

# Ecosystems:

The cornerstone of future banking



# Abstract

Banking across the world is at a tipping point with financial services organizations charging full steam ahead with their digital transformation agenda. This, coupled with the regulatory interventions introduced after the 2008 global financial crisis, has strengthened the foundation of banks. In stark contrast to the 2008 crisis that originated within the banking industry and resulted in widespread turmoil and financial meltdown, banks have emerged as beacons of hope for reviving the global economy in the wake of the pandemic. While banks are already delivering on this expectation, the crisis has highlighted several gaps in their business and operating models that will need to be addressed to sustain growth. This white paper recommends a shift to the ecosystem banking model to drive sustainable growth and lead in the new reality. The paper also discusses the changes that banks will need to undertake to make this switch.

## Driving sustainable growth with ecosystem play

Have banks outlived their purpose? Depending on who we ask, the response will vary. Traditional banks are synonymous with trust, security, and rigor in operations, and this, we believe, will stand incumbents in good stead. However, when it comes to differentiation, some of them seem to be losing ground to new entrants in a few markets, especially in some areas of retail banking.

Rapid advances in technology have blurred the boundaries when it comes to the ability to meet end-to-end needs of customers. Additionally, the need to support end-to-end needs as opposed to merely offering siloed banking services without an eye on the end-purpose is now coming to the fore. Customers view banking as a means to an end or a vehicle to achieve their purpose or goal, for example, buying a home rather than a mortgage or buying a car rather than availing an auto loan. There is greater perceived value in consuming end-to-end services from a single, unified platform, and customers are willing to pay for such new-age service. Beyond banking value spaces are emerging as the overarching theme in the future of banking paradigm, cutting across all lines of business.

In our view, to sustain growth and thrive, financial firms must metamorphosize into organizations with the ability to meet the changing demands of customers. To this end, banks must elevate their core vision to deliver **purpose-driven banking**. This essentially means infusing life into financial services by making banking available everywhere, yet remaining invisible, and delivering value beyond banking. It basically entails becoming a part of customers' lives and delivering to the evolving customer context without being constrained by traditional service bundles and offerings. For instance, in place of a car loan, we envision banks taking care of customers' end-to-end purchase requirements by assisting in model selection, legal support, choosing accessories, and buying insurance. In addition, insights on offers, based on customers' location and preferences, can be provided to ensure the best deal. Subsequently, banks could provide insights on vehicle usage, traffic, maintenance, the best time to resell, and so on, thus evolving into an invisible and unobtrusive partner who takes care of customers' needs. Other stakeholders in the ecosystem also benefit through access to new customers and opportunities, while for the bank that built the

ecosystem, the value comes from being able to expand into areas beyond merely selling an auto loan. Through the clever use of technology, the ecosystem model can be extended across the different life stages of both individual and business customers to unlock new value.

Clearly, ecosystems are the route to sustainable growth for financial institutions. Building ecosystems, however, will require banks to become **boundary-less** and collaborate with best-in-class partners from adjacent industries. Assembling varied capabilities on an open platform and delivering seamless service will necessitate leveraging technology enablers to connect with a variety of partners in the ecosystem as well as customers. Capturing data insights from within and beyond banking spaces in the customer lifecycle will be key to transitioning to the **purpose-driven banking** paradigm designed to deliver to specific customer context.

# Building thriving digital ecosystems

Building ecosystems, however, will require banks to discover and curate beyond banking value spaces as well as identify opportunities for ecosystem orientation and enablement, in turn guiding the creation of new products and services. Financial institutions must assess their existing landscape and recalibrate their business models to embrace ecosystems. At the same time, they must take measures to evolve into stronger, resilient, and adaptable entities that build customer confidence and drive value leadership and growth.

Digital technologies are key to building ecosystems. Banks have already invested in various digital capabilities, and they should consolidate their position by increasing the pace of digitalization and recalibrating operating models to acquire the resilience and agility to adapt to evolving trends. A few aspects will require special attention, and banks will need to take targeted measures in specific areas as they consider the switch to the ecosystem banking model.

## **New products and services**

Foraying into beyond banking value spaces will necessitate identifying areas where existing products and services may be deficient in meeting customer needs and defining strategies to create appropriate partner ecosystems to cater to such unmet needs. Capitalizing on such gaps will pave the way for new offerings and unlock value from the compound effect. Designing new offerings in areas like financial management as well as planning and executing growth strategies may be the place to start.

## **Customer journey management**

Integrating ecosystem partners and their offerings into service delivery will require recalibrating the end-to-end customer journey by enhancing the use of digital channels and enabling remote service delivery. Unique tailored journeys will need to be charted across sales, fulfillment, servicing as well as initiatives that drive growth. The multi-modal engagement connecting customers, partners, and banks will need to go digital.

## **Reimagining functions**

Banks have taken small steps toward partnering with adjacent industries to create ecosystems and enrich their service offerings to fulfill the purpose underlying end customer journeys. Significant efforts are underway to digitalize individual business functions and processes, but shortcomings remain across business lines. Addressing them will require a shift to the ecosystem model facilitating the discovery of new value contributions, in turn compelling a rehaul of various banking functions.

## Core system modernization

Ecosystem orientation makes banks' offerings purpose-driven as well as pervasive and inconspicuous. Siloed and legacy core systems incorporated with collaborative features will now gain focus and become the platforms of the future. For instance, corporate clients are pushing for real-time payments, which involves revising the architecture of the core systems to infuse the flexibility required to tap into the capabilities of ecosystem partners and design customized products with reduced time-to-market.

## Branch and assisted channels

The new world order will require branches and assisted channels to align with new realities. Reimagining queue and appointment management, touch-less services on channels like ATMs, and so on will become the new norms of customer service. Human-centric service will require reimagination of service enablement on digital channels to embed ecosystem partners and their offerings, while process reimagination will need to be undertaken to weed out paper-based operations from assisted channels.

Holistic restructuring needs to occur across seven key themes to embrace the ecosystem model (see Figure 1).

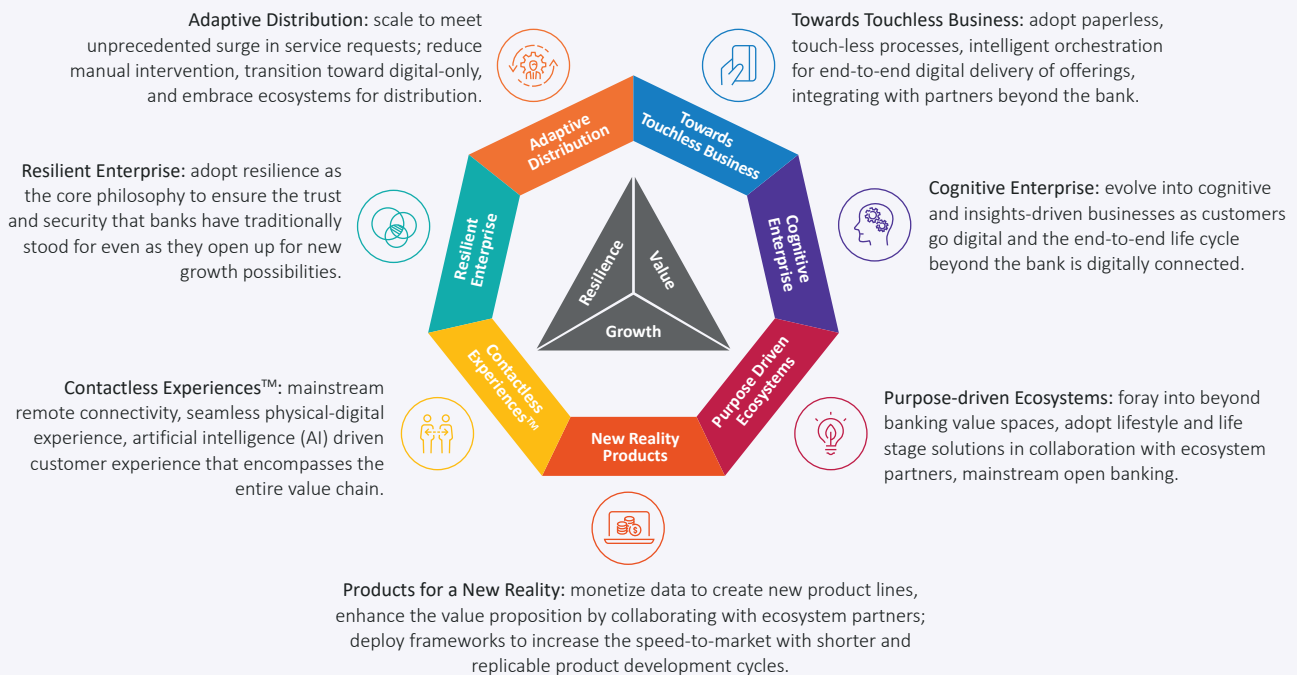


Figure 1: Seven Key Themes for Holistic Restructuring

## In a nutshell

In the highly commoditized financial services industry, where experience is the primary differentiator, banks can no longer go it alone. Given digital is fast emerging as the default customer engagement model, banks will need to leverage the unique capabilities of the ecosystem partners to innovate customized and contextual customer journeys to enhance the experience. To unleash the power of connected digital ecosystems, banks must adopt data-driven decision-making, build the capability to predict customer behavior, and manage performance while balancing security, privacy, and regulatory compliance requirements. The ecosystem model will not only set new benchmarks for operational excellence but also put banks on the path to transformational growth and help them realize the aspiration of evolving into a future-ready bank. Needless to say, banks that act fast will steal a march over their peers.

# About the authors

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