SaaScada
data driven core banking

Boosting Net Interest Margins:
Why banks must not wait to innovate

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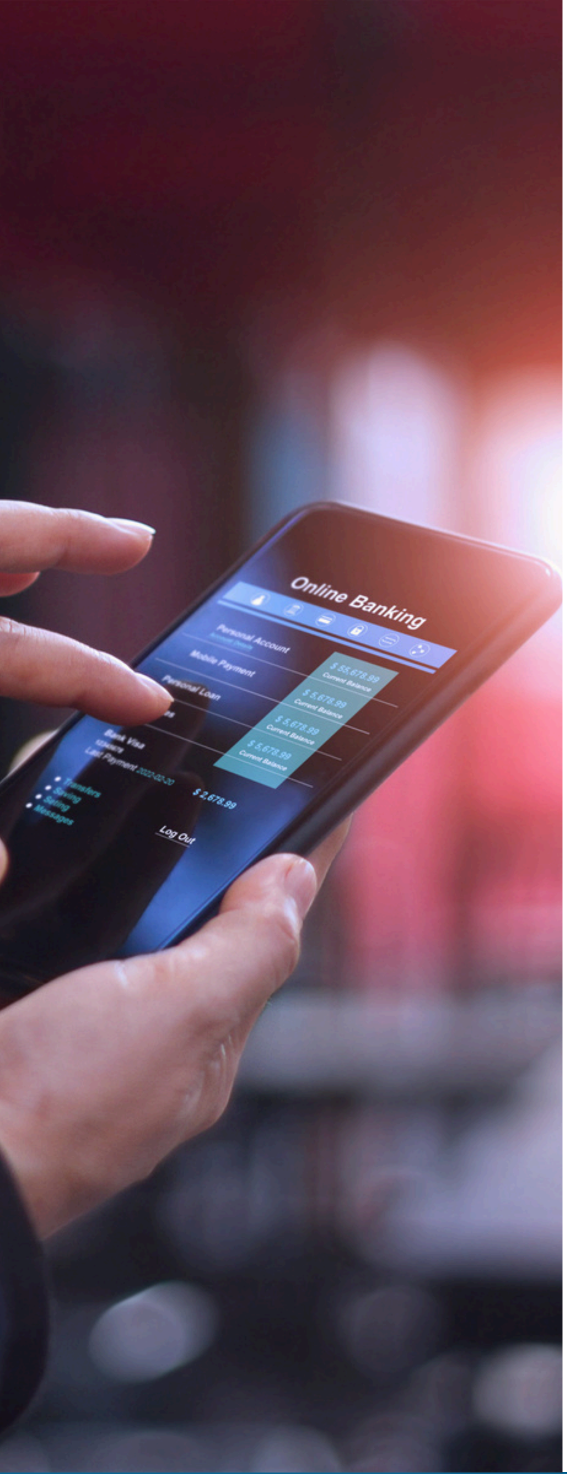

Executive summary

In the past year, amidst high interest rates, most banks have seen the total value of their balance sheets grow. This puts their business models under intense scrutiny.

If banks can't be agile and launch new products to grow their profitability, net interest margins are likely to shrink. These products must be truly compelling and innovative, so that they can not only attract new customers, but retain existing ones. But, to create attractive new propositions, banks need to understand their customers. With better insights, they can gauge how effectively they are being served, and identify new opportunities to meet their needs.

At the same time, banks must also be able to prove that they have enough capital to meet increasing regulatory demands – putting pressure on banks to get more money through the door.

To survive and thrive, banks need to launch enticing new products, grow their market share, and encourage customers to buy more products. Those that can't innovate at pace will struggle to turn a profit, retain customers, and meet regulatory requirements.

This report will outline the increasing demand for faster innovation, the cost of stalled innovation, and the opportunities available to those banks that can generate data insights and move quickly to launch disruptive new products. Our study of 150 heads of innovation at UK retail and business banks found that:

As balance sheets grow, banks are under increasing pressure to innovate:
- 70% of banks have seen the total value of their balance sheet grow in the past 12 months
- 77% of banks say the pressure to innovate has increased over the past 12 months

Banks recognise the need to increase speed to market, but are hindered by delays:
- 75% agree to survive, banks need to launch products in months not years
- However, 51% have experienced delays launching a new product in the last 12 months

There's a growing need to increase share of wallet, but banks are struggling to understand their customers' needs and upsell to them:
- 90% of banking innovation heads agree they need to understand customers better to stay ahead of competitors
- On average, just 23% of banks' customers are using more than one of their products.
- 80% agree banks that can't differentiate their offering will die out

Banks need to balance growth with profitability

Following nearly 3 years of interest rate hikes, most banks have seen significant growth in the size of their balance sheets. In fact, 70% of UK banks have seen an increase in the total value of their assets over the past 12 months, while only 7% have experienced a reduction (Fig. 1).

Interestingly, business banks have seen greater growth in their balance sheets compared to their retail counterparts. 81% of the business banks surveyed reported an increase in the size of their balance sheets, suggesting that businesses have been relying on banks even more in recent years.

Fig. 1 How banks' balance sheet sizes have changed in the past 12 months:

Balance Sheet Change	*Overall*	*Retail Banking*	*Business Banking*
Our balance sheet size has grown	*70%*	*63%*	*81%*
Our balance sheet size has roughly stayed the same	*23%*	*28%*	*14%*
Our balance sheet size has shrunk	*7%*	*9%*	*5%*

While banks may take heart in seeing growth during turbulent times, increasing balance sheets bring a new set of challenges that they must face head-on. Deloitte's 2024 banking and capital market outlooks report puts this well, explaining that "banks' ability to generate income and manage costs will be tested in new ways."

Often, growing balance sheets can come at the cost of net interest margin – the difference between the rate you are able to get depositors' money in at, and the rate you can lend out at. As more customers take advantage of higher interest rates on savings, and benefit from long-standing loan agreements at lower interest rates, banks' profitability will be challenged in the months and years to come.

To increase profitability, banks need to launch innovative new products quickly to attract customers to higher interest offerings to maintain a healthy net interest margin. 77% of banking innovation heads say that the pressure to innovate and launch new products faster has increased over the past 12 months.

Banks need to balance growth with profitability

This pressure to innovate is being driven by several factors (Fig. 2).

Fig. 2 The main factors behind increasing pressure to innovate:

Pressure to Innovate	*Overall*	*Retail Banking*	*Business Banking*
Changing customer needs/trends	*58%*	*55%*	*62%*
Increasing customer expectations	*58%*	*59%*	*55%*
Increased competition	*43%*	*48%*	*36%*
Financial instability creating need for new revenue streams	*33%*	*26%*	*43%*

"Right now, UK banks will be under immense pressure to balance the opposing levers of growth and profitability. To increase their net interest margins, banks should focus on agility. This will enable them to launch lucrative and innovative products designed to meet customer needs.

"When balance sheets grow, it will send alarm bells to banking boards and put banks under more scrutiny from the regulator, who will want to see they are balancing the books. Without the right tools in place to aid with reporting and stress testing, these challenges can stall banking innovation heads when they need to focus on launching the right products at pace."

Nelson Wootton, Co-founder and CEO, SaaScada

Using cloud-native core banking to launch customer centric products at pace

Allica Bank, a leading challenger bank and the fastest-growing UK fintech, wanted to launch a business current account for SMEs. It selected SaaScada as the core banking engine because of its unique intelligent banking platform that provides new entrants with flexibility as they scale and grow.

SaaScada quickly integrated with Allica's existing agency banking and card payment providers, enabling the bank to build a feature-rich current account, complete with an integral savings wallet, in a matter of months. The savings wallet saw great customer uptake during this time of rising interest rates, demonstrating a clear demand for savings products. SaaScada's wallet functionality has enabled Allica to flex with market conditions over time to create new functionalities in the future.

Having experienced the ease and speed with which SaaScada could power the creation of new products, Allica also built a range of fixed-term deposit and instant access savings products directly within the SaaScada Portal. This enabled Allica to both quickly meet customer demand and migrate savings accounts from its legacy technology.

"Having worked with SaaScada on our leading business current account proposition, we were confident they would be able to deliver on a complex migration of other products – and deliver they did!"
Nida Sattar, Product Director Transaction Banking, Allica Bank

Case studies are available for both the savings accounts and business current account.

The race is on for banks to cut product launch times

Banks understand the urgent need to innovate at pace. Three-quarters of banking innovation heads agree that to survive, banks need to launch products in months not years.

As a result, product launch times have made it below the one-year mark. On average, banks take 8.4 months to launch a new product. Just 15% of banks take between 1-2 years to launch a new product, a figure that rises to 18% for business banks. But, banks recognise that they need to be faster. In fact, 45% of banking innovation heads say by the time they launch new banking products, they are already outdated.

Half (51%) of UK banks are still experiencing delays when launching new products. The average delay time for banking products in the past year was an additional 3.3 months.

These product delays are causing banks to miss out on crucial revenue opportunities. In the past year, the UK banking respondents in this study alone lost out on £51.1 million in missed revenue [1] due to delayed product launches. As a result of product launch delays, UK banks are wasting resources, falling behind the competition, and coming under more intense scrutiny from leadership and the regulator (Fig. 3):

[1] This figure was calculated based on the mean revenue missed by respondents (£663,333.83) multiplied by the 77 respondents who experienced product delays.

"In the innovation pace race, banks have started to cut launch times, but much more can be done. Eight months may be expected if a bank launches a brand new offering, like its first credit card. But, if banks have an existing core banking system in place, and it takes eight months to launch a new savings account – it's a disgrace. We should be looking at weeks not months.

"To ensure they meet customer needs, address their evolving priorities, and grow their net interest margin, banks should focus on cutting product launch times across the business. If not, they will fall behind the competition and fail to keep up with soaring customer expectations."

Steve Round, Co-founder and President at SaaScada

Doing a year's work in three months:

SaaScada worked with Electronic Money Institution (EMI) The Payment Firm (The PayFirm) to power its new payment services for EMDs, SMEs and individuals. By using SaaScada's cloud based core banking engine, The PayFirm was able to launch a new back end, middleware, and APIs in just three months, helping it meet its ambitious launch timelines.

As the project progressed, the scope expanded to include a hierarchy to enable The PayFirm to work with fintechs that needed a fast path to market.

The race is on for banks to cut product launch times

Fig. 3 Banking heads of innovation who experienced product delays in the past year faced the following consequences:

Outcome of Product Launch Delays	Overall	Retail Banking	Business Banking
We have wasted time, money, and resources	66%	70%	59%
We have been called in front of the board / leadership to explain the issues	66%	72%	56%
We have had to scrap or delay other projects	64%	64%	63%
One or more people have faced disciplinary action	51%	50%	52%
We have attracted increased regulatory scrutiny	51%	46%	59%
We have incurred technical debt and revenue leakage	49%	50%	48%
We have lost customers / experienced increased churn	49%	52%	44%
We have had customers taken by a competitor	47%	50%	41%
We have suffered reputational damage	34%	28%	44%

Banks must differentiate their offerings to survive and thrive

Rising interest rates have contributed to bigger balance sheets. But, they are also fundamentally changing how banks make a profit – shrinking the profitability of fixed-rate loans and reducing the appetite for customers to take out new loans. To boost net interest margin, banks need to sell new products fast.

Attracting new customers can be difficult, but there's a big opportunity for banks to sell to existing customers. Using existing customer data, banks can make more informed decisions on the products they develop, so they can meet customer needs better, and increase their loyalty or "stickiness".

However, despite acknowledgements that existing customers are king, banks have won over less than a quarter of their customers over twice.

- 76% of banking innovation heads say it's very important or critical to increase the number of banking products or services that each customer buys from them.
- But on average, just 23% of banks' customers are using more than one of their products.

To increase their share of wallet, banks need to offer customers more products and services that meet specific customer needs. Innovation heads recognise this, with 80% of respondents agreeing that banks that can't differentiate their offering will die out.

One example of innovation adding value to products is digital wallets. By embedding digital wallets into products like current accounts, banks can help customers address their needs – whether the wallet is adding features like savings options or forex accounts. Innovations like this can add value for customers while simultaneously increasing the bank's share of wallet.

In this cutthroat landscape, almost three-quarters of banking innovation heads (74%) agree that trying to be "all things to all people" will lead to failure.

To differentiate successfully, banks need to understand their customer needs. In fact, 90% of banking innovation heads agree they need to understand customers better to stay ahead of competitors. The key to better understanding is data. 85% agree data is the cornerstone of banking innovation.

But, banks do not always follow the data. 81% of innovation heads agree customers are likely to switch to a bank that aligns with their social values, but just 22% think they should be considering launching a product focused on sustainable and ethical investments.

Using data to meet customer needs:

SaaScada has worked with fintech ZORRZ to help build its BlueAccess Card, a collateralised credit card solution designed for people excluded from mainstream lending due to limited or adverse credit histories.

SaaScada's data-driven core banking engine provides ZORRZ with real-time transactional data and a robust credit card ledger.

This enables customers to gain valuable insights into their spending habits, make informed financial decisions, and avoid the risks of overspending or double-spending.

Banks must differentiate their offerings to survive and thrive

Interestingly, over a third of banking innovation heads think their banks should launch multi-generational banking products. These products can help families – particularly those with several generations living in the same household – to better manage their finances. Multi-generational banking could also offer an attractive business proposition for banks, which can keep their balance sheets even with a single product, lending to younger generations while taking care of savings for the older generations.

Fig. 4 Types of new banking product or service heads of innovation think their bank should bring to market:

New Banking Product or Service	Overall	Retail Banking	Business Banking
Products designed to help financially vulnerable customers	41%	38%	46%
A multi-generational banking product to help families best utilise their money across generations	36%	35%	37%
A banking product focused on digital assets e.g., cryptocurrency	31%	32%	28%
Products focused on supporting new ways of working, e.g., digital nomads and gig economy workers	29%	24%	39%
New payment functionality, such as QR code payments	23%	17%	32%
A banking product focused on sustainable and ethical investments	22%	19%	26%
New brand targeted at a different market segment, e.g., JP Morgan Chase launching Chase UK, or Goldman Sachs launching Marcus	15%	14%	18%
New lending products, e.g., BNPL	12%	13%	11%
Industry focused banking products e.g., targeting construction, public sector	9%	8%	12%

"Banks are sitting on a treasure trove of customer data revealing spending habits, challenges, and more – but this data is slipping through their fingers. There are clear opportunities for banks to deepen relationships with existing customers, but there's a risk banks are failing to think strategically about the markets and customers that they service.

"Banks know they need to lend more money, but aren't considering customer needs, assessing the best chance they have at gaining market share and increasing customer stickiness. By getting a handle on their data, banks will be able to better understand customer needs, and launch new products that will help to address them. If not, they will soon find themselves left out in the cold."

Steve Round, Co-founder and President at SaaScada

Conclusion: Change starts from the foundations

To better understand customer needs, support them with new products they actually need, and launch them at pace, banks need to fundamentally change how they deliver products and services. This means seizing the opportunity banks have now to rethink their approach to core banking technology, adopting coexistence strategies to drive innovation and then migrating legacy over time in a controlled manner.

This approach will help banks to accelerate product launch times and innovation, while offering a much clearer picture of customers and boost their agility.

By deploying a truly cloud-native core banking engine, banks can leverage real-time data insights and understand their customer needs – while also meeting increasing reporting demands from the regulator. What's more, banks can benefit from a flexible configuration that uses APIs to accelerate the development of a wide range of new products and services.

This will enable banks to build products incorporating a range of wallets including integral savings pots, foreign currency wallets and rewards programmes, based on the needs of their customers. This next-generation core must also be vendor agnostic, allowing banks to differentiate by picking best of breed providers for every aspect of their products.

An agile core banking platform will also enable banks to bring data together for compliance reporting and to carry out stress tests, as the regulator scrutinises banks with growing balance sheets.
Ultimately, this approach will give banks the foundation they need to launch new, personalised products at pace – meeting customer expectations while generating lucrative new revenue streams.

Methodology

The data was gathered in April 2024 from 150 UK-based business heads/C-Suite staff at retail and business banks who are responsible for product innovation (e.g., Heads of Digital Transformation/CTOs/Chief Innovation Officers/Heads of Innovation/CEO). The banks were mid-sized, with a balance sheet of £0.5Bn – £4Bn.

About SaaScada

SaaScada is a NextGen data-driven core banking engine built using cloud-native technology to deliver lightning-fast data speeds and flexibility. SaaScada's unified product hub makes it easier, cheaper & faster to build a range of feature-rich products to deliver great customer outcomes via open APIs to the partner ecosystem.

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