Banks and credit unions are facing increasing competition from new entrants who promise to surprise and delight customers with seamless, personalized customer experiences. As a result, banks and credit unions must differentiate themselves in the market by investing in data and analytics capabilities that will help provide the personalized customer experiences their clients have come to expect from other industries such as online retailing.

Financial institutions can no longer count on customer inertia, particularly among younger consumers who are more likely to diversify their financial services and are more expansive in their definition of what banking involves (e.g., peer-to-peer payment apps and cryptocurrency). Younger generations are also more open to obtaining financial services from tech giants such as Apple and Google. The next generation of banking and financial services will see a major shift from a focus on product features to the prioritization of customer demands and experiences.

**Developing strategies**

In October 2022, American Banker and researchers from its publisher Arizent surveyed business leaders across the banking sector to predict the trends they believe will shape the industry and inform their business strategies for 2023 and beyond. Customer behavior is top of mind; more than half of respondents say changing customer demands are a major priority as they develop strategies for the next few years.

Companies also plan to expand their customer experience capabilities, especially with new products, personalized experiences and mobile apps. Increasing demand for digital services has accelerated the financial industry’s adoption of higher tech for customer-facing products. Companies are still committed to major technology spending, though slightly less than last year. Top strategies include cloud migration and data and analytics.

This e-book covers not only highlights from the research but also offers insights for banking professionals as they seek to stay competitive in an increasingly challenging and saturated market.
Research highlights

Economic concerns
In setting their strategic plans, banks, credit unions and fintechs are considering the fluctuating state of the economy. Just over half (53%) of respondents don’t expect the economy to recover until 2024, while 38% think it will recover in 2023. Further, 65% of respondents are concerned about the impact of inflation on their customers in 2023. However, 82% think inflation will cool in 2023, with only 18% expecting a significant decrease in inflation.

Competitive landscape
Half of all respondents, and even more respondents from institutions with less than $10 billion in assets, say the changing competitive environment will be among the most impactful trends in the next three years as new entrants, fintechs and major corporations introduce new offerings.

Tech giants such as Amazon, Apple, Facebook and Google have the potential to disrupt the banking industry, especially after releasing competitive financial products such as payments and lending. Retailers with strong brand loyalty also pose a threat. Walmart’s fintech arm Hazel acquired a challenger bank and an earned wage access company in January 2022, and has created a neobank called One to target Walmart customers and employees.

In the next three years, 46% of respondents expect Amazon, Apple, Facebook and Google to become major competitors. From the consumer perspective, the definition of banking is expanding, with younger consumers in particular being open to using financial services providers outside their primary bank. A positive customer experience with a fintech following poor experiences with their primary bank could be the tipping point that converts consumers from their primary bank to an alternate entrant.

It’s no longer enough to distribute good products and services and expect loyalty. The future of banking will be hyper-personalized and anticipatory."

— Terry Kuester, Vice President, Banking & Financial Services, NTT DATA Services

Consumer research by American Banker and Arizent in February and April 2022 found that young bank customers are wavering in commitment to their primary banks just as tech firms and fintechs are stepping up their game. Although these firms won’t replace banks entirely, they threaten to pull Gen Z and millennial customers away from their traditional banks for select services.

Banks also face competition for consumer banking operations from Federal Reserve initiatives. Three in 10 respondents believe a central bank digital currency is at least somewhat likely to emerge in 2023, with those from large banks expressing more confidence in this possibility. Overall, more than 70% expect competition from the FedNow real-time payments rail and the potential creation of a “digital dollar” currency. If these developments offer the ability to clear and settle payments with less friction, they could lower barriers to entry even further for fintechs.

Customer experience focus
The pandemic accelerated consumers’ adoption of digital channels, and financial institutions are responding with digital transformation initiatives to improve the customer experience as well as with branch consolidation. Half of respondents say that changes in customer behavior and demands will have a major impact on their business in the next three years (see Figure 1).
Respondents’ top priorities for improving customer experience are new product development or enhanced features or functionality of existing products, personalization, mobile or website capabilities, and data analytics and measurement. These are all essential elements in developing personalized products and services to deliver improved customer experiences.

However, customer experience priorities differ according to company size. For national and global banks, new product development/enhanced feature development is number one, while regional and community banks and credit unions see mobile or website capabilities as their top priority.

**Tech spending and investment priorities**

Reflecting concerns about the economy, tech spending forecasts are down for 2023 compared to 2022. 70% expect an increase in tech spending in 2023, compared to 85% who expected an increase in 2022. However, among those planning to increase tech spending, 76% expect to increase it by over 10%. Respondents who are more optimistic about a reduction in inflation in 2023 are more likely to plan an increase in tech spending, the survey finds.

53% of respondents named data and analytics as part of their top five spending priorities for 2023, followed by security and fraud mitigation (44%), digital payments (40%), cloud-based architectures (39%) and mobile apps (37%). Investing in data and analytics will help financial institutions develop the personalized products and services that deliver an improved customer experience, which is increasingly essential given the competition in the banking industry. “Based on research findings we see that personalization continues to be an ongoing trend and focus in the banking space,” says Janet King, VP of research at Arizent.

For both national/global banks and credit unions, enhancing security and fraud mitigation is the top priority, while it is the third highest priority for regional/community banks. Improving security and fraud mitigation is an important element in enhancing the customer experience, since experiencing fraud may negatively impact a customer’s relationship with their bank.
Firms increasing their tech spending in 2023 are more likely to prioritize APIs and API platforms. Those with under 20% of their apps in the cloud are more likely to list APIs as a top five spending category versus those who are further into their cloud migration journey (36% vs 12%). APIs enable firms with legacy core banking systems to integrate with providers of new technologies and services. Considering that core banking system transformation is difficult for most banks, APIs play an important role in enhancing banks’ technology capabilities.

**Cloud adoption**

In recent years, banks worldwide have been moving to the cloud and strengthening their cloud strategies. In the U.S., Bank of America, Capital One Financial, JPMorgan Chase and KeyBank are among banks which have formed partnerships with cloud technology providers.

81% of respondents say that they will have at least 20% of their applications in the cloud in 2023, with 26% stating that more than half of their organization’s applications will be cloud-based in 2023 (see Figure 2).

**Figure 2: Applications Expected to Be in the Cloud by 2023**

![Figure 2: Applications Expected to Be in the Cloud by 2023](source: American Banker, October 2022)

**Open banking timing**

The U.S. is lagging behind other jurisdictions such as the European Union and the U.K. in adopting open banking, which enables consumers to share their financial data with fintechs and financial institutions of their choice. 92% of respondents say the U.S. will widely support open banking at some point, with 60% expecting this to happen within the next six years.

Open banking will pose a competitive challenge to incumbent financial institutions as it will make it easier for customers to open accounts with new financial services entrants.

**Branch network plans**

Overall, 33% of banks and credit union respondents plan to reduce their branch network in 2023, led by the largest banks, as customers continue to migrate to digital channels. However, consumer research by American Banker and Arizent found that customers prefer in-person experiences for more complex transactions as they feel more secure using branches. This means that banks must ensure their branches are equipped with the necessary technology and infrastructure so they remain within the omnichannel banking loop.
Conclusions

• Customer behavior is top of mind; more than half of survey respondents say changing customer demands are a major priority as they develop strategies for the next few years.

• Despite concerns about the economy, respondents are still committed to major technology spending, though slightly less than last year. Top strategies include cloud migration and data and analytics.

• Using data and analytics to better understand customers and offer them what they need when they need it will be a critical competitive tool for financial institutions.

• Half of all respondents say the changing competitive environment will be among the most impactful trends in the next three years as new entrants, fintechs and major corporations introduce new offerings.

• In the next three years, 46% of respondents expect Amazon, Apple, Facebook and Google to become major competitors.

• 81% of respondents say that they will have at least 20% of their applications in the cloud in 2023, with 26% stating that more than half of their organization’s applications will be cloud-based in 2023.

• A third of banks and credit union respondents plan to reduce their branch network in 2023, led by the largest banks, as customers continue to migrate to digital channels.

To read the editorial report based off of this research, please visit 2023 Banking Predictions Report.

Tech-Forward Strategies for the Next Generation of Banking

1. Moving to a cloud-native and API-centric technology environment will help organizations attain operational excellence in a digital-first ecosystem.

2. Leveraging AI as well as data and analytics is key to improving the customer experience and providing personalization.

3. Prioritizing enhancements to cybersecurity and fraud mitigation systems is also a part of maintaining the customer experience.

4. Preparing for the advent of open banking in the U.S. is critical if banks and credit unions are not to lose out to digital native challengers, fintechs and big tech players.

5. Ensuring branches are equipped with the necessary technology and infrastructure that will keep organizations within the omnichannel banking loop shouldn’t be an afterthought. Branches can be essential for customers planning retirement, estate planning and other complex transactions, who prefer meeting with trusted relationship managers in person.
Methodology

During October 2022, American Banker and Arizent reached out to professionals in the banking and fintech space to lend their insights about issues facing their businesses in 2023. A total of 257 qualified leaders and staff at banks, credit unions and fintechs of varying sizes completed the online survey.

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NTT DATA, a global digital business and IT services leader, is the largest business unit outside Japan of NTT DATA Corporation and part of NTT Group. With our consultative approach, we leverage deep industry expertise and leading-edge technologies powered by AI, automation and cloud to create practical and scalable solutions that contribute to society and help clients worldwide accelerate their digital journeys.

Learn more at us.nttdata.com/en/industries/banking-and-financial-services

About Arizent Research

Arizent delivers actionable insights through full-service research solutions that tap into their first-party data, industry SMEs, and highly engaged communities across banking, payments, mortgage, insurance, municipal finance, accounting, HR/employee benefits and wealth management. They have leading brands in financial services including American Banker, The Bond Buyer, PaymentsSource, Financial Planning, National Mortgage News, and in professional services, such as Accounting Today, Employee Benefits News, and Digital Insurance.

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