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Key trends in open banking

Open banking has already catalysed a crucial shift in mindset, according to Kalin Radev, CEO of Software Group, helping banks awaken to the idea of becoming ecosystem players

IBS Intelligence



There has been significant growth in average annual open banking spending of up to 29% in 2020 in Europe. A median investment budget of €50-€100 million per institution is a sure sign that banks expect major returns from open banking in the coming years (based on [Tink & YouGov research](#) prior to the pandemic), according to Kalin Radev, CEO of [Software Group](#).

Radev said: “Some of the key recent trends we are observing are the even stronger actions by legislators to standardise open banking processes and establish regulations for FinTechs; the leveraging of open banking to move forward the cashless society agenda through instant payments; the entrance of even more new players in the financial sector, like telecoms; and, of course, the desire of banks to become ecosystem players via new business models.

“The most common challenge to the latter is legacy infrastructure. Smartly, many banks are utilising fast-to-market remedies. For example, one of Software Group’s clients, a top Bulgarian bank, used our Enterprise Integration Platform to achieve system compatibility, and decompose their landscape into reusable microservices with a view of centralising ID Management and Strong Customer Authentication (SCA) across their ecosystem of customers, employees, agents and partners.

“In other cases, our customers are starting parallel fully digital banks to bypass legacy systems and architecture. This has its own advantages and disadvantages. We believe there is no one size fits all recipe, and each case needs to be evaluated based on the actual goals, existing situation and capacity of the team and the institution.”

How has the impact of Covid-19 affected the drive to digital banking?

“It wouldn’t be exaggerated if we claimed that the effect was similar to that of a nuclear explosion. The psychological barriers that had kept consumers away from digital for years, vanished in a matter of days,



Kalin Radev, CEO, Software Group

at a global scale. And there’s no turning back – consumers who have experienced the ultimate convenience, simplicity and speed that digital banking brings, may never go back to the branch.

“As Covid-19 hit, digital transformation became an immediate priority. From our observations, the initial rush to accelerate the implementation of digital channels was quite chaotic, but currently most banks have already moved to the next stage - taking a strategic approach to digitalisation and looking to secure a future-proof digital path by implementing a scalable digital banking platform.”

Will traditional banks be able to compete with both FinTechs and BigTechs?

“I would not write off banks – for a couple of good reasons. First, the main battlefield of FinTechs and BigTechs is not critical for banks’

survival – yet. While the main income for many banks lies in the SME and Corporate segments, the fiercest competition and the biggest disruption are currently in the Retail customer segment, slowly moving to SMEs. Second, banks have hard-to-replicate competitive advantages:

- Rich offerings beyond payments or loans (i.e. deposits, factoring, bancassurance, etc.) and the ability to cross-sell
- Regulatory compliance (while banks are accustomed to operating in a heavily regulated environment, many of the newcomers face challenges as they start falling under more strict regulations)
- Strong existing ecosystems and established partnerships across retail, real estate, insurance, and other sectors.
- Customer trust, based on tradition, perceived stability and reliability
- Cybersecurity systems, processes and practices, tried and tested over decades.
- Bigger resources, allowing banks to innovate and compete, and more.

“These factors provide a solid ground for banks to compete and envision their future in different strategic directions, such as becoming a Digital Leader; an Ecosystem Champion cooperating with both FinTechs and BigTechs; a Niche Player; a ‘Banking as a Service’ (BaaS) provider, etc. What is critical to understand is that playing it safe and conservative is no longer a viable option for banks. Taking a reactive ‘wait-and-see’ approach could cost them their market share in a digital world.”

What kind of digital banking experience will customers require?

“Customer expectations are already defining the next-gen digital banking experience. If I had to describe the exceptional customer experience in a few words, it is a seamless, intuitive, fast, secure, suggestive, fully digital experience - or one that blends digital with ‘human’ where needed:

- Seamless and consistent across touchpoints to fit the device-agnostic customer lifestyle;
- Simple, friendly and intuitive (one-click banking);
- Highly personalised and suggestive (enabled by Big Data and AI);
- Contextually relevant to different customer lifestyle moments, providing access to non-banking products and services through connections in the ecosystem;
- Secure, keeping consumers’ data and finances safe.

“FinTechs, BigTechs and challenger banks have set a standard with great experience being one of their main selling points. Now, the challenge for banks is to step up their experience game by evaluating all key customer journeys across channels/products/processes, spotting any gaps and pain points, and transforming them end-to-end.”

What pain points need to be addressed in the customer journey?

“**Customer onboarding** is a major pain point which has become of critical importance since the outbreak of the pandemic. The balance between customer convenience and security can be challenging.

Vendors focusing too much on convenience may compromise on security, and the real implications are yet to be seen as the adoption of these technologies grows and they become a target for criminals.

“The solution to this pain point lies in designing user experiences with security in mind, answering customers’ expectations for speed and convenience without compromising on the need to keep their data safe. From a bank’s perspective this means implementing customer onboarding solutions from trusted, proven vendors rather than making price-driven decisions or building a solution in-house.

“**Legacy system integration** is needed to provide end-to-end journeys, integrating multiple systems in the bank. In some cases, this may not be possible and too often their replacement is neither cheap nor easy.

“The solution is to adopt a proven Enterprise integration platform based on APIs, advanced integration patterns and reusable microservices to modernise legacy infrastructure; to have a clear strategy for architecture normalisation and a plan for phasing out old systems. Make sure each decision for a system replacement is based on a sound business case.

“**Analysing customer needs without human intervention and having the ability to deliver highly personalised experiences**, enhancing customer engagement and reducing churn.

“In a digital world you always need to be one step ahead of the customer. To achieve this, embed the power of AI, Machine Learning, and advanced analytics along the customer journey. Leverage the data about individual and segment needs and behaviours to score customers and provide targeted products, offers, and services at the right time. A foundation for all of this is the availability of sufficient high-quality data, its easy retrieval and use across systems and channels.”

What solutions does Software Group offer?

“At Software Group we help banks and insurers deliver the digital financial services of tomorrow through our omni-channel Digital Banking Platform DigiWave and customer-centric solutions. DigiWave is a mature, flexible and robust platform built specifically for financial sector business cases. It has been evolving for over a decade and brings inbuilt massive field experience from the implementation of more than 500 digital transformation projects. The platform is highly configurable - based on microservices and API-led architecture, with a powerful core, ready modular building blocks and open banking enablers. Legacy systems and siloed channels can be integrated and transformed into omnichannel experiences with cutting-edge CX/UX design.

“On the platform we have pre-built some key solutions, such as Mobile Wallet, Agency Banking, Digital Onboarding and Origination, Digital Insurance, and others, which currently work in more than 70 countries on 6 continents and in close to 15 languages. However, other digital solutions can be quickly configured from the platform’s various building blocks to support the future needs of banks, insurers, and other financial service providers.”



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