WHITE PAPER

Top 10 global banking industry trends for 2023

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Foreword

McKinsey's most recent **Annual Global Banking Review** characterized 2022 as "a tumultuous year of shocks and growing uncertainty."

They're not wrong, and the evidence for such a bold assertion is plain for all to see. Spiking inflation. Unjustified invasion. Energy weaponization. Expensive accommodation. Forced migration. Social discrimination. Rules violations. Customer indignation. Political polarization. Union confrontation. Inadequate weatherization. Financial ruination. Grimly, this list is non-exhaustive. The woes of the world weigh heavy.

Despite a continuation of difficult conditions in 2023, banks must remain resilient. They kept calm and carried on during the height of the COVID-19 pandemic and were rewarded with strong revenue growth and managed to avoid a non-performing loan Armageddon. Banking is entering this next era of instability from a position of relative strength, with balance sheets boosted by a sharp increase in net income after central banks progressively raised interest rates in the hope of regaining macroeconomic calm.

Balance sheet strength doesn't mean retail, commercial and corporate banks can rest on their laurels. Their job is never finished, and they must remember that customers of all sizes – from individuals to multinationals – rely upon them. In times of trouble, banking institutions can shine and be a catalyst for good – if they balance prudence with purpose in pursuit of profits.

Some influential people have said that we need banking, but we no longer need banks. This is wrong. We need banks more than ever, and we need them to deliver the superior, empathetic service and beneficial products and solutions that they are more than capable of providing. To do so, they'll want to be aware of global trends and have solutions ready to address and even outpace them.

Analytics sits at the heart of this new era of conscientious banking and turns the illusory dream of delivering positive change and making a difference into a tangible reality.

– Alex Kwiatkowski
Director, SAS Global Financial Services

Trend 1: Fighting fraud and financial crimes

Fraud and financial crimes continue to grow globally, and rapid technological development is changing how fraud and financial crimes are committed. That change in tactics is driving banks to continually revise and refine their efforts in fighting this ongoing, extremely expensive challenge.

Whether evaluating through the lens of fraud or financial crimes more broadly, the explosion of digitalization has increased potential points of penetration and exploitation immeasurably. And fraudsters can adapt and move faster than those trying to stop them. The proliferation of mobile channels and digital payment methods is particularly concerning for banks because they spawn fraud challenges at each stage of the customer journey.

Globally, fraud and financial crimes create significant losses for banks – not to mention their negative effects on brand and consumer sentiment when issues are exposed. This damage diminishes the relationships and trust banks are working to build with their customers, resulting in longer-term damage that's difficult to fully assess and repair.

> **Fintechna notes that financial crime is estimated to cost the global economy** more than $2.4 trillion, with the cost of compliance rising to more than $180 billion. IDC predicts that ransomware and other cyber security attacks will increase by 20% from 2022 through 2024.[1] Per Gartner, "By 2026, 30% of large organizations will have publicly shared environmental, social and governance (ESG) goals focused on cybersecurity, up from less than 2% in 2021."[2]

Detecting and preventing fraud and financial crimes is a top priority for leading banks. Those that rely on analytics and AI solutions can improve the efficacy and efficiency of their efforts.

Trend 2: Lending optimization with AI

The global economic outlook is murky at best. Facing supply chain disruptions and worker shortages driven by the COVID-19 pandemic, global impacts from the Russia-Ukraine war, rising inflation and central bank rate hikes, a mild to moderate global recession is anticipated.

In these tough economic operating environments, banks must maintain a risk appetite commensurate with economic conditions. Stopping lending isn't an option – so what's the path forward for traditional banks during economic uncertainty?

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[1] IDC, IDC FutureScape: Worldwide Banking 2023 Predictions, Doc #US48660022, October 27, 2022.

[2] Gartner, Predicts 2022: Cybersecurity Leaders Are Losing Control in a Distributed Ecosystem, Sam Olyaei, Claude Mandy, Christine Lee, Richard Addiscott, Tom Scholtz, Deepti Gopal, 24 January 2022. Gartner does not endorse any vendor, product or service depicted in its research publications, and does not advise technology users to select only those vendors with the highest ratings or other designation. Gartner research publications consist of the opinions of Gartner's research organization and should not be construed as statements of fact. Gartner disclaims all warranties, expressed or implied, with respect to this research, including any warranties of merchantability or fitness for a particular purpose.

Banks must be alert to new and advanced players in digital lending who are capitalizing on open banking opportunities while expanding their ecosystems and developing strategic partnerships. The increasing number of digital lenders creates new opportunities for the market but challenges traditional banking institutions whose lending platforms are inefficient. To keep up or even outpace the challengers, banks must modernize their digital lending platforms and deliver personalized experiences powered by AI and advanced analytics.

Through platform modernization, banks are better positioned to compete with increased speed and efficiency, improved fraud detection and removal of human bias from models. Ultimately, banks can deliver a more positive consumer experience by automating the entire loan process – ensuring faster cash in-hand for consumers.

According to **Grand View Research**, the global digital lending platform market size was valued at $7.04 billion in 2022 and is expected to register a compound annual growth rate (CAGR) of 26.5% from 2023 to 2030.

Trend 3: Digital payments transformation

Digital payments continue to transform rapidly, with fintech and big-tech companies gaining an increasing share of an ever-expanding ecosystem. Players like Amazon and Google are digging into data to deliver new payment opportunities, and social media has evolved from a place to share life updates to an "influence-to-buy" experience.

These are just two examples of payments transformation that are challenging traditional banks. To avoid losing ground to tech-driven innovators, banks must accelerate their own payments transformation initiatives to deliver integrated, seamless experiences across channels that meet the customer in their moment of need.

According to **McKinsey & Company**, more than 80% of US consumers use digital payments, including browser-based or in-app online purchases, in-store checkout using mobile and QR-code and person-to-person (P2P) payments. A **2023 Commerce and Payment Trends Report from Global Payments** highlights that 52% of businesses plan to sell through social networks in 2023, with global social commerce sales expected to nearly triple by 2025 to $1.2 trillion.

With the continued transformation of digital payments – including the increasing number of payment rails and skyrocketing use of cashless and contactless payments – global banks are challenged three-fold. To compete, they must:

- **Use real-time consumer data and analytical insights** to support increasing consumer demand for payment options, embedded transactions and customized solutions.
- **Continually refine and perfect payment and identity fraud detection**, verification and expedient remediation while ensuring the security checks built in along the customer journey don't become points of friction and frustration.
- **Keep investing in platform modernization and adopt new technologies.** It requires keen talent management and acquisition to ensure these products and solutions remain innovative, current and seamless.

Trend 4: Next-level personalization

The meaning of personalization continues to evolve and expand as consumers demand more from their banking relationships. Although banks have invested significantly in digital transformation, most still lag behind tech-driven consumer companies in delivering meaningful consumer engagement. Customer acquisition strategies are often rife with missed opportunities as banks fail to recognize the cues within the customer's nonlinear digital journey. But there's a significant opportunity to drive new customer acquisition and deepen existing relationships if banks can fully use their internal data to advance decision making.

Delivering an exceptional experience can create significant value for banks. According to IDC, banks must use AI to harness real-time data and apply behavioral and data science to enhance and simplify every point of the customer journey. They predict that by 2027, one in five global banks will abandon customer satisfaction score (CSAT) as a measure of customer experience and adopt customer effort correlated to outcomes as a key indicator of journey satisfaction and success.[3]

Banks need to build long-lasting loyalty and advocacy while continuing to grow revenue. To do so, they must improve customer confidence and trust. With real-time decisioning based on analytical insights, banks can provide more relevant, personalized communications to customers across all marketing channels and devices.

A McKinsey & Company survey of US retail banking customers found that banks with the highest degree of reported customer satisfaction saw deposits grow 84% faster than banks with the lowest satisfaction rating.

Trend 5: Migration and modernization

In 2022, SAS sponsored a survey with the Economist Intelligence Unit and released the results in a subsequent report, **Banking in 2035: three possible futures**. The survey found that nearly three-quarters of bank IT executives believe that moving to the cloud will help them achieve business priorities. It also highlights that banks have been slower to move to cloud computing than other sectors. However, due to the transformative effect of the pandemic, 30% of executives now say they are incorporating AI multi-cloud technologies into their organizations.

According to **McKinsey & Company**, banks are taking a new approach to modernization to reduce complexity and accelerate project delivery. This comprehensive effort encompasses the data stack, the core systems and the surrounding systems in line with a global approach. Companies that have adopted this approach have been able to cut typical transformation timelines in half and costs by 70% – while achieving the desired benefits.

[3] IDC, IDC FutureScape: Worldwide Banking 2023 Predictions, Doc #US48660022, October 27, 2022.

While banks have been modernizing to varying degrees for some time, the increased pressure of the pandemic and digitalization across industries accelerated their efforts. The post-pandemic landscape, with its new customer demands and operational necessities, has forced banks to consider what modernization means now and how to best align their efforts. Additionally, the need to reduce IT expenditures and accelerate the delivery of new products and services has propelled banks to modernize legacy systems. Easy to say, harder to do. So, how do banks chip away at the modernization journey?

Here are a few questions to consider in the modernization journey. Are banks making the best use of a readily available ecosystem of partners, services and cloud providers? Are they evaluating the opportunities AI and ML can have on the business beyond process automation and efficiency creation? Are banks truly delivering the transformation that positions them to deliver a new digital customer experience fed by data and insights?

Modernization opportunities span all areas of the bank. It's up to the banks to seize these opportunities and deliver a new era of banking with the customer at the heart of every decision.

Trend 6: Injecting responsible AI

To compete and thrive in an evolving competitive environment, traditional banks must implement new approaches, becoming "AI-first" in their strategy and operations. In 2023, banks will continue to inject AI into their operational activities and extend existing capabilities to the front, middle and back offices. To satisfy increasing customer and stakeholder demand for a more conscientious approach, banks must ensure that these AI-first opportunities are free from bias and put the customer at the heart of their business.

> **A recent Genpact report** notes that more than 28% of senior executives say their companies plan to reimagine their businesses with AI fundamentally and that a greater emphasis will be placed on the morality behind how machines are programmed as AI becomes central to everyday life.

To ensure stakeholder and customer satisfaction, firms will inject more AI and ML into areas like detecting and preventing fraud and financial crime, risk management, regulatory compliance and marketing. While doing so, they must maintain the highest ethical practices to demonstrate their commitment to responsible development.

SAS believes that **responsible innovation with AI** encompasses asking "should we" as well as "could we." We follow a set of six principles rooted in our core beliefs and proven, effective strategies, including:

- **Human centricity** – to promote human well-being, human agency and equity.
- **Inclusivity** – to ensure accessibility and include diverse perspectives and experiences.
- **Accountability** – to proactively identify and mitigate adverse impacts.
- **Transparency** – to openly communicate intended use, potential risks and how decisions are made.
- **Robustness** – to operate reliably and safely while enabling mechanisms that assess and manage potential risks throughout a system's life cycle.
- **Privacy and security** – to protect the use and application of an individual's data.

Trend 7: Expanding ecosystems

As traditional banks face diverse competitive threats from neobanks, non-bank challengers and digital commerce innovators, they're taking a more proactive approach to stave off disintermediation by accelerating the development of their ecosystems through strategic partnerships with fintech and big tech.

Banks are assessing their value chains and stakeholder demands to determine where partnerships, collaboration or white labeling products and services can deliver faster, optimized results at scale versus building or buying. This approach represents a significant change in how banks are adapting to changing market dynamics and prioritizing solutions, partnerships and investments that offer the greatest return.

Ecosystem partnerships make banks more relevant in the financial marketplace and play an intrinsic role in improving profitability. Forging deeper relationships with fintech and big tech helps banks become more efficient as they tap into innovative, otherwise prohibitively expensive capabilities. It also positions them to capture a larger share of wallets as they provide speed, scale and differentiated experiences and products to new and existing customers. BaaS will continue its expansion in 2023 as licensed banks integrate their digital banking services directly into the products of non-bank businesses. That said, BaaS is moving at different speeds based on regulatory jurisdiction.

Regulatory change is paving the way to open banking throughout the world. Established players must adapt.

According to **Grand View Research**, the global banking-as-a-service (BaaS) market size was valued at $19.65 billion in 2021 and is expected to expand at a CAGR of 16.2% from 2022 to 2030. Primary drivers propelling the market expansion are rising demand for financial services along with rapid internal and cross-industry digital transformation.

Trend 8: Balancing purpose and profitability

The notion that financial services firms do not operate in a vacuum has been gaining ground over the past few years. With global climate change and environmental threats, widespread social unrest, and regular reports of financial institutions caught on the wrong side of the ethics coin, stakeholders are increasingly demanding that financial institutions take a more active leadership role in addressing these challenges. And with talent in high demand and short supply, organizations are seeing employees filtering their opportunities to align with organizations that share their ethical, social and environmental ideals.

ESG matters to banks because it increasingly affects their bottom line – and because stakeholders are paying attention and demanding action. Lack of focus, inappropriate governance and opaque reporting practices influence consumer and investor sentiment and raise red flags with regulators, ecosystem partners and governments.

In their **ESG 2030 Predictions**, KPMG notes, "Demand for transparent and proven ESG policies and practices will lead to the introduction of mandatory ESG ratings and certification processes, with consistent non-compliances met with severe consequences."

Stakeholders' laser-like focus is zeroing in on banks as they try to out-compete each other on sustainability. Moving forward, banks must make strategic and focused ESG decisions. The coming years will separate the ESG innovators from the sustainability slackers – with consumer sentiment and trust damaged if accusations of greenwashing are proven accurate.

The next three to five years will usher in a new era of ESG, where an exponential amount of ESG data will drive accountability and accelerate progress in achieving organizational goals. That requires banks to take a leadership role in demonstrating their commitment and focus to the concept of conscientious banking – that is, balancing purpose and profit for the greater good of people and the planet.

Trend 9: Climate action

Climate change – namely through rising sea levels, worsening floods and fires, and government policies transitioning away from carbon-heavy industries – could destroy trillions of dollars of assets around the globe. This poses a significant systemic risk to the global financial ecosystem. Financial regulators worldwide are moving to ensure banks identify risk exposures from climate change and establish strategies – and adjust business models – to manage them.

In **Rising to the challenge of net zero banking**, Accenture states, "So far, almost 60% of the world's leading banks have made public commitments to reach net zero carbon emissions. Moreover, Accenture research found that many banks are eager to go a step further. They want to become stewards of the global transition to a net zero economy and guide their corporate customers as they decarbonize. This role would enable banks to extend and strengthen their businesses while also playing a pivotal role in preserving the planet for future generations."

As regulators accelerate efforts to ensure the financial system is not destabilized by climate change, banks are putting the proper data, processes, governance, policies, models and infrastructure in place. Now, banks must step up their efforts to tackle climate risks and the net zero journey to meet stakeholder demands. This transformation agenda must be embedded in the culture of an organization with clear and distinct programs that demonstrate significant commitment across the organization. A small-team, ad hoc approach will not suffice.

While many banks have made ambitious sustainable finance commitments, "green" product and service offerings remain in the infancy stage. Growing pressure from investors will force banks to integrate ESG into the core of their strategies and will require decarbonization. Data and advanced analytics will play a pivotal role in driving the net zero journey.

Trend 10: Blockchains and bitcoins

The explosion of crypto is already fundamentally changing the global financial landscape, creating significant risks and immeasurable opportunities for new and existing players. The market cap for the purchase and sale of digital assets on crypto exchanges exceeds $1 trillion. Yet over the last five years, the crypto market has resembled a rocket without a guidance chip. There have been ups, downs, loops and quite a few explosions along the way. Anything written about crypto could be a mere moment away from being outdated.

Given the sheer volatility of crypto and the multitude of implications – fraud and financial crimes, lack of appropriate regulation, and its destabilizing nature on markets (to name a few) – banks are grappling with how best to support this consumer demand while evaluating potential impacts and opportunities.

Blockchain, the underlying technology behind cryptocurrency, has numerous benefits and potential applications. Benefits include increased transparency, accurate tracking, a permanent ledger and reduced costs. Among others, one of its most promising applications involves faster, cheaper settlements that could shave billions of dollars in transaction costs while improving transparency. That said, blockchain is an incredibly complex technology with implementation challenges and significant regulatory implications.

Some financial institutions are already taking advantage of crypto opportunities. Mastercard recently announced that they are working on plans to make crypto an "everyday way to pay" by acting as a bridge between the crypto trading platform Paxos and major banks. Google is getting into the game with a Coinbase partnership.

Banks aren't quite there yet. **According to PWC**, banks ready to advance in the crypto space must first evaluate their internal systems' readiness and their audit and control functions to determine their ability to adequately balance risk and opportunity cost.

To effectively move forward as crypto matures, banks will need to take an analytical view of current risks and develop a detailed plan for how they will incorporate crypto into their future state.

Supercharge your bank's data to make better decisions

SAS knows banking's future in a digital economy demands better insights. Using analytics and AI, we'll grow, innovate and help you get more out of your data. The result? You'll better connect with your customers, gain new insights into risk and move faster in the financial marketplace. Together, we'll evolve your analytics strategy so you can make better decisions that will elevate people, the planet and your bank's full potential.

Fraud and financial crimes compliance

Make fast, on-target decisions to reduce the monetary, reputational, and compliance risks of fraud and money laundering.

Risk management

Quickly respond to customer needs and market changes to improve financial performance and meet regulatory demands.

Customer intelligence

Deliver timely and meaningful customer interactions to increase engagement, boost profitability and foster loyalty.

Learn more about **Banking Analytics from SAS**.