A Revolution in Business Model Changes in the Financial Services Industry

**Death of Proprietary Platforms**

Most of today’s business is conducted on proprietary platforms owned by financial institutions which manage and regulate customer interactions and transactions. While the technology world is fast embracing open source technologies which gives greater control to its customers, businesses are still driven largely through proprietary platforms.

An analysis of start-up firms, which target discontinuities and inefficiencies in business models, suggests a fundamental shift towards customer controlled and managed platforms. The personal-finance category revealed more than 30+ start-ups (10+ in mobile banking and 13+ in payments) using this business model to drive systemic growth. These platforms offer functions which range from investment analysis, portfolio advice, expense management, budgeting and bills management. Information gathered through these customer managed platforms is used to provide low-cost, custom personal solutions to its targets in a low-touch, high intrusive environment.

Wealth Management is at the forefront of this. Personal Capital provides a free platform for customers to manage their entire finances – assets, investments, spending and liabilities with full access to financial dashboard and mobile applications. They use freely available, non-threatening customer insights to build a tailored fee-based service linked to a financial advisor, thus redefining power in the hands of the customer. Such non-intrusive interactions will not only help develop a deep and strong insight into individual customers’ behaviour but also prepare organisations for future product or service innovation.

**Transacting at the Point of Truth**

If you recollect your last online purchase, you used PayPal at the point of truth - the moment in time when you were checkout the purchase and ready for payment. PayPal does not take you to their portal to complete the transaction but effects the transaction at the point of truth of the buying cycle. In the same analysis of payments start-ups, this trend is evident where over 12 start-ups are conducting business at the point of truth that includes functions around loyalty and rewards, new distribution channels, processing and collection.

Companies today continue to spend millions of dollars revamping corporate websites or net banking Portals to make it easy for customers to access the right products and services and manage interactions through the customer life cycle. Customers are expected to transact on the bank or insurance company’s online portal. Consider a scenario where you have recently received your monthly salary and are busy indulging in a luxury good purchase online: how impactful will it be if your credit card provider can trigger alerts to give you a real time estimate of your future net worth and the effect of your purchase at the point of sale on mortgage repayments or upcoming credit card payments? Businesses of the future will make themselves available where the customer wants them to be instead of forcing them into their environment for effecting transactions.

**To enable these shifts, companies need to have**

- **Differenced Execution**
- **API-led**
- **Peer-to-Peer**
- **Redistribution**

These changes will progressively impact business, leading to the

- **Shrinking Enterprise**
- **Rebirth of the CIO**

**Step-up or be left behind**

“In times of rapid change, the learners inherit the earth, while the learned find themselves beautifully equipped to deal with a world that no longer exists.” — Eric Hoffer, American moral and social philosopher

Only 12% of the companies that were featured in the 1955 Fortune 500 list made it to the same list in 2010. Traditional business models are becoming outdated and made irrelevant with the radical evolution of the cloud, fresh thinking and innovation. According to Incoight, the tenure for an average firm was 61 years in 1968, 25 years in 1980 and 18 years today which will only fall further. In today’s environment of volatility and disruptions, playing safe will make you extinct. To stay alive, the focus on operational efficiencies will have to make way to “true” innovation. Organizations will need to experiment with and adopt new business models to survive.

Balaji Ram, HCL
Head of Financial Services, AU & NZ

**PERSONALIZED APPS STORE**

The future will be all about financial institutions using technology to create rapid expansion in fee-based income and instruments. Successful institutions of the future will provide APIs for customers to build their own personalized or customer demographic based applications and business services instead of a typical enterprise app store. Imagine a bank, by virtue of the deposit and credit card transactions, providing profiling, spending categorization, cash inflow and outflow estimate APIs. Prospective customers and businesses can then use these APIs to create their own personalized dashboard with portfolio management or investment functions which integrates balances across accounts. Custom alerts can also be generated for spending on credit cards and demand identification for smarter sourcing and consumption which reduces their monthly expenses. Credit Agricole has opened its apps store to third parties and more than 40 apps have been launched across budgeting, savings and social functions. RIA has also created a new API platform exposing customer account and transaction structures for third party developers to build apps.

“**To enable these radical business model shifts, institutions will need to bring in a systemic change in their delivery models by dramatically altering execution, service procurement and IT skill requirements.”**

In order to achieve a differentiated execution in operations, almost every piece of technology will need to be integrated and abstracted as services (business or technical, predominantly on a SaaS model. This will also demand new capabilities in terms of enterprise-wide dashboards, lifecycle management and monitoring of different application and infrastructure tiers.

With reduced time to market and the ability to trial multiple features simultaneously across various demographics and markets, companies can significantly increase the number of product or function releases each year. These iterations executed on the Cloud can be rolled out or rolled back almost instantaneously depending on the success of the release.

The move to a customer-based execution model instead of a traditional product- application- or device-based model to deliver a future enterprise model will become predominant. This will lead to a hybrid multi-tiered execution model for different application classes – functional vs. productivity vs. common shared applications on a mix of delivery models such as local installation vs. SaaS vs. PaaS supported by remote services. Procurement models will need to mature into an evolved Business Process as a Service vis-à-vis a SaaS or other traditional models prevalent today.

IT skill sets will need to be restructured, as a result of the growing congruence of disciplines such as statistical modelers and data scientists from mathematicians, creative designers from arts and campaign managers from marketing.