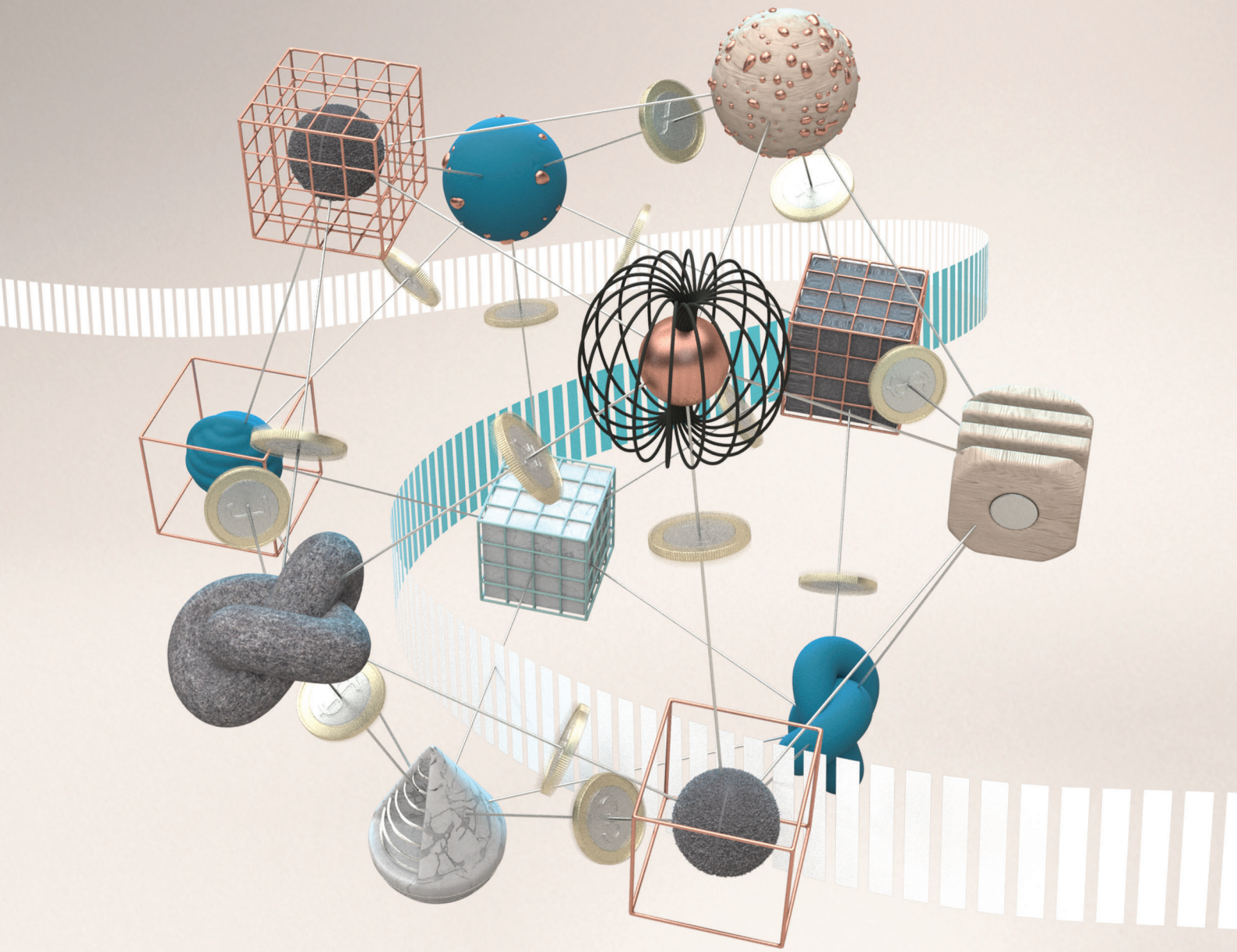
READY FOR THE RE-BUILD SERIES: RE-THINKING THE VALUE OF DIGITAL INFRASTRUCTURE

PART 2: BANK TO THE FUTURE

Why tomorrow's idea of financial institutions is already here



BANKING CIRCLE

FINANCIAL INFRASTRUCTURE
YOU CAN BANK ON

MagnaCarta

CONTENTS

Research Methodology

This series of papers was developed using a proprietary methodology that combines an industry-wide survey of consumer-focused banks, corporate- and SME-focused banks, and FinTechs in Benelux, Denmark, France, Germany and the UK. Quantitative data was complemented by in-market experience and conversations with leading FinTech companies, service providers and banks. Fieldwork was conducted during April and May 2020.

Interviewees

In addition to the industry survey research, interviews were carried out with the following companies and individuals:

Thibault de Barsy,
Vice-Chairman & General Manager, Emerging Payments Association EU

Per Christian Goller,
Founder & CGO, Aprila Bank

Panagiotis Kriaris,
Head of Business Development, Paysafe Pay Later

Paul Le,
Chapter Lead: Data & Platforms, ING Wholesale Banking, ING

Elliott Limb,
Chief Customer Officer, Mambu

Georg Ludviksson,
CEO & Co-founder, Meniga

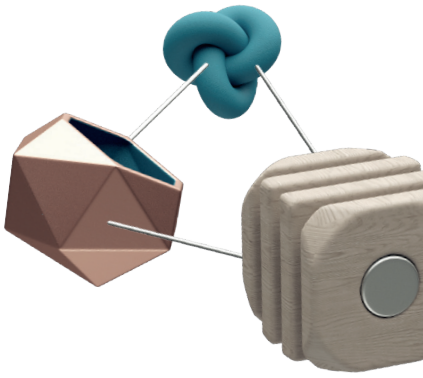
Jason Maude,
Chief Technology Advocate, Starling Bank

Alex Mifsud,
Co-founder and CEO, Weavr.io

Dean Wallace,
Director Real-Time and Digital Payments, ACI Worldwide

Juan Jimenez Zaballos,
Head of Financial Industry Transformation, Santander Group

INTRODUCTION



Although 2020 will now always be associated with the impact of a global pandemic, in years to come we may also look back on it as a time that was as transformative as the hopeful new dawn it was supposed to mark.

In a matter of months millions of businesses, and millions more employees and consumers, found new ways of working together and new ways to transact. The concept, value, and nature of digital have taken on new and urgent significance. For us all.

In this, the second of our series asking executives from across Europe's financial services industry for their take on digital transformation - and the role of financial infrastructure in building the modern financial enterprise - it was pleasantly surprising to see industry-wide optimism for the future. A substantially different picture from a decade ago.

But perhaps we shouldn't be quite so surprised. While the rise of FinTech heralded a new era for the banking industry in the years immediately following the financial crisis, subsequent years revealed a more nuanced reality. Banks realised they needed FinTechs just as much as FinTechs needed banks.

'Together we're stronger' might sound like (yet) another hollow slogan. But as the data from the survey shows, financial services organisations - no matter their size - are only as successful as the partnerships and the collaborations they forge.

For us at Banking Circle, we understand that payments businesses and banks each provide a specific set of solutions.

Working together with licensed financial infrastructure providers allows them to deliver the best service possible without investing in costly in-house technology or the resources needed to maintain and update it.

In this new 'blended' reality there truly is ample space for innovators and incumbents to co-exist. Indeed, it is how we will build the future together. Through these challenging times, we think that's a valuable message to hold on to.

Anders la Cour,
Co-founder and Chief Executive Officer, Banking Circle

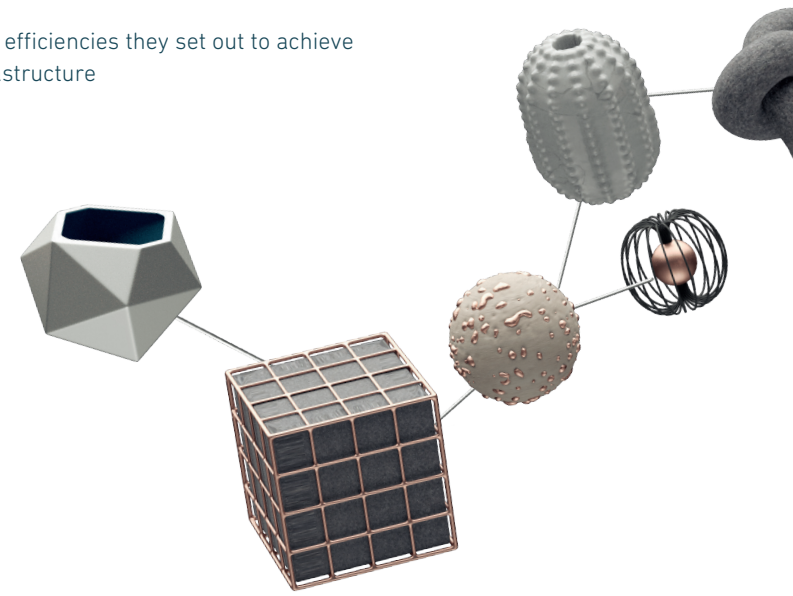
EXECUTIVE SUMMARY

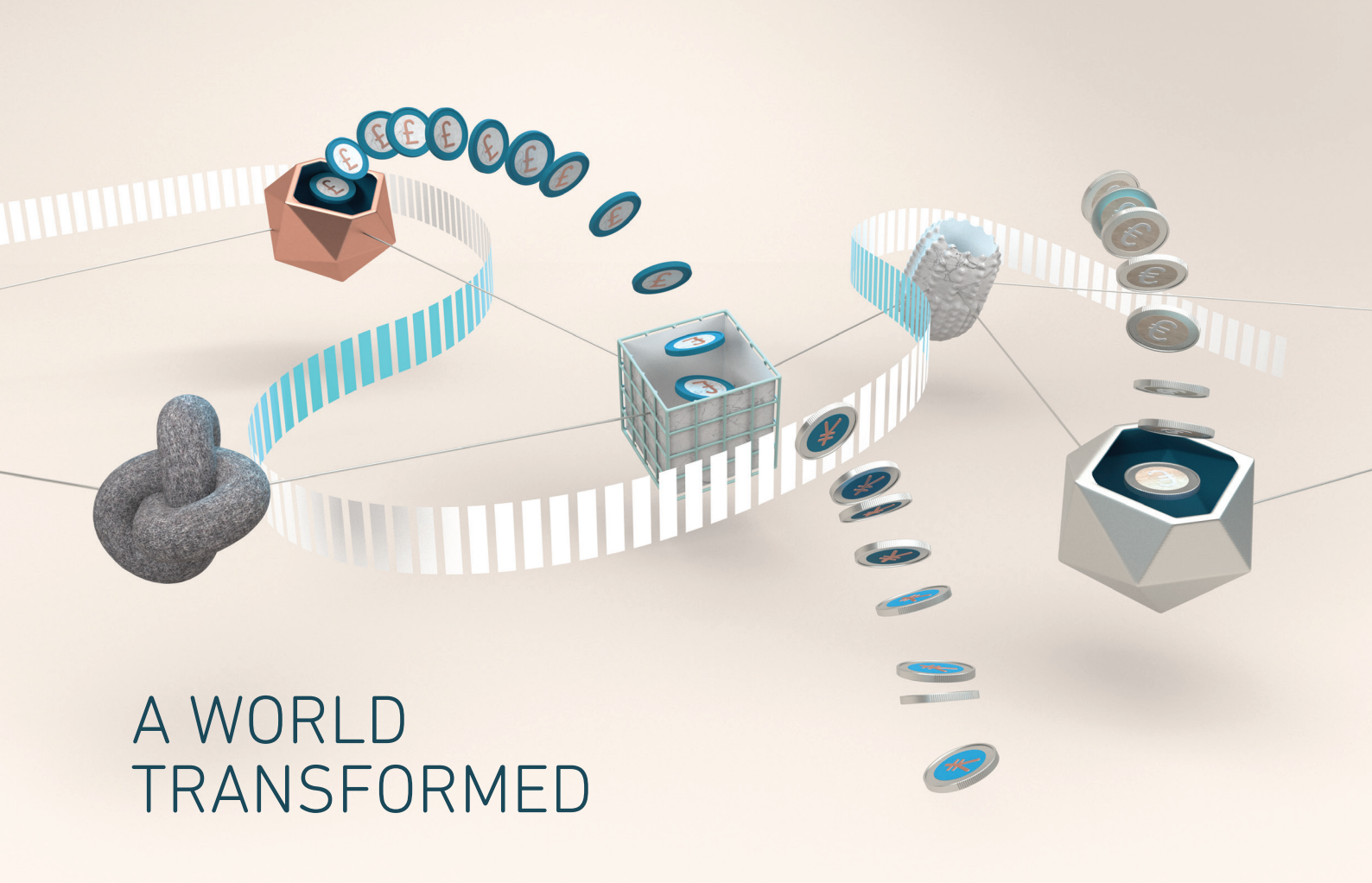
Today's financial services enterprise is a markedly different organisation from its predecessors at the beginning of the 21st century - and those that survived the credit crunch of 2008. Digital capability, data-driven business models, and customer-centric approaches have been embraced and implemented, in recognition that they enable larger organisations to flex their operations as much as they allow new entrants to compete at scale. So much so, that meeting customer expectations now appears to be more highly-valued than institutional stability.

These changes were initially driven by the demands of customers and then by banks overcoming their traditional reluctance to cloud-based delivery of essential transaction services. This trend has been accelerated by the pandemic, but most banks were already working with third-party financial infrastructure providers and technology has proved its value.

In this paper, we look at attitudes to digital in Europe's financial services sector, and how far these have been affected by the coronavirus pandemic. We also look at attitudes to financial infrastructure and providers in more depth - and how lingering resistance can be overcome to ensure organisations have the flexibility to respond to future change.

- 93% agree that customers value experience more than they value institutional stability
- 90% are building technology design and architecture into their business planning
- 80% of retail banks and 74% of commercial banks have already worked with infrastructure providers.
- Just 14% were unable to realise the efficiencies they set out to achieve from more flexible, outsourced infrastructure





A WORLD TRANSFORMED

The financial enterprise of tomorrow has already arrived. Accelerated by COVID-19, financial institutions have embraced digital and are better able to serve customers, collaborate with partners, and respond to changing markets – in part because they have embraced new ways of thinking about and implementing their financial infrastructure.

In this paper, we look at the signs of a sector transformed – and ready for whatever happens next.

If anything tells us how far financial services has changed it is this: more than nine out of 10 banks, FinTech providers, PSPs and payment intermediaries who took part in our survey now agree that customers value experience more than they value institutional stability. That this is now all but universally acknowledged, is a significant change. The value that many banks have held onto for so long – and the supposed bulwark against challengers and disruptors – is gone.

The concept of the financial services enterprise is now markedly different from the beginning of the 21st century, and even from the organisations that were about to be struck by the credit crisis of 2008. There is broad recognition that digital capability, data-driven business models, and a customer-centric approach enables not just smaller organisations to compete at scale, but for larger ones to adjust their operations and respond to crises without scaling back their business.

In our survey, nearly half believe that digital financial services allow smaller providers to compete with large incumbents. And FinTechs confirmed that digital technology allows them to be competitive, reaching new markets, serving customers, and offering new services. At the same time, commercial and retail banks are clearly looking for opportunities to create leaner, more agile organisations – once the preserve of the digital-first new entrants. In this sense, the Open Banking advocates and the PSD2 regulators have seen their vision realised.

The turbo-charged digital trend

As the first stage of pandemic response morphs into a longer-term strategy, the potential and power of digital solutions now have a strong proof of concept behind them – even if unplanned. But the embrace of digital is not simply the result of force majeure.

It is far more accurate to describe the pandemic as an accelerator of an existing digital vision.

Dean Wallace, Director for Real-time and Digital Payments at ACI Worldwide, has a long-term perspective on all this. When we asked for his view on the industry's relationship with digital he told us that the pandemic was proving the importance of digital channels. But he was also clear that during the first months of the lockdown the speed of digital adoption had accelerated. "Adoption levels have increased at a rate that normally would have taken years," he pointed out.

When we spoke to Juan Jiménez Zaballos, Head of Financial Industry Transformation at the global banking giant, Santander, he told us: "Digital service was already the new norm. Now it's imperative," adding that anything without a digital expression is not going to remain as it is, "... especially where it relates to large numbers of retail clients." He pointed to the increase in digital transactions and app downloads, and the way that video conferencing tools were likely to affect how banking services such as online advisory and private banking were handled.

> "Adoption levels have increased at a rate that normally would have taken years."
>
> **Dean Wallace,**
> Director for Real-time and Digital Payments at ACI Worldwide

> "Digital service was already the new norm. Now it's imperative."
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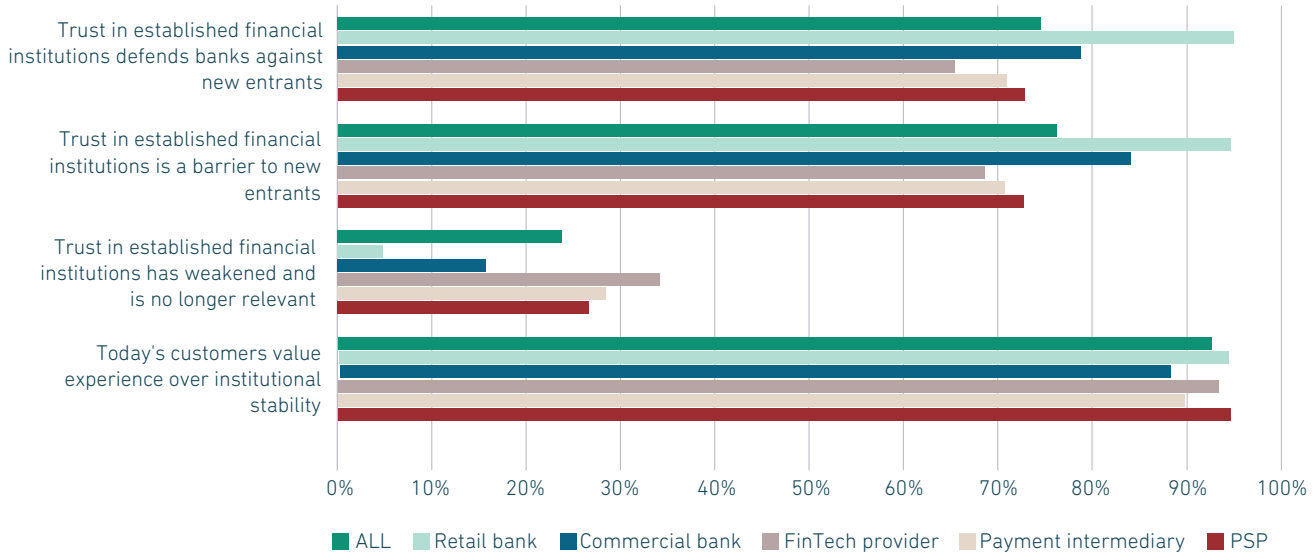
> **Juan Jiménez Zaballos,**
> Head of Financial Industry Transformation at the global banking giant, Santander

Do you agree with the following?



Source: MagnaCarta, Banking Circle Research 2020

Alex Mifsud, Co-founder and CEO of Weavr.io, a toolkit for embedded payment solutions for digital businesses, agrees and points out that the pandemic is accelerating a trend, "... from deep digitalisation of the payments process through the entire value chain."

Driven by customers – new and old

Between them our interviewees made it clear that the pandemic is accelerating digital delivery of existing services, the use of digital channels and the digitalisation of the underlying processes. Thibault de Barsy, Vice-Chairman & General Manager at Emerging Payments Association EU (EPA EU), also confirmed that the embrace of digital is the expression of a much deeper change. "[It] is really being driven by making the customer experience smoother," he told us.

The survey findings back him up. Of the biggest challenges facing the banking sector, keeping up with the changing demands of customers came second only to the existential threat presented by changing regulations.

The survey also shows us that nine out of 10 businesses are building technology design and architecture into their business planning – and by implication their business resilience. All agreed that there is a current business benefit or future opportunity to be had from technology and joining forces.

> "[It] is really being driven by making the customer experience smoother."
>
> Thibault de Barsy,
> Vice-Chairman & General Manager at Emerging Payments Association EU (EPA EU)

More than half of survey respondents also said that their technology infrastructure can help them respond better to changing customer demands - an increasingly essential tool for enabling businesses to scale. A third said it would help them reach potentially lucrative new markets.

And when it comes to the challenges of building a digital-first relationship at scale, the need to create both a user experience and a user interface that work for a wide range of customer types came top of the list. The challenge is providing the experience rather than the underlying technology.

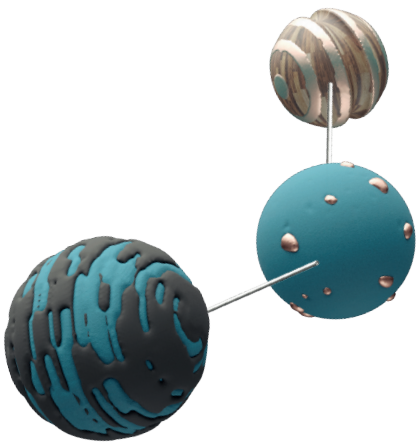
> "Actions like moving to the cloud and going digital can possibly add 30% to revenues and bring in 30% efficiency savings."
>
> Panagiotis Kriaris,
> Head of Business Development at payment service provider, Paysafe Pay Later

Infrastructure is strategic – and not always in house

Rather than being a maintenance headache for the IT department, banking infrastructure as a whole has become a much more strategic concern, certainly judging by the significant number of businesses that now have an interdisciplinary team looking at the latest technology innovations. This crucial decision is not simply a matter of IT selection but something that can affect the entire business and consequently demands broad input and buy-in.

The changing nature of financial infrastructure has done much to alleviate previous concerns. Variously known as Banking as a Service (BaaS), Platform as a Service (PaaS) or even Infrastructure as a Service (IaaS), what they all have in common is their cloud-enabling delivery mechanism. For Panagiotis Kriaris, Head of Business Development at payment service provider, Paysafe Pay Later, the move to the cloud becomes, in his words, a no-brainer. "Actions like moving to the cloud and going digital can possibly add 30% to revenues and bring in 30% efficiency savings," he said. "Then it's just a question of how you go about it."

Modern payments infrastructure, for example, is built on the understanding that both technology and businesses are ever-evolving and that what is considered normal today may be outdated or even obsolete tomorrow. Today's large enterprises, like banks, are increasingly rejecting the monolithic architecture of installed legacy systems. Instead they are built to take on specific tasks – such as payments or cross border transactions – to handle the complexities of what are, in effect, essential but relatively commoditised services without bringing the rest of the core banking system to a standstill.

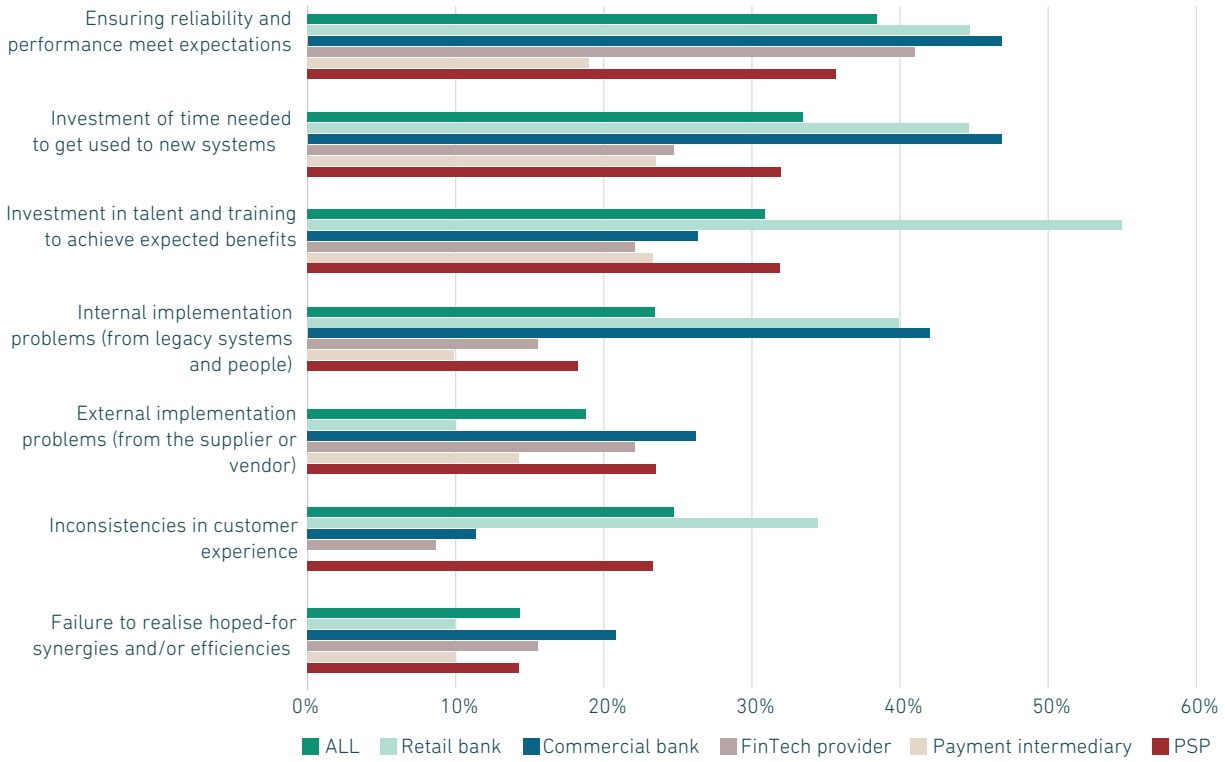


The survey showed us that nearly 60% of the organisations who took part have already worked with infrastructure providers – rising to 80% of retail banks and 74% of commercial banks. What's more, organisations are increasingly willing and open to working with providers of outsourced financial infrastructure. Only 11% said their legacy systems and people would pose a challenge to working with outsourcers, and less than a quarter felt there was still not enough proof that new forms of infrastructure are able to deliver value or savings in a short timeframe. That technology can deliver value is not widely questioned.

Although implementation of new types of infrastructure may be challenging for some, it is absolutely worth the effort.

For example, when they worked with financial infrastructure providers for different services, a third of respondents said they found that the investment of time needed to get used to new systems was a challenge. But only 14% had been unable to realise the synergies or efficiencies that they set out to achieve. Not surprisingly, 88% said that efficiencies were important to their business right now.

What challenges have you experienced when working with financial infrastructure providers for different services?



The opportunities are out there

Nonetheless, there are significant opportunities for infrastructure providers to demonstrate the value of their offerings in building agile, responsive financial firms to what appears to be a receptive audience. Nearly half (42%) of respondents have not yet worked with an infrastructure provider, and only 4% said that the reason for not incorporating technology design into their business planning is because they have already done so.

To get businesses on board, they will need to provide reassurance over security, which is by far the biggest obstacle to working with third parties. However, this is a situation that can realistically be expected to change.

Individual providers understand the responsibility they bear for securing their platforms and services and ensuring they do not become vehicles for fraud and money laundering – and work hard to make sure they deliver on those ambitions.

In addition, major public cloud providers like AWS and Microsoft Azure are developing services specifically for the financial sector, on the understanding that their scale and budget enable them to build security expertise that far exceeds that found in individual organisations. This change in the wider environment cannot help but influence organisations across the industry.

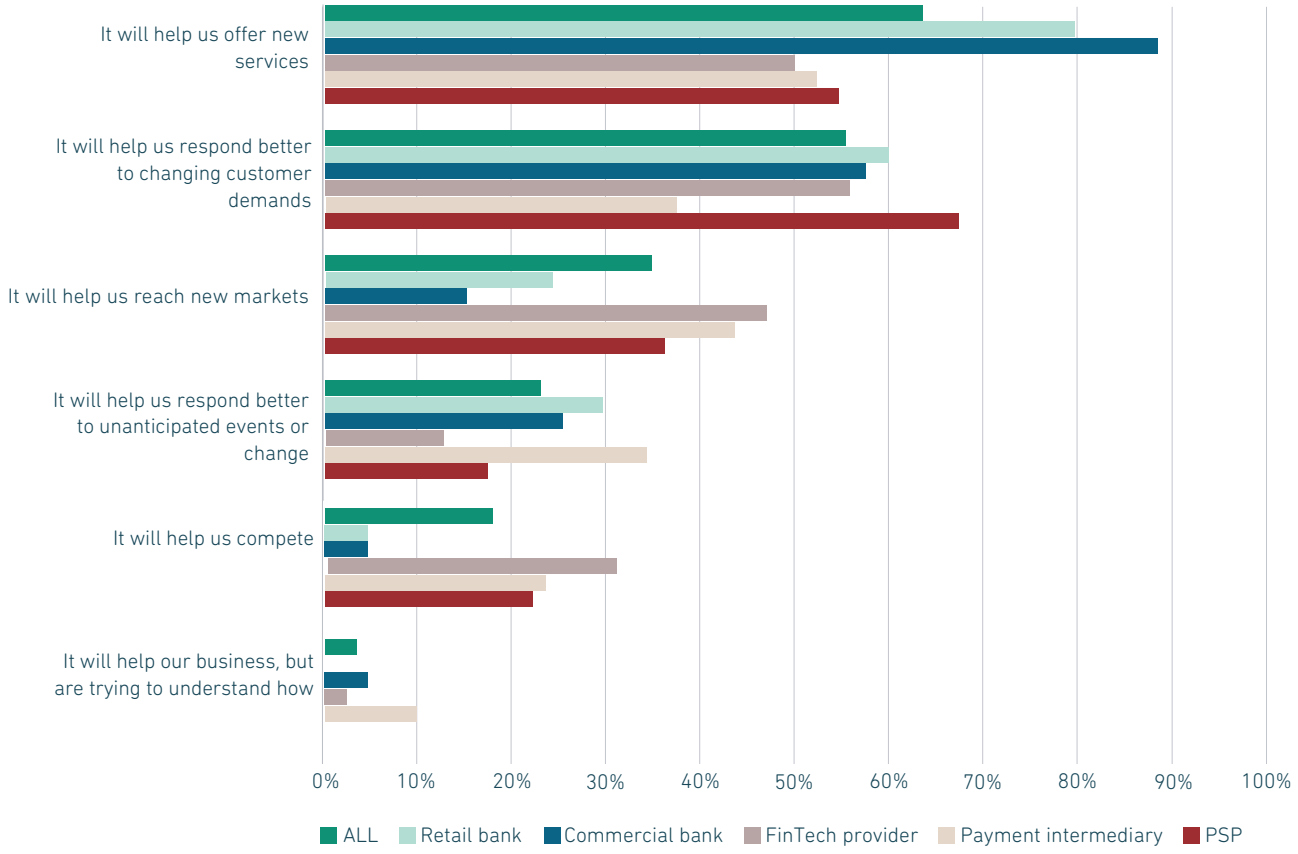
The past has died – and the future has already been born

What our survey confirmed is that many businesses have fully embraced the new, pandemic-induced normal and the idea of a digital future. The huge gaps between traditional providers and digital challengers have closed – although not disappeared completely. There's little value in telling members of the ecosystem that they need to embrace more collaborative ways of working, find efficiencies from digital, or introduce new forms of infrastructure. They have already done so.

> "The world was completely different five years ago. Trying to set direction for five years from now is very difficult. So, you have to be flexible."
>
> **Jason Maude**, Technology Advocate at Starling Bank

Our role now is to ensure that all have the means to keep on changing and that everyone has the tools to put new responsive strategies into action today – and tomorrow. Jason Maude, Technology Advocate at Starling Bank summed up the current moment: "The world was completely different five years ago. Trying to set direction for five years from now is very difficult. So, you have to be flexible."
In the third paper of this series, we'll look at the opportunities on offer for those that achieve full flexibility – and put that into the international context.

What is the role of infrastructure in capturing today's opportunities?



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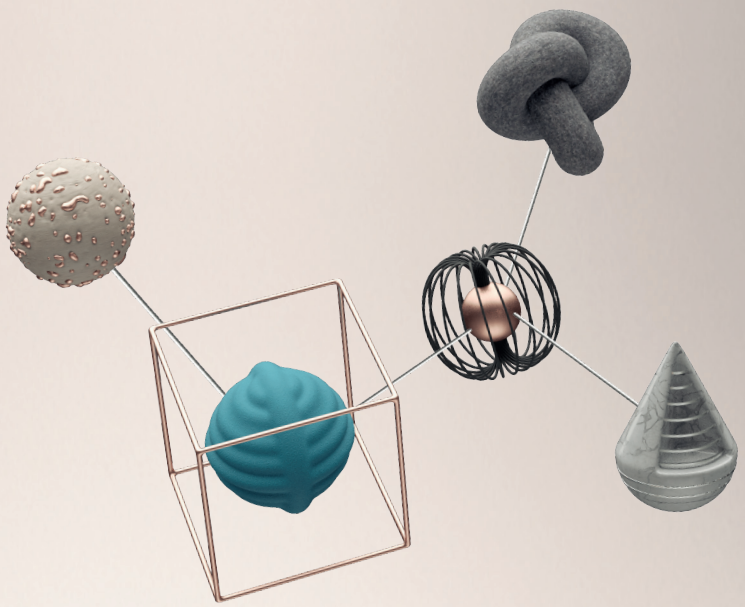

BANKING CIRCLE

About Banking Circle

A fully licensed bank, Banking Circle is a next-generation provider of mission-critical financial services infrastructure leading the rise of a super-correspondent banking network.

As a provider of Banking as a Service solutions, Banking Circle gives Banks and Payments businesses access to a range of banking services – multi-currency bank accounts, local clearing, cross border payments and flexible business lending – compliantly and securely, without the need to build their own infrastructure and correspondent banking partner network.

Bespoke, flexible, scalable and future-proofed solutions enable financial services businesses to do what they're really good at – serving the end client successfully and efficiently – thereby allowing them to seize market opportunities.

Bypass old, bureaucratic and expensive systems and enable global banking services for your clients.

www.bankingcircle.com