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The New Trend of Banks, Beyond Banking

Summary

The role of the Banks and their scope of activities have undergone many changes in recent centuries and decades. The present topic also tries to process the service of a new approach, a new trend, which is beyond banking. Increased market competition, digital transformation and, of course, the emergence of fintech companies can be highlighted. „Traditional" banks had to rethink their business models and put more emphasis on innovation to ensure that they could remain economically active in the market. The digital transformation of the financial sector, characterised by the rise of BaaS and beyond banking, presents both opportunities and challenges. While these models allow banks to compete more effectively with BigTech companies, they also carry new risks that require careful regulatory oversight. Regulators need to strike a balance between promoting financial stability and innovation, ensuring that the financial system remains stable and competitive amid rapid technological change. Analysis of emerging business models highlights the importance of coordinated regulatory responses that can respond to the unique challenges posed by digitalisation.

Keywords: *beyond banking, innovation, change, new opportunity*
JEL code: *G53, G59, F65*

Introduction

The role of banks and their scope of activities have undergone a lot of changes in the past centuries and decades, it could be put somewhat as trying to follow current trends. The present topic also tries to process and briefly describe the service of a new approach, a new trend, since the process of banking, i.e. beyond banking, is still reviving.

Method

It contains a descriptive analysis, where the new trend of banks, beyond banking, will be presented based on secondary research results. Since it is a completely new trend, it does not have precisely defined rules or frameworks. Rather, it could be formulated as a forward-looking directive, which is still interpreted quite differently.

The Concept of Bank

In the words of Erdős – Mérő (2016) „Banks are financial intermediary institutions in whose activities deposit taking and lending are present at the same time. Deposits are the main source of money for banks, and in the process of intermediation it finances its assets with money collected from its depositors, the most important of which are the loans it provides."

As Vizvári (2008) put it: „From a macroeconomic point of view, the commercial bank can be regarded as a monetary financial intermediary. This means that it connects different saver and financing needs."

According to Katona (2018), this includes services provided to customers, with which banks earn significant income due to commissions and fees charged, and with these additional services, the bank's rating also changes.

Standard active, passive and neutral banking operations options did not save banks from the impact of the 2008 crisis. From which a process started that banks began to go far beyond the boundaries of previous banking operations (Bugár 2018).

Not everyone may have adequate information about banking concepts, even though financial culture has a serious impact on the economy and society (Bárczi-Zéman 2023).

As a stepping stone to financial awareness, it is important that the concept of beyond banking is summarized in the study.

Beyong Banking Formation

Beyond Banking emerged a couple of years ago as a strategy. Increased market competition, digital transformation and, of course, the emergence of fintech companies can be highlighted. „Traditional" banks had to rethink their business models and put more emphasis on innovation to ensure that they could remain economically active in the market. On the other hand, fintech companies introduced a new direction, and we had to keep up with it. In this aspect, Beyond Banking has given you the opportunity to focus on your strategy for acquiring new customers by not developing everything yourself, but by partnering with companies from different industries. This also generates a strange phenomenon where potential competitors who have become part of the same partner ecosystem are able to work together and thus grow together. An example of this is happening at Bradesco, Brazil's largest bank, which invests in fintech companies around it (such as Next, Digio and Bitz) by acquiring or creating them, either by investing in new startups or by encouraging incubation through innovaBra.

Literature Review

According to Thoma Haas, the future of banking lies behind banking, beyond banking.

Bill Gates' 1994 quote: „Banking is necessary, banks are not."

Triyono Gani in the Jakarta Post said, „The future of banking does not belong to banks." The future of banking lies behind banking, beyond banking.

In terms of its role in the industry, banks today face different challenges:

– The Payment Services Directive (PSD2) as a doorway for innovation.
– The low interest rate environment puts pressure on incomes.

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– Shrinking the branch network results in loss of personal contacts.
– Outdated core banking systems that cannot meet the requirements of agile development and deployment cycles.
– The emergence of new market players such as FinTech and BigTech such as Google, Apple, Facebook or Amazon (GAFA) plus even neobanks (N26, Vivid, Revolut) aggressively entering the market by offering their own payment and banking solutions to customers.
– Employee culture that is still not ready for digital transformation and where even the mindset problem exists. Change management is a big challenge here: • Employee culture that is still not ready for digital transformation and where even the mindset problem exists. Here it is a very big challenge to extend change management to the whole institution.
– The growing demands of retail customers in relation to finance (individualised, multi-channel advice or financial services in every situation).
– Banks see both opportunities and threats, looking for new ways to generate revenue, maintain customer satisfaction and position themselves technically for the future extending it to the whole institution.
– The growing demands of retail customers in relation to finance (individualised, multi-channel advice or financial services in every situation).

Banks see both opportunities and threats, looking for new ways to generate revenue, maintain customer satisfaction and position themselves technically for the future.

83 percent of respondents to GillardonBSM's study of the market and customer markets and customers use customer data from other institutions through PSD2. 98% invest in improving personal customer support. Many banks are still positioning themselves in this new world, in which the key word is the open API economy, systems are networked across industries. They do not have a proper, well-thought-out strategy for the technical opening caused by PSD2. 84% of banks surveyed in the study plan to diversify their portfolio with services that can be classified beyond banking. This means that they offer opportunities, services that have no connection to typical banking products and services. For example, selling tickets to events or booking a trip. Such cross-selling opportunities have already established themselves in other industries, nowadays they are natural, as gas stations have turned into restaurants and supermarkets. Money in these places is earned less from selling gasoline and more from complementary products and services. It aims to improve customer penetration and create new revenue channels.

The next question is whether banks will manage to use their current assets to provide value-added offerings to customers on a digital platform, possibly even rewarding customers as an additional service. One option or area of action that shows opportunities beyond banking is bank insurance.

Bancassurance, i.e. bank insurance, or self-financing, is not a new idea, but a long-used option. The principle is clear: banks use the distribution of insurance products as a source of revenue, and insurers use the branch network as a sales channel. The problem can arise if the branch network, and thus personal customer service, is reduced.

PSD2 opened up banks and launched the topics of digital services, digital ecosystems and API management, as since September 2019, registered third-party service providers have been required to provide access to bank accounts once end-users have given their consent, so knowledge of transaction data is no longer the exclusive privilege of the bank. And with a little delay, the insurance industry agreed on the idea of OpenInsurance. EIOPA's consultations started in January 2021 on the basis of the European Data Strategy, which, like PSD2, could lead to regulatory obligations for insurers in the coming years. In practice, it will be possible to imagine that, in addition to brokerage/advisory orders, the door will also open to third-party service providers regarding the data of the insured.

In recent years, banks and insurance companies have launched major programs that make Bancassurance 2.0 more than just the intermediation of insurance and banking products through various channels. The „financial home", that is, an overview of all financial products of a client, is only the first step.

The real added value does not lie in the central overview, but in the provision of additional services that provide an added value to the client's life.

Strategic Importance, Results

In the context of the API economy, banks need to position and analyze and position themselves in different ecosystems. ING summed it up this way: „If you really want to retain customers, you need to provide them with the most relevant offer – even if some products and services are not your own." Banks have customer trust, vast datasets, experience and regulatory knowledge. For example, through PSD2, how you can provide real added value to your customers with customer data from other institutions. The combination of this data analysis and technical solutions results in digital monetization models and data-driven business that can go quite beyond classic financial services.

As described in study „Banking Innovations And Their Influence On The Formation Of Digital Banking", the development of banking products and services is increasingly driven by the introduction of innovative technologies that improve customer relationships through various internet banking systems. The primary goal is to improve efficiency, ensure competitiveness and achieve excellent customer service. As society and the information sector undergo rapid transformation, banks need to integrate new digital technologies to remain relevant. This integration will facilitate the transition from traditional online banking to a comprehensive digital banking system where banks use state-of-the-art technologies to meet the changing needs of their customers.

In a study, Mykola et al. (2021) examine the peculiarities of the emergence of digital banking, building on models that include the transformation of traditional online banking, i.e. banking and general financial transactions that take place virtually, without direct contact between the customer and the bank employee, i.e. electronically. Today, innovative next-generation banking services are called online banking, which includes internet banking, mobile banking (t-banking) and telephone banking.

A peculiarity characteristic of the current stage of development of the global system of economic relations is the digital transformation of all business processes, which is largely aimed at managing with the help of cognitive technology and artificial intelligence (AI) with the help of various devices that are constantly connected to the Internet. Accordingly, the opportunities arising from the introduction of specific innovative technologies in business processes complicate the process of integrating such systems into classic automated management systems, both in the areas of corporate governance and financial services, including banking. Innovative models of digital banking involve several key approaches. First, the smart omnichannel bank integrates different digital channels through a unified architecture and focuses on data analytics to efficiently collect customer information. This model uses micro-segmentation and predictive modelling to create a balanced banking product portfolio tailored to customers' individual needs. Second, socially engaged banks focus on engaging consumers, primarily through social media, to build strong customer relationships. This model uses social media monitoring to connect with customers and manage their affairs promptly. It also uses social digital marketing and social customer relationship management (CRM) to enrich customer data with social media insights, enabling the creation of more targeted and effective offers. Finally, the bank of the financial digital ecosystem leverages mobile technology to provide „beyond banking" services beyond traditional banking products. Among the most important elements is mobile payment based on NFC technology, which increases the competitiveness of the bank in the payments sector and helps retain customers. This model also promotes partnerships with non-bank institutions to develop common financial content, expanding the range of services offered to customers.

As described in study Regulating for competition with BigTechs: banking-as-a-service and "beyond banking" it can be read that the financial sector is undergoing significant transformations due to digitalization and technological developments. In this study, researcher Resano (2021) analyses two emerging competitive banking strategies: banking-as-a-service (BaaS) and beyond banking. These models follow the transactional penetration of finance achieved by BigTech companies and pose new risks that require appropriate regulatory responses.

Based on experience so far, the digitalisation of the financial sector has increased competition among retail banks. New players, including FinTech and BigTech companies, are challenging traditional banking players. Competition for innovation and customers is characterised by the need for banks to adopt fintech solutions and participate in and support distribution models of different economic platforms.

A distinction between economic platforms (where multiple co-effects prevail) and technical platforms (which primarily target local integration) is crucial in understanding regulatory challenges. Economic platforms, typically associated with BigTech companies, pose a huge challenge due to their agglomeration economy and network effects.

Regulation must strike a balance between financial stability and innovation. Dynamic competition between finance and technology requires regulators to adapt and coordinate their efforts. European authorities are closely monitoring these changes through initiatives such as open banking.

The transformation of the banking sector is underpinned by three major IT innovations:

– APIs (application programming interfaces): APIs enable flexible digital communication and have significantly influenced business models by facilitating data sharing and integration.
– Data processing and storage: The ability to relationally process and store large data has given impetus to digitalization, enabling more sophisticated customer service and product customization.
– Distributed ledger technology (DLT): Blockchain technology and smart contracts have the potential to radically change financial intermediation and payment systems, reducing the role of traditional intermediaries and enabling more decentralized financial services.

McKinsey (2019) conducted a study describing beyond banking as an extra service available to SME customers. At the time, he showed that even though SME managers would like to do their own activities, 74% of their work still requires other tasks such as employee training (7%), supporting IT tasks (9%), accounting (16%), managing customer relationships, i.e. performing CRM tasks (14%), and finally banking (9%). Based on this, it is easy to say that SMEs have a significant administrative burden, and since they work in smaller numbers, each person must be able to perform several jobs simultaneously. And here came a statement that the money, time and energy spent on administration negatively affect the effectiveness of their business activities. On the margins of this, the new mentality of banks, i.e. along the philosophy of beyond banking, came to reduce the administrative burden of their customers by providing them with additional services of this kind.

From the point of view of clients, there is a greater commitment if you do not receive a favorable tariff package lasting three to six months in addition to opening an account, but that you can access payroll software, net banking interface, accounting office, insurance partner or even factoring solution in one place. As these services are considered financial services, banks are best placed to do so. The bank may decide to offer third-party service providers or build the appropriate infrastructure on its own channels to expand the product range. It is with these thoughts in mind that beyond banking will be of decisive importance for SMEs.

Practical Examples from the Banking Sector

BNP Paribas Group describes „beyond banking" as the result of an underlying trend, increased digitalization, affecting the banking sector. For them, the goal was to make life easier for individuals and professionals. Two types of models have been introduced, such as „bank-as-a-platform" and „bank-as-a-service".

The „bank-as-a-platform" model could be formulated in such a way that the offers that they try to promote together with their partners through several channels (mobile application, branch network), in which BNP Paribas plays only a platform role.

The bank-as-a-service: model can be interpreted as offers designed by BNP Paribas but promoted through their partners' sales channels and mobile app.

Sarah Janin, head of French retail banking and entrepreneurship at BNP Paribas, said: „The time has come for beyond banking. The platformization of the economy has turned our digital consumer habits upside down. In financial services, this has opened up many opportunities to better serve our customers. Open banking enables the banking sector to create new value propositions in ecosystems that go beyond traditional banking and financial offerings."

Meanwhile, neobanks are creating a fiercer competitive situation that inspires the banking sector to offer more and different types of services to its customers, all while maintaining impeccable day-to-day operations. Being available to your customers also means adapting and keeping up with new consumer habits and changed needs and behaviors.

Mobility, shopping, health, housing: covering sectors beyond banking

Banks are trying to take advantage of the emergence of open banking, thus strengthening their partnership role in expanding beyond banking. Under this concept, the bank can develop offers – „value propositions" – that fall outside normal banking activities, such as housing, healthcare and mobility. With new opportunities and offers, an ecosystem of economic actors and partners is needed, who have the potential for both geographical and economic development. BNP Paribas therefore decided to expand its footprint to four specific ecosystems: home, shopping, mobility, and healthcare, with a particular focus on small business customers (e.g. self-employed healthcare professionals).

Thierry Laborde, COO of BNP Paribas, explains: „Our goal is to serve all our customers – individuals and businesses alike – and to become a trusted partner in the bank and beyond. This means going beyond what we do and providing new services to all our customers with Open Banking."

Cooperation with start-ups with opportunities beyond bank offers. Joining the beyond banking movement is a new direction to meet customers' new needs by offering non-bank products. It is simple to create purposeful, useful and easily accessible offers on digital platforms. To design and develop such opportunities, BNP Paribas invites young and agile startups and fintech companies. An example of this is the launch in May 2020 – „Mon Business Assistant", a free, innovative financial management service developed in collaboration with a startup.

Banks and savings banks in Germany are only at the beginning of their journey to beyond banking. However, at NOAH – one of Europe's most important investor meetings – Christian Sewing, the current CEO of Deutsche Bank, gave a presentation about Beyond Banking back in 2017 and briefly said: „We want to be among the first in the platform economy – in the banking sector and beyond."

There is a modular system called VR-PrivatSekretär that VR banks offer to their customers, helping them to correspond with health insurers and public institutions, make appointments with authorities, bring cash to the customer's address or even help set up smartphones. Since the various packages include financial-related services, there is still one interpretation of Beyond Banking.

The example of Russia shows that banks want to radically transform into digital platform operators. Sberbank, for example, is aggressively expanding many of its new services, transforming itself into an e-commerce and technology company in the process. Non-financial services are projected to account for nearly two-thirds of sales by 2030.

The results of the survey of around 2,000 retail banking customers in the UAE are as follows:

– More than half of customers (61%) turn primarily to their bank for a financial offer.
– Among additional services, four options are the most important: education, entertainment, retail and food.

Conversely, interest beyond banking can be dampened by strong consumer confidence in sharing personal data, so banks should take this into account when exploring new areas.

In the UAE, legislation on open banking and data protection will play a key role in the spread of beyond banking. Nearly 40% of respondents will give their banks permission to use personal data, so success will also depend on banks being able to maintain customer trust when they go beyond banking.

Conclusion

Actors from a wide variety of industries are entering the financial services value chain at an accelerating pace, including big tech, fintech, telecommunications providers, and retailers. This change is putting serious pressure on banks' business models and service offerings, which will affect consumer loyalty, revenues and, most importantly, profits.

Banks are expanding their asset management services by taking advantage of advanced technologies and are at the forefront of the transformation. The „beyond banking" concept represents the industry's shift towards a more integrated, technology-driven approach to financial planning and wealth management. By embracing these trends, financial advisors and asset managers can provide superior services, helping clients achieve their financial goals and secure their futures.

The digital transformation of the financial sector, characterized by the rise of BaaS and „beyond banking" models, contains both opportunities and challenges. While these models allow banks to compete more effectively with BigTech companies, they also bring new risks that require careful regulatory oversight. Regulators must strike a balance between promoting financial stability and innovation, ensuring that the financial system remains stable and competitive in the face of rapid technological change. Analysis of emerging business models highlights the importance of coordinated regulatory responses that can respond to the unique challenges posed by digitization.

Based on the above, it is important to emphasize once again that banks must go beyond classic banking. The introduction of PSD2 is only the first step that opened the way to the data economy, where customer-oriented services are important, and not the traditional bank itself.

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