



Sopra Banking
Software

2022

Banking-Platform-as-a-Service

The platform revolution

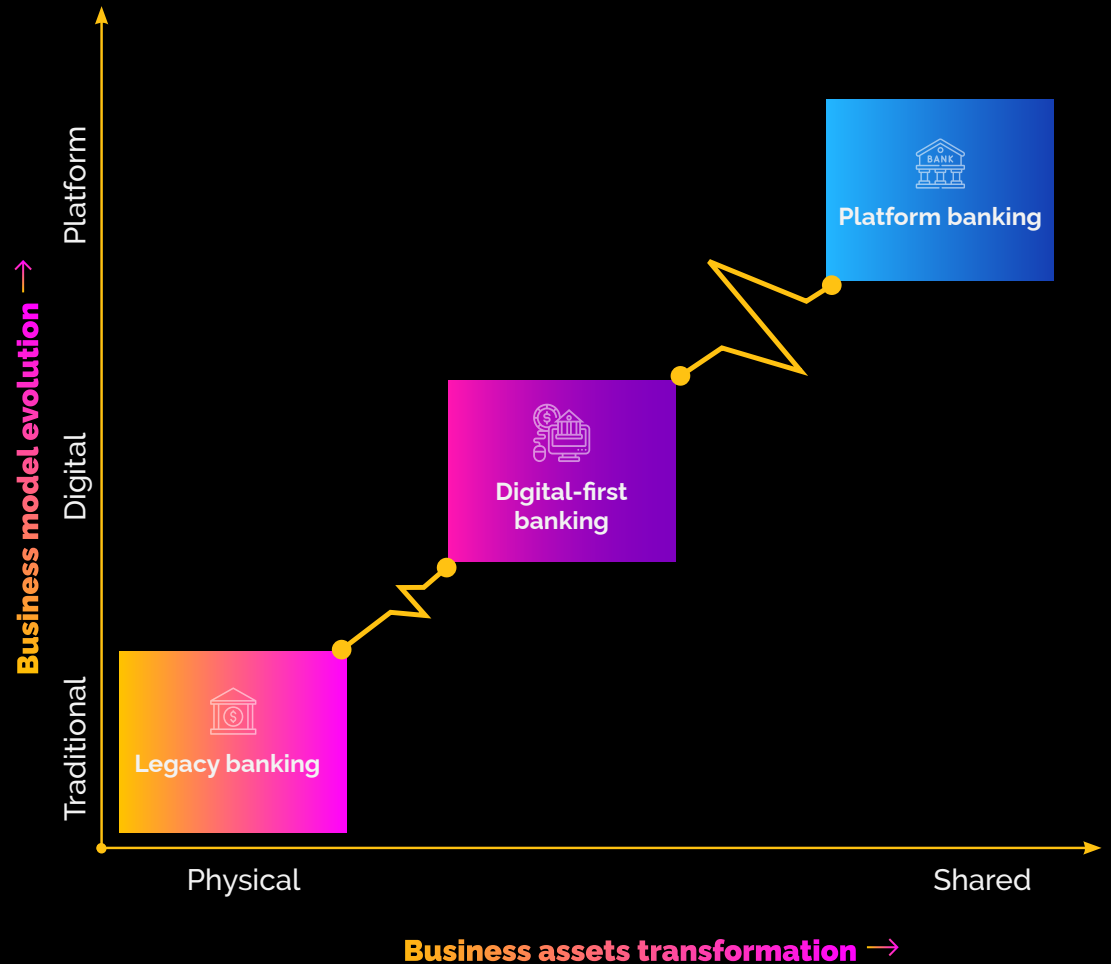
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Executive summary

With evolving consumer demands and institutional supply dynamics, the financial services industry is undergoing a transformative reform. Technological and business model advances across various ecosystem stakeholders – such as fintech startups, nonbank innovators and progressive regulators – are nudging incumbent financial institutions toward change.

Banks need to evolve across the two vital stages of digitalization and platform banking to keep up. Digital-first models have the potential to achieve efficient customer-centricity and business model agility, whereas platform-banking models can build on this to amplify financial services through exponential collaboration.

Leveraging modern technology and collaborating with new industry entrants will catapult banks to the forefront of innovative disruption. Platform banking will enable data-driven hyper-personalized services for customers and create converging routes for financial services across industries.



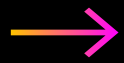
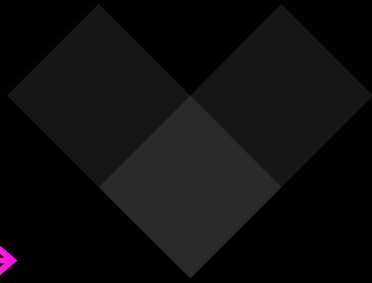


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What is platform banking?

Platform banking is all about working with partners at scale. It's not about collaboration with just one partner, but hundreds and even thousands of partners eventually. It means that a bank needs to externalize plenty of its services.

The first step is opening up APIs. And the second step, which is often missed, is about externalizing the operations of the bank.

Banks need to be ready to externalize operations around compliance, payments, operations, risk management and also service partners at the same time. When it comes to platform banking, it's not only about customer servicing. Banks need to be able to service partners and ensure connectivity and resiliency, all at scale.

As a platform bank progresses, the ability to dynamically share revenues at scale through domain-specific standardized commercial structures is very important for business sustainability and to ensure operational efficiency. This, essentially, is what can make or break the ability of a bank to be effective with digital partnerships at scale, and platform banking is really all about digital partnerships.

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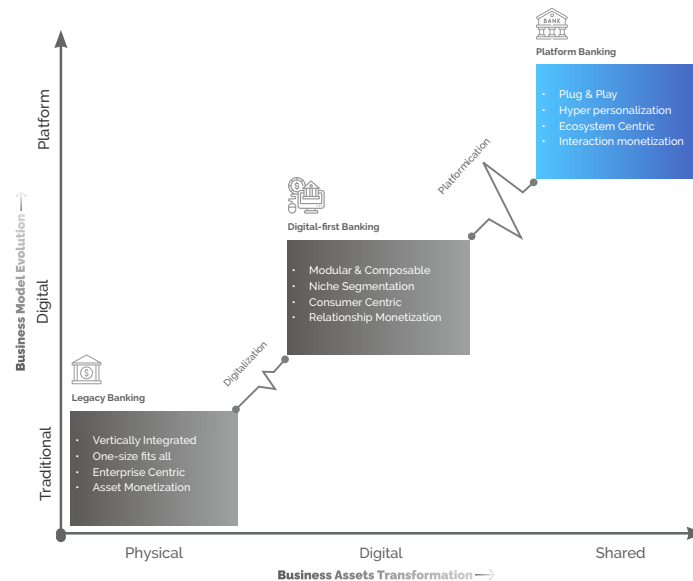
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The platform revolution stage

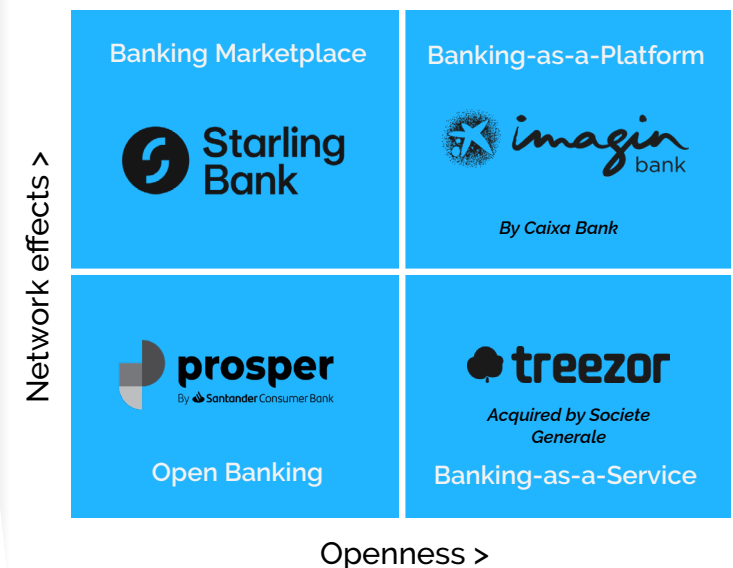
Platform banking comprises four key archetypes that require different levels of openness of business assets and business model, and have different levels of network effects and exponential growth outcomes:

- **Open banking** involves sharing customer-permissioned banking data with third-party providers through standardized APIs to help them enhance customer offerings.
- **Banking-as-a-service** involves white-labeling or co-branding the financial infrastructure stack (i.e. licenses, technology infrastructure, banking products, business processes, etc.) and sharing with nonbanks to help them embed financial services in their products and ecosystems.
- **Banking marketplace** enables banks to onboard select partners that provide a range of financial offerings through a single distribution channel.
- **Banking-as-a-platform** enables the construction of customized ecosystems with participation from third parties and developers to create as well as distribute financial and lifestyle services for bank customers by using plug-and-play infrastructure.

Moving ahead we look at each of these four archetypes in detail.



Platform banking



02

Open banking: The interoperable API

Building on consumer data privacy and ownership laws, open banking has mandated banks in many regions to provide licensed third parties with access to customer-permissioned banking data. Using this data, third party providers (*TPPs*) can provide customer-centric services like account information aggregation, personal finance management, account-to-account payments, and more.

The secure sharing of data takes place through open API integrations with the banks' IT systems. In the open banking realm, banks are adopting two key strategies:

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1. Customer-facing third-party offerings

Forward integration by launching a third-party proposition for open banking use cases for consumers and businesses.



Prosper was launched in 2021 by Santander Consumer Bank in the Nordics as a free mobile app to help people keep track of their finances. The app integrates users' bank accounts in one mobile dashboard, gives insights on spending, and helps achieve savings goals. The bank has partnered with Nordic API Gateway for its open banking platform and plans to expand access across Nordic countries.

2. Developer portals & premium APIs

Setting up developer-focused portals and API sandboxes with comprehensive documentation and access to premium APIs to allow innovation while monetizing the data and API assets.



DBS Developers was launched by DBS Bank Singapore in 2017 as a banking API developer platform. The platform provides a wide array of over 200 APIs for other brands, corporates, fintechs and software developers to plug into.

At the time of launch, the bank had already onboarded over 50 well-known local and international brands across finance

“Banks were the lifeblood of the global economy for the last thousand years. Once they learn a few new tricks, those banks that adapt well to open banking will be so again.”

Eyal Sivan,
Head of Open Banking at Axway



The best of these portals result in the creation of a community hub where IT specialists who are working on use cases and solutions can engage with other developers from across the fintech spectrum as well as software provider experts.

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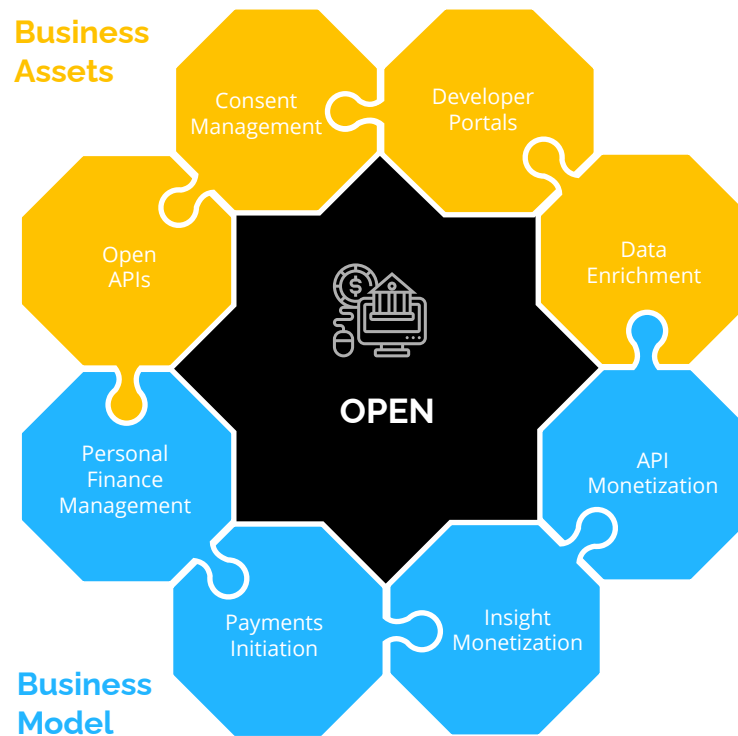
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The pillars of open banking

Since the implementation of the second Payment Services Directive (PSD2) in Europe in 2018, open banking has become a key trend across the world. Several regulators have mandated or facilitated the open banking adoption in their respective geographies and banks have started to look beyond the compliance requirements and embrace the opportunities. Banks need several key capabilities such as interoperable APIs, consent management, developer portals & sandboxes, and

data enrichment to successfully exploit the open banking potential.

Open banking is also enabling several new use cases such as account aggregation, streamlined customer onboarding, real-time payment initiation, predictive budgeting tools, and enhanced credit scoring. In addition, there are new revenue streams associated with these innovative use cases such as API monetization, insight monetization, and more for banks to take advantage of.

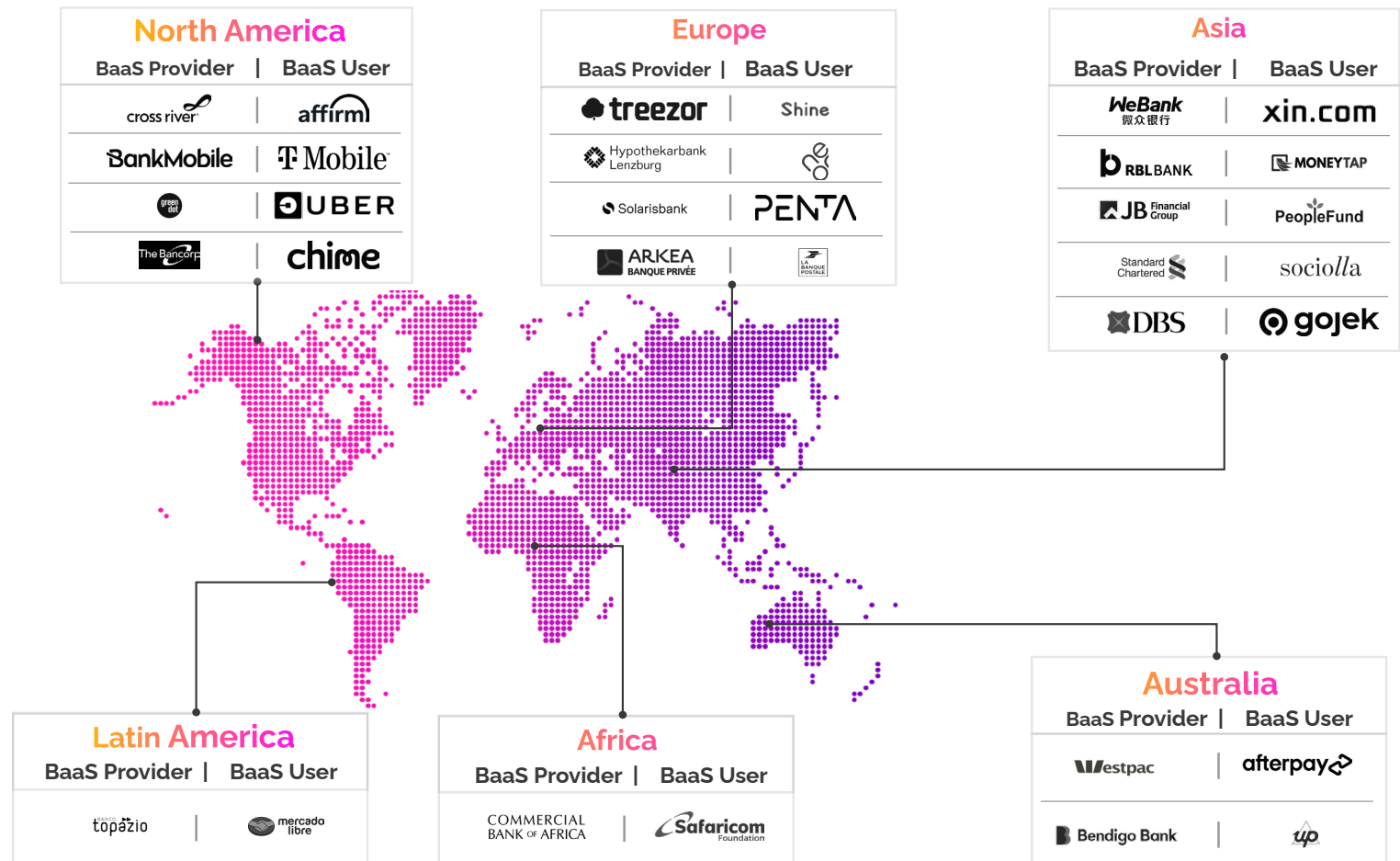


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Banking-as-a-Service: The white-labeled banking moment

Banking-as-a-Service (BaaS) is a model in which regulated institutions offer whitelabel digital banking services integrated into the apps, products, and platforms of a non-regulated or lightly regulated company (such as e-money institutions, payment service providers). BaaS has rapidly caught the attention of banks, both big and small, across the globe who are unlocking value from their financial infrastructure assets by offering it to fintechs and nonbanks.

Illustrative example of global banking-as-a-service partnerships



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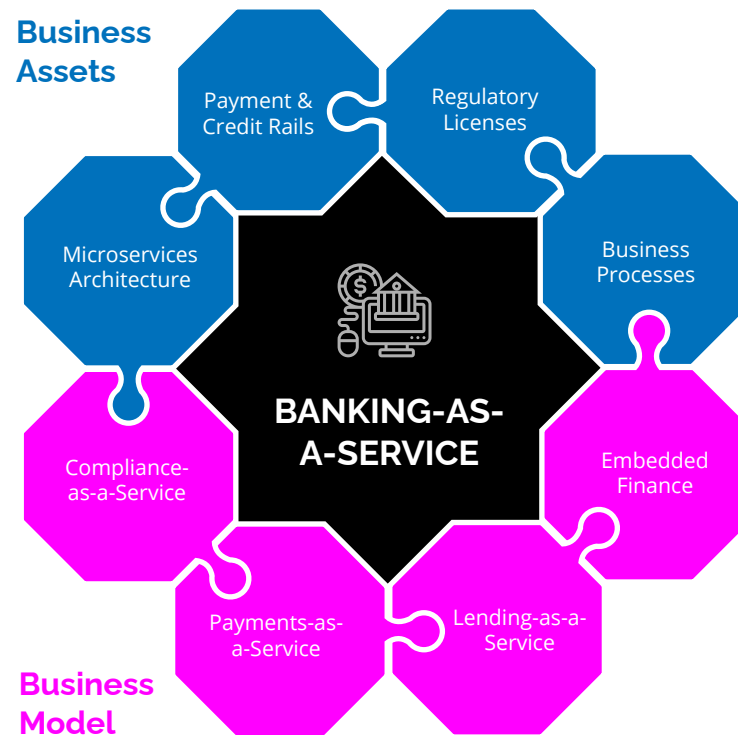
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Unlock the value of financial infrastructure through BaaS

To leverage the network effects with new entrants, BaaS provides banks an unparalleled opportunity to partner with fintechs and nonbanks, and allows them access to their infrastructure assets such as licenses, technology, payment rails, card issuance, and business processes. Another key trend is of embedded finance that allows banks to distribute their products to customers of nonbanks by enabling embedded financial services around digital lifestyle products such as e-commerce, social media, ride-hailing services, etc.

Components of Business Assets & Business Models identified as per relevance and importance



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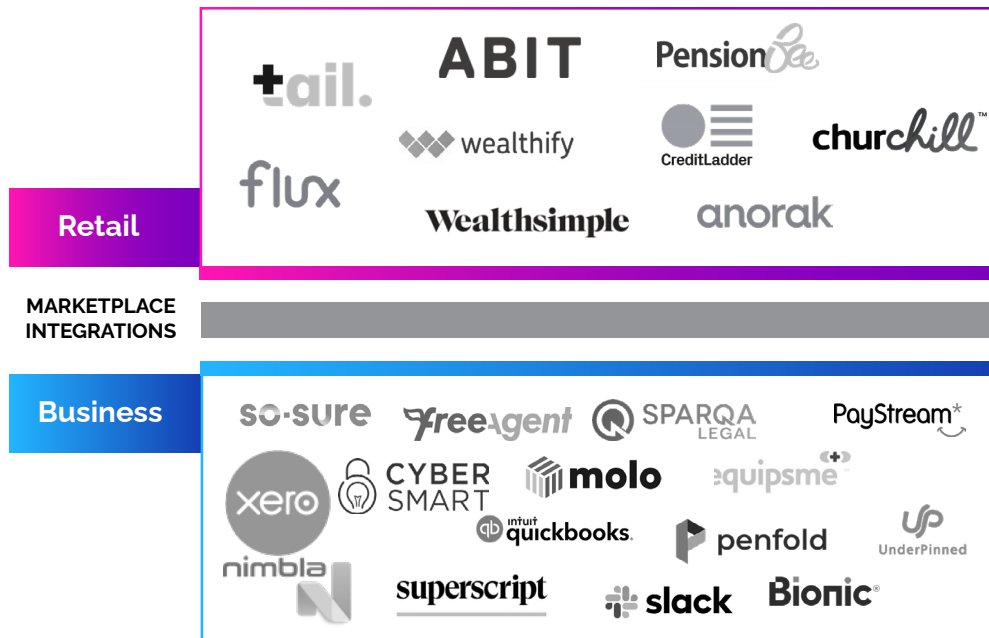
Banking marketplace: The network effect

A marketplace proposition allows the owner to focus on their core business while allowing specialist providers to offer their services to the banks' customers. This opens up a commission revenue stream for banks, while third-party providers enjoy a distribution platform to reach potential customers. The role of the marketplace is to enhance the ability to market products and services while generating added value. This business model aims to give choice and control to consumers by revealing a broad range of financial products to compare and choose from. The marketplace owner facilitates transactions between the partner and the consumer, increasing the network effect.

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Case Study: Starling Bank Marketplace



Starling Bank, a licensed and regulated bank in the UK, offers a broad selection of financial services provided by third parties and includes several payments, investment, insurance, and accounting products from which both individual and business customers can choose.

Once the customer selects a partner product, integration into Starling Bank's application is seamless, thus simplifying and enhancing the customer's onboarding experience.

Source: Company website and press statements

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The future of banking: Banking marketplace

Unleash hyperpersonalized experiences

Marketplace banking can be unleashed by leveraging key capabilities like open APIs for partner integrations and by enabling product curation and personalization through advanced analytics.

The business model involves orchestration, curation, and management of the marketplace through APIs while enabling commission-based revenues from marketplace partners for lead generation and cross-sell and up-sell of partner products.

For banks looking for international expansion, marketplaces can help cater to the needs of various regions and demographics through local partnerships. Marketplaces also work well, if banks can successfully establish a thriving community platform for customers to share product experiences, recommendations, ratings among themselves to ensure informed purchase decision-making on the marketplace.



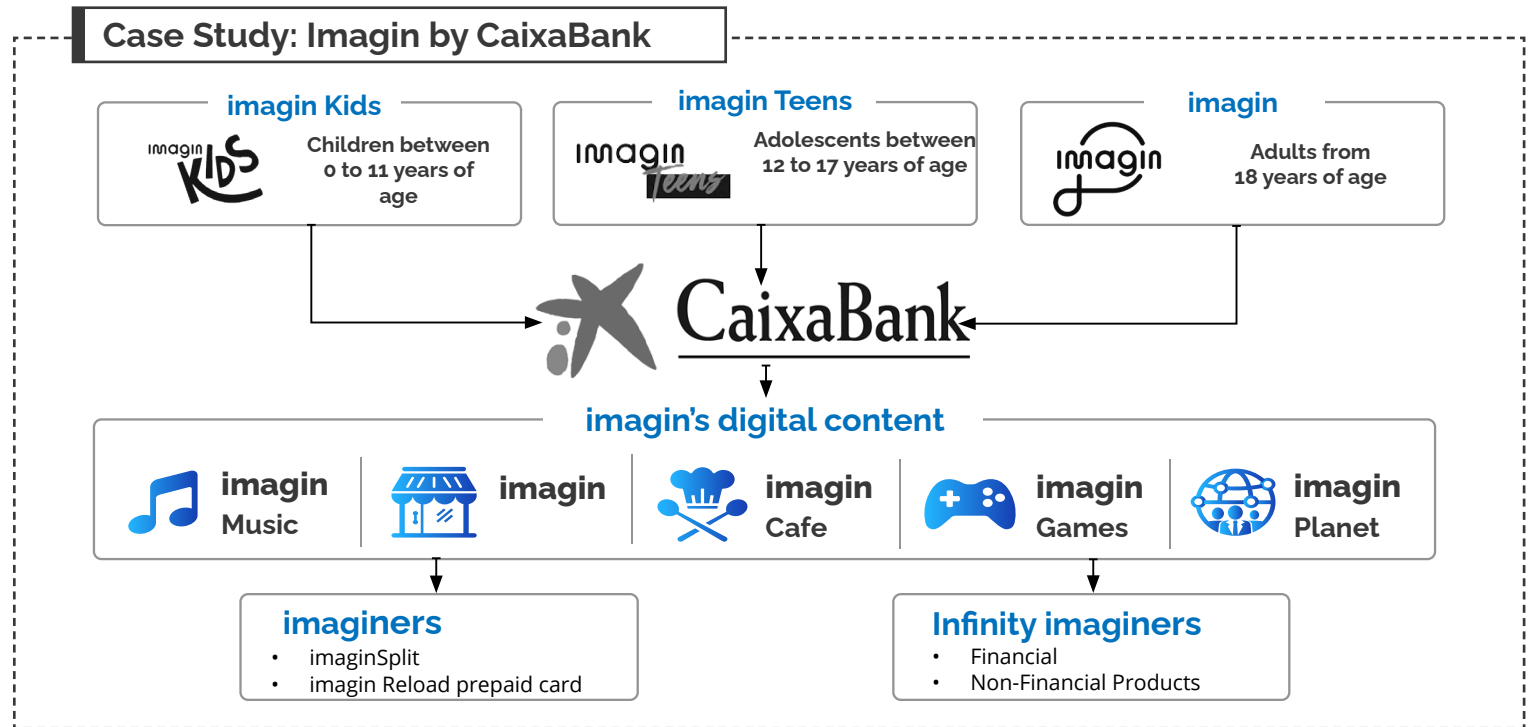
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Banking-as-a-Platform: Leverage innovation capacity of ecosystems

Banking-as-a-Platform extends the marketplace paradigm by sharing a plug-and-play financial infrastructure for developers to ideate, experiment, and launch innovative products. The platform also provides the discovery, distribution, and monetization capabilities for participants and allows the banks to leverage the innovative capacity of players in the market to deliver new products and services quickly.

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Source: Desktop research based on company website and press statements.

Imagin, a digital banking subsidiary of Spanish incumbent Caixabank, is a prime example of how a bank can evolve into a platform business model. Established in 2016 as Spain's first mobile-only bank, the brand was relaunched in June 2020 as a digital services and lifestyle platform.

Imagin has developed an open platform model through which it can combine its own services with third-party technologies and products, thereby creating a space for collaboration with other fintechs or startups. This transformation from digital bank to platform bank has created a strategic moat around the business for Caixabank, with over 3 million users on the new platform as of January 2021. Imagin is now the leading neobank in Spain with a market share of 14.6% as per a study conducted in Q1 2021 by SmartMe Analytics.

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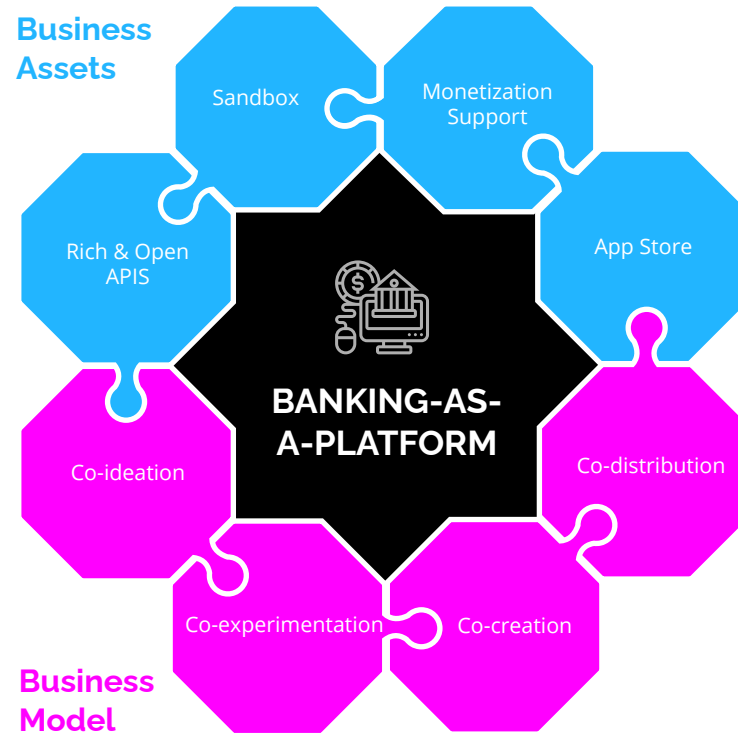
Unleashing collaborative innovation

Banking-as-a-Platform (BaaP) enables third-party providers and independent developers to build products and services for bank customers. Developers can access and extend banks' platform functionality using APIs, while the platform itself manages data exchange, enforces security policies, oversees authentication, and ensures compliance. A critical part of BaaP includes banks offering developers a toolkit of open APIs, sandboxes, developer portals, to create innovative products, and an app store to launch their products.

The business model of a BaaP is centered around unleashing collaborative innovation with supply-side participants (developers & TPPs) across the lifecycle of creating and distributing products on the platform, while acting as a matchmaker between consumers and producers to ensure consumers get matched with the most suitable products as per their behavioral profile and context.

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A vertical image on the left side of the page shows a person's hand holding a smartphone. The scene is lit with vibrant blue and pink neon lights, creating a modern, digital atmosphere. The person is wearing a dark jacket and a ring on their finger.

Becoming the bank of the future

We are in the midst of a massive shift in consumer behavior, industry structures, and business opportunities. With the world getting more connected than ever, the industry borders have started to blur and customers enjoy the rights to crown the cross-industry digital platform leaders by accepting a spectrum of lifestyle and financial products from such platforms.

The pandemic has further reinforced the importance of the digital and platform economy. As per a study by Accenture, 50% of consumers interacted with their bank through mobile apps or websites at least once a week, compared to 32% in 2018. In this post-pandemic world, banks that aggregate demand and attract and consolidate ecosystem supply will be best positioned to exploit these massive shifts in value pools.

In the integrated cross-industry and connected users paradigm, banks will need to understand and leverage modern technology to orchestrate efficient value-creating business and social interactions thus creating the platform business models of the future. Financial institutions that successfully implement platform business models will be able to create new revenue streams, diversification against future disruptive downturns, and establish an enduring and rewarding relationship with consumers and emerge as winners.

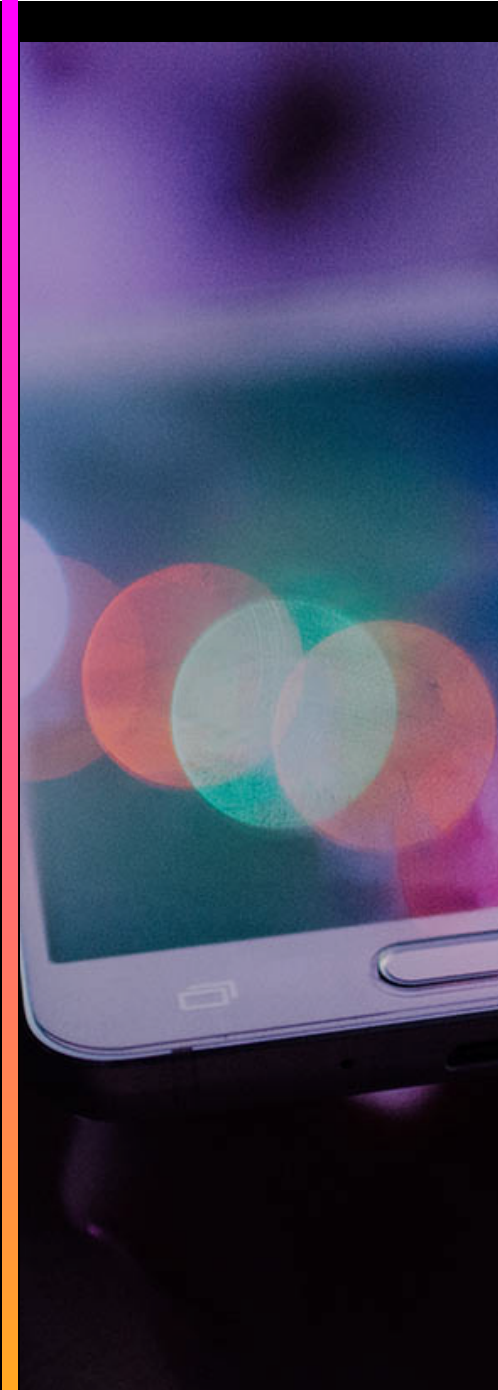
The Sopra Banking Software Digital Banking Suite

Sopra Banking Software helps clients modernize their technology stack right from the ground up by leveraging a modern core banking platform built upon a service-oriented and componentized architectural approach.

Our modular and cloud-native **Digital Banking Suite** empowers banks to rapidly and cost-effectively deliver innovative digital banking services. In turn, banks can use this modern tech stack to deliver exceptional customer experience to their end consumers.

One of the core pillars of the Digital Banking Suite is digital partnerships. Any bank that uses the Digital Banking Suite will automatically get the necessary technology to enable digital partnerships at scale.

There's also the developer's experience—whether you have a product manager, an administrator, a partner manager, or an API manager from the bank—on how to seamlessly onboard and commercially work with partners to make that experience as simple as possible for bank employees, and for partners as well. At the end of the day, these different actors work together to deliver better value to the end customers.



Sopra Banking Software is the partner of choice for more than 1,500 financial institutions worldwide. The rich variety of our solutions, the strength of our conviction and our passion for innovation enable us to support our clients on a daily basis and in their future projects, as well as in their goals regarding financial inclusion. Our customers, based in over 80 countries around the world, benefit every day from our technologies and software, as well as the expertise of our 5,000 employees.

Sopra Banking Software is a subsidiary of the Sopra Steria Group, a European leader in consulting, digital services and software development. With more than 47,000 employees, the Sopra Steria Group generated a turnover of €4.7 billion in 2021.

To find out how we can help your bank to create market-beating digital transformation strategies, visit www.soprabanking.com or contact us at hello@soprabanking.com



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