

Banking IT Services State of the Market Report 2022

September 2022: Complimentary Abstract / Table of Contents



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Background and context

Background of the research

Changing customer preferences, demand for digital experiences, and competition from FinTechs are impacting banks' digital strategy and transformation initiatives. In the backdrop of global economy recovering from the pandemic, the supply chain disruptions due to the Russia-Ukraine conflict, and increased price volatility, banks will need to relook at their strategy to serve customers and thus customize their services, products, and experiences accordingly. Also, as central banks work toward greener mandates and introduce regulations around open banking, banking enterprises will have to manage Environmental, Social, and Governance (ESG) risks and prepare for collaboration with other market participants.

Data will be the primary lever to drive product innovation and enhance customer experiences. Banks will need to start thinking of themselves as data-driven organizations in order to unlock value and gather insights from data. However, banks will need to carefully assess their current legacy estates and how they view them in their technology estate. We will present Everest Group's investor harvester thesis to delve deeper into how banking enterprises can assess this better. From a technology standpoint, a microservices-based architecture in conjunction with data-driven operations will help drive the foundation for EDA. This architecture, complemented by CDPs, will help unlock significant business value for the banks.

We will also cover the banking IT outsourcing spend analysis across various lines of businesses, geographies, and service segments.

In this report, we cover:

- Forces shaping the future of the banking industry
- Role of embedded finance, sustainable finance, and hyper-personalization in changing customer experiences
- Adoption of Event Driven Architecture (EDA) to drive efficiency within banking enterprises and leveraging Customer Data Platforms (CDPs) to enhance hyper-personalization
- IT outsourcing spend analysis of banks across LoBs, geographies, and service segments

Scope of this report



Geography
Global



Industry
Banking and financial services



Report coverage
Banking IT services

Overview and abbreviated summary of key messages

This report examines the global banking IT services market and provides a deep dive into changing priorities of banking enterprises, market dynamics, lines of businesses overview, and demand trends. It also identifies the key implications of the research findings for enterprises and providers.

Some of the findings in this report, among others, are:

Changing priorities of banking enterprises

- Banking enterprise priorities are undergoing a shift as they cater to the changing consumer expectations and demand themes. They will need to relook at their strategy to serve customers and thus customize their services, products, and experiences accordingly
- As central banks work toward greener mandates and introduce regulations around open banking, banking enterprises will have to manage Environmental, Social, and Governance (ESG) risks and prepare for collaboration with other market participants

Event Driven Architecture in banking

- Legacy systems are the primary roadblock in banking enterprises' journey to stay relevant as they cater to changing demand themes
- Banks will need to thoughtfully assess the length of legacy applications and the infrastructure on which they function
- There is increasing need for banks to infuse data-driven operations in existing platform architectures in order to become event-driven organizations

Rise of Customer Data Platforms

- The explosion of data will require banks to leverage CDPs to aggregate data and infuse intelligence in their operations
- CDPs help eliminate data silos by integrating internal data with third-party datasets from external ecosystems
- CDPs help banks explore the benefits of cloud-based analytics and in-built AI/ML tools to process large data

Demand overview

- Banking industry will be under stress in 2022 as the ongoing geopolitical crisis adds dual challenges: significant cost pressures while managing profitability
- As profitability takes a hit, commercial banks will look for more costs savings initiatives resulting in increased outsourcing for efficiency-based investments

This study talks about the evolving business priorities of banking enterprises and how data plays a role in unlocking value for the enterprise; below are four charts to illustrate the depth of the report

Business priorities of banking enterprises as they cater to new demand themes

Embedded finance: seamlessly integrate financial services to traditionally non-financial businesses and influence end-to-end customer experiences

Sustainable finance: take cognizance of ESG considerations when designing financial products and services

Hyper-personalization: create tailored experience for each hyper-segment by leveraging the power of data and analytics



Strategic and tactical issues banking executives are facing as they look to modernize their legacy estates



Strategic issues

- **Stability** of the mission-critical functions to continue providing banking services to end customers
- **Risk controls** and compliance management to avoid regulatory scrutiny and penalties
- **Value** extraction via added functionalities by building on top of legacy systems such as customer analytics and payment fraud detection

Tactical issues

- **Cost** to maintain core legacy systems (such as lending and deposits) in-house vs. outsourcing to third-party vs. migration to greenfield systems
- Impact on **pricing** strategy for banking products as costs to modernize factor into overall profitability for the bank
- **Service levels** sustainability in legacy vs. new systems such as customer account opening and credit underwriting

Banks are turning to cloud data platforms (CDPs) to infuse intelligence into operations



The role of CDPs in unlocking value of data for banks

Define workflows with data

As banks are redesigning operations for the digital-first world, they are looking to infuse data across the workflows to build enterprise-level, data-driven, decision-making capabilities. CDPs combine insights from every stage of a customer's banking journey – from their transaction history to their current spending patterns – to create a constantly maturing customer account portfolio

Deploy data analytics at scale

Need to build focused analytics solutions to process large volumes of data to build value-added products/services. The centralized approach followed by CDPs, collect data into a unified data model, enables quicker digital analytics. This data is stitched into a single persistent profile for each customer

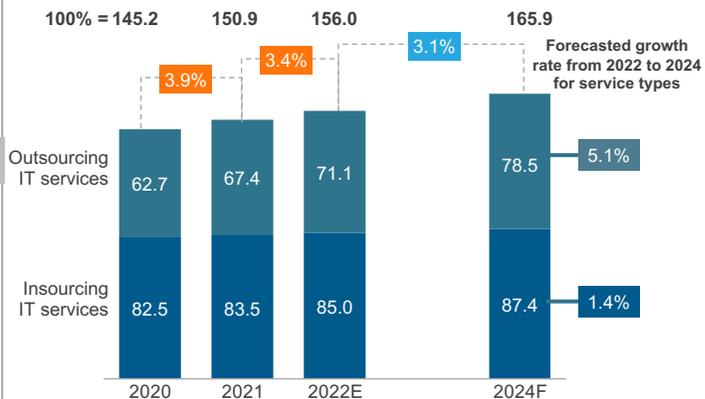
Modernize the data estate

CDPs help eliminate data silos by integrating internal data with third-party datasets from external ecosystems. Data for each customer across multiple ecosystems needs to be stored in a governed data lake enabling a single view of customer across ecosystems

Leverage the power of data on cloud

CDPs help banks explore the benefits of cloud-based analytics and in-built AI/ML tools to process large data. Some use cases include leveraging analytic models to predict customer churn, algorithmic performance measurement to evaluate campaigns, and building ML frameworks to hyper-personalize and contextualize customer offerings

Overview on demand for IT services and sourcing spend in banking



Banking IT services growth drivers

- Banking industry will be under stress in 2022 as the ongoing geopolitical crisis adds dual challenges: significant cost pressures while managing profitability
- Growing regulatory requirements, changing customer demand themes, and adoption of platform model will drive growth in outsourcing
- Outsourcing spend will see a growth of 5.4% in 2022 as firms reallocate resources and digital transformation projects take a backseat
- Insourcing will remain relatively cushioned at 1.4%. Firms will relook their in-house talent strategy and reduce exposure to impacted geographies
- Enhancing customer experience, managing talent, and innovative product development will ride high on financial institutions (Fis) agenda this year

Research calendar

Banking and Financial Services Information Technology

Published Planned Current release

Reports title	Release date
Consumer Loan Origination Systems – Products PEAK Matrix® Assessment 2022	January 2022
Consumer Loan Origination Systems – Service Provider Profile Compendium 2022	January 2022
Platforms IT Services in BFS – PEAK Matrix® Assessment 2022	January 2022
Temenos IT Services PEAK Matrix® Assessment 2022	January 2022
Finastra IT Services PEAK Matrix® Assessment 2022	January 2022
Temenos IT Services – Service Provider Compendium 2022	February 2022
Finastra IT Services – Service Provider Compendium 2022	February 2022
Platform IT Services in BFS – Service Provider Compendium 2022	February 2022
Introducing the Rubik’s Cube Supplier Segmentation Approach: Navigating the Talent Crisis by Engaging Specialist IT Service Providers	June 2022
Banking IT Services State of the Market Report 2022	September 2022
Wealth Management Products PEAK Matrix® Assessment 2022	Q4 2022
Wealth Management Products Technology Provider Compendium	Q4 2022
Capital Markets Technology and IT Services – State of The Market Report	Q4 2022
FinTech-Led Innovation in BFS – Financial Crimes & Compliance (FCC)	Q4 2022
Future of Treasury: Modernization Through Platform, APIs, and Cloud Market Report	Q4 2022

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