



Rise of  
Platform Economy in Banking

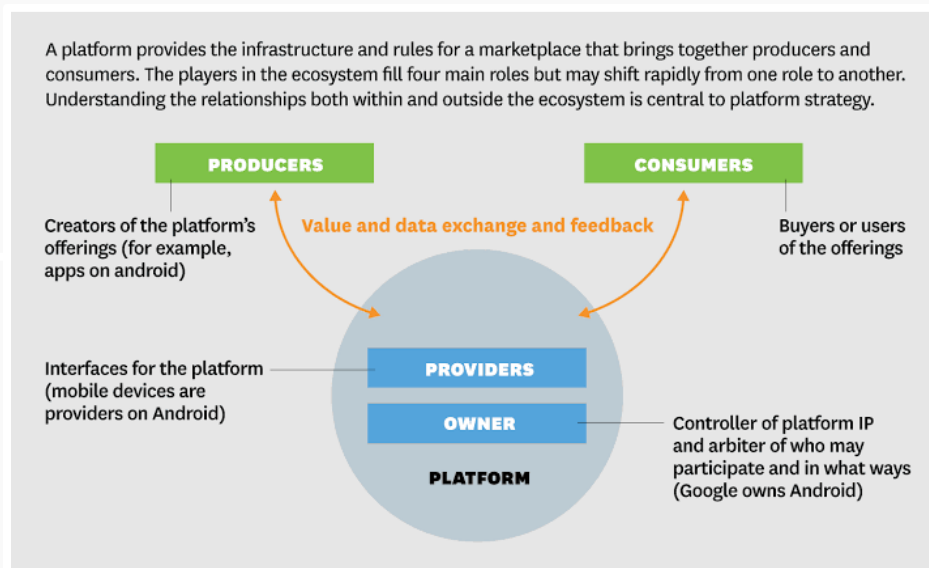


## Introduction

With platform-based business strategy, enterprises around the globe and across industries are innovating and transforming their legacy business models. Platform business models embody a flat structure that allows businesses, consumers and third parties to exchange information.

Globally, seven of the 10 most valuable companies globally are running on the platform model. Businesses like Uber – they do not own any cars. Facebook- creates no content. Alibaba- has no inventory and Airbnb- owns no real estate – using platform model have brought together consumers and service providers on a single platform where they can interact and transact.

All participants are beneficiary in the platform business model. Enterprise can offer custom tailored products and services to its customers. Third-party solution owners would have access to the larger customer base and incumbent enterprises would be opening up avenues for additional revenue and can become more customer-centric.



SOURCE MARSHALL W. VAN ALSTYNE, GEOFFREY G. PARKER, AND SANGEET PAUL CHOUDARY  
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In BaaP (Banking as a platform), model bank augments their offerings by adding third party products and services which they offer to their customers via plug and play. This enables banks to offer exceptional cross channel consistent experience for all the offered services.

BaaP could be the key to top Line Growth at Banks, enhance their operating agility, reduce time to market and better manage their risk and compliance.

7

Out of  
10

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## The fall of vertically integrated business banking model

**The vertical paradigm is bound to break down, as banking unbundles into horizontally distributed businesses focused on each aspect of the value chain.**

Numerous banks still operate as vertically integrated establishments in which they control the entire business value chain - products, marketing & distribution.

Due to this vertical distribution, banks are beneath the burden of hefty fixed costs, which could be one of the key reasons for recently squeezed margins and sluggish growth.

The automotive industry can act as guidance for banks where the manufacturers were owning and managing the entire process from design, production to self - distribution. The Industry, however, evolved over the years when they abandoned the vertical model and became a platform integrating multiple components through a global supplier network.

Another reason the vertical banking paradigm needs to be replaced is due to the challenges thrown at them by the likes of Challenger Banks and fintech's, who have no legacy baggage with them.

Today millennials using Facebook, WhatsApp, YouTube, Snapchat, and Instagram are anticipating the same user-friendly interface with their banking partner and apparently, banks are failing to match this experience, as they are slow to innovate because of their verticalization legacy.

Banks need to reassess their integrated business model and raise the degree of disintegration from the verticalization, but without losing sight of the 360 vision of the customer, which is one of the vital factors for becoming successful. For banks, de-verticalization and collaboration with the third parties appear to be the obvious choice as it allows them to focus on the growth of their core business.`



Facebook focused on the platform business model whereas Myspace adopted strategy of larger control – Today Facebook has 2 billion + users and we all know what has happened to Myspace

“We tried to create every feature in the world and said, ‘ok, we can do it, why should we let a third party do it?’ but we should have picked 5 to 10 key features that we totally focused on and let other people innovate on everything else. - Chris DeWolfe, MySpace (co-founder)



## Rise of Platform based business model

**Platform business model is not a new strategy and the services we use from companies like Uber, Amazon, and Facebook are all platforms.**

**Research from the World Economic Forum's Digital Transformation initiative indicates that digital B2B platforms could create up to US\$ 10 trillion in value for business and society between 2016 and 2025**

The massive success of Amazon, Alibaba, Airbnb, Uber, and Facebook all of whom use the platform business model has shown that platform strategy can be very efficient and profitable. The platform model has allowed these enterprises to be rapid, innovative and offer exceptional customer experience.

In financial services, Visa and MasterCard have long been using the platform business model wherein issuers, acquirers, various payment service providers, and merchants have been harmoniously linked. Nearly all banks are part of Visa or MasterCard payments platform but the majority of them are yet to start platform journeys of their own.

Banks are considered reliable partners and are therefore in a distinctive position to become a platform for products, services and craft experiences that fulfill their consumer's core needs rather than simply fulfilling the financial needs.

**A bank that is truly into its Digital Journey would never build anything but would curate everything – Chris Skinner best Selling author of Digital Bank, Value web and Digital Human**

Platform adoption strategy can help banks to augment their costs and resources and give them the liberty to focus on growth and gain competitive advantages in their key capabilities.

Platforms can provide banks the ability to adapt and launch new products quickly, thus meeting customer demand for better services and customization.

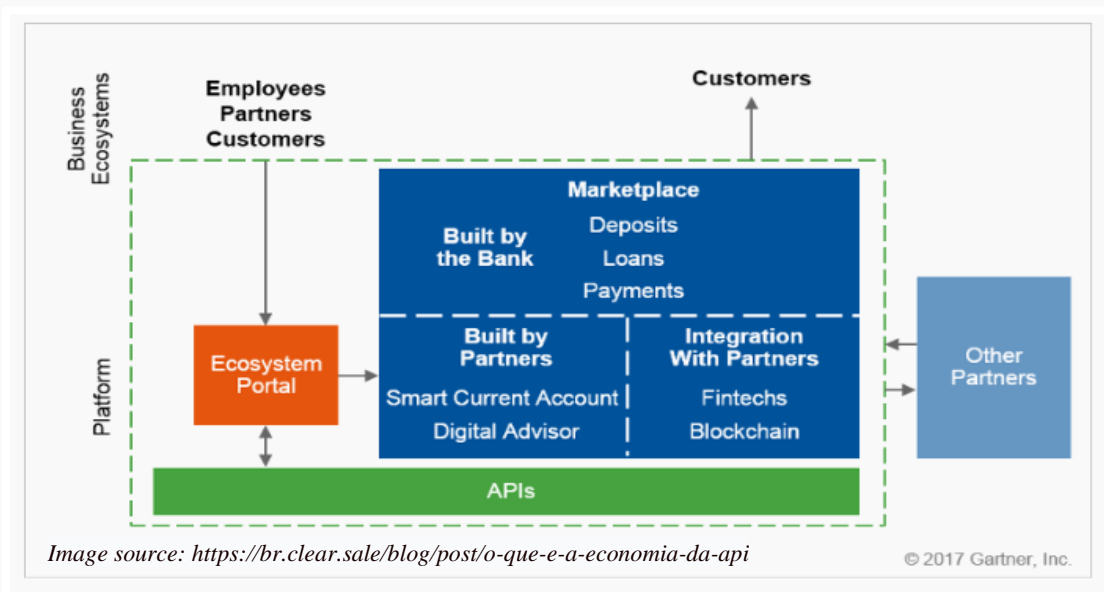


## Hello! Banking as a Platform (BaaP)

In the conventional banking business model, banks create specific products for each segment, which they manage, and control themselves and apart from these products; typically, the customer has little choice.

For customers, platforms act as a one-stop-shop from which they can access conventional offerings of a bank along with innovative solutions built on new-age technologies being offered by third parties. With Platform, model banks can fast track their entry into new geographies, quickly size up, and meet the requirements of new-age customers.

Banking as a platform is not simply setting up the technical infrastructure – it is imperative to construct a value proposition. In the platform, ecosystem banks should be prepared to open their data and applications to other partners, as they would be one of the participants and not the sole owners of the platform.



With platforms, banks can augment their Conventional profit sources – earnings on banks owned products would be complemented by fees on the distribution of third party products and services. These fees will be low but then a successful banking platform will process them in millions. Banks will also need to monetize the data to provide "personalized digital advice and value-added services"



## Kick starting the Platform Journey

### Setting out a clear strategy on building the platform business

- 1 | Set up a separate department focused on platform initiatives.
- 2 | Use of existing assets such as data, solutions, existing customers, that would help banks to fast track the adoption of their platform business
- 3 | Recognize that they no longer own the customer alone and must learn to share the customer with various stakeholders

### Key Platform Roles



**Users**

Targeted consumers of the platform. These can be retail or wealth customers, SME or large corporates.



**Suppliers**

To attract users to the platform new products and services would be created by the Software and application developers that can be personalization, quicker payments or faster loans.



**Platform  
Owner/Sponsor**

The platform owner sets the direction, controls the underlying platform technology, and determines who can participate as providers and users.



## Distribute or Create

**Depending on Bank preparedness to invest and the in-house technical capacity, they will have two options to serve as a Distributor or Creator of the platform. Both approaches will generate different network effects and monetization opportunities.**

### Distributor



When acting as a distributor, banks form partnerships that allow them to offer the best products. For this to happen banks need to chalk out a strategy to match buyer needs & desires with the best-suited products that could be their own, third party, or even that of a competitor's. The secret to platform success would be a clear sense of customer needs.

The recommendation engine running on massive volumes and a variety of data would fuel the platform.

### Creator



An alternative for banks to start their platform journey could be generating products that are complementary to the existing products or services. They can design certain business functionalities and repackage them as new products, enabling them to make the most of the fixed costs already spent on sustaining the business.

Creator model would enable banks to get involved much sooner in the customer-buying process than they might have been in the traditional way.



## Not the same: BaaP Vs Open Banking VS BaaS

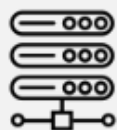
**Many of us get confused between these three terms and may use them interchangeably. They may sound very similar; however, they are very different and definitely not interchangeable.**



**Banking as a platform (BaaP)** is a change in the way a bank conducts its banking business. Not only does BaaP create and push products it allows users to create and consume value.



**Open Banking** in Open Banking the data is shared voluntarily, or because of the regulations. Regulations such as PSD2 (Revised Payment Service Directive) asking enterprises to share the data with their peers and do not necessarily forces them to adopt the Platform Business model.



**Banking as a Service (BaaS)** may sound similar to BaaP and open banking, as they all offer access to the financial institution's platform. The distinction is BaaS offers third parties access to banking features so that non-banking businesses can link customers outside of the bank's existing footprint to banking services.

**Example:** In India, a Fintech firm named Money tap layers its offering of quick, short-term, small loans on top of a banking service it consumes from other FI's.



## Conclusion

To survive the risk of new entrants, incumbent banks with the usage of technology will have to turn themselves around from “Business as Usual” to “Banks of the Future” which offers significant value to their consumers. One way to achieve this is by embracing the Platform business model driven by ever changing customer behavior and technologies that will allow them to grow and succeed in this new world.

The introduction of de-verticalization will pose a completely new set of challenges on a different scale in terms of both execution and the management of internal transition during and after the cycle. Nevertheless, with the adoption of platformisation banks can evolve themselves from a standalone entity to a significant power agent delivering benefits for both consumers and partners across the digital value chain.

Platformisation is on the path to becoming a crucial strategy for banks to be successful in the future and banks need to acknowledge the platform potential otherwise, it would be too late for them to keep up with the competitors. **Banks must disrupt or be disrupted.**



**I came to the conclusion that banking is broken, it needs fixing, and the only way to fix it is to start from scratch.**

**What is different about Starling is that we only do current accounts, nothing else, but we are going to give the best current account in the world, and when they want the best mortgage in the world we are going to offer it, but through somebody else, not us.**

**We will become the app store of financial services, providing the infrastructure, providing lots of tools around your current account**

**Anne Boden, CEO Starling**

## About the Author



Gaurav Garg is a Banking Consultant with Tech Mahindra. In this role, he is engaged in designing innovative solutions in the Digital Banking space leveraging internal capabilities as well as partnerships with Fintech's. Gaurav has rich experience in consulting, business analysis and product development with deep understanding of technology as well as the domain landscape. Gaurav carries with him 12+ years of rich experience in the Banking domain and has been part of number of banking initiatives in both domestic and international banks.

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