

# CAPCO | DIGITAL

## WHY YOU COULD FIND YOUR DREAM HOUSE IN YOUR PERSONAL BANKING APP:

### THE RISE OF ECOSYSTEMS AND VALUE BEYOND BANKING

When people hear the word ecosystem they think about nature, flowers and bees. Only a few would think about tech companies like Apple, insurance providers like Ping An or fintech giants such as Ant Group. Ecosystems are dynamic, co-evolving communities of companies and customers that create and capture value through both collaboration and competition. But what is most important about ecosystems is that traditional industries are disappearing into them. Apple is not a watch maker, yet it has disrupted the watch industry. Therefore, the concept of industry has ceased being meaningful when it comes to strategic analysis and the planning of next business moves for many companies.

## THE RULES OF THE GAME ARE CHANGING

The question financial organizations should be asking today is not which industry they are in but which ecosystem they are part of. They should start focusing on competition between digitally- enabled ecosystems that span across traditional industries and offer services that meet the increasing customer expectations.

Instead of focusing on products such as current accounts, loans and mortgages, banks need to ask what the additional experiences and products are that they can bring into their value propositions. The real opportunity isn't adding more features to existing products that actually allow people do what they already do. The opportunity is creating new services that enable consumers to do things they can't already do, like tracking their carbon footprint through their banking app.

The ecosystem becomes more important than the product or service itself, because digital products are getting commoditized. True differentiation comes with seamless, convenient and integrated customer experiences. Uber customers don't really care about what brand the car is that will pick them up. They care that there is a network of drivers around them.

Companies that grow and dominate markets are not competing by products, instead they compete by ecosystems and network effects. Take Ant Group services, for example. Friends can easily split a bill with the money transfer chat feature. Hence, if your friends use Alipay, it encourages you to use it as well. And if you join, it adds value to other users. This is called the network effect, and it usually leads to the exponential growth of the company.

The rules of the game are changing, and banks and other financial institutions should adapt quickly to thrive in an increasingly competitive digital world and play a larger role in the lives of their customers.

## EMBRACING THE PLATFORM MODEL

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In this fast-evolving business world, banks should experiment with the ways they capture value and adjust their business models. Platforms are a type of business model that allow companies thrive in ecosystems. They create value by orchestrating interactions between producers and consumers of a specific product or service.

Being a platform will give a bank the opportunity to better serve its customers with services that go beyond banking. For example, a bank may not only provide a mortgage but also help

customers with buying house insurance, house maintenance services or even selling their house on the bank's platform. Perhaps they could even help customers to get a loan from a competitor. Why not? When competing in ecosystems the real value is in keeping and growing the customer base.

Transitioning to a platform business model though poses a significant challenge for incumbent banking institutions, because it requires the adaptation of the organization's structure, operations, culture and value propositions.

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*One of the best examples of successful ecosystems in financial services is Ant Group in China. It has over 1B users, and its payment network carried \$16 trillion of transactions in 2019, connecting 80M merchants, users can borrow money, choose from 6,000 investment products and buy health insurance. An IPO in the coming weeks will bear testimony to its growth, as it could fetch a market capitalisation in excess of \$300 billion, more than any bank in the world.<sup>(1)</sup>*

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# COMPETING IN ECOSYSTEMS

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So how can banks or other financial organizations operate and innovate in such ecosystems?

Firstly, they should turn their strategic focus inside out. Thinking in business ecosystems means that the strategic focus should be on orchestrating external resources more than controlling and optimising the internal ones. It's about competing by collaborating and shaping strategic partnerships. Moving from owning all assets and channels to aggregating complementary assets and resources from a diverse ecosystem. Success involves collaborating with other parties to create value for the customer.

Then, organizations should consider the role that they want to play and their positioning in the ecosystem. There are many options to operate and capture value in an ecosystem.

**1. Orchestrate an ecosystem and be a platform provider.**

Bring an ecosystem together by building a platform model. Curate the ecosystem to match producers and consumers and enable value transactions between them. For example, CoopID<sup>(2)</sup> is a platform offered by ING that improves the know-your-customer process for corporate banking clients by enabling them to manage their own KYC data and share with multiple partners including other banking institutions.

**2. Offer capability-as-a-service to support other platform or service providers.**

Offer banking and other financial services to enable the creation of new innovative services, normally via APIs which is a typical collaboration between established banks and fintechs. SolarisBank<sup>(3)</sup> for example empowers other service providers to build their own banking products using their APIs.

**3. Participate in a third-party ecosystem.**

Provide financial services to the users of other platform providers and extend the presence into the non-banking aspects of people's lives, like Goldman Sachs<sup>(4)</sup> does in Amazon's ecosystem by providing small business credit lines.

**4. Be a financial services marketplace.**

Provide an online marketplace hosting their own propositions, third-party financial and non-financial propositions and competitors' propositions. Marketplace lending is an example. They are online platforms that enable investors to lend to retail and commercial borrowers.

## TIME FOR NEW A STRATEGY?

To stay relevant and competitive, banks and other financial organizations must keep pace with the demand for more seamless and personalized user experiences. Uncovering new sources of growth into the evolving ecosystems requires a significant reconsideration of their strategy – one that leverages ecosystems and the assets of their partners to deliver value propositions that meet customers' core needs or wild aspirations.

The future will be about seamless convenience and differentiated experiences with bundled products spanning across industries, and what's more convenient from exploring a list of recommended houses based on your financial capability and focusing on the size of your bedroom and not the size of the mortgage?

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