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Marketplaces in the financial industry

business transformation driven by open innovation, data, technology, regulation & customer expectations

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We are witnessing an exciting new era where data, technology advances, growing customer expectations and regulations are increasingly driving innovation and changes in the financial sector, resulting with more fierce competition, new products and services, reshaping profoundly the business model and the relationship the traditional financial institutions have with their customers, partners and competitors.

The new regulations on the EU level are boosting fair competition, promoting transparency & open innovation with aim to provide end-consumers easier and secure access to the wide and best possible choice of online products & services. These regulations are as well impacting the financial institutions who traditionally lacks agility, by obliging them to get out of the comfort zone, open up and innovate in order to survive and reinvent themselves.

For instance, one of these new regulations that came into force in September 2019 is **PSD2**, enabling customers to consent to third party providers (TPPs) accessing easily and securely via APIs (Application Programme Interfaces) their bank account information and/or making payments on their behalf[1]. The European Banking Authority (EBA) expects the financial institutions to remove by end-April 2021 any remaining obstacles that prevent TPPs from accessing payment accounts, which restrict EU consumers' choice of payment services.

Another one is **GDPR** that came into force in May 2018 and enables the right of data portability[2].

The last but not the least, **Digital Services Act** and **Digital Markets Act,** published end 2020, are aiming to create a safer and more open digital space across the whole EU[3].

Client needs, behavior and requirements for financial institutions have changed in the last decade. It is forcing especially traditional financial institutions to quickly react and pushing regulators to adapt the obsolete legislations that do not match the new ways of consuming.

According to the CFTE research [4], and looking at the valuation of the companies, the top 10 financial institutions in 2010 were all traditional banks. End-2020 we could have noticed quite a change: 5 new entrants in the top 10 list are leveraging a digital platform business model.

The phenomenon of the Marketplace model is not new, but it is increasingly developing in all sectors, including the financial sector as we may see. **More than just being a digital platform, Marketplace is above all the economical model driven by open innovation, digital and data**! It gathers multiple parties with different needs by putting multiple "producers" of a product or a services in touch with their consumer.

Who is the next Amazon in banking is the question that is constantly intriguing. Firstly, lets have a word about Amazon and why it so both impressing and shaking the financial industry.

Amazon has always been a very pragmatic company and fast mover, and its founder Jeff Bezos is of the pioneers when it comes to the open innovation and customer-centric vision, so-called "customer obsession".

Amazon may not have immediate plans to launch its own next-generation bank, as many have feared. But in a way, and without applying for a bank licence, they are building a "Big Bank" for itself on a very effective way. By opening their APIs and making partnerships with financial institutions, Amazon is able to keep the ownership of customers and offer in its own Marketplace a wide range of financial services & products, increasing participation in the Amazon ecosystem both on merchant & customer side. By integrating financial products into their ecosystem, they are challenging banks' traditional business model, taking their customers and fragmenting the market, resulting with decrease in revenue & profit.

1. https://www.ecb.europa.eu/paym/intro/mip-online/2018/html/1803_revisedpsd.en.html
2. https://ec.europa.eu/info/law/law-topic/data-protection/data-protection-eu_en
3. https://ec.europa.eu/digital-single-market/en/digital-services-act-package
4. https://blog.cfte.education/5-of-the-top-10-financial-institutions-are-now-platforms/

In this example of a **Banking as a Service (BaaS)** model, Amazon that is a nonbank player offers in its own marketplace a wide range of financial services & products, keeping therefore the ownership of customers and data. Other neobanks and nonbank "**distributors**" of financial products and services are following their example such as [5]:

- Tech companies (GAFAM, WeChat, AliPay…),
- Travel or real estate platforms,
- Platforms allowing online comparison & subscription of financial products & services (such as LesFurets (insurance), Meilleurtaux, Sateceasy (insurance for SMEs & Companies), GoBear (banking & insurance in Asia), PolicyAdvisor (Canada)…

They focus on the customer needs & customer journey that is intuitive & fluid, offering easy, transparent & flexible subscription directly from their website, with personalized & attractive prices thanks to APIs connecting them with Producers.

Producers (card, payment, loan or insurance providers) are often invisible to end-client in this BaaS model. However, BaaS is already a business mainstay for a small but growing group of banks and insurance companies, a mean for them to indirectly gain new clients and generate profit. On the producers' side, let's not forget some of Open Banking platforms such as [6]:

- Treezor (France), an innovative 100% API Payment Service Provider
- Solarisbank (German), a provider of a banking platform for many financial services startups
- Tink (Sweden), allows its customers (startups, FinTechs & big banks) to access aggregated financial services, initiate payments, enrich transactions & build personal finance management tools.

It is evident that there are huge benefits for a bank to launch its own marketplace(s). In this **Banking as a Platform (BaaP)** model, a bank offers in its own platform a broad range of products & services including its own financial products as well as those of other, the most advanced companies & Fintechs in the ecosystem. However, banks tend still to use the platform banking approach as a defensive strategy against losing customers.

In the multichannel approach, the Marketplace is a new sales channel and a new source of income, allowing the bank to retain the ownership of the data and customers "in house", re-establish customer trust and relationships while maintaining competitiveness by enlarging their offer and provide cross selling opportunities. Customers are moving away from banks to non-bank entities for their financial service needs and this allows banks to withstand challenges from digital rivals by preventing customers from switching to competitors.

Open banking, generally speaking, enables more customer-centric shift. In the case of "Open Banking", the bank opens its API's up to anyone who is interested (and meeting certain criteria such as clients' consent), including other Fintechs, potential competitors and third-party developers, so that they can utilise the bank's data to build their own products to be accessed via a platform (BaaS or BaaP). Something we might call Amazon of banking or Plug and Play. Having in mind the huge amount of (personal) data that banks are processing, the risk of the banking Information systems security and anti-trust implications, it is less likely that banks will make their platform freely and publicly open to anyone.

"Partner" Open Banking means that there is no openly published APIs: a bank would open their APIs only to some selected partners & billing them for access to the bank's Information System & customer data. Therefore, Bank provides a service and maintains the primary customer relationship. Thus, the PSD2 regulation should not be considered by banks only as a regulatory obligation but as well as a business opportunity and a source of income.

For example, in order to make Open banking happen, UK set a regulated Open Banking Implementation Entity (OBIE), created by the UK's Competition and Markets Authority ensuring the collaboration amongst banks, FinTechs, regulators and consumer representatives [7]. With more than 99% of the UK payment-account market under a single API standard, they are a pioneer in Open Banking.

Expanding Open Banking into Open Finance

Open Finance goes beyond PSD2 that is applied only to cash accounts and payments and includes more financial products and services (covering savings, mortgages, general insurance and pensions). Open finance is based on the principle that the data, supplied by and created on behalf of financial services customers, are owned & controlled by those customers in a safe environment.

5. https://www.lesfurets.com/partenaires
https://www.usine-digitale.fr/article/la-fintech-meilleurtaux-lance-une-offre-dediee-aux-professionnels-de-l-immobilier.N1063754
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6. https://www.treezor.com/presentation/
https://www.solarisbank.com/en/
https://techcrunch.com/2020/12/11/swedens-tink-raises-103m-as-its-open-banking-platform-grows-to-3400-banks-and-250m-customers
7. https://www.openbanking.org.uk/about-us/

At the EU level, there is no unified API standard that can be used universally - by all market players. Each financial entity has to create their own APIs. And most of the time, those APIs will be limited to the specific customer bases service, which might be less effective for the overall progress of Open banking and Open Finance model.

However, we may some very innovative initiatives on the country level such as "Collectif API thinking" in France, already regrouping 60 member companies (mainly banks and insurance companies), all having a common goal of uniting forces and move forward collectively by sharing experiences, good practices, ideas, and the obstacles to be overcome [8].

What is better business model: BaaS or BaaP?

The answer might be quite frustrating because there is no one-size-fits-all model! **It depends on what will provide a greater value to customers.**

Moreover, why opposing those two business models, while they can be quite complementary ? A bank can decide to launch its own Marketplace to distribute in it a wide range of (financial) products and services (its own, and Third-Party Providers). In addition, the very same bank can be as well a participant in another Marketplace as a provider of its own financial services.

However, if you are a bank and have to focus your energy and prioritize, doing some assessment might helping you to decide whether you should build your own Marketplace (BaaP) (you rock in technology, data and have huge customer base) or is it smarter to be a participant and take part within another Marketplace by providing in it your own products and services (BaaS):

- external assessment: market size, growth potential, profitability, competitors
- internal assessment (existing customer base to exploit or acquire, core capabilities, risk appetite, core business, leverage on partnerships, networks, open mindset and culture…).

Another sub question that often pops up is: if launching its own Marketplace, **is it better to launch one single huge Marketplace or couple of smaller ones**?

Once again, It depends on what will provide a greater value to customers!

Try however to avoid some mistakes that financial institutions are often making trying simply to convert their existing website into one huge Marketplace that becomes in fact a sort of One-stop-Shop, providing an online subscription of wide range of (very often only their own) products and services. Indeed, a huge work is done to provide a very broad, competitive & personalized offer by enhancing the customer experience: choice, transparency, competitive pricing to match specific customer needs. It is indeed a way to reduce the friction customers encounter when they have to switch between related services, or they have been proposed "One-size-fits-all" product or service. It is however rather a product-centric and not client-centric approach.

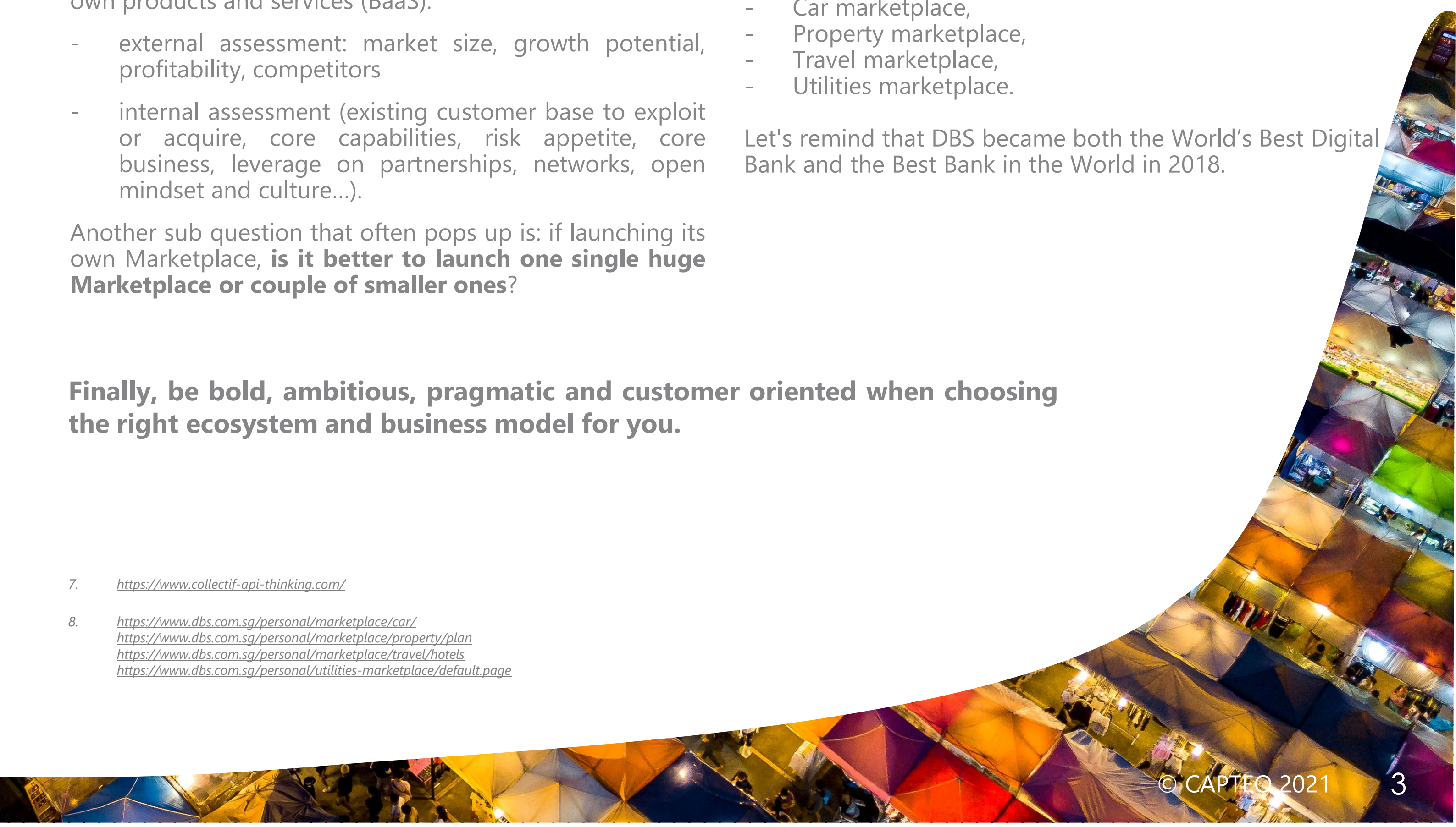
Not to mention that opening up to other TPPs is often forgotten. Banks tend to focus on building private APIs in order to make internal functions and business units more efficient, run more smoothly and to accelerate the internal innovation. It is a good start to share the data and workflow with other departments because we all know how it can get complex for example in a big banking group where very often the internal silos makes it seem like a union of individual companies that have hard time communicating with each others. But once again, it is rather an internal-problem-solving rather than a customer-centric approach.

In a case of multi and specific marketplaces approach, we might take an example of DBS whose goal was to provide to clients the choice of best possible product or services on the market by launching a couple of very specified marketplaces, based on customer needs [8].

- Car marketplace,
- Property marketplace,
- Travel marketplace,
- Utilities marketplace.

Let's remind that DBS became both the World's Best Digital Bank and the Best Bank in the World in 2018.

Finally, be bold, ambitious, pragmatic and customer oriented when choosing the right ecosystem and business model for you.



7. https://www.collectif-api-thinking.com/

8. https://www.dbs.com.sg/personal/marketplace/car/
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https://www.dbs.com.sg/personal/utilities-marketplace/default.page

What does it take if you want to launch your own Marketplace?

The is a non exhaustive list, but here are some of the advices that you might want to take into the account if you're a traditional financial institution:

- **Customer-centric vision** should be the n° 1 priority to be implemented at all levels and shared among all stakeholders (front, middle, back office, IT…): the unique understanding and the common ambition/vision of the customer-centric company that aims to become a Marketplace.
- **Know your data:** it is hard to make a viable business plan, know your client, make any predictive analysis, rethink & redesign an improved customer journey or customize the offer if for any reason you lack knowledge of data (data are inexistent, incomplete, lacking historical data or KPIs, data are difficult to access or scattered across the various departments/business units due to organizational issues and therefore difficult to correlate to form a single customer repository). Without the data and knowledge of its usage and its continuous improvement, your Marketplace will remain just a (pretty) showcase that will quickly become obsolete.
- **Agility, speed, test and learn**: it is necessary to define the solid basics (data, KPIs, processes, organization…) that will serve you to design the first version of the business model or improved customer journey or personalized offer that you will improve with time. It is a continuous improvement process because client behaviour and economical impacts keep changing. Test and learn on couple of smaller Use Cases before you go big and decide to scale up.
- **Think "Phygital"** and customer in his overall experience with the bank and his all interactions, not only his (Digital) User experience**:** Customers are becoming increasingly demanding, higher product standards as well as fast and efficient customized service . It is out of the most importance especially in case of already well-established traditional banks that are not only digital. Having the multi channel approach will allow the unique and 360° vision of the client by aggregating data from various points of contact. Combining the best out of the two worlds, digital and physical, will be your competitive advantage.
- **Clean your own inhouse mess!** Customer wants a journey without an interruption. Let's face it, banking websites and existing platforms are complicated and often reflect the internal organization. Therefore, for the client who wishes to subscribe a product/service offered by the bank itself, it often starts it journey on the banking website to switch then through various websites that are put in place (insurance website, personal finance website, credit cards… name it). So before integrating TPPs and opening your APIs to, for example, partner FinTech and risking to make it even more confusing, clean your own inhouse mess, set a proper organization and processes that will support your ambitions.
- **Invest in technology!** Having a proper data infrastructure making it possible to collect in a single and secure database all the data (structured or not)… In order to monetize data in some way, you need to have be proprietary of large amount of the data and have the data management & data analytic capabilities. Setting a proper IT architecture and harmonizing your API may really help.
- **An open mindset** is the must! It allows traditional financial institutions to open their data, open their doors (APIs), collaborate and it will facilitate the path to the Open Finance as well. This cultural change for majority of old-fashioned banks is quite of a challenge because they are used to dominate and keep the data and clients only for themselves.

More deeply, banks need to adjust their business models and consider what it means to become a real client centric marketplace and not only a universal bank focusing a simple online subscription of their own products and services.

ABOUT CAPTEO

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