

COMMENT

Banks need to take on Amazon and Google or die

Francisco González

Some bankers and analysts think that Google, Facebook, Amazon or the like will not fully enter a highly regulated, low-margin business such as banking. I disagree. What is more, I think banks that are not prepared for such new competitors face certain death.

Technology has already transformed many industries. Next in line is banking. In two or three years, only 5 per cent of consumer interaction will be through branches. The rules have changed and a new league of competitors is emerging.

New entrants are free from the legacies of banks: obsolete systems and costly distribution networks. So far, most (PayPal, Square, iZettle, SumUp, Dwolla) are seen as niche businesses. However, they may expand or seek alliances. And almost certainly some big names in the digital world, companies with strong brands and millions or billions of users, will jump into the fray.

Yet while this is disconcerting for banks, the good news is that we still have one significant advantage, which is the vast array of financial and non-financial data that we accumulate. This information reveals a lot about habits, tastes, needs and aspirations. Banks need to turn it into knowledge and use that knowledge to provide users with exactly what they want, precisely how and when they need it.

People want simple, transparent services with real-time customised pricing, and it has to be available on the move. Mobile services not only provide a much more flexible, convenient customer experience, they also offer the potential to double or even triple the number of bank customers worldwide in the next decade.

Customers expect the same level of service through all channels, whether

mobile, PC or branch, and the ability to jump freely from one to another. They also seek innovative content, products and services – financial or non-financial – that fit their changing needs.

In combination, big data and cloud computing will be important tools for giving customers an improved experience. “Open innovation” models are also needed, such as when the bank opens its technological platform to outside developers to create services. Employees, clients, partners and other stakeholders must be involved at every step.

The financial services industry is becoming what I call the BIT industry (banking, information and technology), where information, through technology, is transformed into

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knowledge. In this new world, banks should transform into “digital” banks, or rather into new forms of information services company. Their engine will be a platform that can integrate limitless volumes of data. For existing banks, this implies a monumental undertaking. Most banking platforms were designed in the 1960s and 1970s, and have been patched up over the years, creating what Professor Peter Weil of Massachusetts Institute of Technology calls “spaghetti platforms”. This refers to the complex, unwieldy connectivity among different applications, which results in rigid, inefficient tools.

In view of the difficulties in replacing core platforms, some banks have opted for adding middleware – that is,

intermediate applications that interact with the “core” system and support the front end. However, this is a temporary solution as the need for processing capacities increases more and more.

A new financial ecosystem is being created. In two decades, we will go from 20,000 “analogue” banks today worldwide to no more than several dozen “digital” banks. Diverse niche businesses will exist, but most will be mere “suppliers” for the much-reduced number of digital banks acting as “knowledge distributors”. They will own the platform through which products and services are channelled to the end customer. Here we will see the main clash between digital banks and new entrants.

The shift from analogue to digital requires a complete overhaul of banks’ technology and corporate culture. This is a matter of survival. We at BBVA have been working on this process for six years and we are making substantial progress in our transformation. We now have a state of the art platform. But we need to sustain this effort throughout the years to come.

Huge challenges also await regulators. They should maintain a level playing field somewhere between the existing regulatory burden for banks and the largely unregulated virtual environment. They need to ensure security, privacy, consumer protection and systemic stability in a digital world that is largely unmapped and gets bigger, faster and more complex by the minute. And, at the same time, they should leave space for fair competition and innovation.

Banks are losing their monopoly on banking. It is up to each one to rise to the challenge of offering the information services (banking or otherwise) that people need.

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