



The rise of digital platforms in financial services

By Ian Pollari



Based on current trends, digital platforms will become the preferred and dominant business model for banks and financial institutions in the future. Digital platforms offer consumers and small businesses the ability to connect to financial and other service providers through an online or mobile channel as an integrated part of their day-to-day activities.

A few factors are driving this shift. From within the industry, competition from non-traditional players are driving ongoing disaggregation of the traditional banking value chain. It is also becoming more difficult to differentiate traditional financial products, while the proliferation of product portfolios, features and channels to market, create increasingly complex and higher cost operating models. Consequently, many leading financial institutions are transitioning from a product orientation to a customer orientation, with a focus on delivering a differentiated customer experience to target markets.

Regulatory changes and increased capital requirements are also creating barriers to profitably serve many market segments. Financial institutions are thus divesting non-core functions, retreating from markets that offer lower growth potential and eliminating products that require greater capital.

Changing customer behavior is another significant factor. Customers spend the majority of their time on digital (e.g. social, messaging) platforms. Hence, financial institutions must position themselves where their customers are, and create a corresponding digital platform strategy relevant for their market position, customer service proposition and strategic objectives.

From the digital platform provider's perspective, partnerships with financial institutions help create

an ecosystem where customers need not leave and using financial services can become a frictionless part of their lives.

Creation of digital platform ecosystems

While early-stage platforms were often "two-sided," connecting buyers and sellers for simple transactions, we are now seeing the creation of multi-sided platforms that bring together consumers, service providers and stakeholders to facilitate value exchange as part of a larger ecosystem. Not only do the parties contribute to and benefit from the platform, they also generate greater platform "stickiness" and utility through their participation. Besides, participants can advertise to targeted markets and leverage the customer data generated from the platform, and data aggregation capabilities, to spawn new and adjacent opportunities.

As financial services products become more commoditized, financial services providers may need to shift their focus toward servicing broader consumer needs as part of a larger ecosystem. For instance, instead of only providing a mortgage product to a home-buyer, financial institutions can contribute to a larger digital platform that serves the end-to-end home buying experience and deliver a differentiated and valuable experience by helping to address the customer's full needs, of which the provision of a financial product is only one component.

Seeking a path forward

The critical strategic decision for financial institutions is whether to create their own digital platform or partner with existing third-party platforms. One option would be to establish digital platforms for targeted customer segments and thereby maintain primacy of the customer relationship, and orchestrate other service providers to create and deliver additional and new forms of value.

For example, banks could construct a platform play to service small businesses and corporate clients, building on existing trust with this market. However, consumer-focused institutions are more likely to need to engage with an established third-party platform provider, at which point the question becomes which platform to partner with and how to best share customer relationships, data and economic value.

Moving toward provision of financial services through digital platforms and an end-to-end customer experience will require a substantial transformation for many incumbent organizations. It is important for financial institutions to recognize that the opportunity to provide products is not

limited to the products that they can manufacture or deliver, but also those of other third parties, potentially today's competitors. Partnering and sharing economic value among participants are critical components to the long-term success of a digital platform ecosystem.

As new technologies and consumer behaviour continue to evolve the way that we do business, financial institutions will need to evaluate their genuine points of differentiation and their economic sustainability over time. This may mean finding new ways to meet a broader set of customer needs, differentiating on customer experience, or seeking to be a best in class product manufacturer. Regardless of the strategic direction, participating as part of a mobile, digital ecosystem will be inevitable for today's financial service providers in order to create enduring customer value.

Contact

Ian Pollari
Global Fintech Co-Leader,
KPMG International,
and Head of Banking
KPMG Australia
T: +61 2 9335 8408
E: ipollari@kpmg.com.au

kpmg.com/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2018 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name and logo are registered trademarks or trademarks of KPMG International.

Designed by Evaluateserve.

Publication name: The rise of digital platforms in financial services

Publication number: 135156c-G. Publication date: January 2018