

Digital transformation of financial services: The ecosystem imperative

October 2022 – Interim findings

Deloitte & The Institute of International Finance

Executive summary

- The digital transformation of financial services is extending activities into broad ecosystems with new players and shifting roles. The public and private sector can benefit from a better understanding of the implications of these trends in the future of finance.
- This document outlines interim findings from an ongoing Deloitte-IIF study which is based on the views of leadership at financial institutions (FIs) and partners.
- Ecosystems are becoming a key strategic consideration for FIs, due to rapid shifts in market conditions within and beyond the financial services industry.
- Specifically, evolutions in sectoral competitive dynamics, macroeconomic disruption, and the proliferation of emerging technologies are driving a renewed imperative to engage in ecosystem activities.
- There are six critical questions that financial services executives should answer in order to assess their strategic engagement with ecosystems, with considerations for:
 1. Value proposition
 2. Partnerships
 3. Roles and responsibilities
 4. Business models
 5. Capabilities
 6. Internal and external implications
- The next phase of our research will explore key themes, such as the importance of interoperability in increasing value transfer in ecosystems, the human and technological challenges that influence participation in ecosystems, and the importance of protecting both reputation and client data.

Project background

Collaboration overview

The digital transformation of financial services is extending its activities into a broad ecosystem of new partners, challengers, and channels. Embedded finance, open data, and cloud services are dramatically changing roles and responsibilities and blurring lines between traditional verticals and value webs.

This Deloitte-IIF project is exploring the implication of these developments, archetypes for evolving roles in new financial and data intermediation ecosystems, and the strategies that financial services firms are employing to define the path forward in an ecosystem world.

Project participants

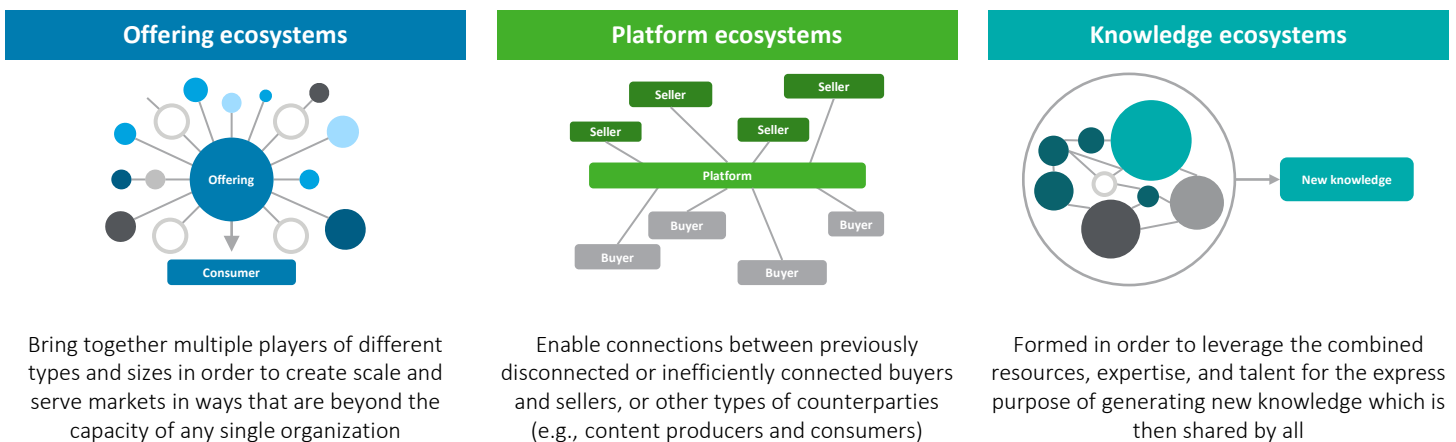


What we know about ecosystems

Ecosystems are dynamic and co-evolving value webs of diverse actors, who create value through increasingly productive and sophisticated models of collaboration, competition, and oversight. They tend to have a few key characteristics: 1) they have a common purpose; 2) they span traditional industry boundaries; and 3) they are made up of multiple firms who each have a different but integral role to play.

Ecosystems are not necessarily a new concept in the context of financial services. Indeed, many of the products and services offered by FIs today serve as a means to achieving some ultimate end in the real economy: buying a home, protecting a valuable asset, or building a new manufacturing facility. Therefore, FIs are not strangers to partnering vertically and/or horizontally across sectors to create value for their clients.

We have observed ecosystems take three common forms in the context of financial services:



Examples of existing ecosystems

Property & casualty insurers have long orchestrated ecosystems of brokers and agents to optimize distribution

Large payments networks standardize connectivity to enable the transfer of value from consumers to merchants

FIs have formed local and global industry groups (e.g., the IIF) to share knowledge on critical issues

Key finding



Ecosystems are becoming a key strategic consideration for FIs

While the concept of an ecosystem is not new to financial services, their design, composition, and purpose are shifting rapidly, due to evolutions in sectoral competitive dynamics, macroeconomic disruption, and the proliferation of emerging technologies both within the industry and beyond. FIs are increasingly viewing ecosystems to quickly assemble new capabilities/channels.

What is driving the strategic imperative?



Predicting the future is becoming more difficult

We continue to live in an increasingly VUCA world, which favors adaptive, adoptive and resilient firms, who will need capabilities to watch for signals, diversify the workforce, and pursue new strategic options.



Traditional industry lines are blurring

As embedded finance, open data, and other flashpoints of industry convergence proliferate, they will re-distribute where financial services are delivered, so FIs will need to play both offense and defense on disruption.



Technology is now both table stakes and a differentiator

Technology continues to be the foundation for transformation across society, industry and people. If organizations are not building it, they will need to buy it or partner for it to assemble the right stack.

What are the key strategic decisions to be made?

As FIs assess their strategic engagement in ecosystems, there are **six fundamental questions** that we believe are critical to answer:

1. Value proposition

What is the strategic rationale for participation in the ecosystem? How do you **broaden your existing, or create a new value proposition** via participation?

2. Partnerships

Who are the **attractive strategic partners** in the ecosystem, and why are they willing to collaborate? What are their strategic motivations?

3. Roles and responsibilities

What **role is each participant best positioned to play**, considering the partners available and value proposition of the ecosystem? How could these roles evolve over time?

4. Business models

How is **value captured by the various players across the ecosystem**? What constitutes value for each player (e.g., new knowledge, new capability, revenue, etc.)?

5. Capabilities

What capabilities are required to **optimize for individual organizational and ecosystem success**? How might those capabilities evolve over time?

6. Internal and external implications

How does participation **impact the strategic direction** of each firm within the ecosystem? What **impact does the ecosystem have on the industry(ies)** it touches?

Emerging hypotheses



Both growth and operational efficiency are common strategic rationales for ecosystems

- Historically, FIs have often leveraged ecosystems to achieve operational goals, such as enhancing capabilities or optimizing the cost of key business processes.
- Just as commonly, FIs are now pursuing ecosystems to drive growth via new client acquisition and accelerating time-to-market (e.g., embedding financial products into non-financial channels to find new client segments).

Outstanding questions:

- What are the other most common strategic rationales for ecosystem formation and participation?
- What organizational factors influence the strategic rationale for participation in an ecosystem?



Ecosystems are built on symbiotic relationships and generate value in standard ways

- Ecosystems are formed on the basis of symbiotic relationships which often generate value for participants in highly standardized ways.
- In Offering and Platform ecosystems, the extent to which an organization is able to extract value is positively related to the substitutability of the subcomponent they provide, not necessarily their size.
- Knowledge ecosystems may offer more relative benefits to smaller players in the short term by providing access to vast quantities of new knowledge, which they can quickly internalize.

Outstanding questions:

- How can organizations pay closer attention to recognizing when/where symbiotic relationships are found?
- What can be done in situations where participants feel their reception of value is subpar to their contribution?



Data sharing will be critical to ecosystems, but client consent and permission are priorities

- The increasing 'openness' of data will drive new value creation as FIs gain reciprocal access to non-financial data from third parties.
- But blurring industry lines create the potential for data to be used in contexts that clients are unfamiliar/uncomfortable with (e.g, using non-financial data to build a lending model).
- FIs should seek client's explicit consent to use data from third party partners to augment their offerings

Outstanding question:

- How can other ecosystem participants help ensure clients are aware of where/how their data is being leveraged and that consent is received at every point of contact?

Emerging hypotheses *(continued)*



Organization size drives participation appetite across multiple ecosystem types

- The extent to which firms can simultaneously engage in multiple different ecosystems will depend on their scale and capability maturity, as well as the regulatory environment in which they operate.
- Scaled organizations (e.g., universal banks) are more likely to play a role in multiple ecosystems to pursue simultaneous goals such as revenue diversification, client acquisition and capability enhancement.
- Smaller firms may find it difficult to stretch across multiple ecosystems and often focus more narrowly.

Outstanding questions:

- Are there any potential risks to organizations participating in multiple ecosystems and/or multiple types of ecosystems simultaneously?



Interoperability will be key to increasing the value capture in ecosystems

Fully capturing ecosystem value requires significant interoperability, which becomes harder as they become more connected and complex. There are three levels of interoperability to consider:

- **Standards:** Participants must agree to a standardized method of sharing information and transferring value.
- **Technical:** Participants need to operate on the same or compatible systems based on the standards defined.
- **Cultural:** Participants need to accept different values/principles to co-exist harmoniously.

Outstanding questions:

- What are some challenges in executing on interoperability at each level and how can ecosystem participants work together to overcome them?

Emerging hypotheses *(continued)*



Participation challenges in ecosystems are both human and technological

The main challenges to ecosystem formation and sustainability include:

- **Regulatory:** FIs often have strict guidelines that limit the types of products and services that they are able to provide.
- **Technological:** Coordinating the flow of data and value across multiple technology infrastructures can cause friction.
- **Governance:** Organizing ecosystems often requires adaptation to partners' imbedded incentive systems, political structures, and ways of working.

Outstanding question:

- How can ecosystem participants help accelerate cultural shifts that challenge the status quo?
- How can participants work together to help address each other's technological gaps?



Participant size often influences how quickly ecosystem benefits are realized

- Just as organizations evolve over time (e.g., in terms of size, strategy, and scope), the manner in which participants interact and derive benefits from the ecosystem will also evolve as a result.
- Often, smaller players are more likely to derive more immediate benefits from ecosystem participation, as they are nimbler, and can quickly leverage the scale and brand of larger players.
- Larger players may realize benefits at a slower pace, although the overall net benefit to them may be greater in the long-run.

Outstanding questions:

- How do we predict and plan for the evolution of ecosystem participants, and the impact of their evolution?
- What are some risks associated with composition changes and how can they be mitigated?

Key contacts

For more information about this project, please contact:



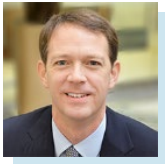
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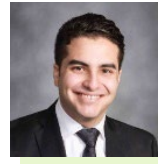
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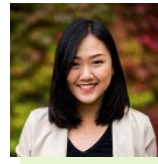
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