

The new Pillar of the Business Model?

Relevance of digital ecosystems for German banks -
Survey of German banks' decision-makers

On the content of this study



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Ladies and Gentlemen,

Digital ecosystems are **the opportunity** for German banks to establish **new and attractive business models** and to **increase revenues** in the long term and remain well-positioned in the future by enhancing their everyday relevance to customers.

As part of this study, we surveyed **more than 30 board members and division heads** of German banks on their willingness to participate in digital ecosystems. In addition to the strategic relevance for the German banking market, we thus looked in particular at the motivations of the individual banks and the planned design of the implementation of their ecosystem strategy.

The results are **clearer than expected**: Banks see **digital ecosystems as a highly relevant strategic topic** for the next five years. The majority of German banks have recognized their urgent need for action, but **the operationalization often remains unclear**.

It will also be interesting to see in **which life areas the use cases** arise. While the increase in everyday relevance can be realized primarily in non-bank environments ("beyond banking"), German banks are currently still focusing on classic finance-related services - with the **danger that ecosystems will emerge in other industries that occupy the customer interface holistically even without banks**.

We hope that this study will provide you with exciting insights into this **important strategic option** and will be happy to advise you - from strategy to conception to implementation!

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Tomas Rederer', written in a cursive style.

Banks see digital ecosystems as a great opportunity to regain their relevance and thus increase revenues

Ecosystem building

German banks are vigorously driving forward the development of digital ecosystems:

95% plan live operation until 2026.

Everyday relevance as an incentive

90% of all banks want to increase their everyday relevance for customers through digital ecosystems. This can only be done by integrating non-bank services.



Relevance

>97% of banks see a very high strategic relevance of digital ecosystems for the German banking market in the next 5 years.



Revenues & Investments

57% of banks want to generate >10% of their revenue from digital ecosystems in 5 years. However, the investments do match their level of ambition yet.

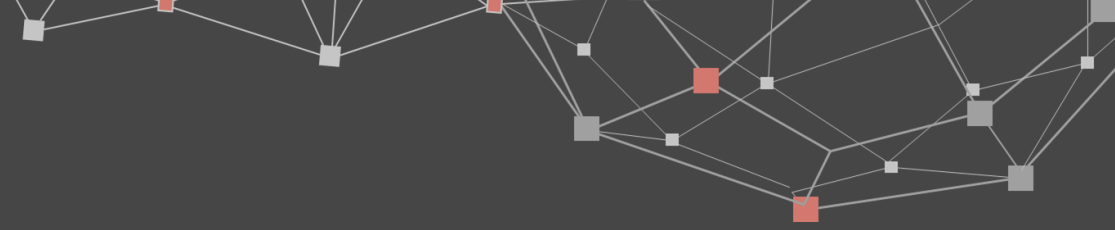


Industries

The "**Living**" area is seen as particularly suitable for integration into ecosystems.

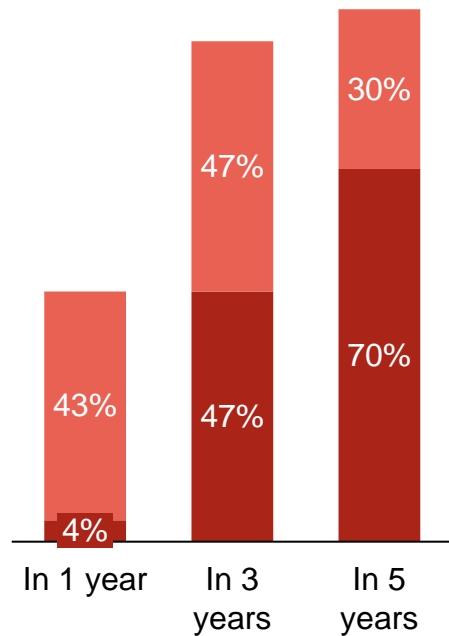
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Banks see digital ecosystems as a key strategic component for the next five years.

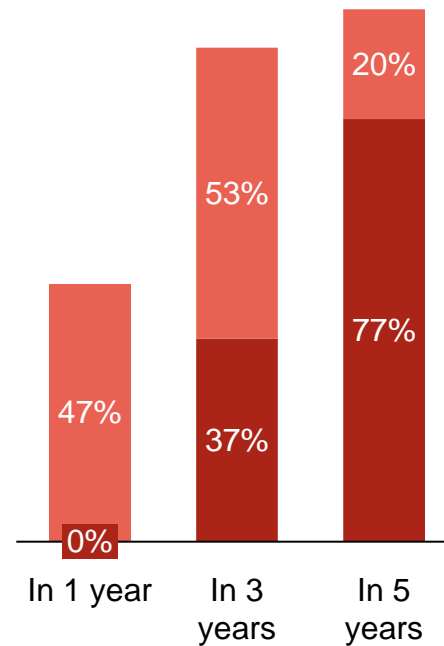


Banks recognize an increasing relevance of digital ecosystems in the next five years

How relevant do you think digital ecosystems are for your bank?



How relevant do you think digital ecosystems are for the entire financial market?

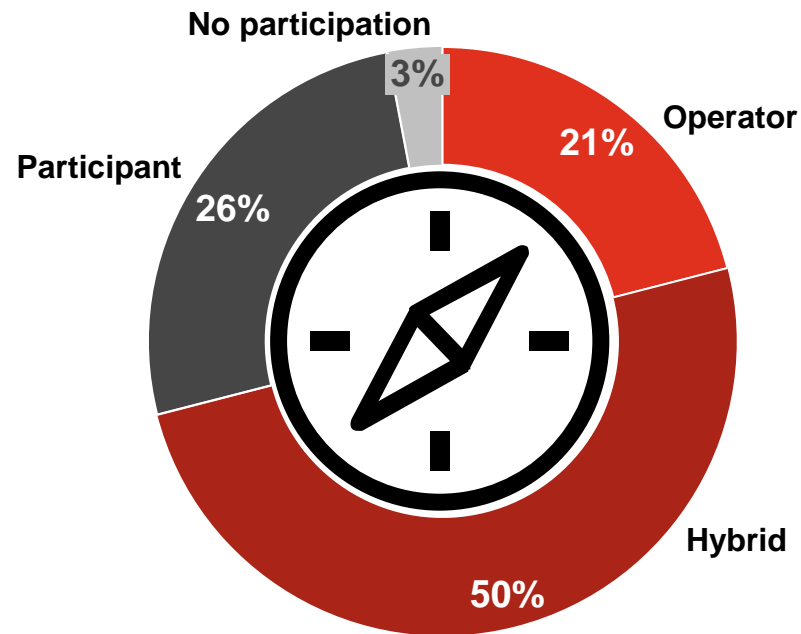


Strong relevance Very strong relevance

- **Half of the banks** see a **strong relevance of digital ecosystems** as early as next year
- In our assessment, there is **currently still a low level of maturity** that calls these short-term goals into question
- **In 3 years** at the latest, almost **all banks see a strong to very strong relevance**
- View of own bank and of the entire German banking and financial market **congruent**
- This makes the topic clearly **one of the top priorities** for banks in the coming years

71% of all banks plan to operate a digital platform themselves - speed becomes a success factor

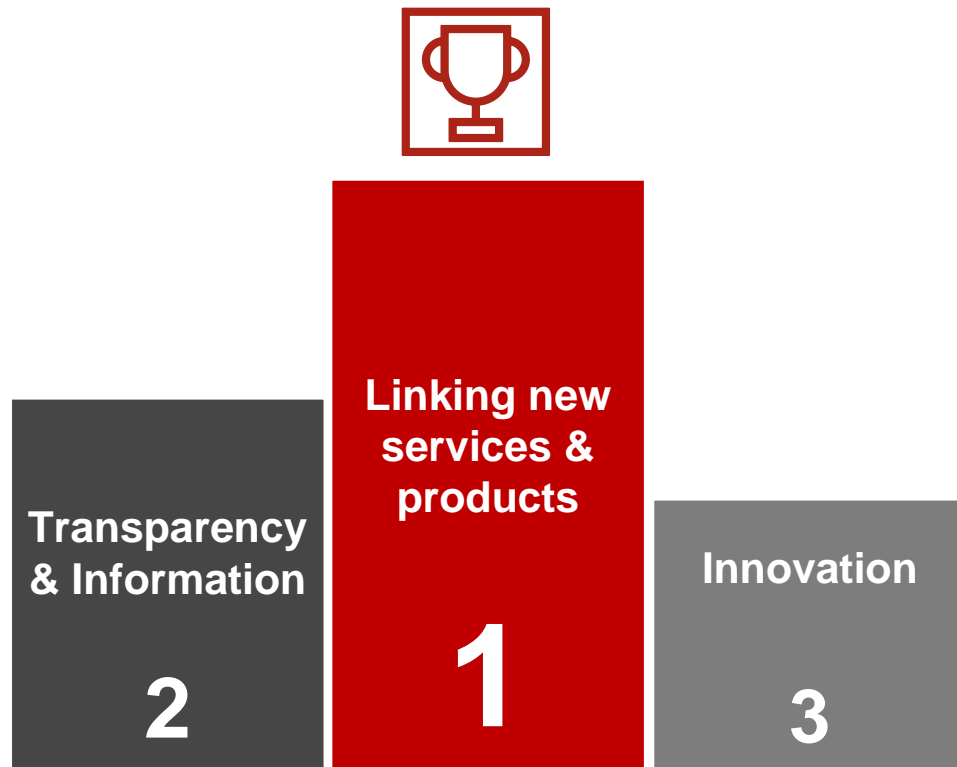
How do you plan to participate in a digital ecosystem?



- **97%** of banks have recognized the **strategic relevance** of digital ecosystems and are planning to **participate** and/or **provide** their own
- Digital ecosystems form **network platform products** with typical “winner-takes-all”-developments
- Plans to operate platforms make **speed of deployment a critical success factor**
- Due to the expected diversity of ecosystems across all life areas, 50% of banks do not see **participation in just one platform as sufficient**

The top goal of digital ecosystems is to combine previously separate products and services

What added value should be achieved from the end customer's point of view?



Banks see **linking new services and products** as a top benefit for customers

–
with direct implications for the **operational set-up of platforms**

Who is winning the race? - Banks believe that customers accept them as ecosystem providers - with stiff competition

From the customer's point of view, is there a preference as to who provides digital ecosystems ?

on the one hand...



90% of banks expect customers **to accept them as ecosystem operators.**

on the other hand ...

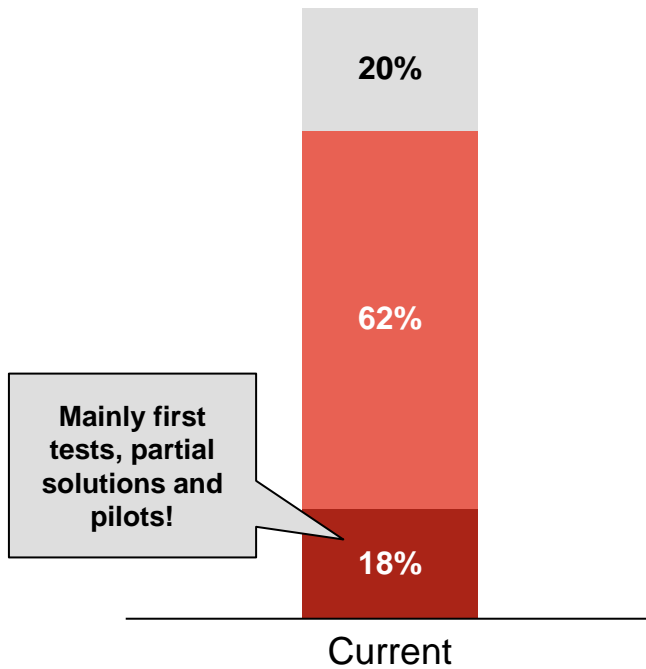


75% of banks recognize that end customers are **open to other** ecosystem operators.

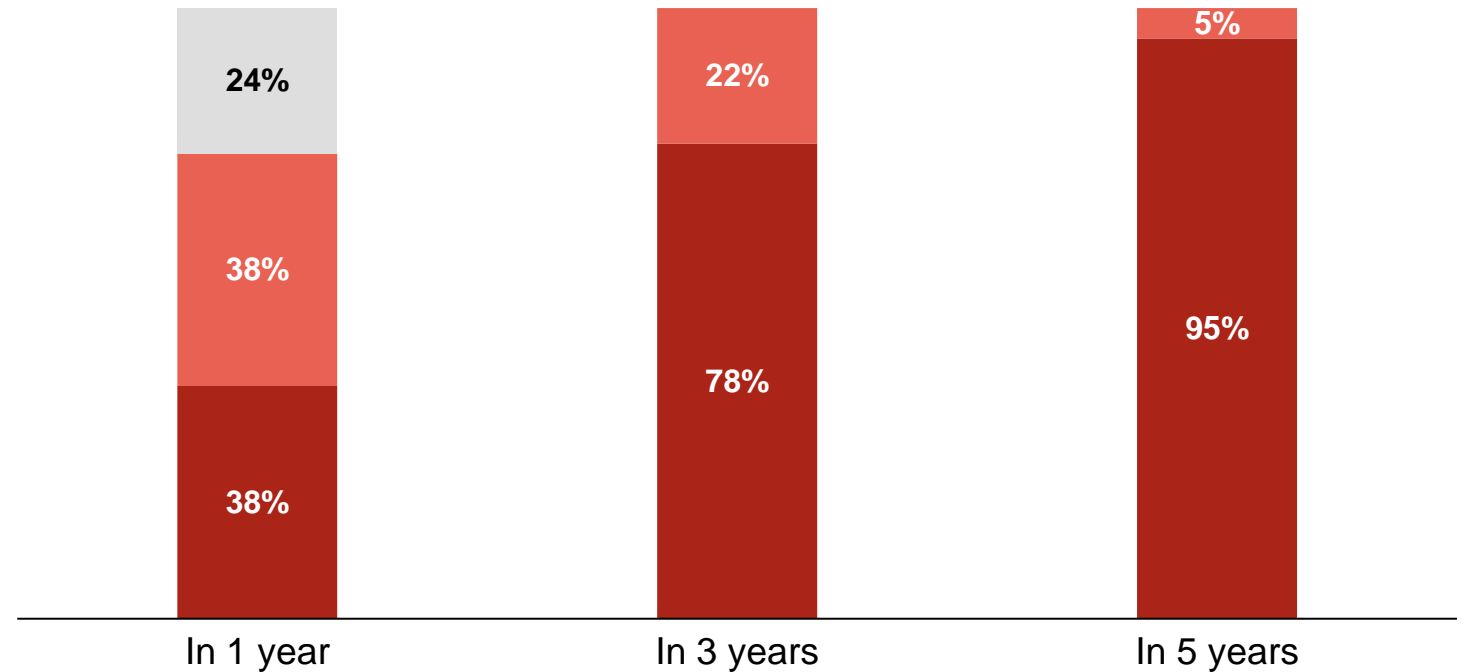


Banks are vigorously driving ecosystem development - 95% plan to go live by 2026

What stage is your digital ecosystem currently at?



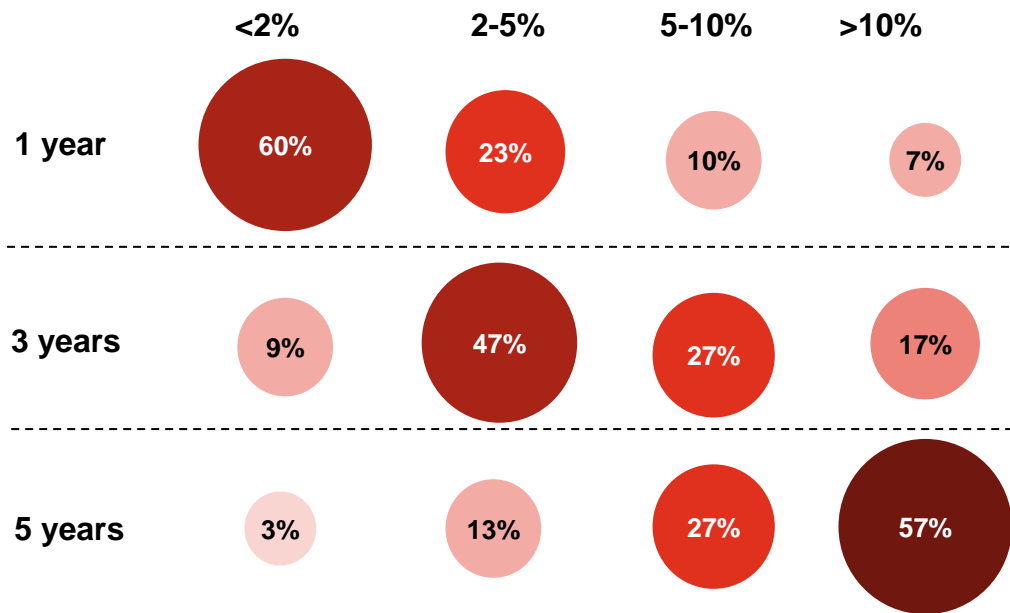
Where do you see your bank in the next 1, 3, 5 years?



On the strategic agenda In conception PoC or live operation (with intention of further development)

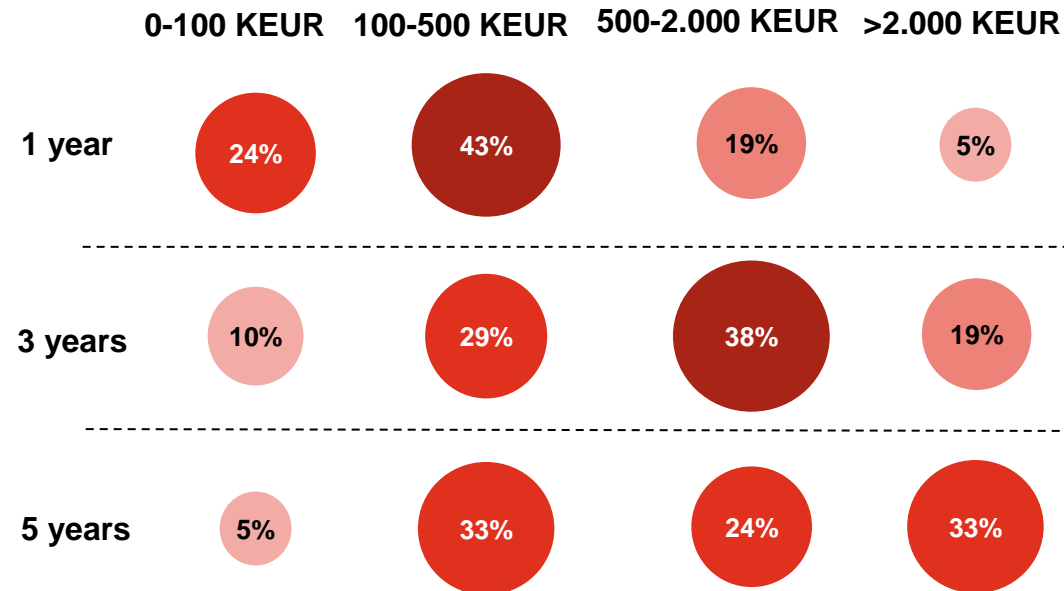
Banks' low propensity to invest does not currently fit in with ambitious earnings targets

How much % of your profit do you want to generate with digital ecosystems in the next few years?



High profit expectation

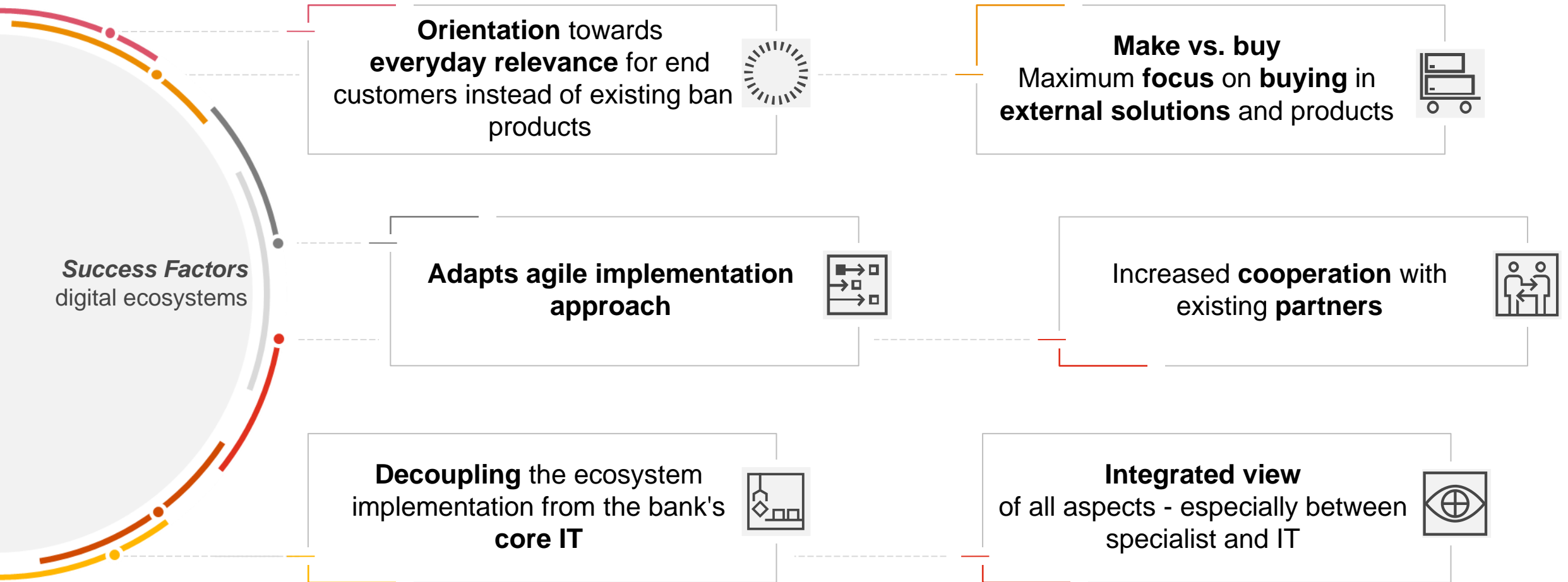
...and how much do you plan to invest in it over the next 1, 3, 5 years?



Low willingness to invest

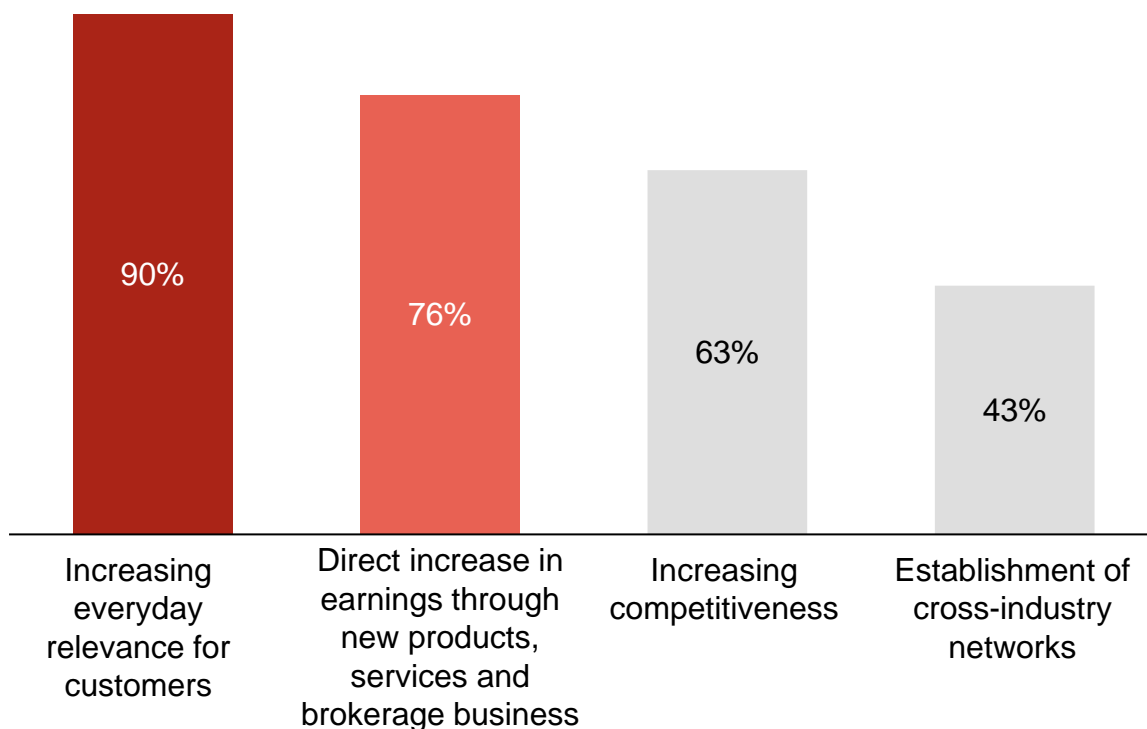
VS.

Our empirical values: Success factors for the rapid realization of digital ecosystems - selection



Banks focus on regaining everyday relevance for customers by participating in digital ecosystems

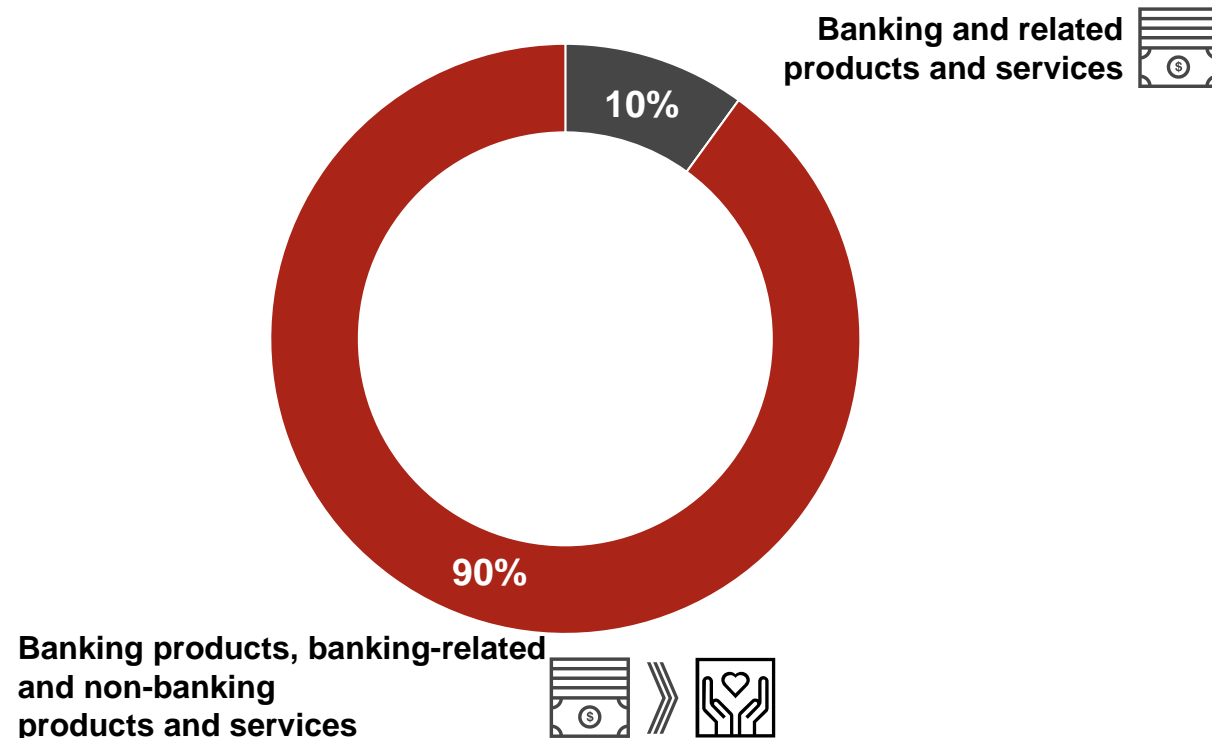
What are **incentives** for banks to operate or participate in a digital ecosystem?



- Agents, comparison portals and other **disintermediators increasingly** separate **banks from their customers**
- This creates the danger of degenerating into an **interchangeable infrastructure commodity** and **losing the customer interface.**
- Banks across the board have recognized the opportunity to **increase their everyday relevance** to customers **through digital ecosystems**

Everyday relevance for end customers can only be achieved with the integration of non-banking services - Full coverage of life events

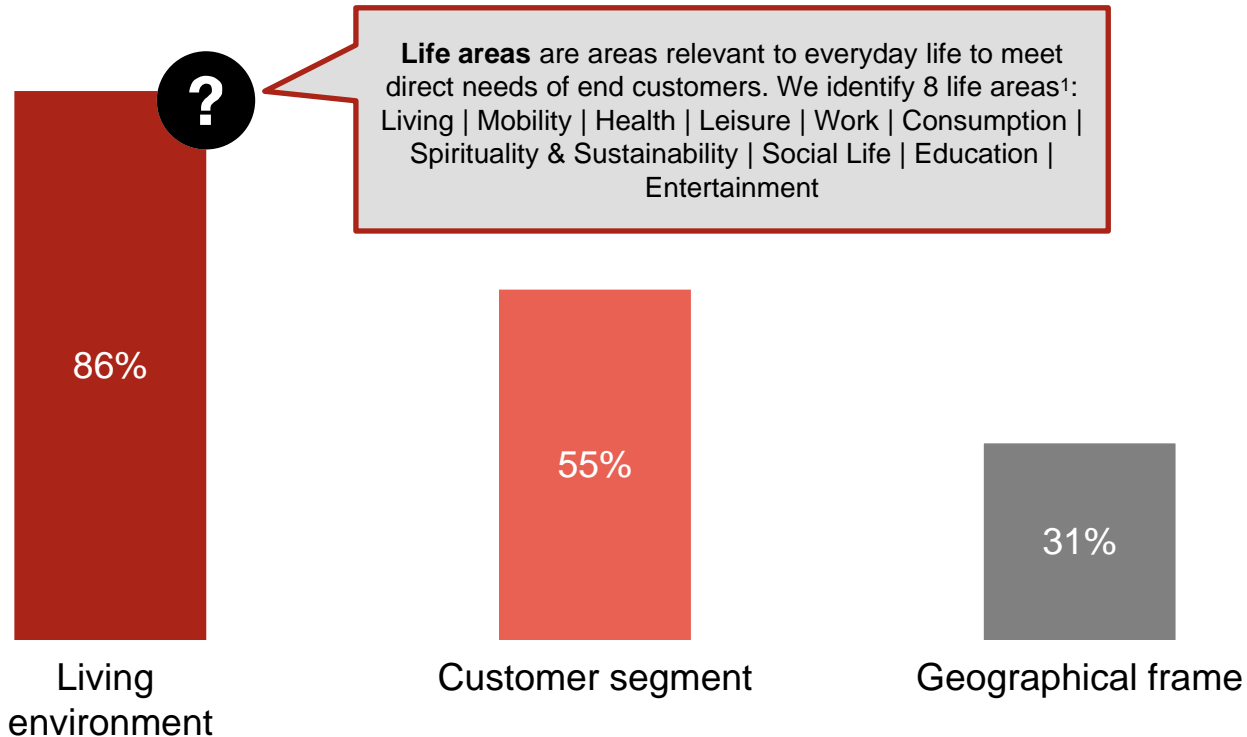
What do you understand by the term "digital ecosystem"?



- **Everyday relevance** for customers is only created by services and products that **solve practical everyday problems**
- Majority of banks recognize that pure **banking services** are **only enablers** to meet customer needs
- Banks are therefore forced to network **more closely** with partners and **adapt industry standards** (e.g. technology)
- **Banking services** must be **designed** in a more modular way and be suitable to be **integrated** into **everyday situations** of customers and processes of ecosystem partners

Rethinking banks - from a focus on customer segments and geographies to a view of life areas

According to which structure should products and services be aligned in the digital ecosystem?



- With regard to digital ecosystems, a **paradigm shift is taking place** at banks
- The **strategic orientation** is **no longer** classically based on the **customer segment** (private customer, student, SME, etc.), but on the **customer's living environment**.
- This enables banks to respond to **customer needs in a more targeted and comprehensive manner** and to align services **along the customer lifecycle**.

Banks interface with all spheres of life and should align their role in ecosystems accordingly.

Which life areas are particularly suitable for participation in digital ecosystems (top 5)?

Living 

Mobility 

Consumption 

Health 

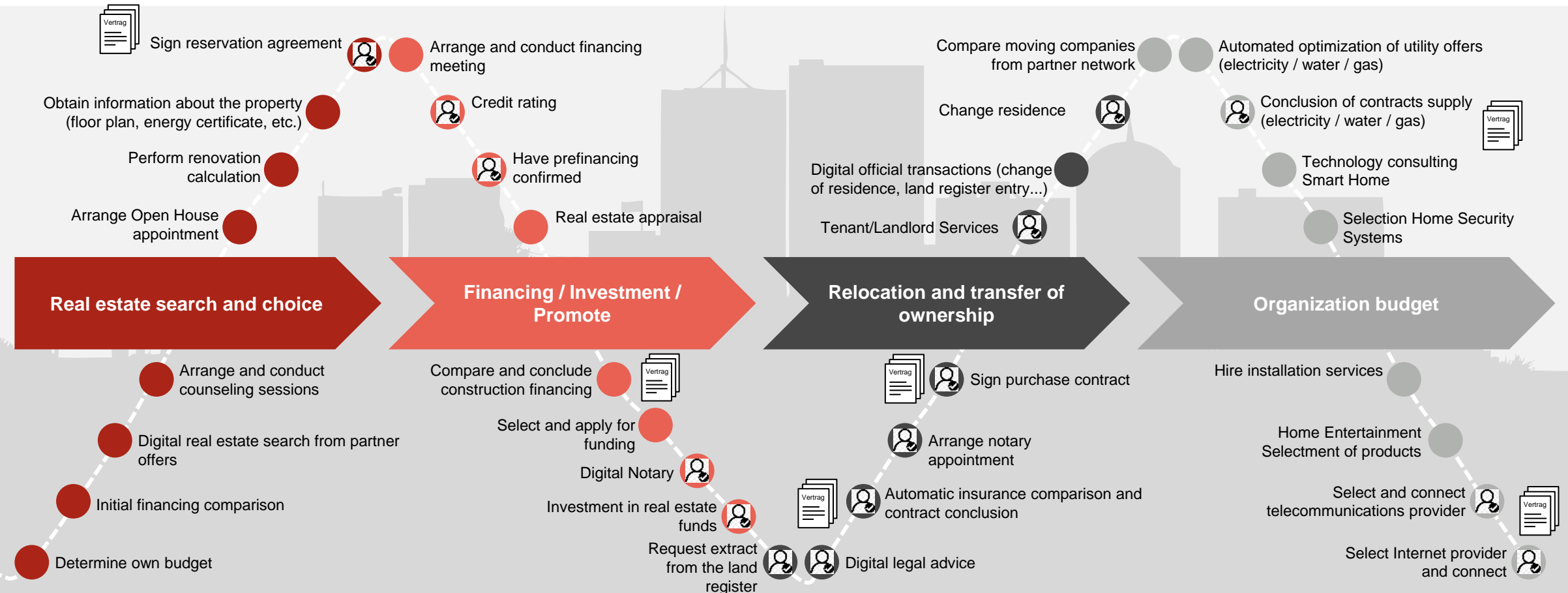
Leisure 

Example deep dive ecosystem "Living" on following page

- (Near-) Banking-services with touchpoints **in all areas of life**
- The **focus** is therefore on building up or integrating into different ecosystems in **several life areas**
- Focusing on **one ecosystem** in one life area will **not be enough**
- **Prioritization** depends on the **specific profile** of the bank
- The life area "**living**" is particularly suitable due to its pronounced **overlap** with **banking services**

Example: In the "Living" ecosystem, banks can realize everyday customers journey together with partners

Exemplary selection of use cases



Identity and authentication providers connected

Only ~25% of banks want to share customer data extensively - customers are much more open about perceived benefits

To what extent are banks willing to share customer-related data on a platform on behalf of the customer?

Banks view



As extensive as possible

27%

Only to the extent necessary

73%



VS.

Are European consumers willing to share data in return for added value? ¹

End-customer view

Yes!

45%



No!

55%

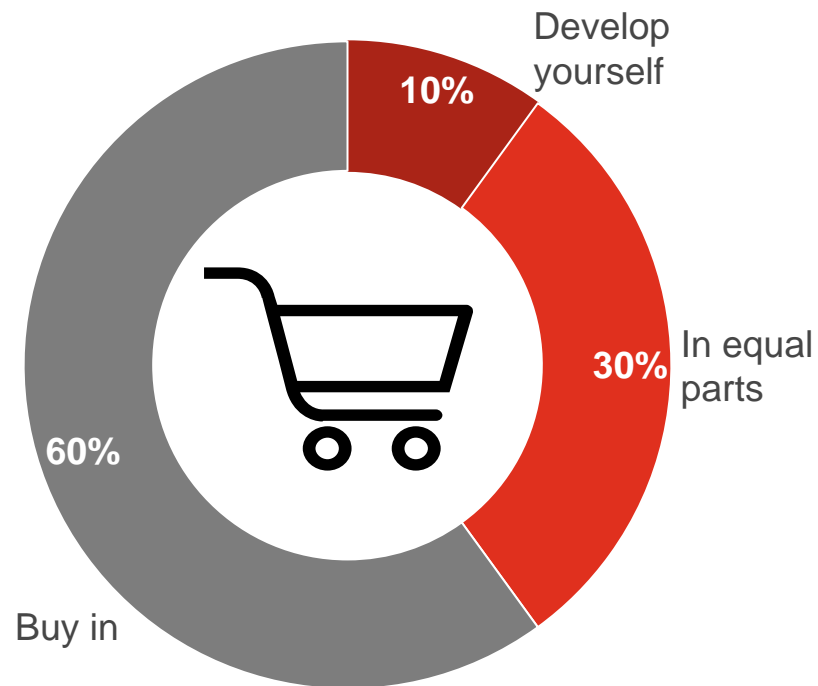


Historically, banks have been very skeptical about sharing customer data – **contradicting the ecosystem idea!**

¹ Source : Strategy & Payments and Open Banking Survey, September 2020

40% of banks still plan to develop their own non-banking products - at least in part

Will your bank develop "non-banking products" itself or buy them in?



Not all banks have yet understood the **need to buy** in **non-bank products** - but this is a key success factor for operating digital ecosystems:

1. Banks are not the **highest quality service provider** in the market for non-bank products
2. For many of the services, there are **already digitally available offerings** on the market
3. The **requirements** for the service portfolio will change massively over time - additional purchases allow **flexibility**
4. The **IT architecture** of banks is moving towards an **open banking** architecture

While banks prefer start-up partners for products, they prefer established players for infrastructure.

Which product service providers would you be more likely to partner with as you build your digital ecosystem?



Which technical infrastructure service providers would you be more likely to engage as you build your ecosystem?



A flexible and modular IT architecture is the prerequisite for the realization of digital ecosystems

IT architecture options

Incremental change

1 Existing architecture

Use of existing systems if they already meet the requirements (and are not at EOL**).

2 Integration standard solution

Replacement of individual functional components with marketable best-practice solutions

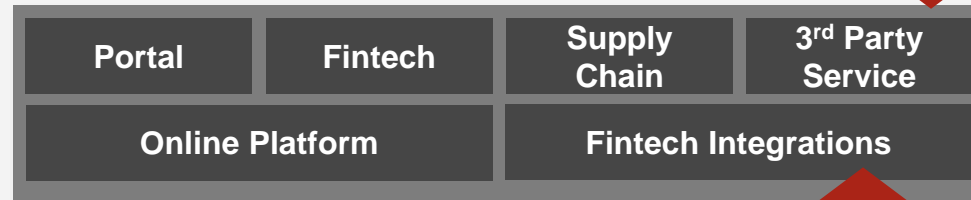
3 Modular architecture

Build "plug & play architecture" to increase scalability and flexibility

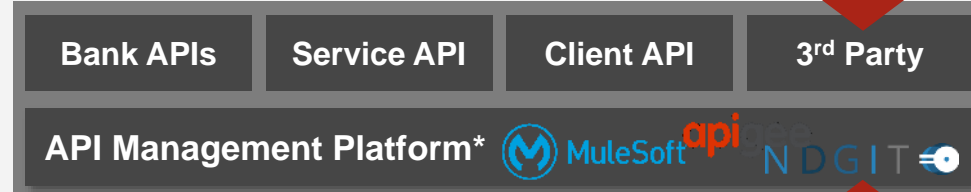
Disruptive change

Modular IT architecture (exemplary)

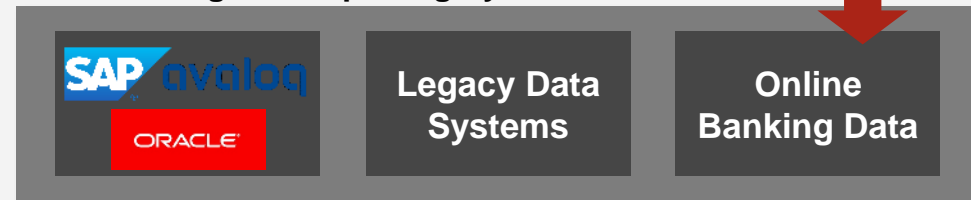
Frontend Platform



API Middleware



Core Banking and Reporting Systems*



Exemplary nomination



- **Decoupling of core IT from API architecture** as a prerequisite for building or participating in digital ecosystems
- **Key components:** API-based interfaces, API management system & modern front-end systems.
- **Modular IT architecture does not** have to be developed by the **bank itself**, but can be implemented with the help of service providers.

To successfully establish a digital ecosystem, classic mistakes must be avoided - excerpt



No **orientation** to the **reality of life** of the end customers



Thinking too small in terms of **individual components** and **inventory products** instead of entire **life areas**



Inflexible and insufficiently open **IT architecture**

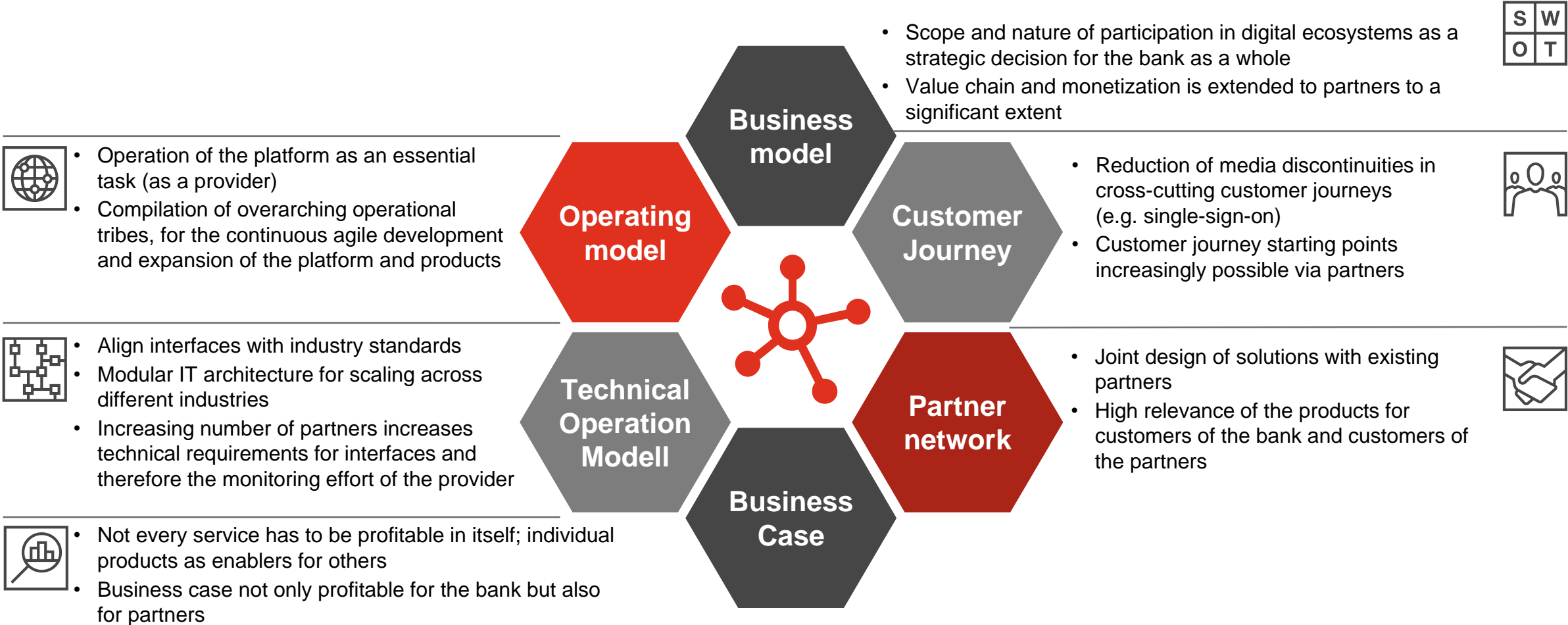


Selection of **strategic partnerships** not broad enough

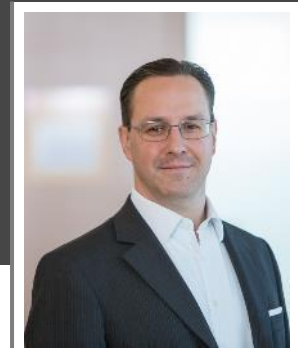


Insufficient budget and **commitment** to create an **optimal MVP** ("first-time-right")

When setting up digital ecosystems, a holistic approach must address all relevant aspects in an integrated manner



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