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Banking
Platform

WHITEPAPER

Open Platform for Composable Banking Services

The Future of Financial Services in the APAC Region

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In the modern era of banking, consumers expect a lot from their financial services. Coupled with an evolving financial landscape and increasing competition, a good deal of banks are interested in the growing digital transformation. Why? Traditional financial institutions are limited by legacy architecture of the platform. Today, both traditional and new-age banks are looking for an open platform for composable banking services to transform their systems, overcome traditional core banking infrastructure challenges and future-proof their organization.

Transformations in the banking space and the inability of traditional systems to keep pace

Recent years have seen major transformations in the banking industry — namely, within the manufacturing and distribution of financial services. And, in a busy financial ecosystem, banks, neobanks, fintechs, payment disruptors, e-commerce, and technology giants are trying to establish their place in the banking value chain.

Now, major structural changes in the financial industry are taking place, including the industry shift to an Open Banking framework (the use of application programming interfaces (APIs) to exchange financial data and services with third parties). The open banking framework introduces a digital-first approach to financial services that relies on the fast and secured integration of independent, best-fit systems.

Emerging technologies give non-traditional players and fintechs more of an opportunity to contribute within this space and enable banks to offer more services and better serve their customers. But, while structural shifts promote organizational improvement and enhanced collaboration, it is important to note that it also introduces heavy competition in the banking sphere.



The key drivers of composable banking architecture in the APAC region include:

Increasing consumer expectations: Consumer expectations are rising across the board and when it comes to banking, they're looking for the same type of personalized service they receive from leading e-commerce retailers such as Amazon or Grab. And, while **66% of customers today** expect companies to understand their unique needs and expectations, 66% also report not feeling valued as an important customer, according to a report from Salesforce. Because of this, players in the banking space are in need of tools and strategies that can not only improve but hyper-personalize the consumer experience.

A rapid digital banking transformation: While digital transformation was inevitable within the banking industry, fintechs are speeding up these changes with an open banking framework. What's more, regulators across the APAC region are driving composable banking forward by creating an environment for structural change. VMware reports that the Asia-Pacific (APAC) region is recognized for **leading the digital banking transformation**.

New technologies: Innovative technology, from open APIs to cloud computing, is leading to these structural changes. APAC-based banks are similarly at the forefront of adopting these new technologies to offer more value to customers. According to IDC, banks in the Asia-Pacific region are **expected to prioritize the cloud**, access to information on demand, connectedness and sustainability this year.

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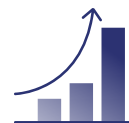
The Issues with Traditional Legacy Architecture Today

A bank is a composite of multiple systems with unique functions, and these features should work together to maximize value for a bank.

Financial institutions today need systems that promote:



Agility



Scalability



Speed

Traditional banking systems can be less modifiable and able to interact seamlessly with other systems, so they can sometimes be more complex to use than more modern options. This means collaboration with legacy architecture, which is becoming increasingly important in the industry, can be a weak point that requires effort and time from organizations to be sustainable. A composable framework boosts collaboration, allowing independent features and systems to complement each other, while taking any added burden off your teams.

Instead of the on-premise coding and customizing of the past, banks are using the cloud to innovate faster and scale dynamically. This allows systems to update and improve as needed, without time-consuming and bothersome updates. With composable banking architecture, even established banks can provide the flexibility of a fintech or neobank.

The Rise and Growth of Composable Banking Solutions

The inability of traditional banking systems to keep pace with the demands of financial services today has given way to the rise of composable banking solutions. Today, the share of consumers in Asia actively using digital banking **reached 88% this year**, according to McKinsey's 2021 Personal Finance Survey. What's more, BCG reports that of the 250 digital banks worldwide, **20% are in the APAC region**.

As digital banking trends continue across the Asia-Pacific region, an open platform with composable banking services offers the comprehensiveness and flexibility that modern banks need — from startups to the digital arms of traditional banks.

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63%

of banking customers in APAC are likely to use digital banking services that challenger banks and neobanks offer by 2025

Creating opportunities for digital-only banks

Digital banks, on the other hand, stand to benefit greatly from the growth of composable banking in the Asia-Pacific. Also referred to as neobanks, challenger banks and virtual banks, digital banks don't have physical branches and use technology to differentiate themselves in the financial services space.

The COVID-19 pandemic forced a much faster transition to digital consumer transactions and interactions in the Asia-Pacific region than expected. When APAC banks rushed to meet the accelerated growth of digital interactions, it was difficult to ensure quality throughout the process. Composable banking provides a structure for keeping up with these types of swift, unforeseen circumstances while guaranteeing the customer experience won't be sacrificed as a result.

Challenger banks can use composable banking to:

1. Acquire more tech-savvy customers
2. Improve the customer experience across the APAC region today
3. Expand their business with a wider range of services

Mordor Intelligence reports that **63% of banking customers in APAC** are likely to use digital banking services that challenger banks and neobanks offer by 2025. This emphasizes the need for legacy platforms to innovate — focusing on flexibility and agility in the process.



The Benefits of Composable Banking



This framework gives banks the agility needed to respond quickly to emerging challenges while guaranteeing scalability as needed.

Because change in the banking industry is constant, composable banking is an increasingly valuable approach to financial services, as it prioritizes a rapid and flexible assembly of independent, best-for-purpose systems. With composable banking, financial institutions are more prepared for the future. This framework gives banks the agility needed to respond quickly to emerging challenges while guaranteeing scalability as needed. Composable banking provides benefits including helping financial institutions to:

Enhance competitiveness: Composable banking allows organizations to quickly adapt to changing market conditions and customer needs as they come. With an agile architecture, financial institutions can offer simple, quick and personalized customer experiences to remain competitive.

Drive new revenue streams: Composable banking helps banks extend their portfolio of financial products and services to grow their businesses and capture new revenue streams. Through the implementation of independently deployable banking services, organizations can easily add new functionality as needed — such as payment services, lending and more — without having to build everything from scratch.

Accelerate time-to-market: Composable banking considerably improves time-to-market, allowing financial institutions to bring new products or entire banks to market within months. This is done by combining composable functions and ensuring any systems aren't disrupted.



The features of capable composable banking platforms

As financial institutions take part in the shift to an open platform for composable banking, there are a few key features that a composable banking platform should offer — to boost collaboration between systems. A composable banking platform should be free to run in any environment which is database agnostic and comes with open API architecture. A platform should encompass rich features and functionalities while being open for developers to build around it and new capabilities on top of the cores. What's more, partners should be able to easily integrate with it to create ecosystems.

Other essential elements to note are as follows:

- Scalability and extensibility
- Seamless API integration
- Openness and availability
- Cloud compatibility
- Infinite configurations

For organizations concerned about making digital transitions and disrupting the bank's day-to-day operations, it's critical to note that this migration can be done gradually, component by component. And, a dependable partner like Temenos can ensure a reliable process along the way.

The Way Forward

Taking part in the digital transformation in the financial services industry is no longer a way to differentiate your business, it's now an essential aspect for all financial institutions to stay competitive in the industry. And, when financial institutions need the agility to respond to market, competitor, regulatory and technological changes as they come, composability will be the answer.

The outlook for banks in the APAC region

With the introduction of Open Banking initiatives in APAC driving innovation in the banking space, banks need to operate in modern digital architecture not only for the openness, but also the flexibility for cost efficiency in the long run. Composable banking is providing unique opportunities for financial institutions in this region, including:



A large unbanked population:

EPA Asia reports that although Asia is home to 60% of the world's population, a third of the world's **1.7 billion unbanked population lives in four Asian countries** — China, India, Pakistan and Indonesia. At the same time, the region is seeing rapid digital transformation that financial service providers can take advantage of.



High mobile penetration:

APAC saw a mobile penetration rate of 42% in 2020. By 2025, over 333 million people across the region will start using mobile internet for the first time, taking the **penetration rate to 52%**, according to GSMA. Increasing mobile penetration rates are a critical component of increasing the accessibility of digital banking in this region.



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Rapid technological advancements:

The Asia-Pacific region in recent years has experienced a quick adoption of emerging technologies, extending beyond mobile penetration. This digital transformation includes digital payments, 5G adoption, artificial intelligence and cloud computing. Evolving technologies and swift implementation are carving the path for APAC financial institutions to lead the way with composable banking.



Regulators driving the change:

Consumers and financial institutions aren't the only key stakeholders invested in more flexible and agile banking systems: Regulators in this region are driving composable banking forward by creating an environment for structural change.



Partnering with Temenos

Temenos is supporting banks in the APAC region by delivering an open platform for composable banking services. Our services accelerate product time-to-market for banks and non-banks by easily combining the comprehensive functional coverage of Temenos Banking Capabilities and third-party solutions from the Temenos Exchange.

Over the years we've garnered experience in delivering innovative technology and successful SaaS banking solutions. More than 70 challenger banks have selected Temenos Banking Cloud and are now launching a range of new, functionality-rich banking services. Temenos keeps evolving with the industry development throughout the last 30 years. Temenos is proud to provide a foundation for these financial institutions to launch their new banking services and to support their growth.

Temenos software today is:

- SaaS-first
- Cloud-first
- API-first
- Available for any type and size of bank

Unlike other vendor solutions, the Temenos Banking Cloud allows integrated banking services that can be rapidly consumed from a self-service portal and easily configured, extended or deployed anywhere. Composable Temenos Banking Services consist of pre-assembled Temenos Banking Capabilities plus extensibility framework which enables banks to configure and extend functionality. This helps banks and non-banks to bring innovative products to market faster to meet growing customer expectations while reducing the cost of development.

Partnering with Temenos helps banks introduce composable banking successfully — to better navigate the fast-changing banking environment and stay competitive. **Contact us** to find out more about Composable Banking with Temenos.



Frankie Wai
Business Solution Director
Temenos (APAC)

Frankie Wai is the Business Solution Director APAC of Temenos, the world-leading banking software company.

As a solution-oriented person with strategic thinking and strong people skills, he defines the region's solution strategy, advises the bank on technologically advanced solutions, and executes decisions to facilitate organizational growth. He has actively investigated emerging technologies and formulated software solutions to help banks deliver innovative banking services. He led from the front and crafted the brand-new digital banking architecture for the first batch of virtual banks in Hong Kong. He continues constructing the solution for subsequent digital bank licensees across the Asia Pacific region. Frankie is speaking at seminars to articulate how technology enables banks to transform, including digital banking, open banking, cloud-native banking, and composable banking architecture. He was invited to speak at the Malaysia Fintech Week, Asian Bankers Association, FinTech Association of Hong Kong, Fintech Taipei, Singapore Fintech Festival, and the Temenos Regional Forums. Frankie co-authored the articles Virtual Banks Will Compel Hong Kong to Embrace the Mobile Banking Era and Open Banking in Taiwan.

Frankie graduated from Tsinghua-INSEAD Executive MBA. He joined the first batch of the Oxford Fintech Programme.

[linkedin.com/in/frankiewai](https://www.linkedin.com/in/frankiewai)

About Temenos

Temenos (SIX: TEMN) is the world's leading open platform for composable banking, creating opportunities for over 1.2 billion people around the world every day. We serve two-thirds of the world's top 1,000 banks and 70+ challenger banks in 150+ countries by helping them build new banking services and state-of-the-art customer experiences. The Temenos open platform helps our top-performing clients achieve return on equity three times the industry average and cost-to-income ratios half the industry average.

For more information, visit www.temenos.com

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