The future of banking is now

How financial services must evolve to meet changing customer demands
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In a rapidly changing world, clients and customers have new expectations of their banks, emphasising speed, security and seamless digital services.

The immediacy of their needs must be met instinctively and intuitively – often before they even realise they need them.

In this paper, we will explore exactly how banks can act now to thrive in this new environment – and the challenges they must address to get there.

Welcome to the age of intuitive banking
Historically, banks have focused on product and process over audience behaviours and needs.

Now, they must pivot to a customer-centric model that prioritises experiences.

So what do clients and customers want? The short answer is that they’re not focused on products or processes – they’re focused on outcomes.

They want faster, seamless and safer transactions, built on invisible payments in the channel of their choice.

They want ease of connectivity, accuracy, transparency and security. Just one failure or breach can ruin a reputation.

Every section of the industry must respond, or risk failure.

“As a sector, we have to change with the times, we have to upgrade, and we have to respond now,” says Lauren D’Arcy, Barclays’ Global Head of Partnership Bank Relationships, FIG Coverage. “If we don’t do this as an industry, we’re going to fall behind.”

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Lauren D’Arcy
Global Head of Partnership Bank Relationships, FIG Coverage

Tomorrow has arrived
Banks must embrace change now or risk falling behind
The value of experience

Today’s banks must focus on cost, speed and security

“When it comes to experience, cost, speed and security are the key priorities, though there are different emphases depending on the region in question,” says Sabry Salman, Barclays’ Managing Director, Global Head of Financial Institutions and Non-Bank PSPs.

Cost and speed are typically the top priorities in Asia and the Middle East, while in Europe there is a greater emphasis on security and data protection. Such regionalisation and cultural shifts will be an increasing trend, and banks must adapt.

The changes will be seen on several levels. They will impact how banks gather and analyse data to meet customer demands; how they speed up payment processes and volumes; and how they meet demand for richer remote access to give people what they want.

So how can banks deliver this new customer experience? There are three major challenges and opportunities: technological development, external influences, and talent.
Seizing the benefits

Banks must embrace innovation, learning from FinTechs’ success

Technology will be key to meeting customer expectations, now and in the future. Banks must leverage the advantages of the entire ecosystem, including the innovations of FinTechs.

A range of advanced technologies already underpin the sector. Greater automation is transforming customer experience, offering new levels of speed and slickness. Back-office process systems deliver speed and volume, while data analysis helps banks profile and understand customer needs better than ever before.

Another noticeable trend that has gained considerable momentum, particularly in Asia Pacific, is Buy Now, Pay Later (BNPL), which offers consumers short-term, interest-free repayment terms at point of sale. The BNPL market has soared during the pandemic, with more and more banks entering this space. The global BNPL industry is expected to grow 10 to 15 times its current volume by 2025, according to CB Insights, and is attracting increased regulatory focus.

The rise of Bitcoin and a range of other cryptocurrencies has also attracted the attention of central banks, which are carefully analysing the potential for their own versions, known as central bank digital currencies, or CBDCs. In the UK, for example, the Bank of England and HM Treasury are exploring a potential CBDC, coordinated by a joint Central Bank Digital Currency (CBDC) Taskforce launched in April 2021.

In a recent report to the G20 on CBDCs for cross-border payments, the Bank for International Settlements (BIS) noted the potential impact such innovations could have on payment efficiency, so long as they follow the 2020 ‘Hippocratic Oath for CBDC design’. Such an evolution could come sooner than many expect. Two live retail CBDCs already exist, in the form of DCash in the Eastern Caribbean and the Sand Dollar in The Bahamas, though the BIS report notes that most central banks have not taken firm design and policy decisions related to a CBDC in their jurisdiction.

The continuing decline in cash use and rise of cryptocurrencies has heightened interest in the future viability of CBDCs. Many talk about CBDCs as the future of banking; indeed, there are live examples already in existence. With a BIS survey from early 2021 reporting that 86% of central banks are already investigating the benefits and drawbacks, it’s clear that institutions see this as an area of focus today and in the future.
Chapter 2: Technology

ISO impact
There are other more pressing developments. For example, all banks must prepare for ISO 20022, which will overhaul the way they send payment instructions. The migration is already underway, with the format being used for domestic and regional payments in some jurisdictions.

The migration of SWIFT and a range of Real-Time Gross Settlement (RTGS) systems will broadly take place over three years from November 2022 to November 2025, while CHAPS will migrate in June 2022 on a like-for-like basis and completing the migration in February 2023. Fedwire and CHIPS are set to migrate in November 2023.

The impact will be profound, promising standardisation across legacy infrastructure, a move that should lead to cost reductions, along with optimisation in core payment processing and FinCrime processes (through fewer delayed payments). What’s more, it will foster a better customer experience, thanks to improved reconciliation, for instance.

These benefits demand that the enhanced data structure and size are adopted by all agents – banks, broker dealers and FinTechs – and market infrastructures in the chain.

This will take time as, while SWIFT will launch late next year, banks won’t be able to use the new format in full for GBP payments until February 2023.

The challenges aren’t limited to market infrastructures; all banks will need to adopt the new format for the benefits to become a reality. For example, the structured address information promises to enhance FinCrime processing, but it can’t be used throughout the chain in all cases. This could mean a bank might opt against using structured payments for EUR until they can also use it for USD.

ISO 20022 might not seem like the most exciting topic for banks right now. However, with multi-year demands in play, it’s one they must understand. Leaning into the adoption of a fully enhanced format must be considered mandatory for any bank that wants to operate on a low-margin, high-volume basis.
Chapter 2: Technology

Better at B2B
While technology has revolutionised the B2C experience, it hasn’t evolved to the B2B space nearly as well, where too often banks still begin with the product and not with the client experience.

“We’re still thinking about individual customers benefiting from the rise of technology, rather than thinking about companies,” Salman says. “Examples of banks or FinTechs that help transform corporate and institutional client experiences are rare – this is the next horizon.”

There are some green shoots in the area, which could empower organisations to improve the B2B experience. However, they are found in the smaller FinTech players, and have yet to transcend to the major banks or even the giants of Silicon Valley. Crucially, FinTechs build their propositions with the client at the heart.

Over the decades, banks have developed product silos, in areas like transaction banking, foreign exchange (FX) and debt. While banks have succeeded in distributing great products within those silos, that’s not enough. Too often, banks start with the product then go into developing and delivering that to a client. Many FinTechs flip this focus on its head and only start developing solutions when they have a clear understanding of a client need that’s at the heart of any problem.

A number of steps can be taken to overcome this siloed mentality. Salman sees a future where correspondent banking and FinTech ecosystems “collide in a meaningful and value-driven way.” In fact, Barclays now manages its approach to both these sectors as one, with a global view. The bank has also signed the FinTech Pledge, which supports collaboration with early-stage companies.

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Managing Director, Global Head of Financial Institutions and Non-Bank PSPs

Innovation through collaboration
Barclays has a long-standing history of supporting FinTechs to bring innovative solutions to the market, for the benefit of our clients and the industry as a whole. Our Corporate Banking team now manages its approach to both Financial Institutions and Non-Bank PSPs as one sector.

We’re proud to partner with a number of innovative firms across the non-bank payments industry – from card networks and eWallet providers, to cross border payments firms and FX brokers. Sharing knowledge and exploring what is possible is so important for the future of the sector: working with our partners, we’ve created an ecosystem across financial services, which allows us to focus on innovation and share unique insights into fast-emerging trends and solutions.

We have further cemented our commitment to the industry by signing the FinTech pledge. Spearheaded by the UK Government and Tech Nation, it aims to ensure that the UK is the best possible place to start and scale a financial services technology firm. We, as signatories, have committed to ensuring that relationships between technology firms and banks are conducted with renewed vigour, by building upon industry leading transparency and communication.

To find out more click here.
Adapting to a changing world

ESG is just one of many external challenges banks must face

Banks currently face a number of external pressures, from ESG (Environmental, Social and Governance) demands to regulatory change, increased competition and a more complex customer base. To seize opportunities and overcome challenges, they must build a foundation of collaboration and customer trust.

Many of these trends are already well known. Regulation increasingly draws on banks' time and resources. Competition is intensifying, and the demographics of many countries are changing.

Ageing populations affect a range of clients; the number of older people globally is likely to double by 2050, impacting investor priorities in areas like healthcare, for instance. All of these factors will drive the evolution of banks.

Embracing ESG

ESG drivers have an influence over all of these themes, with a particular emphasis on the 'E'. Today, the concern for the environment is in people's minds more than ever and significantly impacts the decisions they make. Banks must adapt, empowering clients to invest responsibly.
Salman identifies two aspects of the ESG theme. First, clients “want to deal with an organisation that’s societally good”, he says. It therefore makes good business sense to remind stakeholders of the work being done and its contribution to society. Second, banks have a responsibility to lead, as they already hold a position of trust with their clients.

Banks have a unique ability to influence the development of ESG for the better. Their financing activities, combined with investor pressure, means they see it from both sides. There is strong potential to partner across institutions, something that could be important as they align their portfolios with the goals of the 2015 Paris Agreement.

For Barclays, this has been a key priority; our Blue Track methodology helps us to measure our financed emissions, tracking them at a portfolio level against the goals of the Paris Agreement.

We also keep the need for industry-wide initiatives front of mind, working to build consensus on carbon accounting and portfolio alignment through our work on the Paris Agreement Capital Transition Assessment (PACTA) and our membership of the Partnership for Carbon Accounting Financials (PCAF).

The future of correspondent banking
In a highly interconnected world, there are also likely to be unique challenges and opportunities for correspondent banking. The process of using another bank to access a market infrastructure, very often in another country, is unlikely to disappear, unless all banks are connected to all market infrastructures around the globe or there is some form of worldwide currency. Given the geopolitical events we’ve seen in recent years (such as Brexit or deteriorating USA-China trade relations), this prospect is remote.
We are witnessing improvements in speed, transparency and certainty in cross-border payments, thanks largely to increased competition and innovations like SWIFT gpi. These changes are accompanied by the evolution of regional market infrastructures, such as the East African Payment System (EAPS), SADC-RTGS in Southern Africa, P27 in the Nordic region and of course the pan-European ACH models that underpin the Eurozone.

The success (and occasional wobble) of regional market infrastructures is a good indicator of what might or might not be sustainable on a global level. This is also reflected in the BIS CPMI report which explores the 19 building blocks for cross-border payments and how the industry needs a range of solutions, not a single answer, to push the frontiers of cross-border payments forward.®

The report’s 19 building blocks are arranged into five focus areas, the first four of which (public and private sector commitment, regulatory and supervisory frameworks, existing payment infrastructures, data and market practices) seek to enhance current payment eco-systems, while the fifth (new payment infrastructures and arrangements) is aimed at exploring the potential that new multilateral cross-border payment platforms and arrangements, CBDCs and global stablecoins could offer.

With endorsement from G20 finance ministers and central bank governors, work has moved to advancing and implementing the building blocks outlined in the CPMI report. Clearly, the need for enhanced cross-border payments is moving higher up the political agenda, pushing governments, central banks, regulators and financial institutions to look for ways to disperse money to individuals and businesses faster.

As the report makes clear, this is a multi-dimensional challenge requiring strong collaboration. Given the accelerated pace of innovation, the prospect of bank-to-bank cross-border payments in real time or near real time will soon be a reality, transforming the way high-speed international transactions operate and delivering a multitude of benefits for consumers on a global scale.

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In the face of rapid technological developments, evolving customer needs and changing expectations among workers, banks face another major challenge as they seek to evolve: the war for talent.

Banking operates in a changing world in terms of technology, regulation, ESG demands and more. To make the most of the opportunities ahead, banks must attract and retain the right people.

So how do banks upskill and evolve their workforce, ensuring they have the capabilities for a more technology-driven world? For a start, they could look to recruit from other sectors, particularly as they shift from a product-centred approach to a more customer-focused mindset.

This has been a priority for Barclays. For example, we have supported military veterans through programmes like the Veterans’ Employment Transition Support (VETS) and Armed Forces Transition, Employment & Resettlement (AFTER) which has helped us to benefit from their perspective.

Diverse benefits
As they transform their workforce, banks should do so with an eye on the future. According to a recent report from Dell, about 85% of the roles needed by 2030 don’t yet exist. How, then, do banks identify and attract the talent they need?

Diversity is key to adaptability – and can have significant benefits for the bottom line. A recent McKinsey report found that companies in the top quartile for gender diversity on executive teams in 2019 were 25% more likely to have above-average profitability than those in the fourth quartile. The results were similar for ethnic and cultural diversity: top-quartile companies outperformed those in the fourth quartile in terms of profitability by 36%.

How to build a winning workforce

In the post-pandemic world, employees demand more than money

Chapter 4: Talent

25% more likely to have above-average profitability if in the top quartile for executive team gender diversity vs fourth quartile
Chapter 4: Talent

But competition is fierce. The recruitment specialist eFinancialCareers has explored how banks are increasingly competing with the giants of Silicon Valley for talent, as well as with FinTechs and other sectors. Its ‘Hiring technologists in the banking sector’ report outlines a number of approaches banks can take to step up their efforts, such as reviewing the speed of hiring, reducing interview rounds, and communicating a clear corporate strategy to candidates.

At the same time, news of young talented graduates fleeing the banking industry – and employers tempting them back with pay increases – has highlighted a generation that favours a better work/life balance over a pay rise. As employers, financial institutions need to find a better way of reducing churn rates among entry-level recruits and think of more imaginative ways to improve working life.

Skills upgrade
Delivering truly effective and differentiated customer experiences requires the right talent and skill sets. The way banks train and recruit their workforce must change to secure the talent necessary to compete and innovate in this environment.

Banks now need a blend of employees with banking, tech, data, and user-experience backgrounds – digital designers, data scientists, coders and technologists working alongside customer service and experience experts.

What is also clear is that the job for life is now a thing of the past. D’Arcy sees a workforce that is “impatient, transient, that sees different values in different things”. It’s essential to confront this reality in recruitment, particularly when it comes to flexibility and company values.

“Money is still important, future employees still want to get paid well. But they also want to say they work for a really good organisation.”

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Banks must recruit and retain talent to protect their core strengths in correspondent banking, while also identifying the innovative thinkers who will drive growth. And they should be open to working with third parties, like FinTechs, when this opens access to talent.
Customer-centric banking

Technology can empower intuitive banking, but client needs come first

Automation, APIs, cryptocurrencies - the future has arrived. Banks must act now, or risk being left behind.

Technology will underpin banks’ offering to their customers and clients today and prepare them for the future. It makes their lives and their businesses easier, more transparent and more secure, while also saving them money. Of course, it won’t be easy, particularly for larger banks, which must look across the whole sector. FinTechs, by contrast, can focus on particular aspects.

But that’s no excuse for complacency. In fact, banks can learn from nimble FinTechs, particularly in their client-first approach, using technology to fix a problem, rather than developing a new advance and searching for a problem to justify it. At the same time, FinTechs can learn from banks, pursuing their advances in a more methodical, controlled manner as they gain scale.

Technology will also help banks adapt to the broader challenges of a changing world, notably in ESG, the impact of crypto in areas such as cross-border payments, and evolving regulations. Again, collaboration will be important to adapt quickly to accelerating changes.

Meanwhile, the pandemic has underscored the importance of resilience. Banks have adapted to the challenge with considerable success. They must continue to show the same flexibility in the years to come. Among other benefits, it will help them attract the best employees. Greater diversity is essential, as is a wider range of experiences; something banks can tap into by turning to other sectors.

But technology alone isn’t enough. As banks embrace the future today, they must always put the client at the centre of their efforts. By placing customers and clients’ needs first when developing products and services, lowering costs, increasing the speed of their services, and improving their security, banks will not only survive the changes to come – they will thrive.

Conclusion

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Conclusion

Key takeaways

- Technology can help banks adapt to the challenges they face, but it must serve clients’ needs.
- Trust was carefully rebuilt after the 2008 financial crisis and can be sustained through customer and client centricity and security.
- Banks have an opportunity to find and develop the workforce of the future, hiring from other sectors and embracing hybrid working.
- Adapting to new trends, notably ESG, regulations and the rise of crypto, will be key to attracting new employees.
- Banks can collaborate together across the sector to leverage the innovation and agility of much nimbler FinTechs.
Strategies for success

**Embrace technology**

Technology will underpin your success, both today and in the future. Exploit new technologies to help meet client needs, even if it’s hard to find the resources. Automation in particular will be key. Ensure B2B experiences match B2C ones.

**Collaborate**

To adapt to the trends of a changing world, it is essential to collaborate with each other and with FinTechs. While competition will always remain, it shouldn’t be the default setting, particularly when it comes to addressing environmental concerns.

**Customer before product**

Pivot to a client-centric model, rather than focusing on product sets. Customers and clients prioritise experiences over particular technologies. Take lessons from other sectors and, above all, never forget the importance of trust.

**Be flexible**

The pandemic highlighted a need for resilience and adaptability. This is particularly true when hiring, with many employees now keen to continue working from home. A job for life is now a thing of the past. Be ready to retrain staff to meet the demands of the future.

**Respect regional differences**

While cost, speed and security are the key priorities for customers and clients, recognise regional factors. For instance, while cost and speed are typically the top priorities in Asia and the Middle East, there is a greater focus on security in Europe.

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