» COVID-19 European Banking Survey

Part 2: Can banks innovate fast enough in the wake of COVID-19?

A Marqeta commissioned survey of European banking executives: How COVID-19 has intensified demand for new technology, leaving some traditional banks struggling to keep pace using legacy platforms.

MARQETA

2020 ushered in the future of payments. But much legacy banking technology is keeping the industry a step behind.

In the first report on our survey of 200 European banking executives (conducted by Coleman Parkes in August) we looked at the seismic changes the COVID-19 pandemic brought upon the European banking industry.

Almost every executive surveyed (99% of respondents) said the COVID-19 pandemic had shifted consumer behaviours in a manner that would have a significant impact on the entire industry. Three-quarters said COVID-19 had changed business banking models forever, with 89% saying COVID-19 had increased the speed of change in banking from years to months.

The picture from these executives was clear: the impact was universal, the business is forever changed — and the industry needs to adapt now.

In Part Two, we pick up where we left off. Amid widespread shutdowns and lingering fears of contagion, the adoption of digital commerce has skyrocketed and contactless payments have proven themselves to be not just convenient, but safe. As digital becomes the dominant consumer lifeline, the need to offer seamless and intuitive payment experiences has become increasingly essential to a bank's success. And people in the industry are feeling it: 94% of the banking executives surveyed we spoke to said that payments have become a technology arms race to offer greater choice and flexibility to customers.

In a recent interview with Fortune, Visa's European CEO Charlotte Hogg outlined the intensity of these trends in the market. She said Visa saw e-commerce rise by 25% across 20 countries in Europe between March and October. Europe has long been an early adopter of contactless payments, but Hogg said that as a result of the U.K. raising its contactless limit from £30 to £45 in April, Visa also saw half a billion more contactless transactions in the following six months, with the share of contactless payments across the largest European countries increasing by at least 20% in the last year.

While the executives Marqeta surveyed talked about feeling like they were locked in a payments technology arms race, they worryingly also described themselves as held back by the technology they use from being able to really compete and meet the moment. More than a third (36%) said they were frequently delayed delivering new payment services and features to market.

Frustration was high: 85% reported frustration that legacy technology was preventing them from moving at the speed required to meet market demand.

The stakes though, are higher. 2020 has made the ability to innovate and meet consumers where they are more important than ever.

In the second part of our survey report we will look at this head on: where are banks pulled astray in this need to innovate? And how can they keep up?

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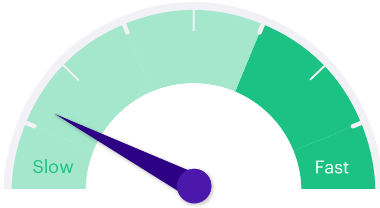

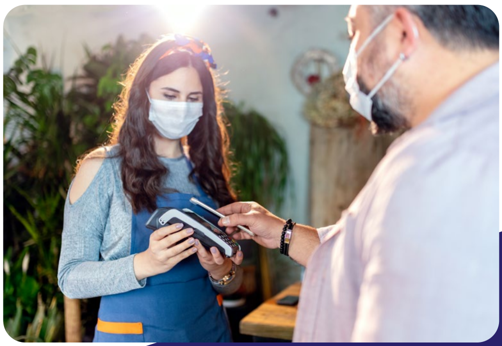

1. Looking out to the future, banks are tripping over their own tech stack

Faced with the immediate need to develop new payment solutions, banks using legacy platforms face compounding issues. They're building from mainframe systems that can be expensive to update, are complex, and use outdated architecture. To add to the puzzle, many have bolted on new features and solutions over the years. The core systems are largely disconnected from the customer experience, making updating them or adding in new features increasingly time-consuming.

The idea of an industry held back by the legacy platforms it is built on is not a new concept in technology. But what is new, is just how restricted and frustrated banks surveyed felt. A staggering 84% of the executives surveyed said that legacy banking infrastructure was restricting them, making it almost impossible for them to innovate.

Banks can see the change they need to make, but realising that change is another story. As mentioned in our first report, three-quarters of executives said that COVID-19 had changed their strategy, but 60% said that the lack of flexibility and agility of legacy systems was a significant challenge when implementing and preparing for future strategy. More than half (56%) said that they battled a lack of agility when building and launching new services.

It's not just that they're held back from launching new features, but that the technology they're building from is making innovation costly and time consuming. More than two-thirds of executives surveyed (67%) said the length of time it takes to deliver new services to market was a challenge, while 55% said the cost of maintaining and managing legacy systems was holding them back.

As a result, banks are facing delays getting almost every form of payment innovation off the ground: from digital wallet functionality (42% surveyed faced difficulties), to modern business lending programmes (36%), modern debit card programmes (29%) and point-of-sale financing services (26%).

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2. Where banks can hit the wall, balancing new product demands on top of legacy infrastructure

As they adjusted to a changing landscape, the bank executives surveyed were clear about the frustrations they face when trying to innovate. They're coming up against multiple barriers to innovation in payments and don't have confidence that legacy systems will get them where they want to be.

At the highest level, the two central issues for banks Marqeta surveyed were a lack of integration between the user experience of their product and their banking infrastructure, and outdated technology and processes. Nine out of ten executives surveyed said that the lack of back and front end integration was slowing their time to market, while 84% said that their internal technology and processes were slowing them down.

The purely technological implications of these findings are more obvious. Thirty-nine percent of people surveyed said that their core banking platform was just too complicated, and that this complexity was holding them back from innovating at speed. This directly bleeds into the developer culture within traditional banks, where changes need to be made wholesale with little room for rolling improvements. One-third (33%) said they lack an iterative DevOps approach internally and instead of making improvements to services as needed, tended to execute large scale rollouts over months (or even years).

This is forcing banks into a lose-lose situation. Almost half (46%) said that the lack of customisation options means they face large up-front costs to introduce new features. More than half (55%) said disjointed and siloed payment platforms made introducing new features inefficient, but upgrading was just as much of a headache, with 62% finding it too difficult to integrate legacy technology with modern systems.

But while these issues began with technology, they crossed over into culture. More than half (58%) of bank executives surveyed said there was a prevailing preference for the status quo and a culture of unwillingness to take risks, while 44% said that previous poor experiences had created a lack of trust, and 35% said the siloed nature of their teams made getting internal alignment difficult.

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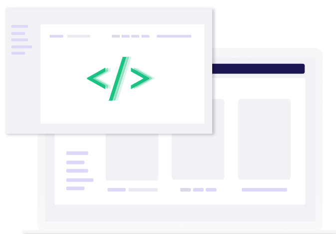
3. The blueprint forward

It's clear that many of the executives surveyed feel their banks are shackled by the legacy technology they're using and need to embrace more agile systems built for the digital era. Our respondents seemed to be clear on the need to harness modern core banking and payment platforms to deliver new payment experiences at the speed required.

A vast majority — 88% — said challenger banks and fintechs had the upper hand when it came to implementing a digital payment experience. But traditional banks don't have to get left behind. Sixty-one percent of bank executives said COVID-19 has led them to increase their digital innovation capabilities to help them adapt. More than half (56%) said that they were increasing the network of fintech partners to help them innovate faster.

An overwhelming number of executives Marqeta surveyed said that APIs were central to their ability to build more seamless and modern customer experiences and get new products to market faster. Almost every respondent (94%) said APIs were vital to getting full control over payment programmes and applications, customising features, and scaling quicker. Roughly three-quarters described APIs as critical to opening up more innovative banking services.

There was a clear consensus that to operate at real speed, systemic change was required. Ninety-two percent said that to develop and launch new, differentiated payment services at speed, they needed to adopt a modern payments platform, while 85% said that overhauling existing infrastructure is a must if they were going to be able to innovate at pace.



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Giving banks the tools they need to succeed.

Across the two parts of our survey there's a shared story: Frustration, delays, and a lingering feeling that as a traditional bank you just won't be able to innovate quickly. Banks see the world has shifted following the global pandemic, but executing the strategy they need to adapt is a different challenge altogether.

This doesn't need to be accepted as a given. This is where Marqeta enters the equation: we power modern payment solutions for companies innovating new services and process flows in a digital world. Our platform, open APIs, and advanced analytics provide extensive control for companies to issue cards, authorise transactions, and manage payment operations with ease. Highly configurable, secure, and reliable, Marqeta built its technology from the ground up to help companies bring products to market faster, improve cost efficiencies, and reduce fraud risk. Marqeta is the global standard for modern card issuing.

If you're a bank or large financial institution looking to launch into, or evolve with, this rapidly changing landscape, drop us a line at **europe@marqeta.com**

About Marqeta

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We enable modern payment solutions for:

- Instant card issuing of virtual, tokenized, and physical cards
- Real-time funding using our exclusive Just-in-Time (JIT) Funding feature
- Push provisioning to digital wallets and customizable webhooks
- Full program management resources and PCI compliance tools
- Actionable data insights, reporting, and advanced analytics tools with our applications

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