

Insights

11TH ANNUAL BANKING SURVEY

An industry in transition

This year's survey, conducted together with Cognizant, shows an industry in transition. The specter of the financial crisis and its aftermath – in terms of winning back trust and coping with the raft of new regulation – seems to be fading. In its place, banks are focusing on what it will take to adapt to, and succeed in, the new era of digitization and Open Banking.

Open Banking is an opportunity

Banks might not have wanted Open Banking legislation, but they can now see how it could benefit them. 89% of respondents (up from 79% in 2017 and 52% in 2015) now see Open Banking as more of an opportunity than a threat, although many worry about the increased threat of cyber criminality that could result (15% see this as their biggest challenge vs. 10% in 2017).

Fintechs are definitely friends

As banks have warmed to Open Banking, so they have become ever more disposed to working with fintech firms. Today, 9 in 10 banks want to work with fintech companies although there are still challenges in making these partnerships happen quickly enough. And banks don't just want to work with fintech firms to boost productivity, with most wanting to work with firms that can help improve digital engagement (21%) and provide complementary services (18%).

Challenger banks are definitely not

For the second year running, banks see challenger banks as their biggest competitive threat. The threat from large incumbent banks, with big brands and balance sheets, remains strong (19% cite as biggest threat) and the risk from the consumer tech giants making a bigger foray into banking is still present (20%), but it is challenger banks that top the list (cited by 23% vs 22% the previous year). Their ability to combine new technology and business models with a banking license is what has banks worried.

Business model change is the top priority

Top of banks' minds in this year's poll is business model change, cited by 21% of banks as their top priority compared to 14% the previous year. Most banks seem to realize that to prosper in the digital age will require a different business than in the past and are considering becoming aggregators (23%), infrastructure players (14%), specialists (38%) as well as starting challenger banks of their own (24%).

And banks are prepared to put up the money

The delta between banks expecting higher IT spending and those expecting lower IT budgets going into 2019 stood at 60%, the second highest level in the last 11 years. Furthermore, the money is not just being directed towards front office areas, such as channels. Core banking replacement (cited by 23% as top investment area) is still the top priority, suggesting banks recognize the importance of end-to-end system replacement to delivering the highest quality customer experience at scale.

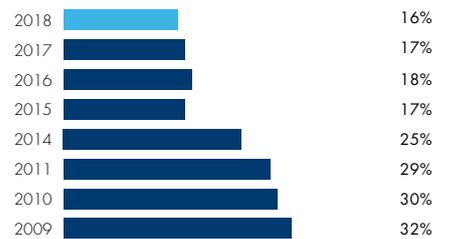
Cloud goes mainstream

As we've observed consistently for the last ten years, banks see fewer barriers to adopting the public cloud; just 26% see regulatory hurdles (compared to 40% in 2009) and just 22% cite data confidentiality concerns (compared to 50% in 2011). In keeping with this, the use of the cloud is moving quickly from peripheral areas, such as testing, to full production and from small institutions to the largest banks, with little discernible difference across bank tiers and segments when it comes to willingness to deploy cloud technology.

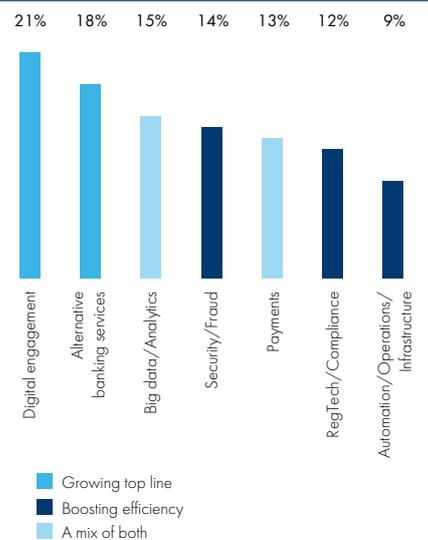
GROWING CHALLENGE: UPGRADING CYBERDEFENCES AS FAST AS BUSINESS IS DIGITIZING*



MANAGING THE IMPACT OF TOUGHER REGULATIONS*



HOW CAN FINTECHS ADD VALUE?*



* % of respondents.