
2.1 Introduction

The aforementioned developments are the guide rails for the future-oriented (re-) design of banks' business models. A serious analysis of the consequences can be conducted only specifically to each institute. Yet it is important to realise that time is running out. The reason for this is that a constantly growing number of customers is becoming ever more refractory are willing to switch.

The internet and the digitalisation make it easier for newcomers to the sector to enter the market. They offer innovative products with faster development cycles (time-to-market), as well as greater user-friendliness at lower costs. It is astonishing that even start-ups are considered by conventional bank customers to be sufficiently reliable to be entrusted with their financial means or data. Furthermore, until now digital competitors have had the advantage that they can offer products or services that are not yet subject to any comprehensive state regulation. Above all, however, there are already providers whose business models deliberately exploit the thought traps of the banks, allowing them to acquire step by step those dissatisfied customers who are willing to switch. It is a fact that many new providers have emerged in the banking sector in the last 10 years—even if they do not (yet) dominate the market. Banks are busy trying to meet regulatory requirements, push through cost reductions and optimise processes. The danger here is that customer needs do not form the primary focus of the objectives.¹ The newcomers use these failings of the classic providers in order to position themselves as complete providers or implant themselves in a niche area of the banks' value chain (Insideparadeplatz 2013). One of the main objects of every classic competitor

¹ A study by the Schweizerische Institut für Finanzausbildung (SIF) shows that, according to information provided by Swiss bank employees, around 40 % of banks survey future customer needs less than once a year; when designing/implementing the product range, one third of the respondents believed that customer needs did not form the main focus, but instead other aspects (Auge-Dickhut et al. 2012).

analysis is the identification of the success patterns of both the traditional and the innovative competition. The main objective of this chapter, therefore, is to take an impartial look at the business models of these new digital competitors in order to detect the key elements of their unique selling propositions (USP), and thus to lay the second important foundation for the analysis of the possible need for change on the part of conventional banks. The digital competitors can be divided into two clusters: companies that already possess a banking license, and companies without a banking license, but which are starting to offer one or more of the economic functions of banks.

2.2 Newcomers with a Banking License

The providers that can potentially assail the entire business model of banks are either direct banks or new providers from outside the sector, who prepare their entry to market via payment transactions. The basic logic in the age of “big data” is that precise knowledge of the customer’s payment behaviour makes it possible to design perfectly tailored solutions to financial needs in real time—as long as the solution components are also available in the background in modular form.

2.2.1 Direct/Online Banks

Direct banks only became possible due to the internet, which therefore also makes them “newcomers”, even if they have already been successful in many countries’ markets for decades and can boast of steadily growing customer numbers.² They allow the customer to cover the entire range of needs, from financing to investments and payments, online at much better conditions—thanks in no small measure to the lack of fixed costs for the branch system. The USP of the direct banks is their permanent 24/7 availability, including transaction processing in real time. In addition, customers who wish to take responsibility for their own actions can use tools to enable them, step by step, to make complex financial and investment decisions and to process these. The “rewards” are much better conditions and a more direct fulfilment of needs. Another difference to classic providers is the fundamental outward classlessness of the customers—the range of services can be used equally by all customers, irrespective of their asset class. On the other hand, not all “premium services” are offered. Conclusion: in the coming years, market share is likely to increase steadily, if we bear in mind the thought traps mentioned in the previous chapter. The direct bank is already the established reply to the decreasing willingness to go to a physical bank branch. By being permanently available via all communication channels, the model exploits two of the thought

² For an overview of German-speaking direct investment banks see e.g., Bankentest (2013).

traps of classic banks. It is already the case that the most satisfied customers are those of the direct banks.

2.2.2 Digital Universal Banks

Worldwide we can observe the development of various different digital universal banks, who are aimed rigorously—indeed more rigorously than the direct banks, who merely use the sales channel of the internet for an otherwise conventional offer—at the behavioural and user patterns of the digital generation. They use social media much more consistently and act as a platform, for example for peer-to-peer loans or crowdfunding. Newly-founded banks in the German-speaking area include, for example, Fidor Bank, which already has more than 200,000 customers—these are registered users and do not necessarily have to open an account with a contract (Presseportal 2013). It is aimed at customers who feel at home in Web 2.0, who appreciate digital marketplaces and interacting with other users, and whose user behaviour differs greatly from those of classic bank customers (Fidor Bank 2013). An example from the United States is “Movenbank”. It strives to be a mobile bank without any bank cards, paper or branches. Transactions are concluded solely via mobile devices (Moneyland 2013). The “Simple” bank is also on the path to developing and extending this USP (Simple 2013).

2.2.3 Big Data Logic

A key element of the digital age is to hold, obtain and use data in order to segment customers and use the information where necessary for mass customisation. The idea of mass customisation is to try to achieve cost advantages and differentiation by providing customised services using the means of mass production.³

In the digital age, big data means that all information about the customer can be used in real time for the precise analysis of customer behaviour, to derive the correlation between results and behaviour, and thus to make perfectly tailored predictions and cluster formations by using all available data sources. Thus the needs and user profiles can be refined permanently, enabling tailored solutions that meet the requirements structure of the customer. In the medium term, providers who are able to offer these perfectly tailored solutions will gradually become trustworthy also when it comes to bank services.

For this reason, companies like Google and PayPal have also already acquired a banking license (Cash 2013). But the focus on payment transactions is also being pursued by other leading internet companies. Facebook cooperates with the

³“Mass Customization is more than just a manufacturing process, logistics system or marketing strategy. It could well be the organizing principle of business in the next century, just as mass production was the organizing principle in this one.” (Schonfeld 1998, p. 115 f.).

Australian Commonwealth Bank to provide a bank service to Facebook members, allowing payments via Facebook to third parties or to Facebook friends. The security concept is said to be comparable with conventional online banking systems (Finews 2012). The payment system is already being tested online (Tagesanzeiger 2013). Under the name Yapital—and with a banking license in Luxembourg—the Otto Group is working on a payment solution for smartphones and e-commerce. Discussions are underway with stationary retailers such as the Rewe concern about acceptance at the point of sale (Der Handel 20.3.2012).

For industrial companies such as Siemens or MAN, in contrast, the banking license plays a role primarily in sales financing for commercial customers. With a view to the corporate banking sector, this approach represents possible competition for the established banks (FAZ 6.12.2010). In the area of payments via mobile phone, many mobile communications providers are obtaining bank licenses. One of the first in the world was Rogers Telecom, soon followed by European providers (Financial Post 3.5.2013). These include Deutsche Telekom and Vodafone, who offers mobile payment methods in cooperation with Visa. The mobile provider O2 uses the MasterCard platform Paypass for its mobile payment solution. It is also interesting that in 2011 one of the largest concerns in the world, the Japanese telecommunications company NTT Docomo, purchased the publicly-listed German private bank Werther. In Japan this concern already offers payment by mobile phone at free-standing machines (Ernst & Young and University of St. Gallen 2012, p. 17).

2.3 Newcomers Without a Banking License

The providers outlined below exploit the thought traps without possessing a banking license.⁴ It will therefore be interesting to observe how these business models will develop. Selected models will be presented from the areas of “payment transactions”, “virtual means of payment”, “investing and financing”, “personal financial management systems”, “brokerage and securities trading” and “personal information and decision-making systems”.

2.3.1 Payment Transactions

A distinction must be made between the following types of transactions: mobile payment, Near Field Communication (NFC),⁵ virtual means of exchange, micropayments and transactions supported by certain additional services. The

⁴ No distinction is made below between existing partial or universal banking licenses—as prescribed by German law. Neither Switzerland nor Ireland, for example, make this distinction. For example, PayPal’s banking license was issued in Luxembourg and applies throughout Europe.

⁵ NFC is a non-contact payment method via mobile phone or credit card. Its main area of use is in paying smaller sums such as parking metres or ticket systems. But NFC can also be used for areas such as access control (Tipps 2013).

following forms of payment, in descending order, are expected to be dominant in the year 2025:

- Smartphones with NFC chips in combination with eWallets⁶
- Mobile payments via online services such as PayPal
- Customer cards
- Credit cards
- Cash (Kearney 2012)

Providers of payment transaction services, whether online or via eWallets, are in contact with their customers on a daily, and sometimes even hourly basis. This allows them to collect relevant data about customers and their transactions. The loss of customer data can lead to the loss of the customer relationship. If banks lose their access to the traditionally low-margin payment transactions business, they then become dependent in future on the data of other service providers. In extreme cases, the bank becomes nothing more than the processor of transactions on the system platforms. The customer interface can be occupied successively by new competitors and, again in extreme cases, the traditional providers become invisible to the customer. The traditional provider's brand fades progressively, while the brand of the new competitor is recharged.

The flow of start-ups of mostly mobile providers in the area of electronic payment transactions is therefore relentless. Along with the well-known service PayPal by eBay, other providers are Paymate and Propay. Yapital (www.yapital.com), by the Otto Group, is a special case. It offers point-of-sale (POS) payments and is a pioneering cross-channel payment provider. Small business owners, such as market stall operators or delivery services, can easily use iZettle (www.izettle.com) to transform their smartphone or tablet into a POS payment terminal with the help of a card reader.

Providers like Euro2Cash (www.euro2cash.de) offer a mixture of old and new payment methods. They allow users to transfer money online to recipients abroad who do not have a bank account. The transferred sums are then paid out by regional paying agents. Other systems such as BillGuard (www.billguard.com) analyse users' credit card payments. Once read-only access is granted for a credit card account, all credit card payments by the user are examined. The payments are checked for hidden fees, booking errors, etc., using more than 100 automated security tests (BillGuard 2013).

Holvi (www.holvi.com) is a Finnish software company. It soon plans to open a Europe-wide innovative bank that offers not only internet-based investments, but also an entire programme encompassing all financial payment flows. The business

⁶ It is predicted that by 2014–2016 every fifth smartphone will be equipped with NFC. The volume of transactions processed directly via mobile phone in 2015 is estimated at around 670 billion US\$ (Juniper Research 2011).

will be managed exclusively by the customers themselves. The philosophy presupposes that people work in other dimensions these days, and act in networks.

Social micropayment services such as Flattr (www.flattr.com) offer user accounts into which a certain sum is deposited monthly. The user can then click on a payment button on the websites of various different media providers, which then receive a donation from the account.

2.3.2 Virtual Means of Payment

Bitcoin (www.bitcoin.org/de) and Opencoin (www.opencoin.com) are forms of virtual money that are based on the ideas and values of the open source movement. The demands on virtual currencies are that they can be divisible as required, and that they are absolutely forgery-safe, anonymous and untraceable. The virtual currency is formed out of a calculated, encoded character string that meet certain mathematical conditions. This is done in a network of connected computers. Thus one single virtual currency does not consist of a constant character string, but is variable. The string shows the history of the individual virtual currency and the transfer from one owner to the next. This approach ensures that virtual coins cannot be forged, as each individual currency has its own code (Stöcker 2011).

It is already possible to buy mobile phones or ebooks on auction platforms using digital coins, or to play poker with them on specially designed websites. Organisations such as the Free Software Foundation (www.fsf.org) accept donations in virtual currencies. Various platforms offer to exchange digital money into US dollars or other currencies, at constantly updated—and at present, steadily growing—exchange rates (Stöcker 2011). At the moment, however, digital currencies appear to present more of a problem—if at all—to real currencies and their associated economies than to banks. The Chinese central bank, for example, is already worried that the “QQ” coin, which is issued by Tencent, the most important Chinese instant messaging provider, might influence the value of the Yuan. The central bank is considering introducing regulations for the virtual currency, respectively for the transactions in which they are used (King 2010, p. 333).

Digitalisation is penetrating real life in ever more aspects, and therefore currencies that exist only online are greatly increasing. The growing importance of social networks reinforces this trend even further. There are already trading centres for virtual currencies, such as Mt. Gox, and marketplaces in which only virtual currencies are accepted for payment, such as Flowplace (Menn 2011).

2.3.3 Investing and Financing

Conventional banking advice with regard to savings and financing activities faces competition from specialised, web-based advice given by various different providers. This web-based advice, or decision-making support, ranges from the replication of the share portfolios of start investors to the analysis of successful

private investors and the replication of these portfolios as exchange traded funds (ETF), right up to the financing of loans by means of a wide range of private persons via special online platforms. Increasingly, customers are managing their own portfolios, and they compare their investment decisions with those of other investors. It can be expected that the willingness of investors to shift their money to other, cheaper and more comfortable providers, will continue to grow.

Peer-to-peer lending and borrowing is based on a similar business model to that of eBay. In each case, the customer is provided with a platform for exchange relationships without the involvement of classic intermediaries. Peer-to-peer lending enables direct bank transactions between private investors who wish to invest money and those who require credit; no bank is involved. As the term is quite cumbersome and long, the acronym P2P is mostly used.

The English company Zopa (www.zopa.com) is a pioneer in the area of online lending. Private individuals can borrow and lend money here quickly and easily. Customers determine the sum and the conditions under which they wish to invest. Borrowers do the same, and as soon as the conditions intersect at a “zone of possible agreement” (hence Zopa), the transaction can take place. For the sake of security, each investment sum is divided among at least 50 borrowers, and a credit reporting agency check is made. Lenders can choose between debtors with different credit rating categories, and receive more or less interest accordingly. Zopa is financed by a fee amounting to 1% of the loan sum, which is paid by the debtor, and a 0.5 % charge for investors. The interest margin required by banks is twice as large (Zopa 2013).

The advantage for the participating parties is the partial omission of the bank margin. The anonymity and simplicity of the transactions can also be an attraction. Many customers are not keen on telling their bank about their financial difficulties in order to get money. Others do not even have the opportunity of receiving money from a bank. In patchwork careers it is not uncommon for phases of good earnings to alternate with other phases in which little or nothing is earned. Those who find themselves in need of money during a phase of low income often cannot expect to receive a bank loan due to a lack of security and no regular income. And even if it is possible, the conditions are very poor. Under certain circumstances, internet platforms solve this dilemma.

The attractiveness of P2P lies not only in the cheaper conditions. While Zopa aims to make a profit, the American internet platform Kiva (www.kiva.org) has a different approach. Here, start-up founders and young entrepreneurs in developing countries can be supported with loans to help them out of poverty. The importance and necessity of such concepts was made very apparent by the awarding of the Nobel Peace Prize to the economist Muhammad Yunus. In 1983 he founded the Grameen Bank (www.grameen-info.org) in Bangladesh, in order to improve the situation of the poor. After a famine he realised that the poor people required only very little capital in order to buy materials for their craft businesses. Yet despite this small capital requirement, hardly any profit was left over. They paid usurious interest rates to moneylenders or were dependent on suppliers. Established banks

refused them loans because of a lack of security. Yunus developed a system in which the borrower felt obliged to repay the money due to personal solidarity. His bank paid out loans only when small groups joined together in the villages and vouched for each other. The model now supports people in more than 60 developing countries.

Thus an old idea is revitalised: P2P is not a new phenomenon. As early as 300 AD people in China loaned and borrowed money by organising themselves into groups. The idea remained successful for hundreds of years. Now there are Rotating Savings and Credit Associations (ROSCA) in many countries and cultures. These are alliances between people who save jointly and equally and give loans to members. Zopa developed this idea further, taking it to its logical conclusion with Web 2.0 technologies.

Other new financial instruments in combination with social media and social communities are crowdfunding or crowdfunding, microfinancing and donation. With crowdfunding or crowdfunding, a large number of people directly finance a single project. As well as repayment and interest, investors also receive, for example, the finished work, individual gifts or supporting advertising with the help of the cooperation partner.

In donation or rewards-based funding the idea of financing is combined with a donation. On the platform Indiegogo (www.indiegogo.com), for example, donations can be given to a wide range of projects, many of which provide some kind of return.

2.3.4 Personal Financial Management (PFM)

The change currently being experienced by the classic service offer from banks can be seen very clearly in the area of personal financial management. Every person conducts many hundreds of financial transactions each year. Only a fraction of these transactions are conducted via the principle bank. They also include payments with credit and debit cards, second bank connections, cash transactions and many other types of transaction. It seems very difficult to maintain control of this huge amount of data. And if we include the large number of contracts with banks, insurance companies, social insurance funds, etc. of every single customer and his or her family, the task is almost impossible. PFM solves precisely this dilemma to a large degree. It allows customers to maintain an overview and control of their own financial transactions and contracts.

PFM is based on a highly automated, web-based software and is characterised by a high level of user-friendliness with regard to the social dimensions of Web 2.0. PFM applications automatically categorise transactions from customer accounts and credit cards, present this information visually and allow the user to monitor, manage and control his or her finances with the help of intuitive tools. Training videos are often available to users, to explain the first steps of the application possibilities (see e.g., Meniga 2013).

Well-known providers include the American company Mint (www.mint.com) and Meniga (www.meniga.de). They support the customer with, for example, a highly precise, automatic categorisation of transactions, a possible budget overview for spouses or partners and account consolidation. The systems learn with each use and therefore improve constantly. This soon rewards the initial time investment required for PFM.

Furthermore, PFM provides customers with the opportunity to inform and prepare themselves prior to or after a consultation with an advisor, or indeed to manage completely without the help of an advisor. This technological “upgrade” in the area of self-advice, which is relatively easy to achieve—though certainly nowhere near completely adopted by all customers as yet—threatens to present banks with similar changes as those faced in the past by travel agencies or bookshops. It is not necessary to be an expert or a visionary to recognise the future of online banking. Supplemented by mobile applications on smartphones, PFM can become the focal point of personal financial management: always in the customer’s pocket, accessible with only a few fingertips, and at the technological level of the best bank IT.

One special feature—and a clear competitive advantage over classic online banking—is the possibility to compare one’s own financial conduct (e.g., spending behaviour) anonymously with others (peers) with similar behavioural patterns. Recommendations from the same reference group (similar lifestyle, same financial situation, etc.) are particularly decisive factors when opting to purchase. From the banks’ perspective PFM extends the classic value chain with information about one’s own user behaviour and with the possibility to glean even more information in this regard. The necessary data is usually available. One of the first major providers in Switzerland was PostFinance with its “Cockpit”. The Cockpit offers private customers an automatic categorisation of their income and spending, the creation of budgets and savings goals, and notification whenever budget goals have been reached or exceeded (PostFinance 2013). By now most main providers have caught up. PFM is also offered by digital banks in the context of their customer care (see e.g., Fidor Bank, www.fidor.de or Banksimple, www.simple.com). As well as the direct offer as a platform in itself, “white label” solutions are now also being offered for European banks. Meniga, a well-known provider, refers explicitly to the additional benefits of PFM tools: a demonstrable increase in customer loyalty and the growth and optimisation of cross-selling with individual products and recommendations by using the information obtained (Meniga 2013).

2.3.5 Personal Information and Decision-Making Systems

Beyond the strengths of PFM—which is focussed on customers and their data—personal information and decision-making systems have the advantage that external information from internet platforms can be used for the purpose of personal decision-making. The functionalities include rating portals on the quality of financial service providers, capital market information and tool-supported investment

decision aids and portfolio management systems. For example, on the internet platform whofinance (www.whofinance.de), potential customers can read the customer ratings for individual financial advisors. And in the network XING, Fidor Bank already presents more than 1000 ratings on the advisor scene.

One of the most innovative capital market information systems is stocktouch (www.stocktouch.com). It provides a system that help investors—by means of an intuitive iPad app, among other things—to monitor the stock market. At present analyses of 900 American stocks can be accessed (Stocktouch 2013). Alphasys (www.alphasys.ch) is a Swiss company that offers software solutions for portfolio management systems. These are specially tailored to the requirements of asset managers, private banks and pension funds.⁷

There is a large number of providers of tool-based investment decision systems. What they all have in common is that they seek to acquire investors on the basis of their individual theories and recommendations for action. These are based on the use of data via stock trading by executive or supervisory boards that are subject to reporting, or on the identification of reports on securities on the internet.

StockPulse (www.stockpulse.de) is concerned with the analysis of digital social networks and is a navigator for financial markets that delivers real-time analyses on moods and trends on the stock market. StockPulse follows tweets and the posting of messages worldwide about the financial market and can thus provide trading ideas and signals. Inside analytics, on the other hand, uses the findings that can be attained from the trading behaviour of company insiders such as executive boards. They analyse this behaviour for the entire European market (Inside-analytics 2013). Yavalu (www.yavalu.com) conducts risk analysis for private investors and recommends investments in exchange traded funds (ETF). The investment solutions are analysed in the process. Justetf (www.justetf.com) is also aimed at internet-based asset management for private investors via ETF.

2.3.6 Brokerage and Securities Trading

Brokerage is the web-based trading of securities, raw materials and currencies. The main focus here can be on either cheap, internet-based trading or on the receipt of information about the strategies of successful traders. Zecco (www.zecco.com) is a California-based online trader that was founded as early as 2006. It is characterised by extremely cheap trading conditions and contains a social community platform for people who trade securities via this platform. Facebook users can use Zecco thanks to a cooperation with Trade King (Zecco 2013).

⁷ The programme Netfolio has numerous functions with which portfolios can be managed, rated, calculated, compared and monitored. The modular structure of the software allows asset managers to carry out calculations and presentations of the portfolio in accordance with the individual wishes of their customers (Alphasys 2013).

Most newcomers offer social trading services. Social trading is a new possibility to access financial markets in a simple and cheap manner. In social trading, traders are connected to each other worldwide in a social network. This means that individual traders can benefit from the experience of other members and act jointly. Since the collective knowledge of the community is available to each trader, completely new possibilities emerge. Social trading or investing is also known as mirror trading. Among those active in the German-speaking area are: Ayondo (www.ayondo.com), Etoro (www.etoro.com/de), Twindepots (www.twindepots.de), Wikifolio (www.wikifolio.com), United Signals (www.united-signals.com) and Moneymeets (www.moneymeets.com). The basic principle of these platforms is similar. A trader opens a portfolio and his or her activities are visible to the users of the platform in question. If investors are convinced by the trader's strategy, they can invest their money with a broker in a manner that duplicates the trader's strategy. Other providers, such as Moneymeets, disclose their members' trading strategies, but other users are not obliged to adopt them. Here the focus is more on the exchange of information about the various investment strategies chosen. With United Signals, Etoro and Ayondo one can follow traders, but their identities are usually not disclosed. It is up to the investor to research which trader pursues the optimum risk-yield profile for his or her needs.

On many platforms it is also possible to duplicate certain portfolios without investing real money, and to follow these virtually to see how a real capital investment would have developed (see NZZ 24.12.2012 for an overview of mirror trading). Tracking communities often examine in retrospect how successful a stock recommendation was. Sharewise (www.sharewise.com) is such a stock community for investors, who can communicate there with other, like-minded investors and check who made correct prognoses in the past. This retrospective analysis of recommendations is claimed as an essential advantage of this community. The information is available free of charge. At the same time, Sharewise automatically checks all recommendations with the help of a professional ratings system and shows who the best investors are or who has managed to beat the benchmark index STOXX Europe 600 in the long term (Sharewise 2013).

Investory (www.investory.eu) acts in a similar manner to Sharewise and offers registered members an insight into the portfolios of successful independent traders, the ongoing monitoring of their own portfolio, a shares blog and other services connected to securities trading (Investory 2013). Waytrading (www.waytrading.de) is a free, interactive online site on which interested investors can exchange views and publish virtual investment decisions.

The American company Loyal3 (www.loyal3.com) goes a step further with its new service. It offers customers the chance to buy the shares of their favourite companies directly on Facebook. While in classic banks this would involve a comprehensive and time-consuming advisory documentation and annoying fees, Loyal3 offers easy-to-use purchase with only three clicks. And it is all completely free to the customer. Companies that wish to sell shares to their "fans" install the relevant app on their company website or Facebook page. Fans can then subscribe

to the shares in batches from 10 US dollars per month. The advantage for the companies is not only the direct and cheap financing, but also the resulting strong customer loyalty. The customer who owns part of the company is usually a loyal customer who buys more and recommends the services of the company to others (Nextmind 2013). Friends of the customer see their activities on Facebook and become curious. By these means, friends also become new customers and part-owners of the company.

Some newcomers supplement social trading with gamification. Gamification is the use of game-like elements and processes in non-game contexts. Integrating game-like elements is intended to increase the motivation of the customer, who would otherwise have to conduct less challenging, too monotonous or too complex transactions.

2.4 Speed Matters: Innovation Competence

Along data management, another challenge is presented by generally much-reduced innovation cycles. The growing speed of innovation is in contrast to the more traditional and wait-and-see culture of banking. Banks must examine how they can increase their innovation speed. There are a number of possibilities available, from the implementation of their own spin-offs with a high degree of autonomy to the delegation of development tasks to external suppliers or with innovative partners in a network.

A large number of smaller companies demonstrate innovative ability, thus assailing a classic area of retail banking, traditional payment transactions. Quick and safe electronic and mobile payment methods, combined with eWallets and innovative tools for managing financial means, are changing the function and dominance of cash and credit cards.⁸ Naturally one can argue that the margins in classic payment transactions are low, unless the customer is willing to pay for special services. Competitors like PayPal appear to demonstrate that e- and m-payment solutions can nevertheless be profitable. The loss of income from payment transactions is not the only risk for banks. Whoever loses payment transactions—and thus also the associated financial management of their customers—will no longer have any access to the growing and competitively decisive volume of data that is available for every customer. The possibilities for dealing with this will be presented in Part III: The path to a customer-centred banking architecture.

⁸ When surveyed, 35 % of all consumers stated that they would like to use their mobile devices as eWallets (Kearney 2012).

2.5 Wrap Up: Game Changers

2.5.1 The Newcomers

This chapter was concerned with understanding how new competitors exploit thought traps in order to develop future-viable business models. The competitors include newcomers with and without banking licenses. What consequences does the market entry of this large number of new competitors have for the established banks?

Newcomers with a Banking License Essentially three types of new providers of bank services in the digital age were identified:

1. Direct banks offer classic bank services without branch operations.
2. Digital universal banks focus on the internet generation by rigorously using new communications channels and platforms.
3. Many internet and telecommunications providers (still) focus on payment transactions, as it allows the generation of “big data”—the perfectly tailored user profile of the customer with regard to financial transactions and consumer behaviour allows an equally well-tailored offer of financial services and solutions. An analogy here would be the predictive product suggestions introduced by Amazon, based on previous user behaviour. This illustrates clearly the potential effect of new technologies on the banking sector. Get ready now, but how?

Classic banks are being threatened by all three groups of competitors: the fact on the one hand is that the established direct banks already demonstrate much higher customer satisfaction. It is likely that the pull effect will lead to the customer basis of the traditional providers being hollowed out, so that the profit margins of the established business models will continue to decrease further.

A future threat, on the other hand, is presented by the options created for customers by the digital universal banks. Some providers—for example Fidor Bank—are already positioning themselves as a platform on which customers can advise themselves and invest directly, due to the rigorous use of modern forms of communication and a partial “withdrawal” from the role of mere platform provider for various financial transactions.

In addition, the “big data” strategies of Google and PayPal pose an extremely large threat, because these providers also hold banking licenses and can create perfectly tailored offers for individual financial needs in the coming years by the rigorous use of customer information and the payment, search and information behaviour of the customer. Banks find that they are confronted with the danger that they are being cut off increasingly from the data basis. To this day not all of the available data appears to be utilised to its full potential. The integration of the different sales channels and the associated information has not yet been fully achieved. It is very likely that a not inconsiderable number of customers would

find this offer very attractive. In contrast to newly-founded digital universal banks that still need to build up their customer basis from the beginning, the internet concerns already have an abundance of customer information and a considerable user basis. It is therefore highly probable that they can achieve the necessary number to trigger a “critical mass effect”, thus degrading classic banks to the role of a processor in the background, with no control over the customer interface. However: the reputation of banks, which is based on the factors trust, privacy protection and data security, can be a strong asset. The ability to guarantee data security possibly ensures a comparative competitive advantage and can be a successful business model.

- **Newcomers Without a Banking License** In future consultation situations in which standardised products form the core of the solution, customers can not only advise themselves, but can also complete the transaction online without requiring any advice from the bank. The entire sales process will become possible via the media, without the involvement of a personal advisor. Online forums or private advice from peers can help in the event of problems.

In the case of more complex advisory needs, PFM will grow in significance in the area of pre-sales. Well-prepared and informed customers have existed for a long time, but this aspect takes on a whole new dimension with PFM, as customers can analyse in precise detail their own financial behaviour. This presents a great challenge to the expertise and the social and methodical competence of the present-day advisor. Personal information and decision-making systems help the customer to gain easily accessible external information that is relevant to their transactions. For the most part the information advantage and the associated power previously held by banks is being eroded. A new trend is to also use the knowledge and assessments of other customers (the wisdom of many) along with information from experts. The accumulation of information in customer groups can lead to joint decisions that are sometimes better than the approaches of individual customers or the bank. Virtual means of exchange do not in themselves pose a direct threat to classic banking services. However, should these parallel currencies ever establish themselves in the long terms as a means of payment, this could represent a new form of competition for banks from companies that manage such currencies. Internet companies in particular appear to be open to the creation of virtual currencies. If 1.1 billion Facebook (www.facebook.de) users were to start using their own currency, for example, this would become one of the most important currencies in the world, on an equal footing with the US dollar, Euro and yen.

There are two possible future scenarios as to how the further development pattern of business models in the banking sector might look with regard to competitors without a banking license, who cover only part of the value chain of the established banks.

One hypothesis is that the existing providers will integrate the USPs of those providers without a banking license into their own value chain as soon as a critical mass has been achieved in terms of demands from existing customers. Such a pattern has often been observed in the past. The integration is carried out either by buying up smaller competitors or by copying the relevant technologies.

The alternative hypothesis is that the competitors, who are strong in their niche services, will cause an erosion of the value chains of the banking services and will integrate customers by means of technological possibilities into the partial services of separate providers, in a kind of “plug and play” manner.

It can be seen from the example of consumer loans just how far the fragmentation of the value chain has already progressed and how individual service aspects can be taken on by providers unconnected to the sector. Market analysis can be conducted with the help of comparative portals. Here, the price and often—with the help of communities—also the quality and characteristics of loans offers are displayed. Once the purchase decision has been made, an analysis of the financial means can be made using PFM—for example, the number of instalments to be financed for a required consumer loan. Then, via a credit platform, a finance request can be placed online. If the financing has been cleared, the purchased product can be ordered and paid for via the internet. The same is easily conceivable and achievable for the purchase of securities, including the accompanying investment advice, or for the financing of property purchases (Vater et al. 2012, p. 12).

2.5.2 Outlook: Are Game Changers Just a Hype?—Bank Management in the Digital Age

Just a decade ago, some exponents decried the significance of the digital age as pure hype after the bursting of the dotcom bubble (Spiegel 2013). Using the same logic, one could now also express the view that the new competitors are merely a brief occurrence. This assumption must be disproved and—if that succeeds—suitable analytical and design instruments must be developed.

The next chapter, therefore, will show the fundamental forces of change presented by digitalisation with regard to the business models of banks, as well as the instruments of successful bank management.

It will become clear that these developments demand a fundamental change in business models and that the willingness of classic banks to analyse the medium and long-term consequences and to make their business models network-compatible from the inside will be key to success in the coming years. It will not be possible to defend against future competitors by clinging on to old business models or by imitating the new rivals. Banking in the private sector requires a tailored, customer-centred business model.

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