

# Ecosystems: Blurring inter- sectoral lines to capture value

December 2023



# Foreword

Dear readers,

It is my pleasure to bring to you the latest edition of our newsletter.

In this edition, we have discussed our viewpoint on communities, ecosystems and how financial institutions can tap into the same.

I hope you find this newsletter to be a useful and insightful read.

For further details or feedback, please write to:

[vivek.belgavi@pwc.com](mailto:vivek.belgavi@pwc.com) or [mihir.gandhi@pwc.com](mailto:mihir.gandhi@pwc.com)

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# Introduction

Financial institutions (FIs) can identify a favourable ecosystem or capacity bottlenecks that may become an important source of value. Financial services, such as payments or collections, act as a hook for FIs to create cohesive relationships between stakeholders and help overcome kinks which exist in the business. However, the participation of stakeholders in the ecosystem ultimately helps create long-term value.

## A Leveraging communities to create ecosystems

Traditionally, organisations have always had a one-to-one relationship with each of their key providers, granting them limited synergy in the overall value chain. Over time, this has evolved to create a cohort of players with shared interests, goals and values to build business communities.

An 'ecosystem' is a congregation of these uniquely positioned players or communities, creating an interconnected offering that shares mutual value creation.

While communities are meant to encourage mutual support and knowledge sharing, ecosystems are tasked with fostering an interdependent relationship between communities and stakeholders with the goal to serve a mutually beneficial purpose for the community and its customers. Such relationships result in:

- streamlining operations and bringing in best practices
- reducing cost
- improving overall efficiency.



## B Blurring inter-sectoral lines to create beneficial synergies

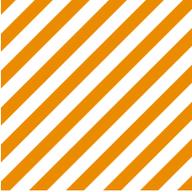
The creation of long-term value and synergies are the core drivers for any organisation to engage in an ecosystem. However, a hurdle most institutions and organisations must confront is the siloed infrastructure present across the ecosystem.

FIs are in a unique position to integrate these siloed infrastructures by creating a proposition that can help lead the way for better integration within the ecosystem, thereby amplifying both value creation and overall profitability.

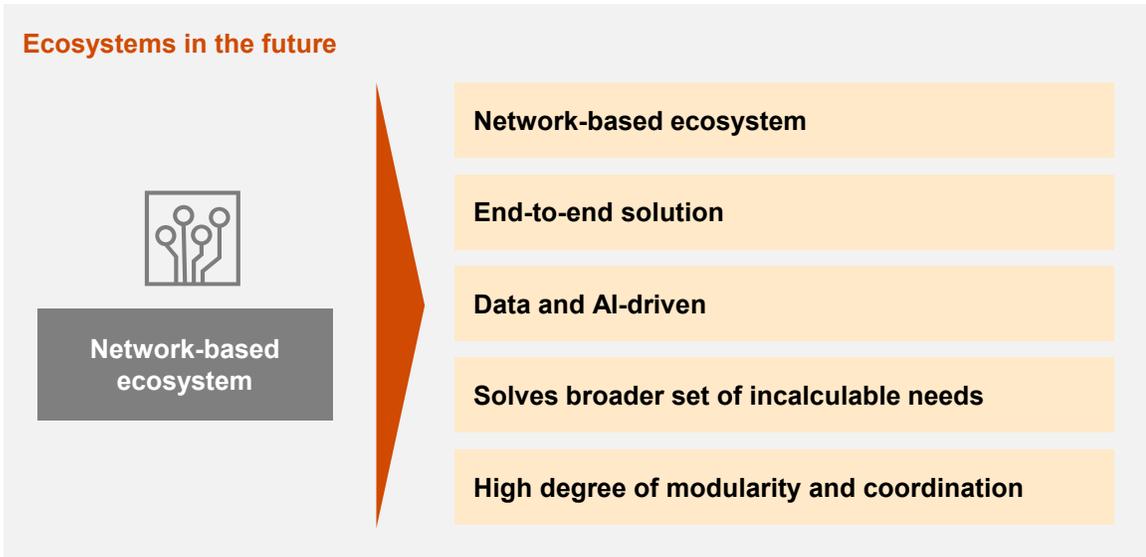
While typical FI products such as lending and wealth management are common areas of interest for most communities, payments and collections help integrate all FS needs seamlessly. Since ecosystems are contractual arrangements, an effective payments and collections orchestration helps all the participants to maintain modularity and coordination. Moreover, delivering the right payments experience to every stakeholder helps innovate newer business models.

For example, the mobility sector has benefited greatly through the enablement of payments in its platform-based ecosystem.

**Cab aggregators** have created the ideal technologically enabled platform which disrupted the otherwise unorganised sector. Though cash was the dominant form of payment on these platforms, embedding digital payments through integrated wallets and other instruments has helped drive up user loyalty and reduced typical points of friction. However, limiting factors such as the ability to build, support and maintain such complex integrations can cause roadblocks in the ecosystem roadmap.



## C Platform-based ecosystems: The way forward for FIs



There has been an increased focus on platform-based solutions for communities and ecosystems. Therefore, it is expected that the next decade would decide the fate of many FIs, as they embody this new era of value creation.

A platform-based ecosystem integrates stakeholders of communities – enabling them to collaborate, create and add value. Direct network effects further add to value creation, as more participants join the platform. Additionally, data plays an important role here to customise, personalise and enhance platform services.

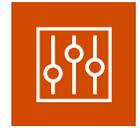
Scalability is also positively reinforced in platform-based ecosystems through lesser physical constraints, which communities and stakeholders would otherwise face.

## D How do FIs consider an ecosystem strategy and capture value?

The complexity of business ecosystems can often create challenges for FIs to decide on the right ecosystem strategy. Considering the nature, business and role played within ecosystems, FIs can essentially think of acting as one of the following:



**Playing the facilitator**



**Leveraging adjacencies**



**Supporting as a partner**

- **Playing the facilitator:** FIs can act as the facilitators of the ecosystem by leveraging core business activities. This would entail:
  - creating and maintaining multiple partnerships across various ecosystem legs to offer embedded banking products
  - getting as many players as possible onboarded, while increasing interaction on terms laid down by the FI (facilitator)
  - being mindful towards proper governance while playing the role of a facilitator.

**A leading non-banking financial company (NBFC)** in India recently launched a comprehensive digital platform for the micro, small and medium enterprise (MSME) ecosystem, offering not only core lending solutions through its integrations but also catering to non-FS needs of each stakeholder through alliances (educational, insurance, investments, accounting, access to e-commerce portals etc).

- **Leveraging adjacencies:** This model entails deep-diving into a specific focused sector and identifying the adjacencies which can be leveraged in order to offer bundled solutions.
  - FIs can leverage the access to diversified customers (existing and new) and create value through customised and new offerings.

**A leading Indian bank** created a platform-based end-to-end solution in the education ecosystem for students pursuing higher education in India and abroad.

- **Supporting as a partner:** FIs can help capture value in ecosystems in several ways even when they are not managed by them.
  - This model is especially helpful when FIs want to explore ecosystems with reduced risks and challenges. Here, FIs can leverage their position as partners offering financial capital and services to access newer markets or customers and grow their business.

**A leading general insurance** company partnered with a FinTech company (which offers digital payments financial services to small merchants and kirana stores) to offer their customised insurance products.

FIs could leverage an ecosystem platform approach to capitalise on aggregating large and varied customer bases of ecosystem digitisers. By doing so, they can identify new revenue opportunities through embedded FS offerings, contextual product injection and service provider partnerships.

However, FIs must be mindful of embedding themselves in an ecosystem strategy that would benefit all stakeholders. This is difficult when established partnership models have a 'gravity' of their own, and FIs have inherited routines that served them well in a previous era.



# Creating value through ecosystems

A 360-degree perspective is crucial to enhance value for any entity. FIs developing a platform ecosystem which caters to the shared values between stakeholders must consider all perspectives. Therefore, FIs need to leverage this value system in order to drive ecosystems in the industry.

## A What value can ecosystems help create?

The complexity of business ecosystems can often create challenges for FIs and make it difficult for them to decide the right ecosystem strategy. Considering the nature, business and role played within ecosystems, FIs can essentially look at various business models to serve different customer segments or communities:

### B2B

A leading NBFC in India recently launched a comprehensive digital platform for the MSME ecosystem, offering not only core lending solutions through its integrations but also catering to the non-FS needs of each stakeholder through multiple alliances such as insurance, investments, accounting, access to e-commerce portals, compliance etc.

### B2C

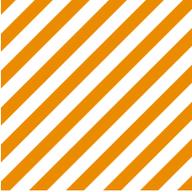
One of the top banks in India has created a platform-based, co-branded home buyer ecosystem solution that captures the entire journey providing customers with a seamless option for purchasing homes – from house search to finalisation, including financing it and taking care of décor, logistics etc.

### B2B2C

FinTechs have created a platform with an end-to-end solution for students and educational institutes for admission, collection of fees while additionally tying up with banks and NBFCs to provide a loan option.

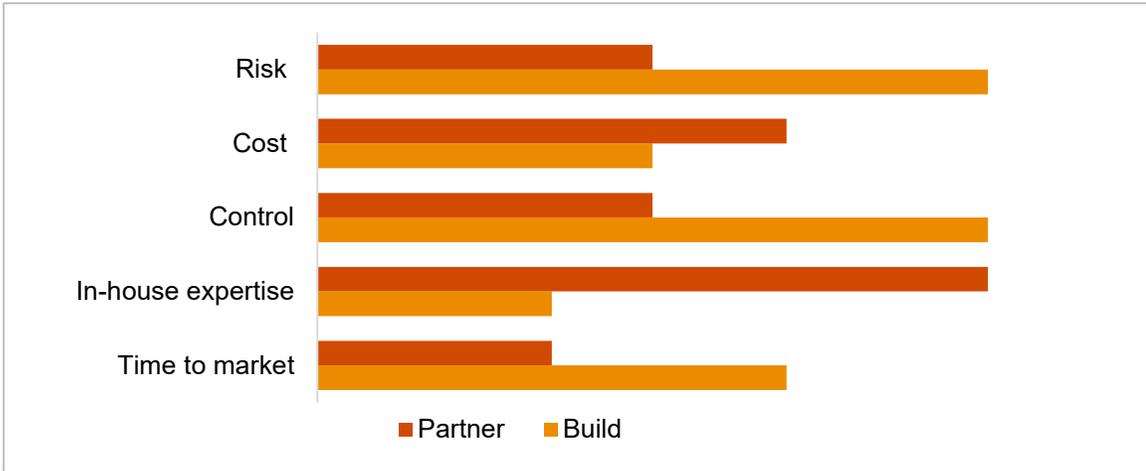
### B2G

Many banks have tied up with new-age FinTechs to create a platform which helps businesses in making seamless payments and reconciliations of GST to the Government.



## B Building or partnering up for a platform

Building a platform versus partnering up for it will always be a key decision for any FI while considering an ecosystem strategy. The key parameters for this consideration are shown below:



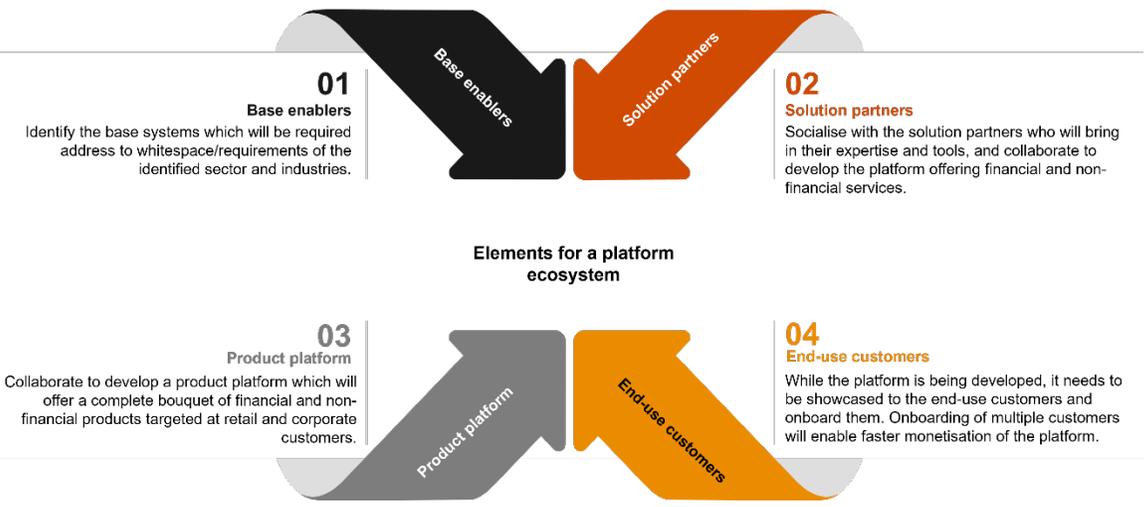
**Other key considerations**

- ▶ Goals
- ▶ Compliance
- ▶ Data security
- ▶ Profit sharing

Considering the above, a hybrid approach may be more favourable and balanced wherein core critical systems may be built, and partnerships may be formed with FinTechs or other providers for specialised services.

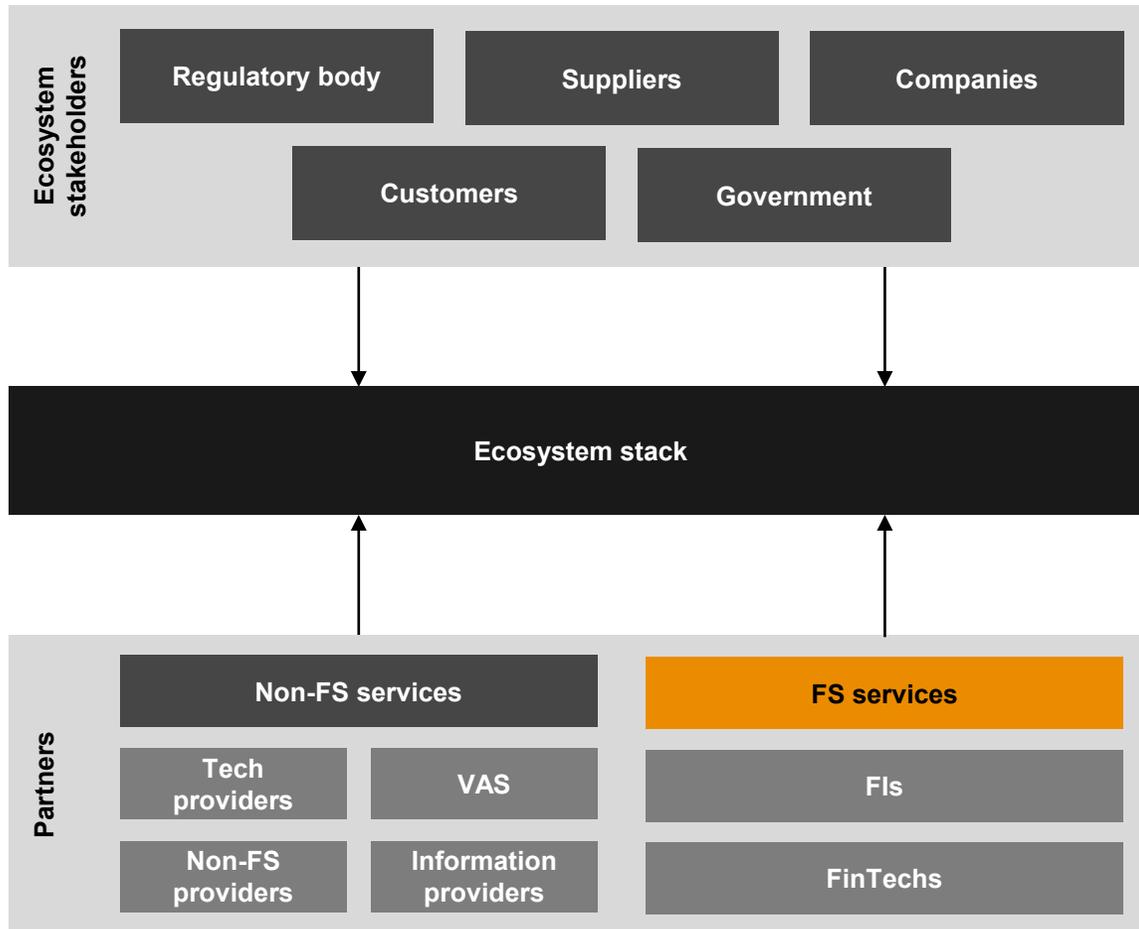
## C Developing a platform ecosystem

The proposed technology stack for the ecosystem should be a mutual platform which can facilitate integration with multiple service providers to meet the ecosystem’s needs. Furthermore, the offerings can be a combination of free and paid services, aligned to beneficiary needs, in order to drive platform adoption and organic growth. The platform would also cater to both financial and non-financial needs of participating stakeholders.



However, it is imperative that the platform:

- is an open-source platform to facilitate integration with varied services
- has intuitive and clean UX/UI to facilitate end user adoption and consumption
- is focused on free core services to drive consumption
- is able to facilitate data capture securely for users or developers
- is able to scale and expand as per the ecosystem adoption.



While ecosystems may provide better outcomes for communities with respect to a more traditional approach, factors such as changing supply chains or even understanding incentivised solutions for all stakeholders are important in order to ensure adoption of the ecosystem platform.

## A leading Indian bank's foray into MSME services

### The challenge



A leading Indian bank wanted to deepen its reach within the MSME space (both ETB and NTB)

### Stakeholder FS needs



- Seamless banking solution
- Credit
- Payments collection, GST payments
- Trade credit, LoC etc.

### Stakeholder non-FS needs

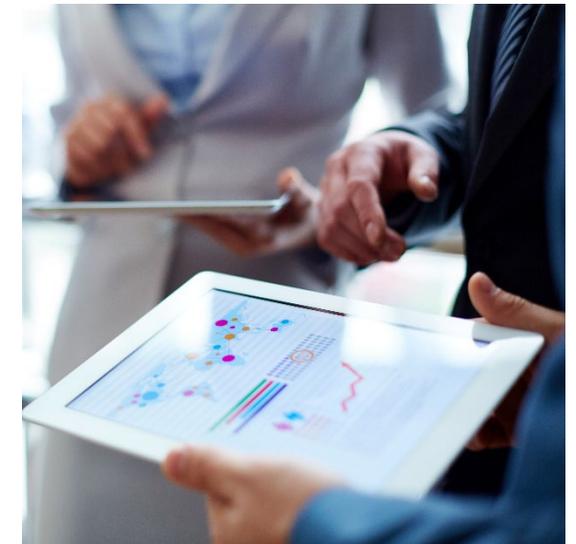


- Reconciliation
- Accounting
- Advisory
- Compliance, registration etc.

### Solution



- The bank launched a comprehensive digital solution with an open architecture which had a bundled banking solution for the MSME ecosystem stakeholders.
- The MSMEs, while having the benefit on availing credit and overdraft facility, could also cater to other non-FS needs through multiple partnerships for accounting, tax and compliance management, business listing, business communication etc.



# Conclusion

Ecosystems develop in virtuous cycles through network effects. By offering products and services that individual companies could not create on their own, ecosystems draw in a larger number of customers, which creates even more data, that can be leveraged using new-age technologies.

Due to this, FIs may stand to gain by having a focused approach and offering their products/services to customers across the value chain of their offerings. Some of the key benefits to FIs include:

- increased access for existing products and services
- protecting their core businesses and ringfencing their customers
- launch of new products and offerings outside core businesses, thus resulting in increased revenue pools
- leveraging complementary organisations and partners to strengthen their core offerings.

As ecosystems bridge openings along the value chain, they create a customer-centric, unified value proposition in which users can enjoy an end-to-end experience for a wide range of products and services through a single access gateway. This process would also benefit customers when it comes to costs, which would significantly decrease, and also engage them through new experiences, thus enabling them to opt for such a platform repeatedly.

# Authors

Prithwish Sinha, Vasundhara Kulshrestha, Shamik Bandopadhyay and Pragya Kumari

# Contributor

Mayur Varandani

# Contact us

## Vivek Belgavi

FinTech and Alliances Leader  
PwC India

[vivek.belgavi@pwc.com](mailto:vivek.belgavi@pwc.com)

## Zubin Tafti

Executive Director, Payments Transformation  
PwC India

[zubin.tafti@pwc.com](mailto:zubin.tafti@pwc.com)

Ecosystems: Blurring inter-sectoral lines to capture value  
PwC

## Mihir Gandhi

Partner and Leader, Payments Transformation  
PwC India

[mihir.gandhi@pwc.com](mailto:mihir.gandhi@pwc.com)

## Geetika Raheja

Executive Director, Payments Transformation  
PwC India

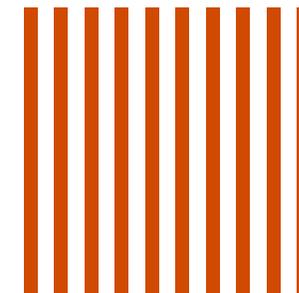
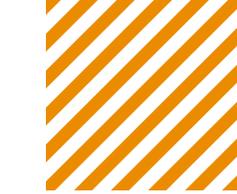
[geetika.raheja@pwc.com](mailto:geetika.raheja@pwc.com)

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