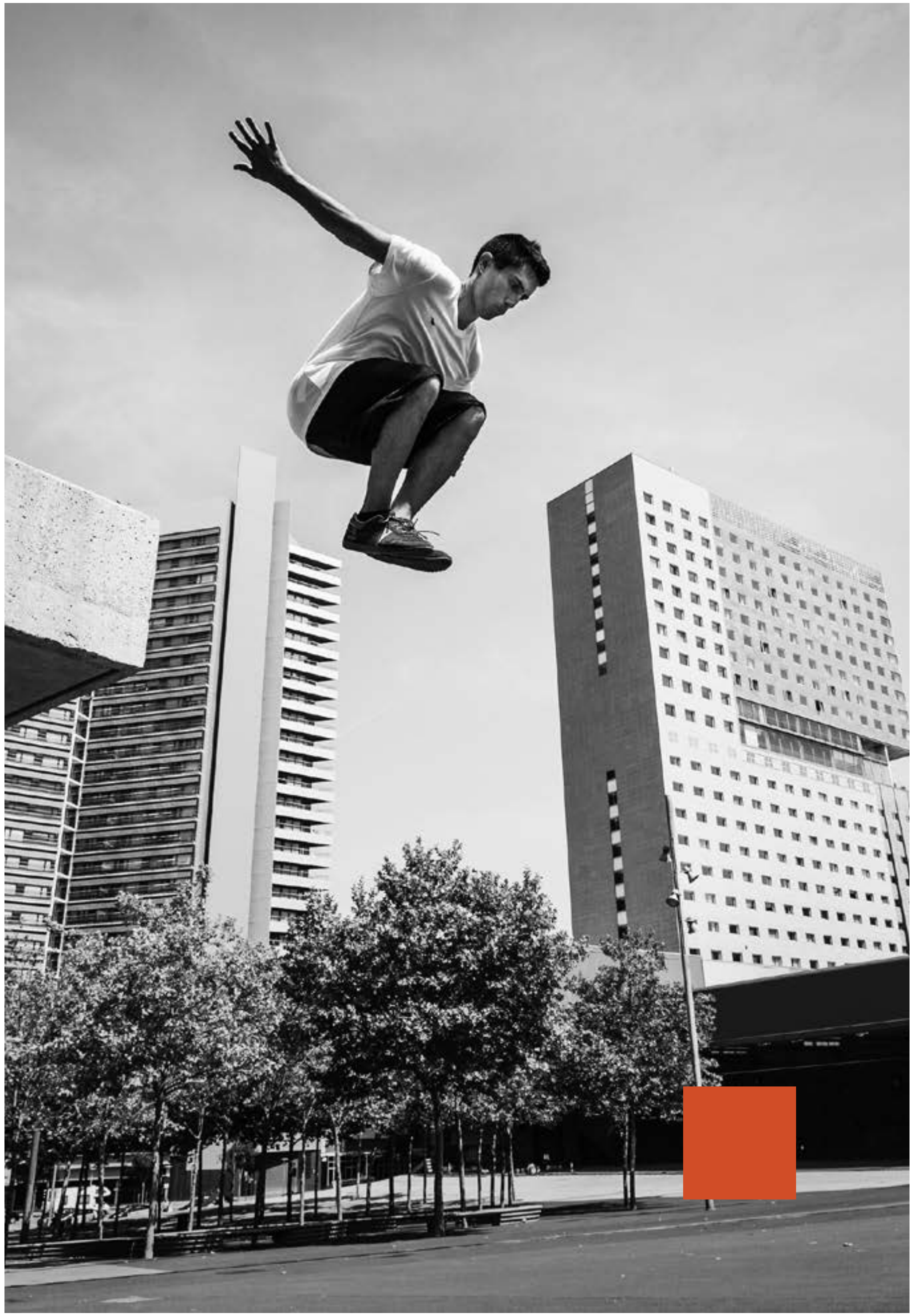
The Glue

EXECUTIVE INSIGHTS

HERE'S WHY PLATFORMS IN FINANCIAL SERVICES MAKE SENSE



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Introduction

Alibaba, Amazon, Bol.com, …online platforms like these dominate retail today. Customers gravitate towards digital experiences, attracted by virtually unlimited choice at low prices, with a delivery convenience that is second to none. In 2018 alone, the 100 top retail platforms sold $1.66 billion worth of goods online, 58% of the global ecommerce market[1].

As technology and digital services become increasingly indispensable in our daily lives, providers of financial services and products must rethink their playbook. The sector will follow suit: digital platforms or marketplaces will outpace traditional channels. With high value, high frequency transactions at their fingertips, banks and insurers are in pole position to revitalize an unfashionable sector. They're in an ideal position to offer their customers flexible business models, increased convenience, and a broader offering.

1 Internet Retailer 2019

But banks and insurers will not go unchallenged. Big techs, fintechs and neo-banks will fight for a piece of this lucrative financial pie.

This white paper dives into the platform rationale for financial services and uncovers how banks can gain an edge over new entrants. It's a valuable document for those companies looking to take a close look at and refresh their current offerings. It's a helpful guide for financial institutions that want to evaluate the true possibilities of marketplaces and solidify their leadership position in a volatile digital landscape.

Enjoy your reading!

Peter Wellens
Chief Commercial Officer

The Glue

A Brave New World

Customers are gravitating more towards digital experiences and digital products. As technology and digital services continue to take over more aspects of our lives, the financial sector has not been immune.

But it's facing an onslaught of change, with new technology and new, never-before-seen competitors. We are convinced that in the next five years, change will happen much faster than in the last fifty[2]. The shakeup brought about by credit cards in the 50's and ATM's in the 60's will be a ripple in comparison.

Banks and insurers will need to reinvent themselves. Instead of each banks/insurer offering each financial product/service and implementing the full end-to-end process, more cooperation and differentiation will be required. Each bank/insurer will focus on its unique differentiation and partner up with FinTechs and other financial players to fill in all other products.

This is where platforms can play a central role, i.e. facilitating the cooperation between different players (financial players, but also non-financial players) and providing new opportunities for existing banks to differentiate and convert their fluctuating and interest-rate dependent income stream to more recurring, subscription and commission based businesses.

The financial industry is massive. It's distributed and it's mature. It has shown its resilience and robustness after going through a series of crises and will continue to play an important role in our lives for the foreseeable future.

2 https://www.lendit.com/europe/2019

The Digital Platform

At The Glue, we believe strongly in the pivotal role financial platforms will play. Before we continue, it's important we clarify precisely what we mean with a platform.

A digital platform typically meets 3 criteria:

1. It must be a stand-alone software solution. It must be open to users independent of the type of software, browser or corporate function.

2. It must be multi-tenant, allowing multiple parties to work together on the same application with different levels of privacy, data access, and admin functions.

3. It must connect multiple parties with different needs. It brings together at least two parties offering something and at least two parties in search of something.

Also, a platform covers more than just buying and selling. A platform can also act as a utility, where different financial institutions work together to reduce overall costs (e.g. KYC platforms).

The third criterion above is an important one, because it marks the difference between a SaaS solution and a platform. If, for example, a software company offers an investment solution to multiple banks, this is not a platform, but a software-as-a service (SaaS).

It's also important to remember that platforms aren't necessarily limited to providers and consumers. In financial services, parties like brokers, intermediaries, advisors and consultants can join as well. Again, such open access is made possible by the power of APIs.

Platforms for financial services

Many successful platforms are an extreme form of disintermediation. Think about Airbnb for travel agents or Uber for taxi dispatchers as examples. Any traditional sector with intermediaries will sooner rather than later know disintermediation by a modern, digital, and more convenient challenger. Given that the business of banks is one of the purest forms of intermediation — balancing people with money and people needing money — the financial services sector will be significantly impacted by digital platforms, in many different guises.

The rise of open banking APIs (currently only for cash accounts and payments via PSD2, but likely also for other domains in the future) will allow both traditional and non-traditional financial companies to create platforms on top of the financial industry. Depending on the speed of the rise of new platforms, we might see the creation of an enormous parallel financial sector in the near future.

> We are convinced that through cannibalization of their existing business, traditional players who embrace open banking can remain a dominant force in the finance industry for decades to come.

Important insights

Working daily with banks and insurers on their platform or marketplace projects, we have gathered some serious expertise: from ideation, strategy, conceptualization, and actual implementation, to spin out. Below are a few insights that we are happy to share. Armed with these, it will be easier to reap the benefits that an enterprise platform brings to your digital business endeavors.

- **Scaling a platform is tough**
  Its double-sided nature presents a classic chicken and egg problem. In our experience, supply should be robust before aggressively growing the demand side. Both sides should be meticulously addressed and tended if your aim is long term success.

- **Deep pockets are essential**
  Reaching critical mass is key, but costly. Startups in platforms need strong investors to stand a chance.

- **Operational costs are surprisingly limited**
  Once critical mass is achieved, it is relatively easy to keep a platform up and running. Inventory is typically taken care of by (external) supply parties.

- It is **challenging** to control product or service **quality** due to the high number of parties involved.

- It is hard to prevent platform **circumvention**. Determined vendors will always find a way to contact people they met on your platform directly and avoid your commission or license.

- Investment in **building trust** is essential. A secure onboarding process, supplier due diligence, party ratings, reviews, insurances, and more are excellent features for making parties comfortable and for keeping them coming back to your platform.

Some Inspiring Platform Case Studies

To illustrate the concepts above we selected four examples of noteworthy digital platforms.

We.trade (UK)

Created by nine banks in Dublin, this platform facilitates international business transactions[3]. It connects buyer and seller banks enabling access to additional services like invoice financing and flexible payment conditions. Since its inception in 2018, we.trade secured licenses with 14 European banks.

This is a great example of a digital marketplace because it features three types of parties (seller, buyer, bank) who are represented by multiple companies. In addition, they have a heavy emphasis on building trust. The trust factor is enforced by the choice for blockchain technology, a marketing focus on security and promotion of features like track and trace.

3 https://we-trade.com

Roostify (USA)

A platform created by financial industry experts to enhance the administration-heavy home buying process for both consumers and banks. Roostify brings together homebuyers, banks, mortgage brokers, and government bodies in a successful, modern marketplace.

It is growing rapidly and originates over $15B in loans each month since launching in 2018. They partnered with HSBC in June 2019[4].

A number of integrations with auxiliary services illustrates how Roostify is using Open Banking APIs to its advantage. To date, 15 of these services ranging from insurance to e-signing have been integrated.

4 https://www.roostify.com/about-us-1

The KYC Registry by Swift (BE)

New bilateral relationships in the finance industry are growing exponentially. In response, Swift created a registry within its ecosystem with 12 participating banks including Barclays, Citi and ING. Swift's reputation for security and data protection make this platform a smart choice, as trust is embedded into their reputation by default.

The dynamics of this marketplace are somewhat special. Swift is technically the sole supplier of KYC data, but it has an important distributive function as well.

Swift manages the documentation each financial institute uploads to the Registry and shares it with the institutions they select. SWIFT validates the data rigorously, informs the parties if it's incomplete or needs updating, and alerts correspondents whenever data changes have been made.

This registry is a good example of how a rather traditional organization can use the marketplace mechanism to solidify its position in the modern market.

Dot-Capital (BE)

In 2018, Belfius launched a new financial platform, called Dot-Capital, for facilitating the primary debt market. This marketplace revolutionized their manual and thus expensive trading process. Bond issuers and investors from all sizes can do business more easily now. Since its launch, more than €43billion has been handled through Dot-Capital. This platform has been built with The Glue as partner.

Succeeding with Digital Platforms

It is impossible to predict the long-term effectiveness of a new platform or marketplace from the start. Following a few successful customer reference cases, we identified a number of key success factors.

Keys to Platform Success

Platforms that succeed have a number of common traits. We divided these traits into two categories: non-technical and technical.

An important conclusion to consider from the start is this: The key to successfully creating and growing a digital platform involves more than the technology aspect.

1. Non-technical success factors:

- Education and training of both personnel and target audience to accommodate the platform. Companies that take this aspect seriously are more likely to break through the chicken-and-egg stalemate, typical of platform startups.
- A clear monetization strategy. Unambiguously determining how pricing, discounting, and invoicing will be organized helps to keep the focus on long term profitability.
- Setting up and integrating a robust support system to handle FAQs, complaints, and customer requests for the new platform. Do not wait to figure this one out too late.
- Strict control over time to market. Nothing is more frustrating than spending resources, energy, and time on a project and then missing the market's window of opportunity. Dedicated project and deadline management will mean the difference between tears of joy or tears of sadness.

2. Technical success factors:

- Seamless integration between legacy IT and increasingly globalizing ecosystems offers a real advantage over relatively isolated platforms. This integration aids platform adoption by colleagues, clients, and partners.

- A B2C-grade user experience for B2B clients. Design for simplicity, comfort and beauty is key. If clients navigate easily through the platform, chances of success grow considerably.

- Built-in compliance and data integrity. Take the time to study this up front, in the design phase, so you do not unnecessarily slow down development by forcing this in at a later stage of development.

- Day one scalability for growth. This is essential to avoid getting surprised by early spikes in traction. Don't be surprised by success — be ready for it.

In essence, outstanding product quality combined with proactive non-technical commitments are decent predictors for platform success.

Neobank Qualities

Neobanks are young, and technologically adept. These companies aim to lure consumers away from their current banks with their state-of-the art (and almost exclusively) mobile solutions.

There are many reasons neobanks are on the rise. For one, they possess a number of qualities relative to incumbent banks and insurers that make them extremely apt for leveraging the digital platform format.

- Speed and agility in execution: With limited size comes a shorter decision making cycle. In turn, the speed to execute certain tactics and strategies is higher than that of incumbent banks with heavier decision hierarchies.

- Result oriented processes: Zero legacy means that a significant portion of effort can be directed to actions that have immediate impact on the bottom line, experimentation, and new business development.

- Innovative focus: Being a challenger means you stay on your toes to be more innovative and forward thinking than your slower, incumbent rivals. This way of working is etched into the DNA of neobanks.

These qualities are impressive. Let's explore how incumbent players stack up against this.

Traditional bank qualities

Incumbent players in the financial world possess a number of essential advantages themselves. Below, we list them and make the case for a best-of-both-worlds approach where these advantages are supplemented through smart partnerships.

- High capital: Starting up a successful platform is very expensive. Incumbent banks have specialized access to the capital necessary to achieve this.

- Strong brand and reputation: Banks and insurers have something money can't easily buy, a strong and recognizable brand. As discussed above, building trust is a key aspect to creating a marketplace. Starting with a great brand can make a big difference in this regard.

- Rich data library and regulatory compliance: Banks and insurers have access to enormous libraries of data that can be used to profile and target market participants with great accuracy. Legislation like GDPR and PSD2 makes these efforts more complex, but incumbents typically have a legal department to assist with these challenges.

- Operational excellence: Banks handle millions of transactions per day. The operational robustness supporting this is a huge advantage over new players who have to build, buy, and set up the required infrastructure from scratch. A successful platform ideally has a lot of valuable transactions, so this advantage is particularly useful.

- They key argument for building a fintech platform is the high-value / high frequency nature of banking. This characteristic is powerful and makes it a high potential option for banks seeking to break new grounds.

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A New Brave New World

But let's not forget that banks were once IT pioneers. They were among the first industries to use software, early adopters writing their own applications for keeping track of customer balances, calculate interest, tax and much more. However, banks didn't stop writing applications when 3rd party software enabling modularity arrived, with the result of being hampered by their now unflexible and siloed legacy infrastructure.

We believe that platforms will bring laggard industries such as banking and insuring into the 21st century.
As a financial platform runs outside of the traditional bank, it can make use of the newest software developments, install a DevOps mentality and run an agile environment that is miles away from their legacy approach.

With trust high on customers' agenda, a bank can extend their brand image further to a new branded marketplace or platform with new financial services fully satisfying the modern market expectations.

The time to start platforms, incorporating fintech components and partners is ripe. Not just because of today's technological innovations and banks' high value and high-frequency characteristic, but also because of the massive untapped opportunities that exist today and the fast-scaling power of a spun-out platform.

Platforms and marketplaces in the financial industry have the potential to open a whole new brave world of cooperation.

Our vision of alliance

Incumbent banks and insurers should partner up with specialist fintechs to setup new platforms. The Glue is a niche player in this area, we focus solely on making platforms or marketplaces for financial services.

The Glue helps banks and insurance companies drive change and adapt to the digital market reality. We open up platform opportunities to give our customers the right options to democratize their offering. We build these solutions on our field-proven platform in a collaborative mindset: from ideation, pre-study over development to the go-to-market strategy, ventures and product spin-out.

We look forward to more industry partnerships taking shape, bringing unprecedented added value to banks, insurance companies and their customers. For a brighter, more collaborative financial world.

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