

CeBIT – FinTech Panel Discussion Summary

June 2016



At CeBIT 2016, financial services digital and innovation experts came together to discuss how platform-based business models are re-inventing the financial services industry, and what changes need to be made within organisations to harness platform-based opportunities.

The panel, led by Ian Pollari, Head of Banking, KPMG Australia and Global Co-Lead of Fintech, explored how platform-based businesses are disrupting the value chain, how different stakeholders are approaching the threat and opportunity, and how organisations need to evolve in culture and competency to realise platform opportunities.

Pollari set the context for the panel discussion by highlighting how platforms are reshaping business, contending that the focus of organisational strategy in the future will require a number of key transitions: from product to platforms, from controlling to orchestrating resources, from optimising internal processes to facilitating external interactions and from increasing customer value to maximising eco-system value.

Disruption in the form of modularisation

As multiple platform businesses emerge in and around financial services, a trend is evolving where the financial services value chain is breaking down into modular components.

Kirsten Dunlop, Executive General Manager of Strategic Innovation, Customer Experience at Suncorp, explains: “The first areas being impacted by modularisation are the customer interface layers and introduction layers into financial services.”

To maintain competitiveness in a platform-rich market, businesses will need to adopt a culture of internal disruption, reinventing themselves at both a granular and strategic level. At the same

time, to ensure investment is effective, there is a need to understand the drivers of change, rather than ‘change for change’s sake’, leading with the customer experience.

Dunlop comments: “The ‘*why*’ is the piece I find so often missing in discussions around Fintech and InsurTech. This involves digging down to the underlying assumption layers around which our businesses are wired, including assumptions about human beings, assumptions about customers, assumptions about our employees and about external environmental conditions, structures of the market and capital.”

Global linking of modules

While financial services is increasingly becoming modularised, there is also a trend towards the linking of these modules globally, in such a way that the consumer experience is seamless, despite individual components. The effect on the financial services industry architecture is the emergence of a lattice-type structure of inter-connecting components within the value chain.

Simon Cant, Co-founder and Managing Director at Reinventure Group explains: “Modularisation vertically and un-bundling horizontally are both occurring, very much like when retail producers suddenly faced competitors in every aisle as well as in different parts of their value chain. The future of financial services ultimately looks like lattices of extremely dynamic, agile companies that are each perfecting their piece in the various value chains in which they participate.”



Left to right: Ian Pollari (KPMG), Kirsten Dunlop (Suncorp), Beau Bertoli (Prospa), Simon Cant (Reinventure) and Toby Norton-Smith (Commonwealth Bank).

Power shift to platform businesses

In an industry traditionally dominated by large players with conservative models, the emergence of platform businesses in and outside the sector is shifting the balance of power towards both platform providers themselves and the end customer. Ultimately these 'power-houses' are dictating the new rules of business.

Cant comments: "The risk for large incumbents is they essentially become utilities, all competing down to their bare margin because of the bargaining power of the platform businesses. Platform businesses with these network effects can turn to banks and say 'I want banking on these terms'. This is a threat that banks need to manage, which is Reinventure's role for Westpac."

Platform vs customer experience and digitisation

As the unbundling movement continues and influence shifts towards platform players, a natural conclusion is that to compete and maintain market share, financial services organisations must operate to some extent on a platform level. Toby Norton-Smith, Head of Partnerships and Fintech at the Commonwealth Bank, provided a more nuanced perspective, citing that the future is more about customer focus that platform plays are not the answer for every situation, and as a result, that customer focus can be explored and executed in various ways, via various channels.

"There will be a continued shift towards customer focus," Norton-Smith comments, "and I think the best delivery mechanism for that is something simpler than platform models – it's actually digitisation. I do think that occasionally we conflate the two."

He refers to the recent article in *Harvard Business Review*, April 2016, Pipelines, Platforms and the New Rules of Strategy, in which he says "the Google Play platform example used may be the only perfect

example of a platform business that exists, after which the definitions begin to blur."

Norton-Smith relates Commonwealth Bank's ongoing investment in mobile technology as an example of disruptive-level innovation, in which customer experience and engagement have shifted significantly, in parallel with the transformation to a digital culture within the bank.

"Our sustained investment in mobile through the cycle has led to a market leading capability and an enormous shift in engagement by customers beyond checking the account balance; we've seen increased reporting of originations and engagement into products. Alongside this, the scaled, consistent transformation to a digital culture within Commonwealth Bank has been phenomenal. A large user experience (UX) capability has been created that's shaping UX in Australia and customer-centric design is the core focus of up to 50 scrum teams."

Online SME business lender Prospa is another example of an industry-changing innovation, in which a close look at the SME borrowing customer experience revealed a new small business market segment and digital channel opportunity.

Beau Bertoli, joint CEO of Prospa, agrees that the core driver of innovation must be the customer. "When we break out the drivers of our business, it boils down to one simple factor: the customer; what the customer wants, truly understanding the customer need and the way the customer wants that delivered," he explains. "Our vision, via our small business lending platform, is to change the way people experience finance and our development cycle, and feedback loops means actively listening to customers while implementing ongoing refinements to the customer experience."

Platform vs pipeline models

With the customer as the driver of change and innovation, organisations will seek to determine the 'how', that is, which models are optimum for delivering change? The panacea for financial services organisations, to maintain ongoing relevance and profitability, will be a combination of platform and pipeline models, or variations of these models.

While traditional pipeline models martial a series of linear activities to deliver a product or service to the end, generating supply side economies of scale for customers, a platform model tends to be more dynamic and modular, while generating network effects, or supply-side economies of scale. These are enhanced by product variety and low cost exchanges, with the Apple App store providing a good example.

So in what modules of the financial services value chain can similar network effects be generated? Cant comments: "Robo advice was the great white hope, however there's no true network effect in Robo advice which means you have to keep buying customers for the same price all the way up."

The threat for financial institutions is that there aren't many network effects within core banking, however both Norton-Smith and Cant believe an opportunity definitely exists outside core banking, in adjacencies.

Cant explains: "This is one of the reasons Reinventure is focused on adjacencies to banking and not just banking itself. We've recently invested in a neighbourhood social network, a platform that definitely has the network effect as well as other interesting synergies. Data is another adjacency we have made significant bets in."

Critical success factors for Fintech partnerships

Disruption and rapid innovation is already occurring in and around financial services, with examples such as Alibaba, TenCent and PingAn entering into a joint venture to create a new online insurer, ZhongAn, while non-banking and insurance players are beginning to compete. Banks must 'disrupt from within' to swiftly change culture to enable innovation.

Rather than in-source or purely outsource platform capability, the solution to create rapid, dynamic, customer-centric change will also be in establishing Fintech partnerships. Critical success factors for establishing partnerships include recognising areas where the business can lean on external capability, where a partner can create better customer experiences in a more cost-effective manner and ensuring there is equal value for both parties.

Dunlop comments: "Solutions must be scalable, and there should be some mechanism to guarantee trust and accompany the exchange of trust across boundaries."



Contact us



Ian Pollari
Head of Banking, KPMG Australia
Global Co-Lead of FinTech

+61 2 9335 8408
ipollari@kpmg.com.au

kpmg.com.au

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