The future of financial services is not what it used to be: How can incumbent banks compete?

Received (in revised form) 20th August, 2024

Zilvinas Bareisis

Director, Celent, UK

Zilvinas Bareisis is a director at Celent, a global research and advisory firm specialising in Financial Services. Bareisis leads the firm’s Retail Banking and Payments practice and is based in London. His research focuses on the impact of technology-driven change in banking, with an emphasis on consumer payments, digital identity and the open financial services ecosystem. Bareisis is a regular speaker, chairman and panel moderator at leading banking industry events and has been widely quoted in the press. He has over 25 years of experience advising senior executives at the leading financial institutions and their technology and service providers across a broad range of strategic issues. Prior to joining Celent, Bareisis was a principal at Oliver Wyman, a management consulting firm. Bareisis holds an MBA with honours from Carnegie Mellon University and MSc with honours in Applied Mathematics from Kaunas University of Technology.

Celent, 55 Baker Street, London, W1U 8EW, UK
Tel: +44 7968 426618; e-mail: zbareisis@celent.com

Bob Meara

Principal Analyst, Banking, Celent, USA

Bob Meara is a principal analyst in Celent’s Banking practice, with a research focus on digital banking and customer engagement technologies. He has led multiple consulting engagements, including proprietary research projects involving financial services hardware, software and the impact of self-service on branch banking. He is also a frequent speaker at industry conferences. Before joining Celent, Meara held positions in product management and product marketing in such firms as BellSouth, Hayes Corporation, and Procter & Gamble in addition to being a commissioned naval officer. Meara earned a BS in Applied Physics and Electrical Engineering from Case Western Reserve University.

Celent, 99 High Street 32nd Floor, Boston, MA, 02110, USA
Tel: +1 678-549-6563; e-mail: bmeara@celent.com

Abstract A relentlessly quickening pace of change in both technology and consumer preferences requires that incumbent retail banks demonstrate mastery of transformative technologies and business models. Two aspects of the future of retail financial services deserve particular attention, in our opinion, for their certain ability to catalyse step changes in banks value delivery to customers: one of them is engagement banking, which is an emerging operating model that leverages artificial intelligence/machine learning (AI/ML) technology and customer behavioural, transactional and third-party data to deliver innovative and intensely personal value propositions to customers in real time. The other is leveraging the open ecosystem: skilfully choosing third-party products and services to integrate with a bank’s existing retail delivery mechanisms and selectively participating in third-party-curated experiences by enabling access to data and offering their products and capabilities via third parties. This paper describes the promise and risk of leveraging engagement banking and the open ecosystem. The benefits for enterprising banks are great, and yet so are the risks, if these aspects are not executed extremely well. They deserve banks’ full attention.

KEYWORDS: Innovation, engagement banking, financial wellness, sustainability, embedded finance, partnerships

DOI 10.69554/GELT1313

INTRODUCTION

The popular saying 'The future ain't what it used to be' is often attributed to Yogi Berra, the US baseball great. And yet the phrase was used as early as 1937,[1] when Laura Riding and Robert Graves wrote an article, 'From a Private Correspondence on Reality', published in a journal called *Epilogue*. They said: 'The human mind has reached the end of temporal progress: the future is not what it used to be, and people talk with less and less progenitive self-precipitation into the future, and behave with more and more fatally decisive immediacy'.

Admittedly, the quote is not about financial services, but it does demonstrate that concerns about the changing world are not new. Every generation has experienced unease at some point, realising that they are struggling to recognise the world around them. And yet it currently feels as though the banking industry is at a genuine inflection point. The pace of technology-driven change is astounding and is rapidly reshaping the way payment, borrowing, saving and investment take place.

Every year Celent runs Dimensions, a global research programme, surveying senior executives with responsibility for, or influence on, the technology or product strategy at their institution. In 2024, the company had 238 retail bank survey respondents from institutions of all sizes and from all over the world. Consider some of these findings[2]:

- 45 per cent report that 'it is more challenging to win and retain customers than it was 12 months ago'. A year ago, the company had a record 75 per cent of respondents answering the same question affirmatively.
- 62 per cent of banks believe that the competitive threat from FinTechs and other challengers is increasing. Again, while the level has fallen from 69 per cent last year and 73 per cent in 2022, this reflects sustained year-on-year challenges for many banks and clearly demonstrates competitive intensity of the retail banking industry.

So what can incumbent banks do? They have little choice but to invest in technology; indeed, IT spending is set to grow by 4.4 per cent on average in 2024, while banks in Europe and North America report budget expansion of 5 per cent. Expectations are also positive for 2025, with banks expecting budgets to increase by 5.2 per cent.[3]

Of course, it is not just about throwing money at the problem; investments must be targeted where they would deliver the highest return. Some of the spend is unavoidable: meeting compliance and regulatory requirements is one of the three leading catalysts of technology strategy at 44 per cent of banks and *the* most important area for 24 per cent. However, the other important investment priorities for banks are all about product or proposition innovation, enhancing the customer experience and creating the capabilities for speed and agility.[4]

Agility has always been important for banks. From automating customer records and bookkeeping to automating internal workflows and from waterfall methodology and rapid prototyping to agile development, banks have often been at the forefront of adopting innovative approaches. The authors believe that banks now have an opportunity to take agility to the next level. Adopting public cloud allows banks to automate DevOps, among other benefits; low-code tools make it easier to redesign and augment customer experience; and, of course, Generative AI (GenAI) brings a lot of promise to increase productivity, from developers to call centre agents to operations staff. The hype around GenAI is turning to action, as 68 per cent of banks[5] expect to launch new customer-facing services using the technology in 2024.

Thus, the authors strongly believe that mastering transformative technologies and business models, such as GenAI, cloud and open ecosystem, is essential for future success in retail banking. Ultimately, they believe, it is about two questions:

- How can banks personally engage customers at scale?
- How can they reach new and support existing customers through open ecosystem partnerships?

ENGAGEMENT BANKING

Engagement banking is Celent's term to describe a new way retail financial institutions deliver value to customers and derive value from those customer relationships. Engagement banking leverages AI/ML technology and an increasingly open ecosystem to deliver innovative and intensely personal value propositions to customers. It also recognises and accommodates consumers' rapidly changing preferences for how they do business and interact with service providers.

For years, customer engagement in retail banking was entirely customer-initiated. They visited a branch, rang up the contact centre, stopped by an ATM or interacted with online or mobile banking apps. Customers took the initiative. Apart from the distribution of monthly statements, banks' historical posture has been entirely reactive. 'We're here for you' was the best most banks could offer; conveniently located branches, sensible business hours, and, hopefully, you will not have to wait in line. Consumers expect much, much more today. And this does not mean simply offering a fine-functioning mobile banking app. Consumers expect relevant, timely personalised proactive engagement.

Banking in our digital-first world can no longer rely on in-person channels for customer engagement. No longer are banks' digital channels simply about convenient transactions; they must now offer highly personalised experiences that are both automated *and* human when customers choose in-person interaction. Moreover, they must adjust over time based on an informed understanding of each customer's preferences — without overtly asking. The bank that consistently delivers value to each customer through timely and relevant engagement will win the right and privilege of being their primary financial institution. This is what is meant by 'engagement banking'. Doing this consistently well and at scale is exceedingly difficult, and yet a small but growing number of banks are well on their way.

But what does customer engagement mean? The authors see engagement as being fundamentally different from facilitating transactions — the historical domain of digital banking applications. Transactions, such as moving money, checking balances and paying bills are routine, uninspiring and already heavily digital. This, of course, is evidenced by the two decades-long migration out of the branch network to digital channels. Consumers perceive transaction efficacy from a decidedly left-brain perspective, where speed and convenience dominate the value proposition. Friction of any sort is an experience killer, much like a fast food or grocery checkout experience. Facilitating convenient and low-friction transactions remains foundational to retail banking, but they are no longer differentiating. Conversely, engagement, such as financial advice and coaching and consultative selling have been the historical domain of the in-person

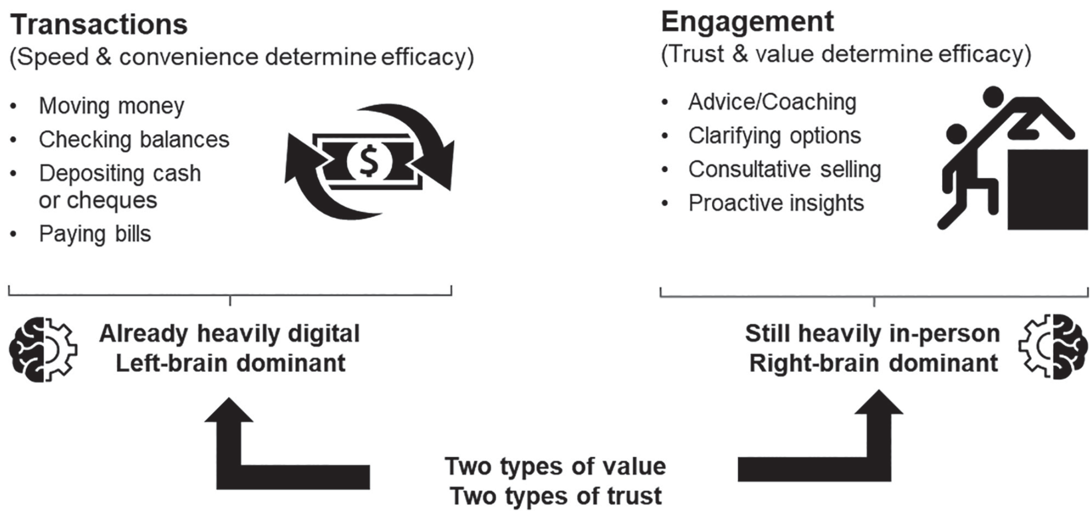

Figure 1 Consumers perceive transactions and engagement differently
Source: Celent.

channels (branch network and contact centre). Unlike transactions, engagement efficacy is decidedly a right-brain judgment, where trust and value determine efficacy. Personalisation is imperative. See Figure 1.

Consumer preferences now demand an omnichannel approach to engagement. Digital is no longer just about self-service; it is a growing portfolio of customer engagement mechanisms used to transact and engage. AI/ML and the open ecosystem can facilitate proactive and personalised digital customer engagement at scale. Because much of this engagement can be automated, banks can facilitate personalised engagement banking at a refreshingly low cost and can do so across the entire customer life cycle. Let us look at customer engagement in the context of delivering ongoing value to customers and customer relationships.

With engagement banking, once new customers are fully onboarded, banks' attention turns towards ensuring they are continually delivering value through reinforcing engagement. Done well, each customer interaction cements the value of the customer's bank relationship in their minds. Institutions can delight customers by creating well-thought-through proactive engagement opportunities that align with diverse value drivers based on individual customer needs and desires. For some customers, it is financial wellness, while for others it may be accommodating high security awareness, saving for a down payment on their first home purchase, or reducing their carbon footprint. None of these aspirations are new, but banks now have new and compelling capabilities to operationalise ongoing customer engagement that uniquely speaks to those aspirations. In this context, financial services are a means to an end. Delivery of financial services must continually keep the end in mind, uniquely for each customer.

In our research,[6] the most prevalent value driver that institutions are pursuing is customer financial wellness, closely followed by sustainability. Essentially, these initiatives represent engagement-led product innovation. Let us look at both value drivers in turn, along with some example bank initiatives.

DELIVERING FINANCIAL WELLNESS: PERSONAL FINANCIAL ENGAGEMENT

Personal financial engagement (PFE) is a product, data and communications strategy for supporting a customer's financial wellness.

Implemented as a set of digital banking features, informed by transactional, account and engagement analysis, PFE initiatives at banks and credit unions have sought to provide customers with a more valuable and guided banking experience — one that can improve their financial wellness over time in demonstrable and compelling ways.

Banks have offered personal financial management (PFM) tools for years, but typically less than 5 per cent of active digital banking customers utilised them. PFE offerings have moved far beyond account and transaction-focused tools of the PFM era. Today, institutions can incorporate more customer data, personalisation, deeper in-context presentation and specialised features that provide value to segments of customers with unique needs. Most significantly, offerings have broadened to support wider financial needs, including additional aspects of financial health, and even introduction to wealth building — a clever way to introduce a bank's wealth management offerings to the mass market. Today's PFE can be:

- *Lifestyle-focused*: Many providers have specialised features to meet the needs of specific customer segments, from small business cash flow analysis to consumer and student debt management, to family-centred features like teen banking and financial education. 'Personalisation' is an important concept in the new PFE — and it takes many forms. One of the more well-orchestrated approaches to lifestyle-focused PFE is Bank of America's Life Plan, which supports individual client goals across 27 categories through curated digital engagement designed to assist each client achieve their individual goals.[7]
- *Action-oriented*: Enabled by emerging technologies like GenAI and open banking, PFE strategies today include a wider range of data sources, more powerful analysis capabilities and connectivity with third-party services. All of this combines to provide more opportunity to proactively suggest and even execute next best actions on behalf of the customer — a true money management partnership with the bank. For example, Royal Bank of Canada's NOMI provides mobile banking customers with a rolling seven-day advance view of forecasted account balances with great accuracy, alerting them with push notifications if action is required to avert a negative balance.[8]
- *Wellness-centred*: Modern PFE approaches often include a more holistic financial wellness promise, where basic financial hygiene (saving, debt, credit score management and spending reductions) is positioned by the financial institution (FI) as a building block to wealth through increased financial literacy, wealth management education and pathways for beginners to start investing. For example, real-time credit scores have been a mainstay of mobile banking apps for several years now. Leading banks go beyond displaying a customer's credit score and alerting them when it changes. In addition, they provide guided next steps customers can take to improve their credit score. Those that do represent a lower credit risk to the bank.

PFE is a high rate of change area, with new use cases emerging continually. This evolution is likely to continue (Figure 2). Celent envisions yet another horizon for PFE led by more automation, more actionable insights, and allowing for truly intelligent and proactive customer financial management. An early-stage example of this is automated savings functionality. Bank of Montreal is one of a growing number of banks that motivates clients to systematically save through proactive nudges to establish savings goals followed by automating recurring transfers from current accounts into savings based on predictive models. Savings has never been easier!

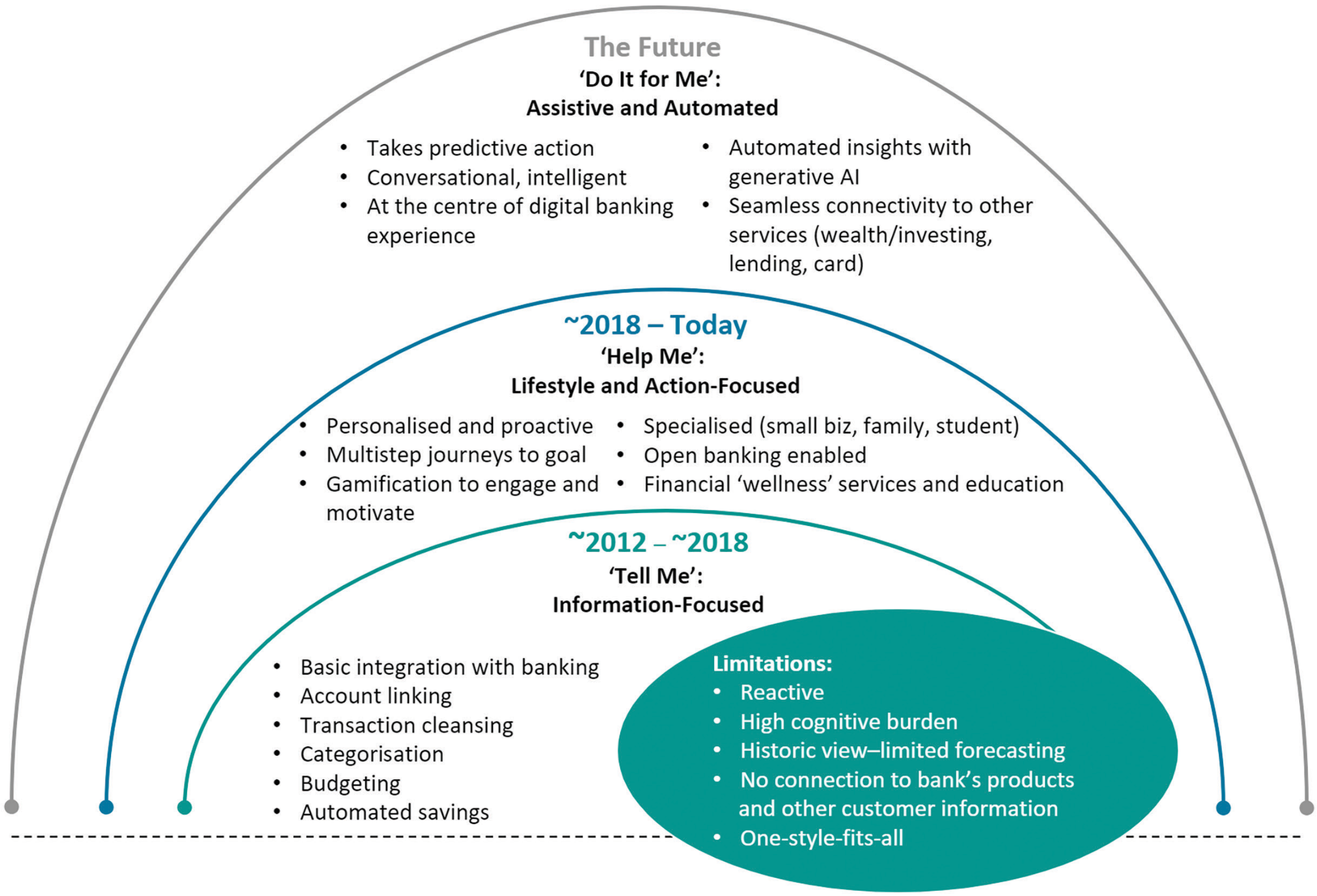

Figure 2 Evolution of personal financial engagement in retail banking
Source: Celent.

SUSTAINABILITY

Although a nascent market, Celent observes a growing number of relatively easy-to-implement options in at least three areas: Environmental, Social and Governance (ESG), values investing and charitable contributions. All are AI-powered solutions that use the customer's categorised transaction history to provide actionable insights and suggested actions that support the desire to live more sustainably.

- *Carbon calculators*: A growing number of consumers are open to ways to reduce their individual carbon footprint. Those consumers would be served by practical, bank-provided assistance to support them take accountability by creating awareness of their carbon footprint and suggesting mitigating actions. This can be done at the transaction level for debit and credit card payments. Carbon emissions data is then sourced from local and international government organisations and used to calculate the carbon footprint by category of each consumer transaction. A typical implementation sources carbon transaction impact detail from specialist firms, such as Doconomy, Meniga and Strands, a CRIF company. Armed with the carbon footprint data, the application then surfaces proactive insights — such as the amount of CO_2 produced by driving over the past few months — and provides a mechanism for customers to track their total carbon footprint, if desired, and offers suggestions on how to reduce high emissions spending. For example, NatWest, in the UK, partnered with Cogo to show customers an estimate of their carbon footprint and share ideas on how they could reduce it.[9]

- *Sustainable card programmes*: These are a growing trend in response to the broadly felt need to live more sustainably.[10] Despite mobile wallets and a growing number of payment alternatives, physical cards remain resilient globally. Sustainable card programmes combine more sustainable raw materials and card life cycle management with customer awareness and actionable insights designed to foster more sustainable life choices. Not surprisingly, carbon calculators are a component of sustainable card programmes. In Europe, Santander is migrating its 30 million credit and debit cards to eco-friendly designs using recycled PVC and corn-based polylactic materials.[11]
- *Values investing*: A nascent trend, values investing applications permit investors to vet investment opportunities for alignment with matters of importance, such as faith-based values and sustainability.[12]
- *Charitable donations*: Like product suggestions offered on many digital shopping venues, these solutions offer up charitable giving suggestions based on previous donations made with credit or debit cards.

Regardless of the value drivers chosen, pacesetter banks are extremely purposeful in their customer engagement and user journey design. Rather than simply pursuing greater levels of customer engagement, pacesetter banks intentionally create and prioritise customer engagement based on attaining specific business outcomes. Done well, customer engagement provides value to customers and value to the financial institution. When prioritising user journeys, both value propositions must be considered. This ensures the greatest value is extracted for the institution. This is not merely an intellectual exercise; it is intensely practical. Operationalising any given use case requires a significant investment, even if existing digital assets are leveraged. Therefore, choosing and prioritising the most impactful use cases is imperative.

Value to the bank (the business case for each use case) is not the only consideration, of course. Verifying data availability and cleanliness is essential, along with developing and training ML models. The model's efficacy needs to be established before any given use case is viable, no matter how attractive the business case is. For this reason, many institutions are choosing to leverage vendors with pre-packaged models and a track record of success among peer group institutions.

WINNING IN THE OPEN ECOSYSTEM

The traditional banking model is primarily manufacturing and selling products through banks' own channels. These days banks must also consider these questions:

- Should banks seek to deliver bank-curated customer experiences by adding third-party products — either financial or non-financial — to what they sell through their own channels to their customers?
- Should they participate in third-party-curated experiences by enabling access to data (Open Banking) and offering their products and capabilities (Embedded Finance) via third parties?

ENHANCING BANK-CURATED CUSTOMER EXPERIENCES

The hyper-personalised approach to servicing customers extends to thinking about product innovation as well. Banks are increasingly taking a leaf from the FinTech playbook to address specific friction points for customers or fulfil a need for a specific customer segment. In the USA, KeyBank's Laurel Road is one example. Laurel Road is a digital banking platform and brand of KeyBank that provides tailored solutions to support the financial well-being of healthcare and business professionals.[13] Its solutions include student loan refinancing, mortgages, personal loans, a student loan cashback credit card and tailored savings accounts — all designed for highly indebted high-income professionals.

In Europe, several challengers, such as Revolut and Monzo, have long appealed to frequent travellers (among other segments), offering fee-free spending in foreign currency and excellent FX rates. Revolut has extended the concept by adding relevant features that have nothing to do with banking — for example, its suite of travel-related products includes Stays to book accommodation, Experiences for tours and attractions, Lounges, and Global Travel Insurance included with selected account plans, and the most recent addition, an eSIM,[14] allowing customers to get access to mobile data abroad without roaming charges. NatWest also recently announced a Travel Account,[15] which links the customer's existing debit card to a separate Euro pot, allowing clients to spend in foreign currency without incurring extra non-sterling transaction fees.

Other banks also believe that bundling banking and non-financial services, or offering non-financial products alongside their offerings, will make them more attractive to customers and create stickier relationships. For example, in December 2022, TSB, in the UK, was offering its new customers a discount of up to 31 per cent on new Sky TV and Netflix subscriptions.[16] In South Africa, NedBank launched Avo,[17] a 'SuperShop' integrated with all the bank's digital properties and available as a stand-alone app. NedBank account holders enjoy a bevy of shopping, entertainment and travel services, including car buying services, bundled with loyalty rewards and exclusive price discounts. Most of these examples are not the result of each bank's internal development but enabled by extensive API integration to an ecosystem of partners. To aid those integrations, PKO Polski, in Poland, recently invested into building a Value Added Services platform,[18] which allows them to onboard new partners more easily.

PARTNERING TO DELIVER EMBEDDED FINANCE

The alternative to attracting more customers to your digital properties by offering more products and services is to go where those customers already are and offer financial services via third parties. Of course, enabling third parties to provide financial services is not a new phenomenon. Most are familiar with the idea of buying car insurance or arranging financing through a car dealer. What has changed is the fact that customer experiences have gone digital; and the advances in technology — cloud-native, microservices-based, event-driven, modular, composable architectures, accessible via APIs — make it much easier for companies to collaborate and rapidly develop those new digital experiences. What has not changed is the need for regulatory compliance and robust partnership frameworks.

The early days of embedded finance saw the proliferation of new entrants aiming to combine their technology capabilities with the bank partner's — or in some cases, their own — regulatory licence to offer 'Bank in a Box' or Banking-as-a-Service (BaaS). However, some of them had a relatively lax approach to compliance and partner management, which attracted regulatory scrutiny, leading to consent orders,[19] restrictions[20] and in some cases bankruptcy[21] of the newcomers.

These challenges are not unique to a specific region; however, the way they are being addressed is shaped by the specific market dynamics. For example, one of the defining characteristics of the *European* FinTech scene over the last decade or so has been the growth of electronic money institutions (EMIs), which do not exist in the USA. EMIs are best considered as a class of regulated financial institutions that provide digital (electronic money) payment services to their clients. While EMIs are not banks, their services can be bank-like in many respects.

One of the important differences between banks and EMIs is that, unlike with banks, customer funds held by EMIs are not covered by regulator-backed deposit protection schemes. For example, should a UK-authorised bank, building society or credit union fail, the Financial Services Compensation Scheme (FSCS) covers each customer for the first £85,000 of any loss per institution (rising to £170,000 for joint accounts). Equivalent protection is offered across the EU under national deposit guarantee schemes (DGS), under which customer funds are protected up to a value of €100,000 (or local currency equivalent). This protection is provided automatically and immediately in the event of a bank failure, with no requirement for a customer to make a claim. In both cases, these schemes are funded by an annual levy on the banks themselves.

These protection schemes do not extend to funds held with EMIs. Instead, the regulators require that all customer funds kept with EMIs must be safeguarded, typically by banks. That means there must be a mechanism which would ensure that should an EMI (or FinTech client of an EMI) fail, customer funds should be returned in full. Celent estimates that the customer funds safeguarded by EMIs in the EU and the UK almost doubled in the period of four years (2019–2022), to reach over €35bn in 2022.[22]

While it may appear that banks, EMIs and various FinTechs are direct competitors, the reality is more nuanced. Some EMIs do serve their end customers directly with B2B or B2C propositions, and these providers often do compete with banks for customers and engagement. In other cases, EMIs sit upstream and provide the technical capabilities for FinTechs, challengers and other providers to serve their customers. In other words, while EMIs have been critical in shaping product innovation and change across the region, this is also a highly connected ecosystem in which the services provided by banks are fundamental to the ability of EMIs, FinTechs and other challengers to operate (Figure 3).

As Figure 3 demonstrates, there are few cases in which a FinTech or EMI can offer services without a bank being involved somewhere in the value chain. In addition to providing safeguarding services to EMIs, banks also provide credit and banking services to the ecosystem. In some cases, banks also act as sponsors or agents for access to the account-to-account payment schemes in a country. In other cases, banks provide these scheme-access services to payment service providers (PSPs), which then provide these services in turn to the EMI or FinTech. Larger players, such as big tech companies or large retailers often prefer to deal with banks directly. In all these examples, existing banks are already closely involved in supporting the services offered by these providers.

The authors believe that the continued maturity of the EMI segment represents a growing opportunity for banks to increase revenues and exposure to what is a dynamic market. However, as banks and EMIs/FinTechs seek to collaborate, their attempts at partnerships can be frustrating for both sides across several dimensions[23]:

- *Partner selection*: finding each other and performing partner due diligence.
  - A large European bank told us: 'We know software firms serving vertical industries could be attractive partners for us, but how do we find them?'
  - Unregulated UK FinTech with a direct-to-consumer proposition said:

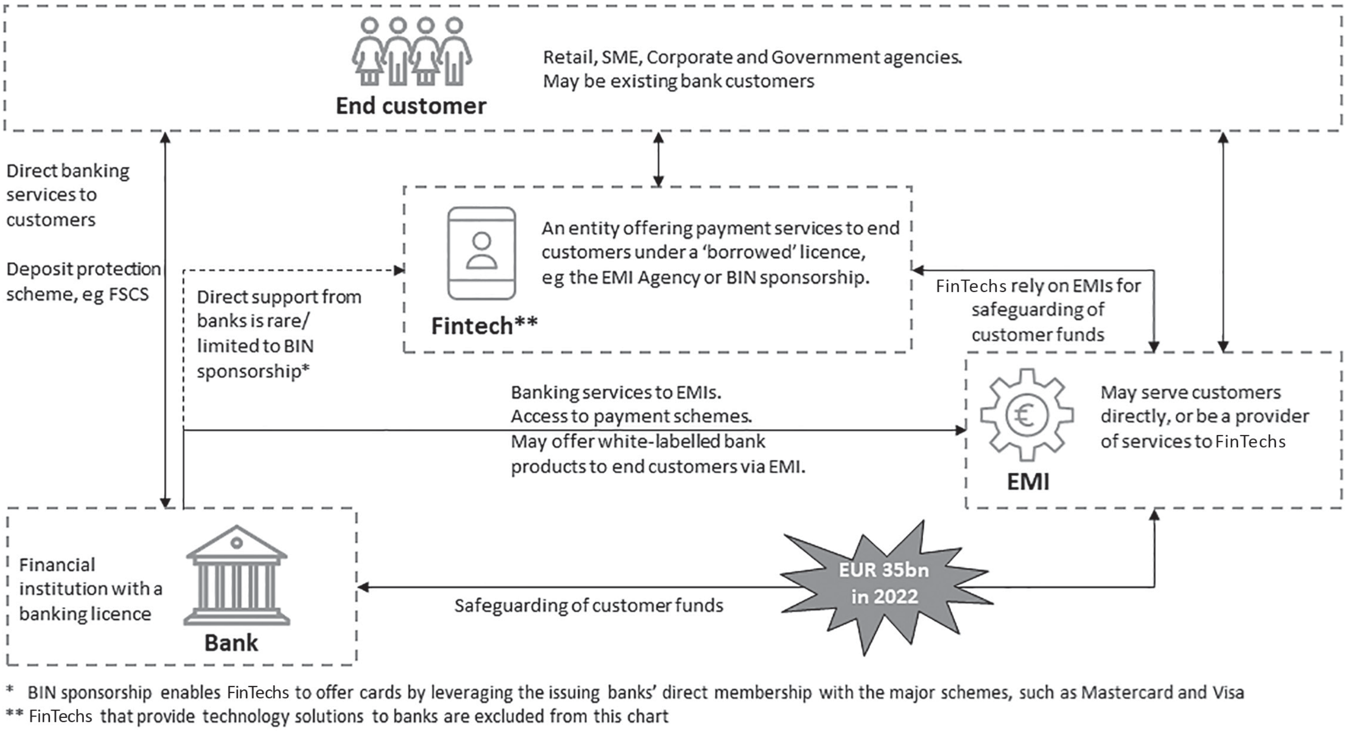

Figure 3 *Banks, EMIs, FinTechs and end customers: a highly interconnected ecosystem*
Source: Celent.

'We would have loved to work directly with a bank, but they wouldn't have us — we looked too risky for them'.

- *Engagement framework*: operational blueprint (who does what), pricing model, commission and incentive management, partner onboarding and contracting.
  - A mid-sized bank: 'We can do this manually for our first and largest partners, but we need better tools if we want to scale up'.
- *Ongoing management and oversight*: partner invoicing and settlement; issue resolution and escalation; compliance and risk management, including business continuity; terminating partnerships.
  - European FinTech having experienced the failure of its EMI partner: 'When our partner failed, we had to scramble for new relationships to keep the business going. Now, we are building in resilience by setting up multiple partners'.

Celent conducted an industry research study exploring various aspects of embedded finance partnerships. The study was commissioned by ClearBank, and the findings were first published in a report written independently by Celent.[24] Among the questions that were explored was what partners are looking for from each other at the selection stage. We found that there is a hierarchy of selection criteria, akin to Maslow's hierarchy of needs (Figure 3).

According to the American psychologist Abraham Maslow's article published in 1943, human needs can be arranged in a hierarchy. The basic needs — physiological, such as food, water, sleep, and safety and security — lie at the base of the pyramid, while the need for self-actualisation and fulfilment is at the top. Over the years, more layers were introduced, but the crux of the matter is that the basic needs at the bottom need to be met first, before the person becomes motivated by other concerns.

Similarly, when considering partnerships, there are *essential criteria* — alignment around target customers and products as well as risk appetite — that must be met first, before the *commercial discussions* around technical and support capabilities or pricing can take place. As one of the FinTechs we interviewed told us:

> *Of course, price is important, but you can always negotiate around price and try to squeeze the providers. If they don't have the right product, technical capabilities, or don't look safe, price becomes meaningless.*[22]

Also, this is not a one-off exercise. Both FinTechs and their partners want to strike long-term relationships; both sides acknowledge the disruption to the business if they have to change partners. However, both sides also regularly review the partners they work with and assess whether anything has changed — such as the partner risks or commercial logic — that could merit reassessing the relationship. Recently, we also noted a tendency to add more partners, either for redundancy or to increase functionality (eg new currencies, card issuing in addition to bank accounts).

As the market in Europe continues to evolve, we expect more collaboration between EMIs and banks:

- EMIs can help align with risk appetite by insulating banks from unregulated entities. By teaming up with the EMIs, banks can deploy their advantages of a superior funding model, especially for lending, while significantly reducing their exposure to the scrutiny of onboarding and overseeing individual customers, as they ultimately belong to the EMI.
- EMIs can bring relevant technology capabilities — especially solutions that are tailored to specific industries. Of course, EMIs must reassure their banking partners of their unwavering commitment to sound risk management practices.
- EMIs need banks for safeguarding, offering the opportunity — albeit not for all banks — to capture a share of those €35bn deposits across the UK and EU.

For incumbent banks to be successful in embedded finance, they need investment and new thinking across several dimensions:

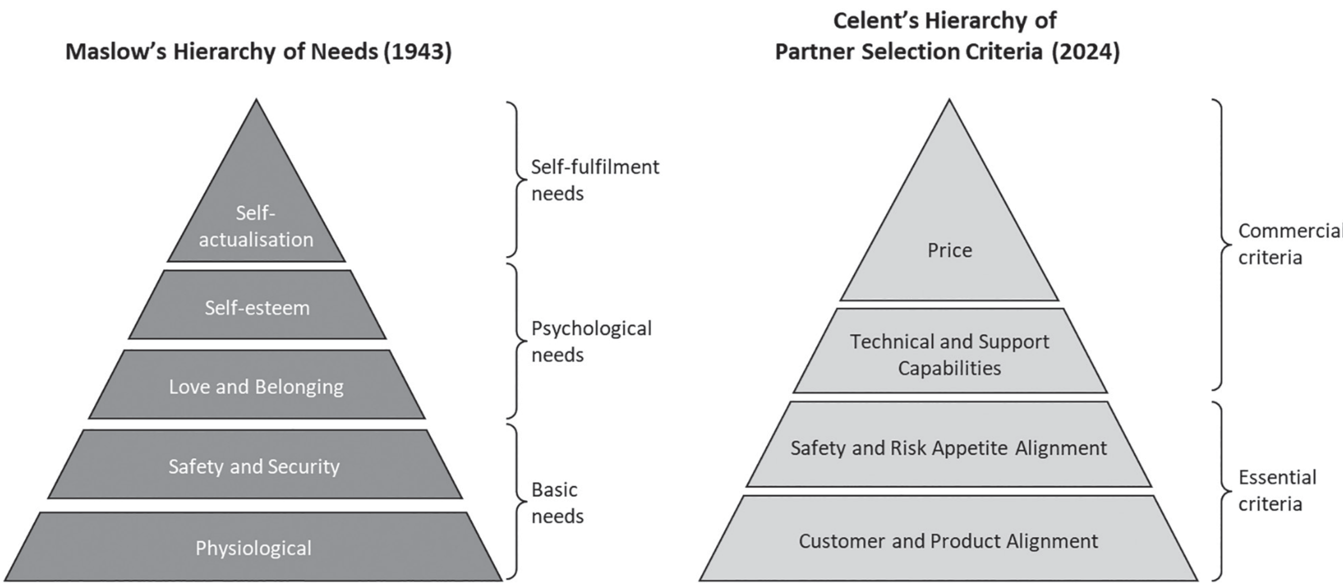

Figure 4 Maslow's hierarchy of needs and Celent's hierarchy of partner selection criteria
Source: Celent.

- Beefing up partner oversight, management and ongoing monitoring capabilities. Outsourcing compliance and risk management to unregulated technology partners, such as BaaS providers in the USA, is rapidly becoming an imperative rather than an option for banks. Even if other regulated entities such as EMIs assume the risk of individual customers, the portfolio exposure remains and must be carefully monitored.
- Building or acquiring the necessary technical capabilities.
- Reducing organisational silos and investing in new skills or staff in critical areas, including compliance, customer care and technical support.

We live in an age of coopetition, with the same entities competing in one area, while cooperating in another. This is true for banks and other players in the market, such as EMIs in Europe, which can be both competitors and partners when capturing the embedded finance opportunity.

A relentlessly quickening pace of change in both technology and consumer preferences requires that incumbent retail banks demonstrate mastery of transformative technologies and business models. Two aspects of the future of retail financial services deserve particular attention, in our opinion, for their certain ability to catalyse step changes in bank's value delivery to customers. Retail banks must

- *Invest into delivering engagement banking*, an emerging operating model that leverages AI/ML technology and customer behavioural, transactional and third-party data to deliver innovative and intensely personal value propositions to customers in real time.
- *Have a clear strategy for participating in an open ecosystem*: Find the right balance between competing and partnering in order to skilfully choose third-party products and services to integrate with a bank's existing retail delivery mechanisms and selectively participate in third-party-curated experiences by enabling access to data and offering their products and capabilities via third parties.

Both of these hold great promise for enterprising banks and yet present significant risk if not executed extremely well. They deserve banks' full attention.

References

(1) Quote Investigator (2012) 'The Future Is Not What It Used to Be', available at https://quoteinvestigator.com/2012/12/06/future-not-used/ (accessed 16th May, 2024).

(2) Hines, K. (2024) 'Celent report Dimensions: Retail Banking IT Pressures & Priorities 2024', available at https://www.celent.com/insights/307744628 (accessed 16th May, 2024).

(3) *Ibid*.

(4) *Ibid*.

(5) *Ibid*.

(6) Meara, B. (2023) 'Celent report The Future of Retail banking Customer Engagement: More than Meets the AI', available at https://www.celent.com/insights/994632330 (accessed 4th June, 2024).

(7) Bank of America. 'Create Your Life Plan', available at https://promotions.bankofamerica.com/digitalbanking/mobilebanking/lifeplan (accessed 16th June, 2024).

(8) Royal Bank. 'NOMI', available at https://www.rbcroyalbank.com/mobile/feature/nomi/index.html (accessed 16th June, 2024).

(9) NatWest. 'Carbon Footprint Tracker: Calculate Your Carbon Footprint', https://www.natwest.com/banking-with-natwest/natwest-app/features/carbon-footprint-calculator.html (accessed 16th June, 2024).

(10) Bareisis, Z. (2021) 'Celent Report Saving the Planet with Sustainable Card Programmes', available at https://www.celent.com/insights/546686259 (accessed 4th June, 2024).

(11) Santander. (2021) 'Santander Accelerates the Roll-out of Eco-friendly Cards in Europe to Support the Bank's Green Transition', available at https://www.santander.com/en/press-room/press-releases/2021/03/santander-accelerates-the-rollout-of-eco-friendly-cards-in-europe-to-support-the-banks-green-transition (accessed 29th September, 2024)

(12) For an example of a values investing solution, see Longabaugh, A. (2023) 'Celent Report TCS MyImpact: A Personal Values-Aligned Investment Management Solution', available at https://www.celent.com/insights/329001212 (accessed 4th June, 2024).

(13) Laurel Road. 'Your Partner on the Road to Financial Peace of Mind', available at https://www.laurelroad.com/about/ (accessed 16th June, 2024).

(14) Revolut (2024) 'Revolut Launches eSIM for EEA Customers, a Seamless Way to Avoid Unexpected Roaming Charges', available at https://www.revolut.com/en-LT/news/revolut_launches_esim_for_eea_customers_a_seamless_way_to_avoid_unexpected_roaming_charges/ (accessed 23rd May, 2024).
(15) NatWest. 'Travel Account', available at https://www.natwest.com/life-moments/travel/spending-abroad/travel-account.html (accessed 23rd May, 2024).
(16) TSB Bank (2022) 'TSB Offers Customers Big Savings on Sky and Netflix Subscriptions', available at https://www.tsb.co.uk/news-releases/tsb-offers-customers-big-savings-on-sky-and-netflix-subscriptions.html (accessed 23rd May, 2024).
(17) Avo. 'SuperShop', available at https://www.avo.africa/ (accessed 16th June, 2024)
(18) Bareisis, Z. (2024) 'Celent report PKO Bank Polski: Value-Added Services Platform', available at https://www.celent.com/insights/783905985 (accessed 23rd May, 2024).
(19) U.S. Securities and Exchange Commission (2022) 'Agreement By and Between Blue Ridge Bank, National Association Martinsville, Virginia and The Office of the Comptroller of the Currency', available at https://www.sec.gov/Archives/edgar/data/842717/000119312522236606/d375124dex101.htm (accessed 23rd May, 2024).
(20) Couvée, K. (2023) 'EU, US Regulators Take Long Look at "Banking-as-a-Service" Platforms', ACAMS, available at https://www.moneylaundering.com/news/eu-us-regulators-take-long-look-at-banking-as-a-service-platforms/ (accessed 23rd May, 2024).
(21) Sweet, K. (2024) 'Abrupt Shutdown of Financial Middleman Synapse has Frozen Thousands of Americans' Deposits', Associated Press, available at https://apnews.com/article/synapse-evolve-bank-fintech-accounts-frozen-07ecb45f807a8114cac7438e7a66b512 (accessed 23rd May, 2024).
(22) Bareisis, Z., Hines, K. and Mayo, D. (2024) 'Celent Report UK and European Banks and EMIs: Friends or Foes? Capturing the Embedded Finance Opportunity', available at https://www.celent.com/insights/982495270 (accessed 16th June, 2024).
(23) Bareisis, Z., Bernard, M., Focardi, C., Hines, K., Mayo, D. and Meara, B. (2023) 'Celent Report Technology Trends Previsory: Retail Banking, 2024 Edition. Taking Agility to the Next Level with GenAI and Other Tools', available at https://www.celent.com/insights/924883672 (accessed 19th August, 2024).
(24) Bareisis *et al.*, ref. 22 above.