Point of View

Future of Banking Industry

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1 Introduction

"Harvey enters his office and receives a package with hololens, as he stares into the lenses, he finds himself taking a test ride of one of his long desired cars. Then he receives a 3D chat from Linda (his bank representative), asking him about his test ride and quoting prices of the car from different dealers which fit in his budget in exchange for his present car. He clicks on the link provided, and the car is delivered to his office address."

There may not be many striking features in this scenario, but let's see what processes are running behind the scenes:

"Harvey got a flat tire in the morning, again for the seventh time in past three months, and his car needs full servicing. The bank gets a complete health report of all the assets held by its customers, providing analysis of their state, and the current value in the market. Harvey is a salaried personnel and has a house loan on his name. His wife recently changed her job and will now be able to save twice as much as she could with her previous salary. Harvey has been building a strong equities portfolio and seeing the trends in the market; his portfolio is set to be rock solid in the upcoming months. They can now afford a new car with an exchange price (best-in-market) for their current car on loan for five years, and as per his browsing records, Harvey has visited this car page 10-15 times in last three months."

This is the kind of future we are looking at for banks. They will not only be confined to brick and mortar, or anytime and anywhere banking solutions, but they will have a complete ecosystem built within. Looking at increasing IT spends across the banking industry, we will be seeing a transformed banking sector. It is expected to be dominated by Open banking, APIs, Artificial Intelligence, Automation, Machine Learning, Augmented Reality, Virtual Reality, Data Analytics, Blockchain, Connected Technologies driven by Internet of Things, and many more, with banks acting as a connecting link between customers and these technologies.

2 Tectonic shift in the Banking Industry

Earlier, the business need was the focal point, and customer experience and technological advancements were built around it. In the present day world, there has been a shift in this focal point from business to customer experience, it is the factor now driving business and technology. Everything is centred on providing a unique customer experience. Customers are known to be most volatile and they easily adapt to changing technologies, which get inscribed in their lifestyles in such a way that there is no looking back for them. Permanent connectivity has become a hygienic factor and a point of no return for digital banking.

Many incumbent banks are now being seen to form ties with fintechs and other technology providers to increase their grasp, and get a share of pie in the banking industry of the future. Band-aid solutions are no more going to benefit any bank to get ahead in the race of digital transformation. This requires a genuine effort and complete transformation of back office, middle office, and front office services.

Increasing number of
non-banking players and their
popularity among customers

Factors Affecting this shift

Creation of a level
playing field due to
recently introduced
norms and standards

Customers are
ready to share their
information with
these new players

2.1 Embarking the journey of change from banking-as-a-product to banking-as-a-lifestyle

Banks were earlier known as standard institutions following old age processes with very less scope of change. With digitalization coming into the picture, many banks have already begun their journey of change and others are considering it heavily. Banks had fixed product and service offerings like CASA, loans, mortgage, cards, etc. and had very less integration with outside world in terms of services. This scenario has changed in

the present day and it will see a complete makeover in coming times.

Non-banking institutions have gained large part of customer attention in recent past. It is because of the ease and facilities offered by these Third Party Providers (TPPs). Traditional banking holds no more votes from millenniums and Gen Z customers, and many Gen Y customers are also getting influenced by this tide of digitalization. Banks are projected to move up the stream and create ecosystem of their own by making use of technologies and integrating with fintechs and technology providers.

2.1.1 Banks are changing fast: Current state of Banking

With **open banking** kicking in many parts of the world, banks are forced to open customer information to TPPs upon user authentication. Banks are transitioning by integrating diverse technology platforms, consolidating customer data from multiple channels, and continuously analyzing customer data to fulfil their said and unsaid needs.

Building the infrastructure required to support these technologies from scratch is not a viable option for the incumbent banks and hence, most banks are moving towards forming ties with fintechs.

FINTECH'S GROWING INFLUENCE **82%** of incumbents expect to increase Fintech partnerships in the next five years

*Source Pwc Report

Banks are achieving this goal through:

2.1.1.1 Apification

In order to follow the mandate of open banking and to make a place for themselves in a cut-throat competition, banks are exposing themselves to TPPs through APIs. Many banks have already opened up their APIs for external parties to integrate with their services. By making use of APIs and Open banking, banks have achieved the title of plug-and-play services. This has increased confidence of customers and other providers to use bank for the services recently offered by highly technical non-banking institutions.

2.1.1.2 As-a-Service platform

Banks are making it easy for TPPs to integrate with their back offices, hence moving from complete front office to back office transformation. They are adopting automation, AI, and machine learning to enhance customer experience. Banks are onboarding more and more merchants, services, and TPPs to form the ecosystem that they aspire to create.

2.1.1.3 Moving towards scope of enlightment in technology adoption
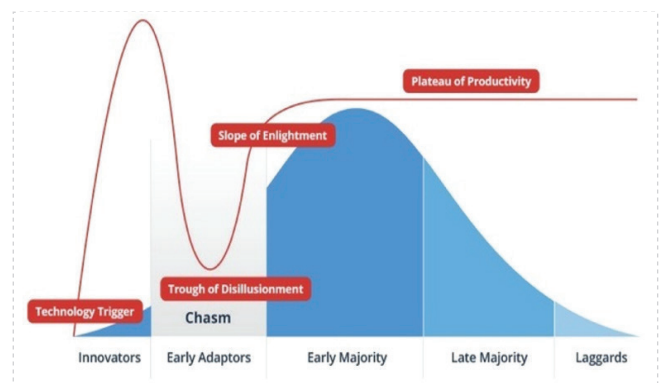
Most of the banks have already adopted an Omni-channel strategy to interact with customers from all touch points. Banks are not ready to let go of their customers by being laggards in technology adoption, most of the banks are trying to be at least in the early majority. Banks are using multiple physical and digital channels to reach customers.

2.1.1.4 Consolidation of data across channels to create unique customer experience

Banks are making use of data analytics by consolidating data across multiple channels and creating customer insights at real-time. They are using this data to provide a sense of personalization to customers by offering customized products and offerings. They are also using this data to gather information about unsaid needs of customer to bring a delightful experience.

2.1.2　Future of banking

Digitization has forced incumbents and new entrants to set aggressive goals for the upcoming future. The current banking system is changing, and the final result will surely be a delight to customers. Seeing the quick adoption of technology by customers and their ever-changing needs, there may not be much of a surprise factor remaining in the future, but it will be more like a necessity for banks to secure their position. Banks are expected to perform various functions in the future through:

2.1.2.1 Building an ecosystem : **"Working in silos"** is a word from past, banks have already started integrating their services with external providers, and in the coming future this is expected to increase many folds.

Currently, we might see a limitation in the approach of banks towards integration with non-financial services providers, but with changing times, this limitation will diminish and banks will create an ecosystem providing end-to-end offerings to customers. Banks are set to onboard the service providers from all the industries such as transport, auto dealers, hotels, real estate, etc. Banks will provide the platform to these providers by bringing them close to customers and will be providing one-stop solution to customers by onboarding all their required services onto their platform, hence creating an ecosystem.

2.1.2.2 Technology to act as back-bone for this change

Some of the technologies, which will play a crucial role in the making of bank of future, are:

Growth of Artificial Intelligence (AI) market

($. in billions)
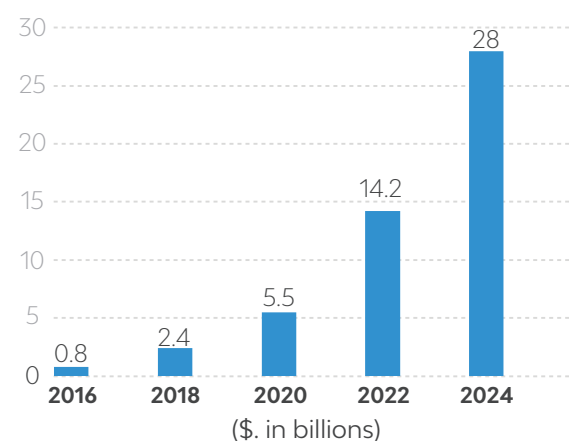
2.1.2.2.1 Robust Data strategy

Banks will make utmost use of AI, machine learning and automation to perform intelligent operations. This will make systems more and more intelligent to support skilled operations. The AI market is expected to increase ten-folds in the coming future. Banks will not only gather data about the individuals, but about their complete surroundings, providing them with their needs even before they would know about the need. Predicting each and every action based upon the analysis, will help them create a unique customer experience.

2.1.2.2.2 Open and flexible architecture

Banks will follow an open architecture and human interaction will diminish completely, but at the same time, it will require best in class quality for human interaction at any touch points for customers.

2.1.2.2.3 Making use of augmented and virtual reality (AR and VR) for simulations

AR and VR are known to bring world closer by blurring the difference between reality and imagination. In the coming future, banks will make extensive use of these technologies to provide all functionalities at the doorstep, and one of its class experience to customers.

2.1.2.2.4 Blockchain

Blockchain brings an unexplored treasure with itself and banks are exploring it more and more to find applications in various segments and areas. Blockchain acting as real-time, open source, and trusted platforms for sharing data and value, will reduce the cost of transmission drastically. It will bring a globally accepted, ubiquitous payment system, which can completely transform the way banks transact.

2.1.2.2.5 Connected technologies driven by IoT

Banks will derive information directly and indirectly from all primary and secondary sources as well. They can then make use of this information to perform further analysis and bring the customer experience to another level.

3 Conclusion

Banks are getting ready for a future, which will help create an entirely different experience for customers. Many banks have already embarked this journey and will make their place as early adopters of technology. This will be a change for good, but there is a very important factor which has to be considered amidst all these changes, which is that of security and

privacy. Users of today are ready to share their information considering the ease provided by various technologies without even bothering about the consequence this data sharing may cause in future. Hence, data security and privacy of information will help create a balance. Banks can develop and adopt any new technology, but it has to be guided by these principles of security and privacy.

About the Author

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Sakshi is a Business Consultant in the Banking and Financial Services domain with LTIMindtree. Sakshi has worked with top global banking clients in wealth management, capital markets, payment industry, trade finance, and insurance domains. She has been working extensively in European payments market and regulations - such as PSD2 and SCTinst.