



BANKING AS A PLATFORM

It's time for banks to
open-up and integrate!!!

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ABSTRACT

Banking as a Platform (BaaP) is a new, emerging concept which would require banks/financial institutions to redefine their business model to embrace innovation from outside their closed environment and opening their services to be integrated with new and vibrant innovator which in-turn would redefine the customer experience.

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INTRODUCTION

Digital Transformation (DX) is an ongoing trend which has been disrupting nearly all business operations for many businesses, including financial services. The Banking and Finance sector is also more generally undergoing tremendous digital transformation efforts across nearly all verticals. The traditional financial services industry has huge IT budgets and specialists with a wealth of expertise and IT strengths who are engaged in maintaining the bank's position in the market against their peers and key competitors through the introduction of new products and services.

In the current Digital Transformation era though, the financial industry is on the verge of a new paradigm shift. Traditional approaches to business services and working models have become roadblocks to addressing the needs and demands of a growing digital-savvy client and customer base. Advancements in technology are disrupting the traditional

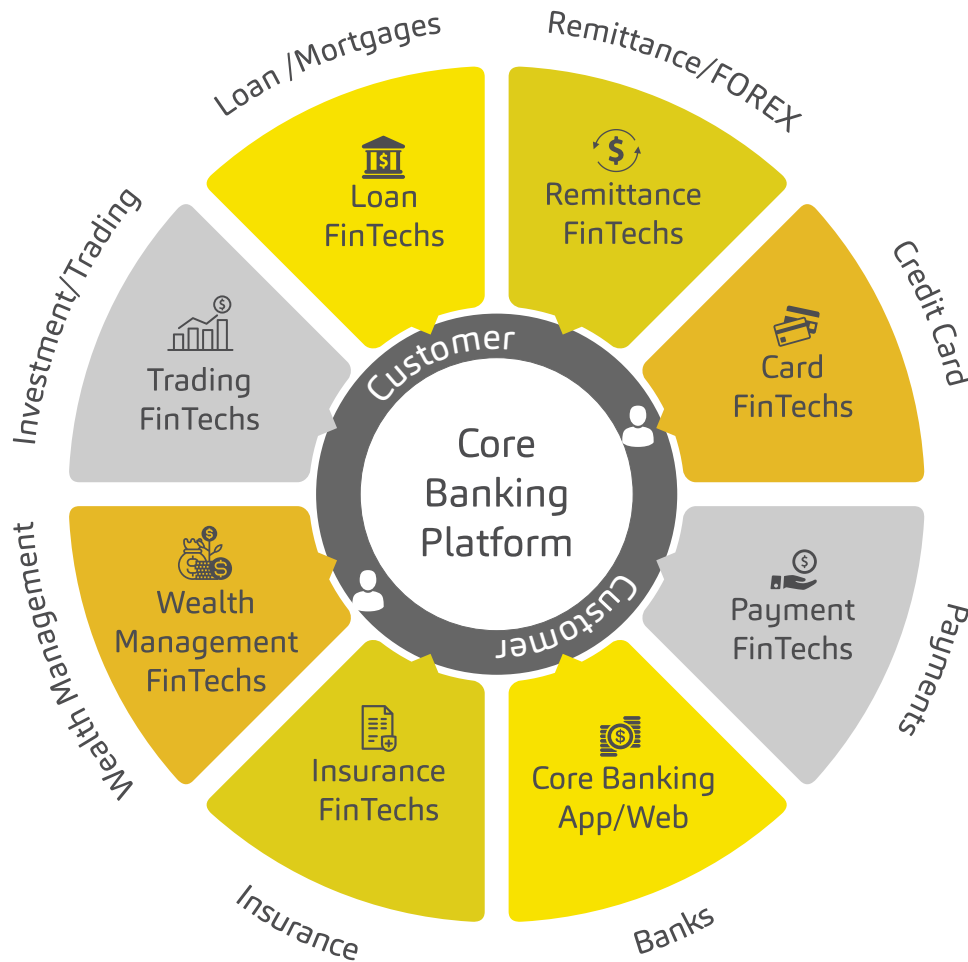
industry model, and thus more start-ups are tapping into the customer base and revenue model of the traditional financial institutes and in turn, becoming real competitive threats to the traditional big players who are slower to change. These new start-ups are utilizing new technologies to better position themselves in a digital-first environment and present a new, updated business model to be agile and efficient, and counter traditional financial services institutions. Technological advancements have been welcomed with open arms across nearly every industry and now it is time for financial services to fully embrace digital transformation and change to survive and thrive in a new, digital ecosystem.

The purpose of this whitepaper is to share and explain Digital Transformation (DX) trends in the Banking and Finance Industry, and how Banking as a Platform (BaaP) is emerging in the midst of the FinTech revolution.

What is Banking as a Platform?

The Banking as a Platform concept calls for banks to redefine their business models to embrace innovation from outside their closed environment and open up their services to be integrated with new and vibrant innovative strategies and technologies. To do this,

banks and financial institutions must open their secured data, products and services to external partners (third party developers, retail businesses, and others) through a well-defined Standardized + Secured Protocol and Application Programming Interfaces (API).



Why Banking as a Platform - the way forward?

Our environment today - including our work, social and online spaces - has been changing rapidly as digital innovation accelerates and takes hold of nearly every industry. Well established industry segments have been disrupted (primarily the

service industry) by new entrants that leverage technology and embrace a digital landscape for providing service platforms by using Social, Mobile, Analytics and Cloud (SMAC) as part of their strategies and offerings.



Most popular media owner no content



largest photo sharing provider doesn't create any images



Largest accommodation provider owns no rooms



largest breaking news service products no new



Largest communication service owns no telecom infra



Most valuable retailer has no inventory

The above picture depicts the revolution that has happened in last 5-6 years. These new entrants have scaled their business models and platforms to cover all geographical locations. It is just a matter

of time before the banking and the financial industry would be disrupted by the new entrants.



BANKING AS A PLATFORM - ADOPTION

Reasons Banking, Financial and Insurance firms are not adopting

The following highlights some of the key reasons why financial institutions justify not adapting to the Banking as a Platform model:

We are #1 in the business

- Most financial institution reason that they are the market leader and too big to be disrupted or lose their client base
- They believe they have the knowledge and expertise in Banking/Insurance services; so don't see the benefit of partnering with a third-party newcomer

We have a large trusted customer base

- Once an account is opened with bank/insurer; it is normally considered to be a long-term relationship
- It is assumed loyal customers will automatically buy in to new products being marketed toward them from their banking or insurance provider
- They believe they own their customer base, and are not willing to share with other firms

We have the best product/services

- Most Banking/ Insurance firms believe they have the best product/service offering in the market
- Because they believe they have the best on the market, they don't see the benefit in partnering with another firm and their lesser products

Although banks and financial services providers can be stubborn and slow to accept change, emerging computer technologies and algorithms are becoming so strong that they have the potential to revolutionize any industry and even the biggest players can be disrupted if they are too slow to adopt emerging technologies and integrate digital solutions into their legacy models.

Challenges faced by the Banking and Financial Services Industry

Each legacy banking, insurance and financial organization is currently a well-stabilized organization with a large customer base and a competitive product/service line-up. However, they still

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New Entrants

Currently, banks are not facing any challenges from peer banks; insurance providers are not facing competition from their peer insurance providers, and mortgage agents are not concerned about other agents in their local area. Their real challenges are from the new FinTech start-ups without any banking, finance or insurance legacy.

The above illustration is just a small snapshot of a FinTech start-up that is disrupting the financial industry. All the new service providers have the following in common:

- Easy to set-up accounts
- More attractive rates/fees
- Faster service
- Access to different product and services

Expectations of the Client

The use of the digital technology in everyday life has tremendously increased thanks to the daily use of Facebook, Twitter, YouTube, Fitbit, Uber, WhatsApp, and other applications. Since most people are almost continuously using these apps and are very comfortable with its ease and user-friendliness. Thus, banking customer also expecting the same kind of user-friendly interfaces for their banking apps to perform various operations.



BANKING AS A PLATFORM - LANDSCAPE

Traditional business models are straightforward as it is fully managed and controlled by the respective bank/financial service. Products and Services are created for each market segment and sold to the end customer. The customer does not have much choice apart from leveraging the product/services of the banks/insurance.

The advent of the digital revolution has the potential to allow customers to take control of their own things, manage their finances and banking operations, apply for a loan or invest their money themselves.

Banks would have to adapt to these new challenges to remain relevant in this new digital transition era and to continue to be a vital part of the economy.

Unlike the traditional banking models, Banking as a Platform does not push products/services. It allows the third-party to create and consume value. External developers leverage can extend platform functionality using APIs to create and consume the value. In this model, financial services, software, and technology are not the end-products. Instead, they simply serve as the underlying infrastructure that enables users to interact with each other.

Payment Services Directive (P2D2) – Europe

The Payment Service Directive (P2D2) is an EU Directive, administered by the European Commission to regulate the payment services and the service providers. Once passed by the EU commission, it would allow the creation of the foundation for a single marketplace for payment processing. It would also require banks to open their infrastructure through bank API and allow a 3rd party to connect to the customer accounts.

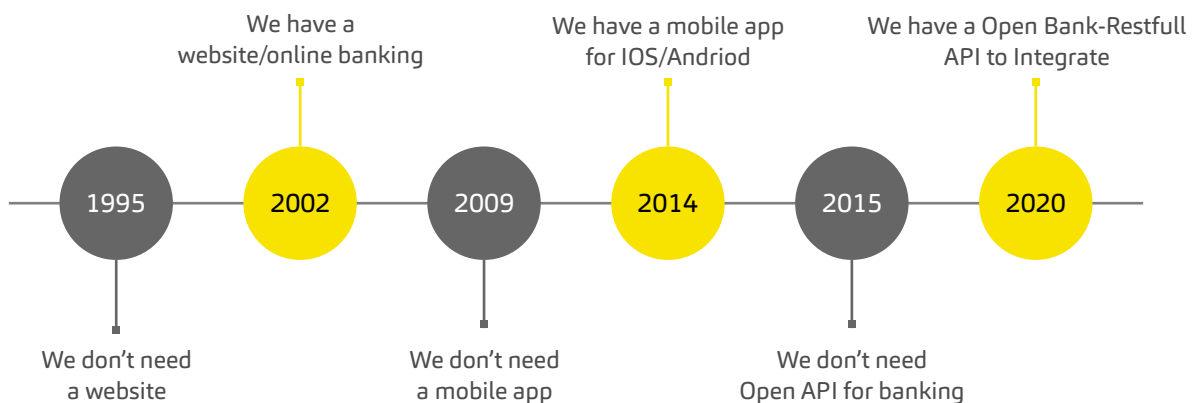
Essentially, banks would become a platform for banking and provide API to access the data and information for its customer. The customer would always be the main components of this process and would have to give permission to 3rd party agency to connect to their bank accounts.

Benefits of Banking as a Platform

P2D2 currently might just allow accessing the bank account through an API. It would open the new market for innovative companies to come forward and create new product/services to the customer. This would also help resolve some of the traditional problems which the customer faced due to the closed structure of the banking information.

Banking as a Platform would be the first steps towards the open banking concept. But in the long run, it would allow the banks operation to become scalable, faster, safer and give more control to the customer. For example:

- 1. Imagine a new FinTech player coming up with a service that allows customers to manage all their accounts through a single platform. Customers would not require logging into multiple online banking sites to access and perform banking transactions
- 2. Transferring money from one account to another account of a different bank is a big issue as most banks charge huge fees for the same. These kinds of issues could be resolved very easily with open banking API accessibility.



CONCLUSION

Banking as a Platform is an emerging financial industry trend as part of the digital disruption. This trend of disruption can be seen across the entire financial services industry. The trend is largely a result of the innovation and acceleration of emerging technologies and shifting customer expectations for digital experiences and self-service. The platform model is driven by the evolving customer behavior and use of technology. Financial institutions that cannot define and/or adapt to this new revolution risk losing clients, revenue, and market position to new Fintech startups who are more wholly

digitally-focused service providers. Digitization is disrupting various industry segments across the board, and the pace of disruption is rapidly growing as technologies are becoming more innovative and new use cases are developed. The Banking and Insurance sector would have to adopt and/or re-energize to sustain in the business. As part of the strategy to innovate and position themselves as segment leaders, banks must closely work with their innovation teams, acknowledge and welcome new ideas and be agile in adapting to the new industry trends.

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ABOUT SYNECHRON

Synechron is a global consulting and technology organization providing innovative solutions to the financial services industry through its three main business focus areas: digital, business consulting, and technology. Based in New York, the company has 18 offices around the globe, with over 8,000 employees producing over \$500M in annual revenue. For more information on the Company please visit the website or our LinkedIn community.

Synechron is the fastest growing organization in Digital, Business Consulting and Technology Service – which we also call it as 'Power of 3'. As part of our strategy to innovate and position our self as the leader in each of these lines of service, we could work closely with our clients and prospects to share ideas, knowledge and industry trends



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