



Ecosystems 2021 Executive Summary – What will the future bring?

Design and positioning of the financial services industry

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This study was carried out by Deloitte Consulting AG in cooperation with the Competence Center Ecosystems of the Business Engineering Institute St. Gallen. The aim of the study is the investigation of **ecosystems** in financial services as well as the development of recommendations for action. It is based on the results of a **survey** of Swiss and German financial services providers and select follow-up interviews. The full version of the study is available in German at <https://www2.deloitte.com/ch/de/pages/financial-services/articles/ecosystems-2021-was-bringt-die-zukunft.html>.



Ecosystems – a common buzzword – represent new challenges to the financial services industry and are becoming increasingly prevalent. Ecosystems challenge our current understanding of competition, the provision of services to customers and demand cross-sector collaboration as well as the use of new technologies. Experts predict that by 2025, about 30% of global revenues in the financial services industry will be generated in **cross-sector** ecosystems.¹



Survey participants put particular emphasis on ecosystems related to **housing, pensions and mobility** – today and in the future. For financial services providers, **operational challenges** are still dominant, while strategic questions seem to remain on the back burner for now.



Survey participants believe that the most powerful players in ecosystems will be **BigTech** and predict that the dividing lines between competitors will become increasingly blurred. In particular, the **positioning** within ecosystems will be of utmost strategic importance. Financial services providers still need to define their role in ecosystems – the majority understandably aims at taking a leading position in an ecosystem. However, many will be forced to operate as standard or niche providers due to the limited number of available orchestrator roles. In this way, ecosystems will drive financial services providers to build on their own **core competencies**.



Ecosystems will also increase **IT** system requirements, especially in the areas of OpenAPI, cloud and infrastructure services. **Technologies** for successful collaboration in ecosystems include cloud solutions, blockchain, the Internet of Things, as well as Big Data analytics solutions. For many financial services providers, this will require significant **investments** – accompanied by a need to prioritise scarce resources.

¹ National economy (2018), The end of the sector mindset, quoted from: <https://dievolkswirtschaft.ch/de/2018/06/gassmann-lingens-07-2018/>



The joint use of **data** is a key value driver of ecosystems. However, financial services providers are currently reluctant to share their customer data with third parties, partly for regulatory reasons. Financial services providers will need to radically rethink their positions in this respect in order to proactively drive customer and commercial benefits from ecosystems – obviously with the consent of their customers.




The most important **employee competencies** in an ecosystem will require interdisciplinary decision-making and social skills. Financial services providers will need to move towards a more holistic talent management approach that requires not only specialist know-how but also increased agility and communications expertise. For example, the ability to think in complex structures and support the co-creation of collaborative efforts within ecosystems will grow significantly in importance.



Looking at the continued increase in **regulations** in the financial services industry, the study discovered that regulations do not drive the emergence of ecosystems, but rather influence their development.

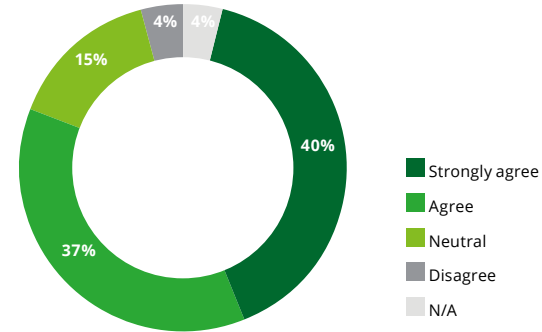
2. Key survey results

The study reviewed six hypotheses in the areas of strategy, processes, customers and data, transformation/culture/competencies, environment and regulatory factors. Below we will validate these six hypotheses based on the results of the study.

 **The relevance of collaborative business models (ecosystems) will increase for financial services providers.**

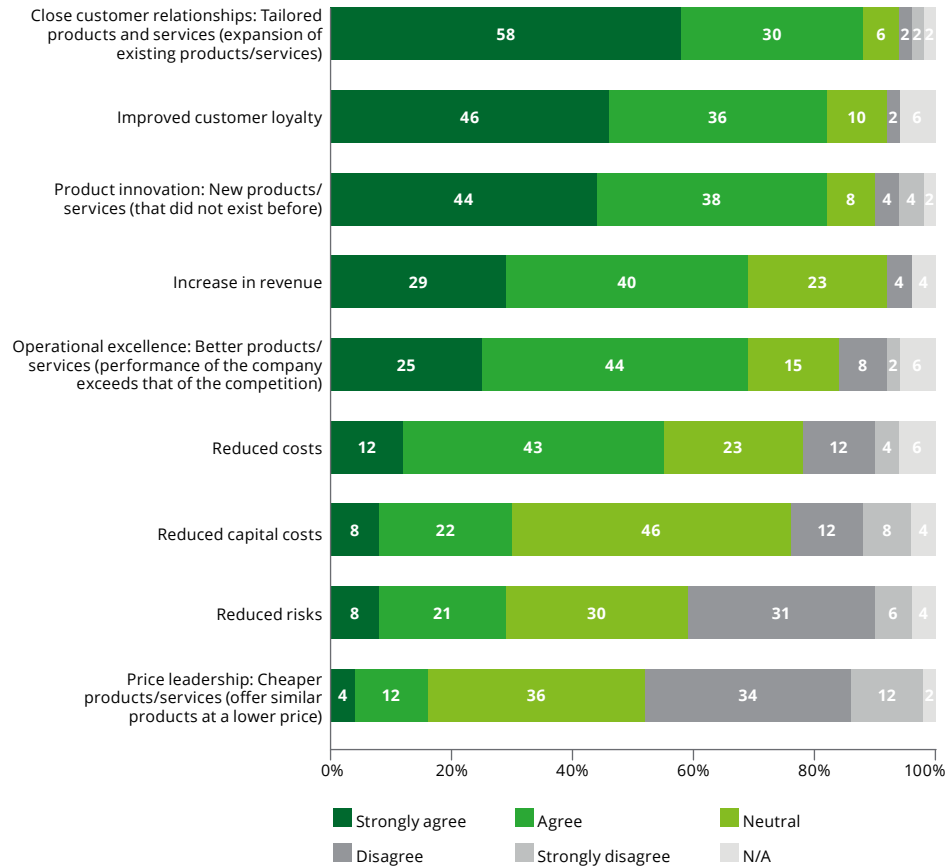
- ✓ Collaborative business models in the form of ecosystems are already widespread and will continue to grow in significance for financial services providers.
- ✓ The highest economic relevance is associated with ecosystems related to housing, pensions and mobility.
- ✓ Operational challenges dominate – strategic challenges are currently given comparatively less attention.

Fig. 1: Ecosystems are very important for the implementation of my company's growth strategies



77% of the survey participants believe that ecosystems will have significant importance on the future growth of their business. This is illustrated by the fact that more than half of the survey participants indicated that they are already actively offering services within ecosystems. Three-quarters of the survey participants expect that they will be actively involved in an ecosystem within the next three years.

Fig. 2: Opportunities in the context of ecosystems

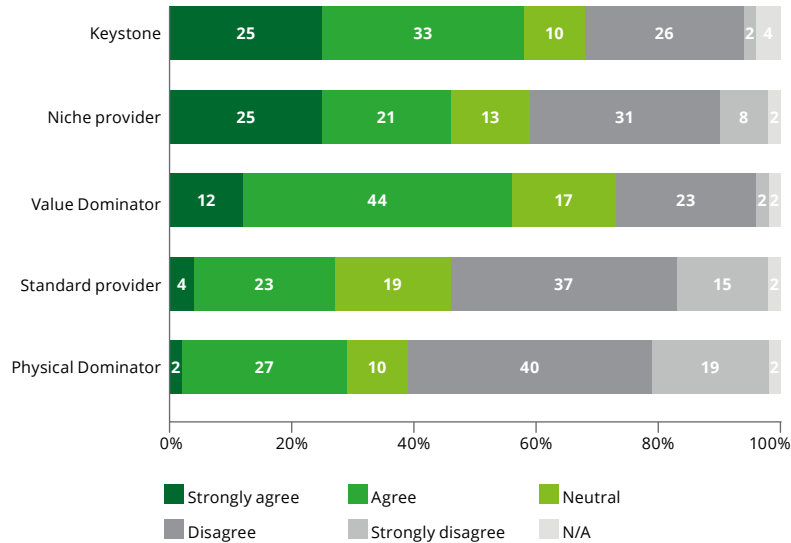


According to respondents, the greatest opportunities for exploiting ecosystems arise from having close contact with customers (88%), from increasing customer loyalty (82%) and from product innovation (82%). As such, new business models in advisory and financing for mortgages have already been developed, for example Moneypark. By working with different companies and using existing data, Moneypark is developing a holistic approach to understanding its customers.

Given the future market power of non-financial services firms and the peculiarities of collaborative processes in ecosystems, competition for the right positioning within ecosystems will increase.

- ✓ The right positioning is decisive for successful participation in an ecosystem. This depends not so much on proprietary capabilities, but rather on comparative market strength – keeping in mind that non-industry players will gain in influence along the way.
- ✓ The preferred positioning that the majority of financial services firms would like to achieve in ecosystems contradicts the number of corresponding roles available. Not all players will be able to take a leading orchestrator role, and many will be forced to act as niche or standard providers.
- ✓ Ecosystems will thus drive financial services providers to focus even more on their core competencies.

Fig. 3: Your role in the ecosystem



Most survey participants are aiming at positioning themselves as keystones (58%) and value dominators (56%), but this is inconsistent with the number of such roles actually available in ecosystems. A position as a niche provider (46%), physical dominator (29%) or standard provider (27%) is deemed less attractive among participants.

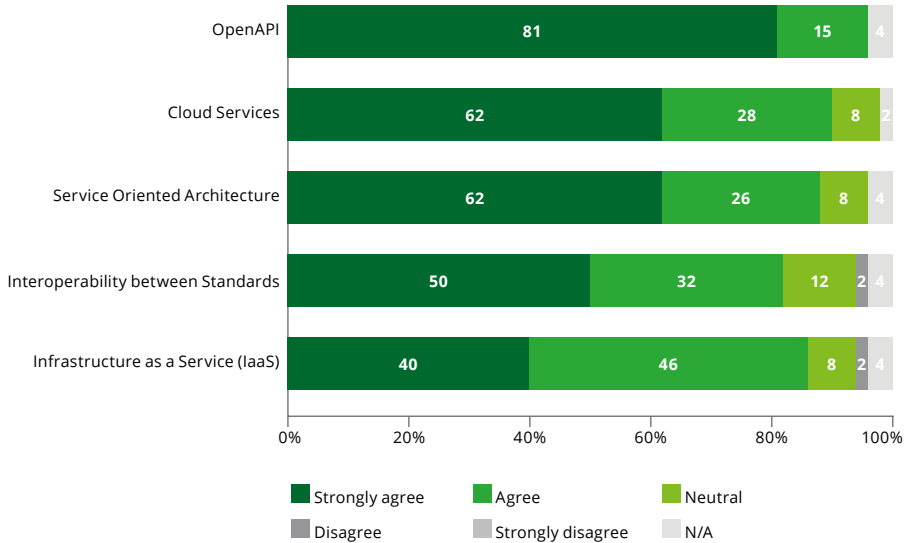
The survey results are also inconsistent with the perceptions of market power. Survey participants see BigTech (82%) and end users (59%) better positioned to achieve the necessary market power in ecosystems while perceiving themselves (52%), FinTech companies (50%) and Challenger Banks (44%) at a comparative disadvantage.



For ecosystems to function effectively, they will require open system architecture and collaborative processes.

- ✓ Ecosystems naturally lead to increased IT system requirements, in particular in the area of OpenAPIs, cloud and infrastructure solutions as well as in cyber and data security services. The most important technologies for enabling effective collaboration in ecosystems are cloud solutions, blockchain and the Internet of Things, as well as Big Data and analytics. For many financial services providers this will require substantial investments and prioritisation in the allocation of limited resources.
- ✓ The use of technology standards and guidelines, for example when dealing with data, tend to be driven by regulators and technology companies.
- ✓ Digital platforms with standardised interfaces will support successful ecosystems.

Fig. 4: Systems – IT infrastructure requirements



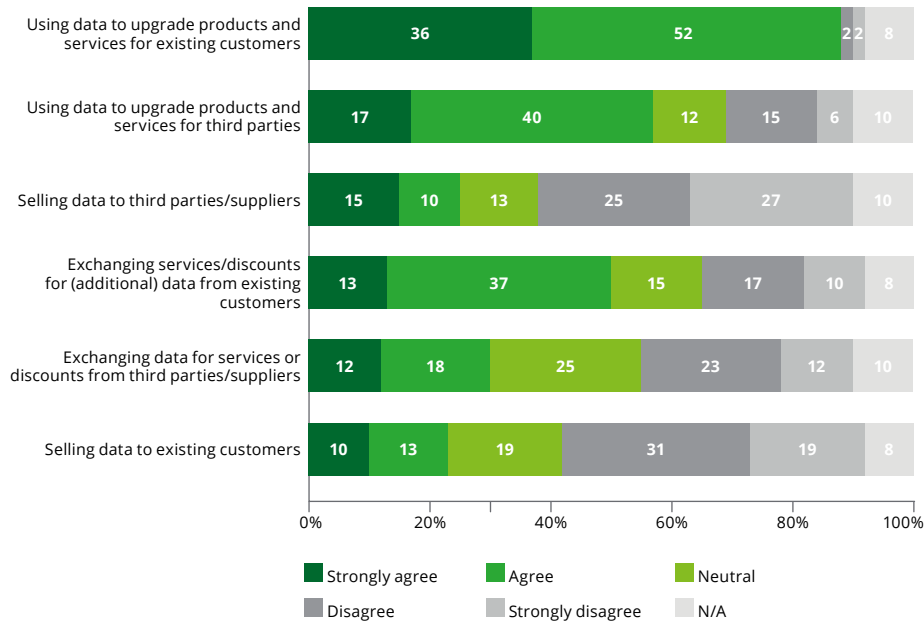
IT concepts that support standardisation will be of great importance; for example OpenAPIs (96%), the steadily growing percentage of cloud service providers (90%), infrastructure service providers (86%) and interoperability solutions between standards (82%).



Ecosystems rely on data exchange, and high monetisation potential is attributed to data generated by service deliveries in ecosystems. However, financial services providers are reluctant to exchange data.

- ✓ The joint use of data to provide added value is an essential condition for a viable ecosystem.
- ✓ Financial services providers currently use data primarily for improving their own products and services, and are reluctant to share data with third parties.
- ✓ In ecosystems, financial services providers will need to make radical changes in their mind set and significantly expand their range of capabilities in order to exploit the monetisation potential of data.

Fig. 5: Clients and data in ecosystems – Potential of monetisation



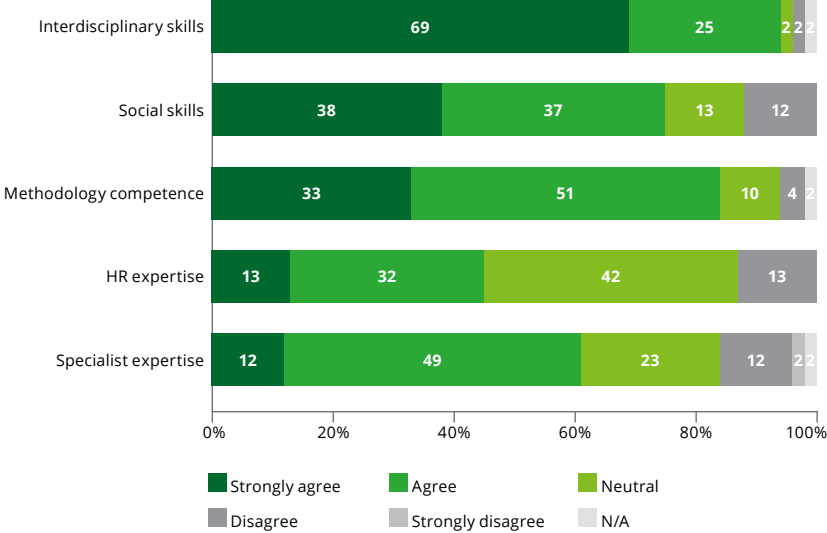
This raises the question of whether respondents are truly ready to exploit the full potential of ecosystems. Many aim to benefit from data of other ecosystem participants but are reluctant to make their own data available. A successful exploitation of the benefits of ecosystems will require a significant cultural shift.

♁ For successful participation in ecosystems, specialist expertise amongst employees is less important than interdisciplinary proficiency and social skills.

- ✓ Company culture can be a key factor in solving the complexities of an ecosystem. In terms of cultural values, many financial services providers see themselves as followers of the values dominated by bigger players in the ecosystem.
- ✓ The most important employee competencies in an ecosystem are interdisciplinary proficiency and social skills.

When using customer data, financial services providers focus on improving their value proposition and their product offering. A significant majority (88%) of the survey respondents agree that joint use of data will help them upgrade their products and services for existing customers. For similar reasons, 57% of participants also emphasise the importance of improving the products and services of third parties. The provision or discounting of services in exchange for data from existing customers are scenarios which 50% of financial service providers can imagine. On the other hand, less than one third of participants (30%) view the sale of data to third parties or suppliers as an option, and only 23% see the sale of data to existing customers as positive.

Fig. 6: Transformation of the company – Staff skills

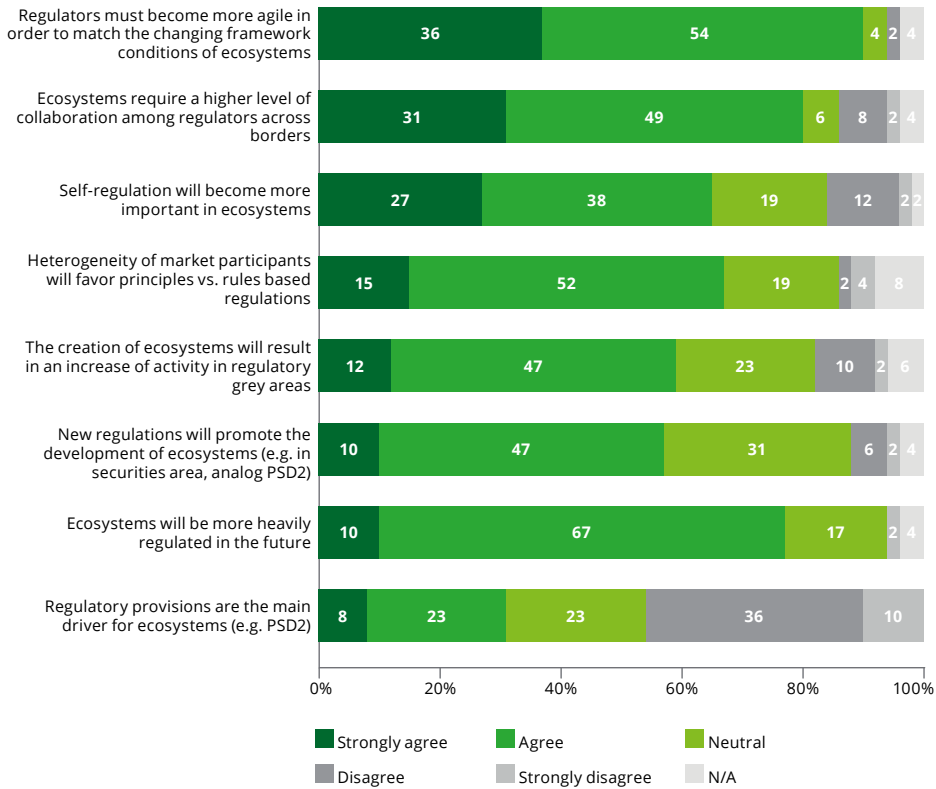


The overwhelming majority of participants highlighted the importance of interdisciplinary knowledge (94%) and methodological proficiency (84%). Only slightly less important are social skills (75%), whereas specialist expertise among employees (61%) was rated significantly lower.

Regulatory influences have the potential to facilitate the development of ecosystems, but are not the main drivers for their development.

- ✓ Ecosystems are not the result of regulation, but they are significantly influenced by it.
- ✓ Regulation can stimulate companies to providing collaborative services in an ecosystem, and can increase the value of integrated service delivery from the end customer perspective.

Fig. 7: Importance of regulatory provisions



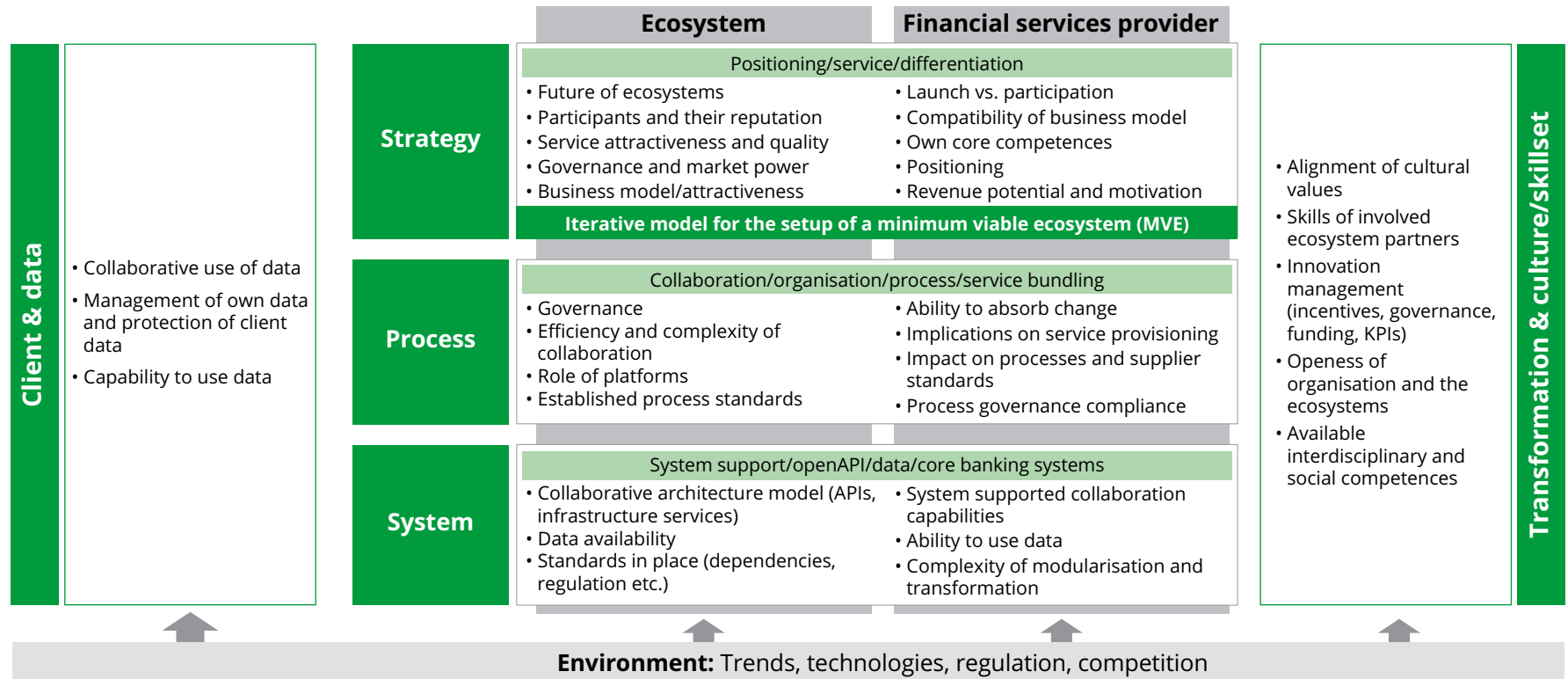
The majority of respondents are of the opinion that regulators need to be more agile (90%), that cross-border collaboration between regulators is of high importance (80%), and that principles-based regulation will become more important for ecosystems (67%).

3. Conclusion and recommendations

Ecosystems involving financial services firms are already a reality today and are expected to evolve rapidly and more extensively in the near future. The authors of this study and the majority of its participants expect an increasing number of non-financial services firms – in particular **BigTech** – to use their direct access to a vast number of customers, their brand power and their massive datasets to increasingly penetrate the financial services industry through ecosystems. Financial services providers thus face fundamental **strategic challenges**.

Below overview condenses areas of strategic decision making for financial services providers when developing their strategy in the context of ecosystems.

Areas of decision-making for strategic positioning and the alignment of business and operating models for financial services providers in an ecosystem

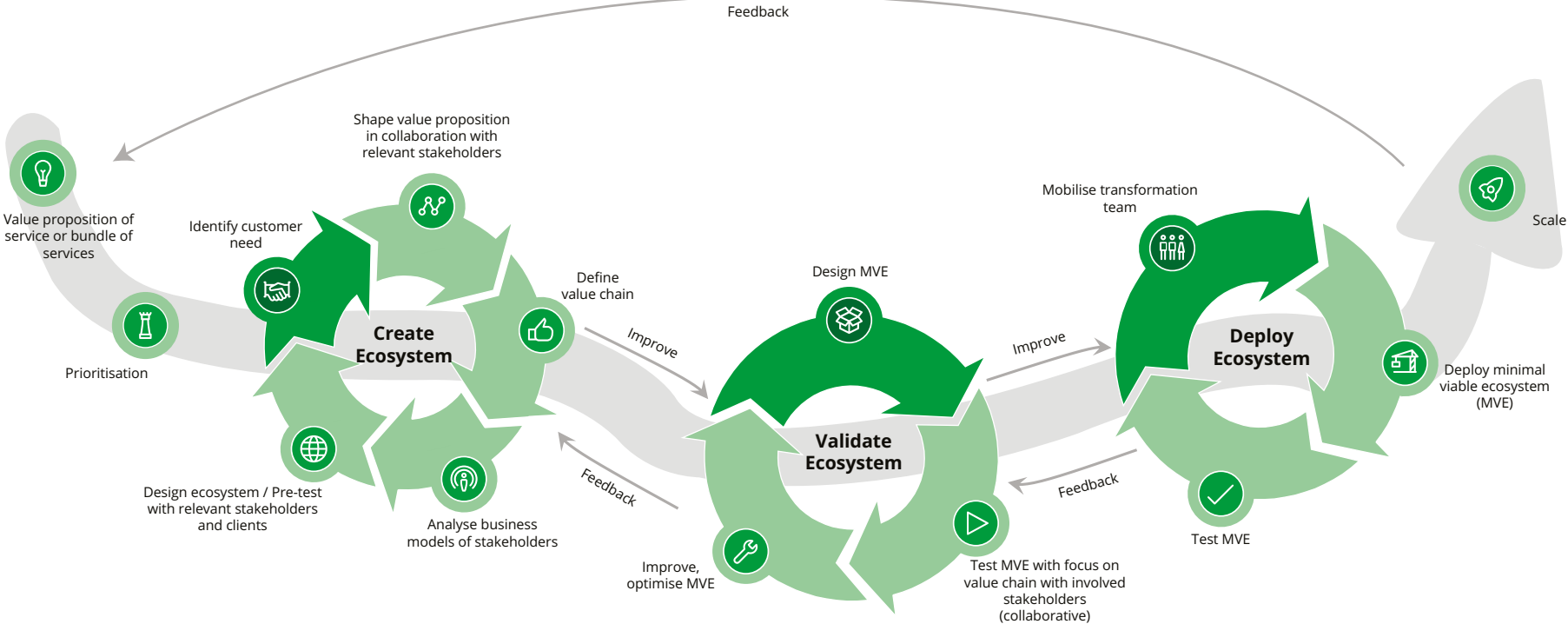


By answering these strategic questions, a number of specific **recommendations for action** can be developed to create an environment that enables a successful **participation** or to the **creation** of an **ecosystem**.

The first and arguably most important step is to define an ecosystem strategy while taking the regulatory environment as external parameter into consideration:

- Should a new ecosystem be **created**? Can the firm expand on existing elements of an ecosystem or should it target an existing external ecosystem as a foundation? If a financial services provider decides to build a new ecosystem, then an **iterative model for creating a minimum viable ecosystem (MVE)** shall be applied (see illustration next page).
- How **compatible** with the existing business model is the participation in an ecosystem or the creation of an ecosystem?
- Which **core competencies** does the company possess that can be used to build an ecosystem? Based on these competencies, the financial services provider can define its desired **positioning** within the ecosystem: keystone, niche provider, value dominator, standard provider or physical dominator.
- Successful case studies show that the main starting point for designing a **new ecosystem** is always an existing minimum viable product (MVP) that is tailored closely to customers and their needs. This allows to define the respective **minimum viable ecosystem** with clear goals to efficiently collaborate in delivering the MVP. An **iterative implementation approach** is essential. The MVP can only be integrated into an initial ecosystem based on a very concrete customer need and by involving the various players to jointly define a value proposition for the respective customer. Before the MVE is implemented, it is **tested** through prototyping.
- If, instead, the financial services firm intends to tie in with an **existing ecosystem**, then the setup of the respective ecosystem (processes, systems, customers and data) is already largely pre-defined and therefore needs to be examined in terms of its compatibility with the firm's business model and the availability of the necessary capabilities.

Iterative model for building a minimum viable ecosystem (MVE)



Beside its own ecosystem strategy, a financial services provider also needs to answer some vital **operational questions**, in particular questions regarding **processes, systems** as well as **customers** and **data**. Regarding the **implementation** of the overall strategy, questions about **culture** and proprietary **capabilities** need to be addressed, in particular:

- How solid is the understanding of the required transformation of one's own DNA in the context of adapting to different **cultures** when participating in or establishing an ecosystem?
- Which **employee skills** need to be prioritised: interdisciplinary capabilities, social skills, methodology proficiency, or specialist knowledge?

Finally, in addition to defining a strategy, it will be necessary to establish an **operating model** and undergo a corporate transformation in order to successfully participate in an ecosystem. This requires a financial services provider to make significant cultural shifts in management and provide targeted support to employees in order to develop relevant skill sets.

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