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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, t ested 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 their 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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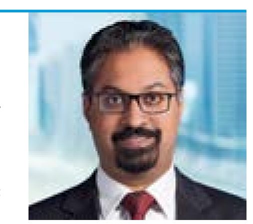

Are banks delivering on their promises?

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 UAE banking market is highly competitive, comprising 48 commercial banks and 10 wholesale banks.[2] 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.

The UAE leads the way

As the ongoing digital revolution sweeps across the financial sector, traditional banks in the UAE are increasingly embracing new technologies to remain competitive, increase market share and target new customer segments, including millennials and Generation Z. Newly introduced smartphone apps include Liv by Emirates NBD, Mashreq Neo by Mashreq Bank, and Hayyak by Abu Dhabi Commercial Bank.

According to KPMG's 2020 UAE Customer Excellence Experience report[3], the financial services sector (along with the utilities sector) has seen the largest increase in a focus on customer experience, with the top three performers being HSBC, Emirates NBD, and Abu Dhabi Commercial Bank.

HSBC Middle East has focused on accelerating the digitalization of its customer service capabilities with the goal of delivering a simple, convenient, fast and secure banking experience. This is evident in its latest offering, a Customer Service Unit (CSU) in Mirdif City Centre. The CSU has undergone a digital upgrade to provide a mix of technology-enhanced and in-person advisory services. Emirates NBD has focused on accelerating its digital capabilities by leveraging artificial intelligence and machine learning. This seems to have led to simplified processes, for instance allowing customers to open a new account in minutes, or the launch of an interactive teller machine which allows the customer to complete most transactions without the need to visit a branch.

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). Similar to fully digital banking licenses issued in Hong Kong and Singapore, the UAE has a strong regulatory foundation for the launch and operationalization of digital-only banks.

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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Guest feature: Banking in 2030

For the first time in the banking perspectives series, we interview a sector leader about the future of the industry. Suvo Sarkar, Senior Executive Vice President & Group Head of Retail Banking and Wealth Management, Emirates NBD, shares how banks are poised to operate a decade from now.

What do you expect from a bank that is aiming to become future-ready?

Banking continues to be transformed, driven by technology, changing customer behavior, the growing participation of non-traditional players, and an evolving regulatory landscape. The bank of the future will provide fully automated end-to-end processes across most core services, supported by biometrics, augmented reality/virtual reality (AR/VR), machine learning and other technologies. Advanced data analytics, data warehouses and artificial intelligence (AI) will help provide customers with ultra-personalized solutions delivered at the right time and place, as well as position banks to be primary custodians of customer data.

Traditional distribution will evolve rapidly, as banks look to trim networks and reformat branches. Core banking platforms will be transformed with the addition of digital stacks, micro-services, blockchain and cloud computing. This will provide increased agility and connectivity and also enable banks to become a stronger eco-system player by actively partnering with FinTechs, e-commerce companies, marketplaces, and other third parties.

Most notably, customer service and centricity will assume paramount importance as non-traditional global players and consumer protection regulations continue to raise the bar. Last but not the least, sustainability will become embedded in all facets of the organization.

What long-term impact do you think Covid-19, and other potential pandemics, will have on banks over the next ten years?

The pandemic has accelerated several trends. Digital adoption saw a step change as many new customers signed up to use mobile or online banking for the first time: over three-quarters of Emirates NBD's customer base are today digitally active.

Temporary closures of branches and social distancing-led branch transaction restrictions drove customers to migrate at a faster pace to digital platforms. Ninety-six percent of all our transactions currently happen outside the branch, and face-to-face transactions are at about half of pre-Covid-19 levels. Cashless payments recorded a major boost with close to nine out of ten point-of-sale transactions now happening in a contactless manner. Domestic e-commerce volumes have grown rapidly across a range of categories.

The crisis also underscored the part that banks play in supporting customers and the wider community during times of distress, through relief measures, debt restructuring programs and other initiatives.

What does the people agenda of a bank look like in 2030, considering competencies and skillsets?

Reskilling will be key as digitalization and the continued transformation of business models changes the nature of jobs across the organization, ensuring also employee buy-in. The use of people analytics tools will become more prevalent to guide hiring, support performance management and enhance productivity. Work policies to engage with the gig economy will need to be put in place to cover remote and flexible working models. Diversity and inclusion are likely to become a central part of the agenda, providing a strong differentiator to business performance and helping to attract top talent.

To what extent do you think future banks will cater to millennials and Generation Z? What are the key success factors of Emirates NBD's digital lifestyle bank, Liv.?

Millennials and centennials will make up 75% of the workforce by 2030. Millennials will also inherit a significant share of wealth from baby-boomer parents in the coming decade.

Millennials and Gen Z customers are digital natives for whom design is of paramount importance. They place more value on life experiences rather than material goods, and banks will need to factor this in when constructing products or providing personalized offers. Millennials also look to deal with banks and organizations that have strong ethical and sustainable policies.

Banks may consider building their own neo-banks to appeal to this demographic. For example, Emirates NBD's Liv. is a digital lifestyle bank that is today the fastest growing retail bank in the UAE. Liv. enables customers to keep track of their daily activities as well as finances in one app. Customers can open a new account instantly, send money using social media channels, obtain an instant digital credit card or apply for a personal loan, and access cinema ticket bookings.

Liv. is aimed at millennial customers and has been built from the ground up by a like-minded team of millennials. The platform also serves to act as a crucible to test innovative ideas and transfer leading practices to the main bank.

E20. is your new digital business bank, targeted towards entrepreneurs and the SME sector. What are the implications of its establishment for the wider industry?

E20. was launched with the objective of helping SMEs start, manage and expand their business by meeting their banking needs at different stages of their life cycle. To provide increased flexibility to small business customers, the E20. current account does not carry a minimum balance requirement. Account holders are provided with chequing facilities as well as a free Business Debit Card for use at ATMs and for making purchases. Additionally, the platform provides a set of digital tools to assist customers in managing their business finances.

Banks would do well to provide an enhanced and simplified digital banking experience for small business customers that takes away the hassle of dealing with banks through traditional channels, while also making it more cost effective.

Do you believe that middle and back office functions are evolving rapidly enough to support the digital evolution?

The first phase of digital transformation carried out by banks focused on the customer-facing side. The focus has now shifted to the middle and back office processes to ensure that processes are digitalized end-to-end, providing an instant and one-click user experience, as well as enabling banks to save significant operational costs.

Most traditional banks are saddled with complex legacy IT systems, paper-based processes and disconnected data sources, leading to high staff-operational costs, errors, lack of agility and consequent lower customer satisfaction—it is critical that organizations work to address these to keep up with the digital revolution.

Emirates NBD has invested AED 1bn in a transformation program of technology platforms to provide enhanced flexibility and connectivity. We have rolled out an automated credit engine that enables instant decisioning of all retail asset products. Scorecards are being put in place to assess customer compliance risk and new customer on-boarding. Most branch procedures have been digitalized, enabling straight-through processing of customer requests. Robotic processes have been rolled out to carry out repetitive tasks quickly and in an error-free manner

How should banks reduce the risk of cyber threat?

The cyber threat matrix is continuously changing and traditional prevention methods are no longer able to protect consumers and banks from complex and sophisticated financial crimes. Against this landscape, banks need to embrace advanced technologies such as analytics and AI to improve threat visibility and detect potential fraud effectively.

Cyber security leading practices comprising appropriate policies, procedures and technologies should be implemented that will help reduce the surface area of attack for adversaries to exploit. A strong and capable security monitoring team should be in place to build muscle memory to detect and respond to cyber-attacks or compromise. Additionally, staff and customer awareness programmes must be carried out to strengthen alertness.

Finally, cyber security should be part of top management agendas and oversight to ensure it gets the right level of visibility, attention and investment.

What role do you think a bank like Emirates NBD will play in 2030 to help the UAE realize its vision of a sustainable future?

The bank's social investment commitment translates into several focus areas such as financial and workplace inclusion for people of determination, encouraging volunteering, enhancing donation platforms, promoting financial literacy, and provide environmentally friendly banking solutions.

About half of our branches are now disability-friendly, and we plan to extend this to all our network in the future. Branch staff have been trained in etiquette to assist people with disabilities and in sign language to facilitate easier communication. We collaborate with authorities to carry out public awareness campaigns on safe banking practices and to raise financial literacy. The group also implements carbon footprint reduction initiatives such as lowering electricity consumption and recycling plastic.

What are your thoughts on the emergence of platforms and adoption of open banking in the UAE?

Banking as a platform or banking as a service is an emerging trend that utilizes the open banking framework to operate. To host or participate in a platform effectively, it is important to be able to provide personalized offerings and services tailored for customers in line with their lifestyle and requirements.

Banks can also build eco-systems by partnering with other service providers, orchestrated around providing hyper-personalized experiences. Customers are increasingly looking to control their own experience and showing willingness to adopt a self-service plug-and-play model.

Banks seeking a sustainable platform, however, may need to contend with challenges around security, aligning culture, legacy systems and budget constraints.

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