Banks: transform digitally or die

Technology giants such as Amazon and Google will hold the largest market share of the banking industry within just five years, if banks fail to digitally transform.

Source: © avemario 123rf

This is the prediction of 74% of respondents surveyed in the *Evolve or be extinct* report from cloud banking platform, Mambu, conducted by the *Financial Times Focus* (*FT Focus*).

The report surveyed over 500 senior banking executives globally to gain insights into their perception of the banking industry, now and in the future.

Slow progress

The results illustrate the urgency for banks to modernise their offering as 58% of respondents predict they will cease to exist completely in the next five to 10 years, if they fail to change their business models, while more than two thirds (67%) say they will lose market share within two years if they fail to digitally transform.

Two fifths (40%) of respondents said they intend to modernise to a platform-based offering post pandemic, working with third party providers to develop plug-and-play banking services run on flexible, independent systems.

The report also highlights the slow progress and challenges banks are facing as they move away from traditional and legacy banking services towards digital.

EMEA findings

Just a quarter (25%) of Europe Middle East Africa (EMEA) banks expect to significantly increase spending on big data in the next three years, compared with 40% of banks in Asia Pacific.

Over a third (36%) of EMEA-based banks will invest substantially in artificial intelligence (AI), compared with 50% of banks in Latin America. Less than a fifth (19%) of EMEA-based banks are focused on blockchain investment, compared with 30% of banks in North America.

Financial evolvers

Modernising to a platform-based structure and investing in data capabilities are key factors that separate digitally-advanced companies from the rest of banks.

"The last 18 months have shown banks just how important it is for them to have a robust and agile digital banking offering," says Elliott Limb, chief customer officer, Mambu.

"With 53% of those surveyed admitting they're at risk of missing digital transformation targets, it's time the industry took note of the financial 'evolvers' that are leading the charge in this space," he says.

These include fintechs, challenger banks, and forward-thinking traditional players that are prioritising purpose-driven services and great customer experience.

But while these forward-thinking players can see the benefits of digital transformation, outdated perceptions of banking are slowing down progress at a time when ESG goals and the customer experience are set to be the key growth drivers of the future.

More than four fifths (81%) of retail banking leaders strongly agree that replacing outdated mindsets with a progressive social purpose is vital to growth strategy.

This was reflected in profit falling down the priority list for banks, with 'increased revenues' ranked as only the fifth biggest benefit of moving to a customer-centric banking model.

Bucking the trend

The research illustrates how the banking industry is diverging on its approach to digital transformation:.

"While retail banking has been slow to respond to the rapid changes in consumer behaviour brought about by the pandemic, there's an emerging cohort of digital 'evolvers' that is bucking this trend," says Limb.

"What's more, these forward-thinking players can help digital laggards to level up their transformation efforts, setting a blueprint for the rest of the industry to follow while demonstrating the business case for a customer-centric approach," he states.

With nearly a quarter of banking leaders describing their digital strategy as either 'nascent' or 'exploratory', the findings reflect the need for greater collaboration within the banking community, as well as the opportunities for forward-thinking players that embrace innovation through fintech ecosystems.

You can read the full report here