

Reinventing Banking for the Platform Era

Abstract

New entrants are successfully leveraging the platform business model to disrupt the status quo across industries, and this is true of the banking and financial services sector as well. For instance, Zopa Limited, a UK-based alternative finance provider, directly connects prospects looking for affordable funding with investors looking for higher returns through its online platform – banks are not part of the picture at all.¹ This model is attracting more investors as lenders are assured of quality checks in terms of prospective borrowers being assessed for their credit worthiness and capacity to repay. As a result, incumbent banks are increasingly recognizing the need to transition their offerings onto platforms. This paper explores the practical aspects of the platform model, and builds a case for its adoption in the financial services industry.

The Dawn of the Platform Era

The platform model is increasingly gaining popularity across industries. Uber Technologies Inc. and SnappCar in the transport industry, Cohealo Inc. and SimplyInsured in healthcare, and Lending Club and Kickstarter in financial services are some examples of new entrants that have disrupted their respective industry landscapes with innovative, platform business models. The platform model has reinvented value creation and consumption mechanism across sectors.

Traditional banks are fast realizing the need to leverage the platform model and move from a product to platform mindset. For a new company, it is relatively easy to set up a platform business as the company DNA can be built on platform principles; for already established companies, however, it will be an interesting transformation journey. Let's examine the various dimensions of this journey.

Step 1: Inspiration and exploration

The success of a platform model largely depends on how rapidly the ecosystem can be deployed and expanded. Creating a community of producers and consumers on a digital platform and generating value by driving interactions between them is therefore imperative. Companies will need to create new growth strategies by drawing lessons from both successful and unsuccessful platform companies.

Typically, the platform owner opens up the platform to enable producers from the ecosystem to interact with customers, marking the first step toward value addition. It is important to get a set of producers with innovative offerings to attract and retain customers, which means that although customer is king, producers are equally important for this model to succeed.

The platform model has attracted the attention of innovation teams, business strategy teams, and trend spotters. Thus, the focus is now on inspiring the leadership in the organization and driving implementation. Core teams should be created to identify areas where the platform business model can work. Creating awareness is key and one way is to organize hackathons and encourage internal and external stakeholders to come up with ideas and create prototypes. For example, ABN AMRO Bank organized the Beyond Banking hackathon to encourage the participants to challenge banking as they know it, and convert their ideas on the future of banking into reality.²

Step 2: Experimentation

Once the initial ideas are identified, it is time to determine their potential to create impact by harnessing the platform principles. The success of platform businesses depends on the ability to create new ways of value consumption and the capacity to scale. While these are the core principles of any business, the way they are incorporated in the platform business model is different. For example, financial institutions typically serve their agricultural clients such as farmers, dairy processors, and logistic companies by providing siloed offerings based on their individual needs. A digital platform, by virtue of bringing all stakeholders in one common pool, will provide a holistic view to all participants and enable interaction and value exchange among them as well as with third-party providers.

Once the use cases are defined, the next step is to create user journeys for producers, consumers, and other ecosystem players. It is important to validate critical assumptions around data exchange, transaction value, alignment with company strategy, and brand impact. The user journeys must then be executed on an experimental setup, which has a marketplace where sample producers and consumers can exchange value.

Step 3: Assess platform capabilities

Organizations will need to develop or add new capabilities to move to a platform model. Platform businesses primarily have three building blocks – community, technology infrastructure, and data (see Figure 1).

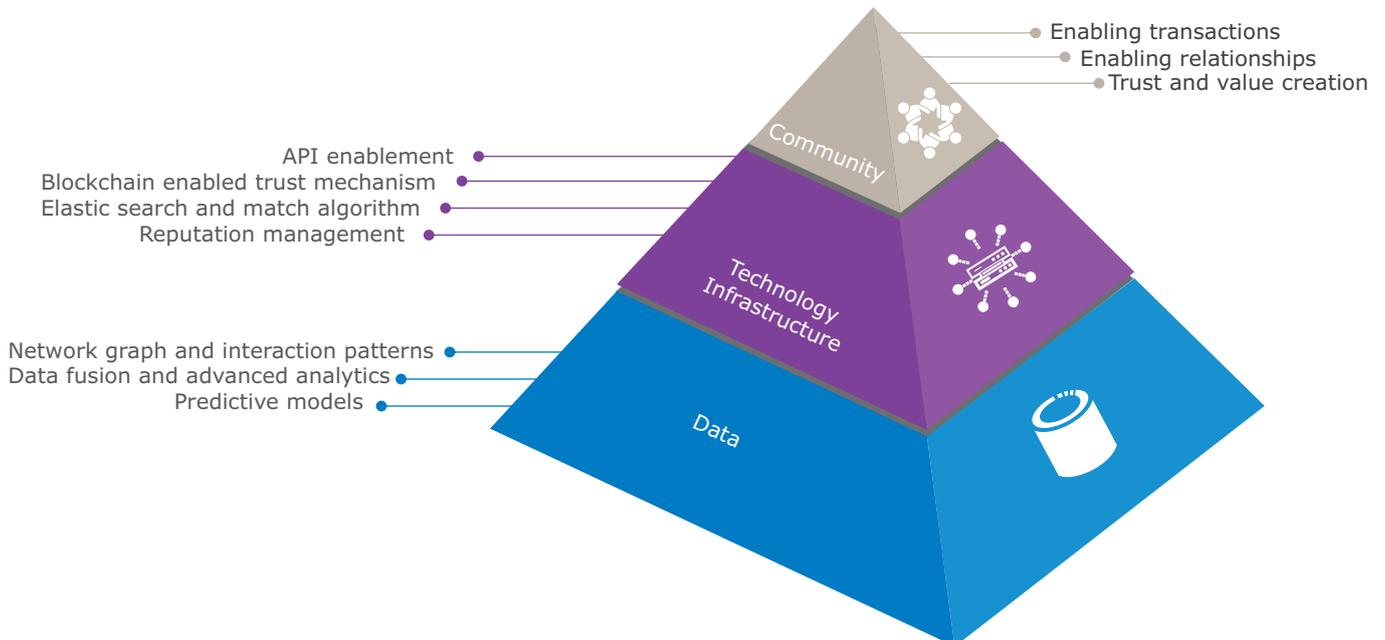


Figure 1: Building Blocks of a Platform Business Model

Community refers to the producers and consumers who interact through the platform while the underlying technology infrastructure facilitates value exchange. The most important component however is the data layer, which harnesses data to deliver insights that facilitate effective matching of producers and consumers. The culled out insights will also help producers create new offerings, personalized to consumer preferences.

Designing the platform building blocks in siloes will have limited value. The existing landscape must be assessed for gaps across people, process, and technology, and the relevant building blocks must be integrated to realize benefits faster. The organization leadership must define and own the concept to evangelize the new way of working with platforms. This will help ensure that all departments buy into and adopt the concept. Platform models are based on open ecosystems (of course, governed by standard open banking norms) as opposed to traditional product or service based operating models, and often involve working with third-party companies that may even be competitors. For example, Starling Bank has launched Marketplace, a platform that allows its customers in-app access to third party offerings.³ Partner companies integrate with Starling Bank's systems through Open Banking and PSD2 APIs.

Step 4: Develop platform elements

In developing the platform elements, alignment with the organizational systems and architectural frameworks must be ensured. Integrating the platform business elements into banks' IT systems is a prerequisite to making the 'bank-as-a-platform' concept a reality. The pilot rollout must broadly traverse four dimensions:

- Ecosystem fabric comprising marketplace setup and concept simulator to conduct what-if scenario analyses.
- Digital core with API capabilities to enable social and ecosystem partners' to integrate with organizational IT systems, which will drive the move to an open API ecosystem. External developers too can leverage these APIs to create innovative applications.
- Data layer to build the IT infrastructure required to enable analytics, elastic search, in memory computing, demand supply forecasting, and predictive modelling.
- Banking core to enable IT systems integration with systems of records and engagement to operationalize the platform model.

How Platform Banking can Transform Financial Services

Use cases for the platform model abound in the financial services industry. For instance, banks' collection departments currently connect with borrowers to recover the owed amount after they have defaulted. The recovery process can be made proactive by leveraging customer data to predict customers' propensity to default. Once potential defaulters are identified, banks must alert them of their unfavorable financial situation and proactively connect them with a debt management ecosystem built on the platform model. Friends and family, debt counsellors, investors, and credit agencies that are part of the ecosystem can guide these identified potential defaulters through constructive advice on better managing their finances. Such a model will also help create new business opportunities for the ecosystem players.

Similarly, traditional financial institutions providing mortgage services base customers' repayment capability on standard parameters that seldom take into account lifestyle changes. What banks can do instead is identify client needs proactively, and then apply the 'platform context'. They can bring in investors, lenders, and niche service providers on the platform, allowing them to offer customized offerings to the end consumer, thereby creating a win-win situation for all participants.

The Way Forward

The platform business model is here to stay. Financial institutions must determine if they want to create their own ecosystem or join existing ecosystems. In either case, they will first need to take steps to move towards the platform mindset and build capabilities across the organization to support platform banking. Given the potential of the platform model to create new business opportunities beyond banking and unlock revenue streams, financial institutions would do well to take steps to transition to a platform based operating model.

References

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