

Digitalization is changing banking – These 3 trends will help shape its future

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- COVID-19 is accelerating demands for new banking technologies and cost-cutting efficiencies.
- Cloud technologies and AI can help banks weather changes brought by COVID-19 and distinguish their offerings in the the long term.

Before Coronavirus, the 2020s were already being framed as the decade for digital bank transformation. Such changes reflected a mounting hunger for must-have innovations including seamless, hyper-personalised user experiences.

This shift also reflected a practical need for more efficient operations as well as increasing pressures for banks to boost their return on equities and decrease cost-income ratios. Meanwhile, systems such as Open Banking (allowing third party applications access to bank accounts) was disrupting the industry, splitting the value chain into distribution and manufacturing and increasing competition from new entrants such as Google, Amazon, Facebook and Apple.

What is the World Economic Forum doing about the coronavirus outbreak?

Responding to the COVID-19 pandemic requires global cooperation among governments, international organizations and the business community, which is at the

centre of the World Economic Forum's mission as the International Organization for Public-Private Cooperation.

Since its launch on 11 March, the Forum's COVID Action Platform has brought together 1,667 stakeholders from 1,106 businesses and organizations to mitigate the risk and impact of the unprecedented global health emergency that is COVID-19.

The platform is created with the support of the World Health Organization and is open to all businesses and industry groups, as well as other stakeholders, aiming to integrate and inform joint action.

As an organization, the Forum has a track record of supporting efforts to contain epidemics. In 2017, at our Annual Meeting, the Coalition for Epidemic Preparedness Innovations (CEPI) was launched – bringing together experts from government, business, health, academia and civil society to accelerate the development of vaccines. CEPI is currently supporting the race to develop a vaccine against this strand of the coronavirus.

COVID-19 is accelerating these demands. It's even changing consumers' behaviours, pushing them to consider new tools and technologies. A March 2020 survey by Lightico found that 82% of customers were concerned about visiting their branch in person and that 63% of those polled were now more willing to try digital applications. These shifts will be long-lasting.

To understand banking's shifting needs, Temenos partners with the Economist Intelligence Unit (EIU) each year for a global study on the future of banking. Research is based on interviews with more than 300 banking business Executives from retail, commercial and private banks. Over half of those surveyed are at C-suite level. This year, the study took place amid the COVID-19 crisis. The results give a fascinating insight into banking leaders' approach to these unprecedented times, as well as how they see their industry in the years to come.

The findings suggest three trends which will shape the future of the banking industry:

1. New technologies will drive banking transformation over the next 5 years

A large majority of respondents to the survey (66%) cited new technologies as having the biggest impact in banking over the next five years. This represents a 57% increase from last year's figure, which could reflect the impact of the Coronavirus crisis. Customer demands, shifting external environments and external competitors also featured. However, new technology provides the tools to fend off many of these issues – such as new competition from Big Tech.

One technology which has seen increased demand both from new entrants and established banks is Cloud and Software as a Service (SaaS). It has low infrastructure costs, lets products be created and changed quickly, and offers resilience, scalability

and security. 84% of respondents believe that Cloud technology will be transformative in banking. Cloud also featured in the top three technology investment priorities for banks, with more than a quarter of executives naming it as a primary focus.

Cloud and SaaS has allowed banks to operate with an agility and speed usually associated with their fintech competitors. In just three weeks, Atlantic Union Bank in the US used a cloud-based SaaS solution to fund over \$1.4bn in US Government Paycheck Protection Program loans for 6,500 businesses. EQ bank - Canada's first digitally-born bank – has used the scalability of Cloud to meet the surge in digital demand and recently reach \$3 billion in deposits.

Have you read?

- This is how digital banking could boost China's economy
- China is fast becoming the world leader in mobile payment

2. Artificial intelligence will separate the winners from the losers in banking

Of all advanced technologies, banking leaders strongly believe (77%) that Artificial Intelligence (AI) will be the most game-changing.

They see a diverse range of uses for AI. Front of mind is improving customer experience through personalisation. Many banks also see the potential for AI to support new business. Some private banks, for example, are using advanced investment algorithms to strengthen their portfolio management. Finally, because digital transformation is an end-to-end process, respondents are targeting deployment in fraud detection and back office functions in their future business plans.

Developing AI platforms was the focus of technology investment for 33% of executives globally. This was second only to cybersecurity – an unsurprising leader given widespread concerns about data breaches and cybercrime.

For AI in banking to be viable, it must be explainable. If AI helps a bank decide not to offer a loan, that can be life-changing and customers will need a reason why. Regulators are thus increasingly requiring explainability. For example, the EU's GDPR has introduced a 'right to explanation' of the output from new technologies like AI algorithms. This is one reason that 42% of respondents to our report cited 'regulation around new technology' as one of the most impactful trends for the industry over the next five years.

Explainability also provides an opportunity for banks to build better relationships. It allows customers to understand why a negative decision was reached and could provide customers with steps that would help rectify this.

3. Banks will overhaul their business models to create digital ecosystems

Finally, our report shows that digital transformation is beginning to change business models in banking. More than 80% of respondents believe that banking will become part of a platform of services. And 45% are committed to transforming their business models into digital ecosystems and making the bank the centre of these platforms.

Over the past few decades, technology has had an evolutionary effect on banks' business models. First, services moved out of the branch and onto the Internet. Then banks went mobile – allowing customers access to key services from nearly anywhere through devices like tablets and phones. The services themselves didn't change though, only the method of access.

The ecosystem model takes these changes further. Customers interact with the products and services they need through their banking apps. These are based on intuitive, self-learning software, which allows offerings to be enhanced and added in response to customer needs. Such technology brings new value and an entirely new customer experience. While mobile brought banking into everyday lives, ecosystems integrate our everyday lives with banking. They bring many key elements of modern banking technology – such as cloud, explainable AI, and open APIs – together into one seamless user journey.

Early success stories include Partners Federal Credit Union - which serves the Walt Disney Company. To serve users' increasingly digital expectations, Partners developed an app that offers core banking, coupons from local merchants and an education portal where members can enhance their money management skills. A built-in feedback function informs innovative new features. This includes mobile check cashing, where image recognition and verification technology allows members to make deposits directly from their smart devices.

After launching the app, Partners was adding 1,800 new users each month, resulting in a 20 percent increase in remote deposits and a 64 percent increase in mobile card payments.

A unique opportunity

The current environment is undoubtedly challenging for banks. The behavioural and economic effects of the coronavirus crisis will be profound, and come on top of lingering financial, operational and consumer pressures.

But banks still have capital, compliance and – most importantly – the customers' trust. This means that, with the right strategy, banks have a unique opportunity to succeed in the long term. Pursuing advanced technology and digital ecosystems will be key to that success. With these elements in place, banks will cut costs and drive efficiencies, helping them weather the coming storm and redefine their value to customers in a shifting market.

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Written by

[Max Chuard](#), Chief Executive Officer, Temenos

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