relevant to the borrower's core sustainability and business strategy.

Global banks are planning high levels of growth in ESG-related product launches, especially in Europe. Three-quarters of global banks (76%) report that they plan to increase their exposure to green lending in the next 12 to 18 months and beyond.

The percentage by which their exposure will grow is also set to increase, from 16% in the next 18 months to 19% beyond then.

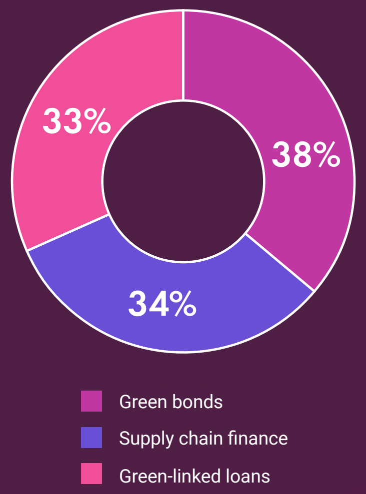
The most popular ESG products mentioned for future focus include green bonds (38%), sustainability-linked supply chain finance (34%) and green-linked loans (33%). Other products that are offered today but that will grow in popularity include green deposits, green guarantees and sustainability-linked deposits.

Despite the clear appetite for launching ESG products, some global banks appear to still be addressing some of their initial terms of engagement. Four-in-10 (43%) report that one of their key organizational ESG goals is to settle on definitions, while 46% say that their key goal is board/ management/governance alignment on sustainability initiatives.

In terms of investment in ESG, more budget is allocated to marketing (26%) than strategic investment (15%). While there may be some (understandable) ambiguity in responses, this suggests that banks are currently focusing on the need to tell a story, rather than strategically innovating. Interestingly, 62% of ESG teams see interoperability as the biggest challenge when integrating fintech solutions into their product offerings, compared with 42% for CTOs and 48% for business leaders. This could potentially be explained by the fact that there are currently fewer reliable data sources and mature apps for ESG-.

It also helps to explain why banks say that the most important area of ESG advice that fintechs are not providing, but that they urgently require, is delivering ESG-specific products that they can use and sell on to their customers. Advice around regulatory compliance, monitoring and definitions are also important gaps for banks that fintechs could fill.

Which ESG products banks plan to focus on in the future



Conclusions

To win, banks must build a winning team with the right ethos and players

Despite some regional differences, it's clear that the majority of global banks have now embarked on digitization programs, they understand the value of platforms and fintechs, and are poised to leverage the ESG opportunity.

However, there are still some factors that are putting the brakes on progress, and preventing the full benefits of digitization from being delivered. One of these factors could be the apparent gap between the goals of business leaders and CTOs when setting objectives, another is the differences in legal and compliance regimes across the world.

There are also some missed opportunities in ESG-related strategies, with banks looking to fintechs to provide more of the solutions they need to both use internally and provide to their customers.

While some of the barriers towards progress are caused by internal factors, others could be avoided by partnering with a platform provider that delivers an evergreen core system, makes sure that there is a ready ecosystem of third parties that can meet changing regulatory requirements, and helps to orchestrate end-to-end digital processes.

Whatever new challenges are presented to the global banking sector in the years ahead, it will be those financial institutions that adopt fit-for-purpose technology platforms that will be amongst the front-runners.

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