



Research Insights

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Banking on the platform economy

India point of view

IBM Institute for
Business Value



How IBM can help

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Talking points

Trust in banks

Most consumers say they are willing to share personal information with their banks. Even more compelling, nine out of ten express confidence in their bank's ability to protect their personal information and data.

The platform advantage

Banking executives tell us that platform business models can significantly benefit customers and banks themselves. Using market platforms, banks can enable trusted exchanges, as well as provide infrastructure and rules for marketplaces.

Roadblocks ahead

Bankers identify regulatory compliance, cybersecurity, and lack of trust and confidence in ecosystem partners as key inhibitors to adopting platform business models.

What's past is prologue

In many ways, banking has changed little over the past 1,000 years. Although computers have replaced abaci and parchment, underlying principles of banking have remained remarkably consistent. A money lender from medieval India would recognize the fundamentals of a modern bank branch's operations today. But a millennium of constancy is now changing at warp speed in ways that would have been inconceivable even in the recent past.

And traditional industries are interacting in ways that were unthinkable even as recently as a decade ago. Financial services are being mixed in with services or products from other areas and industries—from healthcare and telephony, to mobility and media, retail and logistics, and numerous other areas. Banking is becoming embedded—sometimes almost invisibly—in non-bank business processes. New types of ecosystems are emerging, powered by dynamic new business models, often based around platforms and network economics.

Within this context of industry overlap and fusion, new business imperatives are emerging. Customers can be approached and engaged in innovative ways—and by different parties. Telephony businesses are becoming a channel through which customers can engage in health-care discussions. Retailers are orchestrating payments systems. And social media businesses are establishing new forms of currency. Organizations in virtually every sector seem to be contesting the relationship with customers, hoping to become not only the provider of their own products, but also an entry point for other businesses seeking access to their primary customers. Forward-thinking organizations look to become curators of experiences as well of specific products and services. And this cross pollination of customer access is based on insights gained from robust data.

Organizations seek to establish and maintain a primary relationship with their customers—and to avoid being disintermediated by insurgents from both their own and completely different industries. But the playing field for deep customer engagement is not a level one. Unlike aspirers from other industries—and perhaps counter intuitively—banks are uniquely positioned for success in becoming the prime entity for building and maintaining relationships with customers.



80%

of India's consumers say they trust their bank to protect their personal information and data, a higher level of trust than they have for any other organization or institution they interact with, including their employer or government¹



67%

of Indian bank executives surveyed tell us that platform business models are disruptive for the banking industry as a whole



Globally, for the most visionary banks, the average expected revenues from platform initiatives in the next three years is

58%

—more than twice the average revenues expected by less-visionary banks

Banks possess a key advantage that most organizations don't have. Our research suggests that people are willing to share their personal data with their banks, and banks are trusted to keep the data safe and use it ethically, even if they are mandated to do so by regulators. According to a recent IBM Institute for Business Value (IBV) survey conducted in collaboration with Survey Monkey, 80 percent of Indian survey respondents trust their bank or other financial institutions to protect their personal information and data to a major extent. Indeed, IBV research indicates that India's citizens and consumers trust their bank more than any other organization or institution they interact with, including their employers—78 percent; their government—76 percent; and their healthcare providers—73 percent.²

The new emerging environment's impact on banks and banking, as well as the highly systemic position banks hold compared to other institutions in the economy, can perhaps be best illustrated by what the Bank of Baroda (BOB), India's second largest public sector bank, is doing with farmers. While most farmers in India may have at least a basic relationship with a bank, BOB is working to transform what the future relationship between bank and farmer will be—a much deeper, interactive relationship.

Consider its launch of an agricultural digital platform 'Baroda Kisan' in September 2019. The platform helps farmers gauge crop conditions, anticipate weather patterns, determine soil health and the presence of agricultural pests, then receive special crop-related consultation. It helps them use technology such as advanced analytics and image sensing to grade crops. It is the first of its kind holistic agricultural support app for farmers launched by a public sector bank in India, with 2,286 dedicated agricultural officers to provide assistance. The ecosystem-driven platform also empowers farmers with financing and fiscal advice. Baroda Kisan's ultimate goal is to support India's national mission of doubling the income of farmers by 2022.³

The future relationship between bank and customer is likely to be much deeper and much more interactive.

This demonstrates that banks as “trusted partners” are uniquely positioned to become a conduit—or curator—of products, services, and experiences to fulfill the underlying aspirations of the customers they serve, rather than merely the financial ones. Instead of remaining limited to transactions, a bank might collaborate on behalf of its customer to source a range of necessary or helpful inputs and to coordinate sets of specific and more specialized capabilities.

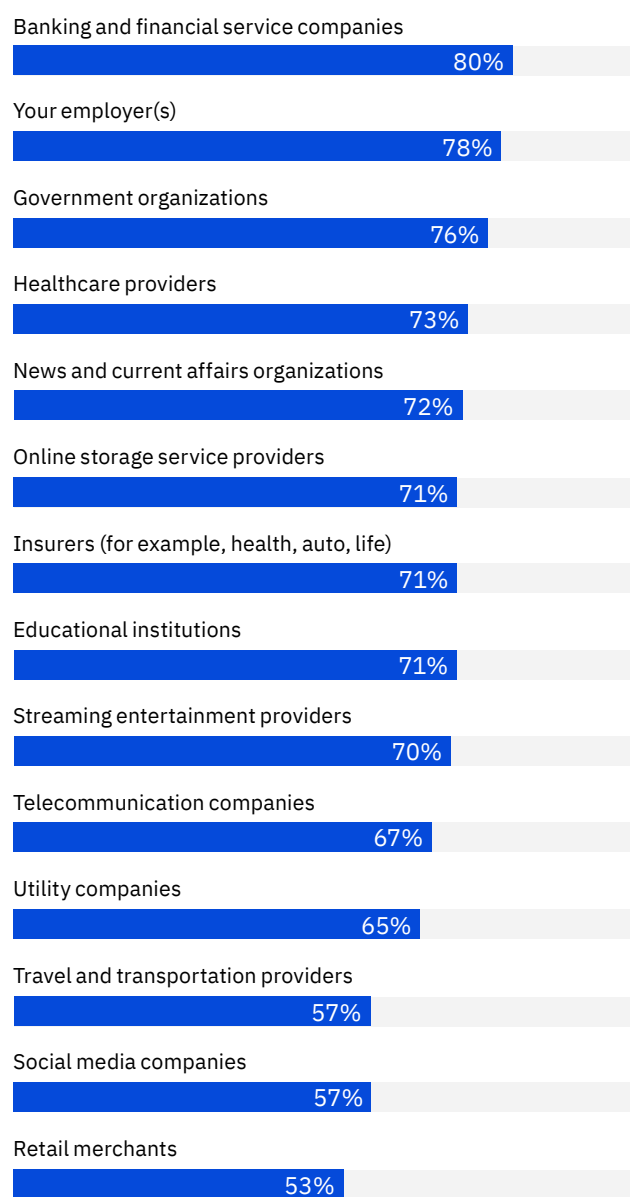
There is little doubt that organizations from other industries are witnessing similar opportunities as industry convergence rapidly accelerates. So, banks need to know themselves, recognize their advantages, and substantially expand what they might consider to be their core business activities.

The path from there to here

Banking and other financial services are in the midst of unprecedented rapid change. Digitalization has been central to banking since the introduction of ATMs in the late 1960s.⁴ However, digital technologies have now reached a level of sophistication and ubiquity where they drive major disruptions in fundamental market definitions, operations, and business models. Core banking activities that have been profitable for centuries are being commoditized at rapid scale. And the competition comes not only from digital fintech startups, but—more importantly—from some of the most prominent and powerful businesses in other industries. The traditional banking value chain is decomposing into various constituent elements—or components. And many regulators are encouraging active disruption to boost necessary technological innovation. An example of this trend is the development of IndiaStack, an open application programming interface (API)-based technology stack that has the potential to disrupt banking in India.⁵

Figure 1

Extent to which Indians trust the organizations and institutions with whom they interact



Source: IBM Institute for Business Value survey of 837 individuals based in India 18 years of age and over, conducted in collaboration with Survey Monkey. December 2019.

There are several roles banks can adopt within ecosystems and across platforms.

Banks—or at least those that are innovative and likely to be successful—are rapidly evolving beyond traditional organization structures to define or build inclusive, flexible ecosystems of financial and other capabilities. Participants in deeper, more sophisticated ecosystems might come from any area of the economy, their commonality being the contribution of useful or necessary business functions and technical capabilities that create value. Ecosystems providers and consumers meet on business platforms—digital or, at times, physical structures— through which interactions, including communications, collaborations, and transactions, occur.

There are several roles that banks might adopt within ecosystems and across platforms that need not be mutually exclusive. And there are several types of business platforms that can form within and across ecosystems:

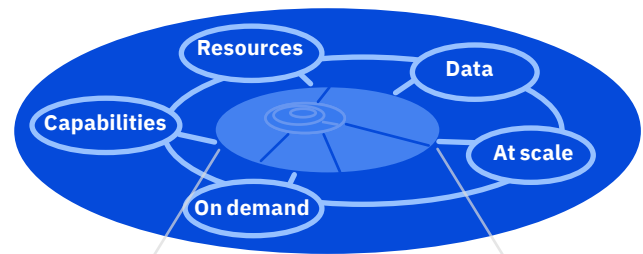
- Technology platforms that might provide agile and resilient infrastructure that can help banks succeed in the “as-a-service” economy (for example, cloud infrastructure providers and traditional outsourcing providers adopting new cloud technologies)
- Business process platforms that support redesigned and often intelligent processes that can solve problems that might be shared between various participants in an ecosystem, including banks (for example, businesses leveraging open, cloud-native technologies to cross traditional industry, product, and services boundaries)
- Market platforms that can become a vehicle for trusted economic and financial exchanges between multiple parties across ecosystems at global scale—in effect, the connected economy at work, enabled by easy-to-use technologies put to use by fintechs (see Figure 2).

Figure 2

Three types of platforms emerging from business ecosystems

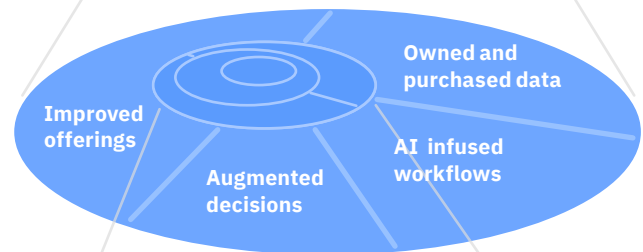
Market platform

Enabling trusted exchanges between multiple parties on a global scale and leading standards to sustain trust and security



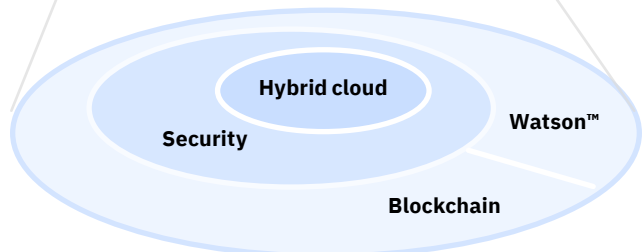
Business process platform

Enabling users to optimize value across all business and functional components and to reconfigure workflows with latest technologies



Technology platform

Enabling users to access more secure, resilient infrastructure to win in the agile, scale-driven as-a-service economy



Source: IBM Institute for Business Value analysis.

The platform future: Disruption as opportunity

To better understand where the banking industry is heading and how it can thrive in the new environment of converged industries and competition, the IBM Institute for Business Value, in collaboration with Oxford Economics, surveyed 850 executives across all major geographies—75 in India—who held a variety of C-suite roles from banking and financial markets industries. (For more on the research, see the Research methodology section.)

Survey questions focused on the readiness of banks to address current technological and economic disruptions and their plans around adoption of platform business models today and into the future. At a high level, we sought answers to three key questions: What impacts are the changing currents around ecosystems, business models, and business economics having on banking and other financial services organizations? What strategies are likely to be most successful for banks to adopt over the next few years? And what steps can banking leaders adopt today to accelerate their progress toward obtaining a leading competitive position?

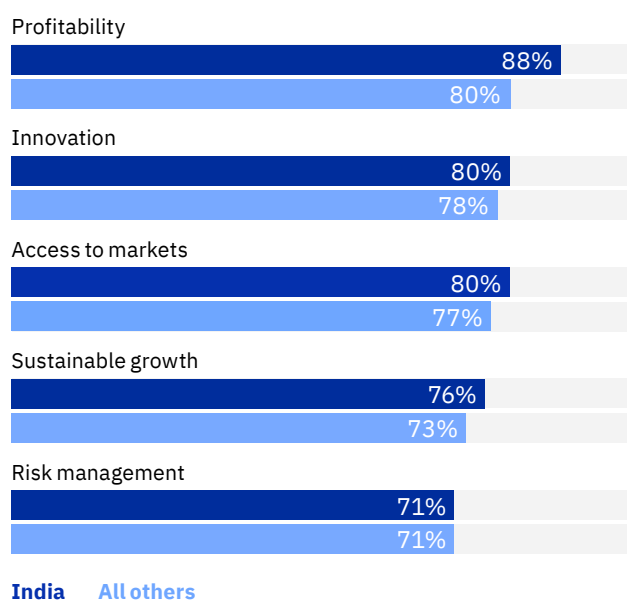
It is clear from our survey that senior executives from banking and financial markets businesses in India agree that platform business models—and the ecosystems that underpin them—are significantly disrupting the industry. Sixty-seven percent tell us that platform business models are disruptive for the banking industry as a whole. In addition, 84 percent of executives say that platform business models are driving changes in traditional value chains across the industry, while 80 percent tell us that platforms are disrupting their organization’s own business and operating models.

Bankers recognize that disruption creates both risks and opportunities. We discovered that some of the pessimism and fear revealed in prior surveys has been replaced by optimism and aggressive ambition.

The 2015 IBM Global C-suite study revealed that 65 percent of banking executives expected to face more intense competition from outside their industry—20 percent higher than in 2013 and 11 percentage points higher than the portion of cross-industry executives surveyed in 2015.⁷ But by late 2018 when our most recent survey of banking leaders was conducted, although some fears remain, they are by no means dominant. In fact, in India, 43 percent of banking leaders view disruption as an opportunity. And almost four fifths—77 percent of banking executives in India—say that adoption of platform business models will help them achieve sustainable differentiation and competitive advantage with benefits across multiple dimensions. They identify profitability, innovation, and access to markets as the top-three areas where platform models can drive advantage (see Figure 3).

Figure 3

Benefits for banks from embracing platform business Models: global versus India



Source: IBM Institute for Business Value survey of 850 global banking executives, including 75 banking executives from India, conducted in collaboration with Oxford Economics. 2018.

SBI transforms from stable giant to agile platform visionary⁸

Established in Kolkata in 1806, the State Bank of India (SBI) is the second largest bank in India, with more than 23,000 branches and total assets equivalent to USD 530 billion. As a government-owned bank, for decades SBI lacked significant investment in new technologies and languished with largely manual processes and a declining customer base. That, however, has changed.

At the start of 2016, SBI initiated a major enterprise-wide transformation. Recognizing the value of cross-industry ecosystems and platforms, SBI set out to build and orchestrate its YONO—"you only need one"—customer-centric platform environment with close to 100 business partners. The platform addresses personal and lifestyle needs—including banking—and is complemented by innovations such as YONO cash, which supports cardless transactions. Not only did BI grow the number of YONO users to more than 12 million by mid-2019, YONO also has become an integral part of other organizations' go-to-market strategies, including Amazon.

Benefits of business platforms

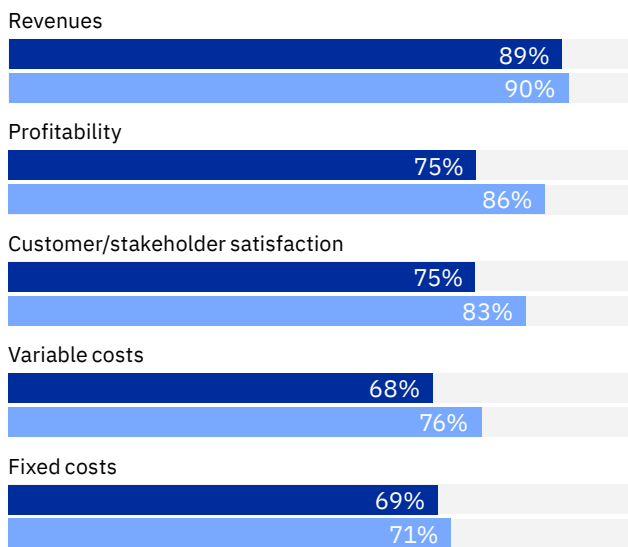
Banking executives say that adoption of platform business models yields significant benefits to customers as well as to banks themselves. Eighty-nine percent of banking executives in India tell us platform business models enable greater personalization of products and services, and 73 percent say platforms enable greater innovation of products and services.

Seventy-six percent of bankers in India report that adoption of platforms facilitates connections to other industries more readily, and 80 percent say platforms increase the likelihood of collaboration between partners, as well as trust. In terms of business economics, 79 percent of Indian banking leaders say that platforms improve financial scalability and 81 percent say platforms improve the technical scalability of business models. Seventy-six percent say their adoption helps improve flexibility or agility. Perhaps even more important, 81 percent tell us that platform models offer business, technical, and financial benefits that would not be achievable employing a more traditional banking model. As many as 80 percent of the banking executives surveyed in India predict cross-industry platforms will only become more important to their industry and themselves over the next ten years. They also expect that adoption of platforms will continue to positively impact various aspects of the banking business (see Figure 4).

Organizations can play at least four distinct roles within platform business models.

Figure 4

How platform business models will impact banks over the next three years: global versus India



India **All others**

Source: IBM Institute for Business Value survey of 850 global banking executives, including 75 banking executives from India, conducted in collaboration with Oxford Economics. 2018.

Different platforms, different roles

Our analysis reveals that organizations can play at least four distinct roles within platform business models. We call them integrators, providers, specialists, and orchestrators. Each platform role has demonstrable attributes and requires certain capabilities:

- **Integrators** innovate by weaving together products and services seamlessly with third-party offerings. Integrators, such as fintechs, innovate by leveraging open APIs. They are open and flexible enough to enable seamless integration and automation of activities. Integrators require an innovation culture, robust processes, and governance mechanisms for integration.
- **Providers** enable other participants in the platform by developing and provisioning end-to-end products and services. They provision core banking “infrastructure” as a service to other participants. Providers need capabilities in provisioning processes and infrastructure management.
- **Specialists** focus on specific activities within the business process. Their specialized focus can be technological or functional. They enable value that can be shared among all platform participants and leverage a specialized knowledge base to support the development of products and services. To succeed, specialists need technological and technical business expertise, access to advanced technologies, and the ability to rapidly prototype.
- **Orchestrators** enable the platform, allowing participants and customers to interact and create mutual value. They operate across multiple networks and industry ecosystems, highlighting their ability to orchestrate experiences for all entities on the platform. Orchestrators should have deep market knowledge and the ability to enable scalable infrastructure and source capabilities across participants.

ICICI Bank orchestrates a digital future for the backbone of India's economy⁹

ICICI Bank, a leading private sector bank in India with consolidated total assets of Rs 12.50 trillion and a network of 5,275 branches, recently launched a new digital platform, “Instabiz.” Designed especially for micro, small and medium enterprises (MSMEs), and self-employed customers—often referred to as the backbone of India's economy—the platform affords access to over 115 products and services in a digital and secure manner via mobile phone or the web.

Among the services offered by the MSMEs: collection of funds from an MSME's business-to-business (B2B) or business-to-consumer (B2C) customers, instant overdraft facility (up to Rs 1.5 million), business loans, easy bulk collection and payment of funds, automatic bank reconciliation, export-import transactions such as inward and outward remittances—even marine insurance. It is also the first digital banking platform to enable single click payment of the Goods and Services Tax (GST).

Most interestingly, an MSME doesn't have to be an existing customer of the bank to participate. By downloading the app and uploading existing bank statements and a few other details, an MSME can begin to use the platform. Of special interest to MSMEs, the platform offers an online business networking function to allow entrepreneurs with relevant needs and opportunities to connect and promote their offerings to one another.

Challenges remain

Banking executives tell us that cultural differences between ecosystem partners is a major inhibitor of platform business models. Specifically, 75 percent of banking executives surveyed in India identify trust and transparency between partners as a key challenge. In addition, 79 percent say that challenges associated with regulatory compliance are preventing platform business models from fully realizing their potential benefits. Similarly, cybersecurity is a big concern for 79 percent, who cite it as a roadblock for realizing benefits from platform business models.

The visionary bank

As banks move toward the third decade of the twenty-first century, there can be little doubt that they recognize not only the importance of rethinking their underlying business model, but also the criticality of cross-industry platforms and ecosystems. But results require more than simple recognition. To enable banks delineate strategies and actions that are most crucial to future business success, we analyzed data from the 850 global banking respondents to identify those most highly correlated to success.

Our analysis comprised several steps. First, we looked at the 80-plus survey questions and identified the top 39 that most likely relate to the percentage of revenue each respondent derived from participation in cross-industry platforms today.¹⁰

We then regressed these 39 variables against percentage of revenue from cross-industry platforms. Ten of the 39 were deemed significant explainers of cross-industry platform revenue. Coefficients on each of the ten variables were standardized into weights in what might be thought of as a cross-industry platform performance index, which allowed us to contrast their relative importance in cross-industry platform success (see Figure 5).

New ideas are more likely to come from outside their organization through their ecosystems of engagement.

Figure 5

Weighted impact attributes of cross-industry platform revenue today (normalized to 100%)



**Percentages may not total 100 due to rounding*

Source: IBM Institute for Business Value survey of 850 global banking executives, conducted in collaboration with Oxford Economics. 2018.

Executives citing the highest revenue from platform business models today say platforms will continue to play a central role in their organization’s strategy over the next three years and beyond. Importantly, they see platform engagement increasing and accelerating innovation. New ideas are more likely to come from outside their organization through their ecosystems of engagement, and cross-industry platform engagement is seen to improve measures of efficiency and profitability as well as revenue growth. Platforms are associated with greater sustainability in revenue and growth and, in particular, as enablers of business scalability—optimizing business capacity with demand according to prevailing market conditions.

To understand other attributes of perhaps the most successful group of banks surveyed, we divided the organizations in the platform performance index into

three distinct groups, each comprising a third of all survey respondents. We deemed the top group—the third of organizations recording the highest revenue from cross-industry platforms—to be cross-industry platform-oriented visionary banks. The bottom group—the third of organizations recording the lowest revenue from cross-industry platforms—are regarded as the most traditional banks. In general, these banks are not embracing cross-industry platforms and business models. Banks in the middle group fall somewhere between cross-industry platform-oriented visionary banks and traditional banks.

We have characterized differences between visionary banks and traditional banks across eight specific dimensions: strategy, customers, innovation, operating model, partnering, investment, measurement, and regulation.

Visionary banks believe historical banking value chains and operating models are beginning to break down.

Strategy

Compared to more traditional competitors, visionary banks almost unanimously share a philosophy that collective goals articulated through platform business models transcend the goals of individual organizations, yielding both intangible and tangible benefits. They believe that platforms enable the creation of products and services that would be impossible to create in a more traditional banking setting.

They also believe that adopting a platform business strategy means extending beyond a single platform. It involves diversification across multiple platforms, contributing to products and services in different contexts across different platforms. Visionary banks recognize that platforms are typically multisided, encompassing a range of providers. They understand that engagement in platforms encourages specialization so each individual organization can deliver the parts of products and services where it can create unique and significant value.

Customers

Visionary banks typically have an existing loyal customer base. And unlike their more traditional banking peers, they see most value from platforms relating to engagement with completely new or different customers. They believe different customers may require different types of services, but the trust and confidence of customers remain crucial elements of any platform business model.

Innovation

Visionary banks believe engagement with partners across platforms should increase their commitment to innovation, especially relating to the search for new and more valuable product and service combinations.

Operating model

Unlike traditional banks, visionary banks believe historical banking value chains and operating models are beginning to break down. They find platform engagement both enables and necessitates increased speed and agility. They understand the need to operate far beyond core banking activities by offering products and services from other industries as well. Visionary banks recognize the potential—and possibly even the necessity—to operate across entirely new geographies and deliver greater levels of transparency in pricing and other product or service attributes.

Partnering

Compared to their traditional peers, visionary banks are significantly more likely to collaborate with academic institutions in addition to commercial organizations. They recognize that although partners are inevitably a highly diverse group, they need to be bound by a common strategic vision and a high level of trust based on shared values. If these elements exist, visionary banks understand how a joint opportunity could substantially outweigh commercial risks.

Investment

For visionary banks, the credibility and reputation of a platform owner is key in determining whether to invest in new platform operating and business models. They believe investment in platforms should be highly customized and determined by the specific objectives and needs of each particular platform.

Measurement

With the exception of risk, compliance, and social benefits, visionary banks see performance measurement quite differently from their more traditional peers. Executives from visionary banks tell us that new cross-industry platforms are set to fundamentally transform the way performance measurement is captured and reported—from measurement and mix of fixed and variable costs to measurement of revenue and profitability.

Regulation

Leaders of visionary banks strongly believe that regulatory environments open to and supportive of innovation are essential to the successful development of new cross-industry platform business and operating models. But visionary bank leaders are also more likely to recognize that regulation is a two-way street. Not only do regulators need to allow innovation to flourish, they also need to respond to new types of business models and other commercial opportunities with appropriate new regulations.

Key questions

- What role should your organization play in the new evolving banking industry ecosystem? Do you envision your organization as an integrator, provider, specialist, or orchestrator?
- How do you think the emerging environment and the rise of platform models will impact your organization and its performance? How do you plan to measure success compared to peers and other cross-industry participants?
- Do you anticipate the need to organize your organization differently to enable participation in cross-industry platforms? What new or additional workforce skills and capabilities might your organization require to succeed in the era of cross-industry platforms?
- Does your organization possess requisite technological capabilities to enable efficient handling of multiple interfaces and varying workloads from a cross-industry and ecosystem connectivity perspective?

Action guide

Banking on the platform economy— India point of view

Visionary banks realize that traditional banking strategies and activities must change. Radical transformation is required across business and operating models and in the way resources, business processes, and technologies are assembled to create value. How can banks reorganize the way they do business to compete successfully in an age of new cross-industry platform business models? We have identified six steps designed to help simplify the process significantly.

Redefine strategic goals

Place microscopic focus on customer experience through data-driven insights and bespoke customer services to help drive sustainable revenue growth and increasing profitability. At the same time, radically reduce costs through greater transparency of cost structures and technological innovation. This requires building a business based on configurable components and a technology platform that allows appropriate responses to changing conditions with speed, flexibility, and adaptability.

Value is created by collaborating with clients, partners, and suppliers and then carefully sourcing and integrating their components and data. Increase focus on strategic goals using on-demand technologies—available when and where required—that are immediately integrated, open, and financially productive.

Establish robust governance and clear roles for operating on the business platform

Create a robust yet flexible governance framework for a configurable business model that mirrors the ever-changing business environment. Employ a component business model that enables your organization to orient itself, plan its journey, and move ahead with structure and confidence. In addition, identify which business components are differentiating and how they can create value, specific to the business model.

Agree on standards for embedding interfaces into the platform

Define standards for business components to make them reusable, interchangeable building blocks of functions, processes, and services—and build confidence and trust across ecosystems. Allow access to these blocks through standardized interfaces to create new business functions when needed.

Create a platform by first identifying a business model for creating value and then the role for delivering value across the ecosystem. Integrate components end-to-end and synchronize them to create value; this converts commoditized components—and their costs—into growth opportunities.

Develop integration capabilities for componentizing products and business capabilities

Componentizing business and associated technologies helps build speed, flexibility, adaptability, and options for managing costs. Use components directly, whether outsourced, co-sourced, or produced in-house, to create almost immediate value. Each component can be modified or improved without affecting links to other components. The method behind choosing to componentize the business is unimportant to users and customers because they do not need to know or understand the internal details.

Build and coordinate individual capabilities to develop new ecosystems

Coordination is essential to both business componentization and ecosystems; technology helps component pieces fit together while synchronizing their access and use. Business components should be deployed on demand to help transform structures for radically reducing costs and to open up new collaborative and service opportunities.

Redefine what value means to the organization. Then measure and report value effectively.

Traditional value measurements of productivity and efficiency are oriented to manufacturing (physical outputs divided by physical inputs). Value for platform business models relates more to dynamic management of business relationships, data, and other intangible assets. Question how to measure business value correctly for the platform business model and role in the ecosystem.

Value can be produced across the entire organization with processes and tools that use componentization and are designed to free up time. Establish or increase a growth culture based on productivity, collaboration, and innovation.

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Research methodology

We surveyed 850 executives from the banking and financial markets industries, including 75 banking and financial markets executives from India, regarding the dynamics of emerging banking and financial markets ecosystems and platform business models. The 850 respondents represented a variety of C-suite roles from across the globe (19 percent North America, 7 percent South America, 27 percent Western Europe, 9 percent Middle East and Africa, 13 percent Greater China, 9 percent Japan, and 16 percent Asia Pacific). Questions focused on participants' readiness for adoption of platform business models and the benefits and roles such models could play in the future.

Related publications

Diamond, Sarah, Nick Drury, Anthony Lipp, and Anthony Marshall. "Realizing tomorrow today: Digital Reinvention in banking." IBM Institute for Business Value. October 2017. <http://ibm.biz/drbanking>

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