

# Banking Innovation:

How midsize banks are shifting strategy and adopting technology for sustained growth



# Introduction

In an increasingly competitive financial services landscape, midsize banks and credit unions need to adopt innovative strategies quickly to enhance their market position, facilitate growth, deliver exceptional customer service, and improve profitability and return on invested capital. From data security and cloud adoption to talent management and AI, midsize financial service organizations can leverage people and technology to optimize their performance. This report—which is based on research conducted by Oxford Economics in collaboration with SAP—aims to highlight the steps that midsize banks are taking to achieve their business objectives and become more digitally resilient in the coming years.

## Growth objectives

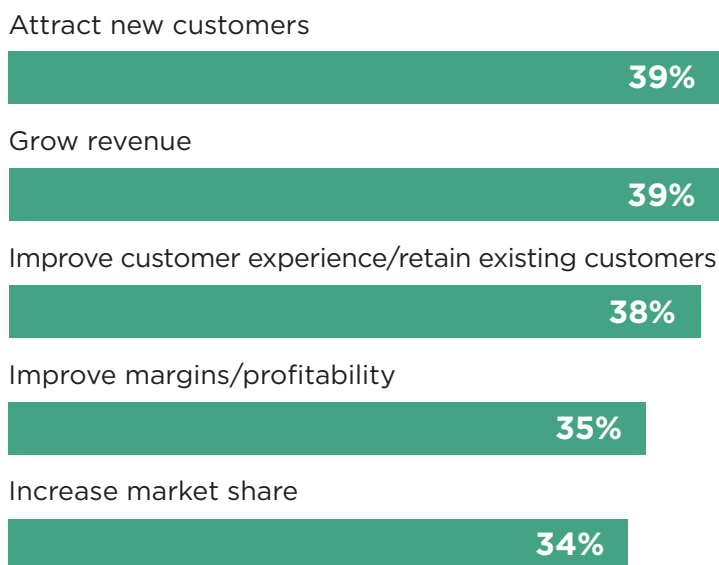
More than a third (Figure 1) of banking respondents cite revenue growth as a top priority for their organization, and our research shows their growth efforts have been moderately effective.

A majority (64%) of banking respondents say their bank's revenue increased over the past three years—including 10% who say that growth was over 20%. Four out of five (79%) have generated positive operating margin growth. Banking respondents are more likely than executives in other industries to prioritize both service profitability (57% vs. 50% survey average) and efficient, on-time service delivery (54% vs. 44% survey average) in their search for a competitive edge.

Midsize banks are competing for a tight pool of customers. While brand loyalty limits the number of new banking customers available, many banking executives believe they can win new customers by creating personalized banking products, which also drives business growth. For example, midsize banks are focusing on implementing new service initiatives to retain and attract new customers. From behavior banking to generative AI, midsize banks are leveraging technology to provide a more personalized customer experience.

### Figure 1: What are your organization's top business objectives for the next two years?

Select the top five; top five answers shown.



### How will you stay competitive?

“We are working on offering special services and products using data analysis to better understand the preferences and needs of customers.”

— Direct report to the Chief Human Resources in Canada

# Key risks and risk management

Banking executives view risk management as critical. Over the next two years, the greatest threats for midsize banks are:

- global issues—including inflation, rising interest rates, unemployment, or the fear of default **(46%)**
- local competition from fintech companies and other banks **(45%)**
- inability to find the right talent with core banking and technology skillsets to maintain operations **(44%)**
- inability to scale **(43%)**
- inability to retain talent **(41%)**
- government regulations restricting their ability to operate **(40%)**

To address these risks and drive proactive management decisions, banking executives are leveraging technology, people, and data. Executives are doing their part to pair employees with new technology capabilities to garner insights and deliver efficiencies. However, best-in-class banks are doing more than simply producing risk reports to pull the right insights from their existing data. Banks that employ effective risk management view data as a single source of truth and extract insights from that data to drive business decisions. Through intelligent automation, banks can drive greater speed, agility, and efficiency. For example, with effective enterprise resourcing planning (ERP), intelligent automation can provide real-time actionable insights across the business.

While some banks can calculate real-time positioning of risk with a single data source in the cloud, others are still struggling with data management. A third of banking respondents have difficulty getting an acute real-time risk view, while 11% of banks say they don't have a singular data source on which to rely (Figure 2).

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## How will you stay competitive?

“Assess and minimize potential company risks such as economic downturns, supply chain disruptions, and cybersecurity attacks.”

— Chief Marketing Officer in Australia

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### Figure 2: To what extent is your organization able to calculate real-time positioning of risk with a single data source (in the cloud)?

Select one.

We are looking for a solution to help us manage risk

**2.3%**

We do not have a single data source to rely on

**10.9%**

We have difficulty getting an accurate real-time risk view

**32.6%**

With some effort

**40.6%**

Very easily

**13.7%**

# Technology and data investment/integration

While the banking industry is adopting innovative technology, many banks still struggle with outdated IT infrastructure. It is a common struggle, with three out of five banks reporting that their IT infrastructure can't scale to meet organic business growth. Nearly half say tech stack deficiencies make it hard to expand their businesses—enter new geographies directly or with business partners, or deploy new business models (48%)—and legacy technologies slow down employees with tedious, manual, low-value tasks (45%).

Despite these challenges, midsize banks depend on technology to innovate and grow. From cloud solutions to AI, banks are taking a holistic approach to technology integration to spearhead operational improvements and risk mitigation.

## Cloud Solutions

Much like companies in other industries, the banking industry recognizes the ability of cloud solutions to drive profitability for an organization. In fact, three quarters (75%) of banking respondents have adopted cloud solutions—and are already reaping the benefits. Banking respondents report experiencing significant benefits from the integration of cloud solutions, including improved agility (47%), improving the customer experience (43%), optimized processes (40%), reduced costs (36%), and improving the employee experience (31%).

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## How will you stay competitive?

“Our plan is to increase investments in cloud platforms to enable quicker deployment of new services and technologies.”

— CFO in South Korea

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## Artificial Intelligence

Approximately three-quarters of respondents are using or plan to use AI technologies in the next 12 months. Many banks are even applying AI capabilities to banking processes, including accelerating customer onboarding, streamlining back-office operations, amplifying performance analytics, improving the customer experience, and mitigating risk (Figure 3). For example, some banks have implemented behavior banking, a reward-based system that delivers personalized incentives—such as lower borrowing rates—to make positive credit decisions that allow customers to save more, spend less, or pay off debt earlier. To anticipate customer needs, other banks are leveraging generative AI to identify and answer questions proactively.

**Figure 3: In which of the following ways are you currently making use of AI capabilities in your banking processes?**



However, a bank's AI is only as effective as its underlying data. Therefore, it is vital to remember that data is the backbone and single source of truth of any bank. From core banking to credit cards, banks must digest voluminous data from multiple sources. Data integration—the process of combining multiple data sources into a centralized data set for comprehensive analysis and decision-making—can help banks evaluate data across the business in a more complete, accurate, and consistent manner.

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## How will you stay competitive?

“We are investing in technologies like artificial intelligence and big data.”

— *Chief Purchasing Officer in Brazil*

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## Conclusion/Recommendations:

As midsize banks grow, meet their business objectives, and become more digitally resilient, they can further benefit from adopting the following recommendations:

**Data security:** Select trusted software providers with a demonstrated track record as well as an industry-specific cloud-based solution to provide data security and minimize cybersecurity risk.

**Risk management:** Risk management should be proactive, not reactive. Best practices include establishing data as a single source of truth and then leveraging data management and data integration to drive decision-making. Banks that centralize data into a single source can create consistency, reliability, and better predictability.

Integrating an effective ERP system can help midsize banks manage data in a more unified and comprehensive way.

**Talent:** The banking sector is evolving. Midsize banks need to attract and hire talent with both strong core banking capabilities and technology skills to help acquire customers and grow profitability.

**AI Adoption:** Generative AI can help banks leverage real-time information, offer predictive capabilities, and provide scenario analyses that improve profitability, increase efficiency, and strengthen customer relationships. As banks gain efficiencies and process improvements, they can reduce low value tasks and reskill employees to perform higher value work.

## Take the next step

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