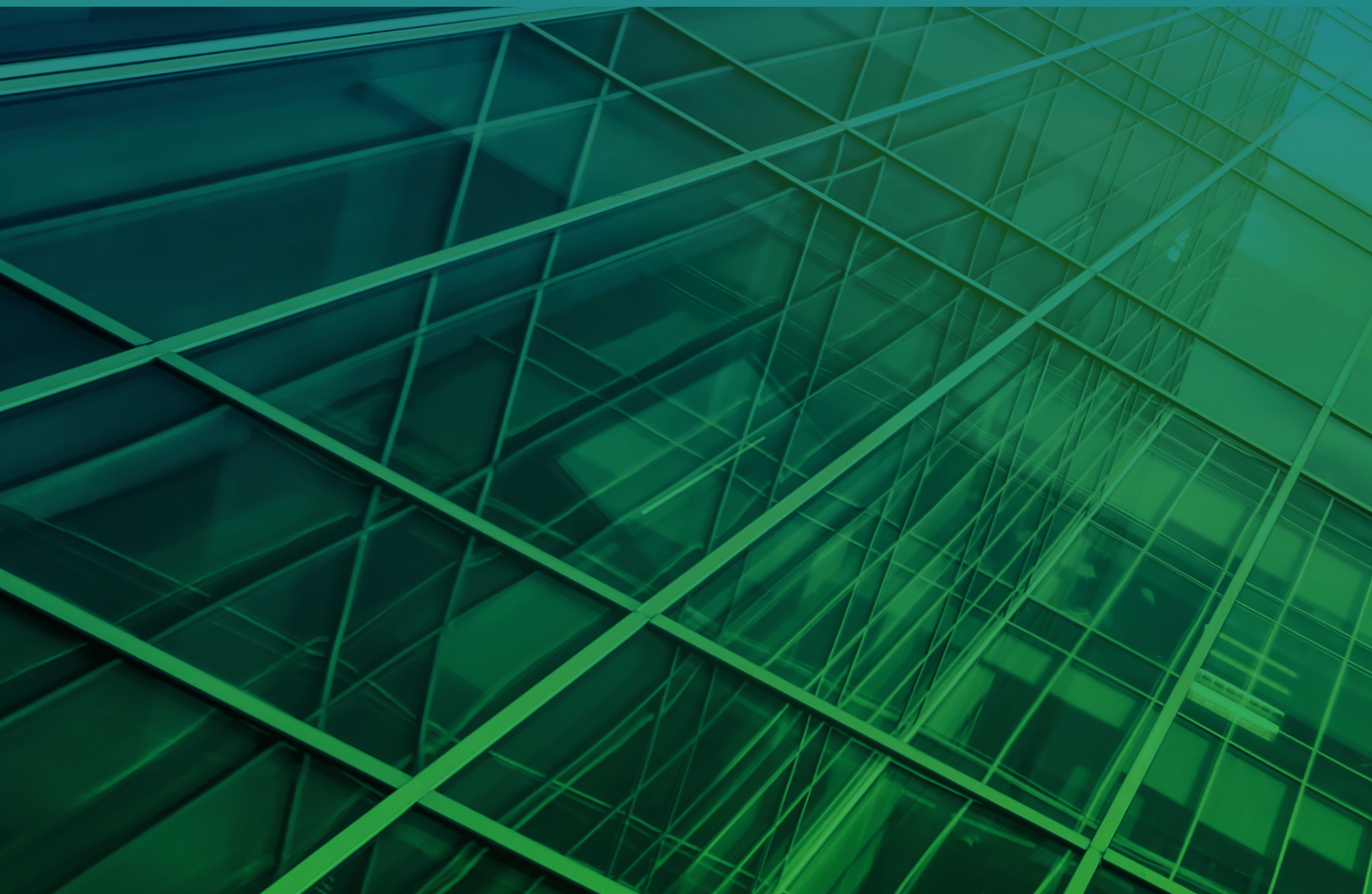




**WHITE PAPER**

# **RESPONDING TO EXTERNAL THREATS: IS IT TIME FOR PLATFORM BANKING?**

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## The Rise of the Fintech Threat

The term “fintech” became part of our lexicon in 2008, the same year the Global Financial Crisis started. The first fact is not a happy coincidence of the second. At a time when distrust in banks was at its peak, we saw fintechs such as Stripe, Dwolla, PayPal, Greensky and Prosper not just enter the “banking exclusive” domain of payments, but flourish and grow quickly.

The success of these fintechs can be attributed in part to people’s attitudes towards banks at the time, as well as our acceptance of using phones and tablets as tools in our financial lives. But, truthfully, the fintechs also provided a “faster, cheaper, better” alternative to traditional banks.

- 1 **Faster:** A lot of the fintech services at the time could provide same-day or next-day access to funds versus banks that could take several days to complete a transaction.
- 2 **Cheaper:** Fintechs were more transparent and affordable versus banks that charged high fees and commissions on relatively simple transactions like ACH and wire transfers.
- 3 **Better:** Fintechs focused on creating good digital user experiences with ease of use and simplicity.

Following the success of early fintechs, we saw new fintechs like Orange, Kickstarter, Skrill, and TransferWise enter the payments space. We now have a wide array of payment and lending alternatives that range from cross-border money transfer to peer-to-peer payments and lending services. And many of these technologies are now firmly entrenched in our daily lives– the digital wallet, for example.

## Fintechs - From Competitor to Collaborator

So, with fintechs successfully entrenching themselves in the payments space, competition between banks and fintechs heated up. Fintechs popped up in the deposits, financial planning and finance domains. They established relevance by not being a bank and focused their strengths in developing innovative solutions that appeal to consumers’ increasingly technology-focused expectations and adapting quickly to emerging trends in the financial services space.

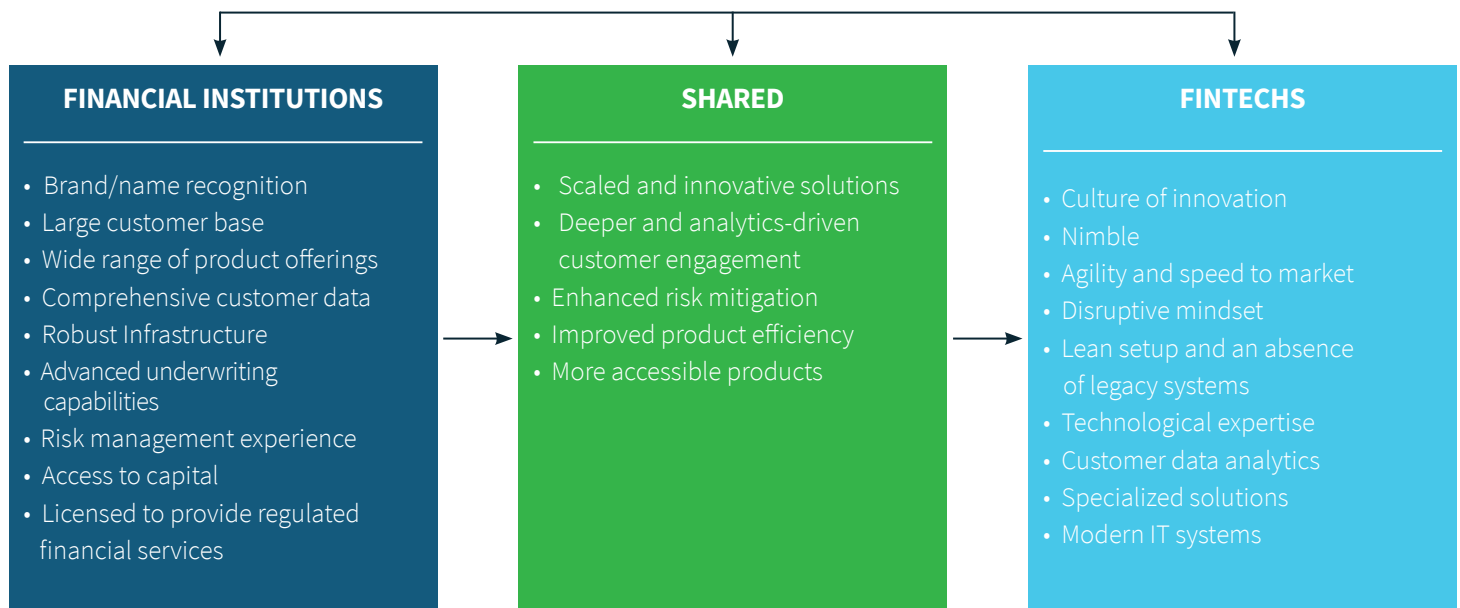
In contrast, traditional banks are built on outdated back-office technologies that are often mainframe-based and lack easy integration capabilities. This has created a convoluted mess as banks have added layers of technology over the years to modernize.

However, what banks lack in agility, they make up for in experience, regulatory support, connected networks, data and, most importantly, customer trust. When large dollar amounts are involved, customers would rather deal with a bank than use a fintech service. And customers would prefer to discuss a complex financial product, like a mortgage, in person instead of with a faceless online chat assistant.

Finally, after years of competing, banks and fintechs are starting to collaborate. Banks are introducing heads of fintech, launching accelerator programs, and announcing fintech partnership deals. Notably, French banking giant BNP Paribas recently announced a fund to support and invest in startups that are developing new platforms for the financial services and insurance sectors. According to the official announcement, the fund “will also make indirect investments through Venture Capital funds whose priorities in technologies (such as AI, data, blockchain, cyber-security...), geographies and topics match those of the BNP Paribas’ businesses.”



Source: <https://cbi-blog.s3.amazonaws.com/blog/wp-content/uploads/2016/05/5.23.16-bank-unbundling-graphic.png>

**Figure 2: Collaboration Benefits of Banks and Fintechs**

Source: <https://medium.com/accion/banks-and-fintech-startups-are-working-together-to-accelerate-financial-inclusion-33ddf35a7b7>

As more and more fintech firms and banks join forces, the fintech threat to retail banking seems to be abetting. Maybe so, maybe not.





## Platform Giants – The New Threat

There are new bank challengers in town: platform companies like Amazon, Alibaba, Apple and Google have all launched offerings that compete directly with banks and can win customers by cutting costs and delivering convenience. In fact, a Bain & Company survey of more than 133,000 banking customers in 22 countries found that consumers trust Amazon and PayPal with their money nearly as much as their banking providers. Some 55 percent of U.S. consumers said they are open to buying financial products from established tech firms. And, 73 percent of millennials said they would be more excited about a new financial offering from Amazon, Google, PayPal or Square than from their bank. If a platform giant like Amazon did decide to move into banking, they would enjoy some major advantages over traditional banks and credit unions: better data, a superior user experience, a digitally native platform and tremendous customer loyalty.

Platform companies are very adept at bridging the value chains of various industries, blurring sector boundaries and reshaping one industry after the other. And on top of that, platform companies have great customer data and know how to make the most of it, especially when it comes to customer journeys that include big financial decisions.

### What are the major threats that banks face from platform companies?

**Disintermediation** - Banks lose access to customers who switch to non-banking channels.

**Unbundling** - Products and services are no longer integrated or are the exclusive domain of the bank.

**Commoditization** - Banks struggle to stand out as customers compare banking products online with greater transparency.

**Invisibility** - Banks are losing brand awareness and becoming invisible as customers can access financial services without even knowing the brand.

Platform companies expanding into financial services are targeting the origination and sales side of banking, which produced 47 percent of global banking revenues and 65% of profits for banks in 2017.

If platform companies can establish a beachhead in financial services, it could be very costly and potentially life-threatening for banks.



### A bank in everything but the name

**Amazon Pay:** Used by 33 million to pay for goods at non-Amazon sites.

**Amazon Gift Cards:** Available at brick & mortar retailers all over the country.

**Amazon Store Card:** With financing options on qualified purchases; issued by Synchrony Bank.

**Amazon Cash:** A virtual debit card that allows cash deposits to the Amazon Pay wallet.

**Amazon Rewards Visa Signature Card:** An affinity card issued by Chase Bank.

**Amazon Prime Reload:** It pays a 2 percent bonus for cash deposits into Amazon Pay.

**Amazon.com Corporate Credit Line:** A way for businesses to pay for Amazon purchases via monthly consolidated billing, underwritten by Synchrony Bank.

**Amazon Lending:** It has originated \$3 billion to smaller merchants since 2011.

**Credit Card Marketplace:** Includes Amazon co-branded cards along with Discover and American Express.

**Gift Card Marketplace:** Hundreds of prepaid gift cards from other retailers along with restaurants, travel and entertainment providers.

**Amazon Currency Converter:** For purchasing on Amazon.com in local currency.

**Amazon Allowance:** Tool for parents to enable their kids to pay directly.

**Shop With Points:** Several major banking rewards programs can shop directly at Amazon with their bank-provided points, including Citibank, American Express, Chase and Discover.

**Alexa:** Supports banking and payments info (aka skills) from a number of financial institutions, including Capital One, US Bank and American Express.

## Banks' Survival Depends on Platformification

So, how do banks compete with platform companies? By taking their fintech collaborations and partnerships one step further via "platformification."

Simply put, platformification, or platform banking, is a new business model for banks, based on an "API first" architecture that has a plug-and-play approach to adding new features and functions.

With platform banking, banks, fintechs, corporations and end-consumers connect to the platform to create and exchange value via API-based solutions. This allows financial institutions to still operate as the essential "financial center" or "hub" while allowing direct integration to fintechs and third parties.

The net result is a one-stop shop for consumers to access both traditional bank services, as well as other innovative solutions from fintech partners. Financial institutions become the focal point for both fintechs and end-consumers seeking the right products and services across a series of innovative financial solutions.

In the end, banks benefit by providing innovative new services for their customers and open the door to new revenue streams, with relatively minimal infrastructure development. Meanwhile, fintechs have access to the bank's vast financial network and customer base.

### What Does Platformification Look Like?

#### Requirement #1: Become a magnet

Without the ability to attract a meaningful number of the "right" participants, a platform cannot succeed. Simply having a lot of producers and consumers is no guarantee of success. The platform must attract the right producers (those with the most desirable products and services) and the right consumers.

**Reality:** Today's banks are consumer magnets, not producer magnets. Banks do a fairly good job of attracting consumers. But, there is no focus on attracting other producers, outside of the one-off partnerships that a bank pursues.

#### Requirement #2: Act as matchmaker

A platform requires a mechanism for matching consumers to the right producers and for enabling producers to reach the right consumers via the platform. At its most basic level, a search engine can be a matchmaking mechanism.

**Reality:** Banks only match consumers to their own products or services, if they even do that. The key to successful matchmaking on a platform is matching a consumer to a number of providers.

#### Requirement #3: Offer a toolkit

This is what enables producers (and consumers) to easily plug-and-play on the platform. Therefore, APIs are so critical to firms pursuing platform strategies.

**Reality:** Banks don't have toolkits. They have a mixed track record of integrating the products and services of the firms they partner with, let alone providing the ability to plug-and-play.

Banks today are one-sided. They attract consumers and they are the only provider of services to their customers. When offering consumers a choice of products and services, they're bank-selected products and services. Fintechs have trouble reaching consumers while banks have the challenge of not being able to provide their consumer base with expanded products and services.

If modern-day banks are going to ward-off the platform giants, the logical choice is to become more open. The clear move is to evolve the operational model and create new revenue opportunities by becoming platforms themselves, where fintechs and consumers can build their own experiences via APIs.

We are already seeing this with the likes of BBVA, CITI, Capital One and HSBC, which have all launched open banking platforms to build next generation applications.

## FIS and Platformification

FIS Code Connect is an online API gateway. It allows FIS clients to access FIS and FIS fintech partner APIs, as well as publish their own APIs to develop and test innovative new solutions.

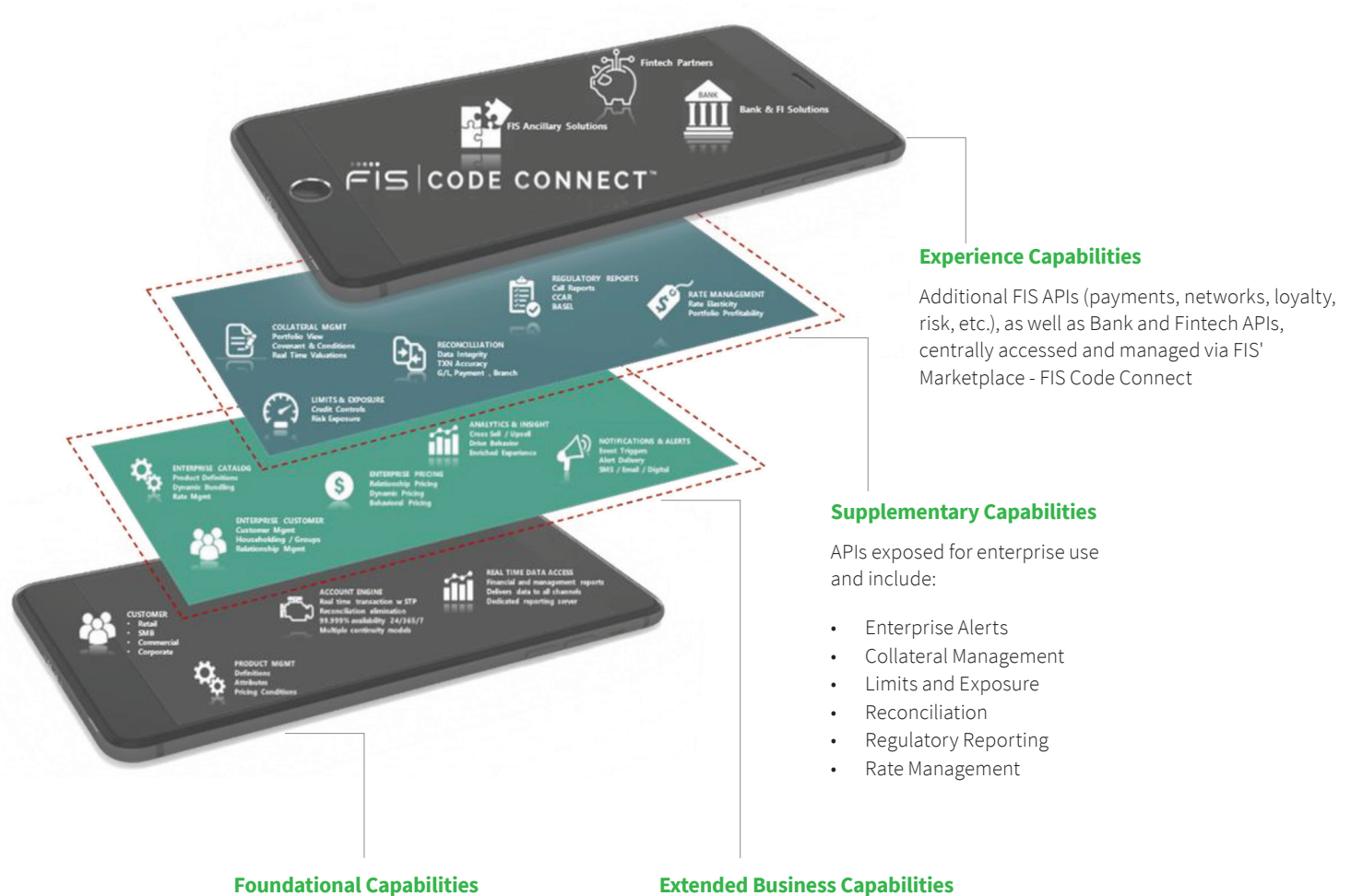
FIS Code Connect includes more than 300 APIs in the category of banking, payments and consumer finance. Additionally, it provides access to innovative application use cases, such as FIS Enterprise Customer, Mobile Banking and Account Opening.

Code Connect puts FIS clients squarely at the forefront of the open API revolution and allows clients to tap the large and growing ecosystem of technologies and solutions being developed by FIS and our partners.

FIS Code Connect gives developers access to the FIS product catalog in one central marketplace and allows banks to:

- Innovate in real time.
- Implement API solutions from the world's largest provider of core processing, card issuer and transaction processing services.
- Minimize technology restraints.
- Integrate complex environments.
- Achieve standardized access throughout their enterprise without making huge architecture changes.

## Enablement via FIS and 3rd Party Assets and Services



### Foundational Capabilities

Foundational set of process engine APIs and architecture framework:

- Cloud-ready Deployment
- Line of Business-focused Modernized Architecture
- New Technology Stack
- REST API Exposed
- Multi-Everything Framework
- Real-time, STP Processing

### Extended Business Capabilities

- API enablement, developed to externalize business logic out of the core banking engines and extend the capabilities into enterprise components.
- APIs are easily consumed with consistent and context-aware data by any channel.
- Specifically designed to be channel and core agnostic components that aggregate data across FIS and non-FIS core and channel solutions.
- Focused on Enterprise capabilities such as:
  - Customer
  - Product Catalog and Pricing Engine
  - Analytics and Marketing Platform



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