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BANKS AND FINTECH ON PLATFORM ECONOMIES

Contextual and Conscious Banking

PAOLO SIRONI

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Banks and Fintech on Platform Economies

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I am grateful to MR. He inspired this epistemological journey and opened my conscious mind – through transparency – in the discovery of *homo sapiens*' biological value on our planet of finite resources.

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Forewords

EMBEDDED BANKING EXPERIENCES[1]

Brett King, bestselling author of *The Rise of Technosocialism*, founder Moven and Breaking Banks Podcast

The pandemic saw a massive decline in branch activity over a very short period. While many hope for branch activity to come back, changes in behaviour in mobile usage and online tend to remain permanent—so that hope is unfounded. For many banks, however, their distribution platform is their branch network: it is their access identity; it is the way they are embedded in the community; it is where their branding sits; it is how they measure customer excellence, experience, and engagement. The bigger issue for branch economics is acquisition of customers at a digital scale that is being demonstrated by the more successful neo-banks, buy-now-pay-later operators, and wallets around the world. As more and more day-to-day banking market share is taken by digital equivalents of a bank account, the role of branches for all but certain exceptional use cases becomes largely unsustainable. Right-sizing branch networks will be forced upon publicly listed banks. Banks reliant on branches will have nowhere to go. It is not that bank branches will disappear, but that banks that rely on branches will. Without a robust digital acquisition model, customer inflow and product applications through a branch will slow to a trickle that is not enough to sustain the future bank. If you have a product or service that still requires a signature in 2025, you are going to be struggling for any cross-sell and up-sell. You simply will not be able to survive as a bank with revenue from the branch alone. No way. **Friction will be the biggest killer of bank revenue in the next 10 years**. The lowest friction experiences will win the highest network adoption rates. We can already demonstrate that in China, India, Bangladesh, Kenya, and elsewhere.

In 2020, the mobile payments networks of Alipay and Tencent WeChat Pay delivered almost twice the total number of payments to merchants of the entire global plastic card market, that includes credit cards, debit cards, gift cards, … as reminded in Turrin [1]. These changes are all illustrative of banking becoming embedded in our world through non-bank networks, where many of those network operators are starting to offer financial services in context. The big shift is this: in the world of banking from the 1400s to 1995, every bank transaction or product was issued through a bank-owned and bank-operated channel—a branch, call centre, broker, or ATM network. Today, non-bank channels dominate day-to-day banking access and transactional activity. Within a decade, non-bank channels will dominate revenue also.

BYE-BYE PRODUCTS, HELLO EXPERIENCES

As payments have evolved, the tendency is to move away from both the closed, proprietary nature of bank-owned and bank-operated payment networks and from complex, slow systems toward instant or near real-time payments. The reality is that networks like PayPal, WeChat Pay, and Alipay have demonstrated much greater utility within their networks than bank-to-bank transactions or cash for day-to-day payments capability. And it is not just for payments. The boom in Buy Now Pay Later (BNPL) credit access is again evidence of embedded banking experiences. Instead of treating credit as a product, such as a credit card, that you need to apply for separately before you engage in purchasing activity, BNPL allows you to not worry about credit options until you are engaged in the purchase process. By streamlining credit access in this way, the utility of credit becomes much more powerful and meaningful. It makes the use cases for a plastic credit card that you need to apply for in advance, much harder to sell in a real-time world. The reason cheques and cash use are in decline, and the reason more people use Alipay and WeChat Pay in China today, is because we increasingly use technology in day-to-day interactions. We are clearly going to use devices with a bias toward frictionless and open payment architectures that have comparable utility. **The future of payments is unavoidably experience-rich, friction- and artifact-poor.**

Examining savings, credit, and lending, and other aspects of finance, will demonstrate the same trend. Online and mobile experience design is leading us toward rapid utility and fulfillment. The fastest, most seamless credit experience is not an application for a credit product on your phone or laptop while you are in a store, but simply a provisioning of credit based on a preferred or enabled relationship. The product (credit card, overdraft, personal loan, line of credit, etc.) structure disappears to simply enable you to get access to the utility of extra cash when you need it the most. Context is the new experience battlefield because it brings the utility of banking to you when and where you need it, instead of relying on the customer asking to be approved. This is the key switch that is being made—**Bank 4.0 experiences will be an attack on the entire onboarding and application process banks have designed today.** Designing experiences in the Bank 4.0 age means that the previous product and channel structures offer almost zero benefit in this new world. In fact, they may bias you toward experiences with unnecessary friction and limit you in terms of scale.

This begs the question: if products have to make way for contextual experiences, what does a bank org chart look like? Where do all the products and channels go?

WHEN BANKERS ARE NOT BANKERS ANY MORE

When I am asked by bankers who they should hire for what is coming next, I always begin with, “Stop hiring bankers!”. The qualitative research I have carried out has come up with just a few of the jobs that will be considered critical in revenue and capability growth in financial services over the next five years or so: data scientist, machine learning specialist, experience designer / storyteller, behavioural psychologist, blockchain integrator, compliance and risk programmer, community advocate, and identity broker. I refuse to add robot psychologist, emoji translator, and customer experience Ninja to this list. However, I might be tempted to add an AI ethicist, for example. Some roles I have left out that are critical for future development already exist in numerous banks, but they will become increasingly important in building a bank platform that is competitive. They include business analysts, venture capital teams for investing in FinTech, those that manage and grow technology partnerships, hackathon, or incubator labs—basically the ability to rapidly grow the bank’s technology capability without building it internally. The real challenge, of course, is that if you are a tech graduate coming out of a university looking for a job today, would you be looking to work for a startup, a tech major like Facebook, Apple, or Google, or would you be wanting to join a bank? Recruiting these skills will surely be a challenge for financial services organisations culturally.

An organisation chart in today’s modern bank is not all that different from an organisation chart you might have seen 30 or 40 years ago, but there have been new competencies and capabilities inserted into the structure. What is most noticeable about an organisation chart of a bank in the future is that the bank functions as a “platform”—it can surface the underlying utility and capability of the bank. In a Bank 4.0 organisation, it is not the omni-channel capability that is the key, it is complete channel agnosticism, engagement, and revenue-pragmatic focus. The modern banking organisation is focused on customer delivery, whether retail, SME, corporate or otherwise. As such, the organisation becomes much more mission-focused when it comes to revenue delivery. When you look at the likes of Ant Financial and others attacking this space, they have business units around core competencies, but not organisation charts focused on products. Their organisation chart is unconventional, focused on KPIs that measure active users, daily engagement, cumulative actions, such as borrowing over the lifetime of the customer, and year-on-year growth. Their collective business unit growth is designed to speed up the reach of their network as it grows [2]. This leads us to think of the new Bank 4.0 organisation structure not as a chart showing strategic business units, but as core competencies across the organisation that can share missions, customer goals, and so forth in a matrix form that a typical bank today would encounter huge challenges to accomplish. In terms of competencies, we see that “banking” per se just becomes one of the competencies of the bank, and in equal terms Delivery, Business Operations and Technology Operations are just as critical.

While we might see today that AI and something like Amazon Alexa or the latest mobile app would sit under the purview of the Information Technology or Digital team, in this new world delivery capability becomes a customer experience and engagement platform that is far-reaching—essentially the new driver of revenue, relationship, and reach. In this new model, technology operations become the underlying platform capabilities that are needed to surface utility and experiences in real time. Instead of traditional operations, we have technology and business operational competencies, as both are just as critical, but require very different skill sets and division of labour.

A few new areas emerge that you would not find on the organisation chart today, namely, Research and Development, Partner Management and Operations, Data Modelling, Experience Design, and, of course, Artificial Intelligence. Many of these functions are counter-intuitive for the banks that have iterated from the Bank 1.0 world—their immune systems of internal core systems, legacy process, compliance, and entrenched product teams are extremely likely to push back against these new competencies. If these competencies are not built, however, the ability to deliver revenue in a real-time, tech-first world will be tough.

NOTE

1. This is an excerpt from [3].

BANKING AS AN AFTERTHOUGHT[1]

Richard Turrin, bestselling author of *Cashless: China's Digital Currency Revolution*

When you go to your bank's website, odds are it is to check your balances or perhaps pay a few bills. Whether you did so on your computer or cell phone, I will wager that while there you ignored the bank's latest advertisements touting their latest credit card or favourable rates. Like most users by now, you are comfortably numb to the bank's latest offers.

This experience is repeated billions of times globally every day. The utility of a bank's website is narrowly defined by immediate needs and how quickly one can accomplish these tasks. Banks enable this situation because your money is captive on their portal. You must use their system to access it. The reason, beyond legacy systems and ingrained behaviours, is that banks think of their portals as destinations with limited functionality. They are designed to do only two things: provide you with digital services and push products at you in the hope of making a sale. You go to their site or app not because you want to, but because you have to. There is no alternative. Until, that is, digital currency comes to town.

The system I described exists in the West today (at least in the banks most of us use); it also existed in China before the launch of payment giants like WeChat and Alipay in 2014. In the West, money is immobile, it belongs to you, but the means of transfer belongs to the bank. In practical terms, if your bank falls short of your needs, it is more than likely that you need to physically go to the bank, pay a fee for issuing a cheque to close your account, and march off to another bank. In China, instant digital payments through WeChat and Alipay broke that old system, and that country's new digital currency will further weaken the banks' control of how clients manage their money. It is a defining moment in banking services. Above all, it empowers the individual. Digital currencies will allow users almost complete freedom to move money wherever and whenever they want.

"STICKY" PLATFORMS REIGN SUPREME

Now compare any bank's website experience with a full platform tech service like Amazon. You go to Amazon not just to buy a book, but to read the candid reviews from other customers on millions of products, check out a few movies, see what is up with the latest music, and, if you are hungry, see what is available at the supermarket. Amazon is a platform that started with selling books but went on to offer products and services that encompass virtually any lifestyle.

PLATFORMS TRY TO CAPTURE OUR TIME BY PROVIDING US WITH AS MANY DIVERSIONS AND AS MUCH UTILITY AS POSSIBLE

What makes Amazon so special? It is a platform that aims to fulfill many of life's needs in one spot. It is the exact opposite of your bank's website, which offers one and only one siloed service. Platforms, whether built around social connections or e-commerce (the two most common core offerings), try to capture our time by providing us with as many diversions and as much utility as possible. We use them willingly because we get more out of them, and they harken us back because they satisfy our needs.

PAYMENT PLATFORMS AS SUPERAPPS

The banking experience in China, is, as you would expect, radically different. I no longer bank on either the bank's app or online; there is simply no need. My money is all accessed through WeChat Pay or Alipay platforms, which are aptly named "superapps" because of the number of services they perform. It is a remarkable experience that frees access to my savings and pushes banking to where it belongs, as the enabler of me doing something, instead of being the focus. It is a massive transformation in how we use banks and one that changes how users perceive banks as a necessity and money's place in our lives. "Seamless" is the best description. Money and technology coming together to form a seamless integration of using your money so you can live your life. Never a thought of how the money will move, where it will go, and the underlying mechanics. It simply all combines to help get stuff done. This is business as usual in China. Research shows that 93% of consumers with a bank account in China also use one or more of the digital payment companies. In practical terms, it means that banks have been driven off centre stage by the superapps. It is so disruptive that it is no wonder banks in the West find it culturally challenging to adopt even the most basic of open banking techniques, like building open APIs, for fear that it will lead down a similar path of disenfranchisement.

Most of us do not wake up in the morning and say, "I want to visit my bank to see what's up." Instead, we use it to buy a house or send money. The bank is a means to an end, usually a vaguely unpleasant diversion required for us to get to our goal. Now imagine that the bank is no longer a necessary stop on the path to achieving a goal. Car sales showrooms' in-house financing programmes realised this years ago with sign-now and drive away programmes, which sought to reduce the effort of getting a car loan. The sellers realized that checking rates and going to the bank to sign the documents were likely to kill a sale, so they did an end-run around the process to keep customers onsite. Car companies took much of the auto financing business away from banks, so why banks remain blind to their own expendability is a mystery to me. There have certainly been plenty of digital disrupters overturning other industries, like Uber, Airbnb, or Square. And it is not like the banks can not hire and nurture digital talent. It simply comes down to vision (or the lack thereof).

Imagine a world where your money is available on a mobile-based digital payment platform that addresses all of your life activities. Secure and convenient because it uses facial recognition to unlock payment, accepted nationally and used to pay bills large and small, all from a single platform. This is not just buying a coffee using Apple or Google Pay, but a payment system that cuts across all of your life, including your internet presence, your local shops, rent, mortgage, insurance, investments, and personal cash transfers. Press a button on your phone, click buy, facial recognition confirms, and done. You never go to the bank, never go to your bank's website or app, meanwhile, you know that your money is secure. This dream was made real by the digital payment platforms, which turned China "cashless" and is a model for the West's development of platforms that can make **banking an afterthought**.

NOTE

1. This is an excerpt from Chapter 16 of [1].

CLARITY ON REINVENTING BANKING

Dr. Efi Pylarinou. founder of Efi Pylarinou Advisory & Global Fintech Influencer

Innovation and transformation are a multi-dimensional duo whose impact remains partly unpredictable. The last 10 years of this duo's effect on financial services have resulted in a shift away from the ingrained culture and values of an industry that has been **natively offer-driven, regulated, and non-transparent.**

Paolo Sironi has focused on the intersection of businesses in financial services, the deployment of exponential technologies, and the underpinning new theoretical frameworks that can help us make sense of the dynamic impact of the duo. Using his Financial Market Transparency (FMT), he stresses the importance of building businesses that use exponential technologies to reduce the painful experiences of **financial uncertainty**. Feeling uncomfortable with uncertainty, and striving to deal with it, are a deeply rooted human condition. Theoretical frameworks that incorporate financial uncertainty in their considerations and their potential business propositions are the only ones that can lead to successful businesses.

In this book, Paolo Sironi guides us to understand the exponential importance of a shift from an offer-driven business to a demand-driven business, while at the same time, leveraging openness combined with a mindset that ditches the industrial-era thinking of selling products. He builds an invaluable quadrant—the Banking Reinvention Quadrant (BRQ)—that captures how a regulated, idiosyncratic industry with asymmetries of information between the manufacturers, the distributors of financial services and the consumers; can innovate and transform and in which ways.

The Banking Reinvention Quadrant (BRQ) introduces the **concept of outcomes** which are brilliantly juxtaposed with outputs. In a world in which product margins are shrinking at an accelerated pace, focusing on outcomes is the only way to build a human-centric relationship and use it as the foundation of the services offered. Ironically, the increased disintermediation and the readily available use of exponential technologies and connectedness have also resulted in the rise of the importance of the human relationship.

The Banking Reinvention Quadrant (BRQ) captures how financial uncertainty and human relationships are foundational in creating sustainable, high-value business propositions. The two main platform models that have emerged from various regional financial services innovations and transformations**—Banking-as-a-Platform** and **Banking-as-a-Service**—fit naturally into the BRQ as the two main ways to unlock value for consumers in a sustainable fashion.

Think of a world designed in such a way that transparency is the governance mechanism, openness is the engine to make advice scalable, contextual, and in full alignment with what Paolo Sironi defines as Conscious Banking.

This time Paolo Sironi has written the TAO for Banking (Transparency, Advice, and Openness), a text that will surely become a classic.

DIGITAL PLATFORMS ARE EATING BANKING

Ron Shevlin, Director of Research for Cornerstone Advisors, and Senior Contributor for Forbes

I asked a room full of bankers recently what they thought when they heard the word "platform." The most frequent responses were "online banking," "mobile banking," and "lending." One guy said, "Shoes." Very funny, Mr. Saturday Night Fever. Interestingly, no one said, "Amazon." While the term "platform" is widely used in the industry as a technology construct, there is another (non-footwear) use of the word—as a business model. And platform business models are taking over banking.

WHAT IS A PLATFORM?

Despite the recent spate of books on the topic, the platform business model is hardly new. Platform Strategy defines a platform as a "Plug-and-play business model that allows multiple providers and consumers to connect, interact, and create and exchange value."

Mark Bonchek and Sangeet Paul Choudary describe three things a company must do to be a platform [4]. First, be a magnet. A platform must attract the right providers (those with the most desirable products and services) and the right consumers (those who the providers want to do business with). Second, act as a matchmaker. A platform requires a mechanism for matching consumers to the right providers, and for enabling providers to reach the right consumers who come to the platform. Third, provide a toolkit. The toolkit is what enables providers to easily plug into (and out of) the platform, and to integrate with consumers.

There are (at least) four types of digital platforms taking over the banking world:

- **Megabank API toolkits**. BBVA, Capital One, Citibank, Deutsche Bank, HSBC, and Wells Fargo all have some form of developer hub, portal, or exchange that enables third-party apps to access, integrate, and/or extract data about the bank's customer base. While a "toolkit" is a critical component of a platform strategy, the megabanks' efforts are too narrowly focused on the technology side of the coin to qualify as a true platform. The mindset still seems to be "if enabling third-parties to interact, integrate, and engage our client base enables us to sell more of what we already sell, we're all for it."
- **Marketplace platforms**. In their earliest incarnations, marketplace lenders like Prosper and Lending Club could not really be considered platforms because they lacked the toolkit for integration. That is changing. As lending marketplaces hit speed bumps in their evolution, some have turned to a platform strategy.

Kabbage, for example, re-branded itself as Kabbage Platform, the small business lending marketplace that offers financial institutions processing capabilities and access to non-traditional data sources for underwriting. The firm's toolkit includes integrating data from a variety of sources including Ebay, Etsy, Amazon, and PayPal.

- **Analytics platforms**. Analytics platforms are emerging on two fronts: (1) use-case specific platforms like NICE X-Sight, which it describes as a "cloud-based Financial Crime Risk Management Platform-as-a-Service," enabling financial institutions to manage and use data from multiple sources, and (2) generic platforms like those from Trellance whose CU Analytics Platform is "a collaborative ecosystem that will create communities of users, data scientists, and application developers."
- **Core integration platforms**. There is an emerging set of players in the fintech vendor space that might be thought of as "core integration platforms." These providers enable financial institutions to better integrate ancillary systems with their cores.

IMPLICATIONS OF THE PLATFORMIFISATION OF BANKING

A few thoughts on this platformifisation of banking. First, **open does not mean platform**. A firm cannot pursue a platform strategy and not be "open" but it can be "open" and not pursue a platform strategy. Simply providing a facility to share data does not make a company a platform. Second, **platforms will change the way banks acquire and deploy technology**. While much of the attention is on platforms like Amazon where consumers are buyers, many of the examples of platformifisation listed here are those with banks as buyers. Platforms will change traditional software sales approaches, making vendor performance management a critical IT skill. Third, **there's a downside to platformifisation**. Over-personalisation and unintended consequences of data sharing are two risks of platformifisation. In a report entitled "Five Fears About Mass Predictive Personalisation in an Age of Surveillance Capitalism," Karen Yeung wrote: "Personalisation practices foster and exacerbate the asymmetry of power between profilers and those to whom personalised services are provided, thereby increasing the opportunities for the former to exploit the latter" [5].

BANKING-AS-A-SERVICE IS THE NATURAL, LOGICAL, AND EVEN INEVITABLE EVOLUTION OF OPEN BANKING

Simon Paris, CEO of Finastra, NED at Everbridge, and NED at Thomson Reuters

Banking as-a-Service (BaaS) is the natural, logical, and even inevitable evolution of Open Banking. BaaS brings the emphasis of financial services back to the service—by unequivocally putting the customer at the heart of the proposition and enabling banking services to be digitally assembled around them and for them, in whichever customer journey they are in, wherever they choose. **Banking will go to meet the customer where they are!**

While some may see this as a threat, the more progressive understand the relevance, scale, and growth opportunities to be captured by focusing on the customer in their journey, contextual or conscious. Let us not forget that the industry has already reached an inflection point in which the market capitalisation of the top payment firms now eclipses that of the biggest banking names. The market continues to shift, and the hockey puck is moving to BaaS.

The winners will be the institutions that take a customer-obsessed approach to optimising and facilitating consumption of their services, seamlessly and securely. For this, banks must balance two things. First, that their services are designed to maximise value to the customer journey and their desired outcomes, and, second, that they can act with agility to meet the customers where they are and when the banking services are needed.

It can be easy, but it would also be wrong, to consider Banking as-a-Service as simply embedding a service into a (normally) consumer proposition; the abundance of opportunity is even greater in the realm of corporate and institutional banking. Embracing "X-as-a-Service" would allow new value creation, such as offering services including Treasury-as-a-Service, Cash Management-as-a-Service or Foreign Exchange-as-a-Service to extend reach and relevance, while empowering a vast raft of smaller banks, neo, digital, challengers, and so on, through the provision of economies of scale.

Joining the BaaS revolution is not just about having the correct tech stack. It requires a genuinely collaborative and open mindset, and a skill set that transcends product and technology, but can span the vectors of engineering, growth hacking, customer-centricity, new monetisation models, and ultimately the new role of orchestration. Without focusing singularly on the outcome of driving consumption at the optimum position in the user journey, some banks may miss the myriad opportunities that this market shift will bring about. However, from our vantage point, we are greatly encouraged to see that the journey toward BaaS has already begun ...