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The Retail Bank of Tomorrow: A Platform for Interactions and Financial Services. Conceptual and Managerial Challenges

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Abstract

Banking without boundaries will grow in the future, most of this because of digital business transformation. Banks need to re-interpret their business and look for a different managerial approach. A bright future for retail banks will depend above all on taking today the right actions for a long profitability, which are based on developing and reinforcing customer trust. The current account is the hook service for a bank to defend and reinforce from the competition, because it is the bank's platform for entering and developing its business. At the beginning, the retail bank of tomorrow should look at developing value in core contents as well as orchestrating a platform strategy, but moving from a technology idea of platform towards managerial and economic dimensions of it. Because technology is nothing without a strategy.

Keywords

digital transformation, retail bank, digital banking, Fintech, platform, innovation, PSD2, open banking, ecosystem

1. Introduction

In the aftermath of the financial crisis, financial institutions have faced increased regulation, falling profitability, and the need to update their risk management systems to keep pace with faster and more complex market conditions. In the meantime, the rapid proliferation of technologies—such as smartphones, artificial intelligence, and big data analytics-; new competitors—namely the new financial technology startups (Fintech); and several changes in customers' attitudes and behaviors have started developing new ways and approaches to banking from both the offering and demand sides.

The idea of disrupting technology in the banking industry is not new, but this time the terms of exploiting, it is different. Often bank managers have been thinking of technology in terms of convenience, but its implications change dramatically according to the different meanings given it, such as advantage, suitability, advisability, but also comfort, coziness, ease, amenity, leisure or even the meaning of advantage, benefit, plus, profit and asset.

At this point, the way people use cards, credit and other financial services, is going to have change. Because of this, there will be demand for greater transparency on costs, information, processes. At the same time, also consumer's decision is going to go through a rapid change in the next years as most of these decisions become real-time and no longer based on some application form customers fill out sitting in a branch. Under these circumstances, also the idea of bank proximity has to change.

Given that retail banks have to look for renewing their relevance, acknowledging that potentially every customer is gaining more control of the relationship. In addition, this is because it has been easier for technology start-ups to enter the financial services industry and offer products and services directly to consumers and businesses, with different approaches to customer's user experience, transparency and simplicity in their value propositions. Given that, consumers are demonstrating increased willingness both to shop around and to purchase financial services and products from non-traditional providers as their preferences are changing rapidly. It is interesting to outline that (Mersch, 2015):

Retail customers now expect to be able to integrate e-commerce, social media and retail payments. They also expect to be able to switch seamlessly across digital platforms. These are not areas of strength for many banks; given their heavier compliance obligations, banks have traditionally invested more in security and resilience of their systems rather than optimizing the user experience.

On the contrary, new entrants seem to look for and leverage the relationship with the customers. Most of them have entered the market by selling payments (in particular, a number of new entrants are targeting the emerging mobile payments market), personal lending and general insurance, and more recently financial advisory which have historically been regarded as a more complex service.

In this new emerging context, there are many dynamic changes to look at and be ready to face and go ahead.

Therefore, if retail banks want to regain their presence into their customers' everyday banking, they have to move from running their business to change the bank. In this respect, and at this stage, we do not think a retail bank should enter different businesses yet or searching for a much greater differentiation in products and services offered. Moreover a retail bank should change its perspective overall on its business model, which has to look for and strengthen it on a deeper degree of resiliency. It is on this track that we are convinced there will be new business models innovation entries by financial institutions, and more innovative partnerships with startups. For a long time, both literature and business practices have been focused on enriching the bank's value proposition; at present, there is need a space to refocused on the bank's economic, which means regaining centrality in the reason why banks are useful to the economy, that is for managing payments, credit, investments and risks. This

time, the innovation is not on the idea of enlarging their value proposition but in making customers using more and better their present offer, by simplifying process, develop transparency and put a more stable attention on the customer experience. All this needs to be reinvented trough a new idea of business models, which has to be unique and specifically developed for each one's own customer base.

Given that, the paper has been divided in paragraphs. In paragraph 2, it is outlined few relevant features of the retail banking business; in paragraph 3 the focus shifts to figuring out how digital transformation is impacting bank's strategy and organization; sub paragraph 3.1 outlines the role of platforms and the way they may change the financial market structure, also increasing customers' engagement. This is becoming a compelling feature because, in every strategy, the ultimate objective is to do what the market needs; and the future opportunities for retail banks lie in the needs of their customers. Paragraph 4 outlines the retail bank's business model of tomorrow, and paragraph 5 put forward the main conclusions, which underline that retail banking is still a people business, and it requires banks to follow people in their main processes, attitudes, goals and aspirations (Note 1).

2. Key Features for the Retail Banking Business in a Nutshell

In the past, the growing attractiveness of the retail sector reflected the availability of a pool of relatively cheap and more stable funds for banks. Given that, the retail banking business was supply led. In this regard, banks have always tried to follow the customers' requests by broadening the product bases, so that they entered the allfinanz or bancassurance, and few years later, they have started developing asset management. From one hand they both serve to attract customers and increase bank profitability, and from the others banks' perspectives have started shifting from being characterized by a bank-oriented system to a strongly market-oriented system. In doing so, banks adapted themselves to a more shareholder value-orientation culture and started losing the link to their customers. Consequently, the overall performance of banks becomes increasingly subject to external variables as well as market tests of efficiency at all levels. Given that, during the 90s an industrial approach was applied to bank strategies and management, while the truth is that banks were, and still are, in the business of services, which makes things different from distributing physical goods (Omarini, 2015, p. 61).

For a long time, retail banking has been a kind of oligopoly market and in their article; Gardener, Howcroft, and Williams put it this way (Note 2):

[There was] a great deal of similarity between the market players, which resulted in competitors introducing similar, if not identical, competitive strategies. Financial product innovations were also quickly replicated with a corresponding reduction in the initial innovator's reward. These strategic considerations, compounded by a herd mentality, were responsible for the clearing banks duplicating each other's services. An exceedingly wide and diverse range of identical products was offered by each bank with the result that management in retail banking became correspondingly more complicated and less cost-effective.

There is another important message, which is that the market still has a need of banking but banks

should avoid undermining themselves (Note 3) because otherwise they also erode their institutional stature. This happens when banks underestimate the importance of their own institutional stature, which relies on the unique features of financial services, and on being considered as special intermediaries.

For generations banks have skillfully been able to commercialize trust by differentiating themselves through their institutional stature. Banks serve fundamental needs both on an individual level and at a community level, which has so far sustained their institutional stature. Over time, their customers witness the bank moving away from being a trusted institution to just another company with a focus on short-term profits. In addition, this has meant to enter the devaluing of value-added services during the last decade. Self-undermining is an internal process; it may be a slow process, but it has the potential to creep up, without banks always fully realizing it themselves. However, they have the greatest potential to reverse the situation.

The erosion of a bank's institutional stature might come from structural changes accruing in the market, such as mergers, acquisitions, and technological changes. One main outcome of such processes is often some degree of disengagement for banks from their traditional roots. Infect, in many instances the dialogue between customers and banks has been broken. While the big category of the major retail platforms are well aware about the business idea that consumers are human beings; and because of this, retailers have developed their strategy over the last few years accordingly. This means they have developed their business strategy around the idea that what customers want is for life to be easy, and for the path to their goals to be a simple one. When the issue moves from selling to customers to being chosen by customers, every business, and banks as well, need to rethink and renew, according to the context, the way they orient themselves toward the market. To be market-oriented is not only the implementation of marketing concepts, but also a new concept of developing a strategy (Ruekert, 1992) and a business model accordingly, also considering that the emotive contact is considered to stimulate a trusting environment and allow a deeper understanding of a specific customer's situation.

All this makes useful outlining that retail banking is a people business too (Omarini, 2015). And when considering banking customers as human beings, then it should be taken in mind that they may have no book keeping, no balance sheets, no controllers, no advisers, no economic education, no market power, and above all, they might pursue very different goals. What they want from banks can only partially be defined in financial terms. In order to approach this market, banks have to revise their role, purpose, and activities with regard to what services to deliver to customers, when and how. This means that to be successful, you need to serve customers first and investors second, and investors should start appreciating this. All this means having a long-term perspective, and think more on investments than being focused on cutting costs overall.

Over the past two decades, the industry has been undergoing profound regulatory and structural changes, which have particularly affected the business environment. The bank internal organization, and the design of bank services as well as the ways, they are delivered, have been organized along three principal dimensions: the customers served; the products/services offered available at that moment

trough their owned products-companies; and the delivery channels that link customers to products and services.

This situation has also changed and been exacerbated by the financial crisis, which has put many banks under a strong pressure, leading them to fight for their survival. With the result that they have started looking for recovering strategies especially driven by cost cutting, and ways to make them more efficient so to regain profitability, such as re-pricing tactics for the more value-added services, as well as increasing cross-selling by offering services from different business lines.

In the meantime, retail banking has become a battleground where competition is getting more and more multifaceted. In fact, together with other banks, there are neo-banks and other competitors, which are all working to give customers more control on their spending, more advise on their investments, more choice in the way they make their payments and so on. In this context, if a retail bank does not counteract it could be confined to the role of mere executor of low value added services and provider of credit (Omarini, 2016).

At present, there are three drivers of change, whose impact is very evident on banks' strategies. They are:

1) Consumers changing in attitudes and behaviors, also because of changes in demographics (such as birth rate, inheritance, changes in personal wealth, and others), which are affecting the retail banking business differently according each environment;

2) Technology evolution (such as the industry digital transformation—See Figure 1—and the entrance of new financial companies-Fintech).

Digitalization refers to the practice of taking processes, content or objects that used to be primarily (or entirely) physical or analog and transforming them to be primarily (or entirely) digital. The effect of digitizing processes, aside from potential efficiency gains, is to make processes more tailorable and malleable. The advantageous effects of digitized content (images, video, and text) are well known. They include the ability to make unlimited perfect copies; dramatic cost reductions for content storage, duplication, and transmission; enhanced ability to search, analyze, correct, and improve content (Negroponte, 1995). Perhaps more profoundly, digitizing content breaks the historically tight coupling between information types and their respective devices, storage media, and transmission formats, resulting in digital convergence (Tilson et al., 2010). Digitizing (or digitally infusing) objects gives them new properties—programmability, addressability, communicability, memorability, sensibility, traceability, and associability—that together make digital products (like digital processes) highly malleable, and also opens up large new domains of potential functionality (Yoo, 2009). Again, digitalization is the process by which a business, its people, its partners, ecosystems and enabling agencies (in some cases public ones) become interconnected in real-time, by exchanging digital information and how they use this to commercial benefit (Laudon & Laudon, 2017). And finally,

digitalization is outlined is being boosted by six factors (Stone et al., 2017):

(1) hyper-connectivity—the ability to connect digitally at high speeds from locally to globally, using everything from highly local communications such as Bluetooth and Near Field Communication, to satellite communication and enhanced internet bandwidth through improved transmission and compression technology;

(2) virtually unlimited computing power, whether processing or memory, available at low cost;

(3) artificial intelligence and machine learning, allowing much smarter management of anything by ensuring that learning takes place quickly and results are immediately implemented;

(4) cloud computing, ensuring secure availability of information anywhere for any approved use;

(5) sensor-proliferation, allowing large amounts of information to be gathered from any point; and

(6) Cybersecurity, advances in security which permit all the above without prejudicing data security.

Figure 1. Digitization

Source: taken from Fichman, R. G., Dos Santos, B. L., & Zheng, Z. E. (2014). Digital Innovation as a Fundamental and Powerful Concept in the Information Systems Curriculum. *MIS Quarterly*, 38(2), p. 333.

On this point, it is worth also outlining that (2016) (Note 4):

In the US and Europe, only a very small fraction of the current consumer banking wallet has been disrupted by FinTech so far. However, this is likely to rise. Greg Baxter, Citi's Global Head of Digital Strategy, notes that we are not even at "the end of the beginning" of the consumer disruption cycle in Western Europe and the US. Greg's team estimates that currently only about 1% of North American consumer banking revenue has migrated to new digital business models (either at new entrants or at incumbents) but that this will increase to about 10% by 2020 and 17% by 2023. We are in the early stages of the US and European consumer banking disruption cycle, therefore we note that this estimate is subject to considerable forecast risk; and

3) Regulation, which is introducing a kind of deregulation so to increase competition in the industry and then enlarge customer choice and efficiency in the market.

Given that, it is important to start from two milestones, worth sharing, before trying to give the picture for the tomorrow retail bank, and they are:

1) Banks sell services, which are intangible and are process-based;

2) Most of the banks' services are high in credence qualities and based on professional capabilities.

Under these circumstances, the level of trust is essential for developing a banking activity as well as new relationship typologies, and this can be considered the true and only business in which both banks and new competitors operate.

3. Digital Changes and Business Transformation in Banks

Digitalization is changing the rules of the game in many industries through possible disruptions of business models, and this has a result in the emergence of a much more complex and dynamic ecosystem for growth and innovation (Iansiti & Levien, 2004).

Tansley (1935) firstly defined an *ecosystem* as the whole system represented by both the biological organisms, a complex set of physical factors, and he correlated the ecosystem with a network of relationships. While the first approach to business ecosystem is due to Moore (1993) who argued that a firm is not just a member of a single industry but a part of a business ecosystem that crosses a variety of industries. In a business ecosystem, firms' capabilities co-evolve around innovations that characterise the ecosystem itself, as the locus around which species co-evolve by exploring innovative evolutionary path. In the business literature, a "business ecosystem" is an economic community supported by a foundation of interacting organizations and individuals—the organisms of the business world-. They hold own specific characteristics and interests, bound together by different mutual relationships as a collective whole. Species, within each ecosystems, are related and interact with each other as much as firms play a specific role in a business network. The fate of each living organism in the ecosystem is related to the fate of the others; cooperation and competition, as much as in a business network, are considered ecosystem-characterizing phenomena.

This economic community produces goods and services of value to customers, who are themselves members of the ecosystem. The members' organisms also include suppliers, lead producers, competitors and other stakeholders (who,) over time, (…) coevolve their capabilities and roles (Note 5).

Always in the 90s, another interesting organizational archetype was born, which classified business network as any organizational structure adopting a coordination mechanism.

Castells (1996) proposed the concept of the networked enterprise as the organizational form that a firm would adopt to fit the conditions of uncertain and unpredictable environments. According to the same author, the strengths of the networked enterprise lie in the shift from vertical bureaucracies to horizontal enterprise enabled by the use of digital technology to connect and relate dispersed organizational nodes. In the networked enterprise, components are both independent of and dependent on the network organization and it can be part of several other networks. A network organization combines the advantage of bureaucratic organization with a structure that supports innovation.

Networks (Quinn et al., 1998) could be shaped by pointing out the nodes where knowledge is created and detained, the nodes where it is used to implement solution, and the kind of relationship that links together the different nodes. Taking into account both firm and market perspectives, the relevant factor is that of coordinating networks of knowledge-owning firms to create added value products and services. This means that an ecosystem is a network of companies, individual contributors, institutions, and customers that interact to create mutual value. In consumer-oriented digital markets, ecosystems are being enabled by standard technical platforms that allow devices, applications, data, products, and

services to work together in new ways. For example, insurance companies can collaborate with telecommunications providers to create new pay-per-use insurance products based on shared data. This situation compared to that of working in silos, in which most of the financial services institutions work, underline the great power of connecting all customer services, from banking to insurance to investment. This means to increase integration. In order to achieve this goal, which is more difficult to get it, one should look at the shift towards a new strategic focus that is considering everything as a service model. In this context, the network becomes the platform for business infrastructure. And because these platforms are digitalized they are enabling cross boundary industry disruptions (Christensen, 1997), thus inducing new forms of business strategies (e.g., Burgelman & Grove, 2007). As a consequence of this, digital business strategies call for coordination across firms along product, process, and service domains, thereby creating more complex and dynamic ecosystems (Adner, 2006; Iansiti & Levien, 2004; Moore, 1996) for growth and innovation.

In addition, for financial services institutions, this would mean that there is also a single, integrated security architecture to address compliance and risk.

Given that, digital technologies are not only reinventing the delivery processes surrounding the transformation of inputs to outputs but also developing new ideas and various alternatives to traditional banking, by developing new business models. In addition, the digital infrastructure has accelerated the emergence of new other technologies—such as social media, cloud computing, analytics and big data, wearable devices, 3D printing, and intelligent autonomous systems, to name some recent ones—. They enable transformations in the way people live and work, how companies organize, as well as the structure of entire industries (Agarwal et al., 2010; Dhar & Sundararajan, 2007; Lucas et al., 2013). If this is the oncoming market situation, then it is not always obvious for the strategist to know who is competing in the industry or where competition might come from in the future. This is particularly problematic in times of converging industries and technological developments that affect more than one industry. If we also think of the new possibilities from the evolution of the Internet of Things (IoT), it is clear that also this is changing the way people interact with everyday objects, as well as everybody else. New players, who breach traditional perceptions of industry boundaries, bring those new products/services to the market. They seem to belong to the “blue ocean” of uncontested market space, as opposed to the “red oceans”—the analogy being that an ocean full of vicious competition turns red with blood—where competitors fight for dominance trough a more conventional price competition tool (Chan, Kim, & Mauborgne, 2004). However, this is not anymore the situation which is going to last longer. The new strategies emphasize the role of strategists as creative entrepreneurs not just effective managers. Not only can customers now shop for banking products online but also the products themselves are digitized. It is now possible to manage accounts and make payments to third parties without visiting branches, writing letters or signing and posting cheques. This progress, however, has been limited mainly to transaction accounts and consumer lending. Mortgages and long-term savings products still involve processes that are expensive and time consuming. In this way, at present, new

demand can be unlocked and the competition moves in other directions, namely removing the frictions from the traditional bank products. This is because banks are neither the beginning nor the end of the value chain. This has been the great opportunity for Fintech companies to enter the market and developing their competition in the retail-banking arena. Actually, they have been developing their business models on the following main characteristics:

- Simplicity;
- Transparency;
- Ease of customer acquisition;
- Ease of distribution and commercial attractiveness; and
- Specialization.

All this seems to be the first stage of Fintech evolution, with an only minor disruption to the banking market, mainly in the areas of payments, credit and personal financial advice. Nevertheless, changes in customer preferences, advances in technology and growing investment in Fintech set the scene for more radical changes. In addition, these changes could mean a "seamless specialisation" across core elements of the value chain whereby a variety of providers combine to deliver cheaper and easier-to-use propositions to end customers. Where banking is going to become more and more stick to customers' habits and behaviors. All this can be possible because every business is an information business (Evans & Wurster, 1997). In particular, the Authors outlined:

More fundamentally, information is the glue that holds together the structure of all businesses. (…) When we think about a value chain, we tend to visualize a linear flow of physical activities. But the value chain also includes all the information that flows within a company and between a company and its suppliers, its distributors, and its existing or potential customers. Supplier relationships, brand identity, process coordination, customer loyalty, employee loyalty, and switching costs all depend on various kinds of information. (…) In any buyer-seller relationship, information can determine the relative bargaining power of the players. (…) Not only does information define and constrain the relationship among the various players in a value chain, but in many businesses, it also forms the basis for competitive advantage—even when the cost of that information is trivial and the product or service is thoroughly physical. (…) The traditional link between the flow of product-related information and the flow of the product itself, between the economics of information and the economics of things, can be broken. What is truly revolutionary about the explosion in connectivity is the possibility it offers to unbundle information from its physical carrier.

This could also take us to an idea of total deconstruction, which is not really the issue, both for Fintech and banks overall.

The more technologies evolve and the more data management is becoming powerful in analyzing and predicting consumers' attitudes and behaviors, the more some players, are becoming game changers. All of them realize that they have to re-bundle each offering differently, so to control if not customers' money at least customers' spending, which is even more powerful and profitable, over a long business

perspective.

At present, companies are still learning how to manage these volumes of data (WBR Digital, 2017) and what to do with so much pieces of data, whether owned or non-owned (such as data arising from interactions, transactions, and social media), structured or unstructured (e.g., voice, text, video).

Given that, when looking at the retail value chain, we realize that the underlying activities are many and different, and this is why retail banking is a multi-businesses entity. In addition, the situation becomes even more difficult to manage if we think of the digital transformation. This factor is not really a pure technological revolution. Indeed, it is the driving force of the third industrial revolution, which concerns the development of new information and communication technologies, where the increased usage of digital devices and digital platforms are transforming the way customers do banking, change market expectations, and are transforming the model of financial intermediation as well. Consequently, the digital evolution seems to make retail banks; becoming victims of disintermediation as more activities become available online, and technology started breaking up value chains. So that strategists could no longer take their value chains as a given: they had to make hard choices about which pieces to protect, which to abandon. However, on this hand the picture is not necessary completely bleak for banks. They perform several functions, and not all of them will be affected by computer networks (i.e., their safe deposit business, where new entrants were less interested in offering them at the beginning), but we also think that their intermediation model has to change over time. Digitization of products, services, and business processes allow disruptive players to deliver, at various degrees, the same value a traditional competitor provides—and even augment it—without having to reproduce the conventional value chain. In fact, that is the objective of digital disruption: to provide superior value to the end customer—either a consumer or another business—while avoiding the capital investments, regulatory requirements, and other impediments of encumbered incumbents with a new and different business model.

We also see this dynamic in the way Fintech startups are disrupting banks by unbundling their products and services—seizing a share of their most profitable business, while avoiding the barriers to entry that come with being a full-service bank. Overall, they are gaining prominence in the market.

Given that, the first wave of Fintech is the era of customer proximity and choices, but the second era of Fintech would take us towards different financial intermediation business models, which are also driven by new waves of deregulation. Think of the Payment Services Directive (Directive 2015/2366/EU, PSD2) in Europe and similar regulations around in the market, which encourage competition and new competitors to enter the banking arena. The main critical thing for which it is becoming critical for banks is that PSD2 introduces the possibility of online banking through authorized third parties, which opens up the possibility that banks no longer have direct contact with their clients. The directive also introduces secure standards for dialogue between third party providers and banks and stronger authentication processes. Briefly, PSD2 is a new model for the bank-client relationship.

If we think of the future for retail banks the vision is on a phygital (which stands for physical and digital) platforms, where also developing partnerships with Fintech companies will contribute to re-frame and reshape their future.

In this regard, deconstructing a vertically integrated value chain does more than transform the structure of a business or an industry—it alters the sources of competitive advantages. Infect, **some new businesses will benefit from network economies of scale, which can give rise to monopolies**. In a networked market, the greater the number of people connected, the greater the value of being connected, thus creating network economies of scale.

The pace of changes in financial services seems only to be increasing—as does the urge for the industry to react, because new technologies and competitors seem to be and stay in the market to reshape the retail financial service value chain, and then change its competitive arena.

Moving on, business transformation is at the top of many bank corporate agendas. The digital vortex can be described as the inevitable movement of industries toward a digital center in which business models, offerings, and value chains are digitized to the maximum extent possible, also creating new disruptions, and blurring the lines between industries. This can be done easily because the components of the Internet revolution are "just bits", which become software, protocols, languages, and capabilities that can be combined and recombined in ways to create to tally new innovations. These immaterial components make simple to spread them around the world, and so develop a huge number of innovations. The most successful disruptors employ "combinatorial disruption", in which multiple sources of value—cost, experience, and platform—are fused to create disruptive new business models and exponential gains (Varian, 2001).

We think that the main forces shaping these changes have led the industry to reconsider the role of banking and finance, more as an "enabler" than a provider of products and services.

Given the scenario described, it is interesting to outline that looking outside the banking sector, there are some growth outliers, which are pursuing strategies with a long-term perspective on where they want to go, compared to the short-term horizon some banks have. Infect banks have been focusing themselves on costs cutting and regulation issues which have been the main drivers for changing their organizations, so far (see Figure 2).

- Developing new operating model:

EFMA/Microsoft survey (2010); Accenture survey (2012); A.T. Kearney report (2012); The Boston Consulting Group (2013); KPMG (2014); AT Kearney (2015).

- Cost cutting in serving customers:

EFMA/Microsoft survey (2010); Accenture survey (2012).

- Creating a better online experience and improving the speed and quality of customer service:

EFMA/Microsoft survey (2010); The Boston Consulting Group (2013).

- Transforming the retail network:
EFMA/Microsoft survey (2010).
- Building capabilities to expand from an efficient and scalable platform:
Accenture survey (2012); Oliver Wyman (2015).
- New size/shape engine rebuild (business model, balance sheet restructuring, reduction of non-core portfolio activities):
Accenture survey (2012).
- Reduction of complexity:
A. T. Kearney report (2012); The Boston Consulting Group (2013).
- Channel changes:
A. T. Kearney report (2012).
- Improving efficiency of capital and funding:
McKinsey (2012); Oliver Wyman (2015).
- Improving banks' ability to outplace risks:
McKinsey (2012).

Figure 2. Framework of Some Ongoing Bank Transformations

In order to be successful in the market, these outliers have started thinking of their business and framing it as a service. This helps them to be prepared for embracing innovation, and exploiting temporary competitive advantages. The way you relate to your customers, how you construct your business and the levers you can use to differentiate and create value all can change with a service focus. Globally, more innovative incumbent banks and financial institutions are moving rapidly to embrace digital. Some of them have invested in transaction migration, also upgrading web and mobile technologies, created innovation, and testing centers. It is foreseen that new inflow revenues in most products are coming from digital sales (McKinsey, 2015).

It is worth outlining that strategic orientation vary remarkably across countries and between individual banks; and this is because of organizational structure and core values of banks.

The digital wave is making banking without boundaries to grow in the future; and in this context, the role of banks is that of an "enabler" than a provider of products and services. Moreover, this is true because many products and services look like interactive platforms linked to the end-user market and to their own network. The role of banks in being enablers of products and services is based on the idea that the main and only banks' business is trust. This vision of the business is fundamental because phygital markets are more dependent upon the production of trust around issues such as brands, on-line security and technology. It is for this reason that we outline the relevance of the fiduciary link among the electronic and non-electronic markets and their customers, against the opportunistic behavior of players, which is more important in the arena of electronic markets than the well-established traditional markets. The trust building function for these markets will become more important as Internet and

mobile-based applications flourish, due to the increased needs for monitoring the behavior of market participants and alerting buyers in cases of, for example, seller malpractice or bad uses of personal data.

Moving from this idea, for banks being special intermediaries could take a different perspective. Instead of being considered a liability, because of the regulatory burdens they have to comply, this can turn to become an asset to add value, defend and reinforce from the competition. In addition, to do this, banks have to start from regaining their market share on their core product, namely the bank current account, which is the true and genuine leading platform for them to develop new banks' value propositions.

The relevant aspect in here indeed is the fact that PSD2 prescribed "access to account" provision allows new players to thrive not only in the payments segment, but as an extension, in other segments as well once they are able to tap into account information (Cortet, Rijks, & Nijland, 2016).

3.1 Technology Innovation: The Role of Platforms

The recent years have seen the impressing development of platform business models such as those of Google, Apple, Facebook, Amazon, and Microsoft, to cite a few. These new realities have shown an impressive innovation rate along with the industries they belong to (Gawer, 2009, p. 3). Indeed,

(…) the emerging phenomenon of platforms affects industrial dynamics, creates new forms of competition, and reveals new forms of collaborative innovation across firms.

Platforms have existed for years. Malls link consumers and merchants; newspapers connect subscribers and advertisers. What is changed in this century is that information technology has profoundly reduced the need to own physical infrastructure and assets. IT makes building and scaling up platforms vastly simpler and cheaper, allows nearly frictionless participation that strengthens network effects, and enhances the ability to capture, analyze, and exchange huge amounts of data that increase the platform's value to all.

This phenomenon has been widely studied across several perspectives. What is important when designing and developing platforms, is to understand the elements that do and do not change across time. This is because it is important considering how these elements are impacted by the choices at a given point (Baldwin & Woodward, 2009); and at the same time acknowledging the fact that some of those may be controlled by other players, as well as allowing for several iterations within the process to strike the right balance (de Reuver, Sorensen, & Basole, 2017).

The relevance of platforms, from both conceptual and managerial perspectives, is explained by the fact that in future, customers are perceived to become more and more in control of their actions, and this is true also for what they do with their banks or other financial partners, and this is because of the tremendous amount of different and innovative devices. While, banks are going away control on their customer base because of customer mobility and regulatory implications, customers are in search of the promise for a true contextual banking in which financial services become seamlessly embedded into the lives of individual and business customers. All this can be possible because there are interesting data

(Google, 2012) about how consumers are using different devices together; and this shows a clear picture of the way people will do their banking. If cross-platforming and the multi-screening environment are influencing the nature of modern customers while affecting the practices of a number of different businesses, then it is surely something that banks need to take notice of it. Even if the report is dated, it is always interesting outlining the following insights:

1) Consumers are a world of multi-screeners (computer, smartphone, tablet and TV). Multiple screens make them feel more efficient because they can act spontaneously and get a sense of accomplishment—this results in a feeling of "found time". Among them, smartphones are the backbone of their daily media interactions. They have the highest number of user interactions per day and serve as the most common starting point for activities across multiple screens;

2) The device they choose to use is often driven by their context: where they are, what they want to accomplish, and the amount of time needed;

3) There are two main modes of multi-screening: sequential screening, where they move between devices; and simultaneous screening, where they use multiple devices at the same time;

4) Portable screens allow us to move easily from one device to another to complete a task. Search is the most common bridge between devices in this sequential usage;

5) The majority of the time that they use devices simultaneously, their attention is split between distinct activities on each device.

This means there has been a clear shift in the use of technology by customers. The historical use of the internet evolved into a platform for driving sales and eventually it is becoming a fully-fledged sales channel. Moreover, according to a more recent report (Accenture, 2017) consumers want to engage providers whenever and however they like. A big number of them expect to increase their use of online investment tools provided by their investment advice provider over the next 12 months. New technologies, such as computer, generated support, coupled with the proliferation of mobile apps, enable customers to perform financial activities with limited involvement from providers.

This takes to the evolution in innovation, which brings us a relatively new concept of it, so to leave space for banks to re-innovate themselves. Cusumano and Gawer (2002) argue that strategic and successful firms do not simply develop new products/services and compete with others in open markets. There are many examples in different industries: information technology, car, etc. which prove this assumption. This is because, all these firms and their partners participate in what can be called a platform-based ecosystem innovation (Moore, 1993; Iansiti & Levien, 2004).

At this point, it is important to outline that platforms may come in many varieties, and they all have an ecosystem with the same basic structure, comprising four types of players, which are:

- The owners of platforms control their intellectual property and governance;
- The providers serve as the platforms' interface with users;
- The producers create their offerings, and
- Consumers, who use those offerings.

Therefore, when thinking of platforms, they are often associated with "network effects": that is, the more users who adopt the platform, the more valuable the platform becomes to the owner and to the users because of growing access to the network of users and often a set of complementary innovations. Because of this, there are increasing incentives for more firms and users to adopt the platform and join the ecosystem as more users and complementary products are developed. This makes the situation feasible where two products are complements if greater sales of one increase demand for the other. This is why, once established a platform, it is mandatory to think of producing incremental innovation that can develop higher exit barriers to customers. Overall, successful strategic innovation needs the active shaping of a platform in which the idea can grow and create attraction, both with tangible and intangible aspects (such as co-creating knowledge, and share it). An interesting example is that of the iPhone, which is a key platform on which the app ecosystem is built on it. There is every reason to expect financial services to make a similar transition to an increasingly interconnected digital world. As products and services increasingly have embedded digital technologies, it is becoming more difficult to disentangle business processes from their underlying IT infrastructures (El Sawy, 2003). Given that, and before outlining the role a bank can play in a platform network, it is important to point out there is the need for moving from being a content gatekeeper to becoming a customer gatekeeper, as the role of a financial enabler is like.

At this point, further in our analysis, it is interesting to understand who controls the network, but before that, it is interesting to explore the paths through which value is created and who can capture this value. On this aspect, it is possible to describe five layers of value (Note 6):

- Value in Customer Access. This revolves around becoming a customer gatekeeper. Most economic value will be created at the periphery/ends of networks. At the core, the end most distant from users that possesses only generic scale-intensive functions will consolidate. At the end closest to users, highly customized connections that generate value with customers will be made.
- Value in Common Infrastructure. Elements of infrastructure can be brought together and operated as utilities. This is the set of infrastructure needed to make the platform working.
- Value in Modularity. Devices, software, organizational capabilities, and business processes will increasingly be restructured as well-defined, self-contained modules that can be quickly and seamlessly connected with other modules. Value will lie in creating modules, which can be plugged into as many different value chains as possible. Companies and individuals will want to distribute their capabilities as broadly as possible rather than protect them as proprietary assets.
- Value in Content Access. Findings show that for achieving and holding onto long-lasting competitive positions, a critical success factor is also the gradual control of content in order to become a content gatekeeper.
- Value in Orchestration. As modularization takes hold, the ability to coordinate among the modules will become the most valuable business skill.

Given the massive introduction of digital innovations in the market, the "new old" has become the

digital ecosystem, which, at present, has its main roots on payments innovations and bank current accounts, which both are the bank's gateways.

If this is a viable option to undertake, it is worth outlining that banks already hold an important critical asset, which is the great amount of customers and their personal data to feed the platform, so to make it evolve over time and gather new providers to engage in it. This is an important starting point because network economies are the counterpart of scale economies in traditional businesses. What, therefore, banks have to do is retaining users, not let them get away. If a bank can do this, then the platform can also grow in value for the bank's shareholders, and so succeeding in the rule that customers first and then shareholders come.

The idea of platform is useful especially when the market becomes more complex, and everyone has to look for collaborations to improve value for customers.

Under the present market conditions, the future retail bank should look at developing both the value in core contents and the orchestration strategy. Contents should be the first step to work on, because it gives platform its meaning and feeds its profit model as well. In this way, a bank gets both the number of relationships and the richness of each relationship, which can be increased trough customization of information. They are both important to build bank-customer relationship. All this matches with the idea that a bank works in a people business (Omarini, 2015), which strongly rely on developing and reinforcing bank-customer relationships.

Given that, there is a need for a shift in the strategic focus, because platforms are different from pipeline businesses, which create value by controlling a linear series of activities—that is the classic value-chain model. Inputs at one end of the chain (say, materials from suppliers) undergo a series of steps that transform them into an output that is worth more: the finished product. Apple's handset business is essentially a pipeline. But combine it with the App Store, the marketplace that connects app developers and iPhone owners, and that is a platform. If we move from pipeline to platform, then this involves three key shifts (Note 7):

1. From resource control to resource orchestration. The resource-based view of competition holds that firms gain advantage by controlling scarce and valuable—ideally, inimitable—assets. In a pipeline world, those include tangible assets such as mines and real estate and intangible assets like intellectual property. With platforms, the assets that are hard to copy are the community and the resources its members own and contribute, be they rooms or cars or ideas and information. In other words, the network of producers and consumers is the chief asset.

2. From internal optimization to external interaction. Pipeline firms organize their internal labor and resources to create value by optimizing an entire chain of product activities, from materials sourcing to sales and service. Platforms create value by facilitating interactions between external producers and consumers. Because of this external orientation, they often shed even variable costs of production. The emphasis shifts from dictating processes to persuading participants, and ecosystem governance becomes an essential skill.

3. From a focus on customer value to a focus on ecosystem value. Pipelines seek to maximize the lifetime value of individual customers of products and services, who, in effect, sit at the end of a linear process. By contrast, platforms seek to maximize the total value of an expanding ecosystem in a circular, iterative, feedback-driven process. Sometimes that requires subsidizing one type of consumer in order to attract another type.

4. The Tomorrow Bank Is a Customer-Centered Platform

The main rule towards innovation is that it is essential not to go in search of innovation without value or no-value innovation. The first case can be solved with a technological or commercial pioneering, or even futuristic approach. In the second case, what results is value—due to higher revenues and/or lower costs—but without any innovative result.

Value innovation can exist if the bank is able to open new market space, managing to combine innovation utility, price, and cost.

Banks need to re-interpret their business and look for different managerial approaches.

As argued in the previous paragraphs, the emergence of new technologies and players, along with a favourable regulatory framework, have profoundly transformed the banking arena.

The new paradigm of banking is now based on digital premises, which make it modular and flexible; it now aims at satisfying more diverse customer needs, due to changes in demographics and habits.

While the acceleration towards an open industry was provided by regulation, at the same time, proactive approaches towards an open paradigm can be a successful move for banks trying to take advantage of the nascent ecosystem and follow the market. In between mandatory requirements and full openness with sophisticated Application Programming Interfaces (APIs), and in between few and a diverse range of products and services involved, lies a whole set of choices about the level to which banks decide to collaborate with other firms.

PSD2 has opened the banking sector: now banks are mandated to be able to provide access and communicate to authorized third parties, customer and payment account information. Within this framework, banks set up open interfaces, namely APIs, in order to ensure they are fully compliant. However, besides the mandatory prescriptions of PSD2, there is a whole span of choices that banks can select in terms of openness and services involved. This aspect has given substance to the notion of "Open Banking". This approach relates to Open Innovation literature to the extent that banks rely on the flow of inside and outside ideas to develop products and services, and innovative processes (Chesbrough, 2003; Chesbrough, 2011). However, also existing products and services are provided in new ways and in collaboration with third parties, an additional fact that creates the premises to define an entire "ecosystem" around the concept of Open Banking.

Banks can select the level of openness and the type of value they want to provide according to business and demand, organisational, and capital expenditure considerations. In addition, banks can select to

integrate their offering in the business model of other players. Overall, what matters is the openness of the paradigm, in which the bank decides to interact within the surrounding ecosystem.

As said in the previous paragraphs, the new bank needs to become a customer's gatekeeper, where the main role for a bank, or/and any other financial intermediaries, to play is to act as an "enabler" of new customer interactions. We think that this is the essence of the increasing call for sustainable financial services, and therefore a change of culture from expediency to values, from short-term profit maximization to long-term profit sustainability, and from a product-driven to a real customer-centric driven strategy.

Given that, consumers are demonstrating increased willingness both to shop around and to purchase financial services and products from non-traditional providers as their preferences are changing rapidly. It is interesting to outline that (Mersch, 2015):

Retail customers now expect to be able to integrate e-commerce, social media and retail payments. They also expect to be able to switch seamlessly across digital platforms. These are not areas of strength for many banks; given their heavier compliance obligations, banks have traditionally invested more in security and resilience of their systems rather than optimizing the user experience.

The understanding of platforms in service needs to be treated differently from an industrial approach. In fact, marketing and service research are the only fields to date that have linked platforms explicitly to the facilitation of value-creating interactions amongst economic actors, and Smedlund and Faghankhani (2015) argue that platforms are considered both the means and ends of value creation. Despite the consensus that platforms are important, it is interesting outlining the contribution of Breidbach et al. (2014), who integrate existing approaches in marketing and service research, and emphasize the crucial role of platforms in facilitating interaction, value co-creation, and engagement amongst actors in service ecosystems. We therefore agree with Breidbach et al.'s (2014, p. 596) definition of engagement platforms as

(…) physical or virtual touch points designed to provide structural support for the exchange and integration of resources, and thereby co-creation of value, between actors in a service system.

The concept of engagement platforms, therefore, represents our basic artifact and perspective needed to advance our understanding for the retail bank of tomorrow. And, this is because retail banks need to become aware that in future they are going to lose control over their customers. For many banks, the branch will no longer be able to claim ownership of customers, and other channels (usually called as alternative or direct channels) will no longer be subordinated to the power of the branch.

This is a cultural change and, as it is, it becomes a challenge as well. Technology is autonomous and strategically important, often its source array is outside the tradition of the banking profession, and this brings an exogenous culture into the bank. Retail banks will no longer be so much centered on the branch, but there will be an increasingly whole bank feeling and the whole institution will be totally dedicated to the needs of the customer.

The critical issue on platforms regards the fact that also economics are changing. Leaders of pipeline

enterprises have long focused on a narrow set of metrics that capture the health of their businesses. For example, pipelines grow by optimizing processes and opening bottlenecks, and push enough services through and get margins high enough, so to get a reasonable rate of return. If the focus changes from pipelines to platforms, then the numbers to watch change. Monitoring and boosting the performance of core interactions becomes critical (such as interaction failures, engagement, match quality, other criticisms such as congestions caused by unconstrained network growth which can discourage customers to get involved in the platform).

5. Conclusions and Recommendations

A bright future for retail banks will depend above all on taking today the right actions for a long profitability, which is based on developing and reinforcing customer trust, as well as developing their own ways of changes, apart from developing operational excellence and customer experience within their organizations.

However, the new environment requires having both cultural and managerial changes, and it needs to adopt a trans disciplinary approach, which is the way you address complexity of problems throughout a diversity of perceptions of them. This is a constraint for the oncoming ecosystems and platforms driven markets. Equilibrium becomes uncertain because the interrelations of various factors are so complicated, and the functions themselves are not known well yet. They are also affected by so many unknown variables that predictions extending any considerable distance into the future are out of the question. It then becomes important to recognize the need to change patterns of analysis in practice, and this starts from understanding the real functioning of the economy and the economy of the bank, and how such functioning changes over time and under certain circumstances.

What it must be recognized is the difficulty of adopting deterministic models of input-output. Because companies, and banks too, are cognitive systems, and they require having their dynamics linked to learning processes and logic transformation, especially when bank and financial services are becoming more and more knowledge-driven.

This is the time for retail banks to counteract the excess of macroeconomic theory, which has considered banking as a “black box”, designed to mediate cash flows and income-oriented balance conditions at the global level, paying less attention to its counterparties. And it is time to be less influenced by models based on discounted cash flows mostly. It should instead re-affirm the microeconomic/managerial and business perspective of the bank, as a company that must meet customers’ financial needs.

In future, a retail bank will not necessarily be called upon to provide many more services than those already available in the market, but it should encourage the market to make a better use of them and to cross-buy services. The big issue for the retail bank of tomorrow is not to settle for being a bank in the service of the customer, but to become the customer’s bank. In looking for reaching this goal, banks have to recognize that the blurring of the lines between banks and Fintech startups is causing a

rethinking of the definition of a bank itself. According to regulators, they are deposit-taking institutions, but they do not necessarily need to be defined by that. Again, when we say bank-light, it is about offering a bundle of financial services.

Fintech companies may be considered enablers or social constructs, because they are not banks in the traditional sense, but they are banks because they let customers store money. All this boils down to the construct of what people feel is a bank.

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