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How retailers can leverage today's banking disruption

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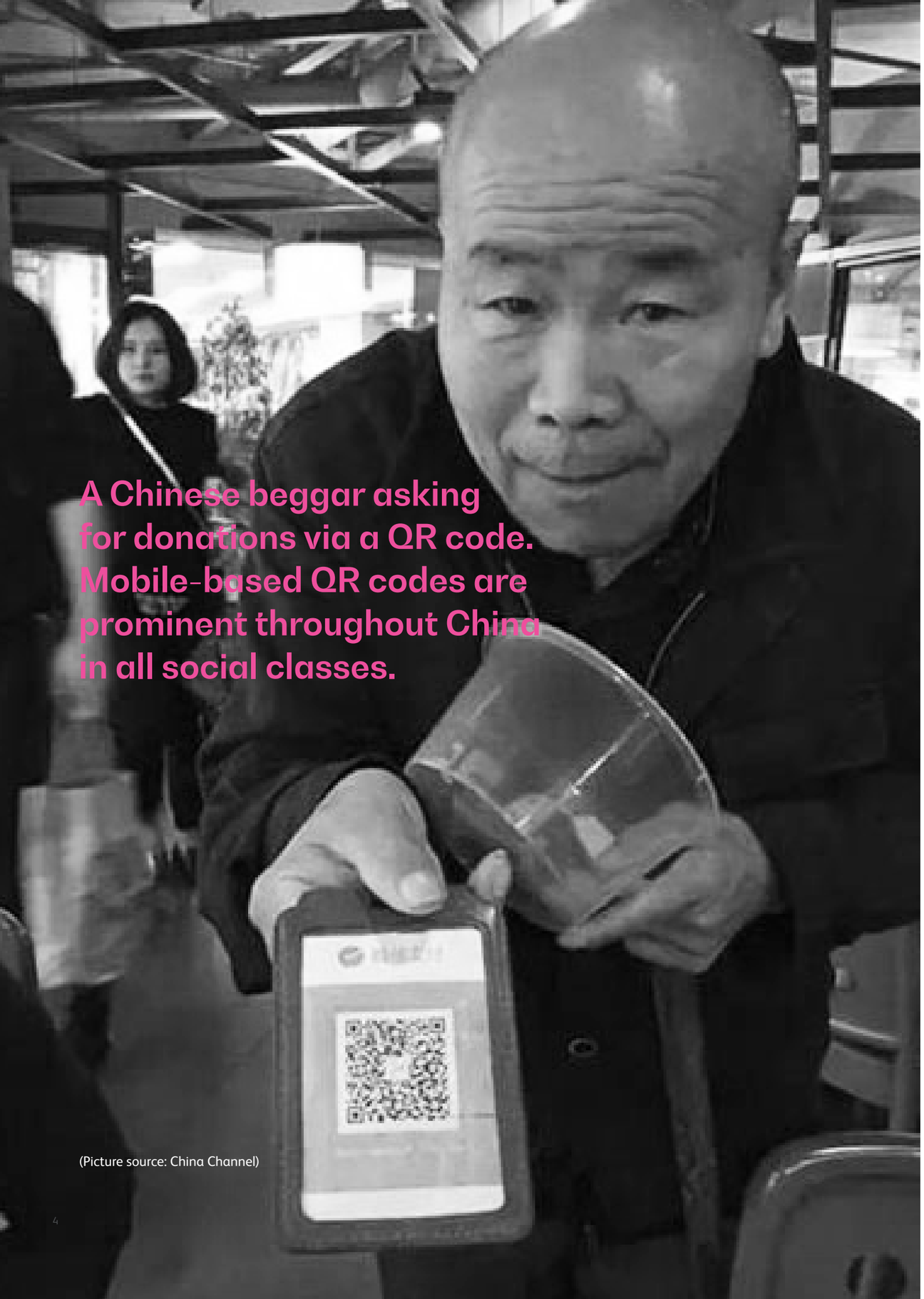
The Revised Payment Services Directive (PSD2) became effective in January 2018, mandating banks to open account information for third parties and to enable them to initiate payments if requested by customers. PSD2 creates numerous business opportunities to increase revenue, improve cost-efficiency and enhance the customer experience.

What makes PSD2 special is the fact that the door is open not only for banks but also for other sectors, such as retail. There's no doubt that within the next few years the European banking landscape will look very different from today as new innovative third-party business models will disrupt the age-old banking value chains. Time for retailers to seize the opportunity and leverage the change is now at hand.



A Chinese beggar asking for donations via a QR code. Mobile-based QR codes are prominent throughout China in all social classes.

(Picture source: China Channel)

The payment transaction, as we know it, is changing. The means of payment have increased rapidly in recent years, which is also having major implications on consumer behavior. Perhaps the most striking example of the behavior that is reshaping payment transformation can be seen in China. Stallholders, farmers and beggars in Shanghai have started wearing QR codes around their necks to collect tips digitally. A QR code scan allows for a quickly executed digital transaction – where no spare change is needed.

Such payments are mostly conducted via WeChat Pay and Alipay platforms, which account for 90 percent of the QR code transaction market[1]. In a recent study, 74 percent of Chinese people stated that they can live for more than a month with only 2.5 percent of their average monthly consumption in cash[2]. This is a drastic change in a country where, up until this decade, all types of transactions from small grocery purchases to real estate investments had traditionally been paid in cash.

And China is not alone. In Europe, Sweden is a prime example of a country leaping toward a cashless society. Currently only 13 percent of retail transactions are paid in cash, with the number of mobile payments rising rapidly[3]. Technical development dictates certain boundaries regarding the extent of the change, but the Swedish market transformation has so far been driven primarily by the customers' desire for an effortless payment experience; in other words, the convenience factor. The consumer has become more demanding: modern shopping needs to be quicker and easier, while providing a satisfying experience.

The transition to a practically cashless society will be financially beneficial to retailers, as payment-related costs are expected to decrease. More importantly, however, the increased consumer adoption of mobile payments and decreased usage of cash mean that retailers have the opportunity to redesign and customize checkout processes to improve customer fulfillment. The seamless integration of customer payments to existing and proven concepts, such as loyalty schemes, and, on the other hand, the creation of brand new service offerings such as the management of consumer finances, provide an endless number of opportunities for retailers.

Regulatory changes are also supporting retailer momentum in the retail banking space. The recently launched PSD2 directive has been widely expected to rock the retail banking industry. Due to the multitude of legislative changes brought on by the directive, bank customers will be able to use new interfaces from third-party providers (such as retailers) to manage their finances in the existing retail bank infrastructure. The exact implications of PSD2 for retail banks have already been scrutinized and debated at length. In this paper, we will therefore take a slightly different perspective by evaluating PSD2 as an opportunity for retailers.

Increased consumer adoption of mobile payments and decreased usage of cash mean that retailers have the opportunity to redesign and customize checkout processes to improve customer fulfillment.

[1] FinanceFeeds 2017 https://financefeeds.com/alipay-vs-wechat-pay-vs-unionpay-important-research/
[2] 2017 Mobile Payment Usage in China Report https://www.ipsos.com/sites/default/files/ct/publication/documents/2017-08/Mobile_payments_in_China-2017.pdf
[3] Riksbank https://www.riksbank.se/en-gb/statistics/payments-notes-and-coins/payment-statistics/

PSD2: designed to drive innovation and open competition in payments

The year 2018 is of particular importance to European retail banks, as the long-awaited EU-wide PSD2 regulation finally came into force on January 13. The new directive forces European banks to open up their consumer payment and bank account infrastructure to third parties via application programming interfaces (APIs). In practice, information exchange will be arranged via two new PSD2-enabled roles: the account information service provider (AISP) and the payment initiation service provider (PISP); see footnote for details.[4]

The revised payment service directive (PSD2) opens up the market

The directive entered into force on January 13, 2018, with an 18-month transition period, to facilitate innovation, competition and efficiency in the financial market. It forces banks to open up their payment account information to third-party developers and allow payment initiation through appropriate application programming interfaces (APIs), if consented to by their customers.

Open APIs will mainly serve two kinds of parties:

- Payment initiation service providers, who initiate payments on behalf of customers.
- Aggregators and account information service providers, who give an overview of available accounts and balances to their customers.

PSD2 also covers other topics relevant to retailers, such as customer authorization opportunities, which are outside the context of this paper.[a]

[a] European Commission 2017: http://europa.eu/rapid/press-release_MEMO-17-4961_en.htm

[4] BearingPoint https://www.bearingpoint.com/en-fi/our-expertise/insights/why-psd2-is-a-massive-opportunity-not-a-menace/

Where are the new services that have been promised?

Several months have already passed since the PSD2 directive came into force, but the PSD2 frontier appears quiet. Currently, just a few PSD2-driven real-life applications have been launched within the whole geographical area under the new directive. Part of this silence is explained by the PSD2 transition period, which stretches until September 2019. Nevertheless, many people probably expected to see PSD2-related services or products on the market by now. So, what are the banks waiting for?

The relatively slow reaction to PSD2 indicates that the opening of new APIs has not been a first priority for the majority of banks. Of course, API development processes may have been more demanding than expected, which is more often a rule than the exception with IT-driven matters. Furthermore, APIs need to be designed with care, as they directly deal with sensitive customer information.

However, it may also be a tactical ploy. The lack of PSD2-related open APIs indicates that traditional banks are uncertain whether they have what it takes to compete with the upcoming third-party offerings. In practice, the risk of losing market share when opening APIs has been estimated to be higher than the potential benefits, for now. Banks have therefore been buying time and strengthening their own offerings with selected partners rather than opening APIs right away.

New players and business models are emerging

Despite the slow start to PSD2, the effects of the new regulation will materialize relatively soon to consumers, too, as banks can only act as API gatekeepers until the end of the transition period in autumn 2019. The actual API specifications have already been determined by several major banks, and several APIs are currently being tested in a sandbox (beta testing) environment to ensure a smooth launch and operation. The first real-life solutions are also finally surfacing to the consumers. New fintech players like Mint and Tink are at the front of the pack today, but leading Nordic incumbents are not far behind. Danske Bank, for example, has announced its new PSD2 AISP-based multibank solution[5], and the pace of new releases is expected to accelerate toward the end of the transition period.

As the PSD2-related APIs are gradually emerging, traditional banks are bringing new service concepts to the retail banking space. More interestingly, the emerging APIs are also bringing up new types of players to compete for banking market share. The number of operators in the retail banking space will increase as third-party players (such as retailers, fintech and big tech firms) gain access to consumers' financial information. This change offers an almost infinite number of opportunities. It is said that APIs are like building blocks: in the right hands, they can be combined in creative manners that go way beyond their originally intended purpose. This will also take place in the field of retail banking: new solutions developed between PSD2-based APIs and existing customer offerings will be linked in an unforeseen manner to create new and unique customer value propositions.

The big question is: how will these new PSD2 concepts shape out? What are the short- and long-term PSD2 implications for retailers and what should retailers do to fully leverage the retail banking disruption?

[5] Yle https://yle.fi/uutiset/3-10205639. (In Finnish).

Retail banking disruption: opening a gateway for retailers

We have already discussed the PSD2-driven payment market transformation and the ongoing technical advancements that are at the forefront of this large-scale retail banking disruption. From the retailer perspective, the first-hand implications of this development revolve around easier access to retail banking services. PSD2 enables access to customer payment and bank account information via PISP and AISP roles (utilizing bank APIs) for retailers and other third parties, without the burden of a traditional retail bank setup.

Cutting costs: lowering payment fees through the PISP role

As its name suggests, many potential applications of PSD2 revolve around payments. PISP opportunities are therefore a logical starting point in analyzing PSD2-enabled third-party roles. In short, PISPs can initiate online payments on a customer's behalf via their bank account. Practically, this means that other traditional payment intermediaries such as payment service providers (PSPs) and payment card companies may be conveniently bypassed from the payment value chain. For retailers, the PISP role therefore seems an unmissable opportunity to cut payment fees, which currently cost e.g. Finnish retailers alone more than EUR 420 million per annum[6]. There's no doubt that cutting payment costs should be on every large-scale retailer's agenda throughout the Europe, as Finnish retail payment transactions represent just a tiny fraction (less than 3%) of total retail payment transaction volume in EU[7].

Lower payment fees (by excluding current operators from the payment value chain) are a very concrete incentive for almost any major retailer to operate as a PISP by creating a payment platform. For retailers, the PISP role is also an opportunity to customize the checkout process and exceed customer expectations – leading to an improved shopping experience as a whole. The payment platform is an invaluable source of customer data: if a customer chooses to use a retailer's payment platform as their primary payment method in all purchases, the retailer will have access to vast amounts of customer purchase behavior data, which can be utilized to fulfill customer needs even better.

However, setting up PISP operations requires significant investment and is therefore not something that every retailer should do. The traditional PSP business is solely based on scale and the main PISP business logic is no different here: high transaction volumes are a prerequisite for a successful payment platform.

The global mobile payment market is expected to grow rapidly

Globally, mobile point-of-sale revenue is expected to reach almost USD 50 billion in 2021, (up from just USD 6.6 billion in 2016)[b]

- One in every three point-of-sale terminals will accommodate mobile by 2021

The total revenue of the global mobile payment market is expected to reach USD 1 trillion in 2019 (from USD 450 billion in 2015)[c]

- Cash-driven economies around the world are skipping the era of payment cards and seeing ever-increasing mobile wallet penetration rates instead[d]
- Western economies are lagging behind, but mobile wallets are slowly being adopted as an alternative means of making payments[e]

Mobile wallet penetration rates in 2012, 2014 and 2016

Country	2012	2014	2016
Mexico	11%	20%	38%
Brazil	16%	19%	36%
India	34%	47%	56%
USA	7%	6%	17%
The Netherlands	6%	9%	20%
Australia	5%	8%	18%

[b] Reuters 2016 https://www.reuters.com/article/us-europe-mobilepayments/europes-mobile-payment-players-braced-for-battle-as-u-s-rivals-move-in-idUSKCN11C0UT
[c] Statista 2016 https://www.statista.com/statistics/226530/mobile-payment-transaction-volume-forecast/
[d] Payments, Cards & Mobile 2017 http://www.paymentscardsandmobile.com/global-mobile-wallet-adoption/
[e] Payments, Cards & Mobile 2017 http://www.paymentscardsandmobile.com/global-mobile-wallet-adoption/

[6] Bank of Finland and the Finnish Commerce Federation https://www.suomenpankki.fi/globalassets/3.4_juhani_pekkala.pdf
[7] European Central Bank http://sdw.ecb.europa.eu/reports.do?node=1000001416

Every retailer wants to provide more comprehensive services for customers. Why not strengthen the customer relationship with a payment offering?

Why would consumers choose payment services from retailers?

Cost savings
Greater discounts or loyalty program benefits

Frictionless checkout
Effortless payment related customer experience

Improved security
Strong authentication gives better protection against theft

Integrated financial services
Customer value adding services e.g. bank account information can be tied to checkout process

Why should retailers buy into consumer payments?

Financial incentives
Reducing fees for payment service providers and capturing cost savings

New revenue streams
Enhanced opportunity to sell additinal services, e.g. consumer credit

Improved loyalty adoption
All payments through payment platform automatically under loyalty program

Increased reliability
No need to rely on payment card infrastructure and third-party payment processors

Looking beyond transaction volume requirements, a few other key factors make the PISP role an exceptionally good fit for retailers. Retailers often have a pivotal market position, located at the heart of the customer checkout process, and possess an extensive and trusting customer base. These are the key reasons why we see large established retailers having a significant edge against other third-party players in setting up a PISP operation to compete against current payment methods. Besides, large retailers have great tools to incentivize (or to some extent, force) customers to use their own PISP service: offering substantial bonuses or discounts provides consumers with the extra motivation to adopt a new payment method.

Strengthening your foothold: increasing customer understanding via AISP functionality

Besides PISP, another key role that PSD2 enables is that of the AISP. An AISP operator will be able to obtain a customer's transaction and account balance information from all the payment accounts that a customer has (with their permission). Having current or savings accounts in several banks is relatively common nowadays, and logging into multiple online banks to check account balances is time consuming, and at times even frustrating. Each online bank operates differently and has its own functionalities. Aggregating this financial information into a single multibank platform will therefore offer value to consumers per se, saving them time and effort. This is exactly what Danske Bank aims to do with its new multibank view.[8]

Beyond the multibank application of the AISP, there are numerous other business areas where integrating customer financial information and strong analytics into an existing service concept can create added value to users. The simplest examples include, but are not limited to, debt management applications, investment guidance solutions and other financial advisory services (using transaction histories). For retailers, customers' payment transaction patterns provide a priceless insight into how they spend their money beyond brand-specific loyalty programs: this information can be used for areas such as new product creation and advertisement targeting, to name a couple of examples.

More or less the same arguments that make the PISP role a natural fit for retailers also hold for the AISP role. First, major retailers already have an extensive customer base that sees retailers as trustworthy counterparties. This is essential, as without customer permissions to view their account information, the AISP role is useless. Second, there is the pivotal position of retailers in the customer checkout process. Would it not be intuitive for a consumer to conduct a purchase on a retailer's application, then use the same app to quickly check the effect of the purchase on their current account balance? Or vice versa; customers could check their current account balance via the retailer application in the pre-purchase phase to find out if they have enough credit or whether they need a consumer credit product (conveniently also available from the application) to finance a purchase.

The AISP role does not offer retailers similar cost-saving opportunities as the PISP, but instead provides a significant opportunity to improve the user experience, integrate financial information to existing services and create new customer value-adding concepts. From the retailer perspective, the key attraction, however, is the access to vast amounts of consumer purchase behavior data. The statement 'data is the new gold' applies well for retail, as Amazon's data supremacy shows[9]. Since loyalty programs became the industry standard in the 1990s, the AISP role is possibly the greatest new opportunity for retailers to gather more comprehensive consumer data and ultimately serve client needs with better precision. However, retailers shouldn´t take this opportunity for granted. Motivating customers to grant access to their financial information is a delicate task. To facilitate this one-sided information transfer retailers need to give something tangible for their customers in return – this value exchange should be planned carefully.

The AISP and PISP roles are closely linked to the everyday management of the consumer's financial activities. Thus, we believe that it often makes sense for retailers to take on both roles at the same time, which effectively also means entering into the retail banking space. Before PSD2 came into force, this leap would have signified a burden, as offering services similar to those that the AISP and PISP enable would have required a banking license and a robust IT infrastructure. Yet with PSD2, most of the required infrastructure will be readily provided by banks, and third-party providers will not have to endure the cumbersome paperwork involved with applying for a banking license.[10]

Capturing the retail banking space: adding value with other financial products

Retailers entering the banking realm is not exactly a new phenomenon. Over the years, traditional retailers have expanded into the financial industry with different approaches. Some retailers have settled for offering traditional consumer finance products, whereas others have constructed full-fledged banking operations (such as S Group in Finland). The extension from retail to retail banking makes sense, as, compared with traditional financial industry players, retailers often have almost daily interactions with customers.

[8] Yle https://yle.fi/uutiset/3-10205639. (in Finnish).
[9] Forbes https://www.forbes.com/sites/mikesands1/2018/03/02/how-amazon-is-minting-a-new-generation-of-customer-data-obsessed-companies/#6287031428ed
[10] The banking license requirements are not unified in the geographical area under PSD2 regulation and thus there might be some variation from country to country.

If there is no self-evident approach to fighting against the competition, one logical solution is to get more creative – and to also reflect potential actions from other industries. The fundamental principle and key to strong digital business models is found in the shift from cooperation (or even competition) to collaboration in systems of common value creation within and beyond your own industry.

Frequent interaction with customers puts retailers in an excellent position to deliver relatively straightforward financial services, such as consumer credit. This creates opportunities to extend the collaboration between retailers and banks – for example, through a more comprehensive delivery of financial services through merchants. In Sweden, the consumer financing market has already been tapped by several new entrants – specialized fintechs and large retailers – with more than 60 percent of the country's consumer finance market now being served by these specialists, up from only 20 percent in 2001. Pan-European, privately held consumer-finance firms are earning a return on equity of up to 20 percent (more than double compared with the average 9 percent for retail banking)[11]. Additionally, the era of low interest rates has given consumer credit a large boost, with credit growth rates hitting new highs in 2017, growing to double-digit figures in both Finland and the UK[12]. This alluring market has seen multiple new Nordic, non-traditional entrants in recent years, with flight operator Norwegian perhaps grabbing most of the headlines.

Retailers have usually been much more customer centric and focused on developing state-of-the-art customer journeys than the often slow and sluggishly moving traditional retail banks. PSD2 provides further opportunities to shine in this area, as it enables the local development of personal finance management applications that have already been popping up around the world, outside the EU. In Singapore, for example, consumers can already easily track and categorize their spending as they wish with several non-banking apps that directly connect to their card or bank account details[13]. Taken even further, a US-based fintech is making saving ridiculously straightforward for the consumer by using algorithms to automatically move leftover money into a savings account[14].

Combine this functionality into retailers' existing loyalty programs and soon, instead of dealing with complex loyalty points, retailers could be transferring a consumer's loyalty rewards directly into mutual fund investments to create even more value for everyone involved. Loyalty programs could also be tied into the previously discussed PISP-powered retailer payment platform that offers greater discounts for customers using a preferred payment type. Added together, these new services provide valuable customer account details and spending habit information that can be analyzed to offer products and services that suit them even better and further enhance the valued customer experience.[15]

PSD2 is also expected to directly simplify the act of making a payment, by enabling payments to become more embedded into the digital customer experience. Instead of asking for credit card details in a formal checkout process, a purchase could be initiated with a request for an instant credit decision[16]. Perhaps the latest sign of retailer ambitions in the payment field of retail banking comes from the retail giant Amazon, which is reportedly targeting a more seamless relationship with its vast customer base through a banking offering[17]. If realized, customers would be able to pay for all their Amazon purchases via an Amazon-branded checking account. However, it should be noted that the initiative would not mean Amazon is turning into a fully-licensed bank, but rather a partner of some major US banks. Even though PSD2 does not apply in the US and Amazon would have the muscle to build a retail bank of its own, it seems the retail giant is taking the partnership route to focus on its core expertise, customer interaction.

Widespread mobile payment adoption is held back by consumers

Clearly, there are a few hurdles that retailers may face when implementing mobile payments through their offerings. Credit and debit cards are still seen as the conventional payment method, and it is important to note that credit/debit cards are still developing as well. For instance, the Bank of Cyprus has recently started offering biometric payment cards with fingerprint detection, allowing for higher cost payments to be made with a card-based fingerprint, where no PIN is required. This efficient, ease-of-use solution improves the payment-related customer experience.

Currently, customers may consider traditional and familiar payment methods more secure than new alternatives. But the slow transition from plastic to mobile payment methods is not merely down to the sluggish change in consumer habits. It is also because credit cards are known to offer tangible user benefits: loyalty program rewards, deferred payment options and fraud protection – all factors that are not yet readily available for non-card-based, online payments. For rapid change to happen, there must be a way to overcome these hurdles.

[11] McKinsey https://www.mckinsey.com/industries/financial-services/our-insights/disruption-in-european-consumer-finance-lessons-from-sweden
[12] Bank of Finland https://www.suomenpankki.fi/en/Statistics/mfi-balance-sheet/older-news/2017/vakuudettomien-kulutusluottojen-maara-kasvanut-nopeasti/ & Independent https://www.independent.co.uk/news/business/news/consumer-credit-growth-hits-new-11-year-high-a7508671.html
[13] DBS https://www.twentyxthirty.com/swipe-your-way-to-smart-money-management-with-these-6-finance-apps/
[14] See previous.
[15] Silicon Republic https://www.siliconrepublic.com/enterprise/payments-psd2-fintech-predictions
[16] See previous.
[17] Bloomberg https://www.bloomberg.com/news/articles/2018-03-05/amazon-in-talks-with-jpmorgan-over-checking-accounts-wsj-says

Aiming beyond PSD2: ensuring your relevance through API partnerships

The success of retailers has traditionally been determined by factors such as sourcing, logistics, category management and customer acquisition. The most dominant success factor, however, has always been rather simple: location. From brick-and-mortar stores with convenient locations and attractive shopping environments, to e-commerce online marketplaces, location matters the most. It does not make a difference if the location is physical or digital, but the importance of location should not be underestimated, as it is the contact point to customers. In the long term, we at BearingPoint expect the relevance of location to stay unchanged, even though the definition of a prime location is changing yet again.

The ongoing market transformation is expected to tie retail (and retail banking) services into larger ecosystems, where platforms based on marketplace and aggregation business models play pivotal roles. A sales platform with a fully functional user interface and a high number of retail partners provides very tempting value proposition for consumers: a minimized number of steps to find specific goods and the lowest price point possible guaranteed. The best online aggregators and marketplaces connect supply and demand in the most effective manner possible. The platforms are also sticky, meaning that consumers rarely abandon familiar platforms in a conquest for a better one.

Most large retailers see platformization as a threat, as it diminishes their location advantage. On an online sales platform, the original retailer might be just listed with small letters without its logo. This is a major challenge for many retailers, whose strategies rely heavily on advertising, having a trusted brand image and selling through their own website. However, there is a single company (conveniently named after the Earth's most complex ecosystem) that could not be more delighted with the current trend. Via its dominant sales platform, Amazon is able to force even large retailers to effectively act as its "subcontractors," using its polished and carefully designed marketplace platform as a power play tool.

Taking a look at Amazon's sales, which comprise almost half of the total US online retail sales,[18] reveals that platformization is happening – and quickly. The total percentage of third-party provider sales via the Amazon platform has grown steadily, exceeding 50 percent of Amazon's total sales volume for the first time in 2016.[19] This indicates that about one-fifth of US online retail sales occurs through a platform just via Amazon. The shift toward platform-based consumer purchases means retailers are facing growing pressure to keep their own brand afloat and at the center of customer relationships, as opposed to handing over their most valuable interface to another market player.

When the rumors first surfaced that Amazon was to expand to the Nordics in November 2017, a Swedish CEO of a local online retail aggregator stated: "then we're all dead."[20] This comment should not be taken too seriously, however. If there is no self-evident approach to fighting against the competition, one logical solution is to get more creative – and to also reflect potential actions from other industries. The fundamental principle and key to strong digital business models is found in the shift from cooperation (or even competition) to collaboration in systems of common value creation within and beyond your own industry.

As discussed earlier, including certain retail banking functionalities as a part of the digital retail service offering would be a logical step for large retailers toward value creation over industry limits. The key enabler is PSD2-driven retail bank API infrastructure, which vastly improves the accessibility of various new types of financial services for retailers. Establishing payment processing or customer bank account-related services would have previously required applying for a full banking license – now the question is just how to implement them.

If retailers do not consider it feasible to develop their own retail banking services, it is still important for them to utilize the current market momentum and to weigh up more exotic ideas. APIs are called building blocks for a reason. Banks are currently aggressively developing their retail bank API infrastructure and are eagerly testing different types of API-based partnership models with different partners, including retailers. This is the critical time when the principal rules of an ecosystem are usually established between the developing participants.

The PSD2-driven retail banking frontier is an area where strong ecosystems will eventually develop and new innovative customer value-adding opportunities can be created. In the future, these ecosystems will be linked to numerous other applications. Our advice for retailers is to throw themselves into the API game now and to start experimenting with new retail banking concepts (alone or in a partnership) so as to ensure their relevancy and location in the changing market environment in the future. The opportunity to integrate into a powerful API-based ecosystem strongly linked to retail is something that retailers defending their location and customer contact point from new competition simply cannot afford to miss.

[18] Statista https://www.statista.com/statistics/788109/amazon-retail-market-share-usa/
[19] Statista https://www.statista.com/statistics/259782/third-party-seller-share-of-amazon-platform/
[20] Nordic Business Insider https://nordic.businessinsider.com/wereall-dead---amazon-is-launching-in-sweden-within-12-months-according-to-top-executive-2017-10

How to start seizing the opportunities: the Strategic Business Design approach

As described in this white paper, PSD2 creates obvious opportunities for retailers. What is then the best way for retailers to start benefitting from these opportunities?

We believe that the only solid base that all new business initiatives should have is a strategic understanding of the business, customers and capabilities. By understanding these, we can:

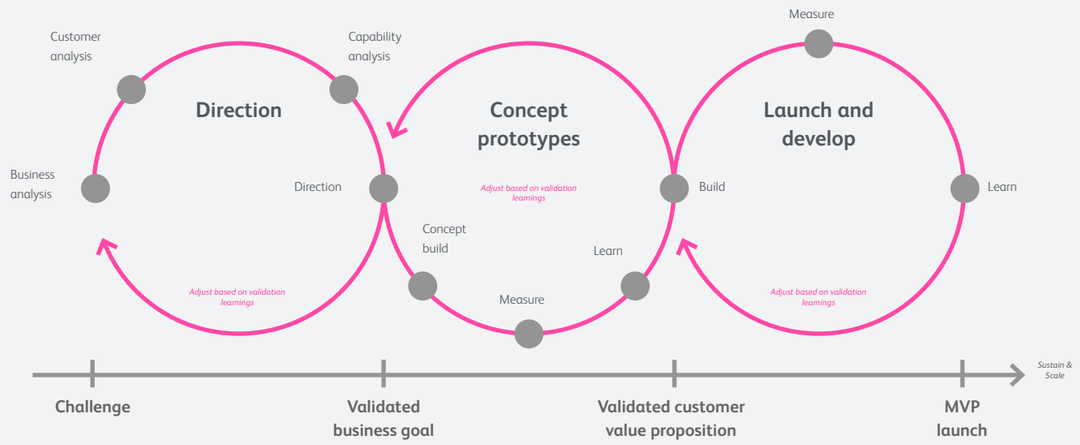
1. put the customer at the center,
2. make sure we create a business impact, and
3. understand what it takes to make it happen and what is feasible.

Within each dimension, we can identify a variety of needs and objectives as well as restrictions for the new business development.

Based on BearingPoint's market-proven Strategic Business Design framework, we recommend starting by designing the strategic direction for payment and retail banking services. In practice, this means crystalizing the role of these elements in the corporate strategy and deriving clear business goals aligned with the strategy and customers' needs and expectations. The point at which the business goals and customer needs intersect will give you the most relevant areas of opportunity with the most interesting challenges to solve. The third critical element in designing the strategic direction is understanding which capabilities are required and available, making decisions regarding which capabilities are considered critical to the company's core business and where partnerships and collaboration with, for example, fintechs can be applied to fulfill potential gaps.

Designing the strategic direction ensures business goals that are validated from the three fundamental dimensions (business, customer and capability). It also ensures strategic alignment in consequent phases of business development when designing the payment concepts and launching new payment services. And last but not least, the fundamental feature of the Strategic Business Design is the feedback loop between the business development phases, meaning that the strategic direction can and will be updated based on the experience gained from scenarios such as validating payment service concepts with real customers.

BearingPoint Strategic Business Design framework



Time to start leveraging PSD2

Disruption within the banking sector has started, but we are in the early stages of this transformation. Now is an excellent opportunity for retailers to start leveraging the opportunities that PSD2 creates by:

- Improving the customer experience and strengthening customer relationships
- Delivering added value through more holistic offerings
- Leveraging customer data more than ever before
- Increasing their own network to ensure they have a foothold in growing digital ecosystems
- Capturing efficiencies and cost-savings

If you have not already taken these first steps, now is the time to do so.

At BearingPoint, we are ready to help you, so don't hesitate to contact us!

Strategic Business Design

offers an ideal approach to move iteratively toward the goal that is extremely fruitful yet hard to set in stone as the banking disruption evolves.

The benefits of Strategic Business Design summarize the essentials to be fully prepared to leverage today's banking disruption as a retailer:

- **Know Your Alternatives Before Committing**: make sure you do not invest in new service creation without really knowing your strategic alternatives
- **Blend Together Strategy, Design and Lean Thinking**: strategy work should be customer-centric and iterative, and design and development work should have a solid, strategic understanding
- **A Continuous Dialogue Between Strategy and New Initiatives**: make sure your new business initiatives start with a clear strategic vision, and your strategy work is based on the experience you have gained from the new initiatives

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About BearingPoint

BearingPoint is an independent management and technology consultancy with European roots and a global reach. The company operates in three units: Consulting, Solutions and Ventures. Consulting covers the advisory business; Solutions provides the tools for successful digital transformation, regulatory technology and advanced analytics; Ventures drives the financing and development of start-ups. BearingPoint's clients include many of the world's leading companies and organizations. The firm has a global consulting network with more than 10,000 people and supports clients in over 75 countries, engaging with them to achieve measurable and sustainable success.

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