AMERICAN BANKER

Sponsored by fintechOS

WHITEPAPER

A Shorter Path to Financial Services Innovation

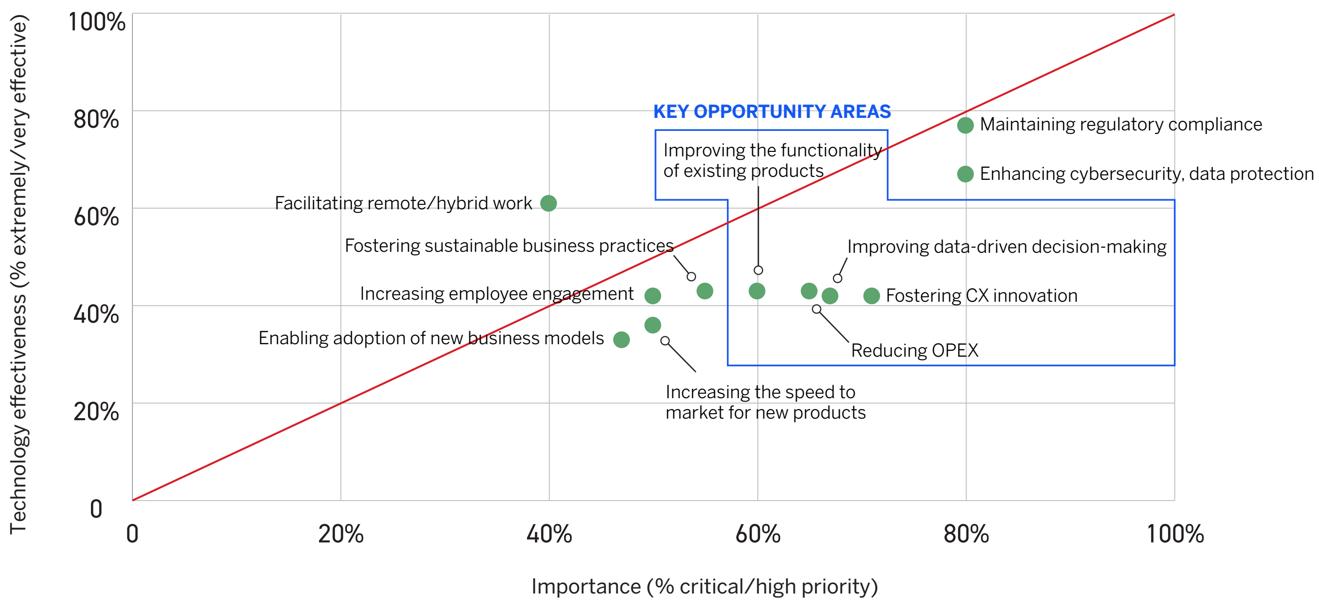
Balancing speed to market and integration requires a more flexible financial technology ecosystem

Banks face an urgent need to enhance the customer experience. With more disruptive financial technology coming to market all the time, banks need to adopt technology that helps retain their current client base and expand their appeal to new customer segments. Integrating that new technology with existing legacy systems remains a challenge, however.

In December 2022, Arizent Research surveyed 164 bank employees with knowledge of and/or involvement in their institution's technology initiatives to gain a better understanding of how banks are aligning their technology investments to advance strategic goals. The results demonstrate a set of high-priority areas in which banks' current technology lags in effectiveness (see Figure 1). Banks that can successfully balance modernizing core infrastructure and innovating on products, experiences and channels are likely to have a meaningful advantage over their peers.

Figure 1: Banks are experiencing critical gaps between business priorities and technology effectiveness

Importance – performance gap analysis



Source: Arizent Research, 2022

Banks are achieving limited success aligning tech spend and business strategy

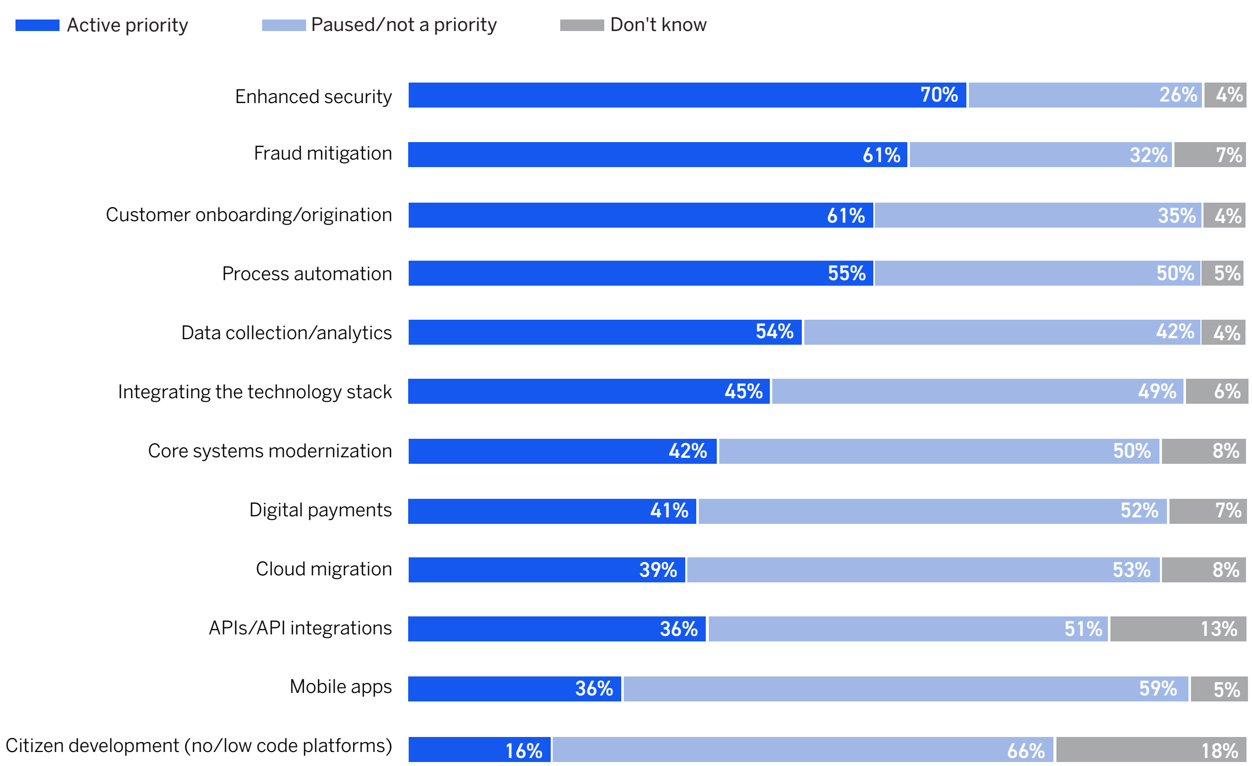
Cybersecurity, regulatory compliance, improved data-driven decision making, customer experience innovation and better product functionality rank at the top of banks' strategic business priorities. When it comes to supporting those priorities with technology investments, however, banks have experienced mixed success.

Banks have been relatively successful at aligning their technology investments with compliance and cybersecurity goals. Their relative inability to support back-office efficiency, customer-focused innovation and data-driven decision making could lead to higher-than-necessary administrative expenses and potential revenue shortfalls—both of which hurt the bottom line.

Banks have a common set of technology priorities, but no clear pathway toward achieving them

While banks have clearly prioritized improving the customer experience, they are pursuing a wide variety of technology enhancements, new products and added services in 2023 (see Figure 2).

Figure 2: Where banks are prioritizing technology enhancements for 2023



Source: Arizent Research, 2022

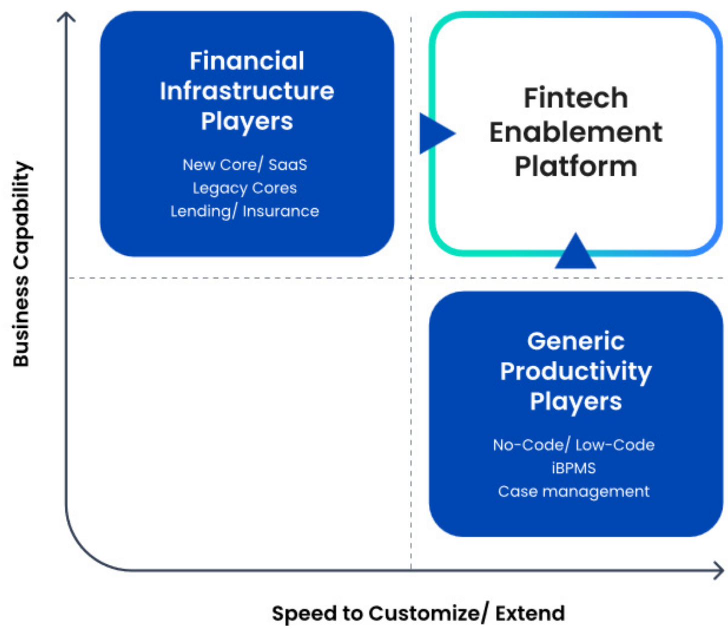
The relatively low level of consensus around which technologies banks ought to pursue suggests a lack of a clear connection between the capabilities of a given technology and the business goals it is supposed to support. Advancements in security and compliance are critical, but they amount to table stakes—so they aren't a particularly fruitful avenue to pursue to support an improved customer experience.

Banks face a growing number of choices regarding how they even go about choosing and implementing technologies strategically. Generating new capabilities by enhancing existing products and services can be challenging due to the predominance of siloed legacy systems that make it difficult to integrate across banking functions. Modernizing core systems has been a priority for banks, but it can be a long-term process that lacks a near-term payoff, since modernization efforts frequently wind up having to reconfigure the same set of existing products and services on an entirely new platform.

Building or bolting on new products and services can provide a relatively quick return on investment, but it still requires some level of integration with existing technologies. Making data available to support decision making and to drive product innovation requires some level of commitment to developing application programming interfaces, cloud migration or core modernization. All of those efforts require technology resources that are often already stretched to their limits.

Banks need ways to get new products and services to market quickly

Developing a mobile-first approach to technology has become a common pathway for legacy banks to attempt – two-in-three say it is critical or very important to have a mobile-first approach. Banks are also increasingly interested in engaging with fintechs to get new capabilities to market more quickly, with about four-in-10 expecting to engage with fintechs this year as they try to advance their technology initiatives. "Fintechs can sidestep some of the regulatory burdens that banks have, hence they tend to be more agile & efficient when it comes to customer onboarding, engagement and relationship management," says a respondent from a global bank with between $5 billion and $10 billion of assets.



Even with the growing availability of these tools, however, innovating to develop and deliver new financial services at speed is difficult. Disconnected legacy core systems complicate the use of existing data in mobile-first or bolt-on fintech environments. Building a set of a la carte technological offerings isn't practical. For the pieces of the system to work together, banks need to implement them on an integrated platform—and they need to have the expertise to build or add new things on the platform while also managing any legacy migrations.

As a result of these issues, banks commonly face a dilemma: they need to offer customer experience enhancements, but their existing systems make those enhancement difficult to develop, implement and maintain. Essentially, they wind up having to choose between building or buying, each of which has drawbacks. Building takes time and resources that aren't always available. Buying makes it quicker to deploy, but less easy to customize and integrate with other products and services across the bank.

Fortunately, an alternative is emerging.

A more flexible technology ecosystem can make the path toward alignment clearer

An emerging category of fintech enablement platforms is making the best of both approaches available to banks, allowing them to build and deploy customizable products and services rapidly. These solutions provide a platform with an extensive collection of customizable pre-built accelerators for product definitions, data models, servicing, customer journeys and ecosystem connectors, so banks never start from scratch. Instead, they or their solution partners can easily configure these modular parts to fit their unique needs using no-code/low-code tools. With this type of system in place, banks can quickly configure, distribute, service and update financial products across lending, savings, mortgages, insurance and embedded finance.

This approach gives banks greater flexibility to attend to their highest priorities today, retaining the agility to introduce new products and services in parallel with migrating existing systems in ways that best fit their needs. For example, banks could choose to digitize customer journeys, bringing existing systems together to create new digital channels through which to offer existing products and services without having to make changes to existing products and core systems. Alternatively, banks could open new distribution channels by embedding their existing products into e-commerce websites or points of sale, thereby gaining access to new customer segments.

“It’s more urgent than ever for banks to access new profit pools by reaching new customer segments and align their tech initiatives more tightly with their business strategy.”

— **Mike Hughes,** Vice President Product Marketing at FintechOS

Fintech enablement platforms also allow banks to increase wallet share by reshaping their existing products, for example, by customizing existing loan or deposit products to suit a particular customer segment. Using this technology, banks could fill in the gaps in their core technology by deploying new servicing capabilities where current systems don’t meet new business requirements.

The flexibility to build on top of or alongside existing systems means fintech enablement platforms can offer opportunities to enter entirely new market segments and lines of business by defining, distributing and servicing new products from end to end without interacting with or disrupting core systems at all. These new products and services can work alongside existing systems until the bank is ready to integrate them, providing the flexibility to respond to current market conditions or take advantage of new opportunities as they arise. “It’s more urgent than ever for banks to access new profit pools by reaching new customer segments and align their tech initiatives more tightly with their business strategy,” says Mike Hughes, Vice President Product Marketing at FintechOS. “Fintech enablement platforms make it possible for banks to adapt their technology to their strategy, rather than the other way around.”

Methodology

This research was conducted online in December 2022 among 164 banking respondents. To qualify, respondents had to have knowledge of and/or involvement in their institution's tech initiatives.

About FintechOS

FintechOS is the global leader in fintech enablement, with a mission to make fintech innovation available to every company. The FintechOS platform simplifies and accelerates the launch and servicing of financial products, helping businesses recognize value up to 5 to 10 times sooner than with other approaches. A global employer, FintechOS' customers and partners include the world's best brands, including Groupe Société Générale, Admiral Group, Oney, eMag, Deloitte, EY, and PWC.

Learn more at FintechOS.com

About Arizent Research

Arizent delivers actionable insights through full-service research solutions that tap into their first-party data, industry SMEs, and highly engaged communities across banking, payments, mortgage, insurance, municipal finance, accounting, HR/employee benefits and wealth management. They have leading brands in financial services including American Banker, The Bond Buyer, Financial Planning and National Mortgage News and in professional services, such as Accounting Today, Employee Benefits News, and Digital Insurance.

For more information, please visit arizent.com