FINASTRA

Finastra's Financial Services

State of the Nation Survey 2022

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Executive summary

Finastra's research amongst 758 professionals at global financial institutions and banks reveals that Open Banking and Open Finance are increasingly seen as essential, with a growing proportion of respondents regarding them as a 'must have'. Institutions are open to these industry shifts and aware of the benefits that they can bring. More than 4 in 5 agree that Open Finance is already having a positive impact and making the industry more collaborative.

Looking at wider technological trends, our research also found that Banking as a Service (BaaS) and embedded finance are already firmly rooted in the financial services sector, with demand for these technologies amongst institutions largely being driven by customer expectations. As a result, institutions are boosting their efforts to improve or deploy these more innovative business models.

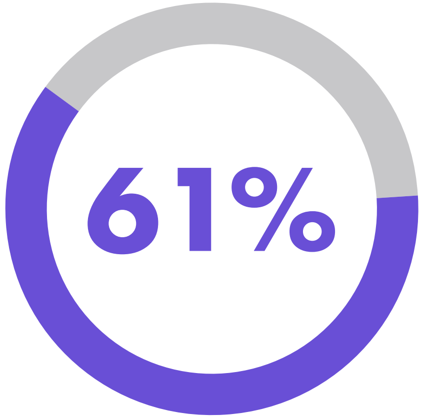
Drivers for technological adoption remain consistent with previous years including: a focus on growth, meeting current and future customer expectations, staying ahead of competitors and cost reduction. The main barriers to innovation identified include: the belief that management is stuck in old ways of thinking, the cost of development, a lack of transparency surrounding existing regulation, and a general view that regulations are too tight.

Reflective of the current challenging economic environment, 4 in 5 institutions noted that they are constraining their investments in technology. That said, this is only anticipated to be a short-term measure, with the majority expecting to resume their full investments by the end of H1 2023. However, as many countries have dipped into recessions since the research was conducted, it is possible that even the most buoyant of institutions may have to reconsider investment priorities and timelines.

As external uncertainty looms large, it is encouraging to see financial institutions consider the impact they can have to create better outcomes for the world and its people – as well as taking action in areas where they have some responsibility. There is widespread agreement amongst financial services organizations that ESG is important for the sector, with over 4 in 5 saying that they agree with this notion.

At Finastra, we believe Open Finance has the power to unlock the potential of people and businesses and this report encapsulates the rising tide of those investigating the true potential of 'open'.

Open Banking is now regarded as a 'must have' by the majority of financial institutions



Open Banking is a 'must have' for my organization

Open Banking is now universally and unequivocally regarded as a key part of a bank's landscape, with 99% of respondents considering it either a 'must have' or 'important' – a jump from 94% last year. The proportion of respondents that consider it a 'must have' has risen to 61%, a notable increase from 2021 (51%).

The UAE continues to lead the way on this front, with 4 in 5 financial institutions (80%) of the view that Open Banking is a 'must have', a significantly higher figure than in any of the other markets surveyed, and a considerable jump from last year (68%).

In fact, a year-on-year increase in the perceived importance of Open Banking was seen across all regions, with the exception of Hong Kong.

This change in perception has been particularly marked in the US and UK, jumping from 48% in 2021 to 68% in 2022 (for US institutions) and from 38% in 2021 to 61% this year (for UK institutions).

Of those who have integrated Open Banking, all (100%) now consider there has been a significant impact to their organization. The core areas of the impact of Open Banking remain consistent; attracting more customers, improving customer service/ experience and enabling the move towards Open Finance.

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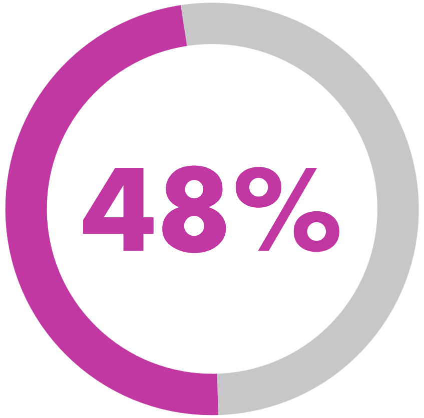
Views towards Open Finance have also matured in the past year



Open Finance is a 'must have' for my organization

The rising positive sentiment on the value of Open Banking was echoed when institutions were surveyed about the broader context of Open Finance. Some 94% of financial institutions now regard Open Finance as either a 'must have' or 'important' in the context of data sharing, up from 91% in 2021. Significantly, almost half (48%) now consider it a 'must have', up from 38% in 2021. This suggests that as the sector becomes more familiar with the term and potential benefits, more consideration is being given to other products and services that would benefit from an ecosystem model.

The differences by market broadly mirror those concerning attitudes towards Open Banking, with the UAE once again leading the way; 7 in 10 (71%) cited Open Finance as a 'must have'.

Across most territories, there has been quite a pronounced shift in attitudes. Aside from Hong Kong and Singapore, all regions saw a year-on-year increase of at least 10pp in the proportion of institutions regarding Open Finance as a 'must have'. Following the UAE, the most pronounced shift was seen in the UK (up from 33% in 2021 to 47% this year) and the US (up from 45% to 56%).

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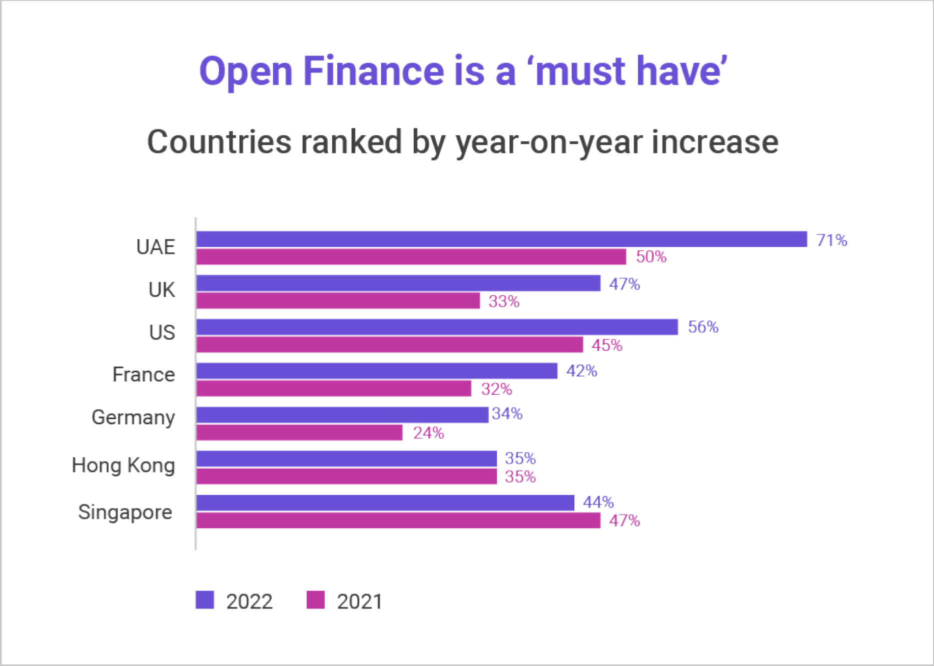

Open Finance continues to demonstrate benefits to financial services, with shared data and infrastructure creating the framework to support this transition.

When asked whether they agreed with five wider benefits of Open Finance and its impact to date, 85% of respondents concurred that Open Finance is already making financial services more collaborative and having a positive impact on the industry. French institutions ranked this benefit as the most positive improvement (85%) and it was also the top benefit cited by respondents in Singapore (90%). Respondents in Hong Kong ranked this benefit lowest (76%).

Some 85% of institutions in Hong Kong feel that the biggest impact is the ability to create fairer financial services. The same proportion in Hong Kong believe that Open Finance is a natural evolution of Open Banking – a benefit that was also ranked joint top by institutions in the US (91%) and UAE (97%).

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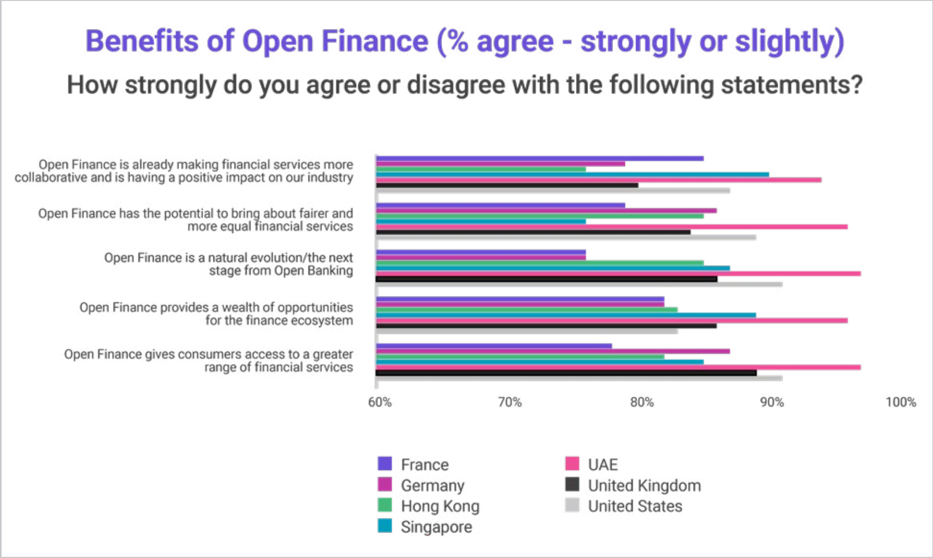

German, UK and US institutions see the highest value and impact in giving consumers access to a greater range of financial products and services – ranking these at 87%, 89% and 91% respectively. All 3 territories ranked this benefit more highly than a year ago. The increase was particularly pronounced in the UK where it was up 13pp from 76% in 2021.

The UAE sees the highest proportion of financial institutions agreeing that Open Finance brings each of the five benefits proposed, as was the case last year. Levels of agreement in this region have continued to increase, with near-total agreement in the UAE for each and every benefit.

Conversely, Singapore sees a large year-on-year decrease in agreement with the notion that Open Finance has the potential to bring about equity in financial services – with this having fallen from over 9 in 10 (94%) in 2021 to just 3 in 4 in 2022 (76%).

Finally, all territories agreed that Open Finance provides a wealth of opportunities for the finance ecosystem, with more than 8 in 10 respondents in every region agreeing on this point.

Open Banking and Finance will continue to have a positive impact across all areas of financial services

When exploring the areas of financial services in which Open Banking and Finance are likely to have the greatest impact, Digital and Retail banking was identified as the #1 area. This is closely followed by Payments, then Corporate Banking (including Trade Finance and Lending) and finally Treasury and Capital Markets.

This picture is broadly consistent with what has been seen in previous years however, the profile on a market-by-market level is slightly more complex. Whilst the overall perception that Open Banking and Finance will greatly impact the Payments space has changed very little since 2021, perceptions have changed considerably within individual markets – Singapore and France both see sizeable year-on-year decreases in this perception, though this is balanced by sizeable increases in the UAE, US and Hong Kong.

Similarly, those in the US and UK are much more likely to think that Open Banking and Finance will impact Treasury and Capital Markets than they were in 2021, but there is very little change at an overall level due to a decrease in most other markets.

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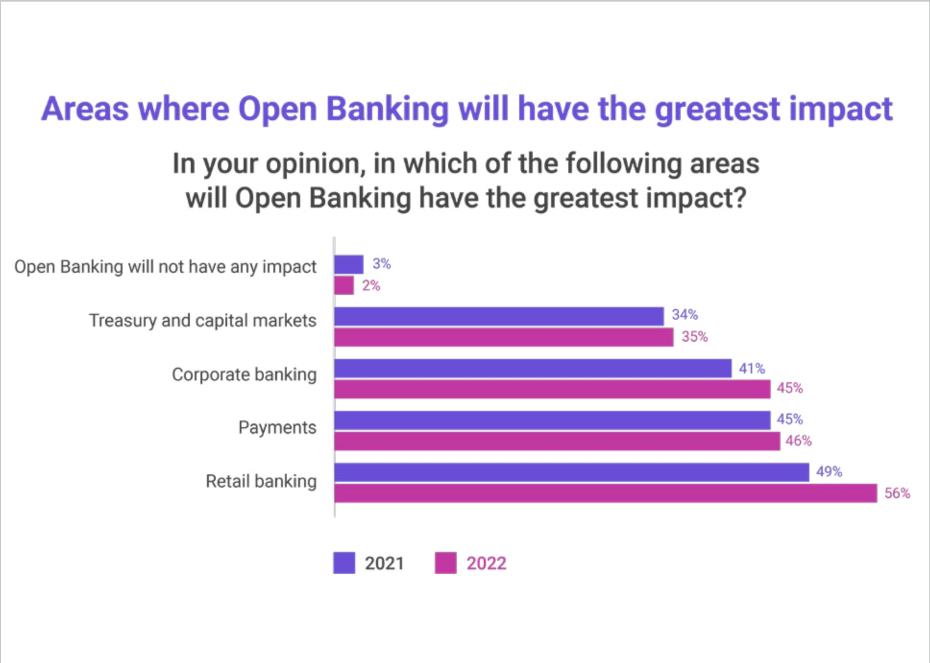

Shared data and infrastructure remain a key part of the strategy for the move to Open Banking and Finance across the industry

Perceptions that shared data and infrastructure will become a key component of the strategic shift to Open Banking and Finance, and an industry norm, have increased this year from an already strong position in 2021. At least three quarters of respondents across all territories agree with each of these notions.

The UK, US and France see particularly strong uplifts for the first suggestion, and only Germany and Hong Kong see year-on-year decreases in this area.

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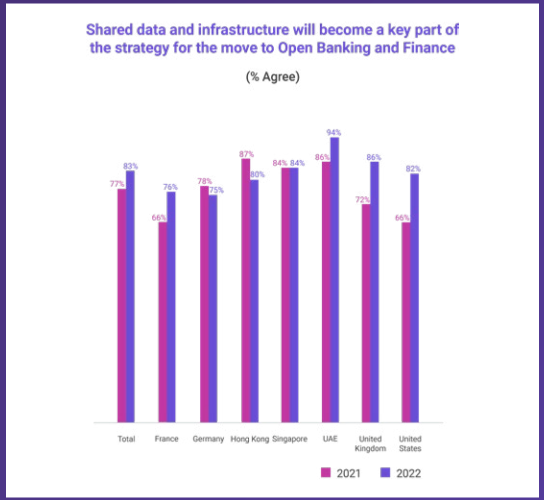
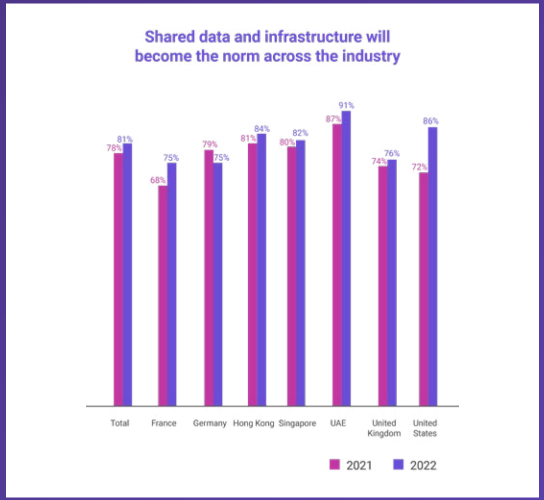


Similarly, almost all geographies see greater levels of agreement than last year with the second notion that shared data and infrastructure will become the norm across the industry, with a particularly strong uplift in this perception in the US market. Only Germany sees a year-on-year decrease in this perception.



Concluding thoughts

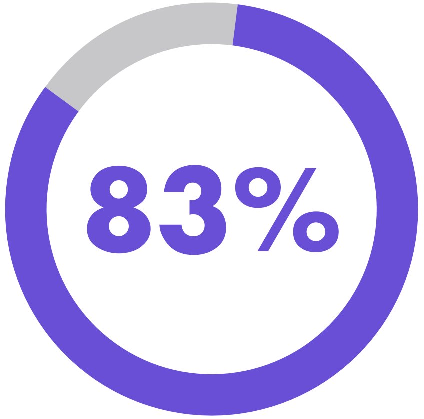
The rising positive sentiment and perceived impact of Open Banking and Finance illustrates that the financial services sector is very much 'already open'. Open Banking is now generally seen as essential for more than half of financial institutions (61% regard it as a 'must have'), a notable increase from 2021 (51%).

Overall, the perceived benefits of both industry shifts are largely consistent year-on-year, with the most widely identified benefit of Open Finance this year being that it gives consumers access to a greater range of financial services.

Unsurprisingly, Digital and Retail Banking was identified as the category where Open Banking and Finance is expected to have the greatest impact. Those in the UAE, US and Hong Kong also noted that Open Banking will have a strong impact in the Payments space with responses up significantly on 2021.

The UAE continues to lead the way in terms of openness to Open Banking and Finance, though the perception that both are 'must haves' has increased markedly since 2021 in both the US and UK.

Current industry trends: Banking as a Service (BaaS) and embedded finance



83% of institutions agree that Banking as a Service (BaaS) and embedded finance are already expected/demanded by customers, with 4 in 10 (42%) strongly agreeing.

Agreement levels are highest in the UAE (95%), followed by the UK (88%), US (86%) and Singapore (85%). Respondents in Germany are the least likely to agree that customer demand is driving the need for BaaS and embedded finance – but with just under 3 in 4 agreeing with this notion (74%), being lowest holds little significance here.

The shift is already having a material impact. More than a third (35%) of institutions have improved or deployed Banking as a Service in the past year, thereby offering complete banking processes originating from within, 'as a service' through an open API-enabled platform

A fraction less (33%) have pursued embedded finance, improving or deploying products or services, through APIs, to be placed in context, within another (typically non-banking) customer journey.

In line with consumer demand, these approaches have been widely deployed in the UAE, UK, US and Singapore. BaaS has been deployed or improved in the last 12 months by almost half of institutions surveyed in the US (46%), and by circa 2 in 5 in the UAE (41%), Singapore (38%) and the UK (37%). The story is similar for embedded finance, with 4 in 10 in Singapore (41%) and the UAE (40%) and 1 in 3 in the US (35%) having improved or deployed the provision of their services in the last 12 months.

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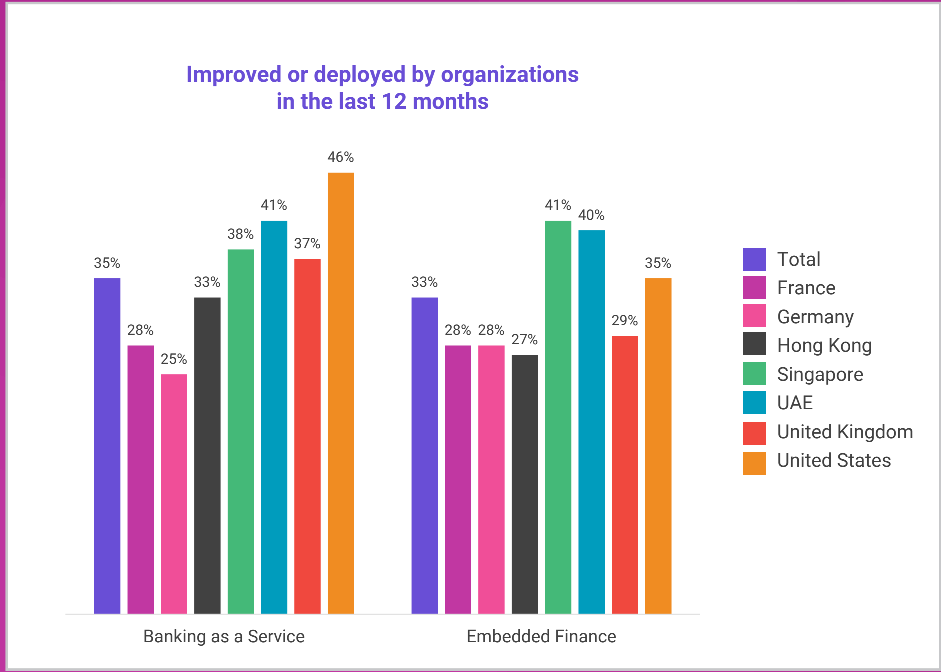

Scale, revenue growth and agility driving interest in BaaS and embedded finance

Turning to the benefits of BaaS and embedded finance, the commercial opportunities and efficiency savings these models present is strongly recognized. More than 4 in 5 agree that these propositions offer a means for institutions to grow (84%), and a similar proportion agree that they reduce their operating costs (83%).

Moreover, the benefits are not just linked to expansion or cost reduction, but allow institutions to improve both their service offerings and the speed they can deploy these to customers. For instance, 84% agree that BaaS and embedded finance expedites time-to-market, and a similar proportion (83%) agree that BaaS and embedded finance allow operations to be streamlined, by enabling incorporation into existing platforms or solutions.

Finally, institutions feel that BaaS and embedded finance can help ensure compliance with regulation (82% agree), essential for operating in a highly regulated financial services environment.

The benefits which are most widely recognized by institutions vary by market. For those in the US and France, BaaS and embedded finance are seen as a means to grow, with this notion garnering a higher level of agreement than any of the other surveyed benefits for these territories. For the UK, customer demand is key – institutions agree that customers expect and demand these services to a greater extent than they agree with any other benefit. There is a more even spread of reasons in other geographies, perhaps with the exception of Singapore, where institutions see the highest potential as facilitating a quicker time-to-market.

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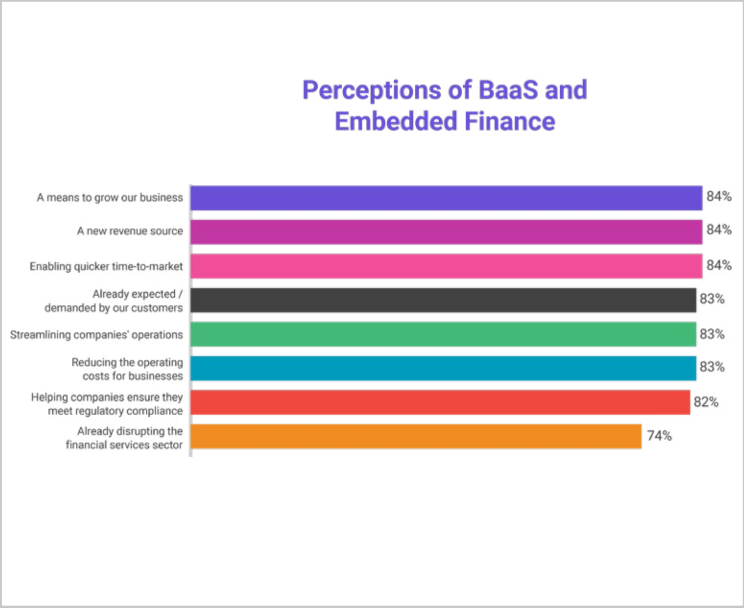

Concluding thoughts

Our research has found that Banking as a Service (BaaS) and embedded finance are already firmly rooted in the financial services sector, with customer expectations predominantly driving the demand. As a result, institutions are boosting their efforts to improve or deploy these more innovative business models.

Crucially, the benefits of BaaS and embedded finance are not just confined to the end users, but are also realized by institutions themselves. The commercial opportunities of growth and revenue, along with the ability to improve both service offerings and time-to-market, is creating a compelling case for investment.

Drivers for technological adoption remain consistent with previous years

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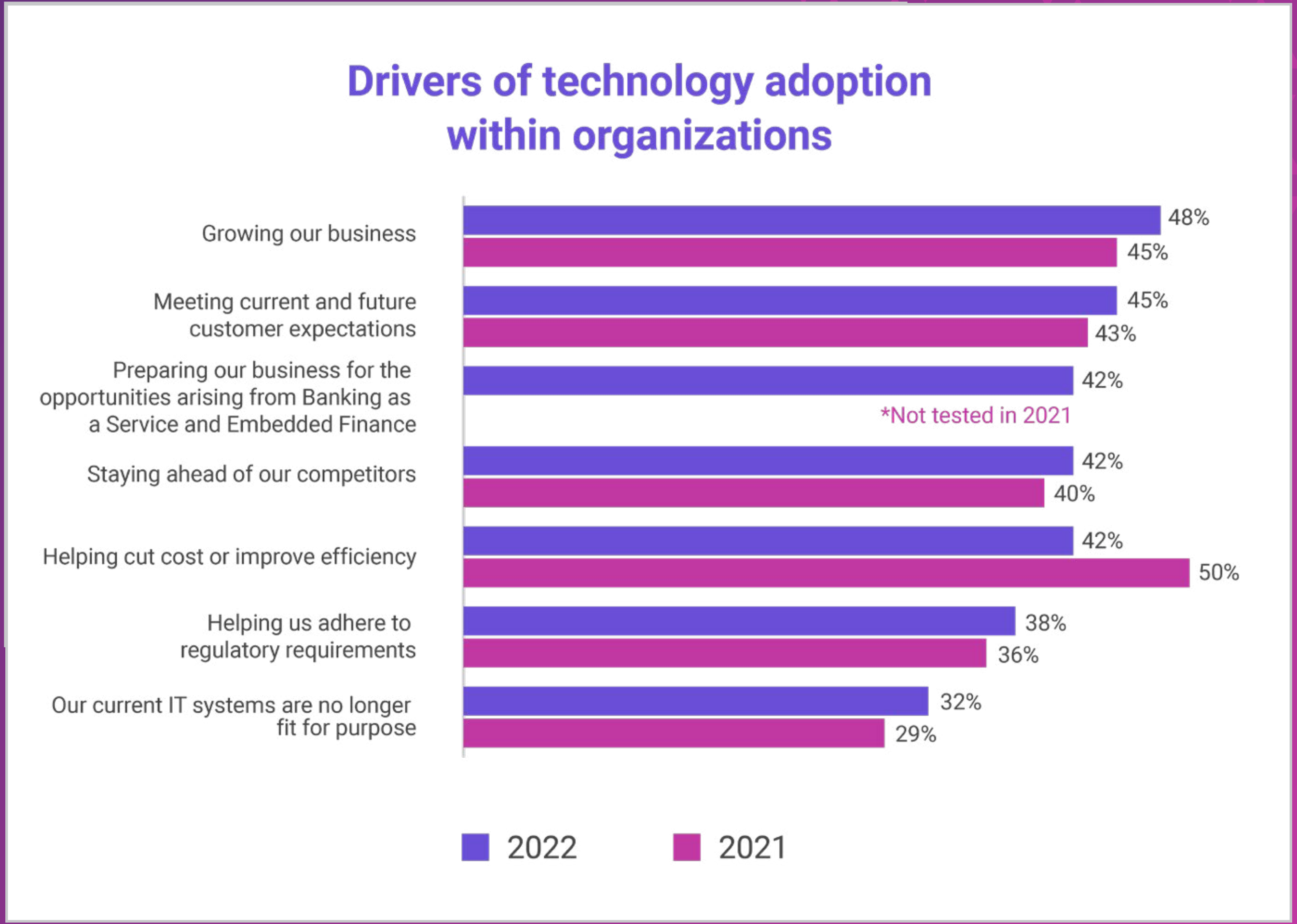
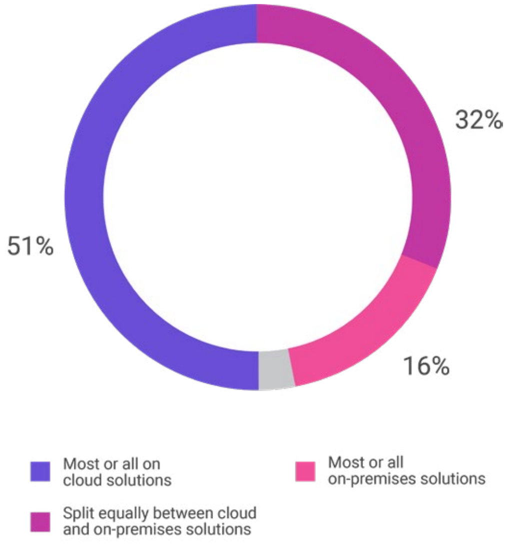
Overall, the core drivers for adopting new technology remain broadly consistent with previous years. Growing our business (48%), meeting current and future customer expectations (45%) and staying ahead of our competitors (42%) all remain strong drivers.

One driver which has notably changed in importance, however, is cutting costs or improving efficiency. Previously, this was the most widely-reported driver, with half of institutions (50%) identifying it as a driving factor in 2021. However, the figure has declined in 2022, with now just over 2 in 5 (42%) identifying this as a driver. Responses show a shift in focus to the potential for growth, and fulfilling customer expectations rather than cost-cutting. This could of course be linked to institutions post-pandemic, having undertaken and seen the benefits of an accelerated adoption of digital technologies. But with recent changes in the world's economic environment and many countries potentially entering recession, it may be that banks and institutions are now better placed to weather the economic storm.

The decreased focus on cost cutting and efficiency has occurred most strongly within the UK, Singapore, and France, with a substantially smaller proportion of organizations in these markets citing this as a key factor compared to last year.



To support the deployment of technology, most financial services firms are now using cloud-based solutions



Where software stacks are hosted within organizations

Just over half of institutions (51%) have all or most of their software stack on cloud-based solutions, with a further third (32%) splitting equally between on cloud and on-premises solutions. The UAE and US lead the way in the journey to the cloud, with 63% and 59% respectively having most/all hosted there.

When it comes to the benefits of moving towards cloud-based solutions, achieving efficiency gains (50%) is the clear winner. Improved flexibility and scalability (46%), cost reduction (43%), speed to market (42%) and providing the requisite infrastructure to explore embedded finance (41%) make up the remaining of the top five benefits.

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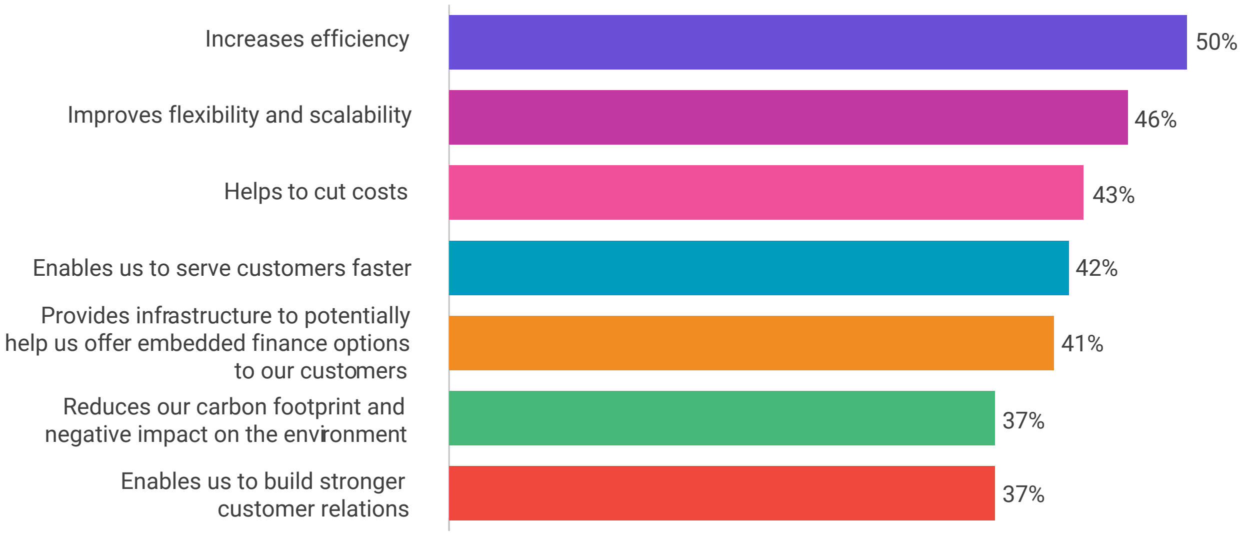
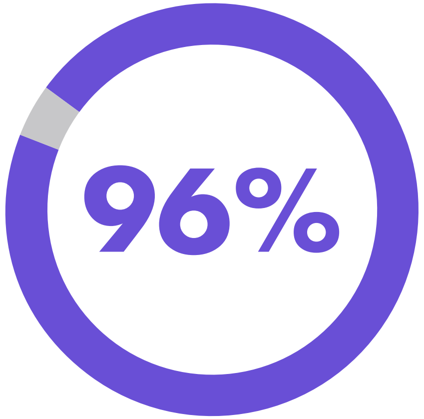
Benefits of financial services moving towards cloud-based solutions



Global regulatory frameworks remain a barrier to innovation and technology investment

Whilst decreasing, overall existing regulation remains a stifling force, whether related to culture, cost, or clarity, for most institutions



There are at least some barriers to innovation from existing regulation

Existing regulation remains a barrier to innovation and is a concern for 96% of financial services organizations (95% in 2021).

The financial services organizations surveyed cited 'management or decision makers stuck in old ways of thinking' (47%), 'cost of development or expense of R&D' (44%), 'lack of transparency surrounding existing regulation' (43%) and 'regulations too tight' (40%) as the main barriers. Yet, and encouragingly, all barriers tracked have shown a slight decrease in prevalence year-on-year.

That said, even with most barriers tracking down, it is clear that institutions continue to face myriad obstacles, and progress to eliminate them is still slow.

Those in the UAE are most likely to say that antiquated thinking and/or practices is the biggest hindrance to innovation, with almost two thirds (63%) citing this, followed by just over half of respondents in the UK and US (both 53%). Comparatively, few say that regulation is too tight, with most geographies more concerned about the transparency of regulation (with the US and France being notable exceptions). Concern about regulation being too tight is particularly low in the UK – with just 28% saying that this impedes innovation.

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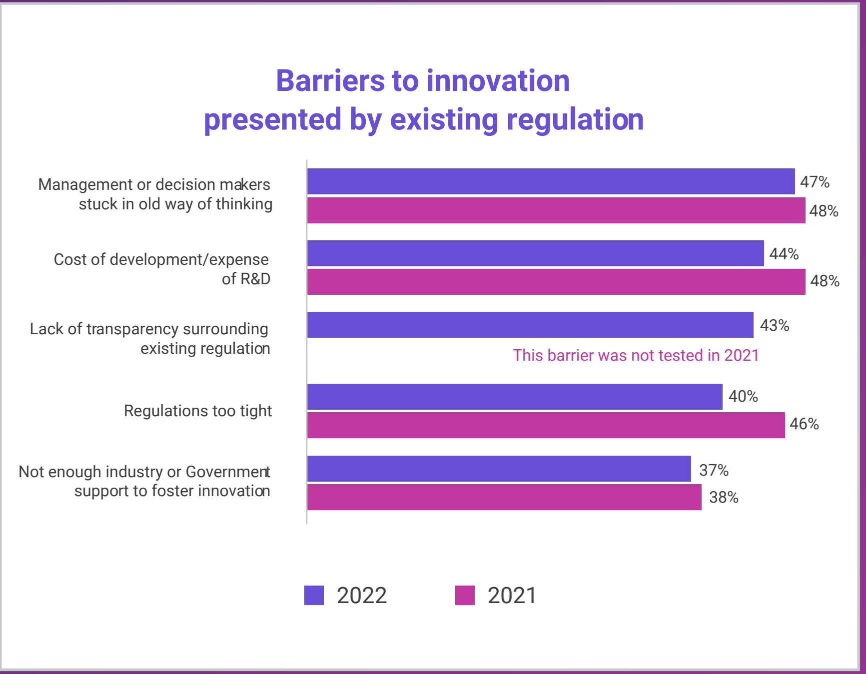

Despite the barriers to innovation, financial services firms are continuing to invest in technology, with the benefits and role of technology remaining consistently recognized

Institutions continue to see value in the same broad areas, when making decisions about investing in innovative technology, as in 2021. Improved efficiency (36%), improved security (36%) and cost reduction (35%) are the most widely identified benefits of investing in technology.

Unsurprisingly, the value anticipated from technology investment differs by geography. Respondents from Hong Kong banks look to invest in tech to improve efficiencies. The key driver in France is cost reduction. In Germany both of these reasons are of equal importance. Whilst these factors are also important to professionals in the US and Singapore, improving security is what is driving technology investments there. And finally, in the UAE, an improved visibility of risk, and agility to adapt to market changes, were key drivers of tech spend.

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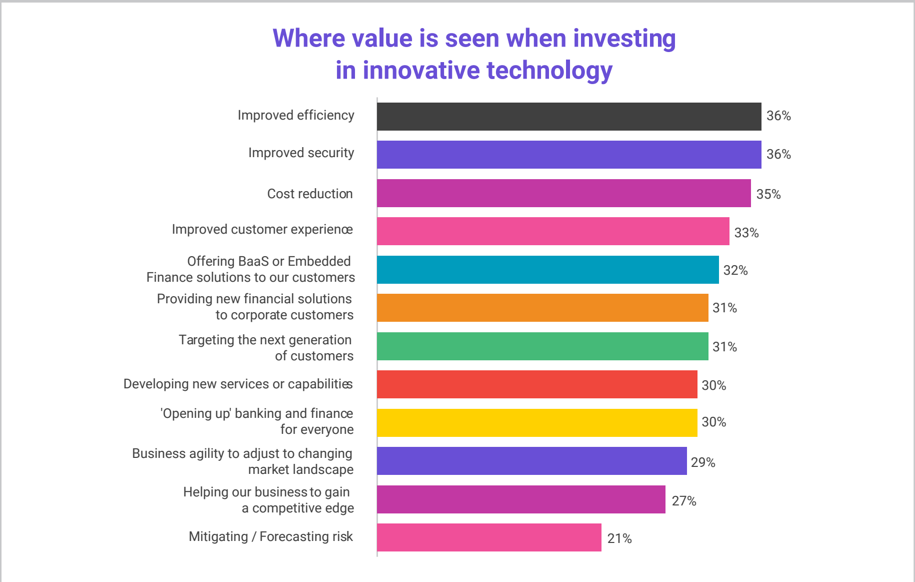
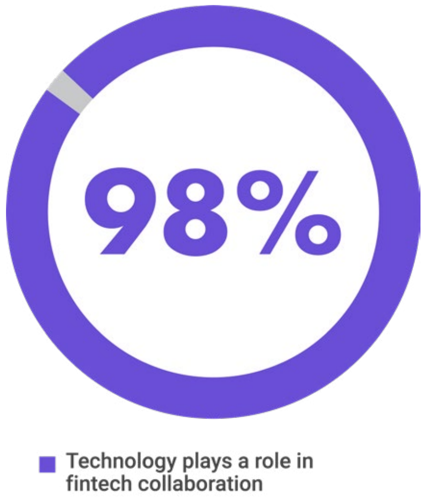


Just 2% of financial services firms think that technology does not play a part in fintech collaboration, with the remaining 98% exhibiting similar sentiments to those expressed last year

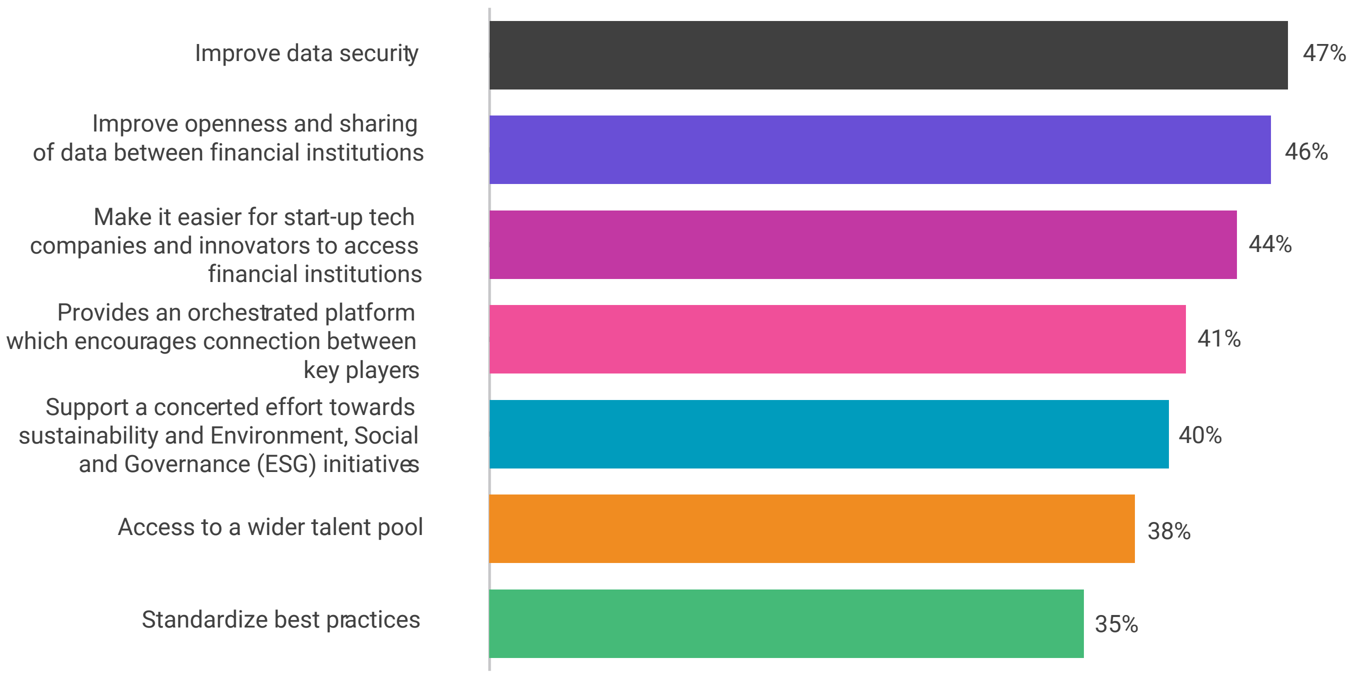


The highest rated ways in which technology is enabling collaboration remain unchanged:

- Improving data security (#1 in 2022 & 2021)
- Improving openness and sharing of data between financial institutions (#2 in 2022 & 2021)
- Making it easier for start-up tech companies and innovators to access financial institutions (#3 in 2022 & 2021)

As sustainability and Environment, Social and Governance (ESG) continue to feature more prominently on institutional agendas, 4 in 10 (40%) also agree that technology can support a concerted effort towards fulfilling their requirements.

Role played by technology in supporting fintech collaboration



Financial services firms are becoming more prudent when it comes to investments, but this is anticipated to be fairly short-term

When asked if investments in tech and digital banking have been constrained by the current economic climate, 82% reported that spending has been constrained, with 32% saying heavily constrained. This is a sharp increase from 2021's figures (76% and 21% respectively).

Of those that said investment has been constrained, the main areas of spend curtailed relate to emerging technology and business models: BaaS (35%), embedded finance (31%), Decentralized Finance (DeFi) (29%), and Artificial intelligence (29%). Economic pressures, unsurprisingly, outweigh the desire and pursuit of innovation.

Most individual regions also highlighted BaaS as the primary area in which investment has been adversely affected by macroeconomic conditions, though some markets had areas of greater concern. For instance, the most widely cited area of constraint in the UK was digital transformation, while in France it was embedded finance. Germany is the outlier, with investment in AI being most hard-hit.

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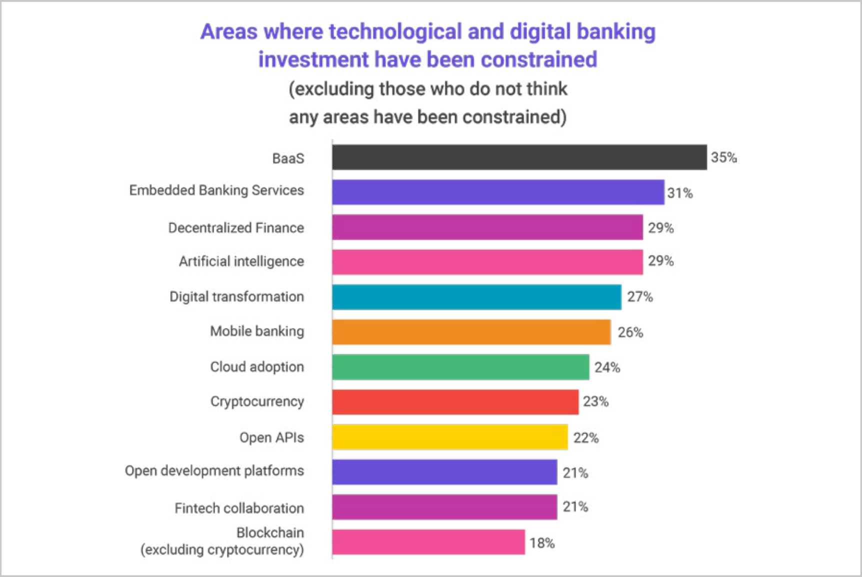

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Three quarters of institutions expect to resume investments by the end of H1 2023

Despite the current economic uncertainty linked to rising inflation rates, energy prices, the war in Ukraine, and wider cost pressures, 41% expect to have resumed their investments in full by the end of 2022. Cumulatively, almost three quarters (74%) expect to have done so by the end of H1 2023.

Just 2% have no plans to resume their full investment in technology and digital banking, although this is notably higher in Hong Kong (6%) than other markets, which were all between 1%-2%.

The UAE is by far the most buoyant region when it comes to the resumption of investments, with two-thirds (67%) expecting it to resume before the end of 2022. The next most optimistic are the US and Singapore, who anticipate resuming investments by the end of 2022 (45% and 44% respectively).

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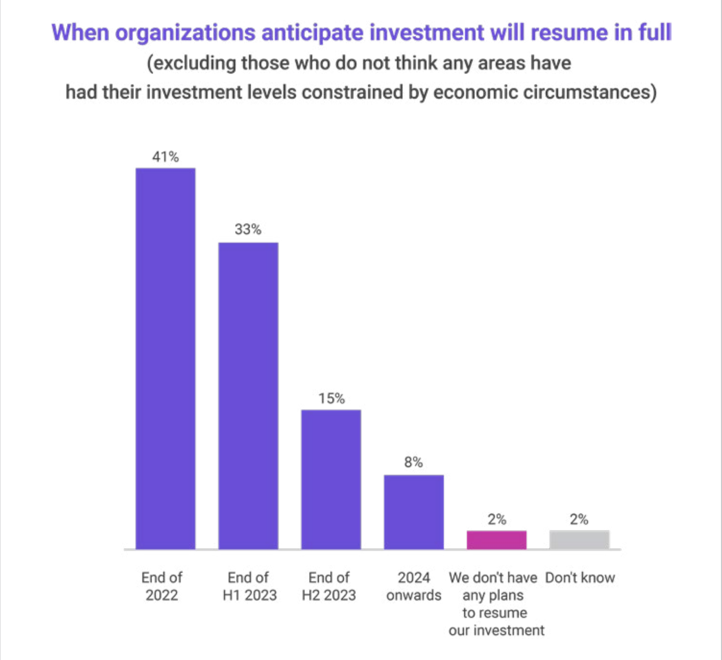

Concluding thoughts

Like previous years, there remains widespread agreement that current global regulatory frameworks are hindering innovation and the deployment of technology. All markets agree on this point, with at least 9 in 10 in every market saying that there are at least some barriers to innovation from existing regulation.

Different markets vary in what they consider to be the most significant barriers to innovation. For example, those in the UAE are most likely to say that culture is blocking innovation, with almost two thirds (63%) saying this, followed by just over half in the UK and US (both 53%). Concern about regulation being too tight is particularly low in the UK – with just 28% saying that this is a barrier to innovation.

Despite the regulatory hurdles, institutions are continuing to invest in technology, with the key benefits and role of technology remaining improved efficiency, improved security, and cost reduction.

Reflective of the current challenging economic environment, 82% of institutions have been 'belt tightening' and constraining their investments in technology. That said, this is only anticipated to be a short-term measure, with the majority expecting to resume their full investments by the end of H1 2023.

However, since the research was completed, and as many countries dip into recessions and warnings of hyperinflation appear, even the most buoyant of banks may have to reconsider investment priorities and timelines.

Current industry trends: Collaboration

Collaboration remains central to the financial services sector, but the industry faces the same barriers to overcome

Collaboration remains a priority for banks with 96% considering it important (94% in 2021). Moreover, a majority continue to consider collaboration 'very important' (70% vs. 66% in 2021).

This view is fairly universal, with at least 89% of all geographies saying that it is important.

Overall, 8 in 10 (84%) institutions consider the sector open to collaboration, with 87% saying this is an improvement compared to 5 years ago.

The UAE and US lead the way, with two-thirds (67%) and over a half (56%) respectively feeling the industry is completely open to collaboration. This is considerably higher than in any other market. Almost all respondents surveyed in the UAE said that they were at least somewhat open to collaboration (96%).

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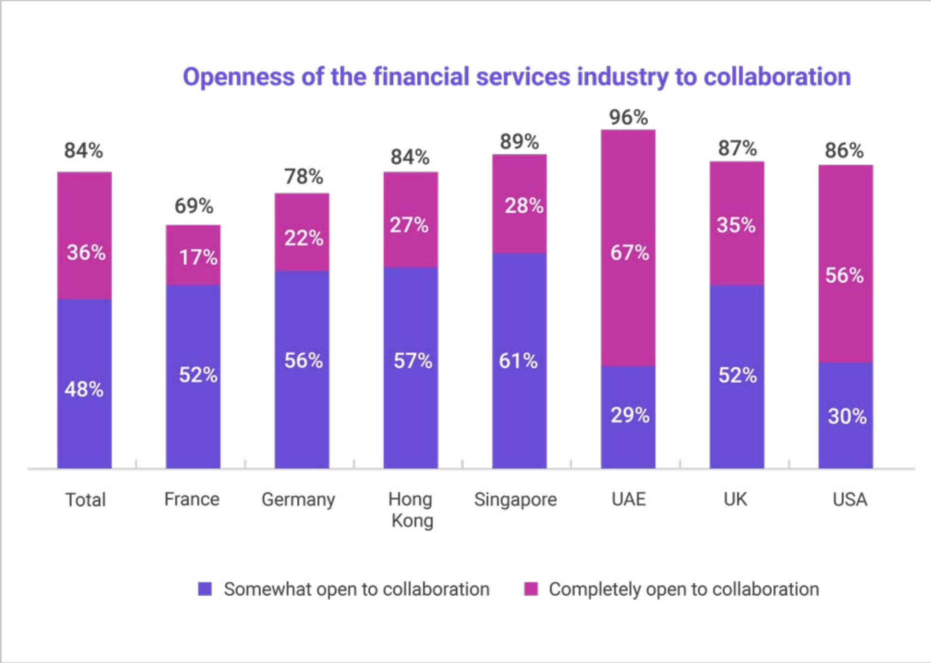

Location influences perception of openness to collaboration

When comparing openness to collaboration versus five years ago, the location of the institution again affects results: the UAE sees near-total agreement that openness has improved (97%), alongside the US (96%). In France again, just 3 in 4 respondents (75%) are seeing a perceived improvement, and Germany sees a similar level of agreement (77%).

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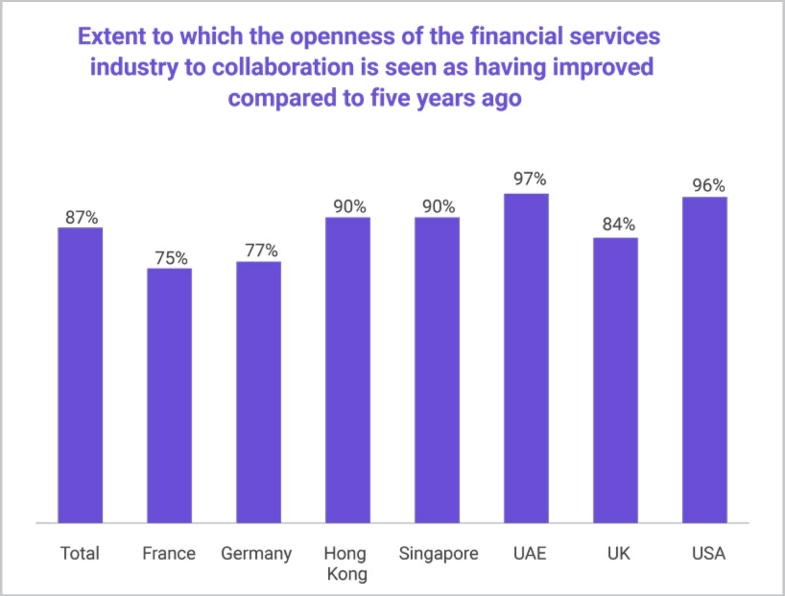
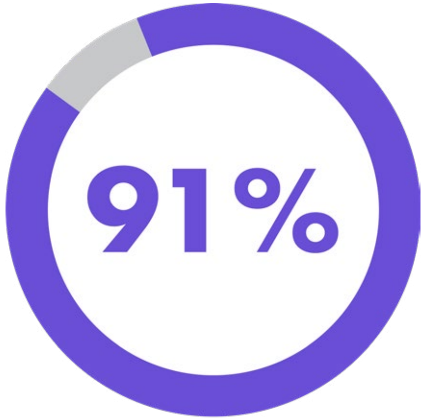


Collaboration: Key constraints to success



The financial services industry will be completely/somewhat open to collaboration in five years

Despite the clear importance of collaboration to financial services, there remain several overarching barriers to achieving it. The increase in security risk remains the most widely identified barrier across geographies, with 2 in 5 (40%) saying that this is a barrier to collaboration (up slightly on 39% in 2021). This is followed by complex regulations (37% vs. 40% in 2021) and legacy systems and IT (35% vs. 35% in 2021). There have not been any particularly pronounced changes year-on-year, the same challenges continue to exist.

Concerns about the security risks are the most widely cited barrier to collaboration in Singapore, France and Hong Kong. Whilst also considered a barrier elsewhere, the biggest concern for those in the UK, US and Germany is legacy systems and IT. The UAE is somewhat of an outlier in that culture is seen as the primary barrier here rather than technology and associated security issues – with 'change in culture' (46%) and 'internal culture' (43%) the two major obstacles to collaboration.

Professionals seem to be optimistic despite these barriers, with 91% expecting the industry to be at least somewhat open to collaboration in the next five years, and 43% anticipating it being completely open.

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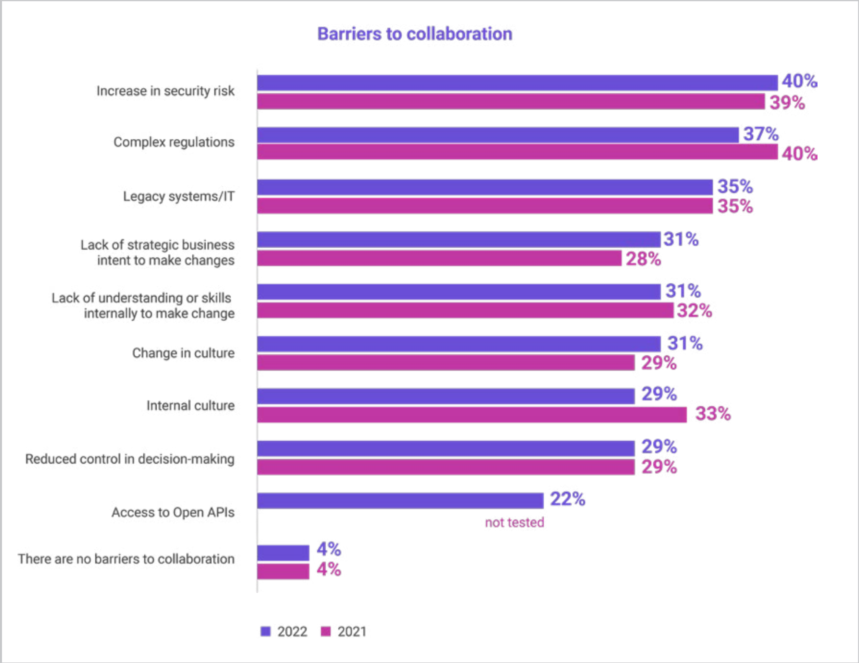

Despite constraints, the outcomes of collaboration continue to be recognized

There remains widespread agreement that collaboration has made institutions more efficient (89% agree), acts as a driver of success (88%), and leads to benefits that outweigh the costs (84% agree).

Those in UAE are particularly likely to agree, with at least 9 in 10 concurring with each of these statements, and near-total agreement that collaboration has resulted in efficiency gains (97%) and success (97%).

Looking to the future and linked to wider trends, most financial services firms agree that 'collaborative platforms and technologies which enable the hosting and processing of cryptocurrency will become more important in the next year' (84% agree).

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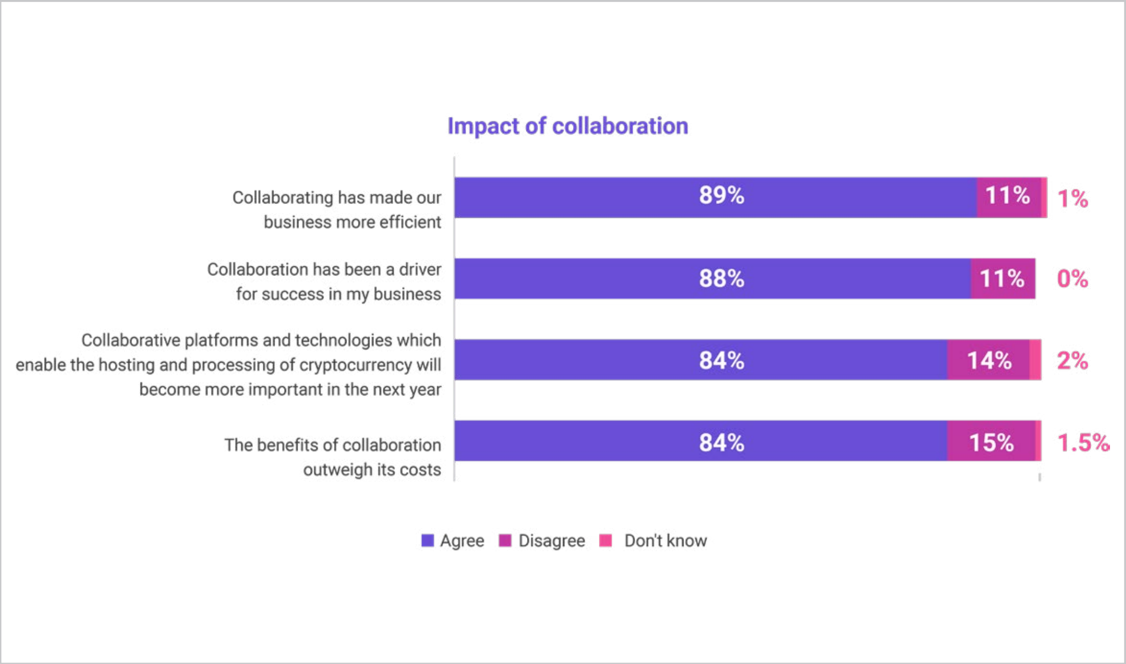

Financial incentives or grants and improving visibility are most likely to foster collaboration in the future

Most financial services firms continue to believe that regulators have a key role to play in fostering collaboration (98% vs. 97% in 2021). Providing financial incentives or grants for innovation (51%) and offering more visibility and regulatory guidance (50%) were identified as the top two ways these bodies can boost collaborative efforts.

Germany is particularly in favor of financial incentives or grants for innovation – with 3 in 5 (59%) saying that they would recommend this action to regulators, a much higher figure than most other markets. Those in the UAE and US believe that regulators would boost collaboration across the sector if they were to provide more visibility about their requirements and share industry best practice, rather than fund innovation incentives or grants.

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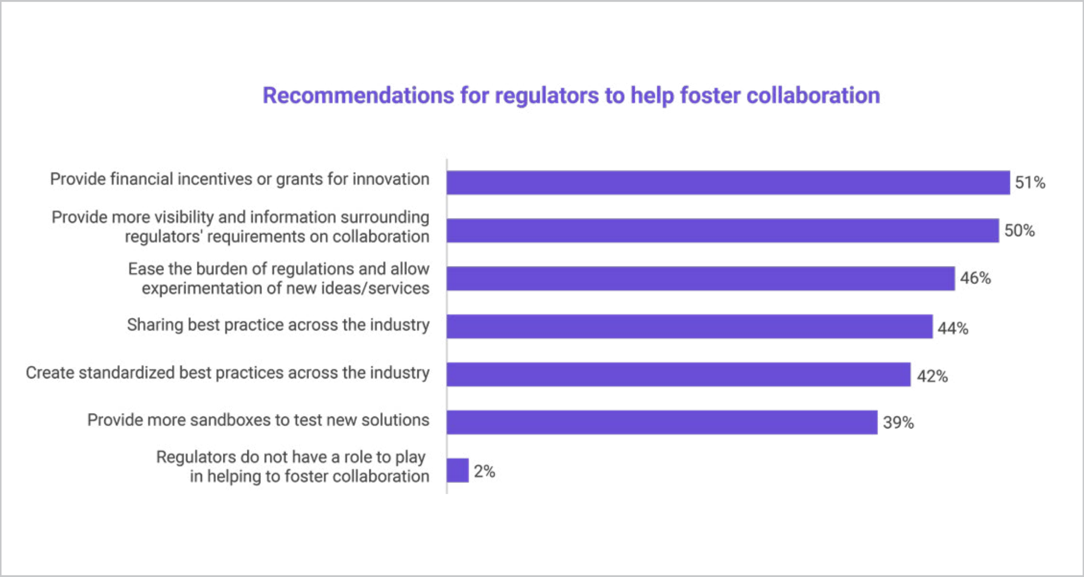

Customer service and experience, and enhancing existing services, remain the core reasons for accelerating collaboration with other financial services institutions

In terms of organizations' increasing appetite for collaboration, the ability to provide better customer service and experiences remains the tier one factor for the majority of respondents (52% in 2022, 53% in 2021).

This is closely followed by enabling more innovation and better ways of delivering existing services (48%). Similarly influential are extending the reach for end customers (48%), and operational improvements (cost reductions or efficiency gains) (46%).

The role of collaboration in creating new services or revenue streams in support of growth was also selected by 46% of respondents. This suggests that the opportunity to influence the bottom line is just as important as the established benefits to customers and broadening existing services.

The accelerators of collaboration, unsurprisingly, vary by market. Organizations in the UAE are most likely to say that better customer service and experience (62%) and more innovation and better ways of delivering existing services (60%) would accelerate their appetite to collaborate with others. In Singapore almost 3 in 5 (59%) are driven by extending the reach for end customers (more than those in any other market), whereas Hong Kong respondents tend to be driven by the reduction of costs or improvement in efficiencies (56%).

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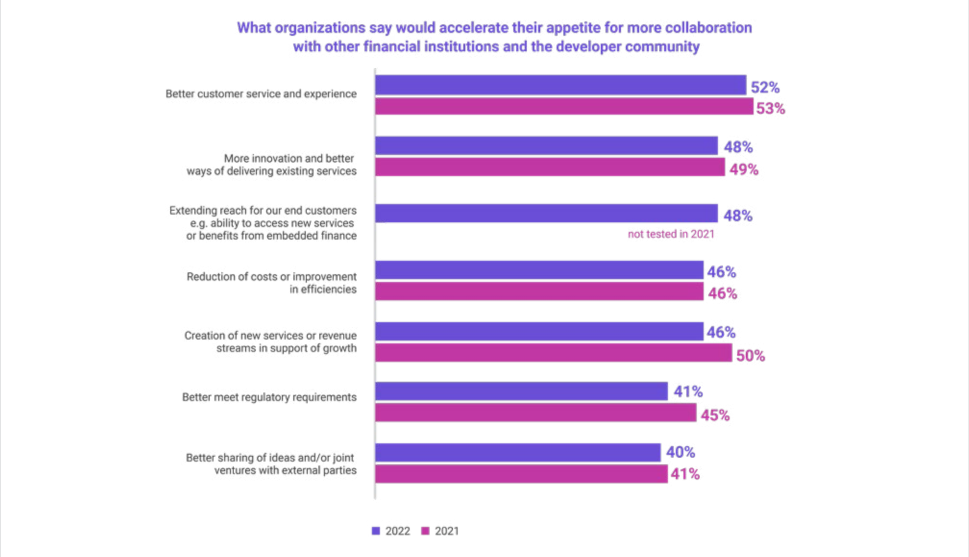


Concluding thoughts

Like Open Banking and Finance, the value to be gained through collaboration across the industry is known and well-established, with 96% considering it important across all markets (up from 94% in 2021). The benefits of collaboration are also widely recognised, with 9 in 10 across all markets agreeing that collaboration drives efficiency (89%) and success (88%), and almost as many agreeing that the benefits outweigh the costs (84%).

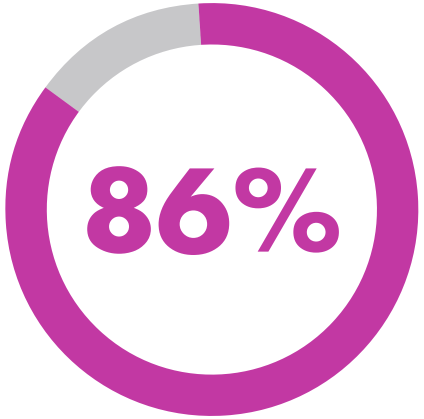
In this context, it is unsurprising that most financial services firms have a strong appetite for more collaboration with other institutions (99%, up from 98% in 2021). Firms consider the financial services sector on the whole to share this appetite, with 8 in 10 (84%) institutions considering the sector open to collaboration, and 87% saying this is an improvement compared to 5 years ago.

Despite this, there remain several obstacles to fuller collaboration, with the increase in security risk the most widely identified barrier, and 2 in 5 (40%) saying that this inhibits collaboration (up slightly on 39% in 2021). This is followed by complex regulations and legacy systems and IT. Each of these challenges are identified as barriers to collaboration in similar numbers to 2021, suggesting the specific obstacles to fuller collaboration remain the same.

Financial incentives or grants and clearer regulatory guidelines are regarded as the measures which are most likely to accelerate collaboration. Guidance rather than funding is the priority in the UAE and US, with these markets more likely to recommend that regulators provide more visibility about their requirements and to share industry best practice than to recommend more incentives and grants.

ESG and Financial Services

The growing importance, and influence, of Environmental, Social and Governance initiatives



Agree that it is important for the banking sector to be seen as supporting the environment and wider Corporate Social Responsibility initiatives

Environmental, Social and Governance (ESG) initiatives play an important, and increasingly influential role. From customers to investors, employees to ecosystem partners, the choices an organization makes and actions it takes are no longer done in isolation, but integrated within Board strategies.

These trends haven't been missed in the financial services sector, with ESG's importance clearly recognized. Almost 9 in 10 organizations (86%) agree it is important for the financial services and banking sector to support ESG initiatives.

Financial institutions in the UAE (96%) are most likely to agree that supporting ESG is important, followed by Singapore (90%) and the UK (90%).

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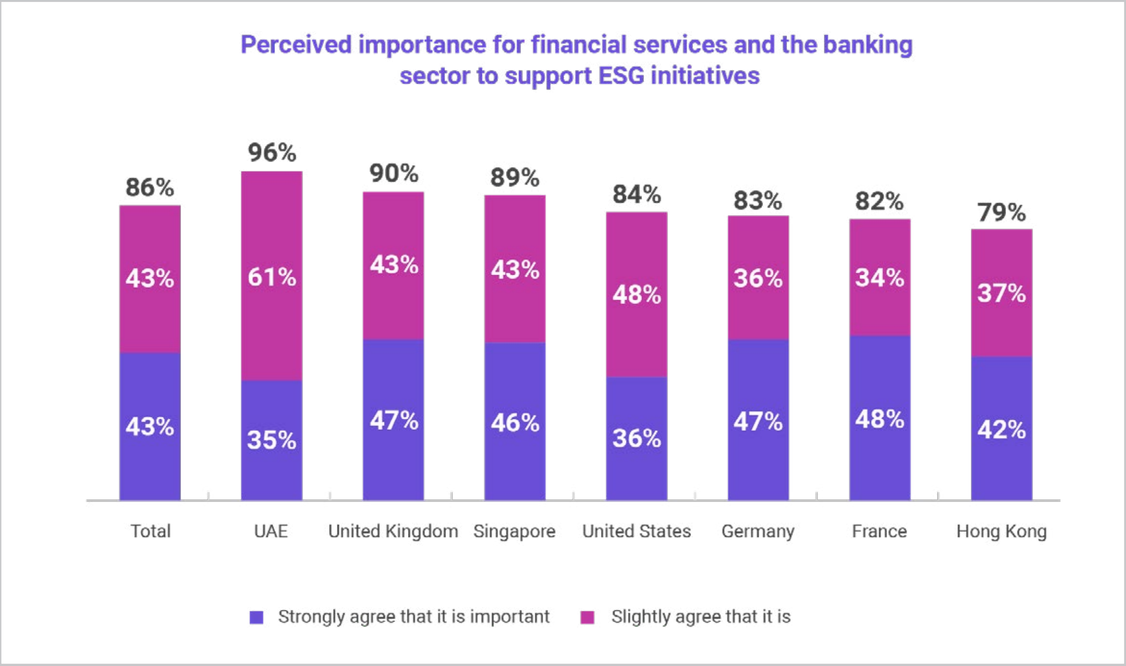

The ethical responsibility of institutions today

This widespread support for ESG initiatives reflects the high levels of agreement seen in recent years with the notion that the financial services and banking sector is about more than purely finance, and that such institutions have a broader responsibility to support the communities they serve. Nearly nine in 10 agree with this notion (87%), a similarly high figure to the one recorded in 2021 (86%).

Whilst agreement levels have remained consistent with 2021 at an overall level, the picture within individual markets is slightly more complex. Support for the notion of there being a duty to the communities that institutions serve has increased markedly in the UAE since 2021 (99% in 2022; 88% in 2021) and has also increased in the US (89% in 2022; 84% in 2021). Conversely, agreement levels have fallen quite substantially in France and Hong Kong, with both seeing a year-on-year decrease of seven percentage points.

Also linked to the rise of ESG and the importance to consumers and wider industry players, 8 in 10 (82%) also agree that green lending presents an opportunity for growth and revenue generation. The appetite for this specific initiative is particularly strong in the UAE and Singapore, with around 9 in 10 (94% and 88% respectively) seeing the potential.

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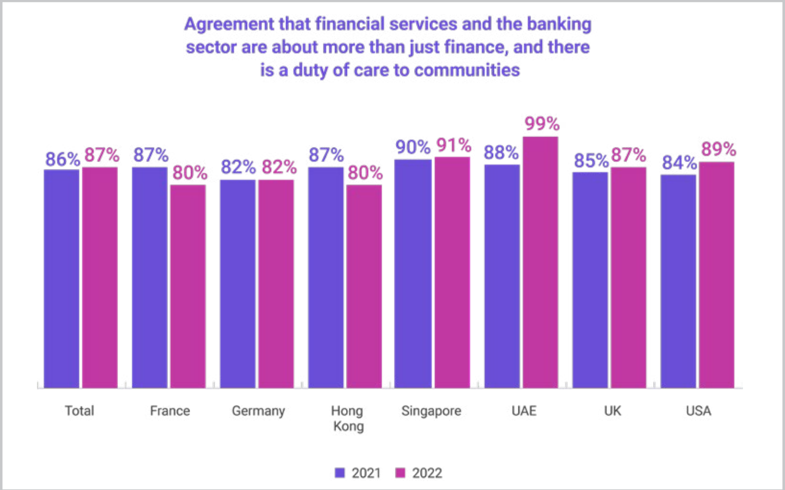

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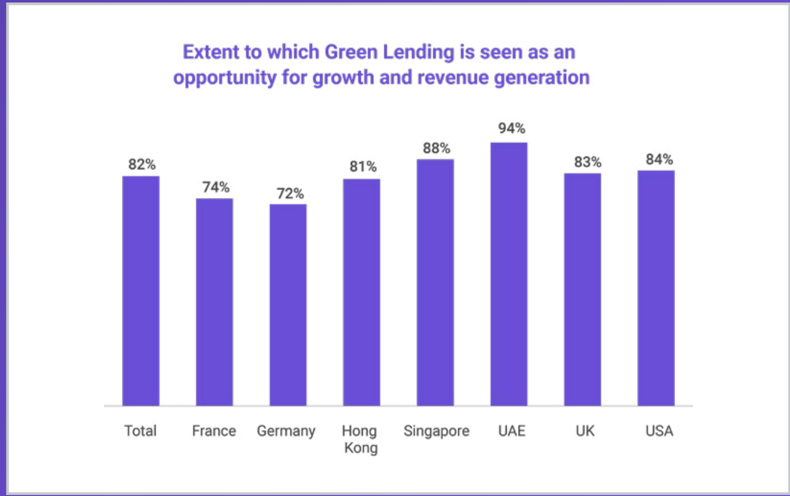

Digital and Retail banking is at the forefront of ESG and sustainability initiatives

Digital and Retail banking is seen as the standout leader when it comes to ESG and sustainability initiatives, with almost 2 in 5 (38%) considering it to be the most advanced subsector across financial services, almost double the proportion who said this of the next most widely chosen sector, Treasury and Capital Markets (22%).

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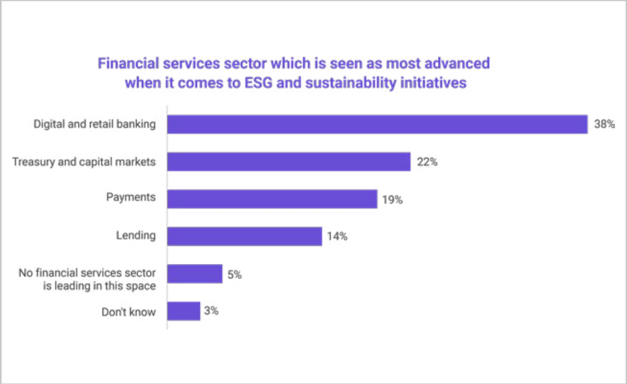

This view is particularly prevalent in the UAE, with half of organizations agreeing that Digital and Retail banking leads the way in ESG and sustainability initiatives (51%). Agreement is also strong in Singapore and the US, (44% and 41% respectively). Those in France, Germany and Hong Kong are less likely to hold this view, which is evidenced by the smaller gaps between the Digital and Retail banking, Treasury and Capital Markets, and Payments subsectors.

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Concluding thoughts

Businesses' focus on ESG has increased across all industries, with an organization's behaviors and actions shaping the brand reputation, sentiment and loyalty. Trends in financial services reflect this wider movement. There is widespread agreement amongst financial services organizations that ESG is important for the sector (86%), with over 2 in 5 saying that they strongly agree with this notion (43%).

Organizations in the UAE, Singapore and the UK are particularly likely to recognise the importance of ESG initiatives, and Digital and Retail banking is very much seen to be the leading financial services subsector in the space.

As external uncertainty looms large, it is encouraging to see financial institutions consider the impact that they can have, and action the responsibility that falls to them, to create better outcomes for the world and its people. At Finastra, we believe Open Finance has the power to unlock the potential of people, businesses and communities everywhere.

Definitions used in the survey

- **Embedded finance:** seamless joining of traditional financial services, such as payment processing, with other services; often in non-financial apps or websites.
- **Banking as a Service (BaaS):** the provision of complete banking processes, configured as a service using an existing licensed bank's secure and regulated infrastructure with modern API-driven platforms.
- **Decentralized Finance:** the provision of financial instruments without relying on intermediaries such as brokerages, exchanges or banks.

Survey methodology

1. 758 professionals (at managerial level) at financial institutions and banks across France, Germany, Hong Kong, Singapore, the UAE, the UK and the US, were surveyed. These financial institutions represent a gross total of just over USD$28 billion in turnover over the last 12 months, employ approximately 1.9m staff and have approximately 147 million client/customer/member relationships.
2. As a result of rounding up percentage results, the answers to some questions might not always add up exactly to 100%. Respondents were also able to select more than one answer for some questions.
3. Comparative analysis was made from results of similar surveys run by Finastra in March 2021 and January 2020 which were also conducted online amongst financial institutions and banks across the same markets.
4. Research was conducted by Savanta via an online panel (end of August to early September 2022).

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Corporate Headquarters

4 Kingdom Street
Paddington
London W2 6BD
United Kingdom
T: +44 20 3320 5000

ID-27660/ 1122

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