Interbank ecosystems

Accelerating the transformation of banking services

Deloitte has supported more than 50 interbank ecosystem projects across Europe. Our work covers the full *imagine – deliver – run* life cycle of interbank collaborations. We have helped our clients to define the strategies, business cases, operating models, governance, and legal and tax structures of new and existing ecosystems.

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A network that has grown unnoticed

Banks have a decades-long tradition of collaborating in ecosystems, often involving players from other industries and/or public authorities. In Europe alone, we identified more than 200 active so-called interbank ecosystems[1] across 30 countries during an intensive Deloitte research effort.[2]

The topic of interbank ecosystems has, however, attracted significantly less attention than the relationship between banks and fintech or with Big Tech players such as Apple, Google or Alibaba. Yet interbank ecosystems have transformed the industry's dynamics. Since 2014, we have witnessed a quiet revolution, with the number of ecosystems almost doubling.

In this article, we examine the drivers of interbank ecosystems, benchmark countries on their maturity in terms of these ecosystems, and reflect on the relationship between interbank ecosystems and Big Tech. We conclude that these ecosystems will be crucial to accelerating the transformation of banking services, including those provided not only by banks themselves.

Collaboration that is much more than a search for cost synergies

We analysed the rationale underlying more than 200 interbank ecosystems in Europe since 1960.[3] Our analysis shows that 80 per cent of the ecosystems have been initiated to achieve cost synergies by realising economies of scale in non-competitive areas. These collaborations are often referred to as utilities. This rationale continues to be very relevant today, as evidenced by the recent emergence of new joint automated teller machine (ATM) initiatives – for example, JoFiCo in Belgium and Geldmaat in the Netherlands in 2020. For consumers, this scaling has the potential to guarantee the provision of services (such as access to cash), since individual banks can no longer operate these services efficiently in an increasingly digital world.

But cost synergies are far from being the only driver of interbank collaboration. The second most important reason overall for collaboration – the first or second driver in about 70 per cent of cases – is the search for consumer adoption in so-called two-sided markets, where the platform only functions if there is a common standard on both the demand and supply sides. BankID,[4] a digital authentication solution deployed in Norway, is a relevant example. Customer adoption on a national scale accelerated as the majority of banks – the supply side – supported the solution, increasing the convenience for citizens – the demand side. Mobile payment solutions, such as Payconiq in the Benelux countries, are another example.

The search for new revenue streams is the third main driver for collaboration, occurring in 30 per cent of cases. Often it is carried out with non-banking players or arises from a fintech acquisition. Digital loyalty programmes are a good example of this trend, as well as e-invoicing. This form of collaboration is more recent and can mainly be observed since 2014.

The fourth driver, evident in 15 per cent of cases, is where banks try collectively to reduce the cost and risk of regulatory compliance, in particular in client onboarding processes – know-your-customer (KYC) – and financial crime. For example, the goal of the Nordic KYC utility, Invidem,[5] is to increase safety and trust. This is also of benefit to end clients, for whom onboarding time is reduced.

Despite the stark growth and convincing arguments, many interbank collaboration initiatives fail to see the light of day, sometimes after substantial investments. Equally, those that are successful often take years of persistent effort in order to become established. The main reasons for failure are:

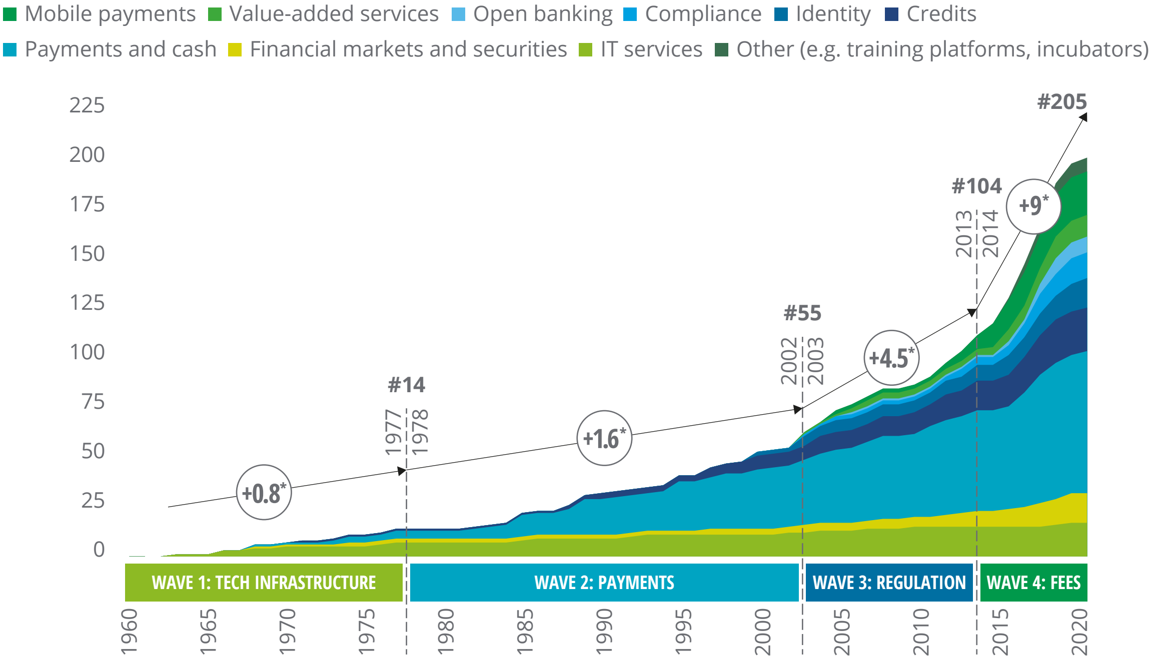
- a large imbalance in the benefit distribution of the ecosystem between the participants (e.g. a 10 per cent saving on an ATM network for Bank A versus a 35 per cent saving for Bank B)
- different point of views regarding the competitive nature of the business
- competing internal initiatives or (investment) timings
- lack of trust between executives.

European authorities increasingly consider interbank collaboration to be important for geostrategic reasons in the power struggle between the US, China and the European Union.

FIGURE 1

While banks have a long tradition of collaboration, the number of interbank ecosystems has almost doubled since 2014

Cumulative number of interbank ecosystems in Europe 1960-2020



Note: *Average absolute yearly increase of interbank ecosystems.
#X: Number of interbank initiatives identified, still active.
Source: Deloitte internal analysis – database of interbank collaborations in Europe.

STRONG GROWTH

- The number of interbank ecosystems has grown steadily since 1960 and has doubled over the last 10 years.
- They can be clustered in 10 different domains, with payments & cash the biggest by far.
- The **growth** has been driven by:
  - The need to respond to **evolving technology (wave 1 and wave 2)**, e.g. emergence of ATMs, rise of the internet, mobile payment technologies, etc.
  - **Regulation (wave 3)** on European and domestic levels pushing for standardised, industry-wide solutions.
  - **Commercial aspirations (wave 4)** to meet changing client needs and win new fees.

Interbank ecosystems and Big Tech: The dynamics of 'co-opetition'

Collaboration with Big Tech has become a reality in many countries, especially in the area of payments, where companies such as Apple Pay and Google Pay have captured significant market share as mobile payment wallets. But banks seem reluctant to deepen this collaboration. Bank executives fear that deeper collaboration in payments with Big Tech will become a Trojan horse that will ultimately undermine banks' position.

Interbank ecosystems can be seen as an alternative to Big Tech collaboration and as a way for banks to compete with Big Tech firms. Big Techs have global scale and an enormous client base that they can use to set de facto market standards. By working together, banks can partially compensate for their smaller scale and can also achieve large-scale client adoption. Local mobile payment initiatives such as Payconiq and the European Payments Initiative are good examples of this evolution.

The reverse process will also take place: Big Tech will participate more and more in interbank ecosystems in the future. Banks hold specific knowledge of regulation, risk management and banking products that Big Tech firms do not have and do not seem to want to acquire – yet. Big Techs, on the other hand, are experts in the user experience, the cloud, supercomputing and data analytics. As Big Techs move even deeper into financial services, more collaboration opportunities will arise, especially for the larger banks with global or regional reach.

The banks and Big Tech are competitors who need to co-operate with one another. The dynamics of so-called co-opetition[6] between them are going to be interesting in coming years.

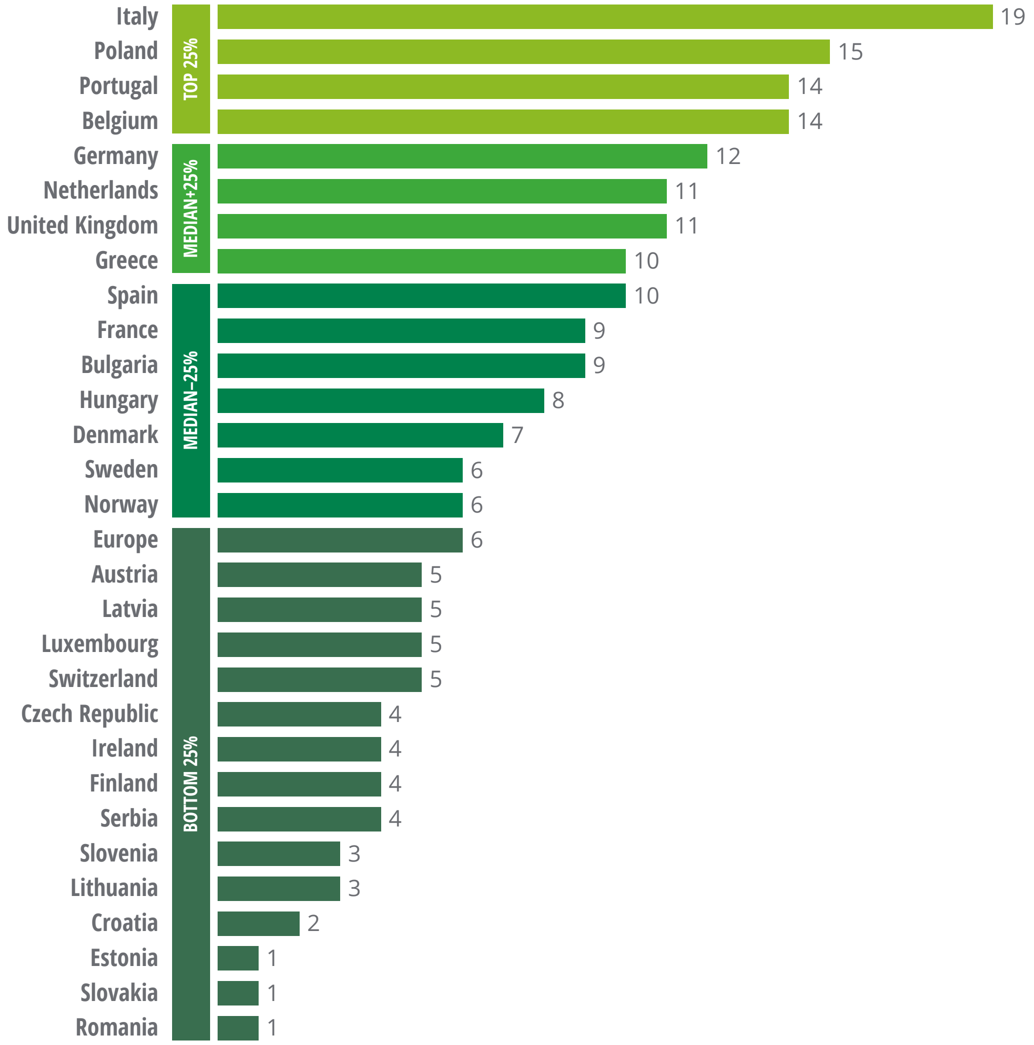
A wide variety of ecosystems across Europe

There are significant differences in the amount and typology of interbank ecosystems across countries in Europe. Italy, Poland, Portugal and Belgium are the four countries with the highest number of ecosystems, together hosting 25 per cent of all European ecosystems.

Differences in performance between countries can mainly be explained by variations in cost and regulatory pressures, how proactive the country's public authorities and/or banking federation are, the degree of innovation in the banking sector, and the level of trust between the executives of different banks. The higher these five factors, the more it can be expected that interbank ecosystems will form.

FIGURE 2

Italy, Poland, Portugal and Belgium are the top countries in the number of interbank ecosystems



Note: Sum of initiatives of all countries (214) is bigger than the previously reported 205, as some initiatives are active in several countries at once and were, as such, duplicated (e.g. P27, which exists in Denmark, Norway, Sweden and Finland).

Source: Deloitte internal analysis – database of interbank collaborations in Europe.

4 COUNTRIES HOLD 30% OF ALL EU COLLABORATIONS

Significant differences exist in the number and types of interbank ecosystems in Europe.

The comprehensive explanation for these differences is complex, but the most important drivers are:

- **Cost/income ratio** of a country's banks. Depending on the pressure banks experience, they can be more or less inclined to collaborate to curb costs.
- **Regulatory pressure**. The more regulatory pressure, the more appetite for collaboration.
- **Proactivity level of the banking federation** in the country, to drive collaboration efforts.
- **Level of innovation**. The more innovative the sector, the more collaboration.
- **Other** reasons include relative importance of the banking sector vs. other sectors in the country, tax incentives (e.g. Italy in the past), population size, country attractiveness for foreign investments, level of trust within the sector, etc.

Recently, the role public authorities play has become more crucial in the initiation of interbank ecosystems. In 2020, the public authorities were, for example, directly or indirectly involved in about half of the ecosystems created that year. European authorities increasingly consider interbank collaboration to be important for geostrategic reasons in the power struggle between the US, China and the European Union. This is clearly the case for the European Payments Initiative where the EU has taken a more assertive stance in the global battle for mobile payments dominance.

Despite the EU's economic integration, interbank ecosystems have difficulty scaling beyond their country of origin. Only ten of the identified ecosystems were able to achieve a significant European (or global) reach. The differences in regulatory, legal and/or tax regimes represent major hurdles for scaling. It is, however, also clear that the lack of European-scale ecosystems reflects the absence of integrated European banking groups.

So far, only ecosystems in domains that are very international by nature, such as securities trading or trade finance, have been able to transcend national borders. We.trade, a blockchain-based trade finance platform active in 11 European countries, is one of the few examples.

If banks want to succeed in creating European ecosystems, they should design them from the start with European ambitions and interoperability standards. In addition, the regulators should integrate interoperability requirements as early as possible.

The future of Interbank ecosystems: Expansion and consolidation

We expect the number of interbank ecosystems to continue to grow, fuelled by seven broad areas where the ecosystems are only in their infancy now.

FINANCIAL CRIME

Given the increased focus of regulators on financial crime as well as the high cost of non-compliance, we expect banks to strengthen their collaboration in this area. This needs to happen on the European scale, since financial criminals will seek to exploit the weakest banks and countries in the system. Combining transaction and client data at the European level will make the fight against financial crime much more effective and efficient.

SUSTAINABILITY

Sustainability requirements represent significant additional costs for the banking sector. Investment funds must provide more transparency on their investment policy and respect environmental, social and governance (ESG) criteria. Traditional retail banking activities such as lending are also affected. For example, banks are required by regulators to consider the energy performance of real estate in their lending policies. By creating – potentially in collaboration with public authorities – a common database of Energy Performance Certificates (EPCs), which describe a house's energy consumption, they can avoid duplicating their efforts.

DIGITAL IDENTITY AND CYBERSECURITY

We analysed 12 digital identity schemes partially initiated by banks, often in collaboration with telcos and/or governments. Interoperability and European scaling, we found, are high on their agenda, as competing identity schemes initiated by Big Tech conquer the market.

Closely linked to the question of digital identity, cybersecurity costs are rising so fast that banks, especially smaller ones, will be forced to hunt for economies of scale. So far, very few successful examples have emerged.

FINANCIAL AND DIGITAL INCLUSION

The financial and digital inclusion domain accounts for less than two per cent of the initiatives identified in Deloitte's Interbank Ecosystem database. For an individual bank, it is quite challenging to invest and innovate in client segments with special needs that are, in general, limited in size. Interbank collaboration, such as, for example, on development of an easy-to-use app or digital assistant, based on artificial intelligence and speech recognition, for people with special mental or physical needs, could be a strong accelerator.

ADMINISTRATIVE SIMPLIFICATION

E-government has made significant progress over recent years, but true end-to-end digital flows for citizens, SMEs and large corporates will require collaboration between public authorities, banks, notaries and others. We identified several innovative examples of administrative simplification for the creation of SMEs in, for example, Poland and Hungary, but much more can be delivered.

DATA HUBS

The future will be based on artificial intelligence, with data the electricity for new services and products. Banks are, however, not leveraging the data they have as effectively as Big Tech due to their legacy systems and lack of data culture. They are also not used to integrating external data in their service delivery. Data hubs could provide an answer. Here the objective is the collection, centralisation and sharing of non-banking data across banks – for example, data captured via the Internet of Things. It is possible that banks will acquire or create independent data providers in the near future.

BEYOND BANKING SERVICES

Deloitte's Digital Banking Maturity 2020 study, covering more than 300 banks, clearly revealed the gap between digital champions and other players in the market. Digital champions integrate beyond banking services in their banking apps (e.g. buy a train ticket in the app, receive discounts in shops). The followers and laggards in the market, due to limited scale or budget, will need to develop 'white label' solutions to keep up with the more advanced players. This could also be achieved through interbank collaboration.

In parallel with the growth in the number of initiatives, we expect consolidation in existing interbank ecosystems. Today, we see a myriad of initiatives that will be brought under one consolidated roof in order to streamline interbank activities within a country. The merger of the payment and identity services, Vipps, BankID and BankAxept, in Norway is an example of a multipurpose ecosystem in which collaboration initiatives from different domains are clustered. SIBS, Portugal's interbank joint venture, is another example.

Similarly we foresee consolidation of European ecosystems in payments and cash. The demand for cash has decreased significantly, leading to joint organisation of ATM networks. It is likely to continue to drop over the next five years, forcing banks to collaborate still more in order to cover their costs. Further consolidation of ATM networks is the likely answer. At this moment, Belgium, Luxembourg, France and the Netherlands have all engaged in ATM collaboration initiatives, but in the future these initiatives can be consolidated (e.g. by a commercial player). In the mobile payments domain, it is evident that not all country-based mobile payment providers will be able to survive independently in a globalising market. It is possible that some of them will adopt a buy-and-build strategy or that a European or global commercial player will consolidate them.

Conclusion: It is time for banks to collaborate, fast

Bank CEOs are torn between two goals: the innate urge to compete and the realisation that collaboration is a necessity. But banking is at a transformative point, and banks do not have time to spend years defining and then implementing ways of collaborating with one another and with Big Tech.

By joining forces quickly, opening up to other sectors and to public authorities, banks can build credible ecosystems that will enable them to prosper and benefit both their clients and society as a whole.

Endnotes

1. An interbank ecosystem is defined as a collaboration between at least three banks, potentially involving players from other industries and/or public authorities, in order to produce goods or services for B2B or B2C clients, even outside traditional financial services products. Basic supplier or commercial relationships with only two parties were excluded.
2. All figures related to interbank ecosystems originate from Deloitte's proprietary Interbank Ecosystem Repository for Europe, 2020.
3. Deloitte Database on European Interbank Ecosystems, 2021.
4. BankID is a digital identity solution used by all the banks in Norway, public digital services and an increasing number of enterprises in a wide range of sectors. More than 4 million Norwegians have a BankID. See also: www.bankid.no
5. Invidem is a shared KYC compliant service to prevent financial crime and facilitate business relations in the financial market in the Nordics. See also: www.invidem.no
6. Co-opetition: Co-operation between competing companies, where they simultaneously engage in competition and collaboration.

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