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Technology requirements evolve rapidly with changing customer expectations during COVID-19

By Neeti Aggarwal

Industry experts highlight the rapidly evolving technology requirements such as frictionless payments, stronger data intelligence and cyber resilience to meet customers' expectations amid the unprecedented global crisis brought about by COVID-19

- The pandemic forced institutions to strive for greater cost efficiency and agility
- The industry witnessed a proliferation of payment infrastructures and ecosystems
- Emerging technologies like AI harness data effectively for deeper insights

The world navigated uncharted waters in 2020. COVID-19 pandemic altered behavioural patterns. It not only accelerated the pace of digitisation but also highlighted the gaps in existing digital journeys. Rapid shifts towards contactless, real-time payments and digital transactions are reshaping business models. There is greater convergence of scalable and lean systems, stronger applications of data insights and wider ecosystems.

Sibos 2020 held digitally for the first time in November 2020 had an overarching theme - 'Driving the evolution of smart finance.'

Accelerated digital and technology innovations to meet customer expectations

COVID-19 proved to be a catalyst in behavioural changes. The pandemic posed numerous challenges to institutions. The world shifted towards digital-first delivery, contactless payments and remote operations.

"The significant acceleration of digital has brought the future forward. The current changes redefine how the finance will look like and these changes are here to stay," said Wissam Khoury, head of international at Finastra.

Institutions must re-imagine services while keeping in mind customers' expectations. "The way Generation Z thinks about propositions, services and their consumption patterns will be very different," insisted Shrey Rastogi, senior payments strategist at Temenos.

The pandemic forced institutions to strive for greater cost efficiency and agility. "It raised the question of technology. How do you become hyper-efficient in the way you deliver a business model that has been radically disrupted by the pandemic," argued Kam Chana, product innovation director at Temenos.

The entry of new players like fintechs had challenged banks with their nimble, efficient models and value addition. Banks, on the other hand, face technology hurdles especially if they have aged systems.

"The legacy systems and technology debt are the biggest challenge to banks," asserted Raja Gopalakrishnan, executive vice president of global real-time payments, FIS.

"Those that are quick to embrace all things digital and new technologies like blockchain and digital assets will continue to benefit and separate themselves from the pack. Those that are less willing or less able to do so will face challenges," assured Eric van Miltenburg, chief business officer at Ripple.

Cloud and digital ecosystems gain traction

The pandemic led to unexpected challenges such as meeting urgent digital demand and need for greater speed and efficiency. It pushed institutions towards rapid cloud adoption.

"Cloud is one of the most accelerated technologies that banks should embark on. It can be more cost-effective and bring huge operational efficiency. To be able to attract new revenue streams, you need to offer solutions very fast," advised Khoury.

"The convergence of cloud, software as a service (SaaS), artificial intelligence (AI), and digital technologies drives engagement and learning. Digital distribution and interface have become more lightweight with the adoption of cloud," opined Chana.

The growing expansion of open banking and digital ecosystems in institutions widened service capabilities.

Shift towards frictionless and contactless payments

With over 50 countries live with real-time payments, the industry has witnessed a proliferation of payment infrastructures and ecosystems. The need for contactless payments is inevitable as governments implemented restrictions on human activities and travel during the pandemic.

Gopalakrishnan noted that the industry is evolving as evidenced by an increase in payment ecosystems and the adoption of internet of things (IoT) and smart devices. "Several Asian countries have embraced the adoption of quick response (QR) code-based payments. Another trend originating from China is the rise of super apps."

Globally, cross-border payments are characterised by high friction despite significant volumes and therefore ripe for change. SWIFT global payment initiative (gpi) added transparency and speed to the transactions but the next big change is expected from the implementation of ISO 20022 standards.

"ISO 20022 will help the whole ecosystem to improve and bring speed in the settlement but equally important is how do you make the whole experience better and painless for end customers. New properties like 'request to pay' are also gaining traction with instant payments," explained Rastogi.

"SWIFT gpi is laying the fundamentals for better exception management and faster turnaround of payments but it also brings complications. All of these systems are changing their messaging formats at different rates. They all still need to be at one point consolidated," asserted Roland Brandli, strategic product manager at SmartStream Technologies. He said implementing real-time cross border payments requires a fundamental change in mindset.

As banks struggle with preparing existing infrastructure for the transition to the new standard, SWIFT delayed the ISO 20022 migration initially scheduled in November 2021 to the end of 2022.

Miltenburg advocates the use of digital asset and blockchain technology in enabling faster cross-border payments. "We have embraced digital asset because it has great characteristics to a payment use case. Our focus is to remove friction from moving money across borders and allow for very quick settlement within seconds." "On-demand liquidity leverages digital assets and alleviates the need for institutions to prefund nostro accounts around the world," he added.

Cyber threats demand a more proactive approach

Cyberattacks continue to increase as perpetrators become more organised and sophisticated. An increase in attacks during the COVID-19 pandemic and the accompanying demand for remote access forced banks to urgently strengthen their cyber resilience and access management.

Banks need to continuously upgrade their systems and be proactive in threat intelligence. "It is like running a marathon at Usain Bolt speed now. There is a lot of evolution that fraudsters are experiencing and they are almost doing things at a mutation speed," cautioned Rastogi.

Gopalakrishnan pointed out that institutions are taking a proactive approach using machine learning and AI for monitoring and real-time forensic analysis. The industry is witnessing greater collaboration among institutions and states to share cyber intelligence to build a stronger cybersecurity infrastructure.

Harnessing data for effective insights

Emerging technologies like AI harness data effectively for deeper insights that find growing applications not just in analytics and fraud monitoring but also to improve customer engagement and recommendations.

"This is almost moving into the self-driving banking world because with machine learning we can learn from what consumers are doing, diagnose why that's happening, predict what could happen, and ultimately prescribe what should happen. We are now in a situation where hyper-personalisation, hyper-understanding and hyper-empathy are possible," said Chana. She cited as an example the use of more transparent and explainable AI models growing in the industry.

Brandli noted, "There is a grey area that has never really been addressed very well by vendors before and that is around data quality and verification. It is literally where you take data and compare it against each other and there are many use cases of this AI application".

Outlook for 2021

"The move towards digital will only accelerate going forward," professed Miltenburg.

The payments will become more frictionless, real-time and transparent. Requirements for scalable and agile infrastructures and data intelligence are expected to increase, and so will the appetite for fintech adoption and collaboration to meet customer needs.

"The next wave of innovation in finance and financial services will be created on open platforms using APIs and software solutions," said Khoury. He shared their survey showed that over 88% of banks will be investing in open banking and API platforms in the coming 12 months.

Corporates need to institutionalise innovative programmes not only to meet the changing customer needs but to address the financial inclusion of the underserved segment and identify new business models that can drive future customer values.