Top 8 Retail Banking Trends and Predictions For 2021

It’s been more than seven months since the coronavirus first made its presence. Lot has changed in these past seven months. And, one thing that is quite evident is life has never been the same since then.

With ongoing restrictions, lockdowns, and social distancing – digital ways have become the new norm. Even the so-called self-proclaimed luddites have migrated much of their day-to-day life online.

CEO’s and managers who never planned meetings remotely have mastered the art of looking professional from the waist up on Zoom calls. Tenured college professors have let go of the usual ways and started conducting classes virtually. Adding, customers have traded strolling grocery aisles with scrolling through Amazon for all their shopping needs.

This sudden and rapid transition to digital ways had a ripple effect on many industries, including the banking and finance industry. As a result of this new shift to digital compulsion, banking customers started to seek the same in-branch experiences in their online interactions.

Banks and financial institutions felt tremendous pressure to innovate and provide seamless digital services that replicate the same digital experience that a tech company provides to stay relevant to current times. As a matter of fact, even before Covid-19, tech-shy segments of the population started turning to Fintech apps to manage their banking needs.

As we advance, even after life returns to “normal,” it is likely that most of the behavioral changes due to the pandemic will persist. Including the ways that customers bank, pay bills, and conduct transactions.

Moreover, many emergent tech companies have big plans to disrupt the industry by providing banking alternatives that address broader personal finance issues – like paying down debt, credit saving, and budgeting.

Based on our research and findings, here are eight pandemic-sparked retail banking trends worth keeping an eye on for 2021 and beyond.

Let’s get started.

ZUCI SYSTEMS

200% increase in new mobile banking registrations, and mobile banking traffic ballooned 85% post pandemic.

Source: Fidelity National Information Services (FIS)

1. Digital-only banking is looming

The temporary closures or reduced hours of brick-and-mortar bank branches forced many customers to download their financial institution's app finally.

According to a CNBC report, "Fidelity National Information Services (FIS), which works with 50 of the world's largest banks saw a [200% increase in new mobile banking registrations](#) in early April, and mobile banking traffic ballooned 85%."

The same report states that among some specific user demographics, the adoption of Fintech and other digital services has soared. For example, many older Americans are now more comfortable paying bills online over the past six months to eight months. In the pre-pandemic times, according to the [Financial Health Network study in 2019](#), "two-thirds of smartphone users over the age of 50 were reluctant to use their devices for their banking needs."

Though there is no official verdict on how these numbers have changed in 2020, the earlier studies suggest that Baby Boomers' mindsets were shifting even before the pandemic.

Another study by the National Retail Federation stated that nearly half (45%) of Baby Boomers are shopping online more due to the pandemic.

Key takeaways:

- Digital banking or digital-only bank is part of the broader context for moving to online banking, where banking services are delivered over the internet
- Digital-only banks are looming for several reasons; one of the primary reason is convenience
- As a result of digital-only banks, visits to traditional brick and mortar banks will drop by nearly 40%
- Still, traditional banks will have the edge over digital banks when customers need to settle ongoing problems by visiting the nearest bank location

According to **Forbes**, Blockchain brings the following benefits:

- Blockchain records and validates every transaction.
- Blockchain does not require third-party authorization.
- Blockchain is decentralized.

2. Rapid adaptation of Blockchain by Retail Bankers

Traditional money transfer solutions have been problematic in both the B2B and P2P areas, plagued by slow transfer times and high costs.

The clearing firms involved in the transactions have independent processing systems. Each party involved in that process will keep their own copy of that record of a given transaction, making it stringent.

The lack of standardization between these bodies and correspondent banks means that costs are high, and settlement periods are longer. But, thanks to Blockchain.

Blockchain has the potential to solve these challenges by offering faster transaction times, more transparency, and lower costs, changing the money transfer equation.

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Another benefit from Blockchain that has got large banks excited is keeping track of trades and bonds or stocks by ensuring that the payments are correctly made.

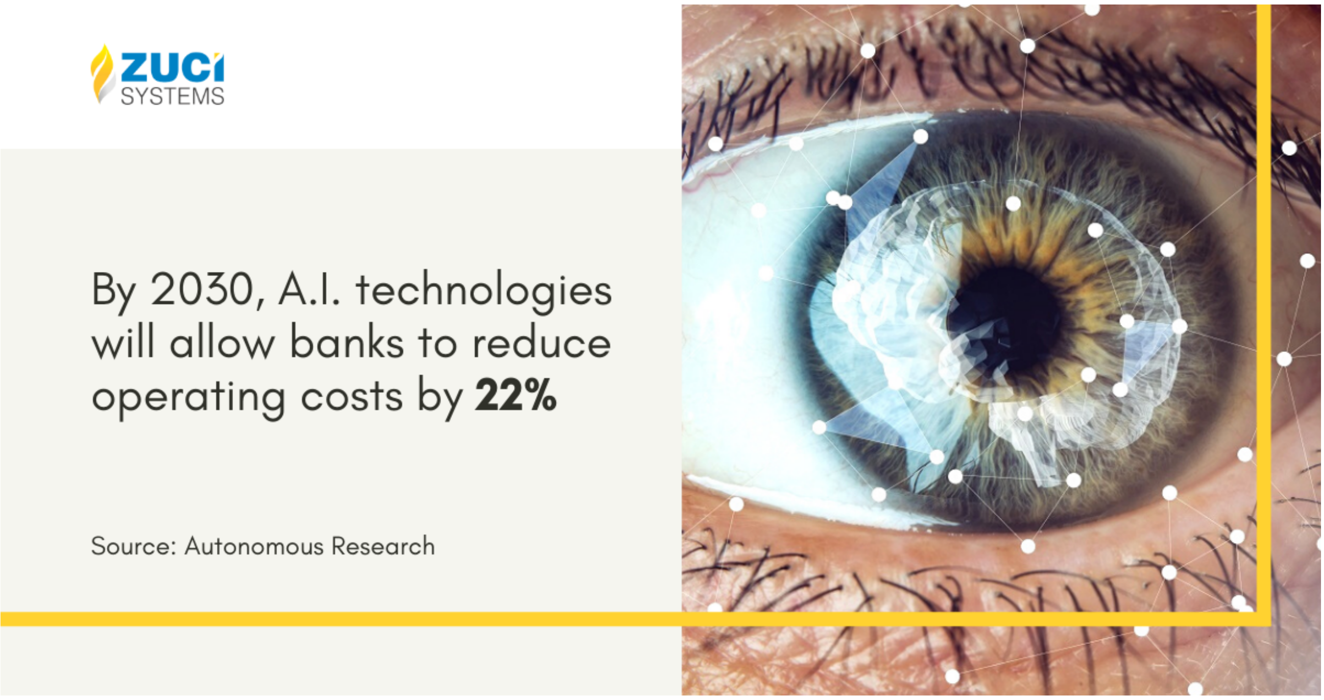
At present, this is a complex process involving banks, traders, exchanges, clearinghouses, and others. It takes two days to verify the seller and buyers and then arrange the movement of funds. But, with Blockchain, all this work can be done in minutes.

Key takeaways:

- Blockchain is still a new technology and will soon become the future of banking

- Blockchain is a powerful and secure technology for the banking sector as security is of utmost importance for the financial domain
- It is worth considering for Payment processing firms, Stock Exchange and Share Trading, Accounting,

Bookkeeping, and Audit.



3. A.I. & Data Science in Banking

With financial institutions revenues exceeding the incomes of nations, it comes as no surprise that they are the first to embrace A.I. and Data Science technologies. Of all other advanced technologies, bankers and leaders in the banking industry firmly believe that Artificial Intelligence will be game-changing.

Banks and financial institutions are further fine-tuning their A.I. solution strategies to strengthen overall portfolio management.

Moreover, according to the forecast of Autonomous Research, by 2030, A.I. technologies will allow banks to reduce operating costs by 22%. That means savings of financial institutions can reach to $1 trillion in the long run.

However, the path to this outlook is not straightforward. A report from Tencent Research Institute states there are only 300,000 AI researchers and practitioners worldwide, with the market demanding millions of jobs to bridge the skills gap.

Key takeaways:

With its efficiency to work with unstructured data, A.I. is well poised to deal with the rising incidence of cybercrimes, financial fraud threats, and lots more. Some of the ways A.I. & Data Science can be used in banks are:

- Fraud Preventions: Such as identity thefts & credit cards schemes
- Anomaly Detection: In detecting illegal insider trading

- Customer Analytics: Predicting customer behavioral trends for strategizing the right marketing mix
- Risk Management: Minimizing human error by identifying and predicting market trend, competition, customer creditworthiness, and customer loyalty
- Algorithmic Trading: High precise trades on the market using a machine learning algorithm by reducing human errors

Banks & financial institutions with extensive customer data can construct better models and get ahead of the competition.

4. Cyber-Security will be a top priority

The banking and financial sector is one of the heavily regulated industries in the world. Banks and financial institutions have always been at the forefront of enterprise cybersecurity. The enormous stores of cash and consumer data make them a top target for hackers. The threat of financial losses, regulatory consequences, and reputational damage has spurred them to innovate and accelerate the field of cybersecurity.

Financial services executives are already depressingly familiar and aware of the impact of cyber-threats on the industry.

According to the PWC report, "69% of financial services' CEOs reported that they are either somewhat or extremely concerned about cyber-threats, compared to 61% of CEOs across all sectors."

In the digital banking age, one area that regulators would scrutinize closely is banks and financial institutions' data ownership. Nations will address this question at their own pace.

The ideal outcome is a set of national standards comprehensive enough to calm businesses and consumers' nerves.

Key takeaways:

- With the COVID-19 outbreak, cybercriminals increasingly are targeting organizations that now have more remote workers and fewer I.T. and security, staff
- A well-defined security policy serves as a crucial road map for any bank I.T. team to maintain a truly adaptive security architecture going forward
- Lastly, banks must continuously monitor their network for changes to configurations and ensure that these changes are approved and compliant with policy

5. Open banking API’s

Before open banking and the rise of Fintech, most banks did not extract any real value from the expensive customer data they held.

With Fintechs making waves in the finance and banking industries and open banking being a key factor propelling them to the forefront in the banking industry,
banks have to look for ways to infiltrate and conquer.

In the process, most banks realized that instead of competing directly against Fintech and third-party institutions, retail banks could leverage open banking to partner with the newer players instead, thereby remaining competitive in the rapidly evolving industry.

That said, Open banking is a secure way to have more control over what matters to your customers. There is money, but it’s also your customers’ financial data.

Combining these two elements gives customers the freedom to opt-out if they feel obligated and provide more personalized services for those interested.

According to Allied Market Research, "Open banking is reported to have generated $7.29 billion in 2018 and is expected to reach $43.15 billion by 2026."

To realize the full potential of open banking, the APIs are critical in exposing the banking data to third parties. Not every third party can have access to your customers' banking information. Indeed, PSD2 has identified two types of third-party providers.

- **AISP: Account Information Service Providers**

AISP is a business that uses customer account data to provide services such as aggregating financial information in one place, tracking their spending, or planning their finance.

- **PISP: Payment Initiation Service Providers**

PISP is a company that initiates additional payment on behalf of the customer directly from their bank account, offering an alternative to debit and credit cards.

Key takeaway:

- Both AISP & PISP are changing customer relationships and business models. But there is also an opportunity for incumbent banks by using their current advantage of brand and customer base to provide these aggregator services themselves. The banking landscape is changing, and it's time to explore open banking now.

6. Payment innovations

The concept of Instant Payment has become highly important in both consumer and B2B payment areas, where settlement time has really been a challenge earlier.

The term "Instant Payment" refers to the ability to make payments within a matter of seconds, which in turn will be highly beneficial for both parties throughout the payment landscape.

As we advance, mobile wallets will replace physical wallets – a wallet with customer's credit cards, rewards cards, and much more. In 2019 alone, there were already about 2.1 billion mobile wallet users.

As a result, Instant payments have become an integral part of both financial institutions and regulators, driven by key success stories in early deployments.

- The SEPA (Single Euro Payments Area) scheme in the E.U. has significantly brought down settlement times, and the SEPA Instant Credit Transfer Scheme further reduced it.
- In SEPA Instant, the payment will be received in a matter of 10 seconds, which is dramatically faster than traditional methods. However, still much more work needs to be done.
- Adding, the U.S. Federal Reserve has announced FedNow. This service will process individual credit transfers valued at $25000 or less within seconds. But this service will not launch until 2021.

Key takeaways:

Instant payment schemes will accelerate and focus on international interoperability in 2021, enabled by standardization with ISO 20022 and cross-border schemes. This will allow banks and financial services to upgrade to:

- Faster and simpler accounts payable/receivable processes
- Less complicated B2B payment systems
- Increased payment volume for payment processors

- Digital wallets, mobile payments will drive payment innovations from now on

In order to achieve these benefits, banks will need to update their systems because the whole chain needs to support the instantaneousness of payments.

7. From competitors to collaborators

Even though the industry is shifting towards convenience and superior customer experience using technology, it's still a long way to go. The Fintech firms are still only getting a slice of the entire banking customers.

Both old and new financial players have something or the other to offer that each lacks in the long run. The partnership model is what each says is the best, but it's riddled with challenges.

But the value of FinTechs is in bringing new things to the bank – a new segment of customers the bank could not access earlier, or a new service to existing customers, or a new way to approach existing problems and workflows.

According to the CNBC report, US-based CBW Bank has partnered with fintech Moven to provide real-time insights to their users. And, Visa announced a Fintech partnership to help companies eliminate $33 trillion in paper checks.

How far is this collaboration trend going forward? According to PwC, "82% of current financial service providers will be increasing partnerships within the next five years."

Key takeaways:

- Recognizing the need to work together, fintech startups and established names will redefine the banking and financial landscape
- Old names in the financial sector will opt to invest in fintech startups to gain a foothold in the rising

digital-only banking landscape

8. Rise of big-tech in the banking industry

Tech firms like Apple, Google & Samsung have been providing payment services for several years now, and few have started to coalesce to accelerate their financial services movement.

The primary reason is the decreasing financial brand loyalty due to open banking, which has loosened the rope that banks have on their customer data. Many countries are mandating a streamlined switching service to move from one bank to another much more quickly.

Most importantly, banks have a limited ability to retain their users compared to traditional ones. Simultaneously, technology companies have always had much more success in developing in a closed ecosystem. And they are now looking to bring finance under their banner.

Key takeaways:

- With Apple Card showing its prominence. And Google, Stripe, and PayPal are preparing to start or expand banking and payment-related offerings. The industry is already shaken.
- Open Banking tools made available from PSD2 guidelines give these companies the ability to be bank-like without banks.

We think that the partnership between banks and tech companies are more likely than tech companies outright becoming banks.

Instead of viewing big tech companies as a threat, banking and financial institutions should embrace partnerships and collaboration with them.

The Bottom Line

The world has digitized, and your customers are seeking low friction and immediacy over slower traditional ways of banking.

Moreover, when we look at banking as an industry and how it has developed, you will understand that it’s not just about inserting technology into banking. There is a broader shift here – and a significant part of the shift is around the bank’s trust and utility.

Lastly, in order to sustain this banking transformation, listen to your customers, earn their trust by creating transparent and seamless experiences, respect their need for privacy, look out for industry trends, and always choose to make tech investments to align the recent technological developments with what people want.