Decoding Banking Ecosystems: Creating Limitless Opportunities with Open Banking Partnerships

SUMMARY

In banking, legacy customer engagement models are losing ground in favor of digital-enabled, friction-less consumer experiences. The rise of fintech disruptors has put banks on the backfoot while they reassess market conditions and retool their offerings to match a new level of customer expectations. This paper examines the usefulness of an ecosystem-based approach to financial services, where many partners across different industry verticals craft a combined value proposition that is delivered seamlessly throughout an intuitive customer journey.

It further outlines the benefits, frameworks, and foundational elements of banking ecosystems, while illustrating the technology and management challenges involved.

INTRODUCTION

Today, creating strong partnerships with multiple verticals is essential to the long-term survival of global and regional banks. The idea of ecosystems has been around since the turn of the century, but it's only now that we're seeing them truly emerge as a mainstay of the consumer banking experience. Today, nearly 90% of banks believe that ecosystems will be the main drivers of value creation in the future of banking.[1]

Within such ecosystems, banks have a strong hand. Decades-long relationships with customers have not just created powerful brand equity but also a wealth of customer data. Leveraging these assets in tandem with third-party AI and consumer marketplaces offers wins for every stakeholder.

But how can banks deploy these ecosystems? What models exist to map the value of collaborations, competencies, and contributions?

A common approach is an open banking ecosystem, where banks use APIs to embed their products and services on a third-party platform (such as a food delivery app or a property management tool). Another involves a platform, or a super-app, where third-party service providers plug-in offerings across entertainment, retail, travel, logistics, etc., while banks deliver the payments infrastructure and financial services backbone. These strategies depart significantly from traditional banking value-creation models and have the potential to change bank and non-bank relationships across the broader marketplace significantly.

To better understand the build, buy or partner equation, banks will have to reassess how they want to restructure their existing value chains. This will enable them to see how they can create the most value for all stakeholders while maximizing their potential ROI.

https://www.accenture.com/_acnmedia/pdf-102/accenture-banking-ecosystem.pdf

Traditional Banks

- Powerful customer relationships and reach
- Decades of highly relevant and comprehensive customer data
- Massive capital access and industry expertise

FinTech, Neo and Digital Banks

- Ready to use Digital-only offerings
- Agile, customer-centric product innovation and personalization
- VC and investor backing

Service Providers

- Highly specialized talent and innovation hubs
- Large ecosystem of partners and industry alliances
- Integrated service delivery alongside end-to-end solution capabilities

Figure: Mapping Stakeholder Value in Banking Ecosystems

Why are banking ecosystems so useful?

When determining how to create a CX impact in banking, a good question to ask is, 'Are my products still relevant to the customer?'

From a consumer perspective, many banking products are simply a means to an end. Consumers don't usually take out an auto loan because they are interested in a credit product itself - they simply want to buy a car, and the bank is merely an enabler in that regard. Ecosystems can offer significant value add for the customer by delivering a service where all aspects of the vehicular purchase are addressed in a frictionless environment.

On the flip side of the coin, an ecosystem approach gives orchestrators and partners greater control over the customer journey and ensures a steady flow of conversions along multiple verticals. In this context, banks will no longer sell auto loans but instead will collaborate with ecosystem partners to offer a personalized, end-to-end car-buying experience.

Besides the above, banking ecosystems also come with several additional advantages:

1. **Differentiation with tailored product and service portfolios –**
   An ecosystem allows banks to cherry-pick external services and providers that they'd like to bundle with their services.

2. **Clearer picture of customer's lifestyle –**
   Aggregate data from different services and products within an ecosystem and use it to build richer services and widen the scope of personalization.

3. **Improved customer experience in 'moments that matter' –**
   For example, a loan for a car can be packaged with discounted servicing, accident insurance, fuel credit, and much more.

4. **Faster launch of new products and services –**
   Instead of building from scratch, banks can curate service packages from a menu of highly optimized service platforms that are all interoperable with their core systems.

5. **Improved compliance with evolving regulatory norms –**
   Regulatory headwinds have been blowing in the direction of open banking for some time now. And banking ecosystems offer a means for financial institutions to comply with data sharing mandates while maximizing revenue, relevance, and CSAT.

6. **Increased revenue and liquidity –**
   Ecosystems increase banking revenues via commission models and also make a bigger share of liquidity available to banks through a wider range of credit products (like BNPL services).

A breakdown of banking ecosystems

Should banks choose to adopt an ecosystem model for service delivery, there exist several frameworks that address the needs of different institutions.

1. Marketplace Ecosystem

One route involves creating service ecosystems tailored to specific verticals. Take housing loans and mortgages, for instance. By partnering with peripheral service providers like moving companies, insurance, furniture rentals, interior decor artists, utilities, etc., a bank could create a centralized real estate discovery and services platform, with home loans as the foundational product. Similar platforms can be created to address pivotal 'moments that matter' in the consumer lifecycle like having a baby, buying a car, taking up a degree, or starting a business. One of the core advantages of this model is that the bank has ownership over the platform and the customer journey.

2. Third-party Ecosystem

In lieu of creating their own platform, banks may choose to launch their products and services within third-party ecosystems. **This can be done via custom integrations or by leveraging the power of APIs in an open banking framework.** Imagine a food delivery app, a mobility platform, or a shopping app where payment, insurance and other banking products are embedded directly into the UI. While banks will certainly not own the customer journey here, it's often much easier to offer services within an existing ecosystem than to build one from scratch.

3. Referral Ecosystems

In this model, banks shunt customers to other service providers based on shared needs. For example, a bank might partner with a series of insurance firms to share leads or with a hospital to provide medical coverage and loans to patients. And when customers come in seeking a medical loan, banks can then return the favor by referring them to their hospital and insurance partners within the ecosystem. Typically, these ecosystems operate on a revenue-sharing model, a flat fee per conversion, or a hybrid of the two.

The approach to build a banking ecosystem

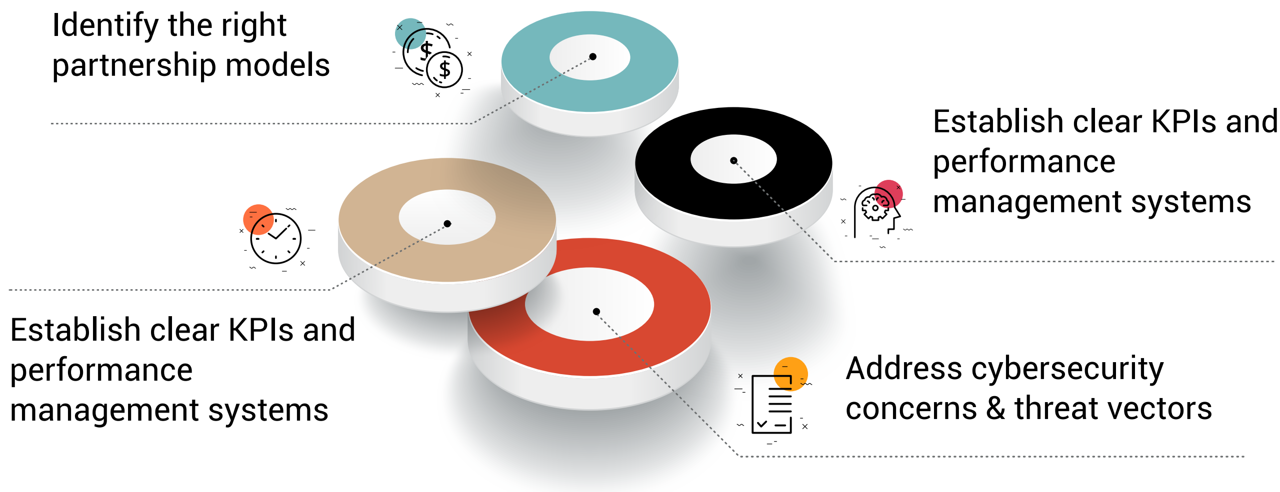


Figure: 4 Step approach to building a banking ecosystem

1. Identify the right partnership models

Key to the establishment of consumer-facing ecosystems is a solid partner management program. When determining partnership structures, consider mapping partner categories to specific goal sets. This approach will help banks formulate the right mix of partnership models within an ecosystem.

In 2020, 46% of banks stated that their primary partnership goals revolved around technology access.[2] Banks looking to acquire and shape technology might look at minority equity alliances or joint ventures as the way to go. Contractual agreements, on the other hand, offer a great deal more flexibility and might be more suited to product portfolio expansions and peripheral services integration.

Similarly, while banks may want to make investments in strategic partners, they may not want the same depth of commitment to tactical partners. Some ecosystems will host dozens of partner firms, while others may have fewer than ten. For large ecosystems that offer homogenous products and services, consider developing a standard partner agreement to facilitate management and scalability better. Standardization will also make it easier to develop growth models, revenue predictions, and streamlined onboarding protocols.

https://www.pwc.nl/nl/actueel-publicaties/assets/pdfs/pwc-banking-ecosystems-walking-the-walk-edition-2.pdf

2. Establish clear KPIs and performance management systems

How do you measure the performance of partners across the ecosystems? Establishing clear KPIs for ecosystem partners will help you better gauge value creation. Given the multiplicity of metrics that come into play (revenue, user growth, CSAT, UX mapping, etc.) and the complexity of the ecosystem, banks may want to leverage AI-powered analytics and data gathering tools.

3. Embrace API-driven integration

Most banks understand that an API-based approach to ecosystem orchestration is a competitive necessity. Open APIs allow for partner integration, onboarding, monitoring, and management at speeds legacy systems would be hard pressed to replicate. When it comes to setting up foundational features in an ecosystem like support, geolocation, and logistics, APIs are essential. They also are one of the best tools to facilitate automated data sharing between ecosystem participants and orchestrators.[3]

4. Address cybersecurity concerns & threat vectors

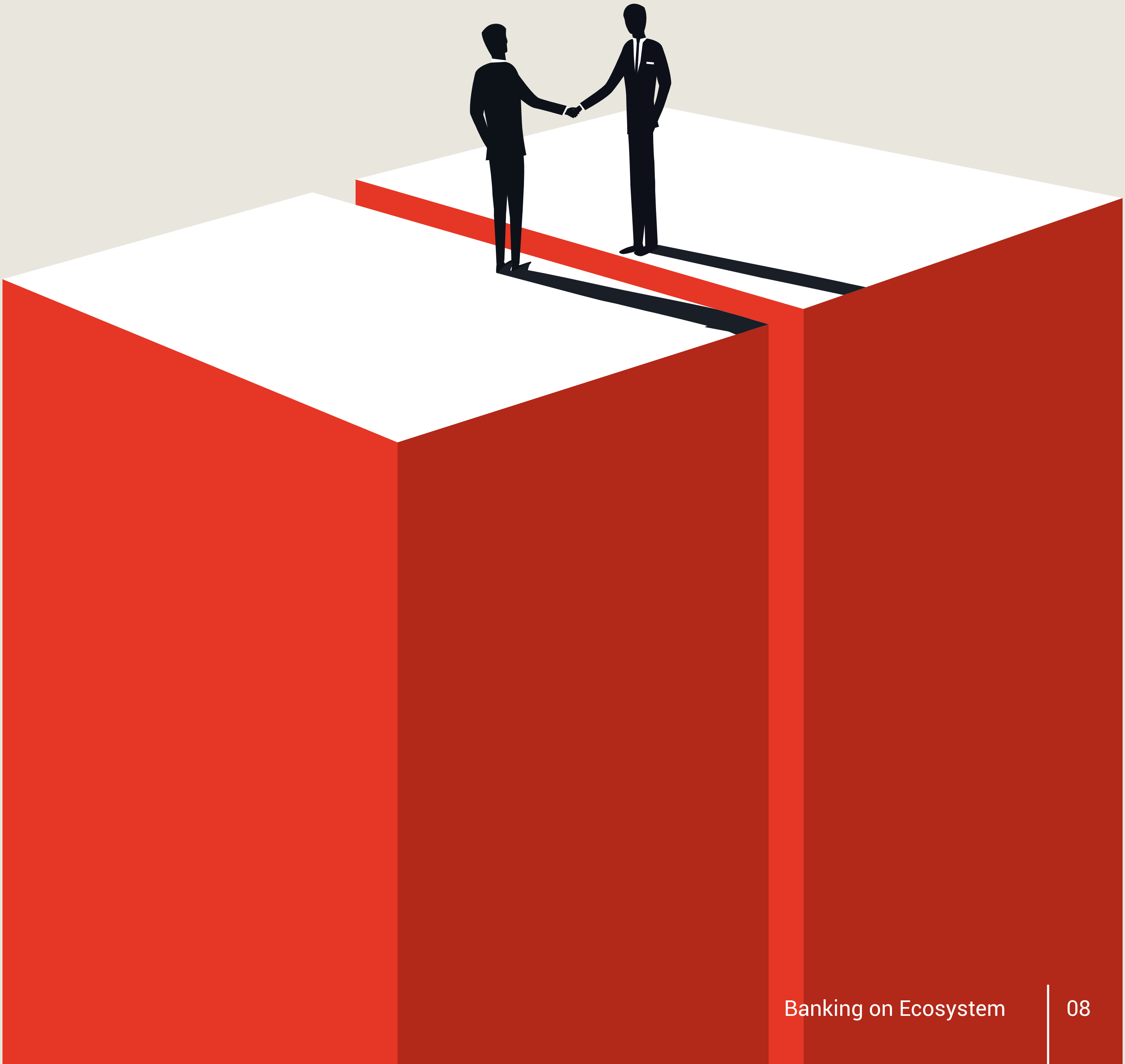
From 2015 to 2020, the number of customer records stolen by cybercriminals in banking rose by over 4000%.[4] Catastrophic cybersecurity events are the nightmare of every digital service provider, and none more so than banks. And ecosystems inevitably involve near constant sharing of data. Banks that choose to build an ecosystem need to assess the cyber threat to every node and component in each ecosystem. This includes auditing partner security measures to ensure that banking customer data is never compromised.

[3] https://medium.com/m2p-yap-fintech/api-the-power-that-drives-new-age-banking-ecosystems-545498858341
[4] https://www2.deloitte.com/ca/en/pages/risk/articles/growing-threat-of-data-breaches.html

Assessing IT priorities & picking the right technology partner

Ecosystem building requires a robust set of IT solutions that can effortlessly port data to and from core banking systems. By leveraging a modular approach to product development and ecosystem functionality (via microservices), banks will be able to inject agility into their product development process.

When zeroing in on an IT partner to help address the technological challenges of creating an ecosystem, it's important to find a vendor that applies a holistic digital strategy to ecosystem formation.



CIO perspective: Questions for your ecosystem IT vendors

1

Can they build data ingestion capabilities that capture activities across the ecosystem in real-time and **create a repository for data reporting and governance?**

2

Do their tools allow for real-time data orchestration that can map complex decision networks and provide you with a visualized understanding of decision flows and impacts?

3

Do they have predictive analytics tools that can quickly derive actionable insights from real-time data streams?

4

Can they quickly build and launch a service portfolio mapped to the entire customer lifecycle from a single centralized platform?

5

Do they offer security features and effective fraud detection for every ecosystem participant?

6

Do they have platforms to run simulated business scenarios and 'what-if' analyses on new ecosystem offerings?

Ideally, your IT transformation partner should also have a history of successful modernization projects that encompass traditional and neo banking integrations, as well as be a specialist in API-driven ecosystems. Specifics to look out for include,

1. A composable, API-enabled, microservices-based architecture solution.
2. An integrated banking core platform that seamlessly integrates frontend and backend data
3. Future-proofed, cloud-native programming capabilities where solutions are optimized for continuous delivery
4. Value-added services that include gamification, personal finance management tools, customer-facing analytics, loyalty program design, and a high level of agile UI customization.

Winning in the future of retail finance

Banking over the years has emerged as a deeply commoditized industry, where product differentiators are often marginal at best. For the banking customer of tomorrow, creating meaningful differentiation means developing a frictionless, intelligent, and above all, convenient consumer experience. Ecosystems offer banks a means to achieve this but in a collaborative setting. Unlike banking ventures of yore, today's financial innovation cannot be a solo project but involves multiple stakeholders across different industries and verticals.

To truly take advantage of these developments, traditional banks will need to create an infrastructure that attracts the right partners. At the same time, they will need to adopt data-driven decision-making models alongside predictive behavioral analysis while ensuring that security, privacy, and compliance are top priorities. This will be critical to shaping and delivering the future financial services experience. Banks that are able to actualize successful ecosystems rapidly will be well-positioned to evolve into future-proofed institutions while growing market share and weathering disruption.

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About Intellect Global Consumer Banking (iGCB)

iGCB, the Retail and Central Banking Solutions arm of Intellect, offers an end-to-end Contextual Banking suite for retail and corporate banking across Core Banking, Lending, Cards, Digital Banking, and Central Banking. Its unique blend of integrated functionality and agility is made possible by its Microservices-based, API-first, cloud-native architecture with powerful integration capabilities.

iGCB brings to the table a deep knowledge of the developed and developing financial market space and seeks to be the Innovation Partner for those who are passionate about transforming the future of fintech!

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