

## IDC FutureScape

# IDC FutureScape: Worldwide Financial Services 2021 Predictions

Marc DeCastro  
Steven D'Alfonso  
Martin Stiller

Jerry Silva  
Sabitha Majukumar  
James Wester

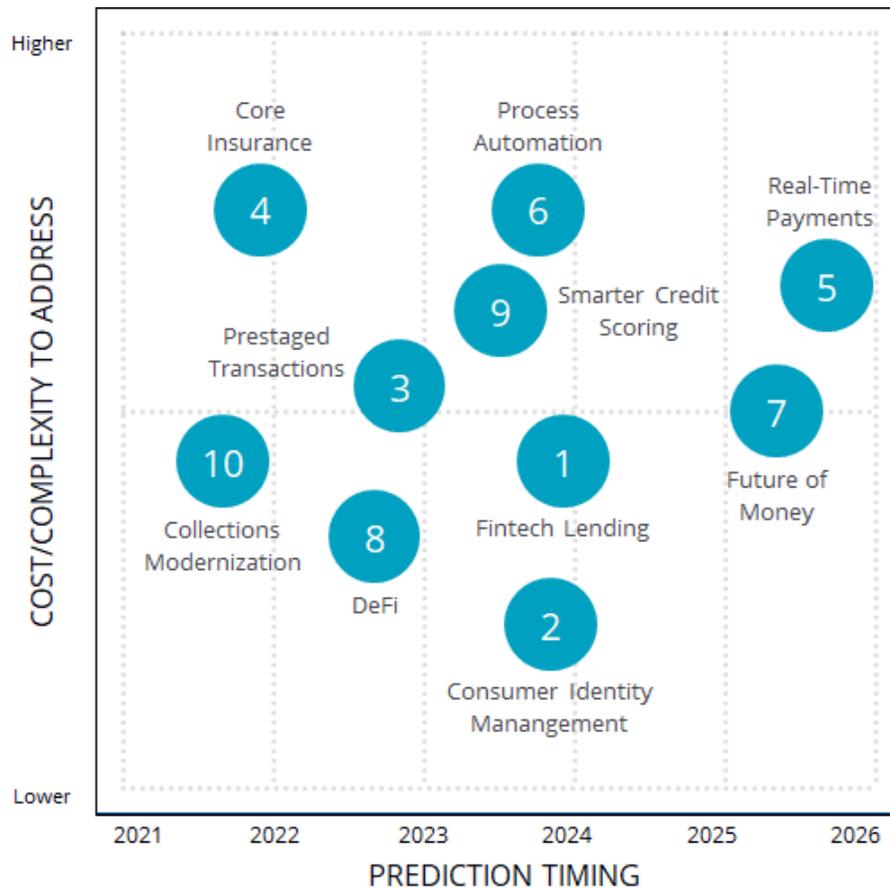
Michael Araneta  
Arpita Mitra

Thomas Zink  
Aaron Press

### IDC FUTURESCAPE FIGURE

FIGURE 1

#### IDC FutureScape: Worldwide Financial Services 2021 Top 10 Predictions



Note: Marker number refers only to the order the prediction appears in the document and does not indicate rank or importance, unless otherwise noted in the Executive Summary.

Source: IDC Financial Insights, 2020

## EXECUTIVE SUMMARY

---

This IDC Financial Insights study presents the top 10 predictions for the financial services industries. Each prediction is shaped by a common set of key drivers that provides a planning tool for technology leaders and their line-of-business counterparts to use in their IT strategic planning efforts. The challenges of the industry today continue to be shaped by the global pandemic and the need for the industry to remain resilient and adjust to the next normal.

In no order, our 2021 predictions for the worldwide financial services market are as follows:

- **Prediction 1:** By the end of 2023, 75% of lending decisions in retail banking will be supported by fintech propositions, underscoring accelerating bank-fintech collaboration.
- **Prediction 2:** By the end of 2023, 10% of banks will use consumer digital identities to drive new, innovative business models creating new sources of revenue.
- **Prediction 3:** By 2022, 40% of in-branch transactions will be initiated as prestaged transactions or appointments for specialists that start on digital platforms and fulfilled on bank-owned technology and locations.
- **Prediction 4:** By 2022, 25% of global tier 1 insurers will be on a path to new core insurance systems.
- **Prediction 5:** In 2025, 35% of electronic consumer to business payments will be completed using real-time or "real-time like" noncard methods.
- **Prediction 6:** By 2023, 75% of all consumer and small business loans will be originated through AI-enabled and automated processes.
- **Prediction 7:** In 2025, 20% of consumer loans will be disbursed in a central bank digital currency.
- **Prediction 8:** By 2022, more than \$10 billion in asset value will be locked into decentralized finance projects.
- **Prediction 9:** To counter the uncertainty of the pandemic, 70% of corporate banks will revisit credit scoring models and prioritize an open data strategy to improve loan portfolio health by 2023.
- **Prediction 10:** In 2021, 25% of banks will transform their lending environments with intelligent collections solutions that will help recover more nonperforming loans instead of writing them off.

This IDC Financial Insights study developed seven drivers that both CIOs and their business partners should consider over the next five years. The list is not meant to be exhaustive nor is it meant to be final. IDC Financial Insights publishes a new list of drivers annually, and many are evolutionary. Last year's drivers were instrumental in developing this list, just as this year's drivers will be critical to the formulation of next year's drivers.

Of the seven drivers, it became clear that some drivers had further reach within financial services than others. These drivers are more far reaching and thus are likely to have the most complexity and cost in implementation. Key drivers listed in the Summary of External Drivers section are in order based on the number of times they were cited by the global analyst team as impacting the prediction. At the end of the study (see the External Drivers: Detail section), a more in-depth analysis of the drivers is provided.

"2020 has certainly presented the biggest challenge to the financial services industry since the financial crisis in 2008," says Marc DeCastro, research director, IDC Financial Insights. "As we dealt with global pandemics, civil unrest, and natural disasters, institutions needed to run the organization while rapidly transition to a remote workforce, plan for a looming recession, and implement government mandates while allowing customers and employees the ability to work and conduct their business when branches were closed and call centers shuttered. Resilient organizations that had already invested heavily in transforming toward a digital model have fared better in meeting these new demands and are already focused on being innovative in the new normal."

## IDC FUTUREScape PREDICTIONS

---

### Summary of External Drivers

- **Accelerated disruption** – Crisis, resilience, and opportunity
- **The next normal** – Resilient business and operating models
- **Strategic innovation** – Shaping the future enterprise today
- **Customer engagement redefined** – Safe, secure, and sustainable digital experience
- **Intelligence everywhere** – Data drives action
- **Crisis of trust** – Meeting rising expectations
- **Digital platform** – Ecosystems at scale

### Predictions: Impact on Technology Buyers

#### ***Prediction 1: By the End of 2023, 75% of Lending Decisions in Retail Banking Will Be Supported by Fintech Propositions, Underscoring Accelerating Bank-Fintech Collaboration***

Pre-COVID-19, banks were gearing up for a higher-than-average increase in lending, as the economic cycles for most markets globally were primed for that uptick. The banking industry can still look forward to such an uptick, this time driven by the different conditions of 2020: support for specific economic sectors, government stimulus programs and credit guarantees, and robust demand for credit from small businesses and corporates.

The value chain of lending has received focus from banks' third-party providers, particularly in the earlier part of the value chain: origination and servicing. This was evident in developing markets where electronic know-your-customer (eKYC) guidelines opened credit to largely underserved subsegments. The impending debacle of 2020, however, is often characterized as a credit crisis, and banks need to move focus down the value chain to ensure improvements in credit decisioning, and in collections, given the higher default rates expected among borrowers. Fintechs will play a big part in this quick refocus, fostering cooperation in which fintechs offer innovative solutions and services, connecting through various parts of the lending process. Fintechs will be involved in origination, funding, and distribution – early versions of P2P lending will mature accordingly. In the era where new and alternative data can hone credit models, it might be in data and data analytics where the participation of banks in lending will be most welcome. Some however will grow big, well beyond the start-up and the "tech" worlds. Fintech banks will emerge and will compete more directly with traditional banks.

### Associated Drivers

- **Intelligence everywhere** – Data drives action

- **The next normal** – Resilient business and operating models
- **Customer engagement redefined** – Safe, secure, and sustainable digital experience

### IT Impact

- The industry has already seen considerable efficiencies in lending, wrung from business process reengineering, and an overall improvement to turnaround time, thanks to more automation.
- Lending excellence will be increasingly shaped by technologies that help in accuracy of decisions, helped by facial recognition, analytics and AI/ML in credit decisioning, and data augmentation.
- Credit collections and recovery strategies of banks typically have an outsourced services component, but greater automation and the use of AI/ML will make it possible to do more in-house.
- Application programming interfaces (APIs) allow the sharing of lending functionalities, activities, and data to fintechs, and the recent work of banks in building APIs will hasten the integration of fintech propositions in lending.

### Business Impact

- Lending excellence, seen in efficiency (cost to serve, turnaround time) and accuracy of decisions (provisioning, recovery rates), can contribute precious basis points to banks' profitability.
- There is a race to rebuild credit risk models that reflect the new and very different conditions. Banks already recognize that some long-standing models have degraded to an extent that they might be detrimental to the bank if they continue to be used. Model risk management will be crucial.
- Building a solid, internal skill base within the bank makes it easier for the organization to remain consistent in the use, interpretation, and governance of models. The greater use of AI/ML in credit decisioning – with obvious and significant impact to the well-being of customers – will force banks to tackle the principles of explainability and ethical use of AI.
- Banks should review their existing collection and recovery processes and commit to an IT investment that will not only manage risk effectively but also enable customer-centric collections strategies along with margin improvements from increases in recoveries on charged-off accounts.

### Guidance

- Broaden and deepen lending excellence beyond the traditional segments of origination, credit decisioning, and collections. There are various subsegments that banks can still improve.
- Align fintech propositions with the twin goals of process efficiency and accuracy of decisions. Partnerships will need to be reevaluated regularly, given persistent failure rates among fintechs.
- Rebuild credit models by not only using new data but also using alternative data provided by fintechs and data/insights-as-a-service companies.

### ***Prediction 2: By the End of 2023, 10% of Banks Will Use Consumer Digital Identities to Drive New, Innovative Business Models Creating New Sources of Revenue***

Delivering superior customer experiences is a top priority for most organizations. IDC survey data of executives indicates customer experience as its top digital transformation (DX) priority and investing

significantly in customer experience initiatives. Superior customer experiences and digital customer journeys are created through an alignment of multiple internal stakeholders. Developing products and services with security, fraud, and compliance in mind can establish an environment that is conducive to frictionless customer experiences.

As consumers increasingly engage with their banks digitally, the digital identity of those consumers becomes a foundational asset upon which highly personalized offerings can be securely presented to banks' customers. Financial institutions are in a position of trust, and that trust will enable banks to develop new business models and generate new revenue streams.

Many institutions use multiple identity proofing and authentication applications across channels and lines of business (LOBs). Forward-looking institutions will establish a common enterprise consumer identity and access management (CIAM) platform that is fully integrated with all onboarding, fraud, AML, CRM, and data privacy applications to create a secure and complete 360-degree customer view. Open API design of the platform will facilitate connections to external identity schemes. The CIAM platform will facilitate customer experience teams to develop and deliver highly personalized experiences.

### Associated Drivers

- **Intelligence everywhere** – Data drives action
- **Customer engagement redefined** – Safe, secure, and sustainable digital experience
- **Strategic innovation** – Shaping the future enterprise today

### IT Impact

- Connections to systems and applications across all LOBs will be required to effectively establish a CIAM platform. Integration with all fraud, KYC, onboarding systems, and CRM is a necessity.
- Orchestration of existing identity point solutions with contextualized callouts to those solutions and other third-party data providers is necessary to control expenses as part of a risk-based customer monitoring system.

### Business Impact

- Internal stakeholders will need to be aligned to break down technology and information silos. Resistance from functional units across the organization will limit overall success.
- Common KPIs across lines of business must be developed to enable aggregation and reporting to executive leadership.

### Guidance

- Establish a cross-functional team to aggregate information around technologies, budgets, requirements, and current practices.
- Begin to identify opportunities to develop new products and services that will lead to the creation of new revenue streams. New opportunities will be identified through a holistic understanding of customers' behavior and internal KPI monitoring.

### ***Prediction 3: By 2022, 40% of In-Branch Transactions Will Be Initiated as Prestaged Transactions or Appointments for Specialists That Start on Digital Platforms and Fulfilled on Bank-Owned Technology and Locations***

The concept of prestaging a transaction has taken on greater importance in 2020 than we had originally expected. We had predicted that a rise in these transactions was imminent, particularly as

institutions were looking for more ways to expedite in branch transactions while providing the customer with the convenience of using digital self-service tools available from online and mobile solutions, yet nobody understood the urgency of expediting these solutions until now. Lockers, which have become more common in big-box retailers, have a place within the branch for customers to pick up or drop off documents based on their schedules. The concept of accelerating years of digital transformation into months is something that certainly has been exemplified when it comes to how customers today and in the future will engage with the branch network.

The first use case for prestaging transactions was using the mobile phone to set up an ATM transaction. Customer adoption of this use case was small, as there was little time savings to the consumer. Other use cases would be to provide funds to a family member or friend by directing them to an ATM and allowing a QR code and one-time password to get a predetermined amount of cash from your account. The use cases today that have caused an acceleration is on scheduling access to interact with an employee or specialist, particularly to keep the number of people in the branch at acceptable levels. Transactions like replacing a debit card, closing an account, or closing on a mortgage will likely need to be scheduled by the customer to align with availability of the necessary employee. Branches that do not accommodate the ability to create appointments may be the first branches designated for closure if the institution begins to shrink their branch footprint.

### Associated Drivers

- **Customer engagement redefined** – Safe, secure, and sustainable digital experience
- **Accelerated disruption** – Crisis, resilience, and opportunity
- **The next normal** – Resilient business and operating models

### IT Impact

- Integrations and modifications will be required in the branch to properly handle these prestaged transactions and appointments back to many bank-owned solutions including ATM, ITM, lockers, and enterprise resource platforms such as email and calendars.
- NFC, Bluetooth, facial recognition, and beacon technologies within the branch network will help coordinate the notification and authentication of customers entering the perimeter of the branch to complete their prestaged transaction.
- Visible security enhancements will require upgraded cameras and smart lighting and potentially enhancements to drive up lanes to ensure customer and bad actors are aware that they are being recorded.

### Business Impact

- Allowing customers to prestage transactions and set up in-branch experiences will need to be intuitive to use and initially will require individuals to make immediate appointments to not provide a negative experience for customers unaware of the new process.
- Authentication of customers will be a difference maker in ensuring that the bank knows who the customer is and allows for expedited process. These experiences will be shaped by improvements in digital payment technologies as customers simply unlock their device to authenticate a transaction.
- If customers feel safe about picking up cash and negotiable instruments when the branch is not staffed, they are more likely to use these options.

## Guidance

- Highlight the benefits of prestaged transactions and appointments in digital self-service channels as well as visibly at the branch. Design the user experience through the lens of the customer, and not the business process of the institution.
- Upgrade in-branch equipment to provide customers with the peace of mind that access to their transactions will be properly matched to the account holder. This may require customers to provide more biometric information including facial/retina scans and voice recognition.
- Create visible notification of enhanced surveillance to ward off bad actors. Ensure that network and telecommunications are robust enough to handle high-definition video sources. Provide additional higher levels of physical security, especially when lockers or walk ups are in use.

## *Prediction 4: By 2022, 25% of Global Tier 1 Insurers Will Be on a Path to New Core Insurance Systems*

2021 will see the makings of a resurgence of core insurance modernization among the world's top insurers as they respond to "digital insurance" opportunities. This echoes the trajectory of core banking system transformations that have been undertaken for some years now, starting with the core abstraction – extricating business logic of several applications around the core system itself. Core insurance projects in the pipeline are noted to bring together the principles of iterative and progressive core modernization – not necessarily a replacement of current core software providers. These software providers have in the meantime introduced changes to the very architectures of their offerings so that they are now able to meet insurers' preference for platform-based, componentized, API-enabled core insurance systems. There are also similar growth patterns in the adoption of cloud in insurance as seen in banking.

The motivations for core modernization are likewise similar to those in banking, but perhaps most striking in relation to technical debt. Current core platforms are clearly holding insurers back, with the inability to create new products fit for this more ecosystem-fit world of insurance. Questions around time to market to launch a new insurance product and the actual costs across the company to launch a new insurance product have been asked more and more, thanks to the emergence of new digital-only companies that behave like start-ups and might have the benefit of new "digital core" systems.

## Associated Drivers

- **Accelerated disruption** – Crisis, resilience, and opportunity
- **Strategic innovation** – Shaping the future enterprise today
- **The next normal** – Resilient business and operating models

## IT Impact

- A dual-core model might be possible as insurers modernize their core systems, but the long-term goal would be the ultimate abstraction and simplification of the old system.
- Core transformations have significant IT investment to pull-through: they stir an increase in spending in other noncore areas. The IT organization will build competencies in new technologies, such as Java, cloud and containers, and open API frameworks. Skills in information architecture will be ramped up as well.
- Modernization in core systems can save up to 30-40% of IT operational costs, based on two recent projects in the Asia/Pacific region. Insurers can make up their long-standing lag in innovation as operating costs get freed up.

- A significant proportion of new digital services will be built as composite applications using public and internal API-delivered services.

### Business Impact

- 2020 has surfaced long-standing issues in product manufacturing, as insurers were hard pressed to come up with health- and protection-type products that were in high demand. Because of COVID-19, insurers' traditional "loss prevention" value proposition will have to give way to the fulfillment of consumers' digital lifestyles or maybe to help customers' "savor life" itself.
- The old-school, cookie-cutter approach of selling occasional and transactional products is giving way to new distribution models and self-service platforms as customers want to buy, and not be sold to.
- Some new governance and compliance requirements might put a strain on resources and taking time away from projects that offer greater innovation potential to the business.
- There is significant innovation building in cloud ecosystems, particularly in customer analytics. These provide insights on customer behavior, usage patterns, and geolocation, giving insurers a chance to engage with the customer segment of one.

### Guidance

- Prioritize LOB and product-related functionalities to be abstracted and modernized. Use a matrix of risk, business performance, business goals, and cost considerations – varying across insurers.
- Keep steadfast on the long-term goal of true digital transformation, even as some big compliance programs might stand in the way for the moment.
- Use cloud to improve not only the costs in running the core system but also the business to participate in ecosystems of partners, agents, brokers, and value creators.

### ***Prediction 5: In 2025, 35% of Electronic Consumer to Business Payments Will Be Completed Using Real-Time or "Real-Time Like" Noncard Methods***

Person-to-person digital payments have been around for nearly 20 years, becoming relatively mainstream. Mobile technology has moved the experience to handheld devices, literally placing the ability to conduct financial transactions in the hands of large populations of consumers and resulting in the acceleration of what had previously been slow growth.

As these payment systems gain experience, they also gain confidence in their ability to manage risk. This, in turn, has allowed the network operators to provide a "real-time-like experience" to their users, even as truly real-time payment systems are emerging around the world. As more of these systems come online in the next three to five years, the trend will accelerate.

As more and more consumers become comfortable with mobile, person-to-person payments, they are looking to use them for consumer-to-business payments as well. This trend is amplified by COVID-19, as consumers seek low- to no-contact payment options. At the same time, merchants, who are also consumers, are extending the instant payment experience to their businesses, which creates a positive customer experience and lowers the merchant's costs of payment acceptance. As more merchants turn to digital wallet payments, the result will be a substantial increase in payment share, at the expense of cash and cards.

### Associated Drivers

- **Customer engagement redefined** – Safe, secure, and sustainable digital experience

- **Accelerated disruption** – Crisis, resilience, and opportunity
- **The next normal** – Resilient business and operating models

### IT Impact

- Banks and payment processors will need to invest in integration to real-time payment networks to ensure full participation in digital wallets.
- Merchants will need to integrate digital wallet payments into their point-of-sale (POS) and back-office systems.

### Business Impact

- Banks will see a decrease in card-driven revenue from both interchange and revolving balance interest.
- Payment processors will have to adjust to a change in the mix of methods of payments.
- Merchants will see lower cost of payment acceptance and higher conversion rates as the mix of payments shifts.

### Guidance

- Banks should have a strategy in place to provide their customers full access to digital wallets, including the integration of real-time networks.
- Payment processors and providers of retail back-office systems should ensure that their merchant customers can smoothly accept digital wallet transactions.
- Merchants should adopt digital wallets as valid methods of payment to optimize customer experience.

### ***Prediction 6: By 2023, 75% of All Consumer and Small Business Loans Will Be Originated Through AI-Enabled and Automated Processes***

Perhaps more than any other business unit in the bank, consumer and small business lending was hit the hardest as a result of the COVID-19 pandemic. The scale of loan applications based on the need for expanded credit to both consumers and businesses had many institutions frantically trying to respond, and often failing, due to a preponderance of origination processes based on manual workflows and antiquated loan origination systems (LOS).

IDC believe that 2021 will see an acceleration of modernization efforts in this area. In an executive survey conducted in April 2020, bank executives were asked to identify what IT initiatives were demanding increased priority for investments. The top answer was "task and process automation" (source: IDC's *COVID-19 Impact on IT Spending Survey*, April 2020). Clearly, banks want to address the inefficiencies that have long existed in the middle office, and lending is an area where IDC believes most institutions will start and stay at the top of the investment priority list for years to come.

### Associated Drivers

- **Accelerated disruption** – Crisis, resilience, and opportunity
- **Strategic innovation** – Shaping the future enterprise today
- **The next normal** – Resilient business and operating models

### IT Impact

- Loan origination is a complex interconnection of workloads within workloads. The first task for IT will be to evaluate the chain of events necessary to complete a loan origination and identify those parts of the process in most need of modernization.

- It will often be the case that instead of modernizing an existing lending platform or workflow, many institutions will start with a turnkey solution from a third-party partner and apply any customization as needed.
- An interesting and critical aspect of a LOS modernization initiative will be the deployment decision. Many modern LOS solutions are delivered as a service on public cloud platforms. IT will have to consider the benefits of scalability, application updates, and operational expense aspects of such a model against the need to keep the LOS in-house, on premises.

### Business Impact

- One of the biggest competitive pressures in lending comes from smaller fintechs using modern technologies that use friendlier customer experiences and enable them to deliver decisions much quicker than banks using legacy technology. LOS modernization will level the playing field.
- Moving LOS to cloud-based services not only speeds up the time to implement new LOS platforms but provides better resiliency and scalability than most institutions currently can through legacy and/or homegrown solutions.
- Eventually, a modernized LOS will be a springboard to modernization of the servicing and collections platforms in place today, resulting in a modern, end-to-end lending environment that can support other lines of business (auto, corporate, etc.).

### Guidance

- Use lessons learned in 2020 to guide strategic decisions made during the budgeting cycle to guide the appropriate funding for LOS modernization in 2021.
- Consider third-party partners using the additional IT criteria of open API, cloud based, and agile to build resiliency into the platform along with business functionality.
- Use LOS modernization as a template to address loan servicing and collections in 2021 and 2022.

### ***Prediction 7: In 2025, 20% of Consumer Loans Will Be Disbursed in a Central Bank Digital Currency***

The concept of a central bank digital currency (CBDC) has been around for longer than a decade. However, this year has seen CBDCs gain momentum in discussions with public. Things such as Facebook's Libra and the ongoing pandemic have been a wake-up call that the digitalization and democratization of the economy makes the digitalization of banknotes inevitable. Central banks must address the needs of the future digital economy and should offer the digital economy a modern means of payment.

A CBDC is still a developing concept, and it will vary from market to market, but IDC expects a CBDC, in most cases, will be a partially decentralized payment rail. It will offer a cashlike peer-to-peer functionality operating in real time. CBDCs will create tokenized and partially encrypted currency to address privacy concerns and to give users more control over their personal data. CBDCs will also be programmable, allowing designated public authorities to enforce anti-money laundering (AML) or counter terrorism financing (CFT) policies. Importantly, while a CBDC has been often considered as a cryptocurrency, most central banks claim their intention is not to use blockchain as an underlying technology. Nevertheless, many central banks will use at least some features of distributed ledger technology such as smart contracts.

The biggest concern around CBDCs is that a higher demand for CBDCs could shift commercial banks' money deposits to central banks' balance sheets. The drop in funding could affect banks' ability to fulfill capital requirements, ability to provide consumer credit, and, in the worst-case scenario, could lead to their disintermediation. To address those concerns, the International Monetary Fund and Bank of International Settlements have offered a hybrid concept of a CBDC, allowing bank and nonbank institutions the ability to issue them, a so-called "synthetic" CBDC. A synthetic CBDC would enable licensed banking and nonbanking institutions to disburse loans in riskless central bank money and outsource a portion of credit risk to a central bank.

The coming years will see countries such as Sweden and South Korea move forward with CBDCs. Mass adoption will take at least three to five years, so IDC expects that in 2025, 20% of consumer loans will be disbursed in a CBDC.

### Associated Drivers

- **Accelerated disruption** – Crisis, resilience, and opportunity
- **Crisis of trust** – Meeting rising expectations

### IT Impact

- Central banks are to be responsible for operating a CBDC network and for CBDC issuance, while in most cases, commercial banks or fintech will be developing and maintaining digital wallets and providing overlay services.
- The role of supervising authority overseeing onboarding clients and monitoring transactions will be either assigned to a designated public authority or it will be shared among market participants based on a consensus mechanism using incentives.
- A CBDC leveraging a blockchain network can strengthen the system's resiliency. In case of a failing bank, a central bank could step in and either shift the public keys to a dedicated operator or temporarily take them over without clients losing their savings.

### Business Impact

- A CBDC creates new opportunities for banking and nonbanking players to, for example, unlock value of underserved SME segment or ease access to funding particularly to unbanked population.
- A CBDC could become an interest-bearing currency, similarly like wholesale central bank reserves. An interest-bearing CBDC could turn into a liquid asset and give a central bank a new driver influencing inflation through positive or negative interest rates.
- It is unlikely that any central bank is to build a CBDC on a "permissionless" blockchain. Even though for an end consumer, it would be desirable, as it fosters innovation and reduces frictions. This setup could make the central bank to lose some control and sovereignty.

### Guidance

- Engage proactively with commercial banks and the fintech ecosystem to encourage development of digital wallets.
- Define and openly communicate the "rules of the game," meaning the protocols, governance models, and architectures being used to build CBDCs. Furthermore, these rules must encourage competition, foster innovation, and not discriminate against any players.
- Guarantee interoperability between a CBDC and commercial bank digital money. Despite most of central banks' plans to maintain the existing two-tier system, commercial banks should proactively communicate their role to retain their customer-facing role.

- Educate clients, financial institutions, and the banking community to support CBDC adoption. A successful adoption of a CBDC will depend on commercial banks. Commercial banks own the client relationship and should work proactively to support them.

### ***Prediction 8: By 2022, More than \$10 Billion in Asset Value Will Be Locked into Decentralized Finance Projects***

Decentralized finance (DeFi), as the name implies, is the delivery of financial services building on distributed ledger technology and blockchain. Digital assets and tokens built on those technologies are used for loans, payments, liquidity, and more, with the technology itself offering the "rules" for participation, distribution, and payment.

Largely unregulated at this point, DeFi has attracted more attention for its resemblance to a virtual casino than a financial market. Tokens and digital assets are being issued with little or no connection to real-world assets, and the value of those tokens on digital exchanges can be extremely volatile. That volatility diminishes the utility of the tokens as stores of value and undermines the larger adoption of DeFi beyond a relatively small number of bitcoin, cryptocurrency, and blockchain enthusiasts.

Even with those issues in mind, however, the core concept of markets built on top of distributed ledgers and blockchain is extremely disruptive – even transformative. Digital, decentralized markets will eventually provide wider access to capital and liquidity and not only form the basis for new, distributed capital markets but also provide the foundation for entire new business models.

#### **Associated Drivers**

- **Digital platform** – Ecosystems at scale
- **The next normal** – Resilient business and operating models

#### **IT Impact**

- Decentralized and digital capital markets will be built on technology that is still being developed, using open source protocols and are supported by communities of dedicated and passionate developers. The market's immaturity has led to many issues of infighting and disagreements at the expense of alienating potential adopters and signaling.
- The adoption of DeFi will cause additional technology concerns around areas such as security, risk, and compliance. These issues will be tricky to address as decentralized solutions pose new and different challenges to traditional approaches.
- Expertise and experience with decentralized finance and the technologies that enable it will be in short supply as the markets develop. That could make finding adequate resources difficult, especially finding resources who understand not only decentralized finance but also the security, risk, and compliance issues within traditional financial services.

#### **Business Impact**

- The evolution of decentralized finance will offer new products and services for traditional financial services providers, but they will also pose new risks that may be difficult to model initially. In addition, regulatory oversight must mature as well so that financial services providers have some clarity on how digital assets and tokens will be regulated.
- New business models and services built on modeling, analyzing, and quantifying risk and returns on digital assets will develop, as well as exchanges themselves where traders can buy, sell, and exchange digital assets.

## Guidance

- Begin research and understanding the development of decentralized finance. Look past the skepticism and understand that DeFi represents a potentially transformative way to access financial services. Skepticism is warranted, but it should not obscure the disruptive potential of DeFi.
- Understand that DeFi is currently a technology discussion and not a financial services discussion. There are still important issues around blockchain and distributed ledgers – specifically as they apply to DeFi – that must be addressed first before it can fully develop.
- Encourage internal technology staff to begin learning and experimenting with decentralized finance technologies and concepts. There is a passionate community developing around DeFi and plenty of resources available.
- Participate in consortiums, roundtables, and industry groups that are forming to explore decentralized finance. These will be important forums as the technology evolves.

### ***Prediction 9: To Counter the Uncertainty of the Pandemic, 70% of Corporate Banks Will Revisit Credit Scoring Models and Prioritize an Open Data Strategy to Improve Loan Portfolio Health by 2023***

Among the biggest challenges for the commercial banking sector will be rising credit defaults in the aftermath of the pandemic. These are expected to intensify as the recovery accelerates and government measures are scaled back. There are also growing concerns particularly among European financial institutions that the massive government economic support measures, such as furlough schemes and other subsidies, as well as suspension of insolvency rules, may lead to an increase of so-called "zombie companies," particularly if government measures are further extended.

This puts banks between a rock and a hard place. On the one hand, banks are essential to help bolster the economic recovery by ensuring enough liquidity and enabling investments to accelerate out of the crisis. On the other hand, existing credit risk models no longer capture the reality of the market. One key factor for the evaluation of creditworthiness is industry sectors and subsectors, given the stark differences between different industries. Another challenge is the fact that conventional sources of data typically used in credit risk assessments became obsolete overnight. Lenders in the past relied on 6- or 12-month-old data which today are no longer useful in evaluating the resilience of individual borrowers.

## Associated Drivers

- **The next normal** – Resilient business and operating models
- **Intelligence everywhere** – Data drives action
- **Crisis of trust** – Meeting rising expectations

## IT Impact

- Banks traditionally have not used transaction data very much, because these data are largely unstructured and available only in very large volumes. Advanced analytics has made it possible for banks to analyze every payment that a corporate or small business makes and receives – mapped to customers, debt payments, and tax payments.
- Building the foundation to make the data accessible for analysis will be critical. A data platform to ingest, consolidate, transform, and extract internal data and possibly enrich it with external data will help power this transformation.

- Model risk management enables lenders to reduce cost by eliminating bad models, make better decisions with clear responsibilities, be more efficient about developing new models and improving existing ones, and create a "single library of truth" that provides the same insights to all stakeholders. This improves overall transparency, data quality, awareness, and efficiencies.

### Business Impact

- Updating credit risk management to adapt to the realities of the new normal will be critical for lenders to drive business in the post-pandemic era as well as to prepare for the next crisis.
- Financial resilience will be determined less by pre-COVID-19 profitability than by indebtedness, liquidity, flexibility to adapt business models, and so forth. Transaction data, such as current account inflows, credit line utilization, and the evolution of point-of-sale transactions, can give valuable insights into these new attributes.
- Another source of data to evaluate creditworthiness is pooled corporate treasury data. Previously used for business benchmarking to track cash flow performance by region and sector, it provides banks with interesting external insights.

### Guidance

- New approaches to credit risk management give banks an opportunity to reshape their culture and futureproof their business for the coming years. Banks should strive to enrich their credit engine by trying to combine a sector-oriented view with data-driven analysis.
- Banks should retain data-forward approaches because they support better, timelier, and more differentiated credit underwriting and monitoring, also in the post-pandemic era. The recovery is thus acting as a catalyst for the faster adoption of new techniques whose importance banks have recognized for a number of years.
- Most banks still need to focus on their homework to build the data foundation to extract insights from internal data and get better at using external data to enrich insights. A data platform will help enforce clear data management and governance guidelines and help expose and manage a growing amount of data in a faster and more efficient manner.

### ***Prediction 10: In 2021, 25% of Banks Will Transform Their Lending Environments with Intelligent Collections Solutions That Will Help Recover More Nonperforming Loans Instead of Writing Them Off***

The COVID-19 pandemic caused a credit crisis globally. At every level of customer, from consumer to small business to corporate, the need for credit increased dramatically as businesses closed and wages were decreased. In the short term, this need for additional credit caused stress on loan origination systems. But as worldwide markets begin to recover, banks will face a new challenge – nonperforming loans.

In the past, the impact of nonperforming and/or delinquent loans were often simply written off as banks made provisions for such eventualities. But 2020 is different because of the scale of possible delinquencies and losses, and the scale of financial impact of nonperforming loans will drive institutions to transform their collections operations to recover as much funding as they can and will do so using more intelligent and sensitive platforms.

### Associated Drivers

- **Accelerated disruption** – Crisis, resilience, and opportunity
- **Strategic innovation** – Shaping the future enterprise today
- **The next normal** – Resilient business and operating models

## IT Impact

- Compared with LOS platforms, modern collection systems are less often deployed and therefore less understood. Still, modern collection systems should be evaluated by using the same criteria as any modern system, primarily by being open API based, cloud native where possible, and providing seamless integration back to the origination and servicing systems.
- In the case of collections, unlike LOS, modernizing an existing lending platform or workflow in collections will not suffice to tackle the problems that originated in 2020. The entire collections platform must be redesigned internally, or with a turnkey solution from a third-party partner, and applying any customization as needed.
- As with any LOS modernization initiative, the deployment decision will be a critical one. Banks will look for as-a-service platforms to implement intelligent collections solutions. This means that vendor selection and risk management and governance will subsume functionality as a primary focus.

## Business Impact

- Collections modernization will require as much, if not more, cultural change as technological change. The approach of using behavioral art to collections will be a fundamental shift from today's operations.
- Collections will rise in importance in the bank's credit risk strategy. New KPIs may have to be created to monitor and measure the bank's ability to recover funds that, in the past, may have simply be written off.
- Ultimately, a move to intelligent (and customer-sensitive) collections will positively impact customer loyalty.

## Guidance

- As collections will look completely different for most banks, some time is warranted to review current policies and procedures to understand if the transformation is necessary, and how the institution should approach collections as a policy, for years to come.
- As with most modernization efforts, this platform should be selected using the modern criteria of cloud, as-a-service, and open technologies to implement quickly and with resilient and scalable operations.
- Consider collections not on its own but as a single part of the three-sided loan operations that includes origination and servicing.

## ADVICE FOR TECHNOLOGY BUYERS

---

- Future lending decisions will be supported by fintech propositions. Rebuild credit models by not only using new data but also alternative data provided by fintechs and data/insights-as-a-service companies.
- Consumer digital identities will drive new and innovative business models and new sources of revenue. New opportunities will be identified through a holistic understanding of customers' behavior and internal KPI monitoring.
- Prestaged transactions to be completed at a physical location have accelerated because of the pandemic. Design the user experience through the lens of the customer, and not the business process of the institution.
- Modernizing core insurance platforms should focus on simplification of old processes and providing the ability to create new products easily using modern platform technology.

- Slow growth of real-time payments will be accelerated as more "real-time like" noncard methods gain acceptance among consumers and merchants. Be ready by offering platforms that can properly support these real-time options.
- As AI-enabled solutions continue to mature, the majority of consumer and small business loans will be originated using AI-enabled and automated processes. The scale of loan applications recently has only accelerated the need to use AI to aid in decisioning process.
- As we enter the nascent period for development of a central bank digital currency, it will be important for commercial banks to work with central banks in maintaining a two-tier system to ensure that banks retain their customer-facing role.
- New approaches to credit risk management give banks an opportunity to reshape their culture and futureproof their business for the coming years. Banks should strive to enrich their credit engine by trying to combine a sector-oriented view with data-driven analysis.
- Intelligent collection systems will help recover more nonperforming loans instead of writing them off, which may become a crucial difference regarding the length and depth of current and future recessionary periods.

## EXTERNAL DRIVERS: DETAIL

---

### Accelerated Disruption – Crisis, Resilience, and Opportunity

#### *Description*

The pandemic has redefined disruption. Survival of the fittest is linked not to size or strength but to resilience and the ability to change – to move quickly, adapt, seize opportunities, and be ready for the next disruption. Uncertainty in economic norms, political stability, climate effects, and disruptive innovations can't be ignored, but these challenges have been overshadowed by the immediate impacts of the global pandemic. A sense of urgency pervades companies. Distressed businesses are having to make rapid pivots toward new models and viable markets or quickly adjust their supply chains. The immediate imperative is to manage costs, balanced with strategic investment. Now is not the time to sit back and wait but rather to make bold strategic bets that increase the organization's resilience to keep pace with business change by increasing the speed of business operations and innovation. Past economic crises have proven to be inflection points for organizations that later thrive during the next positive cycle.

#### *Context*

In IDC's worldwide *COVID-19 Impact on IT Spending Survey*, 73% of organizations reported that current transformation projects will be reevaluated to deliver more efficiency and ROI and 60% reported that they will focus their organizations on new business and operating models. Worldwide IT spending is now expected to decline 5.1% in constant currency terms this year to \$2.25 trillion. Organizations are expecting the slowdown and recession phases to last into 2021. At the same time, "seize advantage in a downturn" was a winning strategy after the last economic crisis. Intel's profits soared in 2010 because the company continued to invest and release its next-generation chips in 2009. Amazon experienced 28% sales growth, and Lego increased profits by 63%.

## The Next Normal – Resilient Business and Operating Models

### *Description*

In the post-COVID-19 economy, expected changes in behavior, consumption, and supply will force companies to adopt digital-led business and operating models that can survive lockdowns, movement restrictions, social distancing, supply disruptions, and more. New realities and customer expectations will redefine product and service expectations. Economies of scale will be challenged by the need for mass customization and social distancing. Products, services, and relationships shift from face-to-face to digital. Work from home, scalability, security, throughput, and redefining internal processes for remote access and communications require immediate attention but will have lasting effects.

Resiliency in supply will be balanced against efficiencies as automations are applied to operations. Adaptability will take greater importance in business and operating strategies. Leading organizations will not only adapt to shifting customer needs and market conditions but also proactively shape the needs and the market to match their strengths, innovations, and business models.

### *Context*

COVID-19 has acted as an accelerant to shifting consumer preferences and business models. Global retail 2020 growth estimates will be halved from pre-COVID-19 forecasts. Retailers are responding with alternative delivery methods and more digital touch points across the shopping experience. Work from home is the new normal for knowledge workers, while worker safety takes on new importance. In education, there is a shift in "when" and "where" learning happens, bringing into question some of the fundamental assumptions that underpin the traditional four-year college degree model.

## Strategic Innovation – Shaping the Future Enterprise Today

### *Description*

The COVID-19 crisis has accelerated the shift to digital and fundamentally changed the business landscape. Innovation is an urgent imperative for overcoming the disruptions, both tactically and strategically, as enterprises with less mature transformations are more challenged to adapt.

Organizations are rethinking what the future will look like and what it will take to thrive in the new business landscape. With increased awareness, there is now a strong focus on applying digital technologies to address the future of work, engagement, intelligence, operations, and leadership. Organizations are pivoting to become digital innovation factories. But at the current time, innovating must come without incurring overall incremental costs. To compete, companies must balance digital and industrial competencies and master them at scale. Yet these efforts will not succeed without leadership, talent, and the ability to effect change.

### *Context*

Today, to sustain the business, many small and medium-sized enterprises have had to quickly pivot business models. Large organizations are having to reinvent themselves for growth and competitiveness – before their competitors do. Now more than ever, organizations are looking for new ideas and emerging best practices to improve the effective use of resources and accelerate the ability to deliver digital services to customers, patients, and constituents. According to IDC's Worldwide Digital Transformation Spending Guide, global spending on digital transformation technologies and services is forecast to grow 10.4% in 2020 to \$1.3 trillion despite the challenges presented by the COVID-19 pandemic.

## Customer Engagement Redefined – Safe, Secure, and Sustainable Digital Experience

### *Description*

The COVID-19 pandemic has focused what customers care about and shifted how consumers and brands engage and interact. Companies with the best price, coolest product, or most memorable marketing campaign will not necessarily have an advantage compared with companies that provide a safe, secured, and seamless experience. Customers also care about the safety and security of employees, how customer data is collected and used, and a company's environmental and social justice efforts. As a result, companies need to understand the different contextual expectations of their customers – whether they are students, patients, consumers, or businesses – and shift how they engage and support their customers in this emerging reality to create experiences that are empathetic, personal, compelling, and relevant today.

### *Context*

Customers have made the contextual experiences they receive from a brand a crucial aspect of any engagement across the customer journey. Complicating that are the shifting nature of customer expectations, the proliferation of interaction channels, and the adoption of more capable and ever more robust consumer technologies. New business, operational, and organizational models built on a foundation of technology are required to meet the evolving and dynamic nature of customer expectations. It's critical for organizations to create a contextual and empathetic relationship with their customers, focusing on understanding the customer, what they want, and how they want to be treated.

## Intelligence Everywhere – Data Drives Action

### *Description*

The real-time continuum of applications and data that stretches from edge to network and core from IoT, mobile devices, and more – combined with historical data, enterprise systems, and global information – continually "sense" an environment and put it into new contexts. AI and machine learning "compute" and spread intelligence to turn data in "action" and action into value. Automation literally extends beyond autonomous operations, resilient decision making, and optimization into life-and-death dependencies. Generating actionable insight is increasingly dynamic and complex. But as automation and augmentation increase, so do the ethical issues and opportunities for misuse, surveillance, invasions of privacy, and more. Competitiveness is determined by the ethical governance of data and AI; how data is transformed into insight to create high-value differentiators for products, customers, and markets; and how effectively organizations deliver meaningful, value-added learning, predictions, and actions that improve engagement, processes, enterprise decision making, resilience, and much more.

### *Context*

In this world where data drives action, ensuring the veracity of the data and transforming data into insights become a strategic imperative. But it is not just having more data that matters. Based on IDC's Global DataSphere study, less than 3% of the data currently created is analyzed to affect enterprise intelligence. What becomes essential is: first, to put data into context to provide meaning; next, to understand it in relationship to other data and events to gain knowledge; and finally, to add judgement and action to achieve insight and full potential of value realization.

## Crisis of Trust – Meeting Rising Expectations

### *Description*

The COVID-19 disruption has exposed, accelerated, and introduced new threats to organizations and their assets, increasing noise and dissonance and eroding trust among partners and customers. Enhanced reliance on digital channels, cashless transactions, esignatures, and other virtual interactions exposes new threat surfaces and new vulnerabilities to be exploited by organized actors leveraging AI. Ransomware, cybercrime, scams, and nation-state attacks are common events that cause significant business disruptions, high costs, and reputational damage. Stakeholders now expect trust and reputation to go beyond securing data and assets to protecting employees, partners, and customers. Meeting expectations of trust and social responsibility become new competitive advantages where "trust = value." Yet associated threats to human rights and privacy require public participation and discourse at a time when some consumers, citizens, and partners have lost faith in government, business, and technology, creating a crisis of trust. While anticipating and protecting the security and privacy of digital assets, organizations need to rebuild trust as a foundation for resilience.

### *Context*

Cybercrime has increased manyfold since COVID-19. For example, Palo Alto Networks reports email phishing and scamming schemes have increased 650%. Yet growth in security investment is expected to decrease in 2020, even while 70% of cybersecurity teams are understaffed (source: ISACA) and the mean time to identify and contain a breach is months, not days. Adding more pressure on business, the most favored companies right now are those that are not only secure but also give back to their communities. Business Roundtable, an association of CIOs, changed the Statement on the Purpose of a Corporation to "take into account all stakeholders, including employees, customers, and the community," rather than only profit. Trust is not just about security anymore; it is also about responsibility.

## Digital Platform – Ecosystems at Scale

### *Description*

Understanding and provisioning the platforms that will sustain, advance, and scale business and operations and exert strategic control are essential for every business. A digital platform is the assembly of technologies, capabilities, and data upon which digitally enabled businesses run. The data exchanges, intelligence, and network effect within digital ecosystems generate new value beyond the platform itself. Leading organizations today are harnessing the pervasive internet connectivity in the hands of billions of users, combined with massive data and unlimited processing, to power their digital platforms. For users and competitors, the value of digital platforms introduces high switching costs and barriers to entry that cannot be easily replicated through the introduction of new products and services alone.

### *Context*

The digital economy has spread rapidly throughout the world. Leading organizations are shifting to digital platform thinking to evolve their business models and manage their technology architecture. Platform thinking is a fundamental shift in business strategy – moving beyond product differentiation and pricing toward ecosystem-based value creation. It is also a long-term, sustainable response to new realities in the digital economy, one in which organizations transform themselves into digital-native enterprises.

## LEARN MORE

---

### Related Research

- *Critical External Drivers Shaping Global IT and Business Planning, 2021* (IDC #US46859220, October 2020)
- *IDC FutureScape: Worldwide Financial Services 2020 Predictions* (IDC #US44313719, October 2019)
- *IDC FutureScape: Worldwide Corporate Banking 2020 Predictions* (IDC #US44961019, October 2019)
- *IDC FutureScape: Worldwide Blockchain 2020 Predictions* (IDC #US44538119, October 2019)
- *IDC FutureScape: Worldwide Payments 2019 Predictions* (IDC #US43348718, October 2018)

## About IDC

International Data Corporation (IDC) is the premier global provider of market intelligence, advisory services, and events for the information technology, telecommunications and consumer technology markets. IDC helps IT professionals, business executives, and the investment community make fact-based decisions on technology purchases and business strategy. More than 1,100 IDC analysts provide global, regional, and local expertise on technology and industry opportunities and trends in over 110 countries worldwide. For 50 years, IDC has provided strategic insights to help our clients achieve their key business objectives. IDC is a subsidiary of IDG, the world's leading technology media, research, and events company.

## Global Headquarters

5 Speen Street  
Framingham, MA 01701  
USA  
508.872.8200  
Twitter: @IDC  
idc-community.com  
www.idc.com

---

### Copyright and Trademark Notice

This IDC research document was published as part of an IDC continuous intelligence service, providing written research, analyst interactions, telebriefings, and conferences. Visit [www.idc.com](http://www.idc.com) to learn more about IDC subscription and consulting services. To view a list of IDC offices worldwide, visit [www.idc.com/offices](http://www.idc.com/offices). Please contact the IDC Hotline at 800.343.4952, ext. 7988 (or +1.508.988.7988) or [sales@idc.com](mailto:sales@idc.com) for information on applying the price of this document toward the purchase of an IDC service or for information on additional copies or web rights. IDC and IDC FutureScape are trademarks of International Data Group, Inc. IDC FutureScape is a registered trademark of International Data Corporation, Ltd. in Japan.

Copyright 2020 IDC. Reproduction is forbidden unless authorized. All rights reserved.

