

Look Out 2020+
Industry Trends
Banking

Toward next- generation financial services ecosystems

Thought
Leadership **Atos**

Megatrends in financial services: Preparing for a fundamental shift

“Banks are at a crossroads. Continuous FinTech innovation and new technologies such as Blockchain are disrupting the market. While it creates threats, it also opens multiple opportunities for financial services to reinvent themselves and thrive.”

The 2008 crisis is almost a distant memory. Over the past decade, the global banking industry has shown signs of renewed health. Prospects are looking good.

But while many believe the industry is unlikely to experience such discomfort again anytime soon, signals beneath the surface show the industry is under tension: profits remain elusive, margins are decreasing, revenue growth is slowing and perspectives are tepid. Even more worryingly, Return On Equity (ROE) has fallen to around 9% and continues to diminish.

The macro economic influence

This performance can be explained by several formidable forces. World economic growth continues to be weak. New regulations such as PSD2, GDPR, MIFID 2, and IFRS as well as discussions on Basel IV are proving burdensome. Above all, the emerging data-driven world and rise of non-banking platform companies are disrupting the most profitable parts of the banking value chains, compressing margins as competition rises. Even more disruptive transformation is on the horizon with Blockchain technologies and the rise of intelligent things and agents.

Reinventing for the future

These changes bring threats to established business. New players could capture up to a third of incumbent banks' revenues by 2020, according to analysts such as McKinsey. Banks that fail to react to the industry shake-up may see their profits tumble dramatically.

But these changing times also bring major opportunities for building next-generation, data-driven financial services ecosystems. Banks that leverage digital to reinvent their approach to customer experience, operations, business model design and trust and compliance have extraordinary opportunities to thrive.

Rapid change brings major opportunities for banks that are willing to position themselves at the core of next-generation and data-driven ecosystems.



is invested each year in FinTechs
\$ = USD



of financial transactions
are now made online



of existing banking roles will be
disrupted by machine learning



new FinTechs are created every year



smart things may become the
next banking 'customers'



increase in operating profits could be
gained by banks through digital by 2020



unbanked people could be
addressed through mobile



is sufficient to create
a new digital bank
\$ = USD



was raised by Blockchain
startups through ICOs in 2017
\$ = USD

Four transformation challenges and opportunities for the future of banking

1



Respond faster to evolving customer demands

In advanced economies, **2/3 of banking customers execute half their financial transactions online**. Willing to receive automated support, they swipe to pay, categorize expenses automatically, and turn to robo-advisors for smart asset management.

Looking ahead, smart automated cars and virtual assistants – **Google Assistant, Apple Siri or Amazon Alexa – could become ‘customers’ in their own right**, acting on behalf of their owners.

Customer loyalty is becoming elusive and branches are less relevant as a result. Analysts estimate that **30% of U.S. branches are now redundant**.

To respond, banks may shift from a product-centric to a platform-centric approach focused on customer-driven strategies. By blending digital and human interactions across each channel, banks can perform personalized customer behavior analysis and proactively respond to an individual demand.

> **The potential of digital is immense. Retail banks that digitalize their customer journeys see a 5% to 20% boost in revenue from improved service, network cost reductions of 15% to 35% and increases in customer satisfaction of 10% to 15%.**

2



Optimize costs radically

With no legacy infrastructure and fewer mandatory requirements from regulators, FinTechs are typically more agile and have lower operating costs than banks, causing competition to sky-rocket. Digital-only banks, for example, expect a **cost-to-income ratio of below 30%** – substantially less than traditional retail banks’ 40% to 60%.

To handle this pressure, some banks are **divesting from non-core operations**.

This may not be enough. Banks also need to increase agility and lower the cost to **catch up with pure digital players**. This requires a complete rethink of processes and technologies.

Options include **shifting to lower-cost standardized utility processes** for selected administrative activities and **deploying intelligent automation** to improve response times and reduce employee redundancies in both administrative and customer relations tasks.

> **These approaches can reduce costs by 10% to 25% by enabling faster and more accurate decision making, and provide savings to fund blue ocean innovation.**

3



Create new revenue streams with open platforms

New entrants are **shaking up traditional business models and offerings**. At the same time, banks are questioning whether Blockchain and smart machines will change the concept of ‘money’ beyond recognition.

This is driving banks to reassess their positioning. Some may position themselves as a **hub platform**, aggregating FinTechs and partners around financial services, risk management, and payment services. In this new ecosystem, their role will shift considerably toward **data aggregator, service broker, or even smart orchestrator**. This shift will also see **banks start to monetize their data** to generate new revenue streams.

Banks could also launch **new services** for underserved customer segments – mobile-only banking for Gen Z or the unbanked – or radical new offerings **that serve smart cars and smart homes**. They could leverage crowdfunding in the **peer-to-peer/sharing economy**, enabling pioneering Blockchain-based transactions or even deal in cryptocurrencies themselves.

> **Analysts estimate banks that successfully build partnerships to monetize data can raise their return on equity (ROE) by up to 14%, far above the current industry average.**

4



Provide predictive security and compliance

Financial services institutions see regulatory standards, risk management, and compliance tightened annually, with regulators and government agencies applying **billions in fines**. 2018 introduced the EU **GDPR** directive, while **PSD2** requires banks to implement secure application programming interfaces (APIs) to make account transactions and data available to third parties.

All this adds to banks’ security burden as they evolve in a hostile environment where **fraudsters, hackers, mafias, and even rogue companies or states** threaten the integrity of financial services and payments’ systems.

Financial services institutions therefore find themselves **caught between contradictory requirements**: deep customer behavior analysis for anti-money laundering while protecting privacy; and sharing data with FinTechs while respecting the ‘right to be forgotten’. In response, banks have the opportunity to develop completely **new risk and compliance management systems** that inherit **Intelligence-based Behavioral Analytics and Artificial Intelligence (AI)** from civil and military intelligence.

> **The potential benefits are immense: slashing the US\$1 trillion annual cost of cybercrime while turning trust into a source of business growth.**

Building next-generation platforms to succeed in next-generation banking ecosystems



“To reinvent themselves, banks need to leverage customer data within innovative business models. For that, technology platforms must evolve. This requires banks to become more agile and develop the right partnerships.”

Remco Neuteboom
Chief Digital Officer, Global Financial Services, Atos

Successfully meeting the four transformation challenges and opportunities, identified overleaf, will impact the banking business models, organizational strategies, and resources. It will also impact the very foundations of banking technologies.

Bringing legacy tech into the digital era

For decades, banks have built **bullet-proof information systems** that combine powerful and reliable technologies. They have pioneered mainframes, payment systems and high-performance computing for high-frequency trading.

However, systems for loans, savings and other banking activities were usually built in isolation. Now, based on dated technologies, these systems often fail to provide the agility and scalability banks need in today's **fast-moving landscape**.

Banks have already launched a wealth of **modernization initiatives**. Motivations vary: catching up with digital innovation, experimenting with the cloud, developing mobile banking, or even improving customers' digital experiences.

And while success has been plentiful, increasing competition from the global tech players and FinTechs means banks must accelerate their efforts.

Preparing for a paradigm shift

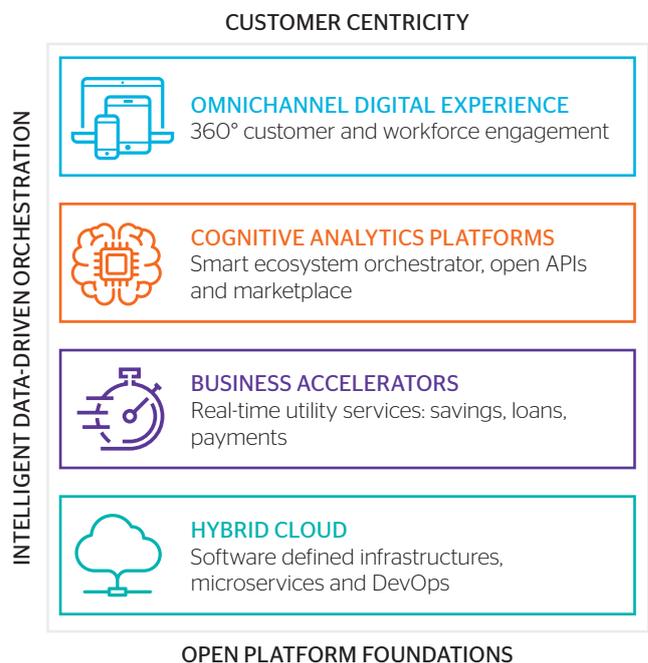
Adapting to the new era requires a quantum leap. To embrace the challenges of a digital world and take a winning position within it, three core principles will be essential for banks:

- Become wholly **customer-centric**, ensuring 360° omnichannel engagement with clients, smart devices and machines.
- Provide **intelligent data-driven orchestration**, enabling adaptation to market changes and evolving customer demands in a real-time, prescriptive way.
- Adopt **open platform foundations**, providing the best financial utility services.

The road ahead

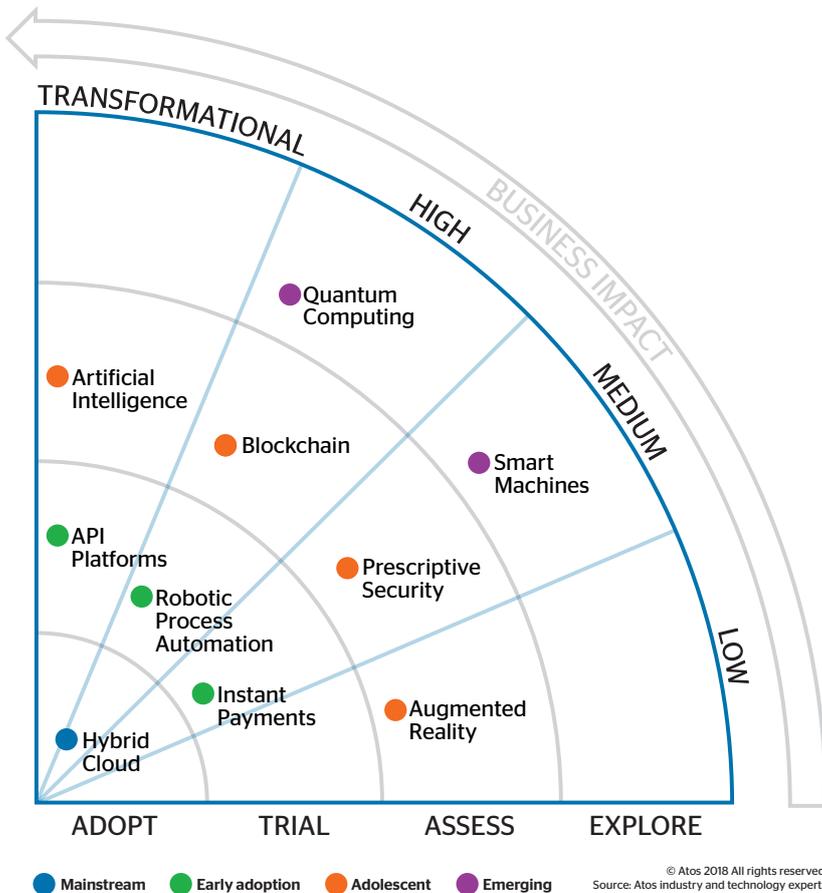
To thrive, banks will need to create the right partnerships and convene the largest ecosystem to enrich their offering, monetize their data and turn it into profit. Banks should begin building new supporting architectures today. Modernizing legacy IT and fully embracing the latest cloud, automation, big data and mobile technologies is only the start of the journey.

Next-generation architecture for future-ready banks



More disruptive technologies will emerge. While some may only appear as dots on the horizon today, they will turn out to be transformational in the years to come.

10 disruptive technologies that will shape the future of banking



Banking Look Out 2020+ radar: 10 key technologies set to impact banking institutions over the next 5 years.



Want to know more? Examine the Look Out 2020+ Global Technology Radar to get deeper insights into these 10 strategic technologies and many more: atos.net/lookout

Hybrid Cloud is reviving cloud initiatives by enabling secure and seamless integration of private and public cloud platforms, thus exploiting the benefits of public cloud (pay-per-use, 'infinite' bursting resources, agility and innovation) as well as taking advantage of the flexibility and power of cloud-native applications. Banks should urgently assess their data and applications to define a consistent classification allowing to guide their cloud-first strategy.

API Platforms allow financial products and services to be distributed and serviced across third parties. Banks should put API platforms at the heart of their digital strategy to attract ecosystem partners.

Robotic Process Automation will bring virtual workforces to manage repetitive tasks, reducing the cost of administrative and regulatory processes by at least 50% while improving quality and speed. Banks need to standardize processes to facilitate automation and engage in ambitious change management programs.

Instant Payments - with the move towards a cashless society and ever more connected devices - is making the payments sector evolve rapidly, driven by data and better customer experiences. Banks must explore Instant Payments and other game-changing technologies launched via social networks, chatbots or virtual assistants to offer new P2P, B2B and even M2M services.

Artificial Intelligence promises to replace human cognitive capabilities with robo-advisors, virtual assistants, chatbots and knowledge engineering. It will impact customer service, trading and compliance. Banks should prepare for the human, security and legal impact.

Blockchain is a potential game-changer for conducting business with parties without prior trust relationships. Beyond payments or cash management, it could revolutionize audit trails, automated contracting and the microservice economy.

Prescriptive Security uses big data analytics, real-time monitoring including the dark web, AI and automation to detect potential threats and stop them before they strike. Applications range from cyber protection to fraud management and compliance. Banks should explore integrating it into their Security Operation Centers.

Augmented and Virtual Reality are blurring real and virtual worlds, allowing customers and employees to engage with financial services within the context of their current environment. Financial services should explore potential use cases in retail banking.

Quantum Computing promises to break traditional combinatorial analysis limitations, bringing advances in risk analysis and high-frequency trading within ten years. This will elevate risk by potentially breaking current cryptographic standards, threatening to cause a 'crypt-apocalypse.' Banks must start preparing for quantum-safe cryptography.

Smart Machines are changing the nature of customers, with smart things working on behalf of their owners for smart home, autonomous transportation, concierge services and more. Likely to transform go-to-market strategies, banks must begin exploring the business, legal and compliance implications.

A glimpse into the future of banking: Expert views on best practice for digital transformation



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What could banks look like in five years?

Today's banks are at the beginning of the **biggest change in their history**. The rise of P2P, Artificial Intelligence and Blockchain means they will already begin to look different in five years' time.

Tomorrow's banks will be focused on their customers' journeys, integrating seamlessly between the branch and the digital services, with **virtual assistants and robo-advisors blending human and virtual interactions**. They will be more automated, adapting offerings to each customer's specific requirements. Payment automation will be available for smart objects such as cars, fridges and homes.

Banks will also need to use their intimate knowledge of consumers to place them at the heart of exchange ecosystems, providing **new personalized services based on aggregated profiling and peer benchmarking**. Using this knowledge, they may become service brokers in a wide range of domains.

In five years, ecosystems will have evolved significantly with new entrants and many mergers and acquisitions. Banks need to begin preparing for these massive challenges today.

Which driving forces will help them succeed?

Customers no longer stay with one bank for life. Moreover, competition is now intense, with FinTechs offering low-cost services. Digital platforms such as Alipay are taking more transactions than ever from traditional card businesses. **PSD2 could lead to a European shockwave equal to that seen following the energy market deregulation.**

To succeed, banks are fundamentally reinventing themselves as customer-centric, data-driven business platforms. This makes business ecosystems evolve dramatically with data being the key asset.

In this context, banks have an opportunity to become the hub for customer financial and payment data in addition to their core business. This opportunity will most likely see them **partner as well as compete with the FinTechs** and technology giants.

We are convinced that open banking is the beginning of a very strategic transformation: the **shift to a 'platform of services' model**. This shift may lead to banks becoming data aggregators and service brokers within an ecosystem of diverse partners. We believe pushing relevant offerings identified through advanced analyses is the start of the road toward **banks monetizing their data**, which has the potential to open up very sizeable new revenue streams.



To succeed in the digital era, it will be vital to combine the scalability and compliance of banks with the agility of FinTechs.

What should banks do today?

The banks we work with know they need to adapt rapidly or risk being left behind. Even those considered too big to fail today feel threatened and are very active in transforming with us.

With our Digital Transformation Factory, we notably help 12 of the world's top 20 banks in 4 strategic domains:

- **Lowering their cost/income ratio** through modernization, automation, outsourcing and next-generation utility services - enabling tens of billions in savings across the US, EMEA and Asia.
- **Creating new revenue streams** with data-driven B2C and B2B service hubs, for example with innovative services to merchants.
- **Providing 360° digital customer engagement** - using new approaches such as deploying the first full-scale, AI-powered CRM in Finance.
- **Streamlining predictive trust and compliance** - With Worldline, for example, we support 250+ banks innovate in next-generation transactional services.

Banks also need to work with partners and become platforms for FinTechs. After all, FinTechs can be tremendous accelerators for innovation and launching new banking services. **Worldline, our digital payment provider, makes us one of Europe's largest FinTechs.**

That's why we've launched strategic client initiatives that embrace a large FinTech community and a dedicated lab: the **Atos FinLab**. Our new strategic partnership with Google also enables banks to be at the heart of innovation from big tech firms.

To succeed in the digital era, we think it is vital to combine the traditional scalability and compliance of banks with the agility of FinTechs in a fully secure and data-centric way. This is exactly what we are doing for our clients around the globe.

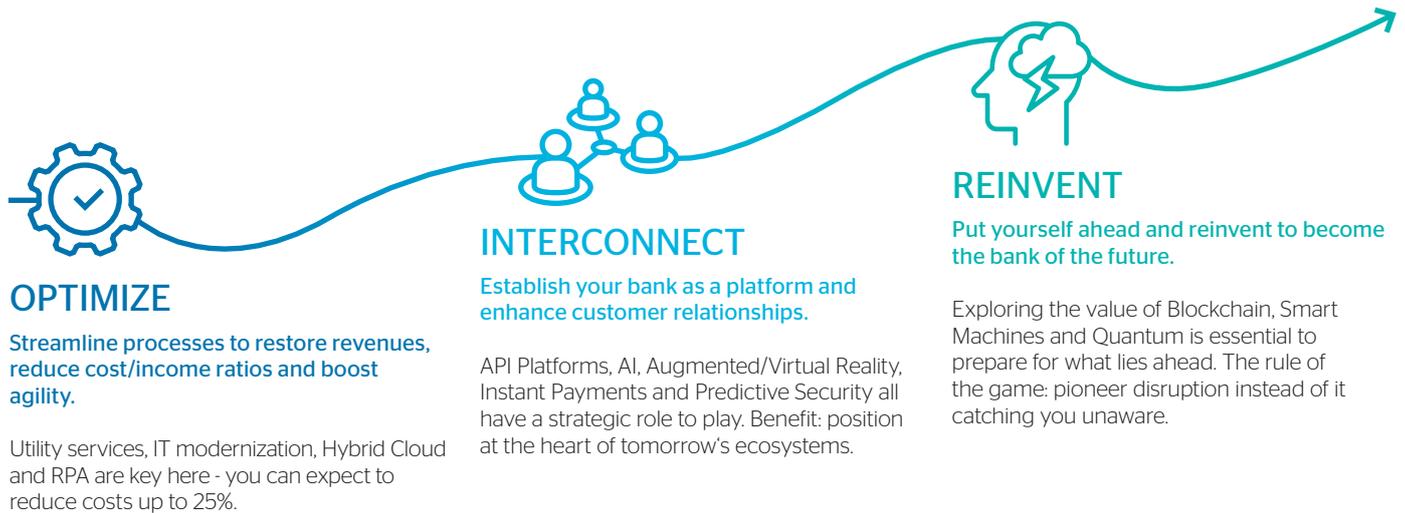
Creating your own banking transformation journey

With all these changes converging at once, you must steer your bank forward. Faced with a rapidly changing business ecosystem, the question you will be asking is not 'Why change?' but 'Which direction?' and 'How?.'

The first step is **figuring out the role you want to play within next-generation financial services ecosystems**. There are several possible positions each with its pro and cons. Do you want to scale as a financial utility platform or focus as a category killer?

Do you want to become the financial services orchestrator for your customers or the overarching ecosystem platform driver?

Having made that strategic choice, you must next **embark on a journey of progressive and continuous transformation** – combining people, organizational and technology streams. Your journey requires a roadmap. We have drawn up a three-step approach, with phases that can be undertaken simultaneously.



Throughout these phases, an open approach to innovation, such as the **Digital Business Continuum** approach developed by Atos, will be paramount to success. In an ecosystem world in which start-ups appear and spread at internet speed, openness is also the best way to capture collective intelligence. As banks strive to transform, **open innovation labs** – such as the Atos FinLab and Atos Labs with Google – will provide an ideal environment for bringing new ideas or concepts to life – and creating the financial services of tomorrow.

Where should you begin?

As the Trusted Partner for your Digital Journey, Atos can help. Meet our experts and stay one step ahead by getting hands-on experience of new disruptive technologies.



ENGAGE in a co-innovation workshop at one of our Business Technology & Innovation Centers.

Get off to a quick start with a personalized workshop. Ask for a meeting:
> atos.net/banking



EXPLORE how the latest technologies can boost your own practice.

Leverage our experts and labs to build POCs tailored to your own business:
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STAY TUNED with the latest trends and best practices in digital transformation.

Keep yourself informed. Follow the latest insights from the field on:
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This is an extract from the full Atos Look Out 2020+ report, which provides an in-depth analysis of the emerging megatrends, business transformation opportunities and technologies that will drive innovation in the years ahead. Explore the full report on atos.net/lookout.



About Atos

Atos is a global leader in digital transformation with approximately 100,000 employees in 73 countries and annual revenue of around € 12 billion. European number one in Big Data, Cybersecurity, High Performance Computing and Digital Workplace, the Group provides Cloud services, Infrastructure & Data Management, Business & Platform solutions, as well as transactional services through Worldline, the European leader in the payment industry. With its cutting-edge technologies, digital expertise and industry knowledge, Atos supports the digital transformation of its clients across various business sectors: Defense, Financial Services, Health, Manufacturing, Media, Energy & Utilities, Public sector, Retail, Telecommunications and Transportation. The Group is the Worldwide Information Technology Partner for the Olympic & Paralympic Games and operates under the brands Atos, Atos Consulting, Atos Worldgrid, Bull, Canopy, Unify and Worldline. Atos SE (Societas Europaea) is listed on the CAC40 Paris stock index.

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