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Staying ahead of the curve: towards the banking of the future

Ilya Ivaninsky, Dmitri Angarov, Maxim Bolotskikh, Sergey Panfilov,
Andrey Strogonov, Daniil Kopylov, Sergey Kuznetsov

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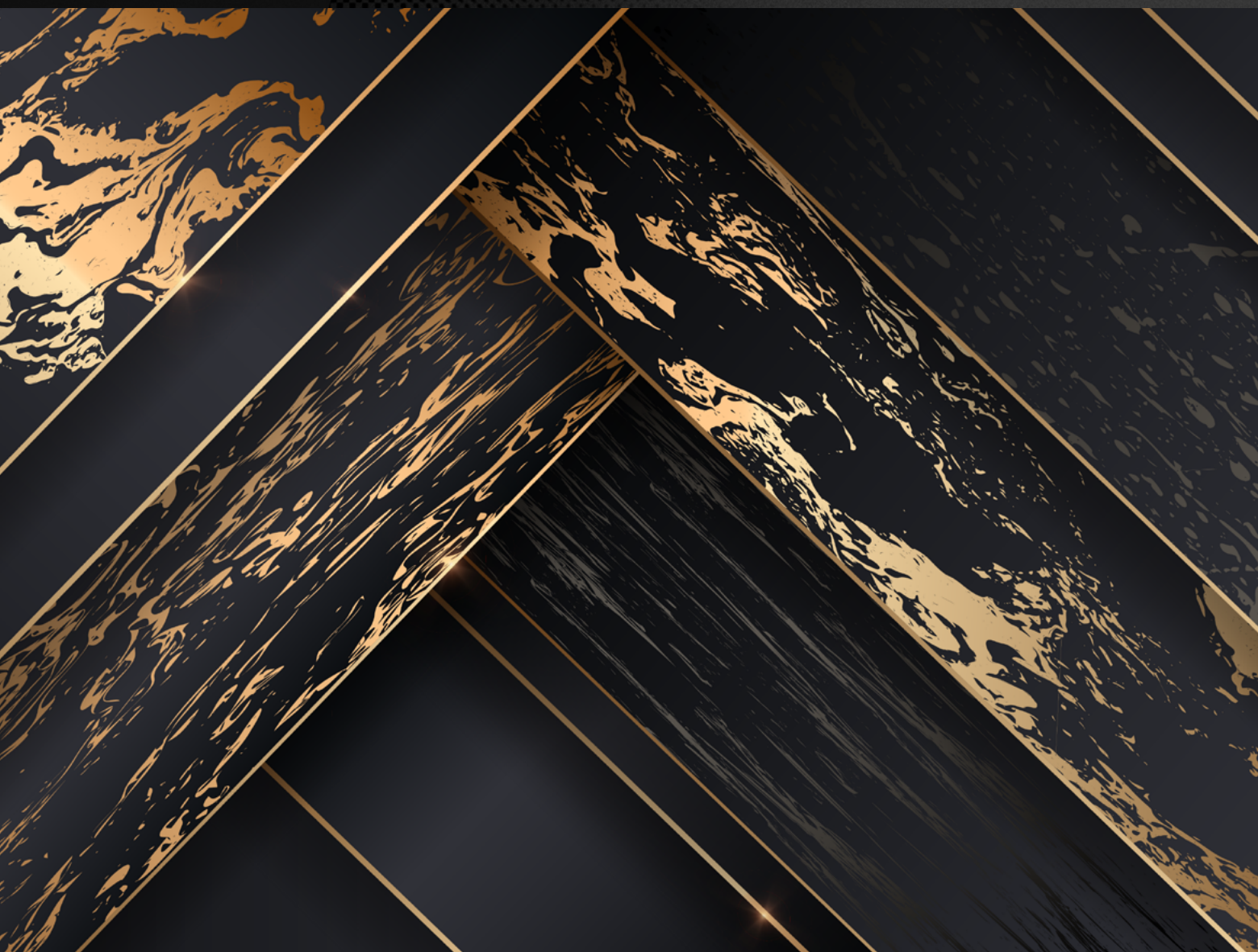

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Source: open sources,
analysis by Yakov and Partners

81

USD bn p.a.

is the potential impact of the evolution of the BRICS+ and CIS banking systems from their current state to the banking of the future

Introduction

In 1958, 60,000 residents of Fresno, California, received envelopes in the mail from Bank of America. Inside was a rectangular piece of plastic and a letter informing them that they were the first owners of a new financial product – credit cards. The joy of having a new product was quickly replaced by growing irritation when it became clear that the process of paying for most purchases with the card took up to 20 minutes.

To date, the US remains the only country where bank cheques account for 5% of non-cash payments.[1] This fiasco was how one of the most successful brands in the fintech market, Visa, began its ascent. This example shows how far payment systems and banks have come over the past decades, how much they have changed the everyday consumer experience and how much they have influenced the development of economies in most countries.

Banks are the circulatory system of the economy and an engine of its development: a 10% increase in balance sheet liquidity[2] leads to long-term GDP per capita growth of 1.12%.[3] Banks use advanced technologies such as blockchain, and the impact of AI is greater than in other industries.[4] Yet it was problems with banks that triggered deep economic downturns, such as the Great Depression of the 1920s and 1930s and the financial crisis of 2007–2008. Governments are therefore paying particular attention to the activities of financial institutions.

Retail (B2C) is often the driver of change: it has lower barriers to innovation and higher margins

Corporate banking (B2B) accounts for about 70%[5] of banking assets and payments, but retail banking (B2C) is often the driver of change: it has lower barriers to innovation and higher margins. Today, retail banking is being transformed in three key areas: the democratization of services, the development of "invisible" banking, and greater involvement of regulators.

Today, access to banking products has expanded significantly. The number of banking services is also increasing: a retail bank customer now uses an average of six financial services.[6] At the same time, in the past year, six out of ten consumers looking for financial services switched to a new bank or other provider, suggesting that the market is becoming more competitive.[7]

Banks themselves are becoming "invisible" to customers: new convenient services are being developed, financial products are being integrated into consumers' daily lives, and financial transactions are becoming more convenient.

Every day, regulators and other government agencies become more active in influencing the customer experience and building the infrastructure to improve it, implementing open finance, real-time payment systems (RTP), central bank digital currencies (CBDCs), and other initiatives.

Banking systems in different countries develop unevenly and are at different levels of maturity. This process is influenced by both regional history and the introduction of new technologies. For example, many countries with widespread Internet access and a well-developed bank card network use NFC technologies for contactless payments. In Southeast Asia, however, QR code payments have ousted NFC, as the region had a limited network of card acceptance, and banking services were available to few people. The analysis of national banking systems makes it possible to define the direction of their future development and to help market participants prepare for the transition to the next stage.

We have analyzed the banking systems of 31 countries, including individual states, members of the BRICS+, the G20, and two members of the CIS, and have identified five levels of their maturity:

1. Basic banking
2. Developing banking
3. Digital banking
4. Ecosystem banking
5. The banking of the future

The transition of the banking system from one level to the next increases the return on equity (ROE) by 2.5 to 3 percentage points on average

The transition of the banking system from one level to the next increases the return on equity (ROE) by an average of 2.5–3 p.p. Thus, as the BRICS+ and CIS countries move to a new level, we can expect an increase of USD 20 billion p.a. in the total revenues of their banking systems. If all the BRICS+ and CIS countries reach the level of ecosystem banking currently achieved by Russia and China, the annual impact could be up to USD 39 billion. And the transition of the BRICS+ and CIS countries from ecosystem banking to the banking of the future could bring another USD 42 billion p.a. to the banking systems of these countries and their members. Thus, the potential impact of moving from the current state of the BRICS+ and CIS banking systems to the banking of the future could be up to USD 81 billion p.a.

How are products affected by evolving banking systems?

It is important to note that the transition of the banking system from one level to the next does not happen by itself, but is driven by three main trends: the democratization of products, the development of "invisible" banks, and the strengthening of the role of regulators. The impact of each of these trends varies from market to market. However, banking and financial services are becoming increasingly cross-border, so the above trends are universal and unlikely to lose their relevance in the near future.

Democratization of banking products

It may seem unbelievable today, but half a century ago, women in the United States, one of the most developed countries in the world, were not allowed to use banking services without the consent of their husbands. It was not until 1974 that the Equal Credit Opportunity Act was passed, allowing them to open accounts and use credit cards on their own. This is an example of how democratization helps to increase the availability of banking services and thus the number of bank customers. And examples like this are becoming more common every year.

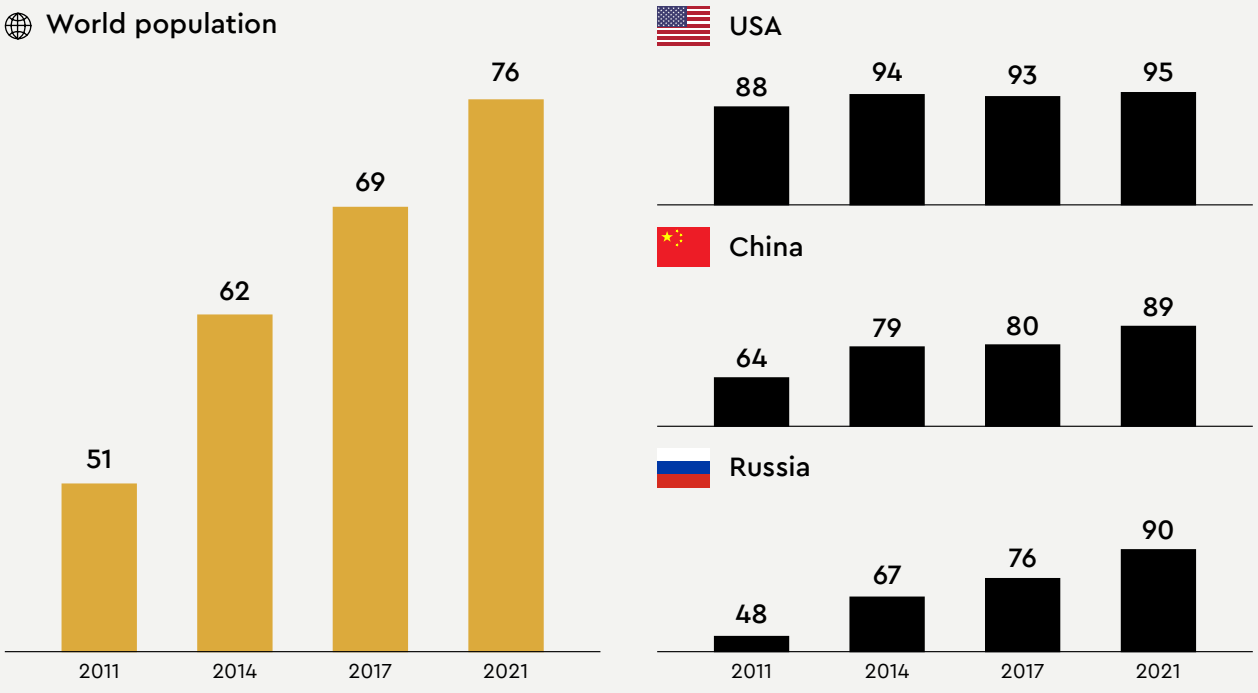
Over the past 6 years, the proportion of the world's population with access to banking services has risen from 68% to 76%.[8] At the same time, the share of cash in circulation has fallen from 32% to 16%,[9] while credit penetration in Brazil, for example, has risen from 58% to 78%.[10] Democratization is now increasing the number of banking customers and products, and is generally helping to create new points of economic growth and improvements in health care, public infrastructure, agriculture, and manufacturing, where limited access to financial instruments used to make it impossible to escape the poverty trap.[11]

Source: open sources,
analysis by Yakov and Partners

From 32% to 16%

decreased the proportion of cash
in circulation over the past 6 years

Population covered by banking services, % of population



Source: World Bank

Lending

Lending is the main source of income for banks (about 40%)[12] and a powerful tool for business development. Democratization increases the availability of credit, especially to customers whose creditworthiness was previously difficult to assess.

A prime example is the case of Asian countries such as Indonesia and Vietnam. There, microfinance institutions (MFIs) using data from alternative sources (mobile operators, social networks, or mobile applications) are growing their loan portfolios by 20% per year, while bank assets are growing by 13%.[13] [14]

This system is not unique to Asia. As recently as 8–10 years ago, start-ups that assessed the risk of borrowers with no credit history were growing rapidly in the US. Large Russian banks are developing lending to low-income customers, expanding their footprint in small towns, and opening MFIs. But unlike in countries where credit was not available to new borrowers, Russia's large banks are taking market share from small banks and independent MFIs.

MFIs have made credit available to those who were unable to access it before. While the increased availability of credit is a positive development,[15] challenges remain. First, loans to low-income customers are more expensive due to high risks and servicing costs, as MFIs lack information about the borrower and access to cheap funding. At the same time, low-income customers are among the most vulnerable groups of the population, which increases the risk of manipulation by financial institutions.

In Russia, the impact of using the open finance model could be up to RUB 300 billion p.a.

However, with the development of the open finance model, regulation, and increased knowledge of the customer, it will be possible to more accurately assess credit risk and protect customers. This will allow both MFIs and small regional banks to reduce the cost of credit for borrowers. In Russia, the impact of the open finance model could be up to RUB 300 billion p.a.[16]

Savings and investments

Savings and investments now account for 25% and 17% of bank revenues, respectively.[17] These products build long-term confidence in the future: having even modest savings for a rainy day makes low- and middle-income households much less vulnerable to financial shocks.[18] Large banks and asset managers used to have a monopoly on savings management, working mainly with wealthy clients, but technology has changed the game.[19]

As AI tools continue to develop to help automate customer communications and portfolio selection, the barrier to entry for complex investment products will continue to erode

Applications such as Robinhood, TradingView, or T-Investments have made investing much easier. For example, individuals accounted for 40% of the US stock market turnover by 2021,[20] or twice the share they had represented 10 years earlier. Modern services offer not only access to the stock market and trading tools, but also analytics, social networking, copy trading strategies, and other services, allowing some brokers to attract more than half of their country's retail investors.[21]

The advent of robo-advisors has made intelligent portfolio selection available to most clients. This is particularly beneficial for banks: by creating their own robo-advisors, they save on portfolio managers. Independent robo-advisory players manage relatively small portfolios (for example, one of the largest in the U.S. has more than 700,000 customers with assets totaling USD 50 billion as of 2024).[22] As AI tools continue to develop to automate customer communications and portfolio selection, the barrier to entry for complex investment products will continue to erode.

However, there are still many unresolved challenges to the democratization of investing. These include dramatic market fluctuations caused by retail investor transactions that border on manipulation and cause other market participants to lose their savings.[23] This was the case when GameStop's stock price rose 2,000% in a matter of weeks.[24] Another example is the inflation and collapse of the "meme stock" bubble during the pandemic.[25]

Payments and transfers

The number of cashless payments has quadrupled over the past decade

In the past decade alone, the number of non-cash payments has quadrupled.[26] And while payments now account for only 17% of bank revenues, they have been the top area of fintech investment over the past 10 years.[27] The convenience of cashless payments is the most important factor in choosing a bank or non-bank financial services provider.[28]

The democratization of payments is first and foremost about allowing customers to make payments for free. This was started 15 years ago by fintech companies such as PayPal. Today, banks are following suit.[29] Many of them offer free packages of services (including debit card issuance and maintenance) when certain conditions are met, such as a certain number of transactions. And thanks to RTP systems (equivalent to the Fast Payments System in Russia), the creation of which is often led by regulators, in India, China, Switzerland, and many other countries, transfers between and within banks have become free and just as convenient.

Cashless payment methods in the B2C segment depend on the solutions offered by B2B customers, especially in the retail sector. A key example of democratization is QR code payments. In a number of countries, especially in Asia, the QR code system has almost completely replaced cards. Since the share of cash in payments is high in many Asian countries (41% in Japan, 38% in Indonesia, and 44% in the Philippines),[30] it is QR code technology that will be the source of growth for non-cash payments.

But while fast transfers within countries are becoming the norm, international transactions are often slow and expensive. For example, transfers from Europe to Africa can take several days and cost up to 12% of the amount transferred.[31] These conditions particularly affect poor countries.[32] Blockchain-based technologies can address these challenges, but their implementation requires coordinated action by regulators. Therefore, it will take time for these plans to materialize.

"Invisible" banks

Examples of "invisible" banking in different industries

1

Retail

A cashierless store. Purchases are automatically tallied and the total amount is deducted from the customer's account

amazon go

2

Taxi

A linked card is automatically charged for the trip

Yandex Go

3

Travel

Automated booking, check-in, and payment for accommodations and ancillary services

MARRIOTT

62% of millennials believe the service is more important than the bank, and 45% believe they do not need a bank at all

Another important recent trend is the rapid development of "invisible" banking. Today, customers do not need banks per se, but rather the services they provide: 62% of millennials believe that the service is more important than the bank, and 45% say they do not need a bank at all.[33] The better a bank works, the less visible it is.

Bankers themselves recognize this. According to the CEO of DBS, "the idea is to bring banking services into everyday life and make them invisible".[34] A car pays for parking itself, and a loan in a store is issued almost instantly. The consumer does not want to know what is going on behind the scenes, the main thing is to have easy access to financial services.

"Invisibility" is created by the development of bank-as-a-service (BaaS) solutions. 42% of the countries surveyed operate ecosystems that include banking services, but in only 3% of the countries do they dominate the market. Such ecosystems were created by banks in only one in ten countries; what's more, few large systems were created by banks, such as Sber in Russia or Kaspi in Kazakhstan. More often, ecosystems are launched by tech giants, which have the advantage of a huge customer base. By creating ecosystems, tech companies expect to capitalize on them, not least through banks. For example, Apple offers cards, a service for installment purchases, and deposits,[35] while Uber integrates a payment function into its superapp.[36]

We do not expect banks to disappear in the future. However, the impact of bigtech on lending and payments is already visible today, and the share of tech companies' revenues from financial services has reached 11%.[37]

Lending

In most ecosystems, credit drives revenue growth and monetizes the customer base. To expand the customer base, banks are launching non-core e-commerce businesses. The most sought-after type of credit is installment loan. Buy now, pay later (BNPL) services, which became popular in 2005 largely thanks to Swedish fintech Klarna, boomed at the start of the pandemic amid the growth of e-commerce and cashless payments. By 2020, Klarna's portfolio had more than doubled in 2 years.[38]

Share of BNPL sales tripled from 2019 to 2023

From 2019 to 2023, the share of BNPL sales tripled to reach 5%,[39] prompting some experts to doubt the future of credit cards,[40] especially since the credit card portfolio has stopped growing.

However, as early as 2021, the rapid rise of BNPL fintechs was followed by the collapse of their capitalization after regulation of such services was tightened, effectively equating them with loans. The challenge of embedded lending (i.e., embedded in a non-banking service) is low profitability. Monetization is at the expense of traditional, or "heavy", lending products that require capital, forcing ecosystems to sell portfolios to those banks that have it.

Payments

For users of some ecosystems, payments and transfers have already become "invisible". In China, up to 96% of mobile payments bypass banks thanks to the Alibaba and Tencent ecosystems, which have introduced seamless payments through QR codes and P2P transfers via messengers. Payments and transfers now serve as the ecosystem's source of user data for lending, incentivizing consumers to interact more frequently with their services.

The evolution of payments and other banking services and their seamless integration into ecosystems will continue, and ecosystems themselves will lead the way

The evolution of payments and other banking services and their seamless integration into ecosystems will continue, and ecosystems themselves will lead the way, as is the case in Russia, where all major ecosystems are developing their own fintech. For example, in the first five months of 2024, banks of Ozon and Yandex ecosystems showed the highest growth in deposits from individuals (more than double).[41] Voice assistants for ordering products have emerged; in 2023, Sber launched a service of payment with a smile; it is now possible to scan and pay for goods through apps rather than at store checkouts – these are just some examples of how the concept of "invisible" payments is evolving in retail.

In the banking sector, however, low investment in innovation is the main obstacle to the deployment of "invisible" payments and transfers. Today, banks spend 10 times less on R&D than technology companies, or 1–2% of the revenues versus 10–20%.[42] If banks do not increase their investment in the development of new technologies, there is a risk that their customers will migrate to the ecosystems of technology players, leading to a flight of deposits and a consequent decline in the profitability of the banking business.

Active role of the regulator

Open finance, RTP and CBDC systems are transforming banking services and blurring traditional boundaries

The third major trend is the ever-increasing role of the regulator. Prompted by the growing democratization of banking products, government authorities are increasingly focused on ensuring that the interests of end-users are taken into account, while maintaining the necessary level of control over the flow of funds to prevent their illicit use. Open finance, RTP and CBDC systems not only influence the development of banking services, but also blur the traditional boundaries between banks and, to some extent, between banks and the central bank. Regulators encourage competition in the market, which increases the availability of existing financial products and pushes banks to develop new services.

Banking technology maturity levels

Open finance

Open data · Open finance · Open banking · No

Own "card rails"

Availability of RTP

Yes · No

Status of CBDC adoption

Pilot · Research · Proof of concept · Launched · No

Source: Yakov and Partners analysis

Lending

Large banks have an important advantage over smaller banks: they have more data on borrowers, so their lending decisions are more accurate. This allows them to offer better terms and attract lower-risk customers.

Open finance reduces the advantage of large banks over small banks (see "Is it always good to be open?"[43] for more details). This model allows smaller players to access data from large banks where the customer has accounts (with the customer's consent). This has long been the case in the UK and Australia, which introduced the open finance concept in 2016–2018 and are now world leaders in this area. Russia plans to introduce the open finance model in 2025, and the impact could reach RUB 300 billion p.a.

Payments

As cashless payments have gained popularity, their convenience is becoming an increasingly important factor in choosing a bank. Fintech companies, which started to develop instant transfer services, played no small role in this. In order not to lose customers, banks created convenient phone number transfer services, further strengthening their dominant position. Regulators responded with RTP systems. Now operating in more than 100 countries,[44] including all the G20 countries, they allow instant transfers between consumers' bank accounts using simple identifiers such as a phone number.

Large banks reacted negatively, small banks positively, but eventually connection to RTP became mandatory. As the barriers to transferring money between banks were removed, the convenience factor became even more important in the competition. Several countries (Russia, India, Singapore, and Australia) are developing RTP not only for consumers, but also for businesses. Making such transfers between organizations is more difficult: compliance is essential, which makes it impossible to credit funds instantly. In the future, regulators will address this problem by creating "Know Your Customer" services, which will analyze the risk of companies' involvement in suspicious transactions and share this information with banks. The Central Bank of Russia is also developing such a platform which already has data on 7 million legal entities and individual entrepreneurs.[45]

Central bank digital currencies

More than 130 countries are developing and testing CBDCs

Today, more than 130 countries are developing or testing blockchain-based CBDCs[46] (see our article "Who will benefit from digital rubles?").[47] CBDCs have one key difference from traditional money as they are stored in customer accounts with the central bank rather than conventional retail banks. This means the central bank takes over the payment function and "pulls away" some bank funds and products, such as acquiring. CBDCs have great potential; in this country, for example, the impact could reach RUB 328 billion p.a.

For now, however, transactions with CBDCs are still being piloted in various countries around the world, and their penetration is extremely low. In China, for example, the digital yuan accounts for less than 0.2% of payments.[48] In addition, many market players are still skeptical about CBDCs, believing that there are no needs today that require the use of such currencies.[49] Nevertheless, CBDCs could improve cross-border transfers and make international payments faster and cheaper.

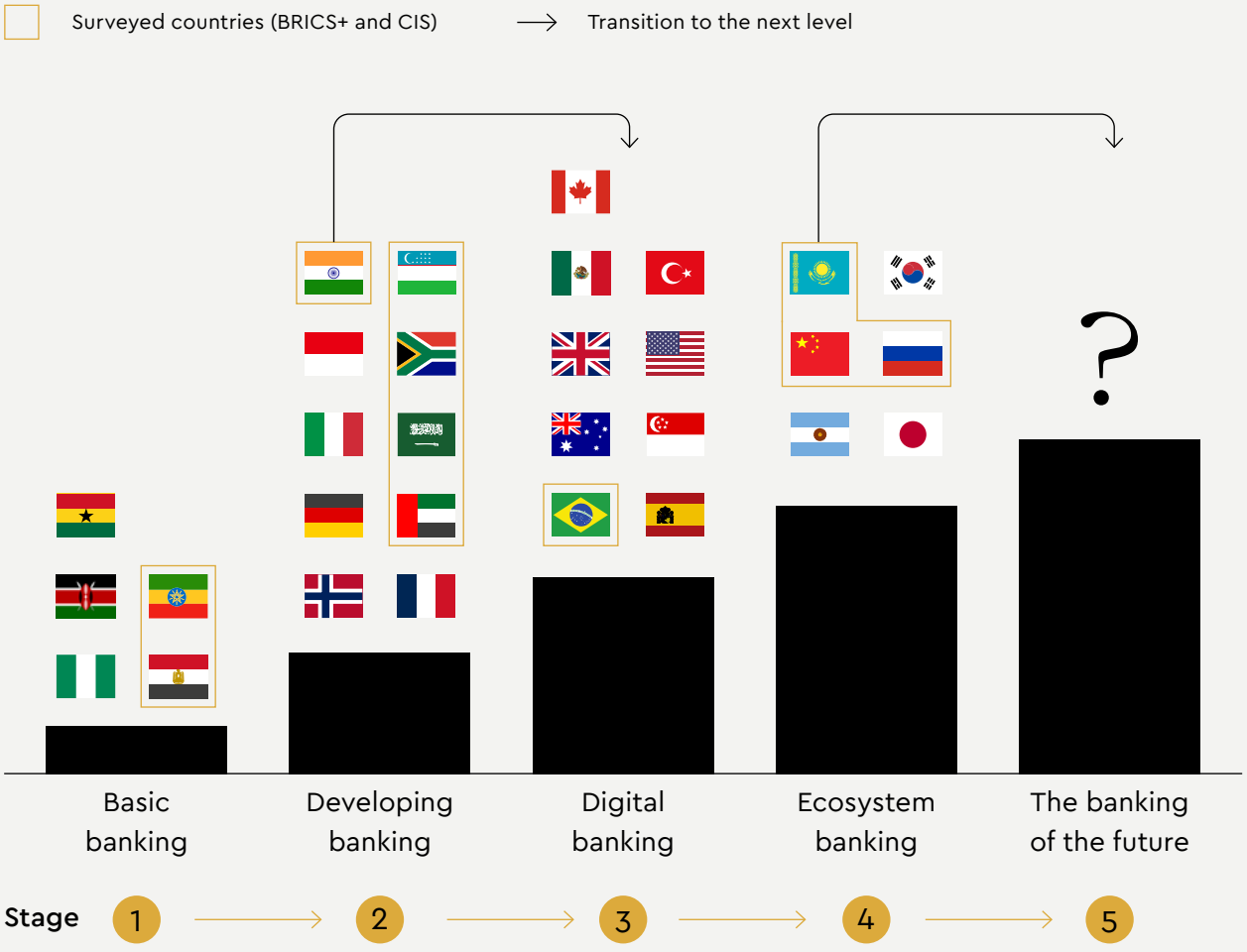
Evolution of banking systems: stages, transition, and how to prepare for it

As noted above, the three trends under review – democratization, development of "invisible" banks, and strengthening of the regulator's role – have different implications for banking systems at different stages of evolution.

In countries where financial services are still inaccessible to the majority of the population, banks' growth is extensive. Development is driven primarily by democratization and increased access to financial services. As the number of people covered by banking services grows, competition intensifies. In the battle for customer loyalty, banks are beginning to create their own ecosystems. Their main competitive advantage is the development of embedded ("invisible") financial services.

The introduction of new financial technologies and services with the support of the central bank is more successful in countries with a developed banking system. In countries where banks are in the first two stages of evolution, such experiments fail: the project to introduce CBDCs in Nigeria covered only 0.5% of the population,[50] while the use of the open finance model in the EU is yet to reach the desired level.

Breakdown of countries by banking system maturity



Source: Yakov and Partners analysis

The evolution of banking systems is also influenced by the economic development of countries. For example, the BRICS+ countries, where cashless payments were introduced later, skipped the stage of using checks as a payment instrument. Kazakhstan leapfrogged the stage of highly specialized financial services and went straight to the ecosystem model. There are also opposite examples of treading water: in Germany, the EU's largest economy, the share of cash in circulation remains high at 38%. In Russia, by comparison, it is much lower at 16%.[51]

In total, we analyzed 31 countries, including all the BRICS+ countries, the G20, selected CIS countries, as well as Singapore and Norway. Based on the findings of the banking system analysis, we identified five levels of banking system maturity, depending on the level of customer focus and technological and infrastructure development.

Levels of banking system maturity: from basic banking to the banking of the future

1

Basic banking
In countries with basic banking, the majority of financial services are provided through physical channels. Half of the population (55%) has a bank account. The share of cash in transactions is high at 62%. There are many alternative service providers in the market, including MFIs and non-bank payment services. The quality of service of traditional banks is lower than that of fintechs: the average score of bank apps is 3.88 out of 5, while that of fintech apps is 3.92 out of 5. Central banks are experimenting with CBDCs, as in Nigeria, but this effort is not yielding results. Today, 17% of the countries surveyed belong to this group: in addition to Nigeria, they include Egypt, Ghana, Kenya, and Ethiopia. The average ROE of their banking systems is also 17%.

2

Developing banking
Countries in this group are expanding their financial infrastructure, the number of players in the market, and the percentage of the population covered by banking services. At the same time, competition is intensifying, causing bank rates to fall and ROE to drop to 9%. The share of cash in transactions is 26%. The average score of banking apps is 0.2 points higher than in the previous group – 4.1 out of 5. The growth is driven by an increasing number and better quality of services. Approximately 33% of the countries surveyed are at this level today, particularly Germany, Indonesia, Italy, Norway, UAE, Saudi Arabia, Uzbekistan, and France.

3

Digital banking
In this group of countries, banking services in digital channels have advanced to a higher level. This has contributed to the widespread adoption of banking services. Large banks and fintechs alike are driving digitalization. The latter find shortcomings in the former and try to poach their customers with higher quality services, which motivates traditional banks to continuously improve their service levels. Banks have already managed to build an impressive customer base, which is why ROE in these countries is higher at 12%. Service quality is also reflected in the banking app score of 4.4 out of 5. 30% of the countries surveyed are at this level, including Brazil, the UK, Spain, Canada, Mexico, Singapore, Spain, the US, and Turkey.

4

Ecosystem banking

The countries in this group have leapfrogged several levels in a short period of time – 10–20 years – and quickly moved from beginners to leaders in banking services. Banking penetration and customer acquisition costs are high. To win the loyalty of the most demanding customers, banks compete on the basis of service quality, which has become a commodity in its own right and often plays a decisive role in competition.

As a result, banks are integrating with non-bank services in areas such as e-commerce, telecommunications, and travel. Banks, however, are not necessarily the ones to initiate this integration in all countries. In Russia, for example, marketplaces have started to create financial products themselves. The score for banking apps in this group is lower than in the previous one – 4.0 points out of 5.

At this stage, there is an important shift in how apps are rated. In the banking systems of the previous two levels, banks are ahead of fintechs, but here the opposite is true: fintechs and ecosystem players take the lead in the competitive race. While they were 12% behind traditional banks at the previous stage, they are already 7% ahead at this stage. Countries with ecosystem banking have the highest ROE (excluding the basic banking level) at 14% and the lowest share of cash in circulation at 19%. Today, 20% of the countries are at this level, particularly China, Russia, and Kazakhstan.

5

The banking of the future

In the future, this group will include countries where banks have started to test or introduce technologies that fundamentally change the principles of the banking system. Another characteristic of such countries is the strengthening of the regulator's role: central banks encourage and guide the development of financial systems, introduce new instruments, i.e. RTP, CBDCs, and open finance. The regulator thus promotes competition and improves customer experience.

At this stage, banking will become faster and more convenient, services and products will be easier to use: for example, a CBDC wallet will be available in all banking apps, open finance will improve the process of risk assessment and speed up loan issuance, and increased competition among banks will stimulate innovation and the emergence of new useful services. These changes will not necessarily increase banks' ROE, and in some cases may even decrease it. However, they will help to develop the market and, over time, create additional sources of income for banks.

No country has reached this stage yet, but more and more countries have the chance to do so soon. They include China, Russia, and Kazakhstan.

What is gained by moving from one level to the next?

As the banking system evolves, competition for customers intensifies. The winner in this competition is the one that provides the best customer service. Customers become more demanding in terms of service quality as a country moves up to the developing banking stage. In the transition to ecosystem banking, neobanks outperform incumbents in terms of app scores. This is because at this stage of banking system development, digital banks are better than traditional banks at meeting customers' needs for quality financial services.

ROE also increases steadily after the second stage, and its growth correlates with the growth of the digital outperformance rate. This is due to the higher ROE of neobanks: the top 10 digital banks have an average ROE of 17%[52] versus 3 % to 15% for the banking systems of the countries in which they operate.[53] After the developing banking stage, the ROE of a banking system increases on average by 2.5–3.0 p.p. as it moves to each subsequent level, but this requires large investments in infrastructure, primarily digital infrastructure.

Level	Average score of banking apps	Average score of traditional banks' apps	Average score of digital banks' apps / ecosystems	Digital out-performance rate
1 Basic banking	3.9	3.88	3.92	1.01
2 Developing banking	4.0	4.08	3.23	0.79
3 Digital banking	4.4	4.43	3.90	0.88
4 Ecosystem banking	4.0	3.81	4.05	1.07
5 The banking of the future	?	?	?	?

One exception is the transition to the banking of the future. As noted above, the adoption of technology at this stage does not always increase banks' ROE, and in some cases may even decrease it

The banking systems of the BRICS+ and CIS countries today hold more than USD 5 trillion in capital. If the banking systems of all those countries were to move to the next level (excluding the transition from ecosystem banking to the banking of the future) and maintain the same amount of capital, their revenues could grow by USD 20 billion p.a. If these countries were to reach the level of ecosystem banking that Russia and China are currently at, the annual impact could be as high as USD 39 billion.

One exception is the transition to the banking of the future. As noted above, the adoption of technology at this level does not always increase banks' ROE, and in some cases may even decrease it. The latter scenario is likely if CBDCs take a significant share of retail payments, which would reduce banks' acquiring fees.

However, these same technologies will create new potential sources of revenue for banks and other market players alike. The growth of banking system revenues in the transition from ecosystem banking to the banking of the future can be estimated by analyzing two factors, the introduction of CBDCs and the development of open finance.

The introduction of a CBDC will both increase the penetration of banking services and boost banks' revenues as new types of services will emerge, such as transactions using smart contracts or supporting cross-border transfers in a CBDC. In Russia alone, CBDC introduction could generate annual revenues of USD 0.3 to 0.7 billion for banks. In the BRICS+ countries, this figure could reach USD 3 to 9 billion.

The development of open finance could generate up to USD 1.6 billion p.a. for the Russian banking system. And the development of open finance in the BRICS+ and CIS countries could increase their revenues by USD 15–33 billion p.a. Should the BRICS+ and CIS countries reach the level of ecosystem banking, the annual impact of moving from this level to the banking of the future could generate USD 18–42 billion p.a.

At the global level, digital banks and fintechs, including those that are part of ecosystems, will be the first to benefit from the increased revenues of banking systems.

By 2030, revenues of digital banks worldwide will increase by a factor of 2.5,[54 55] with fintech revenues growing 3 times as fast as banking sector revenues.[56] The strongest competitive pressure will be felt by traditional banks, with profits hinging on the speed of their transformation and revenues projected to grow only by a factor of 1.5.[57]

How to prepare for the transition

If a bank does not improve the customer experience, competitors will, poaching its customers along the way

The key takeaway from our analysis of banking systems is that if a bank does not improve the customer experience, competitors will, poaching its customers along the way. At the basic banking level, the threat of competition comes from small fintechs; at the developing and digital banking levels from digital banks; and at the ecosystem banking level from technology ecosystems. The key to success is to stay ahead of the curve and offer next level services, even if this means cannibalizing existing products. After all, it is still better than losing customers.

In Africa, where most countries are still at the basic banking level and half of the 5,200 start-ups[58] are fintechs, the expected 10% growth of the financial market will come from the latter. This growth will be three times the projected increase in GDP. A logical response from large banks would be to invest in fintech startups and provide them with access to a large customer base on more favorable terms. This strategy is being pursued, for example, by bank holding company Capital One, which has already invested in more than 15 fintech companies through partnerships.[59]

As the main threat to incumbents at the developing banking level comes from neobanks, launching digital services or an in-house digital bank, possibly under a separate brand, could help mitigate the risks. This is what happened in the UAE, for example. The country was still at the developing banking stage in 2021, yet managed to skip over to the digital banking level by 2023. The new Wio Bank, backed by the country's largest bank, FAB, became profitable and one of the fastest growing digital banks in the world in 2023.[60] Traditional local banks have also established digital banking subsidiaries to replicate its success, with Mashreq launching Mashreq Neo and ENBD establishing Liv Bank.

Countries at the level of digital banking should prepare for the emergence of ecosystems. Banks can become their founders and investors, as happened in Russia and Kazakhstan. Partnerships with ecosystems, especially in e-commerce, will not only bring loyal audiences, but also expand the knowledge base about customers. This will increase the level of service personalization, banks' customer focus, and customer engagement, as well as profitability. New solutions are being introduced and evolving rapidly, so it is necessary to prepare for the emergence of ecosystems in all markets. Ecosystems, however, should be launched with caution, as they do not always succeed. In Uzbekistan, for instance, SQB's JOYDA ecosystem did not take off, while Uzum continues to grow steadily.

None of the banking systems analyzed have yet reached the level of the banking of the future, but it would be worthwhile to prepare for this stage

None of the banking systems analyzed have yet reached the level of the banking of the future, but it would be worthwhile to prepare for this stage. This also applies to banks in those countries where ecosystem banking prevails. Unlike banks, regulators are open about their plans for future technologies. Many central banks publish their development strategies for the next 5–10 years and warn of upcoming changes. It makes sense for banks to prepare in advance for the introduction of new technologies rather than try to undermine the regulator's projects. An example of staying ahead of the curve is the partnership between Sber and T-Bank, Russia's largest retail banks, which announced an integration to share data on customers with their consent more than a year before the launch of the open finance model.[61]

Conclusion

The transition to the ecosystem banking level will generate up to USD 39 billion p.a. for the BRICS+ and CIS countries

Banks have come a long way in recent decades, innovating, improving financial services, and making them more accessible to consumers.

The transition to ecosystem banking could potentially add up to USD 39 billion p.a. to the BRICS+ and CIS banking systems. To achieve this, banks need to improve financial products that can be integrated into customers' daily experience. The faster the transformation, the better the results. At the same time, it is important for banks to recognize that today they are competing not only with each other, but also with ecosystems that are becoming increasingly prominent players in the financial services market.

Banking systems in the countries surveyed could generate up to USD 42 billon p.a. in additional revenues by moving from ecosystem banking to the banking of the future

As banks and other market players transition to the banking of the future, they will gain additional revenue streams as regulators actively encourage the use of CBDCs and the development of the open finance model. In Russia alone, the launch of a CBDC could generate between USD 0.3 and 0.7 billion p.a. for banks, with a further USD 1.6 billion p.a. added to revenues through the development of the open finance model. Moving from ecosystem banking to the banking of the future in the BRICS+ and CIS banking systems could generate an incremental revenue stream estimated at up to USD 42 billion p.a.

These processes will unfold against the backdrop of an ever-increasing role for regulators, and central banks will need to address three major challenges. First, they will need to revise compliance requirements, e.g., to develop mechanisms for remote identification and real-time verification of the legality of payments and transfers, including cross-border ones. This will allow services to be provided remotely and promptly.

Second, central banks need to stay ahead of the curve when it comes to regulating new technologies and business models, establishing transparent rules of the game and ensuring predictability as the sector increases investment. The focus should be on ecosystems where the core business is far removed from banking, as well as on AI and blockchain technologies. Clearly, one of the constraints to the development of both the ecosystems themselves and their value proposition will be the issue of personal data protection and processing. So far, this issue remains largely a gray area, and to avoid potential complaints, market players are limiting the capabilities of their technological and business solutions, and thus the degree of personalization that lies at the heart of the banking of the future.

Third, regulators will need to manage the development of the technology infrastructure and define requirements for it. This process will improve customer satisfaction, increase bank profits, and ensure that financial transactions are properly controlled to guarantee their security.

It is already clear that the potential for improvement is far from exhausted. By moving to the next levels of banking system maturity, countries can significantly improve the living standards of their people and develop their economies. It has been shown that a 10% increase in balance sheet liquidity[62] translates into a 1.12% increase in GDP per capita[63] in the long run. In this context, it is important for the sector and the regulator to synchronize their efforts, as competition in banking and finance has long been not only between individual institutions, but also between entire countries.

Study methodology

The study analyzed the banking systems of 31 countries.

Each banking system was analyzed based on two dimensions, customer centricity and level of infrastructure and technology development.

We determined a country's level of banking system development based on the availability and penetration of services and technologies that impact the customer experience and market infrastructure. Most parameters received a qualitative score (low, medium, or high) based on data from verifiable open sources selected using a consistent methodology.

Indicators such as the share of users of mobile banking apps and MAU/DAU were not used in the study because it is impossible to measure them consistently.

To assess the level of customer centricity, we analyzed three blocks of technologies and products that affect the quality of user experience when using banking services:

— C2B cashless payments: use of contactless technologies (NFC, QR codes, biometrics).

— B2C ecosystems: availability of large ecosystems with integrated financial services.

— Open finance: the ability of bank customers to give third parties access to their banking data.

To determine the level of infrastructure and technology development, we assessed the degree of technological autonomy of banking systems and payment infrastructures. For this purpose, three main types of systems were analyzed:

— Proprietary "card rails": development and deployment of local payment systems.

— Fast Payment System (FPS/RTP): availability of a system for instant payments and transfers using an identifier, such as a phone number.

— Platform for the creation and development of a CBDC: development of a national platform for the digital currency issuance and management.

Based on the level of development of the above six characteristics, we identified five stages in the evolution of national banking systems:

1. Basic banking.

2. Developing banking.

3. Digital banking.

4. Ecosystem banking.

5. The banking of the future.

In addition, we evaluated the performance of each banking system based on the following two parameters:

1. ROE as a gauge of banks' financial performance.

2. Customer service quality in digital channels measured by app store ratings.

The analysis compared traditional banks with neobanks, digital banks, fintech companies, and alternative financial service providers.

Notes

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Staying ahead of the curve: towards the banking of the future

Production team:

Ilya Ivaninsky, Director of the Center for Business Education and Analytics at Central University, Expert Partner, Yakov and Partners

Dmitri Angarov, Partner, Yakov and Partners

Maxim Bolotskikh, Director, Yakov and Partners

Sergey Panfilov, Deputy Director of the Center for Business Education and Analytics at Central University

Andrey Strogonov, Senior Analyst, Yakov and Partners

Daniil Kopylov, Analyst at Central University

Nikita Dral, Designer, Yakov and Partners
Sergey Kuznetsov, Production Editor, Yakov and Partners

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To contact the authors, request comments and clarifications, or check for any restrictions, please reach out to us at

media@yakovpartners.com

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