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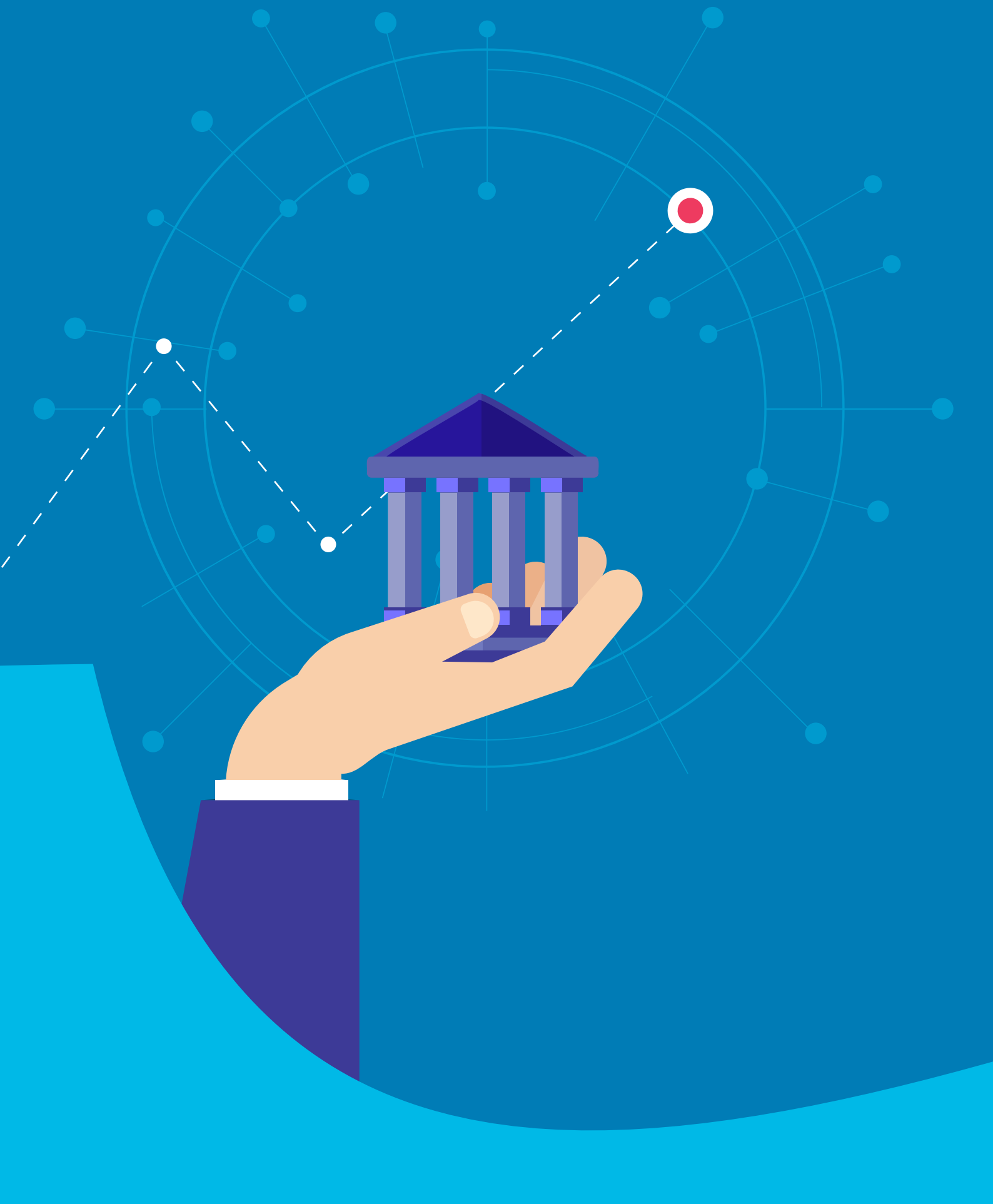
Indian Banks' Association

Platform models can help banks become agile during uncertain times



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Preface

In late 2020, the Reserve Bank of India's internal working group (IWG) recommended that large corporations/ industrial houses be considered for banking licenses because they can bring capital resources and add experience, management expertise, and strategic direction to the financial sector. More substantial infrastructure governing private lenders would be essential to prevent connected lending and exposures between banks and other financial and non-financial group entities, the IWG recommendation noted.

Some are touting the proposal as a banking reform watershed that could power India's journey toward a USD5-trillion economy.

Infrastructure spending, speedy project implementation, industry reform, and customer adoption of digital services are expected to boost the banking sector further. And as credit, lending, and payments continue their stellar rise, India's banking sector appears poised for robust growth.

Indian banks are embracing technological innovation as customers increasingly adopt digital communication. COVID-19 lockdown conditions fueled quick and far-reaching digital adoption as customers became more open to trying new apps and ways of making transactions. The pandemic-induced VUCA (vulnerable, uncertain, complex, and ambiguous) environment is a litmus test for bank capabilities to stretch and reach agilely at scale.

With increased internet penetration under *Digital Bharat*, rural customers have become as vocal as city dwellers when it comes to demand for digital banking services. The traditional banking landscape is being reimagined as new players offer innovative services to previously underserved or unbanked segments.

Today, India's bank customers have a flurry of services and providers to choose from. And within this uncertain and competitive environment, traditional banks are working to mitigate operational challenges to become a one-stop-shop for all customer needs.

It will be interesting to see which business models, players, and groups will thrive in the unpredictable yet opportunity-rich times ahead.

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Introduction

COVID-19 redefined how customers bank. Digital customers now expect financial institutions to be *everyday banks* – a single destination – for all their lifestyle needs. At the same time, technology players and new digital entrants are making their presence felt through agile and scalable platform-based business models. These models help firms get closer to customers and ensure seamless customer experience (CX).

Thriving digital and financial infrastructures are driving robust banking services growth in India. Even in rural towns and villages, digital platform reach has increased. Neo banks (digital players offering partial/full-stack banking services through their platforms) are targeting underserved segments such as small- and medium businesses and threatening established players' market share. This paradigm shift is driving banks to transition their traditional pipeline business models into platform-based models. Adopting customer- and design-centric technological innovations will help banks ensure customer stickiness while keeping competition at bay.

Open banking, which has cascaded globally, underpins the platformification trend. Some Indian banks have ventured into this space by opening their APIs to third parties to build value-add/new/top-up services. Globally, as banks struggle to adopt open banking, the industry itself is transitioning to a future state called Open X, a transparent model based on sharing data, assets, resources, and products.[1] Based on the type of engagement, firms act as orchestrators, aggregators, and suppliers. Seamlessly sharing resources will help firms expedite product innovation, improve go-to-market agility, and reduce operational costs. Agility is critical amid today's uncertain environment that demands internal efficiencies and cost reduction while digitally engaging customers.

With enormous data available through various channels, banks could study customer insights to create contextualized customer experiences that suggest appropriate products at the right time and right place. Indian customers still trust incumbents for their financial needs. Hence, trust is a key strength that can be leveraged by Indian banks that collaborate with FS and non-FS players to create a successful platform. The age of platformification has dawned in the Indian financial services landscape, and banks that embrace this trend will stay relevant and boost customer mindshare.

[1] Capgemini conceived the Open X concept as part of the World FinTech Report 2019. It is an evolutionary era in which leading industry players leapfrog open banking and participate in effective and structured collaboration facilitated by API standardization and shared customer data insights.

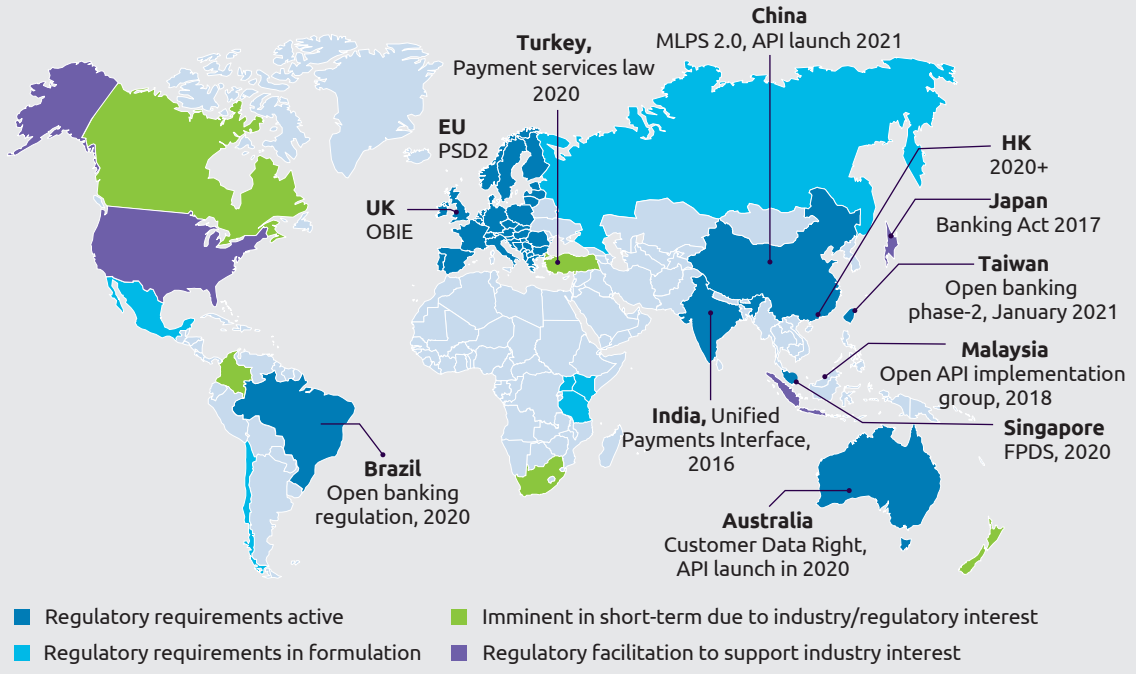
Open banking is cascading globally and driving firms to embrace open ecosystem operations

The new era is characterized by a real-time, ubiquitous banking experience. M-Pesa in Kenya, Alipay in China, and Paytm in India are redefining customer service to include hyper-personalization, on-demand, anywhere, and anytime experience. The foray into open banking, either through a regulatory mandate or industry adoption, has been disruptive. The banking world is now an ecosystem ruled by collaborative participation to ensure superior CX.

Geographically, open banking is at various stages of implementation and adoption. Although the initiative got its start in Europe, guided by PSD2 (second Payments Services Directive), its implementation is fragmented. In 2016, the UK's CMA (Competition and Markets Authority) mandated nine banks to give licensed startups direct access to their data. In the United States and other western markets, response to open banking has been somewhat tepid due to a lack of standardized implementation protocols.

On the other hand, Asia-Pacific exemplifies an elective model in which market forces shape the industry under regulatory supervision. Here, new players have paved a path beyond open banking. Following PSD2, Japan mandated open banking. In Australia, the Big-4 banks have closely aligned with the UK and have agreed to share customer data related to credit cards, debit cards, and deposits for open payments. Singapore is also finalizing an open banking plan, Financial Planning Digital Services (FPDS), closely aligning with PSD2 (Figure 1).[2]

Figure 1. Approach to open banking – A global snapshot



Source: Capgemini financial services analysis, 2021.

[2] Forrester, "The State Of Open Banking In Singapore," Sep 27, 2020.

Even in India, the Central Bank released a draft for a regulatory sandbox as firms share APIs due to FinTech segment growth and greater adoption by banks. There is no regulation mandating open banking in the country, but banks are collaborating with FinTechs to tap massive and latent market potential. Further, India's financial and digital infrastructure is encouraging an open environment.

India's digital infrastructure offers a friendly open banking environment

In India, regulators are promoting the concept of open innovation. A prime example is IndiaStack, an open API-based technology stack dedicated to facilitating a unique multipurpose identification system. Combined with other India Stack solutions including "e-know your customer" (e-KYC), Unified Payment Interface (UPI), e-Sign, and Digital Locker, it enables contactless, paperless, and cashless delivery of banking and insurance services.[3] By the end of 2020, the unified payments interface (UPI) developed with India Stack as its backbone had recorded 223.4 crore transactions in volume and INR4,16,176 crores in value.[4]

The Reserve Bank of India (RBI) created Payments Infrastructure Development Fund (PIDF) in 2020 worth INR 5-billion to support and improve Digital Acceptance Infrastructure in India with primary focus in Tier VI to Tier III Centres (Rural and Semi-Urban centres) and North-Eastern States.[5] At the start of 2021, the central bank launched a Digital Payments Index (DPI) to measure digital payments' penetration based on five parameters, payments enablers, payment infrastructure – demand-side factors, payment infrastructure – supply-side factors, payment performance, and customer-centricity.[6] According to FIS' PACE Pulse survey 2020 over two-thirds of Indian customers use digital or mobile banking platforms to settle transactions.[7] With the entry of account aggregators and the establishment of lending setup, OCEN (Open Credit Enablement Network), the ecosystem is poised for the next phase of growth, not only from the banking sector but also from insurance and securities.

FinTech innovation booming, especially in payments and lending

FinTech innovations such as e-wallets, payment gateways, UPI, and peer-to-peer lending have expanded banking services to a broader customer base and enabled a seamless banking experience. The emergence of small finance banks, Micro Finance Institutions, rural banks, payments banks, and post office savings banks are targeting a niche user base via tailored products and trusted relationships.

India's FinTech sector comprises about 2,175 startups, constituting about 10% of its total tech startups. Despite COVID-19, FinTech continued to be the top-funded sector in H1 2020 with USD1.47 billion in investments, up 60% year-on-year. Digital payments, insurance comparison, and alternative lending are the most popular use cases.[8]

The RBI has been proactive in examining and setting up regulatory frameworks across various FinTech verticals such as digital payments, P2P lending, and more. In January 2020, the RBI gave its nod to video-based KYC as an alternative to physical verification. The video-KYC process allows due diligence of the customer and document identification via video chat. The system will particularly help banks, NBFCs, prepaid wallet players, and neobanks, all of which have been pushing the edge of fully-digitized onboarding. State governments in at least eight states, including Karnataka and Maharashtra, have taken steps to create favorable policies to foster FinTech startups or establish FinTech hubs.

Digital lending market in India is witnessing a strong growth rate. However, fraud rate in the industry has come into sharp focus. As a result, the RBI has set up a working group to study the digital lending activities of the regulated and unregulated players.

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[3] IndiaStack is a set of APIs that allows governments, businesses, startups, and developers to utilize a unique digital Infrastructure to solve India's hard problems towards presence-less, paperless, and cashless service delivery.

[4] NPCI product statistics, accessed Jan 27, 2021.

[5] FinTech Futures, "India's central bank creates $66m digital payments infrastructure fund," Jun 06, 2020.

[6] Financial Express, "RBI will now tell you how India is faring in digital payments penetration with this new measuring stick," Jan 3, 2021.

[7] Crowdfund insider, "Two-Thirds or 68% of Indian Consumers are Now Using Digital or Mobile Banking Platforms to Settle Transactions, Instead of Cash: Report," Oct 11, 2020.

[8] India FinTech Report 2020, second edition

Open X – An evolution beyond open banking powered by shared assets, resources, and capabilities

Although open banking is cascading globally, its adoption has been low. Capgemini's World Payments Report 2020 survey data suggests that the percentage of banks offering APIs that both expose and consume data is anemic. Bank executives said they are not comfortable with one-sided data sharing mandated from banks to third parties, but not vice-versa.

Further, customer data protection regulations such as General Data Protection Right (GDPR) in Europe, Personal Data Protection Act (PDPA) in Singapore, Consumer Data Right (CDR) in Australia may also impact the progress of open banking. In India, the draft Personal Data Protection Bill (the "PDP Bill") introduced in Parliament refereed to the joint parliamentary committee, will bring in new compliance obligations and pose challenges in data sharing.

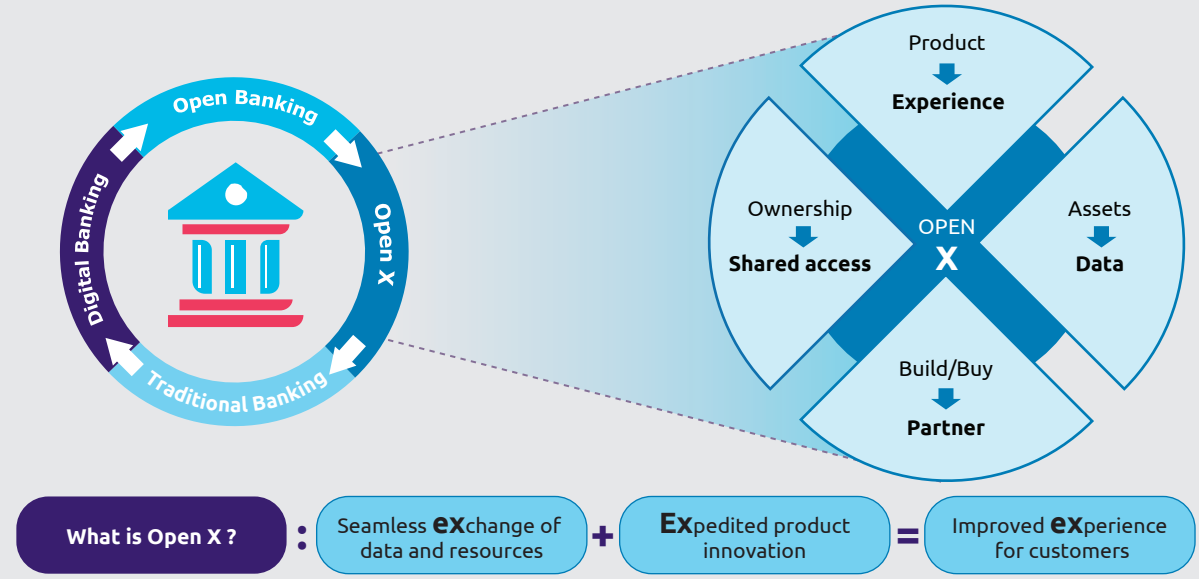
At the industry level, fragmentation due to multiple systems, the lack of interoperability standards, and dynamic innovation scenarios are causing headaches. Additionally, at the infrastructure level, clearing and settlement mechanisms differ across geographies. In this complex scenario, as regulators work on addressing fragmentation and interoperability issues, banks also could internally boost their cybersecurity mechanisms to ensure data protection. Change in mindset also is required to accelerate open banking adoption.

The booming FinTech ecosystem, coupled with the entry of BigTechs (e.g., Google Pay) and new-age players (challenger and neo banks), are disrupting financial services by seamlessly delivering superior CX and innovative products and services. Realizing the need, many established banks are attempting to tap into potential opportunities introduced by these new entrants. However, incumbents often do not have the competencies to replicate new-age experiences and need partner support. Moreover, regulatory bodies are pushing established banks and new entrants to work together. The result? An open ecosystem that depends on collaboration. We call it Open X! (Figure 2).

Open X era players will collaboratively share resources with a primary focus on customer experience versus product delivery. Instead of assets on the balance sheets, customer data takes center stage. Players monetize their infrastructure and capabilities and partner to overcome portfolio weaknesses versus attempting unilateral product development.
Open X fosters a seamless **ex**change of resources to **ex**pedite product innovation while delivering superior customer **ex**perience.

To remain relevant within the new ecosystem, firms will have to think beyond open banking to a shared marketplace future. As Open X makes its way into the industry, new specialist roles are developing. These

Figure 2. Open X - The future of an open ecosystem



Source: Capgemini financial services analysis, 2021

[9] Financial Express, "App-based loan provider MoneyTap hits 100k installs in 3 months," Jan 24, 2019.

roles are not business model exclusive but business-case specific. Each ecosystem entity mixes and matches these roles depending on the business model in play.

Supplier: In this role, the bank focuses on developing products and services, leaving distribution to a third-party or external player.

- Indian bank RBL partnered with Money Tap, an online digital lending service provider. Money Tap acts as an interface and distribution channel for targeting and acquiring customers, while RBL handles all financial transactions (such as billing, repayment, or withdrawals). RBL acts as a supplier while MoneyTap is the service distributor.[9]

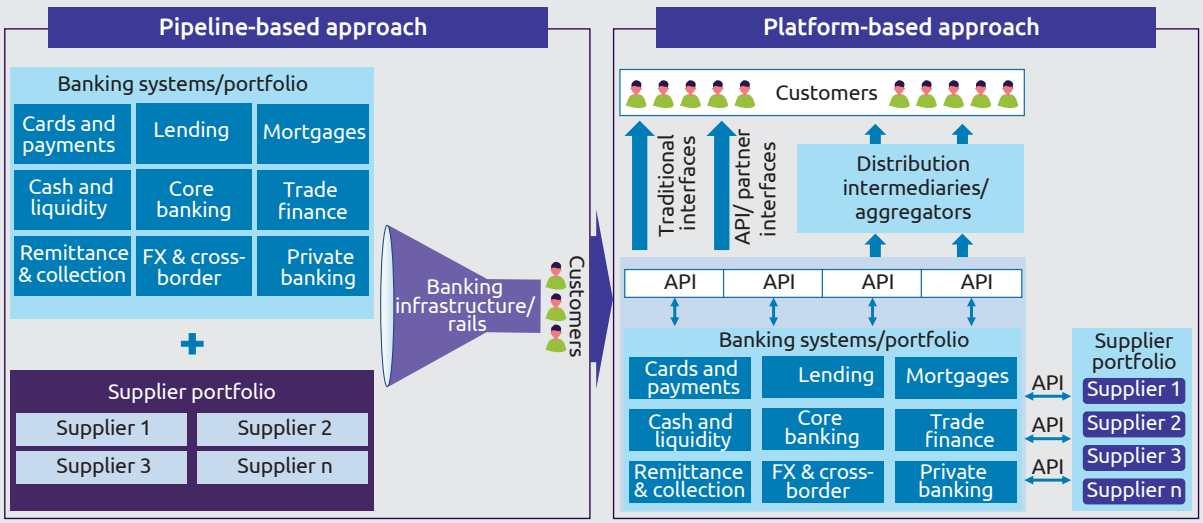
Aggregator: In this role, the bank delegates product and service creation to a third-party or external player but uses its internal channels for distribution.

- Open Financial Technologies, a FinTech, partnered with ICICI Bank to integrate its payments platform for micro-, small-, and medium enterprise customers. The integration enables the bank's current account holders to connect with the Open platform to carry out invoicing, online payments, vendor payouts, and accounting. In this case, ICICI bank delegated product innovation to a FinTech while using its distribution channels to launch the product.[10]

Orchestrator: In the orchestrator role, banks become facilitators of a marketplace for various FS and non-FS propositions and enable beyond-traditional banking with an extended service portfolio and client base. Acting as a central entity, the orchestrator firm joins ecosystem partners by connecting and coordinating their interactions to create the most value. This role links suppliers and aggregators and orchestrates their interactions.

- The State Bank of India (SBI) supports a digital ecosystem via its smartphone app YONO, a B2C platform linked to 75 international e-commerce players (Amazon, Uber, Airbnb, Booking.com, and Expedia) across various categories (fashion, electronics, home furnishings, travel, holidays) to cater to customer lifestyles. Launched in 2018, YONO (You Only Need One) broke even in two years, and it's revenue increased by 40% since launch.[11] [12]

Figure 3. Representative snapshot of a bank transitioning to a platform-based model



Source: Capgemini financial services analysis, 2021.

[10] FinTech Futures, "ICICI Bank integrates banking and accounting with Open," Nov 1, 2018.
[11] SBI, "YONO by SBI," accessed Aug 2020.
[12] DIGFIN, "Invisible banking? No way says SBI," Jan 16, 2020.

Future-focused Open X boosts network impact in a platform economy

Platform business models connect many of today's most profitable companies – the likes of Google, Amazon, Apple, and Facebook. In the past, firms across automotive, manufacturing, and oil and gas followed pipeline business models. Value in such models flowed from producers to consumers. Digital innovation rendered these business models obsolete. The product-based pipeline model paved the way for technology-driven, multi-offering platforms. Platform businesses make things and push them out to users and consumers. They encourage users to create, share, and consume while enabling interaction and commerce with each other. The result is an interwoven economy where network effects are critical. (Figure 3)

Platform-based banks derive value from a two-sided network effect whereby incremental customer growth attracts more suppliers (or service providers) and vice versa. Enabling regular dialogues and interactions among FS and non-FS stakeholders in the ecosystem becomes critical for creating network effects. Open X c be a key enabler in creating this connected ecosystem. In their specialized roles, banks can bring banking and beyond-banking suppliers together in a single marketplace to make the platform more attractive to customers. This creates a self-reinforcing cycle of growth built on network effects.

Regardless of a bank's business intent or approach to innovation, a platform-based model can offer light at the end of the competitive tunnel. Platforms enable fast and secure plug-and-play integration to make collaboration with ecosystem partners possible.

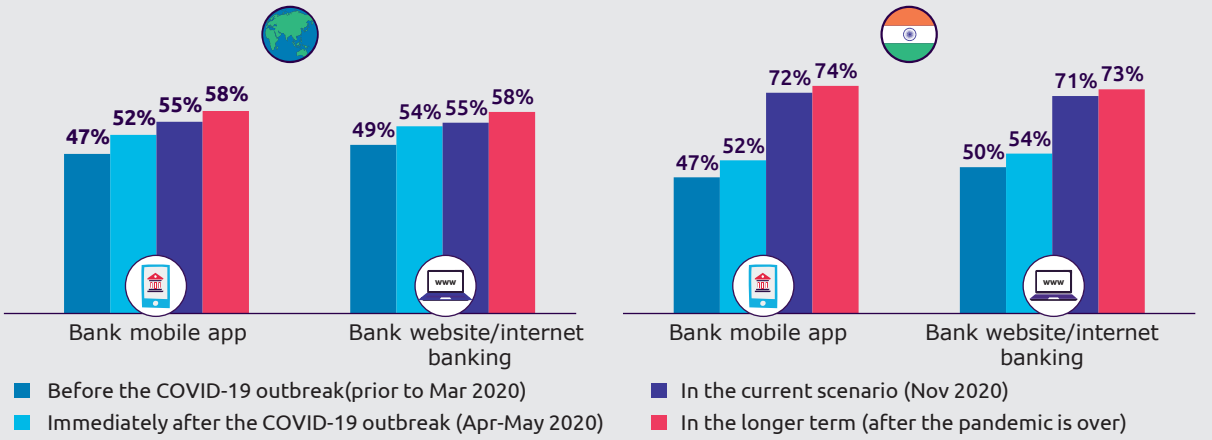
COVID-19 forced profound change within a compressed timeframe

The prevailing VUCA environment levied operational restraints

COVID-19 will go down in history as a black swan event on par with a World War for its impact on human lives across the globe. No sector has been unaffected, and the banking sector has not been immune. The financial and banking sector had to scramble to put a digital infrastructure in place to help the healthcare and essential commodities sector, as well as consumers.

Globally, banks are estimated to have faced credit losses of more than USD2-trillion across 2020 and 2021 due to the pandemic.[13] In India, banks face stressful operating conditions amid increasing credit losses, rising delinquencies, higher non-performing assets, and a stagnant economy. In a bid to revive the economy, RBI has urged banks to provision 10% on all loans and approved moratoriums, which may hit Indian banks' profitability by INR35,000 crores.[14] In such a demanding operating environment, when cost reduction surfaced as a top priority for bank executives, digital transformation became an obvious imperative.

Figure 4. Use of mobile apps and internet banking by customers, Global vs. India(%)



Source: Capgemini Research Institute, Customer Behavior Survey, April 2020, N=11,281 customers; November 2020, N=11,109 customers.

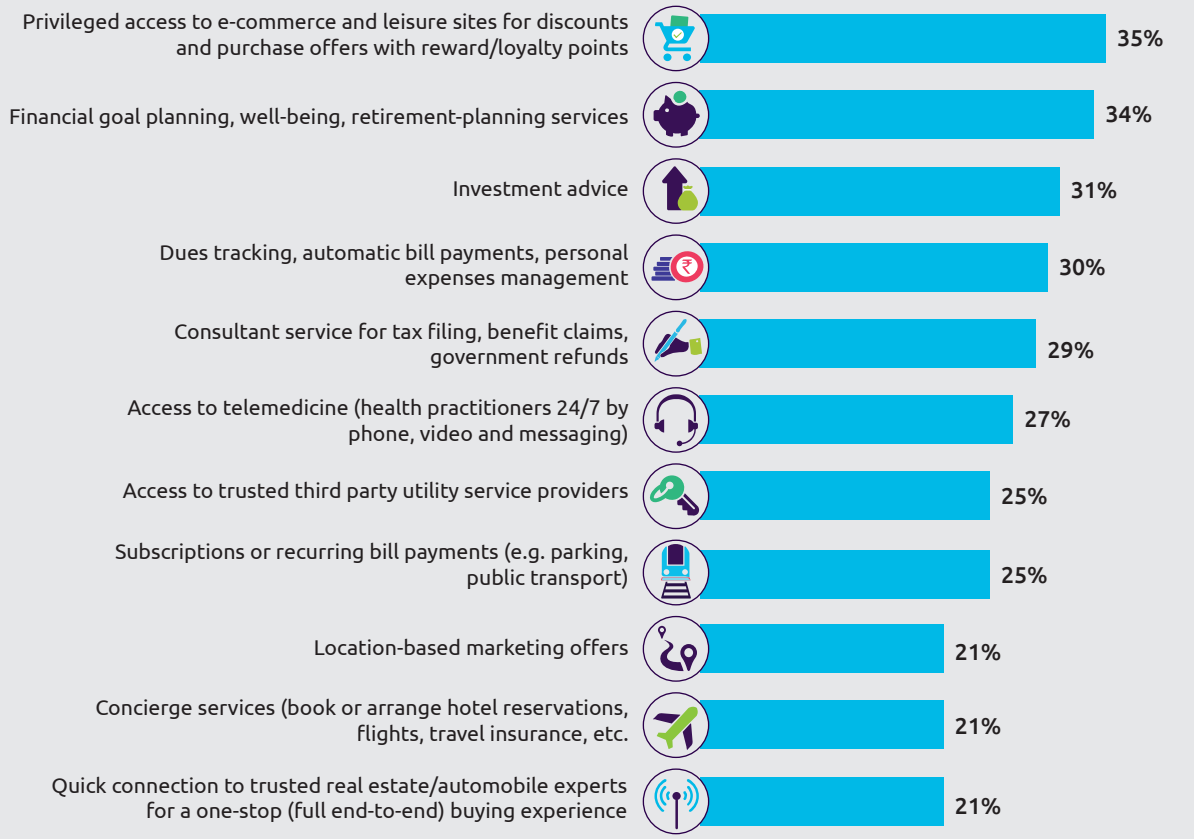
[13] Banking Exchange, "Bank Credit Losses to Hit $2.1T This Year, Research Shows," Jan 4, 2021.
[14] Economic Times, "10% provisioning norm by RBI could hit banks profitability by Rs 35,000 crore," Apr 18, 2020.

Evolving customer behaviour demands digital experience with value-added services

Capgemini's COVID-19 customer survey revealed that the increased adoption of internet and mobile banking during the crisis would prevail into the post-pandemic era. Most banks ramped up their digital presence after the 2016 demonetization.[15] However, since the pandemic, the focus is on improving customer experience and offering more diverse digital products/ services. Mobile apps continue to be critical for banks as 74% of Indian customers (58% of global customers) say they will likely continue to use mobile banking apps after the pandemic has been contained (Figure 4).

As FinTechs, challenger banks, and BigTechs transform the banking experience, it will be essential for incumbents to identify avenues for end-to-end customer engagement to safeguard their market share. Further, the likelihood of customers to switch banks is evident across segments. More than 60% of customers surveyed said their primary bank is plugged in with other platforms and applications, and 76% said they are satisfied with their digital services and capabilities. Yet, almost 62% said they found a new service provider during the crisis and would like to continue using them even after the crisis is over.[16] Out of these customers, 54% would like to use a BigTech firm, while 37% would select a neobank/FinTech.[17] What's more, over 75% of customers prefer their banks to provide value-added services across various categories. Majority of Indian customers expect value-added services in financial planning, retirement assistance, and investment advice (Figure 5).

Figure 5. Value-added services will be the key to ensuring customer stickiness



Source: World Payments Report 2020 Voice of the customer survey, N=757 customers.

[15] Demonetization: On 8 Nov, 2016, India demonetized ₹500 and ₹1,000 banknotes and announced the issuance of new ₹500 and ₹2,000 banknotes in exchange for the demonetized cash.

[16] World Payments Report 2020, the voice of customer survey, N=8,604.

[17] World Payments Report 2020, Voice of customer data, N=8,604.

Platformification is a bank transformation *must-have*

The decades-old integrated banking model that featured one-size-fits-all products developed in-house is fading as platform-based new entrants create value within an ecosystem of interdependent producers, suppliers, and distributors.

Platformification has become an effective means to expedite a firm's digital transformation journey.[18] It is often leveraged to help multiple service providers interact strategically on a single platform to produce mutually-beneficial synergies that give customers the best of the services. Technically, platformification is a remotely-hosted solution with plug-and-play functionalities where customized offerings are available as microservices.[19]

Platform models can help banks become responsive and resilient

Platform models can help banks shift from transactional to experiential banking mode of operation while reducing costs, building digital capabilities, expediting innovation, and fostering successful collaboration. As a bank evolves, its relationships become more complex. Yet, unlimited external participants can significantly influence success. Going forward, value delivered to customers will be created by the ecosystem, not by an individual financial institution.

Platform-based solutions also help reduce cost overhead and go-to-market time while helping banks respond agilely to market demands. The ability to engage a diverse ecosystem of partners, developers, and TPPs (third-party providers) is essential to rapidly innovating products and services.

Bank executives interviewed as part of Capgemini's World Retail Banking Report 2020 said platform-based firms were more capable of achieving their business priorities and were more efficient and profitable than traditional banks (Figure 6).

Figure 6. Platform-based banks meet business priorities more efficiently than traditional banks

Source: World Retail Banking Report 2020, N=80 bank executives covered across regions.

[18] Platformification: It is a plug-and-play business model that allows multiple participants to connect to it, interact with each other, and exchange value.

[19] Microservices is a distinctive method of developing software systems that try to focus on building single-function modules with well-defined interfaces and operations. The trend has grown popular in recent years as enterprises look to become more agile and move to DevOps and continuous testing.

Across geographies, banks seek to improve the bottom line by prioritizing business initiatives to increase sales or reduce expenses. And, now, bank executives recognize that accomplishing business priorities can be less challenging (in terms of time and resources) for firms that adopt platformification.

Indian banks acknowledge platform value

Driven by widespread consumer digital adoption, the use of digital platforms in India is on the rise. Changing customer behavior and demand for seamless services, broad smartphone penetration, affordable mobile data availability, and advances in financial technology are additional drivers. Digital customer spending in India is expected to be a USD315 billion opportunity by 2022.[20] Moreover, ~67% of Indian bank executives believe platform business models are disruptive for the banking industry as a whole.[21]

Neobanks' scalable platforms with full-stack services are thriving in India

Neobanks are emerging as lucrative alternatives to traditional banks. Currently, these banks are leveraging agile and scalable platforms to provide services to underserved/unaddressed segments. By the end of H1 2020, funding raised by Indian neobanks totaled nearly USD140-million (INR1018.5 crores).[22] These players may soon rival established banks. Examples include:

- **InstantPay**, India's largest neobanking platform, delivers banking services to individuals and businesses of all sizes. Businesses can integrate InstantPay's API with their applications or accounting systems. Its cloud-based API platform can auto-scale from zero to a million transactions daily. InstantPay bank partners include ICICI, Axis, IndusInd, and YES bank.[23]
- **Niyo** caters to the needs of over a million global travelers. Niyo helps users spend smartly and safely overseas. Users can pay bills, transfer funds, make online purchases, access ATMs anywhere, and track their spending habits supported by the bank's digital platform. The neobank announced its Niyo Pathshala initiative to educate India's labor force about branchless banking's benefits and features.[24]
- **Open** offers small businesses and startups an online bank account and a credit card that combines banking, payments, and accounting in a single place. Open solves the pain points business owners go through with the current banking system. Open's payment gateway API can be integrated with merchant websites so customers can pay at checkout. E-commerce platforms can integrate Open's plug-ins to their websites for payment collection.[25]
- **RazorpayX** is the neobanking platform of Indian unicorn Razorpay. The neobank has served over 10,000 businesses – processing their payroll through Opfin, paying for expenses through Corporate Card, paying vendors in real-time, and disbursing billions of dollars through an underlying payouts layer. Platform capabilities include API banking, approvals workflow, and insightful reports.[26]

Awareness and use of digital platforms is increasing –even in rural India

Digital platforms such as Eko have gained prominence, which provides a frictionless, nearly real-time option for cab drivers to transfer money back home to family. The platform also caters to urban migrants employed informally and connects to other SME merchants to facilitate recurring and miscellaneous payments.[27] New-model payments banks are impressing rural customers by offering current and savings/limited deposits accounts, debit cards, and payment services. They do not issue loans and credit cards. Examples include Airtel Payments Bank, Fino, India Post Payments Bank, Jio Payments Bank, and Paytm.

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[20] Razorpay, "A Peek Into Consumer Spending in 2021," Jan 28, 2021.
[21] IBM, "Banking on the platform economy-India point of view," Dec 2019.
[22] India FinTech Report 2020, second edition.
[23] InstantPay website, accessed Jan 27, 2021.
[24] Niyo website, accessed Jan 27, 2021.
[25] Open website, accessed Jan 27, 2021.
[26] RazorPay website, accessed Jan 27, 2021.
[27] Eko, accessed Jan 27, 2021.

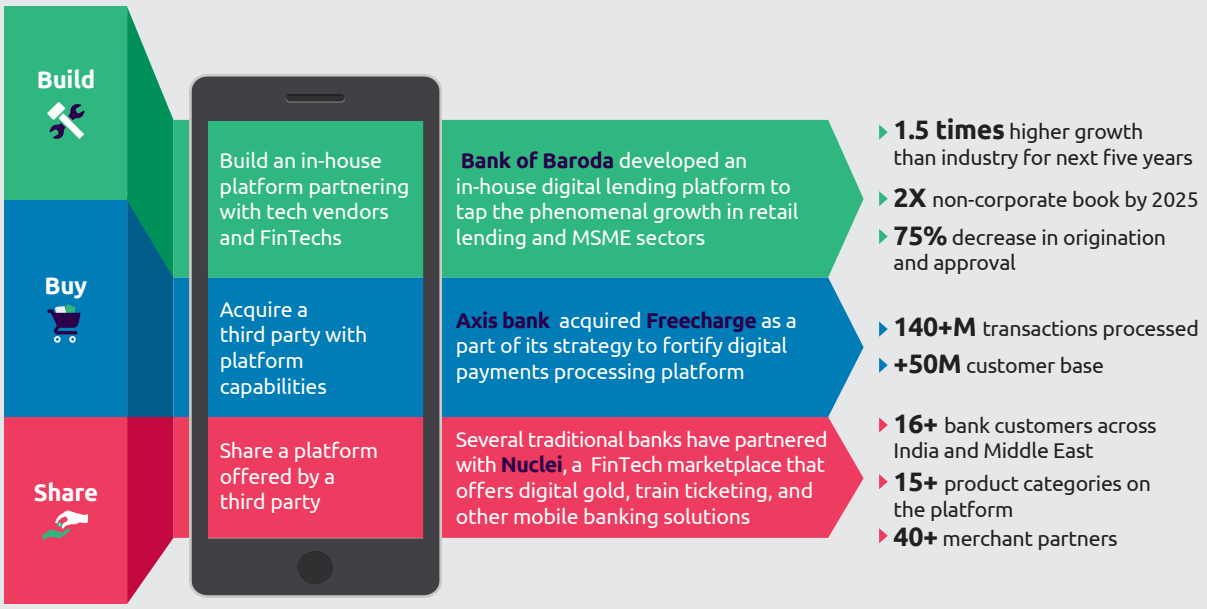
What does it take to thrive in a platform economy?

Pick your strategy from the trio: Build, Buy, Share

Banks seeking to build a platform can take one of three approaches, build, buy, or share. Platformification is not a one-size-fits-all process. Therefore, banks must weigh various approaches to ensure alignment with their business goals. The aim should be a hybrid platform that allows both innovation and transactions. The right strategy is critical (Figure 7).

- **BUILD** – Banks can follow a Greenfield approach and create a platform from scratch and spin it off from the existing traditional model. For example, a sizeable incumbent bank may launch a platform-based mobile-only bank to tap and expand its digitally-savvy customer base. Bank of Baroda developed a Digital Lending Platform to enable prospective retail loan seekers to get loans digitally through a paperless process. Conversely, banks that select a Brownfield approach transform their existing pipeline model through substantial legacy infrastructure enhancements and upgrades to IT capabilities. DBS Bank chose a two-phase implementation that began with digital innovation and then transformation to a platform bank and ecosystem layer. Its in-house IT team went from 85% outsourcing to 85% insourcing.[28]
- **BUY** – Banks use strategic acquisition as a tool and either opt for a capability-driven integration or run the acquired firm as a standalone business. Axis Bank acquired digital payments platform, Freecharge, to help it streamline digital payment transaction processing.[29]

Figure 7. Build, Buy, Share strategies earn quantifiable platform results



Source: Capgemini financial services analysis, 2021.

[28] Financial Express,"Bank of Baroda launches Digital Lending Platform: Get home, personal, car loans approval in 30 minutes!," Dec 28, 2020.

[29] S&P Global, "Axis Bank acquires digital payments platform," Oct 7, 2017.

- **SHARE** – Some incumbents quickly scramble to adopt ready-to-use platforms to reduce implementation time and lower costs. Banking-as-a-Service provider Nuclei is poised to become a banking super app with its shared platform currently used by about 16 banks. The FinTech recently partnered with train booking platform ConfirmTkt.[30]

The three approaches come with their own unique set of pros and cons. While the Build approach offers full control and customization, it is expensive to implement and increases the go-to-market time. A bank may consider Buy approach either by acquiring a FinTech or investing through its venture arm. However, integration and culture clash can be daunting. Several banks are also leveraging a shared model, which is faster to market and can be less expensive. In this case, integration may be a challenge and customization could be time-consuming. To create a scalable platform, banks must carefully build a foundation around four pillars – Vision, Systems, Culture, and Security (Figure 8).

When it comes to IT systems, bankers worldwide are loyal to the *if-it-ain't-broke, don't-fix-it* commandment. Incumbents often avoid legacy system transformation and create complicated, non-linear systems propped up by extensions and patchworks. Workarounds make emerging technology adoption difficult, limit straight-through processing, and lack real-time processing capability. Performance issues and rigidity of aging systems constrict platform development.

While vision and cultural harmony are critical, modern core banking technology is essential to surmount system and security challenges and deliver successful platform-based banking experiences.

Figure 8. Barriers to platformification

Source: World Retail Banking Report 2020, N=80 bank executives covered across regions.

[30] Fintech futures, "India's BaaS Nuclei brings train tickets to banking apps," Aug 13, 2020.

Transforming the bank's core is crucial to creating a sustainable platform

Though many banks in India have embarked on a digital transformation journey, legacy systems remain one of the most significant integration hurdles. To enable modern applications, it is essential that manual processes at the back-end, especially the core, are automated. This will help harmonize the back-end core and front-end interfaces–an essential element to create new value and, ultimately, new revenue sources.

About 62% of bank executives said legacy systems' pricey maintenance requirements impacted their cost-profit ratio the most. Other issues include increased complexity, inefficient integration with emerging technologies, difficulty in integrating with third-party apps, and slower data processing capabilities (Figure 9).

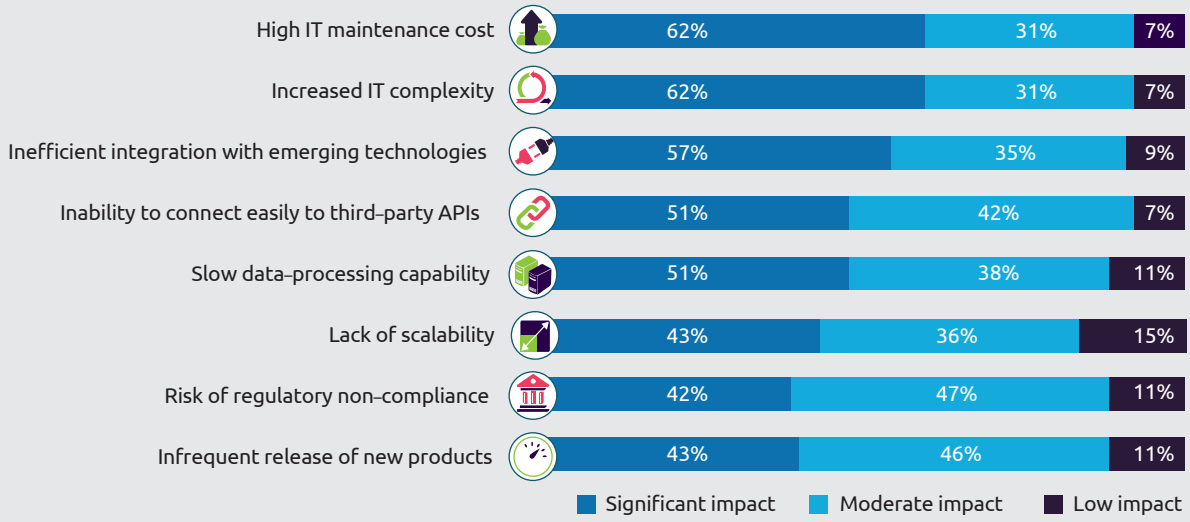
Core banking transformation is a critical future-proofing strategy for incumbents to attain operational excellence and retain relevance within the Open X ecosystem. A modernized core adds scope to address topline customer expectations while effectively managing compliance and risks.

In addition to an enabling core, APIs are vital for banks to build a sustainable and cohesive platform. APIs as enablers allow third-parties to access bank systems and data within a controlled environment. It is no surprise that APIs are picking up steam and are broadly adopted by banks internally and externally.

Internally, APIs catalyze banks' digital transformation by eliminating functional silos and synchronizing operations. While externally, APIs drive collaboration and open new business frontiers.

Benefits of a modern core	
Profitability through innovation	• Optimize IT expenses • Faster speed to market
Customer centricity	• Increase digital engagement with customers • Reduce onboarding and product origination times
Operational efficiency	• Faster turnaround time with integrated end-to-end processes • Lower costs, higher margins
Risk & compliance	• Boost staff productivity • Mitigate fines, sanctions, and reputational damage

Figure 9. Impact and issues of legacy core banking systems



Source: World Retail Banking Report 2020, N=80 bank executives covered across regions.

FinTech ecosystem collaboration is a recipe for effective platformification

Niche FinTechs have found their mark in the industry by enabling banks with specific use cases to drive efficiencies across functions. By adopting the right mix of investing and collaborating, traditional firms can quickly acquire digital competence. Banks also consider partnering with a FinTech/third-party will be beneficial. Capgemini's World Payments Report 2020 survey findings resonate the same as 59% of bank executives stated that leveraging partners/third-parties will help speed up innovation to forge ahead in the ecosystem journey (Figure 10).

Indian banks Canara Bank, Axis Bank, Indian Bank, and South Indian Bank each acquired a 6.7% stake in FinTech IBBIC. IBBIC Private Limited plans to provide a platform for exploring, building, and implementing Distributed Ledger Technology (DLT) solutions for the Indian financial services sector.[31] Axis Bank launched innovation lab, Thought Factory, in 2020 to accelerate innovative AI technology solutions for the banking sector.[32]

Specialized FinTech solutions and expertise can empower banks. FinTechs are maturing and increasing their offerings, market presence, and customer base. More and more banks are leveraging FinTech expertise to serve small and medium businesses. Banks are partnering with FinTechs to eliminate SME pain points by expediting credit risk assessment processes, pushing quicker loans, and helping them manage working capital.

- Ujjivan Small Finance Bank worked out a partnership with Airtel payment bank, after which its digital collections zoomed to 57% in July 2020 from zero levels in July 2019.[33] Now more than ever, bank-FinTech collaboration is a powerful strategy to help incumbents across the business value chain give today's business clients what they demand.

Figure 10. Banks see value in FinTech/third-party partnerships for their ecosystem strategy

Sources: World Payments Report 2020, N=75 bank executives covered across regions.

[31] Economic Times, "Indian Bank, Canara, Axis, South Indian Bank buy equal stakes in fintech firm IBBIC," Nov 20, 2020.
[32] Emerj, "AI Applications in the Top 4 Indian Banks," Feb 27, 2020.
[33] Ujjivan Small Finance Bank initimation of financial results, Jul 30, 2020.

Open X Readiness index helps measure bank preparedness to collaborate at scale

A balancing act of People, Finance, Business, and Technology pillars is critical for embarking on a successful collaboration journey. Based on maturity scores calibrated across these parameters, bank readiness for collaboration, open innovation, evaluation, acculturation, and industrialization can be mapped.

As part of an ongoing benchmarking exercise, Capgemini has mapped around 60 participating banks across various regions and found only a handful of the firms had reached the North Star quadrant (Figure 11).

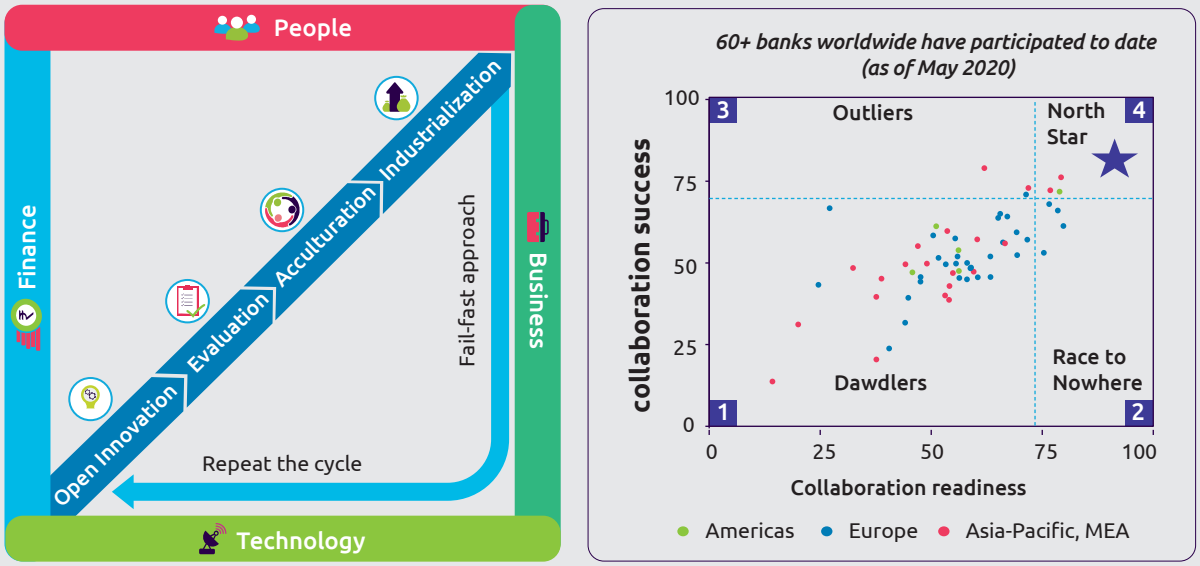
Banking-as-a-Service helps unlock latent market potential

Banking-as-a-Service (BaaS) platforms facilitate value creation as well as value exchange. With BaaS, firms share their core capabilities with third parties as consumable application programming interfaces (APIs). Within a BaaS relationship, a fully-licensed, regulated incumbent offers its banking stack (infrastructure, capabilities, data, and products) to new-age firms (neobanks, challengers banks, FinTechs) and other non-banking entities such as retailers, e-commerce platforms, or mobility service providers.

Benefits of BaaS? Banks adopting a BaaS platform get access to a low-cost distribution model and a large customer base of third-parties. This significantly

Figure 11. Leverage Open X to effectively collaborate and enhance the customer experience

The **Open X Readiness Index** measures how prepared a bank is to collaborate at scale



Source: World Retail Banking Report 2020.

reduces the customer acquisition costs. Further, banks using BaaS platform can monetize their banking stack via revenue-sharing agreements, one-time setup charges, subscription fees, or a combination of these. The result? A steady revenue stream fed by diverse sources.

Overall, banks that embrace BaaS can expect higher-than-average returns on investment and assets (RoI and RoA) based on cost synergies and alternative income sources. (Figure 12).

A few Indian banks are BaaS front runners:

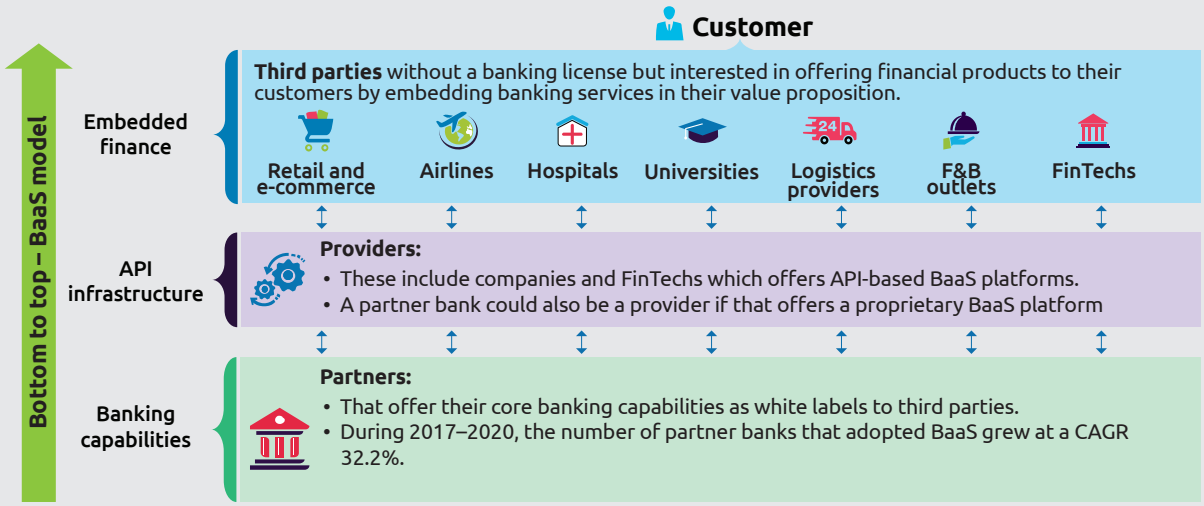
- **Kotak Mahindra Bank** launched a portal that makes Kotak's APIs available to FinTechs and developers, thereby creating a collaborative ecosystem. The platform offers Kotak's APIs for lending and payment products. The lead generation APIs for the bank's various lending offerings are exposed and using these, new loan applications are initiated in Kotak's lead management system. The initiative is part of Kotak's digital-first organic growth strategy driven by its ABCD charter that focuses on its AI-enriched app, biometric-enabled branch, context-enhanced CX, and data-empowered design.[34]
- **YES Bank's** API sandbox consists of over 50 virtual APIs. The sandbox builds on a strategy of using API banking as an enabler to customize digital solutions for clients. This helps corporates, MSMEs, and startups to identify best-fit APIs based on their sectors and also allows them to test the APIs with their app in a secure environment. YES bank grants access to its APIs across account management, payments, cards, and CRM use categories through the sandbox.[35]
- **HDFC Bank** has 142 APIs in its catalog. The bank aims to securely expose APIs to external partners such as corporates, FinTechs, aggregators, and startups, providing them with resources to quickly build apps. Domains such as payments, customer sourcing, and servicing are available. The Aadhaar Vault- Reference Key API enables a calling application to fetch the reference key associated with an Aadhaar number registered in HDFC's Aadhaar Vault.[36]

By joining open ecosystems, consisting of wide range of players, banks can offer the right capabilities at the right time and enrich customer experience. This approach will help banks remain competitive by providing an aggregated selection of products and services across customer journeys. Incumbents that act decisively to expand their offer beyond banking can play a pivotal role in the lives of consumers (both existing and potential).

Multiple industries are converging with banking services being provided through diverse ecosystem players. Banks powered by an upgraded modern core and an open and evolutive API-driven platform can take on an orchestrator role.

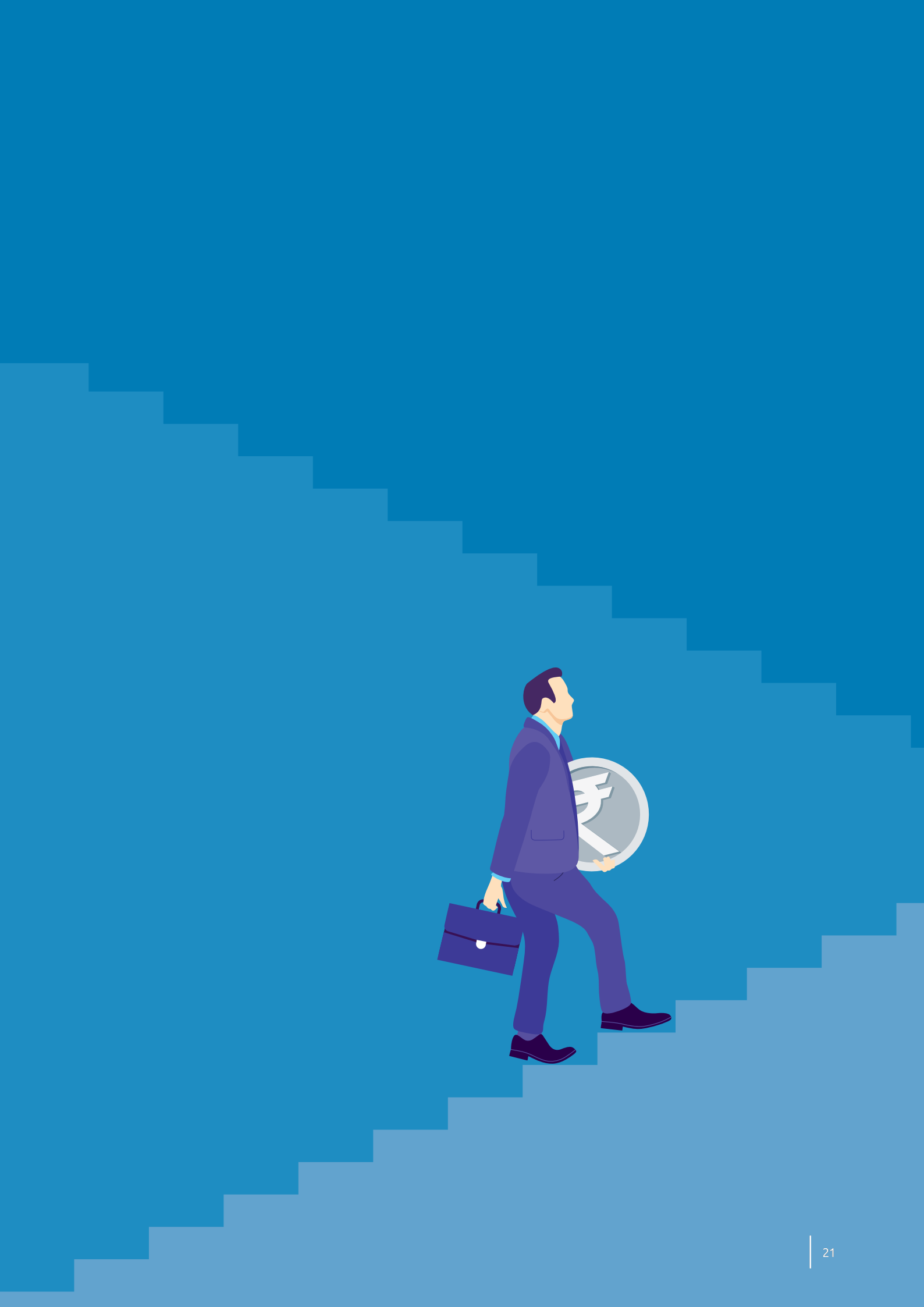
As we move into a new era, banks will become invisible as banking is embedded in the customer lifestyle.

Figure12: Stakeholders in the Banking-as-a-Service model



Source: Capgemini Financial Services Analysis, 2021.

[34] Kotak Mahindra Bank website, accessed January 27, 2021.
[35] YES Bank website, accessed January 27, 2021.
[36] HDFC Bank website, accessed January 27, 2021.



Conclusion

Platform-based business models are the future of the banking ecosystem. As FS and non-FS industries converge into the blended ecosystem, collaborative synergies will be the key driver for sustainable platforms.

Further, FinTechs, neobanks, and technology giants are leveraging digital prowess to outperform incumbents, and banks will have little choice but to upgrade or swap out legacy systems. Banks should start monetizing their current investments in emerging technologies such as Open APIs, AI/ML, RPA, blockchain, and cloud while continuing to make future investments as well. Additionally, investing in legacy core modernization is an immediate imperative. While revamping infrastructure is a key element of a successful ecosystem strategy, banks could leverage inherent trust from customers and the power of enormous behavioral and transactional data that they already possess. This will help banks to achieve a pivotal role in the changing banking ecosystem.

A successful open ecosystem thrives on collaboration among various stakeholders. Mutual exchange of value and seamless interactions will generate network effects that, in turn, will support sustainability. This is especially important as the industry moves to Open X. Successful banks focus on holistic strategy encompassing People, Business, Finance, and Technology to accelerate their Open X journey, which underpins platformification.

As payments stakeholders accept their best-fit roles, the evolving landscape is rich with opportunities. As embedded finance unfolds as the future of financial services industry, BaaS is emerging as a key trend, even in the Indian landscape. Novel and innovative players that look to deploy embedded and collaborative business models are poised to become frontrunners within the ecosystem of tomorrow.

Disclaimer

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The Association promotes sound and progressive banking principles and practices. It works proactively for the growth of a healthy professional and forward looking banking and financial services industry in a manner consistent with public good. IBA endeavours to a) promote sound and progressive banking principles and practices b) assist and provide common services to members c) co-ordinate and co-operate on procedural, legal, technical, administration, and professional matters d) collate, classify and circulate statistical and other information e) Pool expertise towards common objectives and reduction in costs, increase efficiency, productivity and improve systems, procedures and banking practices f) Build up the image of banking industry through publicity and public relations. Over a period of time IBA has evolved as the "Voice of the Indian Banking Industry."

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