5 Steps to Realizing the Vision of the Platform Banking Model

Driven by ecosystem orchestration, reduction of marginal costs, and collaborative innovation, platform business is fast emerging as an important pillar for success in the digital world. A recent report from McKinsey says, "Platform is the preferred operating model for 7 of the world's 12 largest corporations". However, none of these organizations are financial institutions. Banks are lagging behind in adoption of the platform business model.

Banking executives are aware of the advantage of platform business - platforms can help banks retain their competitive edge in a world where customers are constantly resetting their expectations based on their experiences across sectors. But platform is a new business model for banks, and designing and building a platform is a new and sometimes confusing journey. Some important questions before a bank looking to build a platform business include: Shall a bank acquire a platform, or build it from scratch? Shall the platform run on the cloud? Can a bank develop its own API standard or wait for an open standard from regulators? Is an outside-in approach better than an inside-out one when designing platform interfaces? How to measure the success of platform business and how to monetize the platform?

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Understanding the potential value of data is the foundation of a bank's platform business model, as several chief architects concur by recommending a thorough data governance model as a key prerequisite. However, there are a variety of other considerations such as interface design, infrastructure and KPIs that banks must weigh in on.

This article talks about a five-step process for banks to review their platform strategy, and overcome any implementation challenges.

#1 Segmented Platform Strategy

Banks don't need to "create a platform from scratch."

Yes, platforms help consummate matches between suppliers and customers. But the role of a platform is more than being a modern middleman. It is about relevance, control, innovation, and monetization. Moreover, banks can use the platform to remain in control of their customer data and explore ways to monetize this data for additional revenue.

Banks do not need to create a new platform from scratch to be a matchmaker. To stay relevant to their customers' digital journey they can partner with a digital firm's ecosystem. To build innovative customer experience they can allow FinTechs to access their open APIs. Banks looking to gain from synergies with non-banking businesses can choose to acquire an e-commerce platform. Thus banks must zero in on their strategies according to their priorities.

Strategies segmented by data ownership and accessibility

To help banks explore strategies for platform business, we have summarized six approaches relevant in banking (refer to the Finacle document - A strategy framework for platform banks). Based on the two dimensions of data ownership and data accessibility, our segmentation model can help banks align their platform strategies and deployment models more closely to the needs of the ecosystem. Banks can choose to embed, create, curate, participate or buy a platform business. For instance, creating an API gateway, building an online car marketplace, and exchanging Amazon loyalty points.

There is no one-size-fits-all strategy. Different platform approaches come with their own unique challenges. Participating in mega-size ecosystems of digital firms could be a time-to-market hack for banks transitioning to the platform model, but it also puts them at a risk of losing data ownership. A leading bank may choose to leverage its network to curate an ecosystem, this approach may not scale as much as the bank's open APIs. Banks may choose to create marketplaces for financial products, but may find it challenging to get a large number of participants from other banks.

Whether it is creating banks' API gateway, building an online car marketplace, or exchanging Amazon loyalty points, banks need a careful evaluation from two critical dimensions – the ownership of data, and the accessibility of data (refer to the Finacle document – A strategy framework for platform banks). Banks can then select their best-fit strategies in the context of their ecosystem requirements and their infrastructure constraints.

#2 Scalable Infrastructure

Start small

Bankers have traditionally been and to a large extent continue to be risk-averse. Given the lack of experience in platform business, banks often choose to start small with respect to budgets and resources. An international bank is known to have started its open banking initiatives with a team of just five engineers and analysts. Apart from mitigating risk, starting small also endows the bank with an agility to innovate. For instance, banks can get an open API marketplace up and running in a couple of months and enrich the functions later.

Plan big

"Start-small" often leads to cost-effective solutions, such as open source tools and simple out-of-box products. While there's nothing wrong in adopting the open source approach, it must be ensured that the infrastructure – hardware, database, middleware, and traffic management – that fits a short-term solution in a start-small approach is scalable and manageable to meet the future demands. Platform business may grow at an unprecedented pace. A bold forecast estimates 80% of new transactions and services will initiate from platforms. Stepping back from estimates to the scenario today, Ant Financial is said to have sold over one hundred million insurance offers through Alibaba's platform in its Single Day campaign. So, although starting small is advisable, planning small spells doom. Banks must "plan big" and ensure the scalability of their underlying infrastructure. They should explore a traffic management component for their infrastructure or run their platform on cloud.

#3 Ecosystem-centric Design

Easy plugin

Bank CIOs have a variety of options to build platform businesses: in-house, platform vendors, ecosystem partners, and open source tools. In taking their platform businesses off the ground, banks must reach out to vendors, regulators, and partners, with an unrelenting focus on the key requirements for a good platform design: light-weight, secure, time-to-market, scalable, and importantly, ecosystem-friendly interfaces. Many of these rules could be summarized in a single design principle: easy plugin.

Architects sometimes design platforms based on legacy architecture and interfaces so that existing core capabilities can easily integrate into new products. Nevertheless, a platform, as an orchestrator of ecosystems extending across sectors without borders, should be able to plug in third parties easily and quickly. Easy plugin is an outside-in rather than an inside-out approach for designing ecosystem-friendly interfaces.

Open standard

Business consortiums and regulators have become an important catalyst to many platform business initiatives, for instance, standards for open banking. The Association of Banks in Singapore published an API playbook in 2017, and HKMA launched a consultation on the new Hong Kong Open API Framework early this year. Needless to mention Open Banking in the UK and Australia, PSD2 in EU, and UDI in India, have already got banks transforming themselves for compliance.

All these frameworks and guidelines provide references to API security and catalogs. However, while harmonization of open banking interfaces is important, it may defeat the purpose of time-to-market, given that administering any kind of standardization in banking takes years to happen. If banks want to scale their platform business to thousands of partners and developers, it may be worth considering speaking with Fintechs, digital firms and IoT manufacturers who can help design APIs as the key consumers of banking APIs. Eventually, open banking is not just about banks opening up their data to each other for regulatory compliance, but also a key opportunity to grow their ecosystem business. Although the importance of regulatory standards can't be emphasized less, bank executives should design open APIs not just based on exposed core banking interfaces or regulator's API standard. What is required is an ecosystem-centric, domain-based and outside-in approach to make platform business effective, user-friendly and scalable.

#4 Driven by New KPIs

To successfully evaluate the performance of platform business initiatives, traditional value metrics of revenue, cost and risks are not sufficient. A new set of KPIs and metrics are needed to help banks measure and ascertain how well they fare on their platform strategies and API strategies. New dimensions such as traffic, conversion, and monetization are critical for effectively evaluating platform businesses.

Monetization matters but should not be a key priority at the beginning

Banking executives typically have a common question in mind before launching a platform initiative - how to monetize the platform business. Platform business is designed to reduce marginal costs so that consumers can get better products at a lower price. On the other side, monetization as a new revenue source adds extra cost for platform transactions. Experiences from other industries portend that monetization right at the start could potentially slow down the growth of platform business, and bank executives should focus on making connections and increasing traffic when starting out on their platform journey, rather than obsessing over ways to charge money from partners and third-party developers. However, banks should ensure that their infrastructure lends itself well to monetization, which might be key to the success of their platform at a later stage.

Focus on customer experience, traffic and context

Key questions that banks must answer to accurately assess the performance of a platform include - How many services and transactions pass through API gateways? How much purchasing is done by marketplace platforms?

New KPIs such as integrated customer experience, traffic, and conversion should be designed for benchmarking platform performance. Integrated customer experience gives a consolidated view of customer satisfaction. Most customer experience KPIs are measured in siloes. Measuring traffic is critical for evaluating the scalability and influence of banks' platforms and their influence in their ecosystems. Apart from being a key indicator of monetization and innovation, conversion rate is an important metric to validate that banks offer the right services in the right digital context.

#5 Be Aggressive to Make Connections

Harvard Business Review says the success of a platform strategy is determined by three factors: connection, gravity, and flow. Connection is how easily others can plug into the platform to share and transact. Gravity is how well the platform attracts participants, both producers, and consumers. A good connection and gravity could be justified by how many connections the platform makes with partners and consumers to consummate the right matches. It requires banks to get the wheels in motion for a thorough plan to actively "sell" the platform to ecosystems.

Sell the value

A recent report from Mckinsey says "companies pursuing aggressive platform strategies yield a better payoff in both revenue and growth." An elaborate API catalog and a flexible sandbox environment make a good first impression to partners and third-party developers. Meanwhile, banks also need to have a connection story ready, a story that tells how the matchmaker could create added value for third parties. To achieve that, a well conceptualized marketing and partnership plan needs to be in place to be able to actively sell the value of a platform, and make the right connections. Unfortunately, a platform working group is usually made of program managers, business analysts and architects. Banks should expand this composition to include marketing and sales specialists in the task force.

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Target user in a bigger ecosystem

Ecosystems comprise more than consumers and FinTechs. Customers live a digital life made possible through an ecosystem of telecom operators, digital firms, social apps and IoT device makers. To effectively promote partnerships and attract more traction and traffic on platforms, banks should understand who their target users and partners in the platform business are, and should reach out to them actively. As in all initiatives, the 80/20 rule applies to platform businesses too. In this context, typically 80% of traffic is brought in by 20% of the participants of a platform. A successful partnership with major digital firms thus bodes well for quickly bringing in massive traffic to open banking platform. The story of how Alibaba fetches a sales figure of about 100 million insurance products to Ant Financial is proof of the value a great targeted partnership brings to a platform venture.

Recommendation

In 2018, platform business sits firmly atop the strategic agenda for banks' digital transformation. Be it creating, curating, participating or investing, banks should formulate a platform strategy that connects well and fits just write in their ecosystem. To truly realize the vision of platform business, bank executives should:

- Understand the potential value of data and assure the readiness of a data governance model
- Choose the right strategy based on the segmentation model articulated above, and the bank's business context
- Design a secure, agile, scalable, and ecosystem-friendly open platform that supports monetization
- Be aggressive to make connections with developers, partners and consumers
- Develop a new set of KPIs such as traffic and conversion to benchmark platform business

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