01

Innovating and serving customers

Platform banking: the imperative to reshape the business model

Banks are facing stiff competition from challengers that have been quick to adopt innovative technologies and embed them into the heart of their operations. Gonçalo Traquina explores the need for banks to follow in their footsteps or risk obsolescence.

Banks are increasingly having to compete with large, established technology companies like 'the four horsemen' or GAFA (Google, Amazon, Facebook, Apple), as well as a crop of FinTechs which are constantly coming up with innovative and customer-centric solutions. To survive and thrive in this era, banks will need to adopt new models.

Most major banks today are vertically integrated, with closed-loop offerings. Their products and services run within proprietary distribution channels and tightly controlled infrastructure. Driven by regulation, the advent of open application programming interfaces (APIs), for instance, open banking, will upend the status quo by allowing third parties to act as alternative distributors and offer a new range of products.

Additionally, customers have embraced platform-based businesses for reduced friction, lower prices, and better service, along with the convenience of using mobile devices as the primary point of contact.

An evolution in consumer preferences is also driving the shift towards platform-based models. Indeed, our research and experience suggest that — after nearly a decade of fragmentation and unbundling of services in their lives — consumers are starting to revert towards 'rebundling'. Instead of having multiple apps for ordering food, ride-sharing, and payment options, they may want just one. Consumers may not be specifically demanding 'super apps', but many want the convenience and simplicity that super apps can offer.

The concept of banking as a platform

Digital platforms are poised to dramatically alter business models, competitive structure, pricing, and customer behavior in banking, in line with what we have observed in other industries, such as retail.

Given the rapid pace of change, incumbent banks are being forced to consider alternative models— one of these options being Banking as a Platform (BaaP).

By establishing a banking platform, banks can allow third-party FinTech developers to build products and services on behalf of bank customers, creating a broad network of FinTech applications for loans, payments, investing, wealth management, and other services, while enabling financial institutions to deliver a unified banking experience.

Learning and leveraging from FinTechs

Recognizing the market opportunity to serve mobile-first customers, FinTech companies are introducing disruptive business models that eliminate unneeded expenses and display greater efficiency in terms of capitalizing on customer data.

These business models support no-fee or low-fee products and services that threaten banks' fee and margin revenues.

Players like Alipay (China) and WeChat (China) offer their customers access to thousands of products from hundreds of financial services providers in a single digital ecosystem.

Two more super apps have emerged in South East Asia, from the leading ride-share platforms, Go-Jek and Grab. Both apps now offer a range of other services from food delivery to medical advice, and both are competing to help consumers select and purchase financial products.

FinTechs are leading the way in innovation using rapid development methodologies on the latest technology stacks, launching products and services not yet offered by banks. Banks would be well advised to take heed of these developments for several reasons.

They are disintermediating banks from their customers. Super apps like WeChat and Alipay offer a range of basic banking, savings and investment products to customers.

While for now these products are being originated and underwritten by traditional financial institutions, this still means that these institutions are being moved one step further away from their customers. Much like what happened in the insurance sector with platform plays and aggregators, traditional financial institutions may quickly find they have been relegated to performing the regulated activities while the super apps retain the customer experience and relationship.

The rise of super apps

Increasingly, super apps are using their vast wealth of data to deliver better services, and improve operational processes — for instance by using social media and transactional data to risk-assess loan applicants, and better target financial products to customers, at the exact time they need them. Traditional banks, with their siloed data and mainframe technology estates, are struggling to obtain a complete and representative view of their customers.

Apps are also building their brand reputations in financial services. Offering payment services within the app may seem fairly innocuous at first; a marketplace without a payment mechanism may be doomed from the start. Currently, the vast majority of these payments are flowing through traditional banking and card issuer infrastructure. However, most of the bigger super apps now also have strong relationships with banking arms (e.g. WeChat has WePay for payments and WeBank for banking products; Alibaba has Alipay and Ant Financial) which are using the app's brand reputation and reach to access new customers and build trust in financial services.

Using these approaches, FinTech companies can provide banking products and services without the legacy cost structures of traditional banks. The banking industry has thus far avoided the level of disruption seen in other industries, owing to a combination of regulatory barriers, industry structure, entrenched customer relationships, and customer concerns over privacy and reputation. Yet those are not insurmountable obstacles, especially when customers expect and demand high levels of service and convenience. With mobile networks and platform-based business models, FinTechs can bypass the strengths of today's banking industry. The next article in this series explores how banks should respond to these challenges, and future-proof their operational strategy.

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A call to arms: how banks can transform their operational strategy

Traditional banks would do well to build a model that draws upon their strengths in terms of customer reach, regulatory expertise, and branding. Abbas Basrai elaborates on what steps should be taken to integrate platform-based banking with their operations.

Rather than competing with industry challengers, banks around the world are increasingly finding value in partnering with them and brokering their products in online marketplaces. Several international banks provide some sort of developer hub, portal, or exchange that allows third-party apps to access, integrate and/or extract data about the bank's customer base.

Many digital challenger banks have been able to partner with leading financial services providers in several product categories. Going a step further, players like Starling Bank (United Kingdom) and Fidor Bank (Germany) offer customers a handful of third-party providers in each category.

These are variations on the platform banking model. They tend to give their customers access to products by third-party providers, thus strengthening their offering while avoiding the cost of competing with established providers. This can free up resources to invest in the part of the business that differentiates them and adds value for consumers.

For traditional banks, the key question is whether they can develop the capabilities to meet customer expectations for instant mobile access to a wide range of products and services. To do so, they would have to embrace the platform-based business model, either as an active participant on others' platforms or platforms of their own.

Rethinking the vertical value chain

In the traditional operating model, banks own and operate a vertically integrated value chain that stretches from production to sales, distribution, and servicing. Although banks can outsource various components, the overall cost structure remains fixed. But the imminent threat of disintermediation may render the traditional operating model unsustainable.

As these trends accelerate, banks' fee and margin revenues can be increasingly at risk.

Although the traditional banking industry has numerous regulatory and reputational advantages, disruptive innovation usually finds a way through to the marketplace. In response, banks need to re-evaluate their vertically integrated banking business models by considering platform-based models.

Instead of trying to imitate the way that FinTech companies approach technology development, traditional banks may do well to capitalize upon the formers' innovations by incorporating external products and services in their portfolio. For instance, some Singaporean banks are building their marketplaces: DBS launched its car marketplace in partnership with sgCarMart and Carro, while UOB launched its travel marketplace. Both these initiatives are a natural extension of the financial products they offer and in doing so they move up the customer lifecycle. Those who own a customer's path to purchase can gain a form of "ownership" of the customer.

The banking platform model of the future

A platform for financial transactions would need to establish "plug-and-play" standards enabling developers to build products and services for consumers. The platform infrastructure would manage the secure exchange of data, oversee authentication and authorization, and ensure compliance with regulations. Oversight and governance of a banking platform would ideally be managed using defined and shared standards among institutions working in federation with network operators and FinTechs' associations.

Based on their knowledge of their customers and markets, banks are increasingly using the full range of the platform's capabilities to build omnichannel "customer journeys" that anticipate customers' interaction across digital and physical environments. Sales and service interactions need to be designed for self-service, with escalation paths that provide context to bank employees and support human interactions.

For developers, including FinTech companies and banks' internal development teams, the base-level capabilities available through a banking platform would allow them to focus on delivering value to consumers, instead of building custom overhead for secure connectivity, identity management, and regulatory compliance. Working through a bank-led platform can allow developers to focus on building transformative ideas with greater confidence and they can reach the marketplace with a solid, tested product.

For customers, the experience of banking would be completely transformed away from the current, vertically integrated model. Instead of being limited to the products and services offered only by their bank, customers would instead have access to a digital banking "app store" that allows them to select their services from a broad range of sources. With the knowledge that whatever financial apps they select have been vetted by the platform, customers will be able to build their own personalized banking experiences based on their individual needs.

A plan for action

Our experience suggests that, almost regardless of size and scope of business, bank executives should be considering the following key aspects to achieve success.

Banks will need to decide soon whether they plan to be a front-office player within a BaaP model, a back office enabler or simply a piece of regulated infrastructure in the future. They can then start investing and evolving towards achieving that vision in regard to a combination of partnerships and alliances, technology incubators, FinTechs acquisition/investments and internal capabilities.

They will need to decompose their operations into capabilities and manage interactions and services with third parties, and redesign the customer experience by leveraging a "design thinking" approach to identify the customer journeys that prompt digital offerings from the platform, as well as those moments that require human interaction.

Extracting value from data

Much of the success of today's BaaP model is predicated on the fact that they can share data across various service areas and lines of business to develop a better view of their customers. Banks will need to consider how they can use APIs and open data architecture to exploit the rich data flows.

Having extensive customer data and knowing what it all means are two very different things. Banks will probably need to redouble their investment in improving both their data management and analytics capabilities if they want to compete on a global level.

Organizations should also update their development approaches by training development teams in Agile, microservices, and DevOps, mimicking FinTech approaches to synchronize with their development capabilities playing field with super apps.

Lastly, they should be streamlining operations for existing manual processes and existing operations, so that bank capabilities can be delivered through APIs as platform-based services to FinTech providers.

Our experience suggests that, at least for the next decade, the trend among consumers and businesses is leaning towards BaaP models. The question is whether banks understand how they will deliver value in a world dominated by FinTechs and super apps. And whether they can respond quickly enough before the disruption reaches a tipping point.

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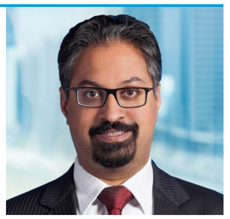

Are banks delivering on their promises?

Banks globally and in the Gulf region have been trying to create a frictionless and effortless digital customer experience, reducing or doing away with the need for human intervention. Ankit Uppal contemplates their various success rates, and whether actions match the words.

The Oman banking market is highly competitive, comprising 20 banks. This has compelled financial institutions to strive to differentiate themselves in the fields of customer experience and digitalization.

We are witnessing the rise of the connected customer, a term encompassing a demographic group which harbors a strong preference towards online channels, technological innovation and on-demand services. The Covid-19 pandemic has amplified the need for easy access to products, services and information.

Stakeholders may look to Asia Pacific for a glimpse of what is to come. Here, the proliferation of mobile devices and online engagement is staggering, and citizens are using connected tools to augment nearly every aspect of their lives. Customers expect cutting-edge infrastructure, uninterrupted access, and service providers who can cater to their expectations around the clock.

Banks, in collaboration with their FinTech partners, have taken great strides in fulfilling their promises to customers.

Accelerated efforts for FinTech and Digitalization in Oman

As the ongoing digital revolution sweeps across the financial sector, traditional banks in Oman are increasingly embracing new technologies to remain competitive, increase market share and target new customer segments, including millennials and Generation Z.

On 10 December 2020, the CBO launched a FinTech Regulatory Sandbox (FRS) through which participants can apply to live-test their innovative FinTech solutions in a safe environment under the supervision of the CBO.

Bank Muscat has also launched "BM Innovate", a USD 100 million FinTech investment program.

In 2020, the CBO issued its first license to a non-banking financial entity, FinTech company Thawani Technologies, a startup allowing cashless mobile payment solutions.

Uniting the front and back-end functions

Today's customer appears to be seeking a self-service, seamless, automated and omni-channel experience with minimal waiting time—a set of criteria that remains consistent regardless of the type of service, be it customer onboarding, increasing their credit limit, applying for a new product, or redeeming loyalty points. To enable this, banks across the Middle East are digitizing complex processes and end-to-end customer journeys cutting across the front, middle and back offices. The process is driven by business rules, triggers and events in the back end and delivered through an intuitive and self-guiding user experience from the front end (for instance mobile apps or portals).

We have observed a number of initiatives being undertaken by banks to deliver on their promises to customers:

- Harnessing data, advanced analytics, and actionable insights with a real-time understanding of the customer to shape integrated business decisions
- Creating intelligent and agile services, technologies, and platforms, and enabling the customer agenda with solutions that are secure, scalable, and cost- effective
- Engaging, integrating and managing third parties through open data to increase speed to market, reduce cost, mitigate risk and close capability gaps
- Building a customer-centric organization and culture that inspires people to drive business performance
- Designing seamless, intentional user experiences for customers, employees and partners, supporting the customer value propositions and business objectives

Banks should endeavor to become distinguishable by the degree to which their customer experience efforts are integrated and connected. The boundary between their front and back offices is blurring, and they are gaining increasing intimacy with their customers, driving them to innovate by the insight they gain. Many banks today are structuring their operations in new and exciting ways. They are seeing customer experience as a source of commercial value: not just a differentiator from their competition but a mechanism for potentially superior profitability.

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