

Banking IT Services State of the Market Report 2020: Hyper-segmentation Strategy Enabled by Digital Capability Platforms and Data Exchanges

July 2020: Complimentary Abstract / Table of Contents



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Background of the research

Background of the research

Changing customer preferences, demand for digital experiences, and competition from FinTechs are impacting banks' digital strategy and transformation initiatives. The recent health crisis has accelerated the push for digital channel adoption and demonstrated the need for a hyper-segmentation strategy. Customer demand themes are seeing a drastic shift and will test the banks' ability to serve them in this health and financial crisis. A platform-based operating model and a data exchange will be the foundation of a successful hyper-segmentation strategy.

In a post-COVID-19 world, banks will need to relook their strategy to serve customers and customize their services, products, and experiences accordingly. A robust platform-first operating model complemented by data exchanges will help unlock significant business value for the banks.

In this report, we cover:

- Forces shaping the future of the banking industry
- Implications for banks to lead through the COVID-19 crisis and navigate the impact
- Technology operating model to drive business transformation and implement a hyper-segmentation strategy
- IT outsourcing spend analysis of banks across LoBs, geographies, and service segments

Scope of this report:



Geography
Global



Industry
Banking

Summary of key messages



Reduction of interest rates, rising number of non-performing loans, and limited business activity are impacting the banks' ability to be profitable amidst the COVID-19 turmoil

Banks are facing dual challenge of increasing cost pressures and the need to provide hyper-segmented experiences as demand for digital transformation rises given the strict social distancing norms

A platform-first operating model that can be deployed multiple times for each hyper-segment will lead to scalability, cost-effectiveness, and ability to cross-sell multiple products and services

Data exchange of the future will lead to decentralization and break silos to provide deeper customer and channel insights across the hyper-segments

Banking IT services spend to drop in 2020 by -3.0% to -2.0% on the back of the COVID-19 crisis; however, specific industry segments will see pockets of growth that will drive overall IT spend in an upwards trajectory

This study offers seven distinct chapters providing a deep dive into key aspects of banking IT services market; below are four charts to illustrate the depth of the report

Banks are transforming into lifestyle experience orchestrators



Current	<p>BANKING-AS-A-PRODUCT</p> <ul style="list-style-type: none"> Viewed as seller of products such as loans, CASA, credit cards, and money market accounts Focus is on building a single view of customers across different business units or product functions Manage customer experience over their own channels and do not integrate with Third-party Providers (TPPs)
Short term	<p>BANKING-AS-A-SERVICE</p> <ul style="list-style-type: none"> Adoption of APIs and move to open banking are rendering banking as a plug-and-play service Provides an as-a-service platform to help TPPs integrate seamlessly with back office of banks Focus is on externalizing single view of customers for TPPs Manage customer experience over their own channels; however, have limited influence on services provided over TPP's channels
Long term	<p>BANKING-AS-A-LIFESTYLE ("AMBIENT BANKING")</p> <ul style="list-style-type: none"> Banking will be cash free, ubiquitous, and part of our day-to-day lifestyle Banks will move upstream and coordinate the entire ecosystem. They will integrate with allied businesses and extend access through edge devices They will be able to influence customer experience across all channels (self as well as TPP-owned) Technology landscape will be defined through a customer-centric IT strategy and enabled by APIs, analytics, cloud, and microservices

Hyper-segmentation strategy is gaining traction

Earlier approach

- Sell traditional products, such as loans, credit cards, and CASA to all sets of customers
- Customer segmentation based on geographic location and other demographic factors such as gender, age, and occupation
- Lack of personalization in everyday customer touchpoints

Challenges

- Customers with different needs offered the same set of products
- Absence of a 360-degree view of a customer due to fragmented databases
- Legacy IT systems and complex organization structures form a roadblock for transformation

Hyper-segmentation approach

- Focus on delivering real-time, hyper-relevant, and personalized customer interactions
- Leverage data to generate insights, provide a better customer experience, and tailored services
- Identify segments and understand that each customer has unique needs

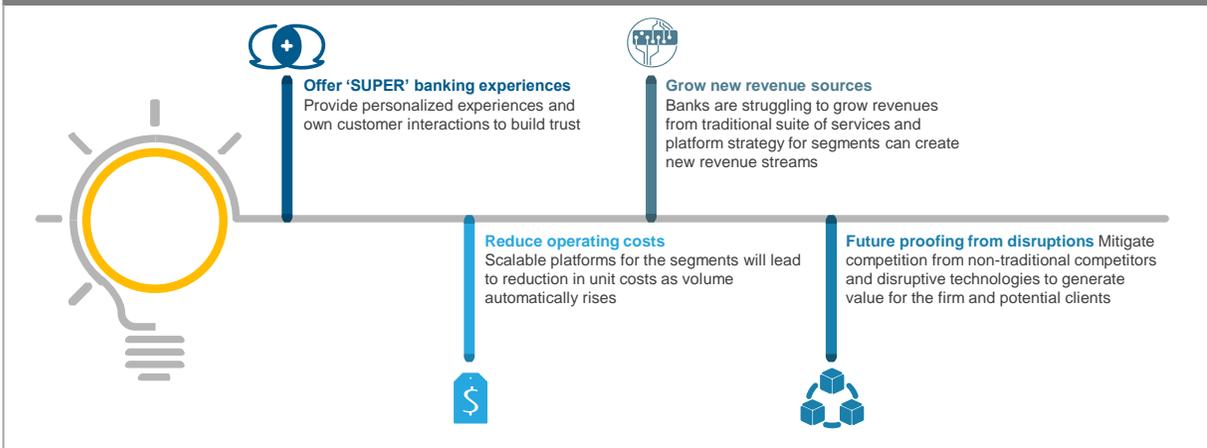


Revolut Launched a money management service for people under 18 years of age in the UK called Revolut Junior

usbank Partnered with Fiserv to enable customers to aggregate their financial data via an API

HSBC Partnered with Alibaba to offer quick trade finance approvals to online merchants

Rise of platforms for specific segments and their benefits



- Offer 'SUPER' banking experiences**
Provide personalized experiences and own customer interactions to build trust
- Grow new revenue sources**
Banks are struggling to grow revenues from traditional suite of services and platform strategy for segments can create new revenue streams
- Reduce operating costs**
Scalable platforms for the segments will lead to reduction in unit costs as volume automatically rises
- Future proofing from disruptions**
Mitigate competition from non-traditional competitors and disruptive technologies to generate value for the firm and potential clients

Hyper-segmentation strategy enabled by data exchanges

Cost efficiency

- Optimize customer onboarding costs using third-party data sources for each hyper-segment
- Prevent customer churn by analyzing past transactions and take preventive actions to continuously reclassify the customer's hyper-segment as their lifestyle choices change

Process efficiency

- Faster product development by testing product viability and predicting product performance that is designed for each hyper-segment
- Reduce loan turnaround times across the origination process

Innovation and new business models

- Collaborate with the relevant and right-fit ecosystem partners to create targeted experiences for each hyper-segment
- Monetize API-based products powered by using analytics on data for each hyper-segment

Business growth

- Customer insights can help in better product positioning along with cross-sell/up-sell opportunities
- Use Machine Learning(ML) and real-time analytics technologies to understand unique needs of each hyper-segment and customize product/services offerings in real time

Experience

- Customize the channel mix and strategy for each hyper-segment that helps deliver contextual and relevant services and product awareness messages
- Curate experiences based on the different hyper-segments that a customer might fall into



Research calendar

Banking & Financial Services IT Services

Published Planned Current release

Flagship BFS-ITS reports

Release date

Application and Digital Services in Banking – Services Peak Matrix™ Assessment 2020: IT Modernization to Enable Digital	November 2019
Application and Digital Services in Capital Markets – Services PEAK Matrix™ Assessment 2020: Beating the Slowdown with Data	December 2019
Open Banking IT Services: Moving Beyond Compliance to a Platform-based Operating Model of Ecosystem Orchestration and Value Creation – Services PEAK Matrix® Assessment 2020	May 2020
BFS Risk and Compliance IT Services PEAK Matrix® Assessment 2020: Building Cloud-based Data Infrastructure for Intelligent Real-time Controls	June 2020
Open Banking IT Services Service Provider Compendium 2020	June 2020
Risk and Compliance IT Services in BFS Service Provider Compendium 2020	June 2020
Capital Markets State of the Market Report 2020: Automation, Data, and Cloud Trends for Buy-side Firms	July 2020
Banking IT Services State of the Market Report 2020: Hyper-segmentation Strategy Enabled by Digital Capability Platforms and Data Exchanges	July 2020
Lending Technology State of the Market report: Assessing Loan Origination System Vendors – The Journey to Cloud	Q3 2020
BFS IT Services – Deal Trends Report 2020	Q3 2020

Thematic BFS-ITS reports

Release date

Financial Risk Management Platforms Assessment and Vendor Profiles	March 2020
Assessing the Trade Life Cycle Management Technology Platform Landscape	March 2020
State of the Market for Third-Party Enterprise Platforms in Banking and Financial Services: Ecosystem Collaboration for Modernization at Speed and Scale	April 2020
Role of BigTechs in BFSI Industry	Q3 2020

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