IJEBM
Iris Journal of Economics & Business Management

ISSN: 2993-8732
Iris Journal of
Economics & Business Management

DOI: 10.33552/IJEBM.2024.02.000526
Iris Publishers

Opinion

Digital Disruption in Banking: Who is Going to Hold the Big Card?

Anna Omarini*

Department of Finance, Bocconi University Milan

Corresponding author: Anna Omarini, Department of Finance, Bocconi University Milan, Italy.

Received Date: January 08, 2024

Published Date: February 19, 2024

Introduction

Banking is not currently an easy business; it has radically changed because of many factors during the last several years. Deregulation and digitalization have emerged shaping both the market structures, and the way banking services are produced and delivered to the end customers. Some of their effects include the growing evolution and diffusion of digital platform business models, where networks are increasing entry to the industry for more participants and providing greater business opportunities. Despite the potential benefits, it is fair to acknowledge that, for many industries and firms, the process of digitalization is a disruptor and constitutes a significant challenge to incumbents. This is because, overall, new disruptions are blurring the lines of demarcation between industries, which has reduced the importance of some banking in the customers' daily lives. Under these circumstances, traditional banking has lost significance vis-à-vis other forms of financial intermediation and counterparts (FinTechs and BigTechs), that are also well positioned from leveraging the open banking frameworks either they are market or regulatory driven.

Along the many challenges and opportunities for the evolving landscape of banking there are also the emerging phenomena of embedded finance, banking as a service, and decentralized finance that are creating a twisted picture of the digital banking industry. Digitization of products, services, and business processes allow disruptive players to deliver some of the same value a traditional competitor provides and even augment it without having to reproduce the conventional value chain. In fact, that is the objective of digital disruption: to provide superior value to the end customer either a consumer or another business while avoiding the capital investments, regulatory requirements, and other impediments of encumbered incumbents with a new and different business model. This underlines that the evolution of relatively inexpensive platforms, which can disseminate content on a broader level, is making it as valuable as it ever was. And this happens against any idea of an increased commodized financial range of services. The big difference between the evolution of Internet during the 90's and the digital transformation, at present, regards the fact that digital has been dramatically reshaping how people bank since the evolution of mobile has entered the market, and where software and Internet connectivity have become the rules for developing platforms. One more point is worth outlining and this is that the more user friendly features new providers have the more they develop in the market, especially if they can increase interaction and personalization which are demanded by the market. All that is transforming the traditional model of face-to face interaction with important consequences on authentication, assistance, contents to deliver, and a new role on the advice side. It is also true that as products and services become increasingly embedded in customer's experiences, then it is becoming more difficult to disentangle business processes from their underlying IT infrastructures.

BigTechs pose a significant competitive challenge to banks. Measured by market capitalization, the major BigTech companies are larger than the largest banks; BigTech has plentiful financial resources, access to low-cost funds, and brands which are recognized by very large customer bases (FSB, 2019). However, banks still have a better reputation in terms of data security, as most people would entrust their banking data to a bank rather than to some BigTechs. Overall, banks need to transform themselves extensively. To match the BigTech capacity, they will need to bundle and cross-subsidize products as well as provide complimentary financial and non-financial products. Based on the above, we can highlight the enlarging distance between banking, which is not in search of relevance in the economy, and banks that still play an important role in it (such as granting payments, lending, and supplying other financial services), but they need to regain their centrality in their customers' lives.

Given all that above bank management is not a one size fits all business models, and banking (namely retail banking) is a business with a global service proposition and regional models for delivery. But the essence of this approach is the notion that in place of traditional savings and loans, customers should be provided with integrated instruments and integrated pricing, supported by integrated information. Moreover, retail banking is going to be a market of many niches, where customers may jump from one to another. The challenge for the players, now, is to keep the entire 'customer game' inside each one's business strategy. The oncoming scenarios, that could be many because of combining incumbents, BigTechs and FinTechs, could go from the imperfect oligopoly, now seen in many countries to another type of imperfect oligopoly with some dominant platforms in the market. This may be true, because it can be a matter of timing and size for both FinTech startups or Big Tech companies having an exponential capacity to go from "too small to care" to "too big to fail", and this is exactly where regulators or social competition authorities have to look on a more granular level to supervise the industry.

At this stage there are some concerns and warnings. It can be outlined that the case of open banking operations lies particularly around the integrity of the process and traceability of transactions due to liability. On top of this, there is also the price discrimination that may become a major issue because of platforms, big techs and intelligent players can price discriminate extremely well. All of this requires higher standards of consumer protection. In this regard, the number of regulated entities may have a role regarding data ownership and portability as well as interoperability of platforms, that will be keys in determining the degree of competition in the future. Market fragmentation and impediment of international operations are also possible, because of different asymmetries and treatments in everything from data protection regimes to liability rules among countries. The game of competition is still in its early stage, and this means that major changes are still possible and counteracts from different players and stakeholders can still be planned and made.

Acknowledgement

None.

Conflict of Interest

There are no conflicts of interest.