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| **Appendix A: ASSIGNMENT COVER SHEET**  **Description: Z:\Rakhee\Work\Logo\LOGO'S\REGENT Business School.jpg** | |
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I PHILLIP MANDLA\_MTOMBENI ID/Passport No. 8012145460082 hereby confirm that the assignment submitted herein is my own original work.

Date: 14 April2020

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Question 1.1

This section discusses SWOT analysis of challenger bank and a traditional bank which is TymeBank and FirstRand (FNB)

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| STRENGTH  In the past few months, three new banks have launched with a leaner, cheaper business model that will change the face of SA banking — Discovery Bank, TymeBank and Bank Zero.  But these three new banks are backed by formidable business personalities with deep pockets.  Tyme Bank is controlled by African Rainbow Capital (ARC), an investment company controlled by the eclectic Ubuntu-Botho group headed by Patrice Motsepe. As the Forbes rich list has it, Motsepe is one of the 1,000 wealthiest individuals in the world, with a fortune of $2.4bn. Before it was bought by Motsepe’s company, TymeBank was owned by the Commonwealth Bank of Australia (CBA), one of the world’s top 10 retail banks.  As for Bank Zero, the most entrepreneurially based of the three, it shows how far the Reserve Bank has come that it got the green light. Bank Zero is run by a maverick group of former FNB executives, most of them with strong technology backgrounds, with a few family and friends as shareholders. The chair and figurehead is the former FNB boss Michael Jordaan, based in Stellenbosch.  Somewhat ironically, Jordaan is Motsepe’s partner in the data-only telecom network Rain.  The Bank Zero CEO, Yatin Narsai (former head of FNB retail), runs the business day-to-day from Bryanston.  Low fees will become the new normal and I hope that penalty fees will disappear altogether,which is introduced by TymeBank  And yet the big four still have 83% of all bank deposits in the country and 92% of all mortgages, which shows how concentrated the market still is.  **Discovery, TymeBank and Bank Zero** are pursuing a branchless model, with their apps being their shop window.  Botha says Standard’s natural market share has fallen thanks to the success of Capitec and FNB, in different parts of its client base.  TymeBank chair Coen Jonker tells the *FM*: "The banks have done their best to protect their legacy income streams for years.  The big four banks have long operated as if they were an informal cartel.  As many of Capitec’s transactional clients earn interest of 5% on their deposits, they often get more money coming in than they pay in fees. These new banks would appear, in part, to be targeting that market.  Tyme will have 750 points of sale through Pick n Pay and Boxer stores. This gives it reach into the main urban areas, as well as the rural areas where few banking services are typically available.  Most transactions are free if carried out at Pick n Pay or Boxer, and cost only R2 if done elsewhere, and the bank pays up to 10% interest on positive balances. TymeBank has such low costs because it is cloud-based and highly scalable, and has minimised the bells and whistles.  Incredibly, there are just 125 staff keeping the bank running. Clients can join through the TymeBank website, but by far the most popular recruitment tool has been self-service kiosks, which provide a new card within five minutes.  TymeBank, he says, will ride the wave away from cash transactions to digital payments. "We expect the amount of cash in the system to be cut back by two-thirds over the next three years. Increasingly shareholders in the Ubuntu-Botho group find carrying cash dangerous. We were able to issue 1-million cards to members of the Zion Christian Church to facilitate cashless transactions," he says.  For now though, Pick n Pay stores are more than happy to offer excess cash to TymeBank customers at no charge. The retailer’s deputy CEO, Richard van Rensburg, says Capitec also recommends its customers draw money at Pick n Pay tills because it is far cheaper than using an ATM.  And a central feature of TymeBank is its access to the information gathered by Pick n Pay on the 11-million members of its Smart Shopper programme, which provides rewards points on all purchases, not just at Pick n Pay. And unlike Discovery, that benefit is not confined to healthy foods. In a much less judgmental way, all purchases qualify.  Whereas TymeBank has developed products exclusively for digital clients. He says he would not try to set up a bank as a subsidiary of a retailer again, but an alliance between a retailer and a bank makes sense.  Narsai, as head of FNB retail, is even more deeply entrenched in IT than Jordaan. "I am impressed that TymeBank has signed up 120,000 customers in a few months," he says. "[It shows] there is pent-up demand for a good-value, no-frills bank account.  Narsai says most banks opt for off-the-shelf IT systems  **For Jordaan, it’s a natural evolution**. Now living in Stellenbosch, he became CEO of FNB when he was just 36, creating an institution that grabbed plaudits as "the world’s most innovative bank" in 2012. The risk and capital requirements are significant.  He says he thrived in the entrepreneurial FirstRand culture fostered by the three founders — GT Ferreira, Laurie Dippenaar and Paul Harris — who embraced start-up ventures such as Discovery and Outsurance.  This inspired him to become a backer of small business.  Jordaan left FNB in 2013, because he says 10 years of commuting from Stellenbosch to Johannesburg was enough. There was no love lost between him and Discovery (another FirstRand subsidiary at the time), which he called the enfant terrible of the group and a disrupter, in the days when that was still a swear word.  But one of the mutual banks benefits of the structure is that it allows customers to become shareholders.  To date FNB has been the leading bank for innovative features, such as registering as a customer using a selfie from your phone.  Gore says Discovery could not opt for a simpler cloud-based solution, as Tyme Bank has done.  This suggests it will take longer for Gore’s bank to make a profit than either of its more nimble competitors, Bank Zero and TymeBank, and the marketing spend will be higher.  At least, in most cases, the big four banks still own the relationship with the customer and can persuade them to stay.  Botha says they can be expected to increase their credit spreads on loans to make up for the lost fee income. Capitec is likely to be the least affected, says Chetty, given that it already has a competitive current account with low fees.  Three new banks are set to change the face of SA banking with a leaner, cheaper business model.  But the fact that TymeBank already has 120,000 clients is evidence that perhaps the time is now right.  While there’s electricity in the air in the banking sector for the first time in years, it won’t be a one-way bet.    While Bank Zero is entirely app based, Tyme at least enjoys some advertising through its black and yellow machines at Pick n Pay stores, and has started flighting prime-time TV adverts to lure clients.  Still, it’s clear that Discovery Bank won’t be matching the costs of TymeBank and Bank Zero item-for-item, at least for the average client.  Gore says banks operate on three legs: fees, interest and rewards. Some banks (like Capitec and the other newcomers) will offer competitive fees and attractive interest on accounts but no rewards programme; while the large banks pay little or no interest on current accounts but have decent rewards programmes.  The three new banks are not just aiming for the tech-savvy. TymeBank’s former parent, CBA, has a larger market cap than the entire SA banking sector, though it took a softly-softly approach to the new bank. Even before Tyme was registered, it offered money transfer services from Pick n Pay.  It is almost an accident that Motsepe’s ARC took full control of the bank after CBA pulled out suddenly to retreat to its home market and cut exposure to emerging markets, opportunity for TymeBank.  Johan van Zyl, the co-CEO of ARC (and chair of Sanlam) says he was pleased CBA was the controlling shareholder while the bank was being registered because it is a bureaucratic, by-the-book organisation with huge experience of banking regulation.  **For Jordaan, it’s a natural evolution**. Now living in Stellenbosch, he became CEO of FNB when he was just 36, creating an institution that grabbed plaudits as "the world’s most innovative bank" in 2012.  The big four banks have long operated as if they were  an informal cartel FNB is one of them. | WEAKNESS  For two decades, SA’s banking sector has remained  largely the same  Banking changed even more slowly. More than 25 years after the  launch of the internet, most banks still distribute a large portion of their products through a branch network. These branches will still be perfectly  recognisable to anyone visiting SA for the first time in 30 years,  FNB owns some of these  branches.  Discussing the rationale for the bank in an interview with the *FM*,  Narsai says SA ranks among the five countries with the highest  bank fees in the world. "This is intolerable in such an unequal  society, but then the rest of the bottom five were similarly  unequal countries in Latin America," he says.  Harry Botha, a banks analyst at Avior Capital, says it could take  three to five years for the challenger banks to make material  inroads into the large banks’ earnings.  However, Chetty says clients who have a loan with Capitec are  unlikely to move their transactional accounts to the new banks  in a hurry.  "Banking will never be free," says Capitec CEO Gerrie Fourie in  an interview with the *FM*.  Though Tyme doesn’t have any of its own branches.  Boxer customers are more likely to be unbanked, so could prove  the most fertile hunting ground for Tyme.  Capitec’s Fourie warns, however, that while new fintech  technology providers might be adding value, they fall short on  wo issues — handling volume and maintaining security a  weakness for Tymebank  Mutual banks might have a bad name after the collapse of  VBS last year under a mountain of fraud.  This network of brokers and agents is something that  TymeBank and Bank Zero don’t have.  At the moment, Capitec has 840 branches, though many are  smaller than those of the big banks. The branches have proven  invaluable as the predominant sales point for the  half-a-million Sanlam funeral policies sold through Capitec over  the past year, FNB must also reduce branches  Already they’re scrambling, introducing innovations like joining  up with just a selfie. But they may have left it too late to ride  the tsunami of change.  Avior’s Botha says SA is still a long way from a zero-fee  banking regime, even among the new entrants. But fixed monthly  fees and charges for electronic transactions could come to an end  sooner rather than later.  Bank Zero and TymeBank, and the marketing spend will be higher.  Harry Botha, a banks analyst at Avior Capital, says it could take  three to five years for the challenger banks to make material  inroads into the large banks’ earnings.  This means there are now 8 million more credit-active consumers  than employed people — a big riskto society. |
| **OPPORTUNITIES**  CEO Sandile Shabalala says the bank will start offering loans next year. It plans to offer keener lending rates because, like Capitec, it will be able to cross-subsidise its transaction and deposit books from its loan income. The tipping point for Tyme, at which it becomes profitable, is 2-million customers and 700,000 loans.  Though price alone might not be enough to propel the new banks into profit, they are launching at a time of considerable unhappiness over bank fees. It is easier than ever, through apps, to compare fees.  Customers were desperate for something different; this is an opportunity that Tymebank can use.  Standard Bank CEO Sim Tshabalala called it "realigning the retail and business banking model to the changing needs of customers". And, of course, the convenience of digital banking makes so much more sense than travelling to a branch and queuing.  "We would like to bring in an equity partner as we prefer to hold minority positions in companies, not the 73% we currently hold, but it is not an imperative," he says. | **THREATS**  No-one can ignore the competitive threat of cheap banking this is  a threat to FNB.  Now, three new banks — all backed by powerful SA  business personalities — are opening their digital doors,  offering something entirely different. So what can they offer  that’s new, and how much of a threat is this for the ‘big four’  banks?  None of the big banks will rock the boat; they want to protect  their collective income. That era has come to an end  The question, however, is what the existing big four banks — FNB  , Standard Bank, Absa and Nedbank — will do to counter the  threat. "The big banks ignored Capitec in the early 2000s," says  Louis Chetty, head of financials at Stanlib, "and lost considerable  market share. I am sure they will not make the same mistake again.  The transactional fees on simply taking money in and out of  accounts is the hardest to justify” FNB is one of the banks. As  new banks we won’t have that legacy to defend."  But fixed monthly fees and charges for electronic transactions could come to an end sooner rather than later.  This means it will be the big four who will bear the brunt of the industry disruption.  Says Botha: "The big banks will cut fees, but only gradually —  they need to cut costs first before they can afford to do so  Until now, none of the large banks has been prepared to  jeopardise their lucrative income stream from transactional  fees with a price war. But now they will have no choice, threat  to FNB.  Van Zyl says the Reserve Bank does not want TymeBank to  become a Sanlam group company as it wants to keep banks  and insurers as separate as possible.  . |

Yes, I agree, the case study shows that the big four banks have long operated as if they were an informal association, this is true the case study states that: South Africa’s banking sector is dominated by its big four banks. Together they share almost 95% of the assets in this mature market, in which up to 80% of customers are already banked. For two decades, SA’s banking sector has remained largely the same. The advent of Capitec, in 2001, showed that customers were desperate for something different. Now, three new banks — all backed by powerful SA business personalities — are opening their digital doors, offering something entirely different. So what can they offer that’s new, and how much of a threat is this for the ‘big four’ banks?

Financial services used to change slowly. Twenty years after Douw Steyn launched the direct-to-consumer insurer Auto & General in 1985, insurance was still largely sold through brokers, and index funds still accounted for a tiny portion of investment assets. As a result, investment in digital service innovation and customer solutions has so far been slow and focused on targeted back-office processes, only recently ramping up more widely in response to low customer satisfaction with banks’ services and accessibility. Banking changed even more slowly. More than 25 years after the launch of the internet, most banks still distribute a large portion of their products through a branch network. These branches will still be perfectly recognisable to anyone visiting SA for the first time in 30 years. None of the big banks will rock the boat; they want to protect their collective income. That era has come to an end. In the past few months, three new banks have launched with a leaner, cheaper business model that will change the face of SA banking — Discovery Bank, TymeBank and Bank Zero. Incumbent banks have focused on customer-value propositions and pricing as their main growth drivers in recent years. However, new entrants such as Discovery Bank, Tyme Bank and Bank Zero are set up to challenge the status quo with innovative servicing and lower-priced banking.

The idea of going “greenfield”, at a bank, segment or even product level, is an easy one to dismiss. In the past, banks took years to set up and decades to build up a customer base: but not any more as recent history shows, especially if you are already a bank.

It’s been a long time coming. After Saambou and Fidelity Bank collapsed in the early 2000s, the SA Reserve Bank was for a long time reluctant to let new banks open. Discussing the rationale for the bank in an interview with the *FM*, Narsai says SA ranks among the five countries with the highest bank fees in the world. "This is intolerable in such an unequal society, but then the rest of the bottom five were similarly unequal countries in Latin America," he says. No-one can ignore the competitive threat of cheap banking. Narsai says he personally will save R2 000 a month from his personal and business accounts, when Bank Zero goes live and he can move accounts. "

Low fees will become the new normal and I hope that penalty fees will disappear altogether," he says.

Capitec has more than 10-million customers, who will have been enticed, in part, by the much lower cost of banking. And yet the big four still have 83% of all bank deposits in the country and 92% of all mortgages, which shows how concentrated the market still is. Harry Botha, a banks analyst at Avior Capital, says it could take three to five years for the challenger banks to make material inroads into the large banks’ earnings. Harry Botha, a banks analyst at Avior Capital, says it could take three to five years for the challenger banks to make material inroads into the large banks’ earnings. But, globally, this is the trend. No-one should have been surprised by Standard Bank’s announcement two weeks ago that it was closing up to 15% of its branch network — or 91 branches. Botha says Standard’s natural market share has fallen thanks to the success of Capitec and FNB, in different parts of its client base.

Standard Bank CEO Sim Tshabalala called it "realigning the retail and business banking model to the changing needs of customers". And, of course, the convenience of digital banking makes so much more sense than travelling to a branch and queuing. TymeBank chair Coen Jonker tells the *FM*: "The banks have done their best to protect their legacy income streams for years, and the transactional fees on simply taking money in and out of accounts is the hardest to justify. As new banks we won’t have that legacy to defend." The big four banks have long operated as if they were an informal cartel. Even the one entrant in the past 20 years to grow to large-bank status, Capitec, has adopted a traditional branch-based distribution model. At the moment, Capitec has 840 branches, though many are smaller than those of the big banks. The branches have proven invaluable as the predominant sales point for the half-a-million Sanlam funeral policies sold through Capitec over the past year. Avior’s Botha says SA is still a long way from a zero-fee banking regime, even among the new entrants. But fixed monthly fees and charges for electronic transactions could come to an end sooner rather than later. Discovery Bank will charge both sets of fees — at least for now. Gore says banks operate on three legs: fees, interest and rewards. Some banks (like Capitec and the other newcomers) will offer competitive fees and attractive interest on accounts but no rewards programme; while the large banks pay little or no interest on current accounts but have decent rewards programmes.

Gore says Discovery will not attempt to beat the market on fees, for a combined current account and credit card. You might have expected Pick n Pay to have cold feet after the failure of its Go Banking venture with Nedbank in the mid-2000s. But Van Rensburg argues that Go Banking offered similar services to Nedbank, whereas TymeBank has developed products exclusively for digital clients. He says he would not try to set up a bank as a subsidiary of a retailer again, but an alliance between a retailer and a bank makes sense. Pick n Pay CEO Richard Brasher is also the founder of Tesco Bank, which is owned by the UK’s largest supermarket chain. Narsai says most banks opt for off-the-shelf IT systems, where both the risk and capital requirements are significant. Bank IT managers naturally gravitate towards packages conforming to past norms, which tend to create a "me too" starting point.

To date FNB has been the leading bank for innovative features, such as registering as a customer using a selfie from your phone. Hore insists you don’t have to be a gym bunny to get a good deal from the bank — people with no other Discovery product still get a 25% discount on fuel and healthy food. But these are the frills. Discovery has not yet revealed how it plans to recoup the considerable start-up costs. It has spent close to R4.5bn between developing the bank systems (which, like those of Standard Bank, are based on SAP products) and buying back the Discovery credit card from FNB. Gore challenges the view, expressed by FirstRand CEO Alan Pullinger recently, that SA’s banks already use a behavioural approach to assess the quality of their clients when it comes to risk. "We don’t agree," says Gore. Most banks reward clients for taking out more products, which specifically increases their debt and credit levels, he says. This means there are now 8-million more credit-active consumers than employed people — a big risk to society. "We don’t push products, but encourage [customers] to follow key behaviour to secure financial health. Hore says it will set personalised goals based on an individual’s circumstances, and will have a wider product range on day one than its rivals.

Three new banks are set to change the face of SA banking with a leaner, cheaper business model .Back then, there were fewer smartphones (it was the age of BlackBerry) and the environment wasn’t inherently as friendly for digital products as it is today. 20Twenty, for example, operated largely through a call centre, and the customer experience was often indifferent. Until now, none of the large banks has been prepared to jeopardise their lucrative income stream from transactional fees with a price war. But now they will have no choice. Says Botha: "The big banks will cut fees, but only gradually — they need to cut costs first before they can afford to do so. "At least, in most cases, the big four banks still own the relationship with the customer and can persuade them to stay. Botha says they can be expected to increase their credit spreads on loans to make up for the lost fee income. Capitec is likely to be the least affected, says Chetty, given that it already has a competitive current account with low fees. Says Botha: "The big banks will cut fees, but only gradually — they need to cut costs first before they can afford to do so. " At least, in most cases, the big four banks still own the relationship with the customer and can persuade them to stay. Botha says they can be expected to increase their credit spreads on loans to make up for the lost fee income. Capitec is likely to be the least affected, says Chetty, given that it already has a competitive current account with low fees.

This means it will be the big four who will bear the brunt of the industry disruption. Already they’re scrambling, introducing innovations like joining up with just a selfie. But they may have left it too late to ride the tsunami of change. Traditional banks that will survive are those that will successfully integrate the new technologies with innovative servicing and lower fees.

Only Investec has operated without branches and all the big four banks are having branches across the country — but to a narrow spectrum of high net worth clients. Interestingly, Capitec is the only bank that is actually increasing its branch footprint, even though 2.2-million clients have migrated to the app and 4-million to the USSD (SMS-based) transactional platform. At the moment, Capitec has 840 branches, though many are smaller than those of the big banks.

This means it will be the big four who will bear the brunt of the industry disruption. Already they’re scrambling, introducing innovations like joining up with just a selfie. But they may have left it too late to ride the tsunami of change. The question, however, is what the existing big four banks — FNB, Standard Bank, Absa and Nedbank — will do to counter the threat. "The big banks ignored Capitec in the early 2000s," says Louis Chetty, head of financials at Stanlib, "and lost considerable market share. I am sure they will not make the same mistake again." Traditional banks that will survive are those that will successfully integrate the new technologies with innovative servicing and lower fees.

Question 1.3

1.3 Evaluate the business model of the challenger banks mentioned in the article.

A business model defines the rationale of how a company captures, delivers, and creates

value, in cultural, social, economic , or other contexts. In addition the business model modification and construction process is named business model **innovation** and it is forming a business strategy part.

In practice and theory , the business model term is utilized for a wide range of formal and informal descriptions to indicate the core business aspects, involving trading practices,

sourcing, organizational structures, infrastructure, strategies, offerings,

target customers, business process, purpose, and operational policies and processes involving culture.

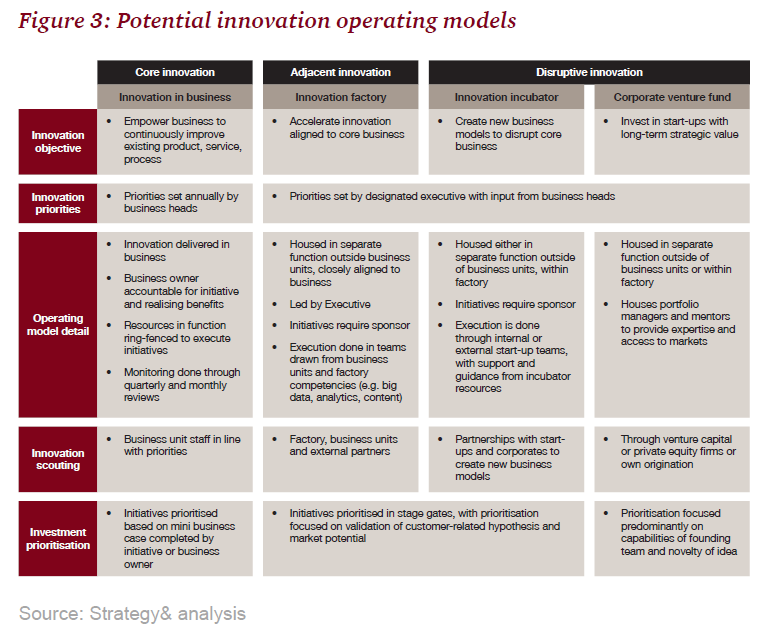
Business models is the design of company’s structures to validate a commercial opportunity. Additional extensions to such design logic highlights the utilization of coherence or narrative in descriptions of business model as mechanisms where entrepreneurs develop extremely successful growth firms.

Business models are utilized to classify and describe businesses, mostly in an entrepreneurial setting, yet in addition they are utilized by managers within organizations in exploring future development possibilities. Business models which is well-known may operate as "recipes" for managers who are creative. Additionally business models are referred to in other instances in the accounting context for public reporting purposes.

Business model includes providing a basic product at a cheap price very low cost, frequently at a loss, therefore one must charge compensatory recurring money for associated services or products, or for refills . Examples involve : digital banking; cell phones  and air time ; cameras  and prints; computer printers  and ink cartridge refills ; and razor  and blades.

*prosper even in tough economic*

*conditions.*

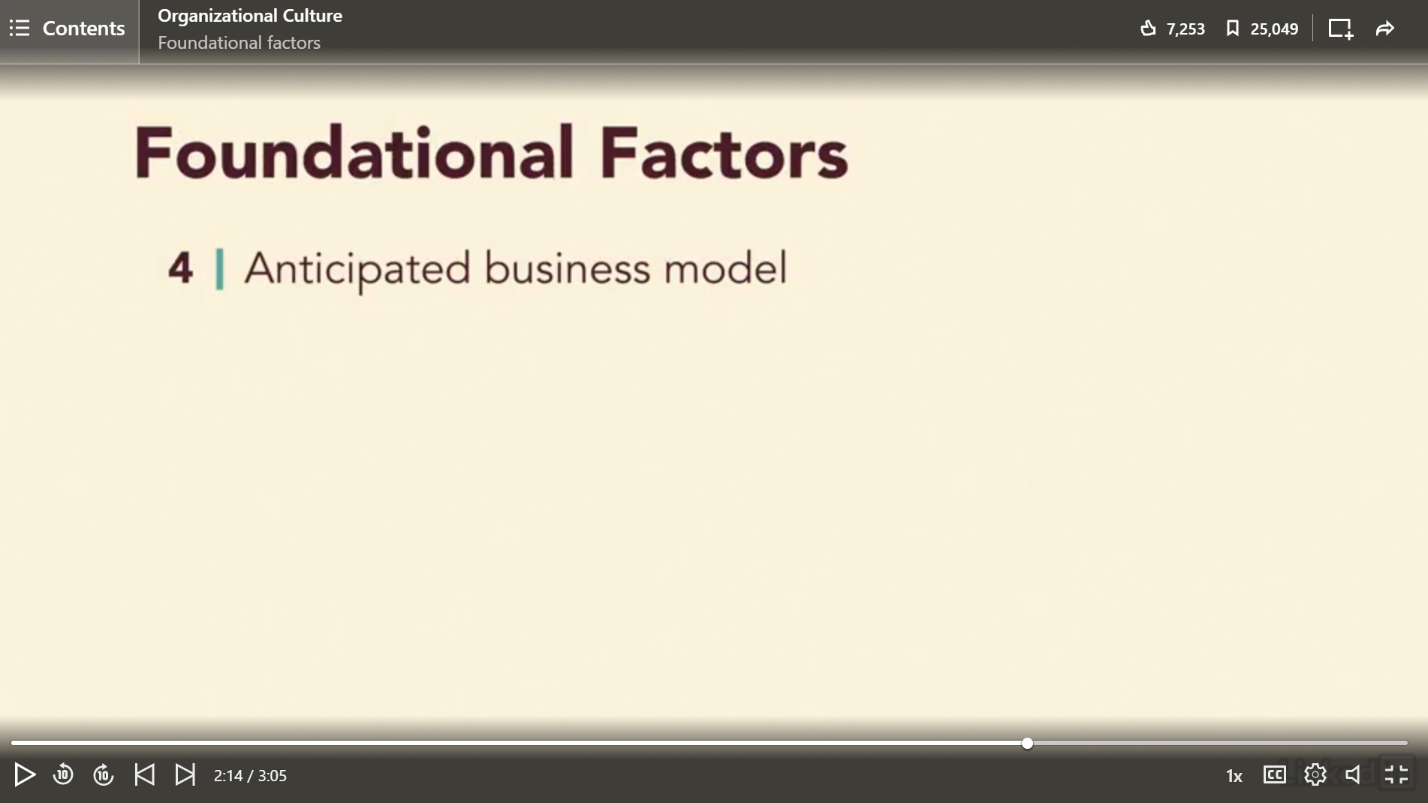












The challenging banks which are Discovery Bank, TymeBank and Bank Zero were innovative by introducing digital disruption and this results to low banking fees and some are using clouds.

Our recent experience and that of new digital players shows that though launching a digital greenfield would have been difficult just a few years ago, it is now feasible in under 12 months and at a reasonable cost.

Bank Zero as one of the challenger banks is intending to create a niche offering. Its mutual bank business model is aiming to appeal to digital communities, by tapping into groups of like-minded clients that want to take part in the broad benefits of mutual ownership.

As an outcome, investment in customer solutions and digital service innovation has focused on targeted back-office processes, only recently ramping up more widely in response to low customer satisfaction with banks’ services and accessibility.

South Africa is noticing its 1st wave of digital challengers coming into the market, with 3 new banks launching in 2019, these challenger banks bring a differentiated value proposition to customers.

Looking further ahead, mobile operators (Orange, MTN) and Big Tech (Facebook, Whatsapp, Amazon, Alibaba, Apple) entering digital banking across Africa are most likely to adopt ecosystem driver strategies given the breadth and diversity of their customer base.

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Several banks are adopting a wait-and-see approach as they develop their digital capabilities. We believe this approach is driven by five primary reasons:

* The focus on digital remains anchored in filling a short to medium-term capability gap (customer journeys, analytics, process optimisation/automation) vs developing a 5-10 year view of the bank of the future. The current focus translates into the majority of investments and efforts being spent on playing catch-up rather than holistically transforming the bank to thrive in the future.
* The economics of modular core banking solutions may offer an opportunity for IT change and run-cost avoidance but are not yet fully understood by market players. The coming of age of cloud-based pay-as-you-go core banking solutions is opening a more responsive set of technology options. These new “digital by design” operating models that promise to enable attractive less than 30% cost to income ratios merit deeper evaluation.
* Data analytics capabilities are still far away from their full potential in the SA banking sector and are slowing banks’ responses to evolving customer needs and expectations, while also affecting higher-level commercial and operational efficiency. Entering the digital era is not possible without analytical capabilities feeding off a strong, accessible, central data set.

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The challenging banks are charging a small margin for the services, these successful digital banks are able to create a profitable business model, assuming

The first step for the universal banks to compete on an equal footing with fast-paced digital entrants is to develop a clear, enterprise-wide innovation strategy and operating model. We have seen large organisations promoting innovation through a variety of different models, from agile change teams developing core product and process in each business unit, to arms-length incubators and venture funds

FEES

cheap price

very low cost,

And we

are seeing upstarts jumping into the global

payments and foreign exchange sectors,

sidestepping existing costly networks by

leveraging innovations such as digital

currencies.

The case study discusses digital banking business model,a cheaper business model , branchless model ,and cloud banking lets look at these in detail:

Three new banks are set to change the face of SA banking with a leaner, cheaper business model.

Banking changed even more slowly. More than 25 years after the launch of the internet, most banks still distribute a large portion of their products through a branch network. These branches will still be perfectly recognisable to anyone visiting SA for the first time in 30 years. None of the big banks will rock the boat; they want to protect their collective income. That era has come to an end. In the past few months, three new banks have launched with a leaner, cheaper business model that will change the face of SA banking — Discovery Bank, TymeBank and Bank Zero.

**Discovery, TymeBank and Bank Zero** are pursuing a branchless model, with their apps being their shop window. This means SA isn’t far behind the rest of the world: the first app-only current account in the UK was introduced by Starling Bank just two years ago. Perhaps if the Reserve Bank had been more open-minded, SA could have beaten them to the punch.

The case study states that now, three new banks — all backed by powerful SA business personalities — are opening their digital doors, offering something entirely different. So what can they offer that’s new, and how much of a threat is this for the ‘big four’ banks?

Standard Bank CEO Sim Tshabalala called it "realigning the retail and business banking model to the changing needs of customers". And, of course, the convenience of digital banking which is introduced by challenger banks makes so much more sense than travelling to a branch and queuing.

TymeBank as one of the challenger banks , will ride the wave away from cash transactions to digital payments. "We expect the amount of cash in the system to be cut back by two-thirds over the next three years. Increasingly shareholders in the Ubuntu-Botho group find carrying cash dangerous. We were able to issue 1-million cards to members of the Zion Christian Church to facilitate cashless transactions," he says.

You might have expected Pick n Pay to have cold feet after the failure of its Go Banking venture with Nedbank in the mid-2000s. But Van Rensburg argues that Go Banking offered similar services to Nedbank, whereas TymeBank has developed products exclusively for digital clients. He says he would not try to set up a bank as a subsidiary of a retailer again, but an alliance between a retailer and a bank makes sense.

Fees were a big part of this success. Capitec has a nominal monthly fee of R5, with R1 charged for each digital transaction. Cash withdrawals are more expensive at R6 for the first R1 000 at a Capitec ATM, or a flat R1.60 at till points of retailers like Pick n Pay or Shoprite. As many of Capitec’s transactional clients earn interest of 5% on their deposits, they often get more money coming in than they pay in fees.

These new banks would appear, in part, to be targeting that market

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The three new banks are not just aiming for the tech-savvy. TymeBank’s former parent, CBA, has a larger market cap than the entire SA banking sector, though it took a softly-softly approach to the new bank. Even before Tyme was registered, it offered money transfer services from Pick n Pay.

Though Tyme doesn’t have any of its own branches, it will have 750 points of sale through Pick n Pay and Boxer stores. This gives it reach into the main urban areas, as well as the rural areas where few banking services are typically available. Boxer customers are more likely to be unbanked, so could prove the most fertile hunting ground for Tyme.

Most transactions are free if carried out at Pick n Pay or Boxer, and cost only R2 if done elsewhere, and the bank pays up to 10% interest on positive balances. TymeBank has such low costs because it is cloud-based and highly scalable, and has minimised the bells and whistles. Incredibly, there are just 125 staff keeping the bank running. Clients can join through the TymeBank website, but by far the most popular recruitment tool has been self-service kiosks, which provide a new card within five minutes.

CEO Sandile Shabalala says the bank will start offering loans next year. It plans to offer keener lending rates because, like Capitec, it will be able to cross-subsidise its transaction and deposit books from its loan income. The tipping point for Tyme, at which it becomes profitable, is 2-million customers and 700,000 loans.

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As for Bank Zero, the most entrepreneurially based of the three, it shows how far the Reserve Bank has come that it got the green light. Bank Zero is run by a maverick group of former FNB executives, most of them with strong technology backgrounds, with a few family and friends as shareholders. The chair and figurehead is the former FNB boss Michael Jordaan, based in Stellenbosch.

Discussing the rationale for the bank in an interview with the *FM*, Narsai says SA ranks among the five countries with the highest bank fees in the world. "This is intolerable in such an unequal society, but then the rest of the bottom five were similarly unequal countries in Latin America," he says.

No-one can ignore the competitive threat of cheap banking. Narsai says he personally will save R2 000 a month from his personal and business accounts, when Bank Zero goes live and he can move accounts. "Low fees will become the new normal and I hope that penalty fees will disappear altogether," he says.

Jordaan may just be the nonexecutive chair of Bank Zero, but with his deep knowledge of new technologies, the market seems confident that his bank will be impressive from the start.

Narsai, as head of FNB retail, is even more deeply entrenched in IT than Jordaan. "I am impressed that TymeBank has signed up 120,000 customers in a few months," he says. "[It shows] there is pent-up demand for a good-value, no-frills bank account. But we will be offering considerably more sophisticated functionality."

Other FNB renegades at Bank Zero are chief risk officer Lezanne Human (who also moonlights as the informal head of public affairs), and co-founder and CFO Liné Wiid. Bank Zero, as a mutual bank, will focus on deposits and transactional banking and will not offer loans for the foreseeable future.

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TymeBank chair Coen Jonker tells the *FM*: "The banks have done their best to protect their legacy income streams for years, and the transactional fees on simply taking money in and out of accounts is the hardest to justify. As new banks we won’t have that legacy to defend."

The big four banks have long operated as if they were an informal cartel. Even the one entrant in the past 20 years to grow to large-bank status, Capitec, has adopted a traditional branch-based distribution model.

Only Investec has operated without branches — but to a narrow spectrum of high net worth clients. To see what sort of riches are up for grabs, consider Capitec’s trajectory. In its first year on the JSE in 2002, Capitec made revenue of R270m, with just a smattering of clients. By August 2018, it was clocking up R9.3bn in operating income with its 10.5-million customers. Its share price has reacted accordingly: R10 000 invested in the bank at the beginning would now be worth R7.2m

Fees were a big part of this success. Capitec has a nominal monthly fee of R5, with R1 charged for each digital transaction. Cash withdrawals are more expensive at R6 for the first R1 000 at a Capitec ATM, or a flat R1.60 at till points of retailers like Pick n Pay or Shoprite. As many of Capitec’s transactional clients earn interest of 5% on their deposits, they often get more money coming in than they pay in fees.

Discovery Bank’s lower-income clients (those earning less than R300,000 a year) will pay Avior’s Botha says SA is still a long way from a zero-fee banking regime, even among the new entrants. But fixed monthly fees and charges for electronic transactions could come to an end sooner rather than later.

Discovery Bank will charge both sets of fees — at least for now.

Gore says banks operate on three legs: fees, interest and rewards. Some banks (like Capitec and the other newcomers) will offer competitive fees and attractive interest on accounts but no rewards programme; while the large banks pay little or no interest on current accounts but have decent rewards programmes.

Gore says Discovery will not attempt to beat the market on fees, for a combined current account and credit card.

Discovery Bank’s lower-income clients (those earning less than R300,000 a year) will pay between R149 and R186 a month in fees; middle-income customers will pay between R213 and R240; and higher-income clients will pay between R275 and R440. For a pure transactional account the fee will be R60 to R120, but as Discovery has no ATMs, cash withdrawal fees will be higher.

But if it won’t compete on fees, Discovery Bank will be second to none with its Vitality Money rewards programme, and the sophisticated way in which it encourages the right financial behaviour.

Discovery Bank will match Capitec’s 5% interest rate on positive current account, and add an extra 1.5% for those in the top tier of the Vitality programme.

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Narsai promises a "creative" solution for clients who might go modestly into the red. But he also hopes to nurture a savings culture through attractive interest rates. Initially, the team had planned to focus on high-margin areas, particularly remittances from neighbouring countries, but they soon realised they had the capability to launch a full-service bank.

Jordaan tells the *FM* that Bank Zero, launching in the second half of 2019, will make money through the interest it charges, fees on third-party transactions and commissions on prepaid products such as airtime. "But with our low break-even you can expect lots of zeros where other banks charge fees," says Jordaan.

Mark Elliott, president of Mastercard Southern Africa, says he is working with Bank Zero to develop a new kind of card that can deliver better security, which is appropriate for today’s increasingly mobile and digital customers.

Bank Zero also keeps costs down by using the cloud, but the heart of the business will be its IBM LinuxOne enterprise server, which uses (free) open-source software. Perhaps Bank Zero’s most serious competitor, at least in the small to medium business sector, could be Mercantile, once it is revitalised under Capitec’s ownership.

Narsai says most banks opt for off-the-shelf IT systems, where both the risk and capital requirements are significant. Bank IT managers naturally gravitate towards packages conforming to past norms, which tend to create a "me too" starting point.

"We have preferred to build our platform to clearly defined bank specifications. We are very comfortable doing this with our deep expertise. And we can design from the ground up for today’s issues such as regulation and cybercrime," he says.

Capitec’s Fourie warns, however, that while new fintech technology providers might be adding value, they fall short on two issues — handling volume and maintaining security. It’ll be interesting to see how Bank Zero navigates this.

Jordaan says all the Bank Zero shareholders are active as executives or active directors, with skin in the game.

"Without a big corporate shareholder, we can take a much longer-term view," he says. "We have a cohesive strategy to bring significant customer benefits without the pressure to produce short-term profits."

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Mutual banks might have a bad name after the collapse of VBS last year under a mountain of fraud, but one of the benefits of the structure is that it allows customers to become shareholders.

If Bank Zero’s model is simple, Discovery Bank’s is the opposite.

The launch included a 70-page "thought leadership" document with chapters on such warm and fuzzy notions as "shared value", "behaviour change" and "people-centric" design. Still, Discovery Bank’s CEO, Barry Hore, promises that the app will be simple to use, once clients get used to it. "It is multifunctional, a bank branch in the palm of the hand," he says.

Interesting features of its model include Discovery Pay, which allows clients to pay any other client without needing to register the person as a beneficiary. Pharmacy co-payments can also be automatically deducted from the bank account.

To date FNB has been the leading bank for innovative features, such as registering as a customer using a selfie from your phone. But Hore says the Discovery platform will ensure that bank customers never need to visit a branch, even to open an account, and from day one cardless capabilities such as Samsung Pay, Garmin Pay and FitBit Pay will be available.

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Gore says Discovery could not opt for a simpler cloud-based solution, as Tyme Bank has done, because its system needs to accommodate the complex links between the bank and its Vitality programme and the company’s health, life, investment and insurance businesses.

Though price alone might not be enough to propel the new banks into profit, they are launching at a time of considerable unhappiness over bank fees. It is easier than ever, through apps, to compare fees. Until now, none of the large banks has been prepared to jeopardise their lucrative income stream from transactional fees with a price war. But now they will have no choice.

Says Botha: "The big banks will cut fees, but only gradually — they need to cut costs first before they can afford to do so. "At least, in most cases, the big four banks still own the relationship with the customer and can persuade them to stay. Botha says they can be expected to increase their credit spreads on loans to make up for the lost fee income. Capitec is likely to be the least affected, says Chetty, given that it already has a competitive current account with low fees.

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It’s been a long time coming. After Saambou and Fidelity Bank collapsed in the early 2000s, the SA Reserve Bank was for a long time reluctant to let new banks open. But these three new banks are backed by formidable business personalities with deep pockets.

Discovery Bank is part of the wider group run by CEO Adrian Gore, which began as a health-care company in 1993. Discovery boasts Remgro associate Rand Merchant Investments (RMI) as its anchor shareholder.

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The Discovery Bank app went live this week, and the first stage is to migrate former clients of Discovery Card (which was backed by the FNB platform) into the bank. It will necessarily be a slow process to avoid anything going wrong. But by June, the first 10,000 clients are expected to be onboard.

Discovery’s advantage is that unlike the other two new banks, it is already a household brand. It also has a good chance of capturing the majority of its credit card clients (bought back from FNB) and a sizeable slice of its medical aid and insurance clients. Already, the group’s Vitality programme has cult status among some, and if you believe

their marketing, physically fit people are less likely to be financially irresponsible. And the ability to cross-sell was an important reason for setting up the bank in the first place.For those who are on the main Vitality Health programme (Discovery medical aid members or life policyholders), and who hold a Discovery bank account, there will be plenty of benefits. For example, those on the higher Vitality status can get free membership at Virgin Active or Planet Fitness gyms, while the discounts for flights on Kulula can be up to 75%. There are also cash-back rewards for healthy food at Woolworths and Pick n Pay.

Hore insists you don’t have to be a gym bunny to get a good deal from the bank — people with no other Discovery product still get a 25% discount on fuel and healthy food. But these are the frills. Discovery has not yet revealed how it plans to recoup the considerable start-up costs. It has spent close to R4.5bn between developing the bank systems (which, like those of Standard Bank, are based on SAP products) and buying back the Discovery credit card from FNB. Gore says Discovery could not opt for a simpler cloud-based solution, as Tyme Bank has done, because its system needs to accommodate the complex links between the bank and its Vitality programme and the company’s health, life, investment and insurance businesses.

This suggests it will take longer for Gore’s bank to make a profit than either of its more nimble competitors, Bank Zero and TymeBank, and the marketing spend will be higher. Discovery estimates it could take five years to turn profitable. Gore says the bank has been built from the ground up with the latest technology and features — including the most advanced fingerprint and facial recognition systems — as well as the ability to add accounts

"We don’t push products, but encourage [customers] to follow key behaviour to secure financial health. They get the tools to help them through the Vitality Money programme," he says. Still, it’s clear that Discovery Bank won’t be matching the costs of TymeBank and Bank Zero item-for-item, at least for the average client. Instead, its sales proposition is to help clients achieve financial health and then reward them. Hore says it will set personalised goals based on an individual’s circumstances, and will have a wider product range on day one than its rivals. Discovery will offer credit, transactional products and savings products.

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The bank will also offer dynamic interest rates. This means that its best customers (not necessarily its richest), could pay 6% below the market rate for debt and earn 2% more for savings. Hore says Discovery’s "shared value" approach is not meant to punish those who don’t achieve perfection, but rather to nudge people to make better choices.

If the bank takes off as Gore expects, there is plenty of scope to export this model too. While Gore says the bank will start as a purely SA venture, he isn’t ruling out exporting a banking version of the Vitality Shared Value model at a later point.

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Discovery Bank might be branchless, but it will have a handful of hi-tech walk-in centres. It will rely heavily on its network of agents and brokers to push clients towards the bank.

This network of brokers and agents is something that TymeBank and Bank Zero don’t have. While Bank Zero is entirely app based, Tyme at least enjoys some advertising through its black and yellow machines at Pick n Pay stores, and has started flighting prime-time TV adverts to lure clients. Chetty says Bank Zero needs to develop a brand and requires a professional marketing campaign to do it. None of the team has marketing experience except for Jordaan, and that won’t be enough to build a brand — even with his Steve Jobs-style charisma.

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While there’s electricity in the air in the banking sector for the first time in years, it won’t be a one-way bet. There is, after all, the cautionary tale of SA’s first digital bank, 20Twenty, which launched in 2001 using Saambou as the backbone. 20Twenty never got to critical mass, with just 40,000 clients, and closed in 2006.

But the fact that TymeBank already has 120,000 clients is evidence that perhaps the time is now right. Narsai says that while 20Twenty had a huge marketing budget and a limited range of products, the architecture was quite primitive by today’s standards and the benefit from lower fees was limited

A variant of this model was employed by Adobe, a software developer that gave away its document reader free of charge but charged several hundred dollars for its document writer.

In the 1950s, new business models came from McDonald's Restaurants and Toyota. In the 1960s, the innovators were Wal-Mart and Hypermarkets. The 1970s saw new business models from FedEx and Toys R Us; the 1980s from Blockbuster, Home Depot, Intel, and Dell Computer; the 1990s from Southwest Airlines, Netflix, eBay, Amazon.com, and Starbucks.

Today, the type of business models might depend on how technology is used. For example, entrepreneurs on the internet have also created entirely new models that depend entirely on existing or emergent technology. Using technology, businesses can reach a large number of customers with minimal costs. In addition, the rise of outsourcing and globalization has meant that business models must also account for strategic sourcing, complex supply chains and moves to collaborative, relational contracting structures.

Theoretical and empirical insights

Design logic and narrative coherence

Design logic views the business model as an outcome of creating new organizational structures or changing existing structures to pursue a new opportunity. Gerry George and Adam Bock  conducted a comprehensive literature review and surveyed managers to understand how they perceived the components of a business model. As a result, open business models are created as firms increasingly rely on partners and suppliers to provide new activities that are outside their competence base. In a study of collaborative research and external sourcing of technology, Hummel et al.  similarly found that in deciding on business partners, it is important to make sure that both parties' business models are complementary. For example, they found that it was important to identify the value drivers of potential partners by analyzing their business models, and that it is beneficial to find partner firms that understand key aspects of one's own firm's business model.

The University of Tennessee conducted research into highly collaborative business relationships. Researchers codified their research into a sourcing business model known as Vested . Vested is a hybrid sourcing business model in which buyers and suppliers in an outsourcing or business relationship focus on shared values and goals to create an arrangement that is highly collaborative and mutually beneficial to each.

Categorization

From about 2012, some research and experimentation has theorized about a so-called "liquid business model".

Shift from pipes to platforms

Sangeet Paul Choudary  distinguishes between two broad families of business models in an article in Wired magazine. Choudary contrasts pipes  with platforms . In the case of pipes, firms create goods and services, push them out and sell them to customers. Value is produced upstream and consumed downstream. There is a linear flow, much like water flowing through a pipe. Unlike pipes, platforms do not just create and push stuff out. They allow users to create and consume value.

Alex Moazed, founder and CEO of Applico, defines a platform as a business model that creates value by facilitating exchanges between two or more interdependent groups usually consumers and producers of a given value. As a result of digital transformation, it is the predominant business model of the 21st century.

In an op-ed on MarketWatch, Choudary, Van Alstyne and Parker further explain how business models are moving from pipes to platforms, leading to disruption of entire industries.

Platform

There are three elements to a successful platform business model. The Toolbox creates connection by making it easy for others to plug into the platform. This infrastructure enables interactions between participants. The Magnet creates pull that attracts participants to the platform. For transaction platforms, both producers and consumers must be present to achieve critical mass. The Matchmaker fosters the flow of value by making connections between producers and consumers. Data is at the heart of successful matchmaking, and distinguishes platforms from other business models.

Chen  stated that the business model has to take into account the capabilities of Web 2.0, such as collective intelligence, network effects, user-generated content, and the possibility of self-improving systems. He suggested that the service industry such as the airline, traffic, transportation, hotel, restaurant, information and communications technology and online gaming industries will be able to benefit in adopting business models that take into account the characteristics of Web 2.0. He also emphasized that Business Model 2.0 has to take into account not just the technology effect of Web 2.0 but also the networking effect. He gave the example of the success story of Amazon in making huge revenues each year by developing an open platform that supports a community of companies that re-use Amazon's on-demand commerce services.

Impacts of platform business models

Jose van Dijck  identifies three main ways that media platforms choose to monetize, which mark a change from traditional business models. One is the subscription model, in which platforms charge users a small monthly fee in exchange for services. She notes that the model was ill-suited for those “accustomed to free content and services,” leading to a variant, the freemium model. A second method is via advertising. Arguing that traditional advertising is no longer appealing to people used to “user-generated content and social networking,” she states that companies now turn to strategies of customization and personalization in targeted advertising. Eric K. Clemons  asserts that consumers no longer trust most commercial messages; Van Dijck argues platforms are able to circumvent the issue through personal recommendations from friends or influencers on social media platforms, which can serve as a more subtle form of advertisement. Finally, a third common business model is monetization of data and metadata generated from the use of platforms.

Applications

Malone et al. found that some business models, as defined by them, indeed performed better than others in a dataset consisting of the largest U.S. firms, in the period 1998 through 2002, while they did not prove whether the existence of a business model mattered.

In the healthcare space, and in particular in companies that leverage the power of Artificial Intelligence, the design of business models is particularly challenging as there are a multitude of value creation mechanisms and a multitude of possible stakeholders. An emerging categorization has identified seven archetypes.

The concept of a business model has been incorporated into certain accounting standards. For example, the International Accounting Standards Board  utilizes an "entity's business model for managing the financial assets" as a criterion for determining whether such assets should be measured at amortized cost or at fair value in its financial instruments accounting standard, IFRS 9. In their 2013 proposal for accounting for financial instruments, the Financial Accounting Standards Board also proposed a similar use of business model for classifying financial instruments. The concept of business model has also been introduced into the accounting of deferred taxes under International Financial Reporting Standards with 2010 amendments to IAS 12 addressing deferred taxes related to investment property.

Both IASB and FASB have proposed using the concept of business model in the context of reporting a lessor's lease income and lease expense within their joint project on accounting for leases. In its 2016 lease accounting model, IFRS 16, the IASB chose not to include a criterion of "stand alone utility" in its lease definition because "entities might reach different conclusions for contracts that contain the same rights of use, depending on differences between customers' resources or suppliers' business models." The concept has also been proposed as an approach for determining the measurement and classification when accounting for insurance contracts. As a result of the increasing prominence the concept of business model has received in the context of financial reporting, the European Financial Reporting Advisory Group, which advises the European Union on endorsement of financial reporting standards, commenced a project on the "Role of the Business Model in Financial Reporting" in 2011.

Design

Business model design generally refers to the activity of designing a company's business model. It is part of the business development and business strategy process and involves design methods. Massa and Tucci  highlighted the difference between crafting a new business model when none is in place, as it is often the case with academic spinoffs and high technology entrepreneurship, and changing an existing business model, such as when the tooling company Hilti shifted from selling its tools to a leasing model. They suggested that the differences are so profound  that it could be worthwhile to adopt different terms for the two. They suggest business model design to refer to the process of crafting a business model when none is in place and business model reconfiguration for process of changing an existing business model, also highlighting that the two process are not mutually exclusive, meaning reconfiguration may involve steps which parallel those of designing a business model.

Economic consideration

Al-Debei and Avison  consider value finance as one of the main dimensions of BM which depicts information related to costing, pricing methods, and revenue structure. Stewart and Zhao  defined the business model as a statement of how a firm will make money and sustain its profit stream over time.

Component consideration

Osterwalder et al.  consider the Business Model as the blueprint of how a company does business. Slywotzky  regards the business model as the totality of how a company selects its customers, defines and differentiates it offerings, defines the tasks it will perform itself and those it will outsource, configures its resources, goes to market, creates utility for customers and captures profits.

Strategic outcome

Mayo and Brown  considered the business model as the design of key interdependent systems that create and sustain a competitive business. Casadesus-Masanell and Ricart  explain a business model as a set of choices  and consequences  and underline the importance of considering how it interacts with models of other players in the industry instead of thinking of it in isolation.

Definitions of design or development

Zott and Amit  consider business model design from the perspectives of design themes and design content. Design themes refer to the system's dominant value creation drivers and design content examines in greater detail the activities to be performed, the linking and sequencing of the activities and who will perform the activities.

Design themes emphasis

Developing a Framework for Business Model Development with an emphasis on Design Themes, Lim  proposed the Environment-Strategy-Structure-Operations  Business Model Development which takes into consideration the alignment of the organization's strategy with the organization's structure, operations, and the environmental factors in achieving competitive advantage in varying combination of cost, quality, time, flexibility, innovation and affective.

Design content emphasis

Business model design includes the modeling and description of a company's:

value propositions

target customer segments

distribution channels

customer relationships

value configurations

core capabilities

commercial network

partner network

cost structure

revenue model

A business model design template can facilitate the process of designing and describing a company's business model.

Daas et al.  developed a decision support system  for business model design. In their study a decision support system  is developed to help SaaS in this process, based on a design approach consisting of a design process that is guided by various design methods.

Examples

In the early history of business models it was very typical to define business model types such as bricks-and-mortar or e-broker. However, these types usually describe only one aspect of the business . Therefore, more recent literature on business models concentrate on describing a business model as a whole, instead of only the most visible aspects.

The following examples provide an overview for various business model types that have been in discussion since the invention of term business model:

Bricks and clicks business model

Collective business models

Cutting out the middleman model

Direct sales model

Distribution business models, various

Fee in, free out

Franchise

Sourcing business model

Freemium business model

Pay what you can

Value-added reseller model

Other examples of business models are:

Auction business model

All-in-one business model

Chemical leasing

Low-cost carrier business model

Loyalty business models

Monopolistic business model

Multi-level marketing business model

Network effects business model

Online auction business model

Online content business model

Online media cooperative

Premium business model

Professional open-source model

Pyramid scheme business model

Razor and blades model

Servitization of products business model

Subscription business model

Network Orchestrators Companies

Virtual business model

Frameworks

Technology centric communities have defined "frameworks" for business modeling. These frameworks attempt to define a rigorous approach to defining business value streams. It is not clear, however, to what extent such frameworks are actually important for business planning. Business model frameworks represent the core aspect of any company; they involve "the totality of how a company selects its customers defines and differentiates its offerings, defines the tasks it will perform itself and those it will outsource, configures its resource, goes to market, creates utility for customers, and captures profits". A business framework involves internal factors  and external factors .

A review on business model frameworks can be found in Krumeich et al. . In the following some frameworks are introduced.

Business reference model

Component business model

Industrialization of services business model

Business Model Canvas

OGSM

Related concepts

The process of business model design is part of business strategy. Business model design and innovation refer to the way a firm  defines its business logic at the strategic level.

In contrast, firms implement their business model at the operational level, through their business operations. This refers to their process-level activities, capabilities, functions and infrastructure, their organizational structures  and systems .

The brand is a consequence of the business model and has a symbiotic relationship with it, because the business model determines the brand promise, and the brand equity becomes a feature of the model. Managing this is a task of integrated marketing.

The standard terminology and examples of business models do not apply to most nonprofit organizations, since their sources of income are generally not the same as the beneficiaries. The term 'funding model' is generally used instead.

The model is defined by the organization's vision, mission, and values, as well as sets of boundaries for the organization—what products or services it will deliver, what customers or markets it will target, and what supply and delivery channels it will use. While the business model includes high-level strategies and tactical direction for how the organization will implement the model, it also includes the annual goals that set the specific steps the organization intends to undertake in the next year and the measures for their expected accomplishment. Each of these is likely to be part of internal documentation that is available to the internal auditor.

Business model innovation

When an organisation creates a new business model, the process is called business model innovation. There is a range of reviews on the topic, the latter of which defines business model innovation as the conceptualisation and implementation of new business models. This can comprise the development of entirely new business models, the diversification into additional business models, the acquisition of new business models, or the transformation from one business model to another . The transformation can affect the entire business model or individual or a combination of its value proposition, value creation and deliver, and value capture elements, the alignment between the elements. The concept facilitates the analysis and planning of transformations from one business model to another.

See also

Business plan

Business rule

Concept-driven strategy

Enterprise architecture

Growth platforms

Institutional logic

Market structure

Marketing plan

Sensemaking

Strategy dynamics

Strategy Markup Language

The Design of Business

Value migration

Viable system model

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***4*** become the dominant model for the delivery of financial services

Platforms that offer the ability to engage with different financial institutions from a

single channel will become the dominant model for the delivery of financial services

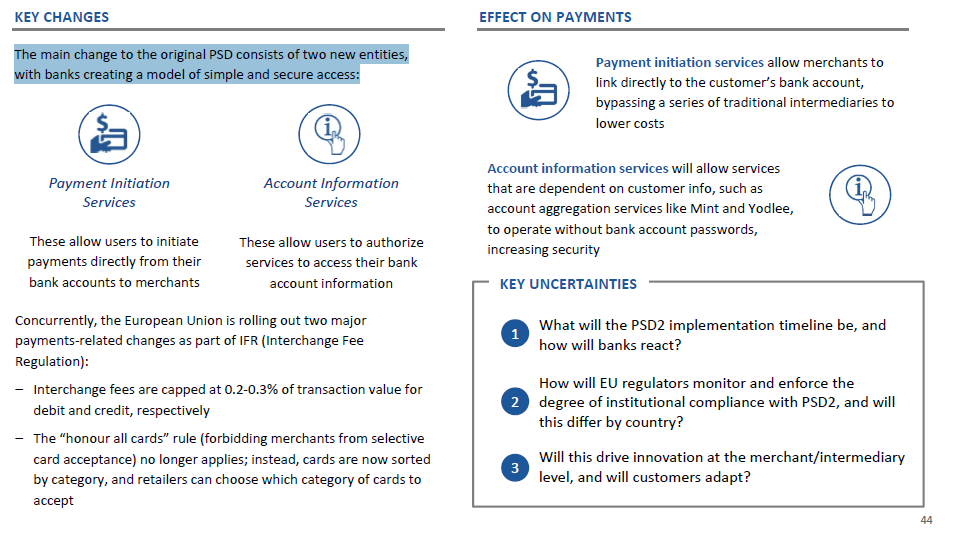
How will the transparency built into new

systems impact their design, participants’

roles or their profit models?

The main change to the original PSD consists of two new entities,

with banks creating a model of simple and secure access:



*Many market incumbents*

*and new challengers adopt*

*a partnership model for*

*payments, seeking to*

*minimize losses while still*

*offering best‐of‐brand*

*solutions to their customers*

The continued development of self‐driving cars and the sharing economy has started to shift the

responsibility of insurance away from the insurer to both distribution platforms and product

manufacturers (e.g. Uber, Airbnb or Tesla), creating new engagement models for insurers and

necessitating a shift in insurance product design.

Mmmmmmmm

Bima is a company delivering a wide

range of mobile health coverages to

customers in the emerging world, using

a model where consumers can pay for

insurance using prepaid mobile credit.7

They still require verification by an

agent, but target low‐income individuals

(typically not a target of life insurance)

in several markets in Africa.

*Joint cyber aggregation model*

Guy Carpenter, one of the world’s

largest reinsurers, recently established

a partnership with Symantec to create a

cyber aggregation model.10 Guy

Carpenter is hoping that by partnering

with Symantec, it will be able to model

extreme cyberevents more accurately

and deliver better pricing and risk

management for its customers.

**WHAT WE KNOW**

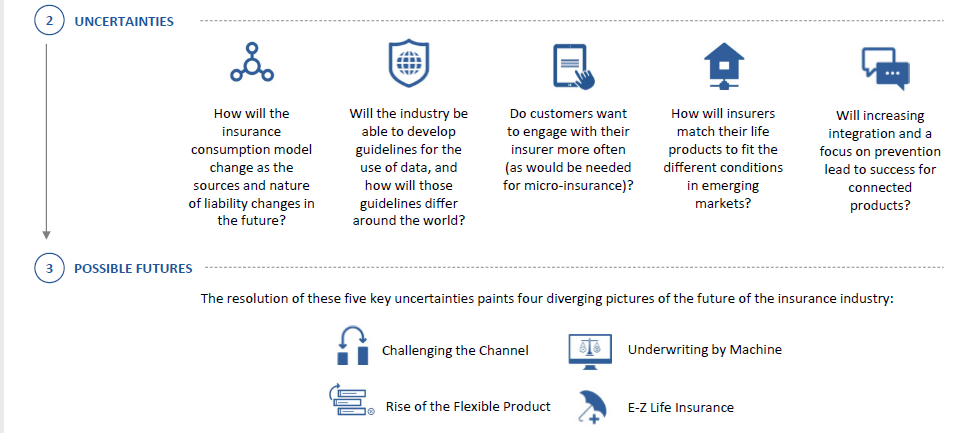
The insurance findings illustrate the scale of the challenges facing insurers. The value chain is under enormous

pressure, and changes in purchasing patterns are forcing insurers to move away from the traditional “one‐size‐fits‐all”

model towards a flexible, customizable range of products. At the same time, insurers must change from being reactive

to being proactive, with the rise of connected insurance and the need to monitor customer risk on an ongoing basis.

Through these findings, the following key uncertainties around the future of insurance emerged:



**Implications for Regulators**

 The externalization of underwriting

could mean fewer models to monitor,

but it also creates the risk of a “single

point of failure

///////////////

In recent years, policymakers have been encouraging

greater competition in the UK banking market, both to

benefit customers and to reduce systemic risk. The result

has been an increase in the number of new banking

licences issued, including 15 in the last three years, and the

emergence of new players with a range of propositions and

business models.

including disparate capital requirements, regulatory

proportionality, access to payments systems and product

transparency – could substantially improve the competitive

landscape for new entrants. But it is also clear that new

entrants must take responsibility for themselves, executing

their strategic priorities and addressing potential

weaknesses in their business model.

**The term ‘challenger bank’ does not reflect the breadth**

**of these banks’ offerings and varied strategies**

These banks actually consist of four broad groups with

different models, aspirations and challenges. Many do not

define success in terms of their ability to challenge or rival

the main high street banks. Rather, their goal is to serve

their specific target markets profitably. As a result, many

don’t anchor their propositions around current accounts as

they recognise that customers are willing to multi-bank.

**Open Banking is set to drive a fundamental change**

**in the banking landscape**

As the regulators take action to further develop

competition, the future market will be increasingly varied

and modular, resulting in a very different banking

experience for customers. Open Banking will give rise to

new business models, with some providers choosing to

specialise in narrow areas rather than offer a traditional

suite of products or attempt to manage the customer’s

end-to-end experience. Others will compete by making it

possible to integrate niche offerings from a number of

different companies in a seamless way. Banks take the

threat of larger tech organisations such as Google, Amazon,

Apple and Facebook very seriously. By facilitating financial

services like payments directly on their websites and

inserting themselves between the customer and the

underlying bank, these players could relegate banks to the

role of invisible ‘plumbing’. While not every new player

will prosper, we believe there will be room in the market

for many different banks and non-banks to succeed.

*Four broad groupings*

The catch-all idea of a challenger bank also masks the

very significant differences between many of the banks

it purports to describe. We see these banks split between

four broad groupings with varying target markets and

service models.

Inevitably, there are hybrid and/or newer banks that do

not fit neatly into one of these groups. For example, whilst

Metro shares some characteristics with the mid-sized

full-service banks in terms of their full product offering

and commitment to a physical presence (one of the only

banks actively growing their footprint), their higher rate

of growth and modern technology platforms sets them

apart. Despite these outliers, this segmentation helps to

identify the positioning of different types of banks and

their key focus areas.

The chart below shows how they compare based on their

number of customers and return on equity.

Many of the CEOs we spoke to cited a number challenges,

including: regulatory capital requirements that they

believe put them at a disadvantage; a perceived lack of

proportionality in regulation; a model for accessing

payments systems that is expensive and constraining;

and lack of comparability between products which is

potentially to the detriment of consumer outcomes.

These factors may inhibit competition if banks feel

unable to compete in certain markets and choose not to

enter, or to leave.

***“ The most important structural issue the bank faces is the disproportionate application of***

***capital requirements. The current capital regime has significantly influenced decisions on***

***banks’ business model, such as the decision not to launch mortgage products due to the***

***prohibitive capital requirements.”***

As the PRA highlighted in its 2016 report on competition,

the key obstacle for some banks is the “difficulty in building

up adequate default and loss data points to facilitate IRB

modelling consistent with the CRR standards. Specifically,

given that loss data can only emerge post-default, the time

taken to adequately model loss given default becomes the

greatest constraint, particularly for retail mortgage

portfolios”.20 Some of the CEOs acknowledge that the PRA

has understood their concerns, but many are keen to see

the regulator implement solutions at a faster pace.

Other banks are working with the PRA to propose a more

proportional approach to IRB, whereby banks with nearly

enough data and the required modelling capability would

be allowed to calculate their own capital requirements.

A 'conservative overlay' of capital could be applied to

mitigate the risk posed by any uncertainty in the

calculations. Introducing capital floors or introducing

risk-adjusted approaches to risk weights could be

alternative approaches.

Some bank CEOs believe the Bank of England (BoE) has

data that could be leveraged to give them IRB status.

Theoretically, the Bank could anonymise the data and

provide it to banks to use in quasi-IRB models.

banks and make the process more transparent,

with module based assessment and indicative timescales

for responses, and regular feedback to applicants.

Furthermore, the PRA recently launched a consultation on

the Pillar 2A capital framework. The work delivers a

commitment made in the PRA’s Annual Competition Report

2016 to address the disparity in risk weights between firms

using the standardised approach and firms that use their

own models. The changes are expected to help ensure

capital standards are not overly prudent for smaller firms,

facilitating effective competition.22

Additionally, some of the banks we interviewed said they

have experienced quality issues, such as service outages, or

found it difficult to get information around operational

issues. Some clearers require the challengers to hold specific

accounts with them, which impinges on their preferred

operating model. Notice periods which the direct access

banks give to banks before terminating indirect access

agreements can also be relatively short, which makes it

tougher for users to migrate effectively to another provider.

Many banks felt that the alternative to the prevalent model,

of becoming a direct bank themselves, was still inaccessible

– “direct banking is a myth”. The cost and governance

However, the PSR has also noted progress, such as the

expansion of the market as organisations are planning to

start offering indirect access, and the emergence of

alternative access models for interbank payment systems,

including the development of aggregator arrangements

for the Faster Payments Scheme (FPS). The PSR

concluded that it will support these developments rather

than taking regulatory action.26

NBNBNBNBNB

Open Banking will give rise to new business models, with

some providers choosing to specialise in narrow areas

rather than offer a traditional suite of products or attempt

to manage the customer’s end-to-end experience.

**Continue transforming their operating models**

**to cut costs:**

• Many of the banks are simplifying their business

and reducing exposure to more complex and

manually intensive activities.

• In an effort to reduce costs, many are right-sizing

physical presence and increasing the use of

digital channels.

• Other strategies for reducing cost include

re‑engineering processes to automate and streamline

the way in which the bank works.

• Older banks in this group also recognise the need to

replace legacy technology and streamline large

unwieldy change portfolios.

*Strategic priorities*

In the short term, the specialist banks feel confident about

their ability to keep growing steadily and profitably by

focusing on their areas of focus and maintaining a

relatively simple business model. The pace of growth will

depend on the economic environment, with low economic

growth posing an impediment to increased lending. In the

longer term, however, there is plenty to consider:

**Deal with growing pains:**

• As the specialist banks may choose to look elsewhere

for growth, they may need to extend their product

range into new areas.

• While some capabilities might be reused – in the case of

an expansion from invoice finance to broader business

finance, for example – these banks will likely have to

invest in new skills even before they know whether or

not their forays will be successful.

• As they grow they also need to ensure their operating

model is scalable and continues to be efficient.

**Develop an Open Banking strategy:**

• Specialist banks will seek to maintain their position as

differentiated specialist 'spokes' within a 'hub and

spoke' model, and may benefit from having their

offerings presented to consumers by aggregators.

• However, there is a risk greater comparison of offerings

will result in commoditisation and margin pressure.

The impact (positive and negative) would be most

significant for those who move fast to comply and

participate in an open ecosystem.

• Partnerships are likely to prove valuable to increase

However, the flexibility and location independence of

their business models mean these banks are able to

consider expansion into other geographies – provided

customer needs are sufficiently similar and they can

obtain local regulatory approvals.

**Seize the Open Banking opportunity and innovate:**

• Given their corporate agility, these companies will be

well-placed to adopt new business models such as

becoming an Open Banking aggregator and innovator,

potentially giving them a first-mover advantage over

slower banks or newer entrants.

**Optimise the distribution model:**

• Many of the non-bank brands’ parents have massive

national distribution networks, offering an opportunity

to experiment with in-store branch formats.

• This needs to be balanced with maintaining a profitable

cost-to-serve and meeting the digital channel

preferences of customers.

First, the sector is better characterised by sub-sectors

defined by banks’ business models, strategies and

attributes, rather than an unhelpful ‘challenger

bank’ label.

• Second, while regulation has not acted as a deterrent to

new players entering the market, further levelling of

the playing field will improve customer choice and

outcomes. This can be achieved through four levers:

less disparity in capital treatment, more proportionality

of regulation, greater levels of independent access

to payment systems, and increased transparency

of products.

• Third, Open Banking is set to drive a fundamental

change in the banking landscape, with an increasingly

diverse and modularised market on the horizon.

• Fourth, the success of each player will depend on the

business model focus and service excellence, as well

as providing customers with compelling and

differentiated propositions.

WWWWWWWWWWWWWWWWWWWWWWWWWWWWWWWWWW

These prospective entrants are planning to enter with innovative business models, perhaps most notably with no, or very limited, branch presence, and to adopt the latest technology

In contrast to Atom, Starling is planning to enter with a niche PCA (including overdraft) offering before subsequently building a platform that will offer third-party financial services. Starling’s business model is, like Atom’s, purely digital; basic branch services will be available to its customers in []

TSB currently offers a range of seven PCAs,29 all of which are based on a FIIC banking model. Its market share (including all seven PCAs) increased from []% in 2013 to []% in 2014. TSB exceeded its 2014 target of gaining 6% of all new current accounts by gaining []% in that year.30 These figures provide some evidence that TSB is performing well as a standalone business, but the bank told us that its current levels of growth may not be sustainable

As with its PCA business, Metro aims to differentiate itself through its customer service. It believes that customers switch to Metro primarily because they have received poor service from their previous bank and/or wish to secure further lending. Metro’s model is designed to attract all types of business customers rather than to be selective.

Handelsbanken views itself as a specialist provider that offers very high levels of personal service delivered by locally based decision-makers. Its UK branch operations, which are based on its Swedish model, are organised into regional banks with regional head offices around the country. Handelsbanken told us that its branches operate within a flexible framework that gives them the freedom to provide bespoke products tailored around the specific financial circumstances and needs of each customer, including its SME customers. As such, it does not have an ‘off-the-shelf’ BCA offering that has set characteristics, such as specific interest rates and fees.

Civilised Bank does not plan to have a formal physical presence, except for some offices that relationship managers may use if and when required. Its model will rely upon relationship managers travelling to visit customers from regional hubs.

OakNorth, which has been granted conditional authorisation until March 2016, initially plans to offer short-term business loans (between two and twelve months), business lending solutions and property development finance.62 Its distribution model will be a hybrid of fintech alternative finance providers and traditional banking services.

KKKKKKKKKKKKKKKKKKKKKKKKKKKKKKKKK

*FinTech will drive the*The post-crisis regulatory frameworks have

been gradually settling into place, and

financial institutions have been adjusting

their business models accordingly. It is now

becoming obvious that the accelerating pace

of technological change is the most creative

force – and also the most destructive – in the

financial services ecosystem today. In this

paper, we set out to capture the real world

implications of these technological advances

on the financial services industry and those

who must supervise and use it.

*Project Blue*

There are huge forces at work in the global

economy today – from a shift in global

economic power and climate change to

urbanisation, demographic shifts, and more.

Many of our clients have been using our

Project Blue framework to help assess how

these megatrends will affect their strategies

and business models for 2020 and beyond.

Project Blue offers a structured process for

adapting to these changes. Seeing the future

clearly and developing a proactive, strategic

response – rather than simply reacting to

events – will set apart the winners from

the losers in a fast-evolving market. There

is no single ‘best answer’; whether these

developments are threats or opportunities

depends on the nature of the organisation

and where in the world it sits. The results

will help your institution better target

investment, identify talent requirements

and develop the necessary operational

capabilities needed to make the most of its

competitive potential.

• FinTech will drive the new business model

CCCCCCCCCCCCCCCCCC

• The public cloud will become the

dominant infrastructure model

customer

set or industry segment, they all present

opportunities for the thinking executive

to get ahead. When you know a robotics

movement is coming, for example, you have

a choice: to lead the charge, to make sure

your organisation has the right listening

capabilities and agile architecture to be

a ‘fast follower’, or to watch others take

advantage of a generational shift. This

section sets up a challenge around the ten

themes: to understand them, prepare for

them and see how to use them to get a

competitive advantage.

*Priorities for 2020*

The pace of change is increasing and shows

no sign of slowing. Financial institutions

are looking to the IT organisation to do

more to help make sure they are wellpositioned

to succeed in the future. There are

macroeconomic trends sweeping the world,

and technology-driven influences buffeting

the industry. What is the best approach to

moving forward?

We see six priorities for success for 2020

and beyond, based on our research and our

experience in the field:

*1.* Update your IT operating model to get

ready for the new normal

XXXXXXXXXXXXXX

*FinTech will drive the*

*In blockchain we trust?*

Of course, trust does not occur overnight.

This is the challenge facing both individual

institutions and the industry as a whole. For

blockchain to be adopted on a large scale,

we will need to experience a migration of

trust from today’s effective-yet-expensive

central counterparty utilities to the

distributed model. The business benefits

for many players, or even the industry,

will not materialise if the ‘trust issue’ is not

addressed effectively. Some of the hurdles

that lie ahead: understanding whether or not

the public ledger can be hacked, addressing

Bitcoin’s negative reputation, and navigating

potential regulatory challenges related to

blockchain’s adoption. For example, while

confirmation is effectively performed by

everyone on the network simultaneously,

if a majority of the participants forming

the network consensus model were to

collude to transact a fraud, a ledger might

be manipulated. This might be an issue

in a relatively small network without

proper vetting procedures. We also see a

need to address security limitations with

linked technologies, like the external

systems that monitor events to trigger

blockchain transactions once conditions

have been met.

BBBBBBBBBBBBBBBBBBBBBB

*‘Change the bank’ becomes*

*the bank*

Over the next three to five years, digital

efforts will advance in areas as diverse as

robo-investing, automation of consumer

lending and clearing and settlement of cash

and securities transactions. As they do,

they will stop being exotic, and will just be

‘how we do things’. Institutions will need

to balance the need for separate ‘change

the bank’ transformation teams with the

inevitability that digital will become the

platform. Practically, this means you have to

keep the change-the-bank and the run-thebank

teams on the same page, operationally

and strategically. At the same time, we know

all organisations have a natural resistance to

change, especially after years of a relatively

protected status. To ward off a determined

FinTech opponent, consider ‘challenger’

models in banking, insurance and wealth

management that try to anticipate what a

fierce competitor would look like.

With other

developments, this

will also intensify

price competition

and pressure on

cost. Big data

analytics, sensor

technology and

the communicating

networks that

make up the Internet

of Things will allow

insurers to anticipate

risks and customer demands

with far greater precision than ever before.

The benefits would include not only keener

pricing and sharper customer targeting, but

a decisive shift in insurers’ value model from

reactive claims payer to preventative risk

advisor. But it also implies that we will see a

divergence between companies who use data

to their advantage and those who do not.

The winners will be able to price products

based on a deeper understanding of risk; the

losers will merely compete on price,

compressing their margins

with lower revenues

and proportionately

higher payouts.

The analytics layer

does the thinking, using advanced AI

techniques to profile and predict behaviour,

detect anomalies and discover hidden

relationships. And, data lakes will form the

key layer of the solution, acquiring data

rapidly from disparate sources and ingesting

it so it can be used productively. Data lakes

are a new take on data warehousing, taking

advantage of cheaper tools to distribute

storage and processing. They offer a scalable

platform that can store a wide range of data

models, enabling analysis of both structured

and unstructured data. Unlike the existing

systems that many firms use today, they

won’t buckle under the much larger volumes

that will soon arrive.

hurdles. In the next three to five years, we

expect modest, evolutionary gains. After

that, though, we anticipate rapid gains, as

new models combine increasingly powerful

and standard modular platforms with the

ability to learn. To take an even broader

view, robotic process automation is already

making inroads in financial services digital

operations, too. There are whole categories

of work that had not been seen as costeffective

to automate. However, with

lightweight software ‘bots’, workers are freed

up to focus on higher value activities.

*RRRRRRRRRRRR*

*Six priorities*

*for 2020*

To benefit from these technology developments, we recommend that financial institutions

focus on six key priorities:

*1.* Update your IT operating model to get ready for the ‘new normal’

*2.* Slash costs by simplifying legacy systems, taking SaaS beyond the cloud and adopting

robotics/AI

*3.* Build the technology capabilities to get more intelligent about your customers’ needs

*4.* Prepare your architecture to connect to anything, anywhere

*5.* Pay more attention to cyber-security before it becomes urgent

*6.* Make sure you have access to the talent and skills necessary to execute and win

You may feel that you have already seen this movie. After all, in broad terms, these have

always been good things to do. But it is not a rerun; how you will do it, and why, is quite

different from what you may have thought about until now. What worked for the clientserver

world will not work for cloud. What worked to secure card-not-present transactions

will not work with the Internet of Things. And while any given institution will find some

priorities more urgent than others, they all matter if you want to stay ahead of the changes

sweeping through the industry. The alternative – playing catch-up in the very different

financial services marketplace of 2020 – is a bad plan for anyone.

All companies have to balance where they

are with where they are going. In IT, this

means supporting both core ‘keep-the-lightson’

functions and large transformation

initiatives. Financial institutions have a

unique struggle though. Among other things,

these are IT-heavy companies,

built over generations of technology.

They have often grown through acquisition,

operating with relatively static products

and geographies. Typically, these operating

models just are not nimble enough to support

where things are headed.

*Architecture*

In 2020, hardware, software and data could

reside anywhere. You will be expected to

make a virtually limitless combination

of inputs and work together, quickly and

securely. For this to happen, you will need

to (1) anticipate it, (2) make sure that your

infrastructure is aligned with applications so

it can scale up or down in real time, and (3) be

prepared to integrate anything. We have come

a long way from the early days of middleware;

we now have higher expectations and

demands for systems integration. This allows

new flexibility in how financial institutions

interact beyond their traditional borders,

and it is a key part of updating the operating

model. We cover this in more detail in #4,

Prepare your architecture to connect to

anything, anywhere.

While every company is different, we

generally see large savings opportunities for

firms that do the following: simplify legacy

systems, adopt an aggressive SaaS-based

model and deploy robotics and AI-based

automation.

*Adopt an aggressive SaaS-based*

*model*

With the proliferation of network end-points,

we now have access to an unprecedented

amount of data. Enterprise architects see

the cloud as a way to access actionable

customer information on a large scale,

providing insights across geographies,

brands and products. And because the

cloud can help break down data silos across

customer channels and marketing service

providers, companies often find that it

reduces fragmentation and the overall cost

of IT ownership. In theory, it allows a firm

to break out of the organisational structures

that legacy systems have helped create.

But this can only happen if IT can make a

disparate set of hardware, software, data

and networks cooperate.

Fortunately, there has been a revolution

underway, reshaping the way we think

about systems integration. Better still: the

cost-savings from switching to cloud-based

computing can be dramatic. In fact, one of

the drivers behind the public-cloud-becomes-

Fortunately, there has been a revolution

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cost-savings from switching to cloud-based

computing can be dramatic. In fact, one of

the drivers behind the public-cloud-becomes-

the-dominant-infrastructure-model trend is

how much cheaper it is than maintaining a

legacy, physical infrastructure.

By 2020, we expect that the ‘new normal’

operating model will be customer- and

context-centred. That is, companies will

change the way they interact with their

customers based on the context of the

exchange. They will offer a seamless

omnichannel experience, through a smart

balance of human and machines.

*PwC’s Retail Banking 2020 survey*

*indicates a growing awareness to*

*develop a more customer-centric*

*business model, but a significant gap*

*in preparedness remains.*

*UUUUUUUUUUUUUUUUUUUUUUUUUUU*

*of bank executives*

*say that a customercentric*

*model is*

*“very important”*

But APIs require that financial institutions

think differently about strategy, given that

the transactions that call them may come

from third parties. The payment transaction

may become more of a commodity, but the

data itself that is captured in the process

could drive drastically different business

models. New business models will influence

how firms think about the data models they

use, how they aggregate information from

other sources, the support structures they

implement and more. This is not just an

issue for business strategists; it has clear

technical implications for the teams who are

responsible for doing the work.

Many financial institutions still rely on the

same information security model that they

have used for years: one that is controls- and

compliance-based, perimeter-oriented, and

aimed at securing data and the back office.

But information security risks have evolved

dramatically over the past few decades, and

the approach that financial institutions use to

manage them has not kept pace.

*The role of management*

Cyber-risk management is complex and

rapidly evolving. To stay ahead, you will

need executive management engagement,

ongoing governance, risk management

techniques, threat correlation, collaboration

throughout the organisation and adoption of

a new operating model. You are not fighting

off a single threat, or even a single class of

threats; next week, you could see an entirely

new attack vector. So, the true goal of cyberrisk

management is to build resiliency.

You need to make sure that your systems

and operations are designed to detect

cyber-threats and respond to cyber-events,

so you can limit any business disruption or

financial losses.

**Acquire, develop and retain key talent:**

The organisational model for cyberprotection

should be adjusted to focus more

on enterprise and business risk management.

Organisations should then determine the

required skills, capabilities and resource

requirements before hiring the necessary

talent to fill any gaps.

IIIIIIIIIIIIIIIIIIIIIIIIII

*New tools for fighting cybercrime*

With the right tools in place, financial

institutions can improve their ability to

manage cyber-risk. For example, financial

institutions can deploy state-of-the-art

data mining tools and other technologies

to detect anomalies in security and fraud

applications, using data from both structured

and unstructured sources. We also note that

while the trend toward cloud-based services

can introduce new risks, it can also support

a financial institution’s defensive strategy.

Cloud-based cyber-security can improve

intelligence gathering and threat modeling,

Financial institutions are starting to realise

they will need talent with very different

skills by 2020. On the surface, this might

mean finding more industrial engineers for

robotics work, or retraining underwriters

to do higher value work once AI is used to

automate certain existing functions. But the

issue runs deeper than developing a different

competency model.

*Make sure you*

*have access to the*

*necessary talent*

*and skills to execute*

*and win*

*As financial institutions look*

*to the future, one of the biggest*

*hurdles will have nothing at all*

*to do with technology. For years,*

*traditional financial institutions*

*have designed their offerings from*

*the inside out: ‘this is what we*

*will offer,’ rather than ‘what do*

*our customers want?’ But this*

*model no longer works. And the*

*skills and interests of today’s IT*

*team members and third-party*

*talent may not be up to the*

*challenges of tomorrow’s technical*

*environment, where partnering*

*with customers will be essential.*

*new business model*

Financial institutions should look to improve

the traditional performance management

model so they are inspiring their teams to do

great work:

• **Goal setting:** translate purpose and

values to link them with common

enterprise goals

• **Real-time feedback and periodic checkins:**

provide on-the-job feedback and

coaching; enhance transparency through

informal peer and colleague feedback

• **Annual reviews:** manage year-end

expectations with more focus on future

state performance

• **Integrated performance and rewards:**

create clearly defined and evidenced links

between performance ratings and rewards

outcomes

• **Include all team members:** expand

feedback and performance management

processes to third-party labour and

partners

AAAAAAAAAAAAAAAAAA

Here is what success looks like: when

the next change comes, you are ready.

You have the models and architecture in

place to quickly understand, leverage,

and operationalise emerging technologies

without creating chaos in the organisation.

And you are able to do this while you ‘keep

the lights on’ at a fraction of today’s expense.

At PwC, we work with clients to build IT

2020 Readiness Programs. These start with

a strategic review that lets CIOs and other

executives understand where they stand,

and what they will need to support business

strategy by the end of the decade. We

examine an institution’s operating model,

*For a long time, new market*

Finally, you will want to make a pragmatic

roadmap for how you will close the gaps

identified. We work with clients to reconcile

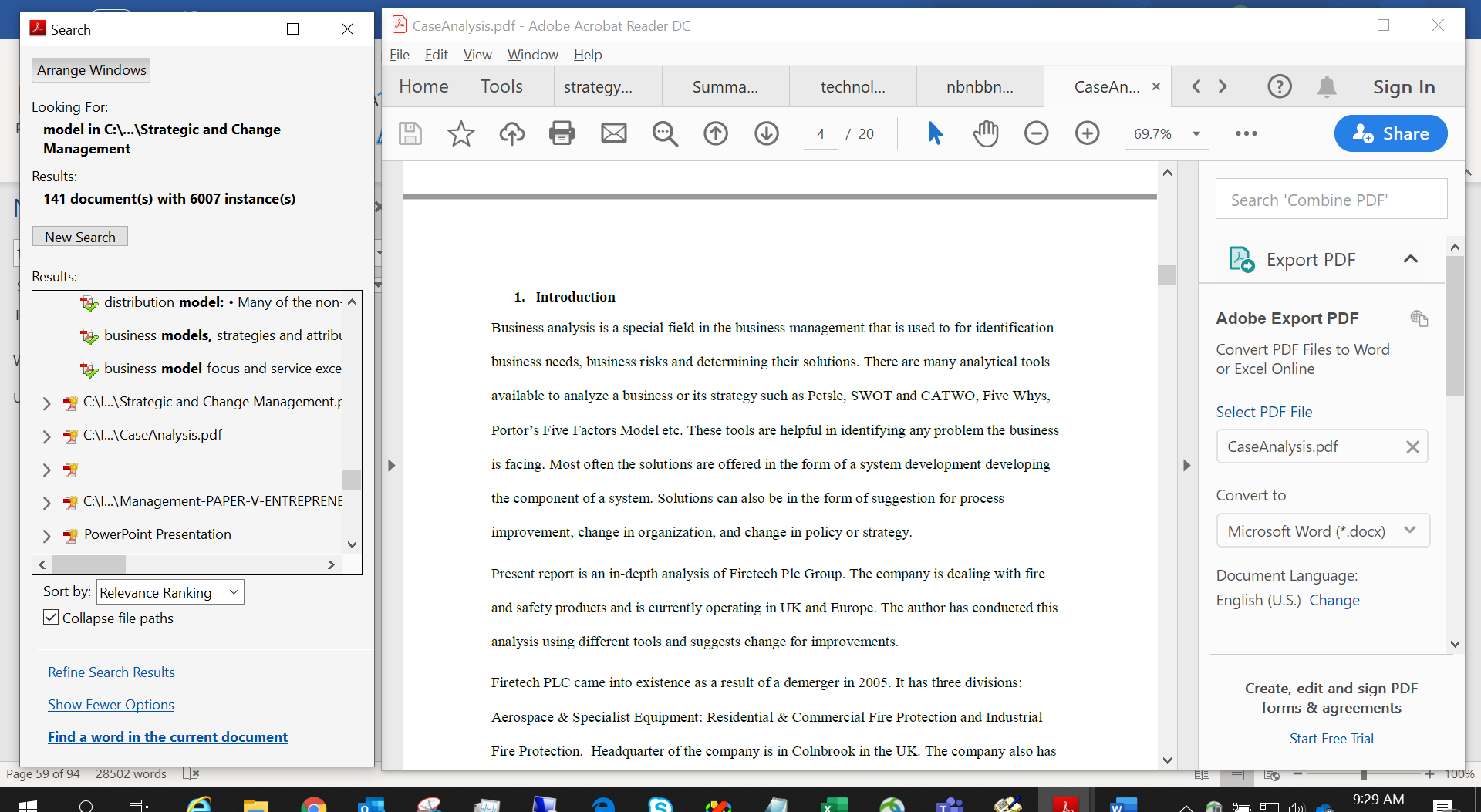
these against current initiatives, re-prioritise

as necessary, and define the funding model.

This helps everyone understand how they

will execute together, with alignment and

accountability to achieve the 2020 vision.



*entrants found it difficult to break*

*into the financial services industry.*

*The large, well-established*

*financial institution that we call*

*‘incumbents’ had advantages in*

*size, and their networks added*

*a multiplier effect. They had*

*strong compliance systems in*

*place to manage ever-increasing*

*regulations, and they had the*

*client base and resources to*

/////////////////////////////////////////////////

In simple terms, a robust process should make common business sense. The benefits of using the process should exceed the cost and efforts expended to design, execute, and maintain the process. The business side of a robust process sometimes involves leasing agreements, maintenance agreements, and service level agreements. **Business Models** – Various structures, processes, and other mechanisms that businesses and other organizations use for organizing the way they interact with their primary external stakeholders (e.g., customers and suppliers) to achieve their primary goal (e.g., maximization of profit). The advent of Capitec, in 2001, showed that customers were desperate for something different. Now, three new banks — all backed by powerful SA business personalities — are opening their digital doors, offering something entirely different. So, what can they offer that’s new, and how much of a threat is this for the ‘big four’ banks?

**Discovery, TymeBank and Bank Zero** are pursuing a branchless model, with their apps being their shop window. This means SA isn’t far behind the rest of the world: the first app-only current account in the UK was introduced by Starling Bank just two years ago. Perhaps if the Reserve Bank had been more open-minded, SA could have beaten them to the punch. TymeBank chair Coen Jonker tells the *FM*: "The banks have done their best to protect their legacy income streams for years, and the transactional fees on simply taking money in and out of accounts is the hardest to justify. As new banks we won’t have that legacy to defend."

The big four banks have long operated as if they were an informal cartel. Even the one entrant in the past 20 years to grow to large-bank status, Capitec, has adopted a traditional branch-based distribution model. The three new banks are not just aiming for the tech-savvy. TymeBank’s former parent, CBA, has a larger market cap than the entire SA banking sector, though it took a softly-softly approach to the new bank. Even before Tyme was registered, it offered money transfer services from Pick n Pay.

Though Tyme doesn’t have any of its own branches, it will have 750 points of sale through Pick n Pay and Boxer stores. This gives it reach into the main urban areas, as well as the rural areas where few banking services are typically available. Boxer customers are more likely to be unbanked, so could prove the most fertile hunting ground for Tyme.

Most transactions are free if carried out at Pick n Pay or Boxer, and cost only R2 if done elsewhere, and the bank pays up to 10% interest on positive balances. TymeBank has such low costs because it is cloud-based and highly scalable and has minimized the bells and whistles. Incredibly, there are just 125 staff keeping the bank running. Clients can join through the TymeBank website, but by far the most popular recruitment tool has been self-service kiosks, which provide a new card within five minutes.

CEO Sandile Shabalala says the bank will start offering loans next year. It plans to offer keener lending rates because, like Capitec, it will be able to cross-subsidize its transaction and deposit books from its loan income. The tipping point for Tyme, at which it becomes profitable, is 2-million customers and 700,000 loans. It is almost an accident that Motsepe’s ARC took full control of the bank after CBA pulled out suddenly to retreat to its home market and cut exposure to emerging markets.

Johan van Zyl, the co-CEO of ARC (and chair of Sanlam) says he was pleased CBA was the controlling shareholder while the bank was being registered because it is a bureaucratic, by-the-book organization with huge experience of banking regulation. "We would like to bring in an equity partner as we prefer to hold minority positions in companies, not the 73% we currently hold, but it is not an imperative," he says.

Van Zyl says the Reserve Bank does not want TymeBank to become a Sanlam group company as it wants to keep banks and insurers as separate as possible. TymeBank, he says, will ride the wave away from cash transactions to digital payments. "We expect the amount of cash in the system to be cut back by two-thirds over the next three years. Increasingly shareholders in the Ubuntu-Botho group find carrying cash dangerous. We were able to issue 1-million cards to members of the Zion Christian Church to facilitate cashless transactions," he says.

For now, though, Pick n Pay stores are more than happy to offer excess cash to TymeBank customers at no charge. The retailer’s deputy CEO, Richard van Rensburg, says Capitec also recommends its customers draw money at Pick n Pay tills because it is far cheaper than using an ATM. And a central feature of TymeBank is its access to the information gathered by Pick n Pay on the 11-million members of its Smart Shopper programme, which provides rewards points on all purchases, not just at Pick n Pay. And unlike Discovery, that benefit is not confined to healthy foods. In a much less judgmental way, all purchases qualify.

You might have expected Pick n Pay to have cold feet after the failure of its Go Banking venture with Nedbank in the mid-2000s. But Van Rensburg argues that Go Banking offered similar services to Nedbank, whereas TymeBank has developed products exclusively for digital clients. He says he would not try to set up a bank as a subsidiary of a retailer again, but an alliance between a retailer and a bank makes sense.

Question 1.4

**1.4** Entry strategies of the challenger bank refers to the timeliness and likelihood of entry by potential competitors in this case challenger banks, and whether this entry can exert competitive pressures on the current enterprises which is the traditional banks or **‘big four’**  in the market shall be examined.

Incumbent banks have been concentrating on pricing and customer-value propositions as their initial growth drivers in recent years. Nevertheless, new entrants like Bank Zero, Discovery Bank and Tyme Bank are set up to challenge the status quo with lower-priced banking and innovative servicing (Passenheim,2010).

Post the year twenty-twenty, new wave of challengers will come from platform plays, integrate multiple non-financial and financial a products and services into 1 simple accessible ecosystem. The next twelve to twenty-four months are going to be critical for players of the market to position themselves at epicentre of such new platforms. If ever banks, big techs, telecom, or insurers, can lead on the platform build remains to be seen. South Africa is realizing its 1st wave of digital challengers that come into the market, with 3 new banks launching in 2019 which are Bank Zero, Discovery Bank and Tyme Bank.

All of these banks bring a differentiated value proposition to clients. Looking further ahead, Big Tech (Apple, Alibaba, Amazon, WhatsApp, Facebook) and mobile operators (MTN, Orange) are entering digital banking over Africa are more suitable to adopt ecosystem driver strategies given the diversity and breadth their client base. This play is going to put additional pressure on incumbents over the continent and in South Africa as the new way of banking will start to involve broad range of non-financial services and products. Some banks are adopting a wait-and-see approach as they create their digital capabilities. This approach is driven by 5 main reasons:

* The existing shortage of efficiency and agility in executing transformation/ change is remaining a constraint that making change more expensive than it should be and is slowing down the pace of innovation.
* Capabilities of data analytics remain far away from their full potential in the South African banking sector and are slowing responses from the banks to evolving client’s expectations and needs, meanwhile are having an impact on operational efficiency and higher-level commercial. Entering the digital era is not viable without analytical capabilities that feed off a central, accessible, strong data set.
* The banking talent pool is slowly beginning to be disconnected from existing and future requirements. New content and Technical capabilities (ecosystem banking, bots, machine learning, AI, data analytics) are not being received at the required scale now at the risk of creating a capabilities gap in the short to medium term.
* The economics of modular core banking solutions can provide an opportunity for run-cost avoidance and IT change yet are not completely understood by market players. The coming age of cloud-based pay-as-you-go core banking solutions is opening most responsive group of technology options. Such new “digital by design” operating models which promise to allow attractive less than 30% cost to income ratios merit deeper evaluation.
* The concentration on digital is still anchored in filling a short to medium-term capability gap (analytics, customer journeys, automation/ process optimisation) vs developing a five to ten-year view of the bank’s future. The existing concentration is translating into the majority of efforts and investments being spent on playing catch-up instead of holistically transforming the bank to thrive in the future.

Having a look back at digital disruption, people observe such financial institutions that embrace change materially and determine a clear future state vision outperform. People can expect that the winners will be those that assess their existing digital challenger playbook and establish a proactive response. Recent experience and that of new digital players indicates that though launching a digital platform would have been extremely difficult just a few years ago, it is now possible in under 12 months and at a reasonable cost (Shermerhorn, 2018). Meanwhile the long and short-term success of challenger banks and their disruptive impact on the South African economy won’t be known for at least twelve to eighteen months, it is safe to suggest that new banking models being launched can increase competitive pressures in the banking market. Meanwhile identical to successful European challengers, Tyme Bank’s monthly-fee account, together with attention-grabbing “up-to 10%” savings rate, can put pressure on incumbent margins. Nevertheless, it is Tyme Coach which signals the ambition of the bank to handle most of its clients financial lives.

Discovery Bank has mentioned that its intention to compete as a multiproduct behavioural bank, leveraging its insurance expertise in data-driven rewards and insights. The model contains competitive pricing and rewards depending on client’s behaviour meanwhile allowing all banking services to be carried out via mobile application. For now, though, Pick n Pay stores are more than happy to offer excess cash to TymeBank customers at no charge. The retailer’s deputy CEO, Richard van Rensburg, says Capitec also recommends its customers draw money at Pick n Pay tills because it is far cheaper than using an ATM. And a central feature of TymeBank is its access to the information gathered by Pick n Pay on the 11-million members of its Smart Shopper programme, which provides rewards points on all purchases, not just at Pick n Pay. And unlike Discovery, that benefit is not confined to healthy foods. In a much less judgmental way, all purchases qualify.

Question 1.5.1



Ansoffs product/market

The strategies the ‘big four’ banks should adopt include market penetration strategy, according to Kotler and Keller(2012) market penetration is done when the organization is considering obtaining more market share with the existing products in the existing market via greater marketing efforts. Such strategy is broadly utilized alone and in combination with some strategies.

Such strategy involves increasing publicity efforts, providing extensive promotion of sales ,

increasing the advertising expenditure or increasing number of salesperson(David, 2013). Market penetration may be more effective if the existing markets are not saturated with a specific service or products. Secondly if the usage rate to present to clients may be increased significantly(Hughes 2011).

Thirdly it may be implemented if the market shares of major competitors such as Tymebank, Discovery bank and Bank zero have been declining while the total industry sales are increasing(David, 2013). In addition, this is applicable when increased economies of scale offers major competitive advantage. Finally, this is applicable if correlation among marketing expenditure and rand sales historically has been high.

In markets that are mature organization are engaging in market penetration are using advertising so that they can increase their reputation and influence client’s brand choice(David, 2013). In this manner advertising assists the organization to attract many clients as a result of that it takes the client away from the competitor that means increasing their market share(Hill and Jones: 2009).

For e.g. when Sasol chemicals considers to sell most of its petrol to Gauteng motorists that it is currently selling. Market development strategy is if organization is deciding to sell is existing products in a new market i.e. geographic markets that it has never participated on before(Kotler and Keller, 2012: 65). When Tymebank decided to launch is South Africa that presented a market development as they were expanding in developing markets.

Such strategy is depending on how the organization utilizing its strong brand name it has developed in the existing market to compete in the new market. When TymeBank decided to come to and launch in South African bank market this was a market development strategy as it took part outside its traditional market(Passenheim,2010).

According to David(2013) market development strategy can be effective if there are inexpensive, reliable , available and good quality distribution channels that are new. If an organization is very successful and strong at what it is doing. Thirdly if there are available unsaturated and untapped market. This is often applicable if the developed company from developed economies is seeking to expand in less growth and developed economies such as South America and Africa (Shermerhorn, 2018).

Additionally, market development is applicable if entity’s basic industry becomes expeditiously global in scope(David, 2013). Many entities which are having excess production capacity in their home countries are normally following such strategy. Finally, if the entity is having the available human resource and capital to manage expanded operations.

Kotler and Keller(2012) suggest that product development strategy is when an organization is developing new products of potential interests to its current markets like the challenger banks did. The new product can replace the existing products which the strategies that the ‘big four’ banks should adopt by replacing their existing products. Product development is essential when it comes to building market share and maintaining product differentiation. Many organizations are utilizing such strategy to improve and fine tune their business model such as Tymebank, discovery bank and bank zero’s model(Hill et al, 2009).

David(2013) suggest that product development strategy includes refining and improving the products via research and development. According to Hill et al(2009) this type of strategy may be as brutal as a price war because it is costly and is contributing dramatically to increased cost structure. For e.g. when RBS(Regent Business School) develops a DBA(Doctor of Business Administration) it targets existing Masters of Business Administration learners and the ones which finished their Masters of Business Administration degrees this can be called initiative of product development .

According to David(2013) the list below is beneficial when implementing the product development strategy.

When a company is having successful products, which are in maturity stage of the product life cycle.

Secondly when a company is competing in industry which is characterized by rapid technological developments.

When major competitors provide better quality products at **cheaper price.**

When a company is having especially strong research and development strategies.

When a company is competing in a high growth industry such as banking industry.

Bordes(2009:9) suggests that differentiation strategies are attractive when consumers preference and needs are too different to be fully satisfied by sellers with similar capabilities or by a standardized product. Differentiation strategies depend on offering consumers with something that is unique or different , which is making the organization service or product distinct from its competitors. The important assumption behind differentiation strategies is that clients are eager to pay more for the product which is distinct.

A superior value is created due to the fact that a product is of high quality , and is having special appeal in some perceived manner, or is technically superior in some manner and it is coming with superior service . In fact differentiation creates competitive advantage by making clients less price sensitive and more loyal to given company’s product. In addition buyers are having low probability of looking for some alternative product when they are happy with the product. Differentiation can be obtained in different ways . A product can be incorporating more innovative design , can be produced utilizing quality processes or advanced material ,or may be serviced and sold in a special manner. Frequently clients are willing to pay more when the service or product is offering a special or distinctive “feel” or value to it. Competitive advantage is achieved when significant number of consumers are becoming more attached to differentiated attributes. Successful differentiation enable a company to: Core concept the concentration of a wide differentiation strategy must be unique in a manner which is valuable to a broad number of clients

Question 1.5.2

Ritson(2013) describes change management as the process of gaining the enterprise intelligence to carry out transformation planning by evaluating company’s cultures and people to establish how changes in technology systems , organizational processes, structures, organizational design, and business strategies, can affect the enterprise. Change management as systematic approach that includes the application of tools, resources, and knowledge to deal with the change. This is a coordinated structured period of transition from 1 scenario to the other that should last for a company. Change management is employed based on how much risk can be linked without doing so. Other times if more resistance is expected to a change and it can disturb operations of the organization when change is not managed. Resistance to change is described as behaviors which are acted out by recipients of change so that they can terminate or slow down an intended change of the organization.

According to Hughes(2011) the resistance to change causes include lowering of status, disruption to social arrangement , psychological threats , job displacement, reduction in economic security and substantive change in job. Hoisington and Vaneswaran(2015) suggest that the main reasons why organizations and individuals are resisting change is inertia. Change management  is collective term for all approaches to help, support, and prepare organizations , teams and individuals to make companies. The most usual change drivers involve: consumer habit changes, crisis, process reviews and technological evolution; pressure from organizational restructuring, mergers, acquisitions and new business entrants, and It involves techniques which redefine or redirect the budget allocations, business process, use of resources, or some modes of operation which drastically change an organization or company.

The elements of change management that the ‘big four’ banks should undertake to counter the threat of the challenger banks are:Critical success factors, Communications issues ,Change dynamics — resistance to accept change , Variables related to the management of the implementation process , Evaluation stages of the change process.

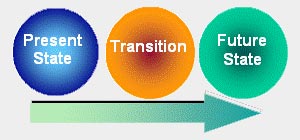
Change is seldom **if** we have **ever** seen a simple process, particularly within a company . This means for company’s change to succeed , it must have 4 important characteristics. 1st, it is a vision? Individuals should picture what the change is going to be and understand how they will fit in to a new system. 2nd, is a motive? This is answering a question "why," to justify the need for a change. 3rd, a change should have a strategy, offering information on how, when, and where it can be implemented. The 4th and last successful characteristic for change is leadership. The people driving change in a company are named change agents. These change agents are essential in determining to how change can accepted and be implemented in ‘big four’ banks. The people who are leading a charge must indicate both social and technical skills. Change agents must have a powerful social skills. Successful leaders can be able to communicate and define expectations from every person in the company in a non-threatening and non-confrontational way. In addition to social skills, change agents should also have technical front, change agents should have the knowledge regarding the specific process that is being changed, as also how it affects and interacts with some processes in the company. This is building their credibility as leaders.

In reality, change agents should sell change across the company. Change agents should be diplomatic in their interactions and require a solid understanding of some disciplines in the company , and have the will to influence policy and asking tough questions wherever suitable. In addition change agents should be thick-skinned and trustworthy enough to face resistance and criticism to change. Lastly, change agents must be effective in training, facilitating, practicing and communicating the company’s improved and new way of being.

1 of the important tasks for change agents is forming a strategy for implementation of change. This strategy development is critical when change is to succeed—normally it follows 6 steps. First step, is picking something which is simple and has extensive company’s support, maybe where the answer is already implemented at some other place. Second step is building momentum for the change between staff and making it a grass roots effort . Meanwhile the journey may be done on the change agent’s shoulders, with no support from the entire the company this means they will not get very far. Third step identifying more potential "hot buttons" of the audience as possible. Fourth step is translating the answer so that it is reflecting how the change is satisfying each of their requirements, particularly the ones regarding speed, service, quality, and cost. Fifth step , when possible, choose the suitable time for the change to occur ; maybe if there is production down-time . Lastly, when the agent, is taking part in the himself. An individual implementing company’s change should be wearing number of different hats.   Successful change agents indicates remarkable ability to adapt  within a wide skill set.

Transformation planning is a process of creating a strategic plan for changing company’s business processes via the modification of processes, procedures, and policies to driving the company from an "as is" state to a "to be" state. (Freeman, 2010). The ‘big four’ banks employees should acknowledge the social processes and other factors (for example., competencies, strategy, structure, culture, leadership, and psychological contracts) which are having an impact on the successful transformation of a complex organizational system.

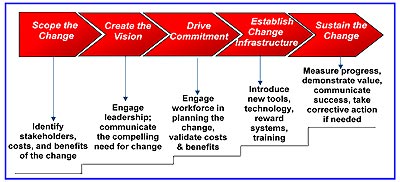
The organizational change management objective is to allow the ‘big four’ banks stakeholders and other members to adapt to organization’s new systems, mission, vision and, also identifying sources of change resistance and minimizing resistance to them. Companies are always in a state of change, whether the change is episodic or continuous . The change is creating strain and tension in company’s social system that the company should adapt so that it can evolve. Organizational change and transformational planning is the organized management of change activities which have an impact on users, as imposed by altered or new business procedures, processes, or policies, and related systems which are implemented by a sponsor. The goals are to successfully transfer skills and knowledge which allow them to adopt the new systems, mission, and vision to minimize and identify sources of resistance to the new changes.



Organizational Transition Model

As indicated on diagram above , the discipline of OCM(organizational change management) is aiming to assist in moving company’s technology, processes and people from the existing "as is" state to the desired future "to be" state. To guarantee sustainable, long-term, and effective outcomes , there should be a transition throughout where the needed changes are accepted, understood, introduced, and tested . Individuals must let go of current attitudes and behaviors , and move to new attitudes and behaviors which sustain and achieve the desired business results. This is why organizational change management is an important component of every enterprise transformation program: This offers a systematic approach which is supporting both the individuals within and the company as they implement, accept, plan, and transitioning from the current state to the future state. (Bolanle, Olanrewaju &Muyideen, 2012)

Navigating the Change Process: The employees need to evaluate change as a process and work in partnership with the other company’s employees to develop recommendations and appraisals to resolve and identify complex organizational issues. The change process illustrated is created in helping to evaluate where the company is in the change process and establish what it requires to do as it is moving via the process.



An Organizational Change Process

By completing and defining a change process, a company can be able to document and define the activities which should be managed throughout the transition phase. Moving via such stages assists in ensuring sustainable, long-term, and effective outcomes. Such stages unfold as a company is moving via the transition phase where the needed transformational changes are accepted, understood, tested, and introduced in a way which allows people to let go of their current attitudes and behaviors and create new skills required to sustain desired outcomes of the business.

**Question 2.1**

Shermerhorn, (2018) state that strategy is determining the scope and direction of a company over a long-term period, they suggest that it must establish how resources must be configured to meet needs of the stakeholders and markets. Simultaneously Coccureddu(2014) describes strategy as designed, crafted response to an important and specific challenge.

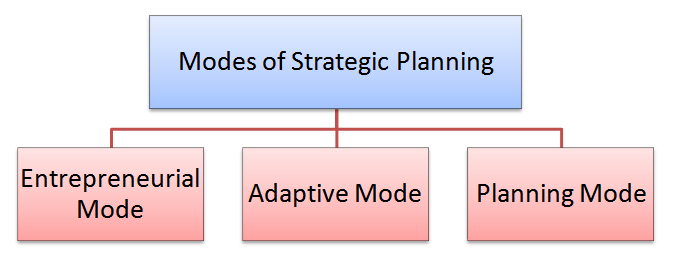
The effectiveness of the growth of strategy is assessed via organization increasing assets, revenue and profits. The company’s growth of strategy must be effective and must satisfy the major efficiency measures of effective growth that are growing assets, revenue and strategy. The annual results must show more percentage growth in revenue.

The nature of company’s strategy has an impact on the choice and nature of structure. It is important that company’s structure should support and influence its strategy if the desired outcome must be achieved . For instance, when the strategy is stability oriented therefore the choice of structure must be based on proposition in which there is going to be less significant change taking place in the company(shermerhom, 2006: 245-246).

In addition, it means the plans and the operations must be implemented and programmed routinely. To best assist the strategic structure approach , the company structure must be predictable and well defined .On the other hand if a strategy is growth oriented the current situation is becoming more uncertain, fluid and uncertain(shermerhom, 2006: 245-246

 In the management field ,strategic management  includes the implementation and formulation of important initiatives and goals taken by company's top managers on behalf of owners, depending on consideration of resources and an assessment of the external and internal environments where the company operates.

The strategy-making process consists of 3 basic modes: the entrepreneurial mode, in which decisions that are bold are taken by decision-maker who is powerful; the adaptive mode, in which coalition of decision-makers are reacting to environmental pressures with disjointed and small steps; and planning mode, in which analysts are integrating strategic decisions to systematic plans. Henry Mintzberg Califonia Management Review, Vol.16 No2 WINTER 1973, (pp 44-53) DOI: 10.2307/41164491



During entrepreneurial mode, strategic plan is made by a single person. That person is taking the full accountability to plan for production department. This means, that person is doing production planning on behalf of the production department. A company must have entrepreneurial skills. Which is person who is good in motivating, organizing, planning, etc. In addition that person is a bold and strong leader.

During adaptive mode, the production manager goes on modifying his plans depending on the changes in the environment. This person is 1st making a huge plan, therefore she is breaking it into small plans. It is made to adapt with a dynamic environment. Therefore she tries to integrate all the plans to do a strategic production plan. In such technique, the production manager is not at peace. She is working in an environment which is not organized. Then , in addition her plan is disorganized. Every company having some adaptive mode reason being companies always adjust to the dynamic environment.

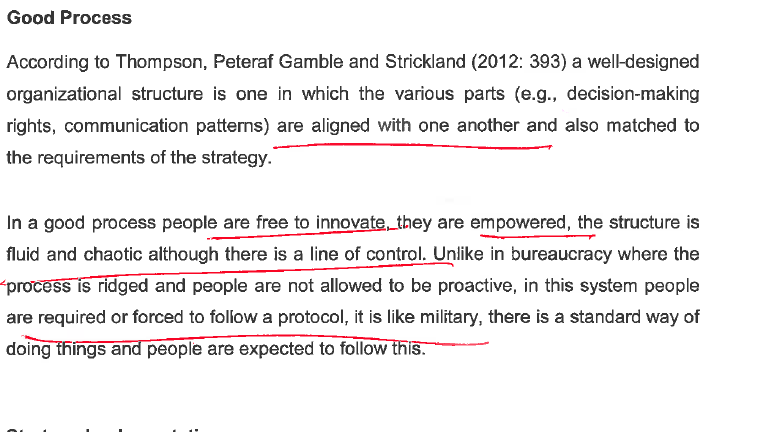
During planning mode, the production manager is making a plan after analyzing the resources and objectives of the company . She cautiously takes into consideration each and every factor prior making a plan. In such technique , her approach is rational. She is giving prime importance to management science. Then , her planning is logical. Company’s modes of strategy making is to plan mode of strategy. The management’s blue print for offering a valuable services or product to clients in a way which can make revenue sufficient to cover the cost and produce attractive profit (Essentials of Strategic management 3rd edition 2013). An organization is muddling via rapidly changing and complex environment with smaller steps. Utilizing the plan mode as starting point on proactive searching for reactive and new opportunities solution of current challenges. Such mode supported by company is normally utilized by big companies that are having enough resources to carry out detailed analysis. With regards to company’s internal system to reach agreement on major goals/ decision in best approach to succeed strategically in an environment which is changing fast. It is operating in an environment which is having enough stability to allow the implementation and formulation of carefully conceived strategies. FNB’s mode is efficient, brief and fast and backed by resource availability (Capital, Skilled, workers experience, New Technology etc).

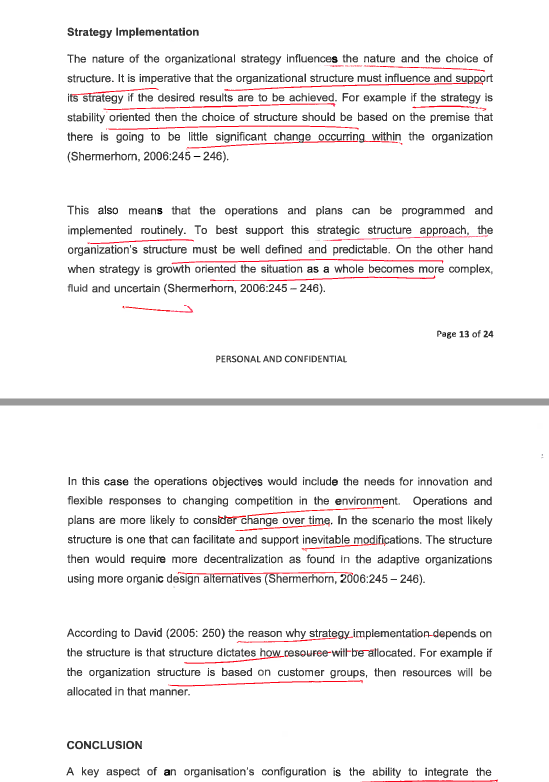
FNB operating business units in their portfolio that has being independently managed with its own teams, structure and with suitable planning and budgeting back up. FNB is a quirky organization; it has the potential of transforming itself organically and continuously without to buy in an army of change management consultant, or announcing a bunch of top down directives, formulation of complicated strategies and mission statements.

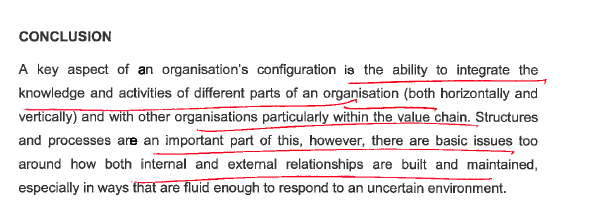
Abandoning control of operations is the best mode of strategy which FNB operated with. The company believed that individuals can act in their best interest and by extension in the company’s best interest when complete freedom is offered to employees. Company’s mode of strategy which was supported strongly to oppose reining employees , informing them how to think, and what to do which is becoming stagnant, bureactic and inflexible. Nevertheless applying force to change is the greatest surest manner to frustrate change. He highlighted on fulfillment at work, FNB is having endless array of wise initiatives and practices geared in increasing individual autonomy. FNB can decide to treat people maturely, by not spoon feeding them: an environment in which people live to go in the morning, he had a believe strongly in giving up control. He did not believe in directing each details since control is the proposition where management is based, abandoning control is harder than it seems. This is resulting to fearlessly, continually, asking why. FNB apparently makes success and money by letting it happen. FNB believes in competitive advantage, FNB is clear regarding why it does what it does.

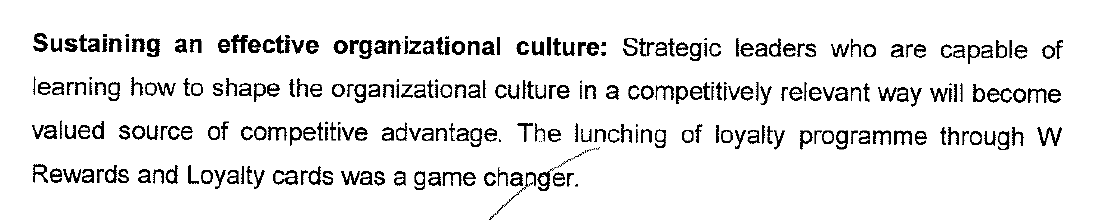
**Question 2.2**

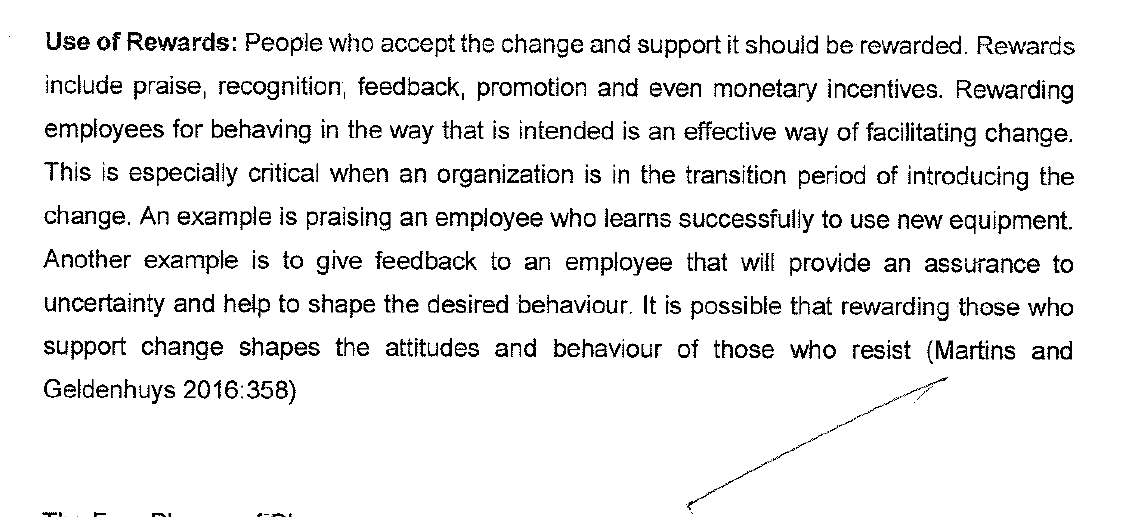












An organizational structure describe how activities like supervision, coordination, and task allocation are directed toward the achievement of organizational aims. Organizational structure has an impact on organizational action and offers the base on which standard operating routines and procedures rest. Organizational structure establishes which individuals are taking part in which decision-making processes, and there to what extent individual views shape the actions of the organizations.

In addition, organizational structure may be considered as the perspective or viewing glass via which individuals view their company and its environment. A company may be structured in number of different ways, based on its goals. The structure of a company can establishes the modes where it performs and operates. Organizational structure enables expressed allocation of responsibilities for various processes and functions to various entities like the individual, workgroup, department and the branch. Organizations must be caring, innovative, flexible and efficient so that it can [accomplish](https://www.bing.com/search?q=define+accomplish&FORM=DCTRQY) a sustainable competitive advantage.

The organizational structure establishes how the company operates or performs . organizational structure term is referring to how individuals in a company are organized and to whom they are reporting to. 1 traditional way of arranging people is by function. Other general functions in a company involve accounting, human resources, marketing, and production. This arranging of specialization is leading to operational efficiency, where workers are becoming specialists in their own realm of expertise.

Simultaneously , the many typical issues with functional organizational structure is that communication in the organization may be instead of rigid, making the company inflexible and slow . Thus, lateral communication among functions is very essential , in order for information to be disseminated not just vertically, also horizontally in the company . Communication in a company with functional organizational structures may be rigid reason being the high degree of formalization and the standardized manners of operation . 1 of the latest organizational structures created in the twentieth century is team and team building, or the related concept of team development. In businesses that are small, the structure of the team may describe the entire organization.

The organizational structure which is created might not [coexist](https://www.bing.com/search?q=define+coexist&FORM=DCTRQY) with the facts, that evolve in operational action. This divergence lowers performance, if growing as an incorrect organizational structure can obstruct cooperation and therefore hamper the completion of orders in due time and within limits of budgets and resources. Organizational structures must adaptive when it comes to processing requirements, focusing on optimizing the input to output and ratio of effort .

Managers must design a suitable reward systems and organizational structures.  Organizational culture contains behaviors and values which is contributing to the unique psychological and social environment of a business . The organizational culture impacts the way people interact. When a company is not possessing a healthy culture or needs other type organizational culture change, changing process maybe daunting. Organizational culture may slow down change efforts, particularly where workers know their roles and expectations which they must play in a company.

It is corroborated by Shermerhorn(2006) who suggests that seventy percent of all change efforts are failing reason being the culture of company's employees. 1 important reason this type of change is complex is that the organizational structures and organizational cultures where they are embedded, are frequently reflecting the "imprint" of previous periods in a persistent manner and show remarkable inertia levels (Schein, 1990).

**Question 3**

CSR is a kind of international private business self-regulation meanwhile when it was practicable to define describe corporate social responsibility as a corporate ethic strategy or internal organizational policy or, that time is gone as different international laws were created and different organizations have utilized their authority to drive it beyond industry-wide or even individual even initiatives.

Meanwhile it was taken into consideration as a part of corporate self-regulation for a while, over the past ten years or so it moved greatly from decisions of voluntary at individual organizations level , to mandatory schemes at international, national ,and regional levels. Considered at the organizational level, corporate social responsibility is normally perceived as a policy of private firm. [Essentially](https://www.bing.com/search?q=define+essentially&FORM=DCTRQY), it should be integrated into and align with a business model to be successful.

With other models, a company’s implementation of corporate social responsibility is going beyond agreement with requirements that are regulatory, and it is engaging in "actions that come into sight to further other social good, beyond the firm’s interests and which is required by law". The choices of 'going beyond', failing to comply, and 'complying' with the law, are 3 distinct strategic choices of an organization. Meanwhile in some areas like labor or environmental regulations, workers might decide to comply with the law, or move beyond the law, some companies can decide to flout the law.

Such companies take on plain legal risks. The nature of the legal risk, nevertheless, is changing if awareness is focusing on soft law. Soft law can cause legal liability especially if businesses is making claims that are misleading regarding some practices, ethical credentials or their sustainability . Generally, businesses can decide to engage in corporate social responsibility for ethical or strategic purposes. From a strategic point of view , the objective is increasing shareholder trust and long-term profits via high ethical standards and positive public relations to lower legal and business risk by taking accountability for actions of the corporate.

Strategies of corporate social responsibility motivate the organization to create a positive impact on the stakeholders and environment which include communities, investors, employees, consumers and others. From an ethical point of view, other businesses can accept corporate social responsibility practices and policies because of senior management ethical beliefs . For e.g., a Chief Executive Officer can believe that a harm which caused to the environment is ethically objectionable. Proponents suggest that companies are increasing long-term profits by operating with a perspective of corporate social responsibility, meanwhile critics suggest that corporate social responsibility is distracting from businesses' economic role.

A research done in two thousand compared current econometric studies of the relationship among financial and social performance, deciding that the contradictory outcome of past researches reporting neutral, negative, and positive financial effect, were caused by flawed empirical analysis and suggested when the research is specified properly. Corporate social responsibility is having a neutral effect on financial outcomes. Critics were questioning "unrealistic expectations" and other times the "lofty" in

corporate social responsibility or that Corporate social responsibility is just an attempt, or window-dressing to pre-empt the government’s role to monitor powerful multinational corporations.

Together with such critical point of view, sociological and political institutionalists decided to be interested in corporate social responsibility in the context of theories of capitalism, neoliberalism, and globalization. Other institutionalists looked at corporate social responsibility as a capitalist legitimacy form and specifically point out what started as a social movement [versus](https://www.bing.com/search?q=define+versus&FORM=DCTRQY) [unrestrained](https://www.bing.com/search?q=define+unrestrained&FORM=DCTRQY) corporate power was changed by companies into a "risk management" and a "business model" device, frequently with questionable outcome.

Ehlers and Lazenby(2015) suggest that Corporate social responsibility is titled to support a company’s mission and also serving as a guide to what the organization is representing for its clients. Business ethics is the applied ethics part which is examining ethical , moral problems or ethical principles which may arise in an environment of the business. . ISO 26000 is the acknowledged international standard for Corporate social responsibility. Public sector companies stick to triple bottom line . It is broadly believed that corporate social responsibility sticks to the same principles, yet with no act of legislation which is formal.

Corporate social responsibility is also called responsible business, conscious capitalism, corporate citizenship, corporate conscience, corporate sustainability, or sustainable business.

Verification

CSR and its resulting efforts and reports must be verified by the buyer of goods and services. The reporting , auditing , accounting, resources offer the basis for consumers to verify that the products are socially sustainable. Because of an increased awareness of the requirement for corporate social responsibility, most industries created their own verification resources. They involve companies like Kimberly Process, International Cocoa Initiative, and Forest Stewardship Council. The UN Global Compact offers frameworks not just for verification, but as well as to report violations of human rights in corporate supply chains.

The growth of ethics training within companies, part of it required by regulation of government, has assisted with the spreading Corporate social responsibility. The purpose of this training is to assist workers to make ethical decisions if the answers are not clear. The more direct advantage is lowering the possibility of damaged reputations, fines, and "dirty hands" for breaking moral norms or the laws . Companies get increased workers pride and loyalty in the company .

Community involvement: it may involve to raise money for engaging in fair trade practices,

supporting local economic growth, employing local workers, sponsoring local events, providing volunteers, local charities, etc.

Common Corporate social responsibility actions involve:

Ethical marketing: Organizations which ethically market to buyers place more value on their clients and respect them as individuals who are ends in themselves. Organizations are not trying to falsely or manipulate advertise to potential buyers. It is essential for organizations which are trying to be viewed as ethical.

Environmental sustainability: this may include 'greener' supply chains, reusable materials, renewable energy, water management, waste management, recycling, supporting Environmental Design and Leadership in Energy building standards and lowering paper use.

Human capital enhancement: Organizations offer more resources for capacity building of local workers , involving language classes, adult basic education, professional and technical training.

Other national governments are promoting environmentally and socially accountable corporate practices. The heightened government roles in corporate social responsibility has facilitated the creation of many corporate social responsibility policies and programs. Different governments in Europe decided to push organizations to create sustainable corporate practices. Additionally Germany determined the German Trade Union Confederation in nineteen forty nine to [farther](https://www.bing.com/search?q=define+farther&FORM=DCTRQY) promote corporate social responsibility; the confederation is representing the interests of forty five million employees in Germany. Wage , job security are growing with the industry growth are important aspects of collective bargaining in the German labor system.????

According to the corporate social responsibility Journal, the generation of millennials across the globe assist propel brands toward social responsibility. Most millennials are trying to conduct business with trademarks and organizations which employ ethical business practices, sustainable manufacturing processes, and pro-social themes. Nielsen Holdings has published its Annual Global Corporate Sustainability Report in twenty seventeen focusing on sustainability and as well as global responsibility. Nielsen's 2015 report indicated that sixty six percent of buyers can spend more on products which come from brands that are sustainable. The other eighty one percent are expecting their preferred corporate institutions to [disclose](https://www.bing.com/search?q=define+disclose&FORM=DCTRQY) in public their statements regarding corporate citizenship?????

Since the nineteen sixties , CSR drew awareness from a group of stakeholders and businesses . A broad selection of definitions were created yet with little consensus. Part of the issue with definitions has increased because of different interests that were represented. A government official can view it as voluntary regulation, an NGO activist may see it as 'greenwash' , while a business person can define corporate social responsibility as a business strategy.

" Additionally, disagreement regarding definition can arise from the disciplinary approach."

CSR is defined by Sheehy as "international private business self-regulation." Meanwhile Carroll???? did not define corporate social responsibility, yet easily arguing for classification of activities,

Sheehy ?????created a definition different after the science philosophy the philosophy branch of utilized it for defining phenomena. Carroll decided to extend CSR from the legal responsibility and traditional economic to philanthropic and ethical responsibility to respond to the growing worries on ethical issues in businesses, is sharing a belief which states that marketing local products can obtain consumer trust. Nevertheless, environmental efforts received negative perspectives with a belief that it will have an impact on client’s service .

Oppewal et al??.  discovered that not all activities of corporate social responsibility are attracting consumers. They suggested that retailers are concentrating on 1 activity. Becker-Olsen???  discovered that when social initiative are made by the organization, it is not positioned with some organization goals it can result in a negative impact. Additionally Mohr et al.  and Groza et al.??   emphasize the significance of reaching the consumer. Other commentators identified a difference among the Anglo-Saxon, the Continental European And the Canadian approaches to corporate social responsibility. It is said that in in South Africa it is making a positive contribution to social needs like education and health care; for Germans it offers secure employment; and for Chinese consumers, a socially responsible company is making high-quality, safe products.

Corporate social initiatives :corporate social responsibility involves different kinds of corporate social initiatives: Organizations are not having a profit motive if they take part in in community volunteering and corporate philanthropy. Simultaneously, the corporate social initiatives that are not yet used may be e.g. of cause marketing, where there is both a profit motive and societal interest.Corporate social responsibility can be a separate unit reporting to the board of directors or the CEO, can be based within the public relations departments or business development of a company, or human resources. An engagement plan may help in reaching intended audience. A CSR team or individual plans the objectives and goals of the company. Like any other company’s activity, a defined budget is demonstrating scales and commitment of program's relative importance.

.Social accounting is a communication of environmental and social impact of an organization’s economic actions to specific interest groups to society at large and in the society. Social accounting is emphasizing notion of corporate responsibility . Crowther???? Describe social accounting as "an approach of reporting company’s activities that stresses the requirement to pinpoint socially relevant behavior, the establishment of those to whom the organization is responsible for the development of suitable reporting techniques and measures, and its social performance . "Reporting standards and guidelines are serving frameworks for social reporting, auditing and accounting:?????????/

In the twenty first century, CSR in the supply chain attracted awareness from stakeholders and businesses. Company’s supply chain is a process where different companies including logistics providers , customers and suppliers are working together to offer a value services and package of products to the end user, which is the client.

Corporate social irresponsibility within the supply chain has significantly impacted the companies reputation , which leads to more cost in solving issues. For example , incidents such as the twenty thirteen Savar building collapse, that killed more than one thousand individuals, has pushed organizations to take into consideration the effects of their operations on the environment and society . Simultaneously, the twenty thirteen scandal of horse meat in the UK had an impact on many food retailers, involving Tesco, which is the biggest retailer in the UK, which lead to dismissal of the supplier. CSR from both the retailers and the suppliers had a huge impact on the stakeholders that lost trust for affected business entities, and besides a fact that other times this is not directly tackled by the organizations, they are becoming responsible to their stakeholders. Such surrounding problems are prompting supply chain management to take into consideration the CSR accountability context. Wieland and Handfield ???? state that organizations that require to involve social responsibility in their reviews of component quality. They emphasized the utilization of technology to improve visibility allover the supply chain.

Ethical Quote is used to track reputation of the world's biggest organizations on Corporate Social Responsibility, Governance, Social, Environmental, sustainability and ethics.

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**11.1.2 STRATEGIC AND CHANGE MANAGEMENT [100]**

**QUESTION ONE [60]**

Read the following article and answer the questions that follow

**Can SA’s new challenger banks knock out the ‘big four’?**

For two decades, SA’s banking sector has remained largely the same. The advent of Capitec, in 2001, showed that customers were desperate for something different. Now, three new banks — all backed by powerful SA business personalities — are opening their digital doors, offering something entirely different. So what can they offer that’s new, and how much of a threat is this for the ‘big four’ banks?

**28 MARCH 2019 STEPHEN CRANSTON**

Financial services used to change slowly. Twenty years after Douw Steyn launched the direct-to-consumer insurer Auto & General in 1985, insurance was still largely sold through brokers, and index funds still accounted for a tiny portion of investment assets.

Banking changed even more slowly. More than 25 years after the launch of the internet, most banks still distribute a large portion of their products through a branch network. These branches will still be perfectly recognisable to anyone visiting SA for the first time in 30 years. None of the big banks will rock the boat; they want to protect their collective income. That era has come to an end. In the past few months, three new banks have launched with a leaner, cheaper business model that will change the face of SA banking — Discovery Bank, TymeBank and Bank Zero.

It’s been a long time coming. After Saambou and Fidelity Bank collapsed in the early 2000s, the SA Reserve Bank was for a long time reluctant to let new banks open. But these three new banks are backed by formidable business personalities with deep pockets.

Discovery Bank is part of the wider group run by CEO Adrian Gore, which began as a health-care company in 1993. Discovery boasts Remgro associate Rand Merchant Investments (RMI) as its anchor shareholder.

Tyme Bank is controlled by African Rainbow Capital (ARC), an investment company controlled by the eclectic Ubuntu-Botho group headed by Patrice Motsepe. As the Forbes rich list has it, Motsepe is one of the 1,000 wealthiest individuals in the world, with a fortune of $2.4bn. Before it was bought by Motsepe’s company, TymeBank was owned by the Commonwealth Bank of Australia (CBA), one of the world’s top 10 retail banks.

As for Bank Zero, the most entrepreneurially based of the three, it shows how far the Reserve Bank has come that it got the green light. Bank Zero is run by a maverick group of former FNB executives, most of them with strong technology backgrounds, with a few family and friends as shareholders. The chair and figurehead is the former FNB boss Michael Jordaan, based in Stellenbosch.

Somewhat ironically, Jordaan is Motsepe’s partner in the data-only telecom network Rain. The Bank Zero CEO, Yatin Narsai (former head of FNB retail), runs the business day-to-day from Bryanston.

Discussing the rationale for the bank in an interview with the *FM*, Narsai says SA ranks among the five countries with the highest bank fees in the world. "This is intolerable in such an unequal society, but then the rest of the bottom five were similarly unequal countries in Latin America," he says.

No-one can ignore the competitive threat of cheap banking. Narsai says he personally will save R2 000 a month from his personal and business accounts, when Bank Zero goes live and he can move accounts. "Low fees will become the new normal and I hope that penalty fees will disappear altogether," he says.

The question, however, is what the existing big four banks — FNB, Standard Bank, Absa and Nedbank — will do to counter the threat. "The big banks ignored Capitec in the early 2000s," says Louis Chetty, head of financials at Stanlib, "and lost considerable market share. I am sure they will not make the same mistake again."

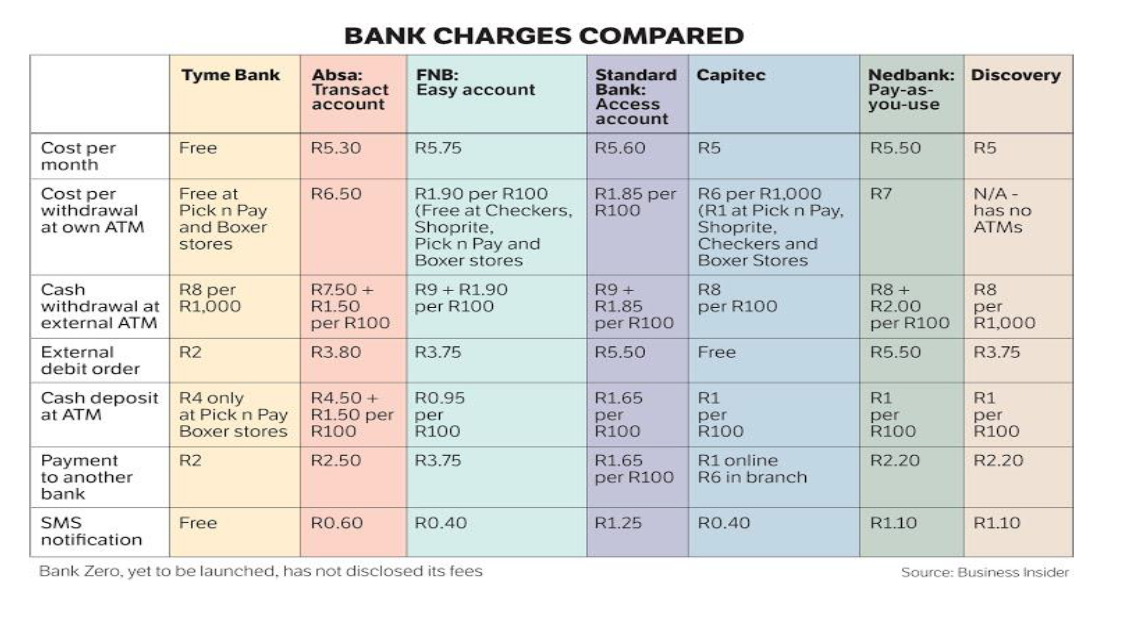
Capitec has more than 10-million customers, who will have been enticed, in part, by the much lower cost of banking. And yet the big four still have 83% of all bank deposits in the country and 92% of all mortgages, which shows how concentrated the market still is.

Harry Botha, a banks analyst at Avior Capital, says it could take three to five years for the challenger banks to make material inroads into the large banks’ earnings.

**Discovery, TymeBank and Bank Zero** are pursuing a branchless model, with their apps being their shop window. This means SA isn’t far behind the rest of the world: the first app-only current account in the UK was introduced by Starling Bank just two years ago. Perhaps if the Reserve Bank had been more open-minded, SA could have beaten them to the punch.

But, globally, this is the trend. No-one should have been surprised by Standard Bank’s announcement two weeks ago that it was closing up to 15% of its branch network — or 91 branches. Botha says Standard’s natural market share has fallen thanks to the success of Capitec and FNB, in different parts of its client base.

Standard Bank CEO Sim Tshabalala called it "realigning the retail and business banking model to the changing needs of customers". And, of course, the convenience of digital banking makes so much more sense than travelling to a branch and queuing



TymeBank chair Coen Jonker tells the *FM*: "The banks have done their best to protect their legacy income streams for years, and the transactional fees on simply taking money in and out of accounts is the hardest to justify. As new banks we won’t have that legacy to defend."

The big four banks have long operated as if they were an informal cartel. Even the one entrant in the past 20 years to grow to large-bank status, Capitec, has adopted a traditional branch-based distribution model.

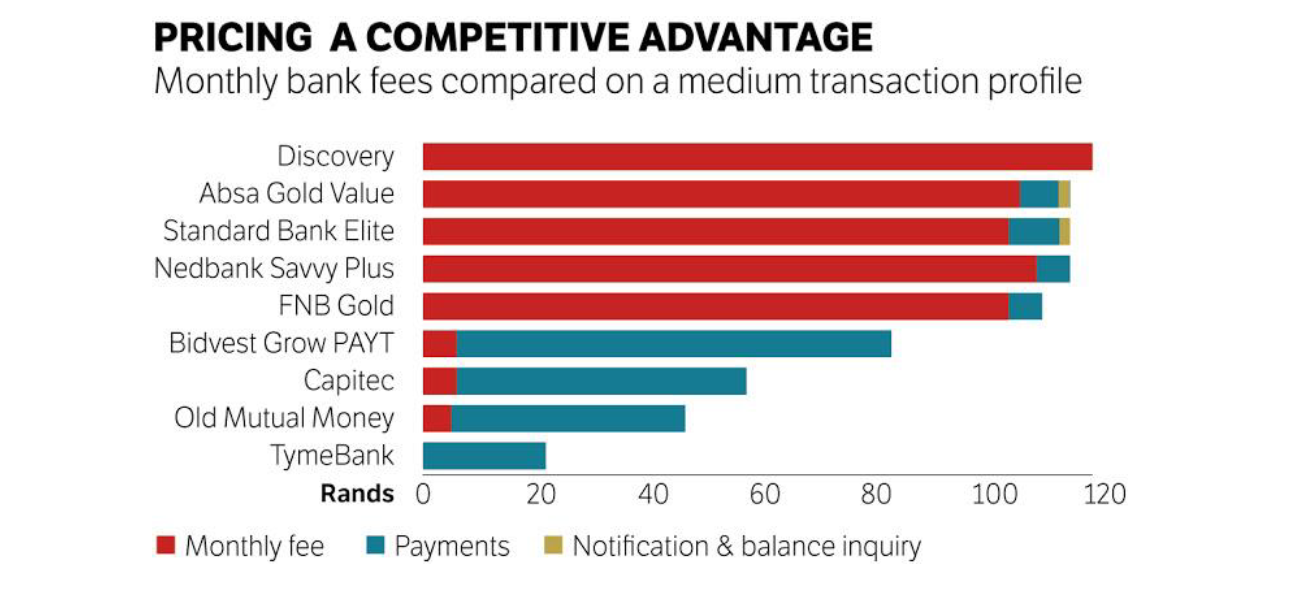
Only Investec has operated without branches — but to a narrow spectrum of high net worth clients. To see what sort of riches are up for grabs, consider Capitec’s trajectory. In its first year on the JSE in 2002, Capitec made revenue of R270m, with just a smattering of clients. By August 2018, it was clocking up R9.3bn in operating income with its 10.5-million customers. Its share price has reacted accordingly: R10 000 invested in the bank at the beginning would now be worth R7.2m.

Fees were a big part of this success. Capitec has a nominal monthly fee of R5, with R1 charged for each digital transaction. Cash withdrawals are more expensive at R6 for the first R1 000 at a Capitec ATM, or a flat R1.60 at till points of retailers like Pick n Pay or Shoprite. As many of Capitec’s transactional clients earn interest of 5% on their deposits, they often get more money coming in than they pay in fees.

These new banks would appear, in part, to be targeting that market. However, Chetty says clients who have a loan with Capitec are unlikely to move their transactional accounts to the new banks in a hurry. "Banking will never be free," says Capitec CEO Gerrie Fourie in an interview with the *FM*. "Even at Capitec, we have a high fixed-cost base."

Interestingly, Capitec is the only bank that is actually increasing its branch footprint, even though 2.2-million clients have migrated to the app and 4-million to the USSD (SMS-based) transactional platform.

At the moment, Capitec has 840 branches, though many are smaller than those of the big banks. The branches have proven invaluable as the predominant sales point for the half-a-million Sanlam funeral policies sold through Capitec over the past year.



Avior’s Botha says SA is still a long way from a zero-fee banking regime, even among the new entrants. But fixed monthly fees and charges for electronic transactions could come to an end sooner rather than later.

Discovery Bank will charge both sets of fees — at least for now.

Gore says banks operate on three legs: fees, interest and rewards. Some banks (like Capitec and the other newcomers) will offer competitive fees and attractive interest on accounts but no rewards programme; while the large banks pay little or no interest on current accounts but have decent rewards programmes.

Gore says Discovery will not attempt to beat the market on fees, for a combined current account and credit card.

Discovery Bank’s lower-income clients (those earning less than R300,000 a year) will pay between R149 and R186 a month in fees; middle-income customers will pay between R213 and R240; and higher-income clients will pay between R275 and R440. For a pure transactional account the fee will be R60 to R120, but as Discovery has no ATMs, cash withdrawal fees will be higher.

But if it won’t compete on fees, Discovery Bank will be second to none with its Vitality Money rewards programme, and the sophisticated way in which it encourages the right financial behaviour.

Discovery Bank will match Capitec’s 5% interest rate on positive current account, and add an extra 1.5% for those in the top tier of the Vitality programme.

The three new banks are not just aiming for the tech-savvy. TymeBank’s former parent, CBA, has a larger market cap than the entire SA banking sector, though it took a softly-softly approach to the new bank. Even before Tyme was registered, it offered money transfer services from Pick n Pay.

Though Tyme doesn’t have any of its own branches, it will have 750 points of sale through Pick n Pay and Boxer stores. This gives it reach into the main urban areas, as well as the rural areas where few banking services are typically available. Boxer customers are more likely to be unbanked, so could prove the most fertile hunting ground for Tyme.

Most transactions are free if carried out at Pick n Pay or Boxer, and cost only R2 if done elsewhere, and the bank pays up to 10% interest on positive balances. TymeBank has such low costs because it is cloud-based and highly scalable, and has minimised the bells and whistles. Incredibly, there are just 125 staff keeping the bank running. Clients can join through the TymeBank website, but by far the most popular recruitment tool has been self-service kiosks, which provide a new card within five minutes.

CEO Sandile Shabalala says the bank will start offering loans next year. It plans to offer keener lending rates because, like Capitec, it will be able to cross-subsidise its transaction and deposit books from its loan income. The tipping point for Tyme, at which it becomes profitable, is 2-million customers and 700,000 loans.

It is almost an accident that Motsepe’s ARC took full control of the bank after CBA pulled out suddenly to retreat to its home market and cut exposure to emerging markets.

Johan van Zyl, the co-CEO of ARC (and chair of Sanlam) says he was pleased CBA was the controlling shareholder while the bank was being registered because it is a bureaucratic, by-the-book organisation with huge experience of banking regulation.

"We would like to bring in an equity partner as we prefer to hold minority positions in companies, not the 73% we currently hold, but it is not an imperative," he says.

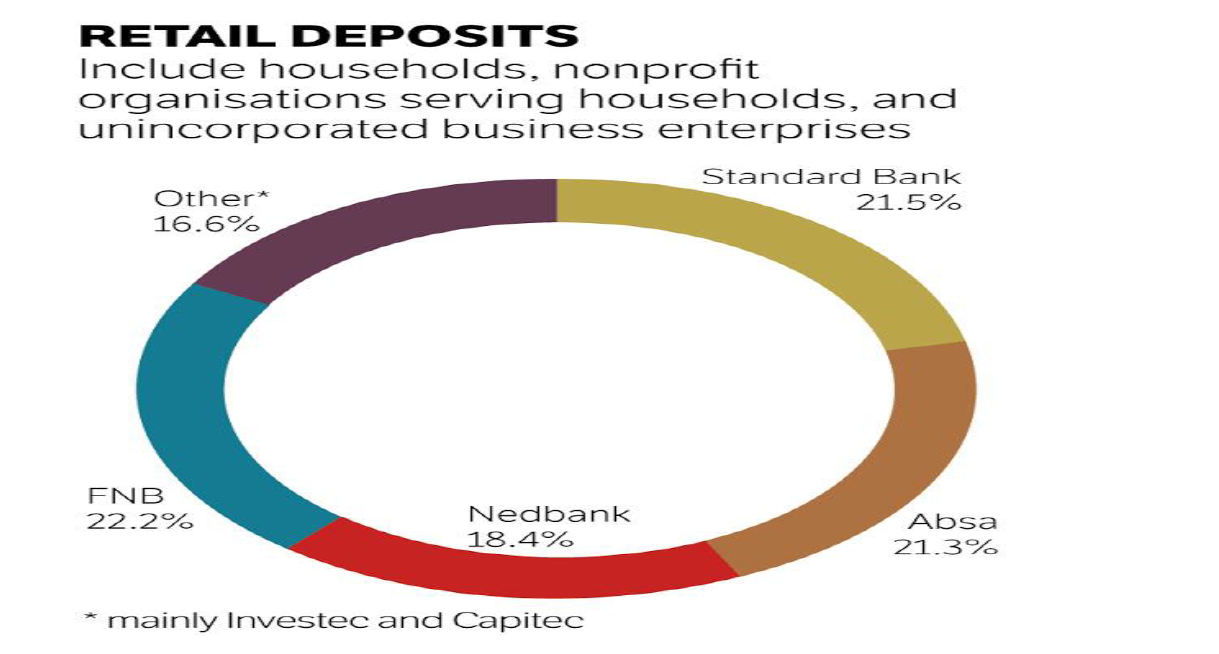
Van Zyl says the Reserve Bank does not want TymeBank to become a Sanlam group company as it wants to keep banks and insurers as separate as possible. TymeBank, he says, will ride the wave away from cash transactions to digital payments.

"We expect the amount of cash in the system to be cut back by two-thirds over the next three years. Increasingly shareholders in the Ubuntu-Botho group find carrying cash dangerous. We were able to issue 1-million cards to members of the Zion Christian Church to facilitate cashless transactions," he says.

For now though, Pick n Pay stores are more than happy to offer excess cash to TymeBank customers at no charge. The retailer’s deputy CEO, Richard van Rensburg, says Capitec also recommends its customers draw money at Pick n Pay tills because it is far cheaper than using an ATM. And a central feature of TymeBank is its access to the information gathered by Pick n Pay on the 11-million members of its Smart Shopper programme, which provides rewards points on all purchases, not just at Pick n Pay. And unlike Discovery, that benefit is not confined to healthy foods. In a much less judgmental way, all purchases qualify.

You might have expected Pick n Pay to have cold feet after the failure of its Go Banking venture with Nedbank in the mid-2000s. But Van Rensburg argues that Go Banking offered similar services to Nedbank, whereas TymeBank has developed products exclusively for digital clients. He says he would not try to set up a bank as a subsidiary of a retailer again, but an alliance between a retailer and a bank makes sense.

Pick n Pay CEO Richard Brasher is also the founder of Tesco Bank, which is owned by the UK’s largest supermarket chain.



Motsepe and his team are facing some other strong personalities over at Bank Zero. Jordaan may just be the nonexecutive chair of Bank Zero, but with his deep knowledge of new technologies, the market seems confident that his bank will be impressive from the start.

Narsai, as head of FNB retail, is even more deeply entrenched in IT than Jordaan. "I am impressed that TymeBank has signed up 120,000 customers in a few months," he says. "[It shows] there is pent-up demand for a good-value, no-frills bank account. But we will be offering considerably more sophisticated functionality."

Other FNB renegades at Bank Zero are chief risk officer Lezanne Human (who also moonlights as the informal head of public affairs), and co-founder and CFO Liné Wiid. Bank Zero, as a mutual bank, will focus on deposits and transactional banking and will not offer loans for the foreseeable future.

"The intention is to keep capital as lean as possible, and considerable capital is needed to roll out loans," says Narsai. It will also focus on the business banking market, where margins are still chunky.

Narsai promises a "creative" solution for clients who might go modestly into the red. But he also hopes to nurture a savings culture through attractive interest rates. Initially, the team had planned to focus on high-margin areas, particularly remittances from neighbouring countries, but they soon realised they had the capability to launch a full-service bank.

Jordaan tells the *FM* that Bank Zero, launching in the second half of 2019, will make money through the interest it charges, fees on third-party transactions and commissions on prepaid products such as airtime. "But with our low break-even you can expect lots of zeros where other banks charge fees," says Jordaan.

Mark Elliott, president of Mastercard Southern Africa, says he is working with Bank Zero to develop a new kind of card that can deliver better security, which is appropriate for today’s increasingly mobile and digital customers.

Bank Zero also keeps costs down by using the cloud, but the heart of the business will be its IBM LinuxOne enterprise server, which uses (free) open-source software. Perhaps Bank Zero’s most serious competitor, at least in the small to medium business sector, could be Mercantile, once it is revitalised under Capitec’s ownership.

Narsai says most banks opt for off-the-shelf IT systems, where both the risk and capital requirements are significant. Bank IT managers naturally gravitate towards packages conforming to past norms, which tend to create a "me too" starting point.

"We have preferred to build our platform to clearly defined bank specifications. We are very comfortable doing this with our deep expertise. And we can design from the ground up for today’s issues such as regulation and cybercrime," he says.

Capitec’s Fourie warns, however, that while new fintech technology providers might be adding value, they fall short on two issues — handling volume and maintaining security. It’ll be interesting to see how Bank Zero navigates this.

**For Jordaan, it’s a natural evolution**. Now living in Stellenbosch, he became CEO of FNB when he was just 36, creating an institution that grabbed plaudits as "the world’s most innovative bank" in 2012.

He says he thrived in the entrepreneurial FirstRand culture fostered by the three founders — GT Ferreira, Laurie Dippenaar and Paul Harris — who embraced start-up ventures such as Discovery and Outsurance. This inspired him to become a backer of small business.

Jordaan left FNB in 2013, because he says 10 years of commuting from Stellenbosch to Johannesburg was enough. There was no love lost between him and Discovery (another FirstRand subsidiary at the time), which he called the enfant terrible of the group and a disrupter, in the days when that was still a swear word.

Jordaan says all the Bank Zero shareholders are active as executives or active directors, with skin in the game.

"Without a big corporate shareholder, we can take a much longer-term view," he says. "We have a cohesive strategy to bring significant customer benefits without the pressure to produce short-term profits."

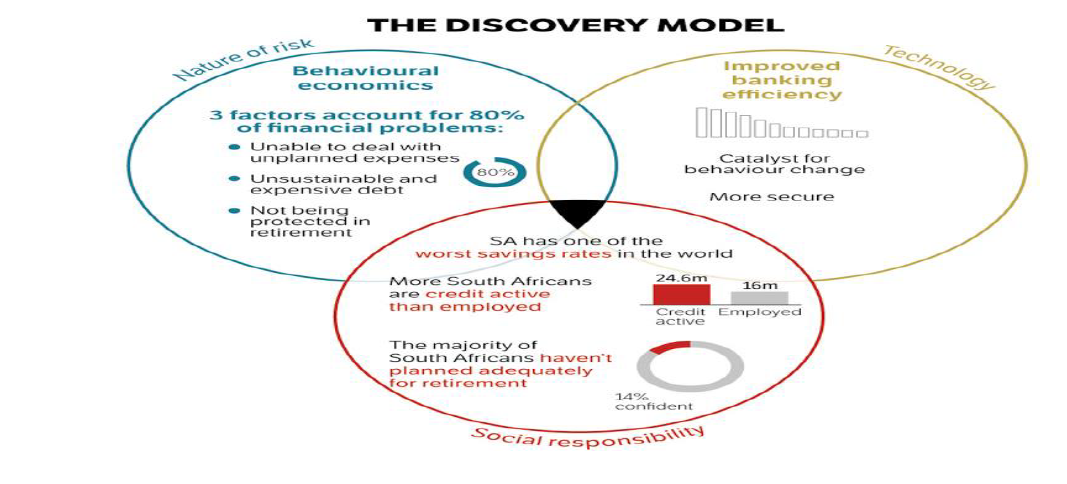
Mutual banks might have a bad name after the collapse of VBS last year under a mountain of fraud, but one of the benefits of the structure is that it allows customers to become shareholders.

If Bank Zero’s model is simple, Discovery Bank’s is the opposite.

The launch included a 70-page "thought leadership" document with chapters on such warm and fuzzy notions as "shared value", "behaviour change" and "people-centric" design. Still, Discovery Bank’s CEO, Barry Hore, promises that the app will be simple to use, once clients get used to it. "It is multifunctional, a bank branch in the palm of the hand," he says.

Interesting features of its model include Discovery Pay, which allows clients to pay any other client without needing to register the person as a beneficiary. Pharmacy co-payments can also be automatically deducted from the bank account.

To date FNB has been the leading bank for innovative features, such as registering as a customer using a selfie from your phone. But Hore says the Discovery platform will ensure that bank customers never need to visit a branch, even to open an account, and from day one cardless capabilities such as Samsung Pay, Garmin Pay and FitBit Pay will be available.



The Discovery Bank app went live this week, and the first stage is to migrate former clients of Discovery Card (which was backed by the FNB platform) into the bank. It will necessarily be a slow process to avoid anything going wrong. But by June, the first 10,000 clients are expected to be onboard.

Discovery’s advantage is that unlike the other two new banks, it is already a household brand. It also has a good chance of capturing the majority of its credit card clients (bought back from FNB) and a sizeable slice of its medical aid and insurance clients. Already, the group’s Vitality programme has cult status among some, and if you believe

their marketing, physically fit people are less likely to be financially irresponsible. And the ability to cross-sell was an important reason for setting up the bank in the first place.For those who are on the main Vitality Health programme (Discovery medical aid members or life policyholders), and who hold a Discovery bank account, there will be plenty of benefits. For example, those on the higher Vitality status can get free membership at Virgin Active or Planet Fitness gyms, while the discounts for flights on Kulula can be up to 75%. There are also cash-back rewards for healthy food at Woolworths and Pick n Pay.

Hore insists you don’t have to be a gym bunny to get a good deal from the bank — people with no other Discovery product still get a 25% discount on fuel and healthy food. But these are the frills. Discovery has not yet revealed how it plans to recoup the considerable start-up costs. It has spent close to R4.5bn between developing the bank systems (which, like those of Standard Bank, are based on SAP products) and buying back the Discovery credit card from FNB. Gore says Discovery could not opt for a simpler cloud-based solution, as Tyme Bank has done, because its system needs to accommodate the complex links between the bank and its Vitality programme and the company’s health, life, investment and insurance businesses.

This suggests it will take longer for Gore’s bank to make a profit than either of its more nimble competitors, Bank Zero and TymeBank, and the marketing spend will be higher. Discovery estimates it could take five years to turn profitable. Gore says the bank has been built from the ground up with the latest technology and features — including the most advanced fingerprint and facial recognition systems — as well as the ability to add accounts with a few clicks. But he is pinning much hope on the behavioural approach and rewards system, which he believes is the differentiator.

Gore challenges the view, expressed by FirstRand CEO Alan Pullinger recently, that SA’s banks already use a behavioural approach to assess the quality of their clients when it comes to risk. "We don’t agree," says Gore. Most banks reward clients for taking out more products, which specifically increases their debt and credit levels, he says. This means there are now 8-million more credit-active consumers than employed people — a big risk to society.

"We don’t push products, but encourage [customers] to follow key behaviour to secure financial health. They get the tools to help them through the Vitality Money programme," he says. Still, it’s clear that Discovery Bank won’t be matching the costs of TymeBank and Bank Zero item-for-item, at least for the average client. Instead, its sales proposition is to help clients achieve financial health and then reward them. Hore says it will set personalised goals based on an individual’s circumstances, and will have a wider product range on day one than its rivals. Discovery will offer credit, transactional products and savings products.

The bank will also offer dynamic interest rates. This means that its best customers (not necessarily its richest), could pay 6% below the market rate for debt and earn 2% more for savings. Hore says Discovery’s "shared value" approach is not meant to punish those who don’t achieve perfection, but rather to nudge people to make better choices.

If the bank takes off as Gore expects, there is plenty of scope to export this model too. While Gore says the bank will start as a purely SA venture, he isn’t ruling out exporting a banking version of the Vitality Shared Value model at a later point.

Discovery Bank might be branchless, but it will have a handful of hi-tech walk-in centres. It will rely heavily on its network of agents and brokers to push clients towards the bank.

This network of brokers and agents is something that TymeBank and Bank Zero don’t have. While Bank Zero is entirely app based, Tyme at least enjoys some advertising through its black and yellow machines at Pick n Pay stores, and has started flighting prime-time TV adverts to lure clients. Chetty says Bank Zero needs to develop a brand and requires a professional marketing campaign to do it. None of the team has marketing experience except for Jordaan, and that won’t be enough to build a brand — even with his Steve Jobs-style charisma.

While there’s electricity in the air in the banking sector for the first time in years, it won’t be a one-way bet. There is, after all, the cautionary tale of SA’s first digital bank, 20Twenty, which launched in 2001 using Saambou as the backbone. 20Twenty never got to critical mass, with just 40,000 clients, and closed in 2006.

But the fact that TymeBank already has 120,000 clients is evidence that perhaps the time is now right. Narsai says that while 20Twenty had a huge marketing budget and a limited range of products, the architecture was quite primitive by today’s standards and the benefit from lower fees was limited.

**WHAT IT MEANS**

Three new banks are set to change the face of SA banking with a leaner, cheaper business model

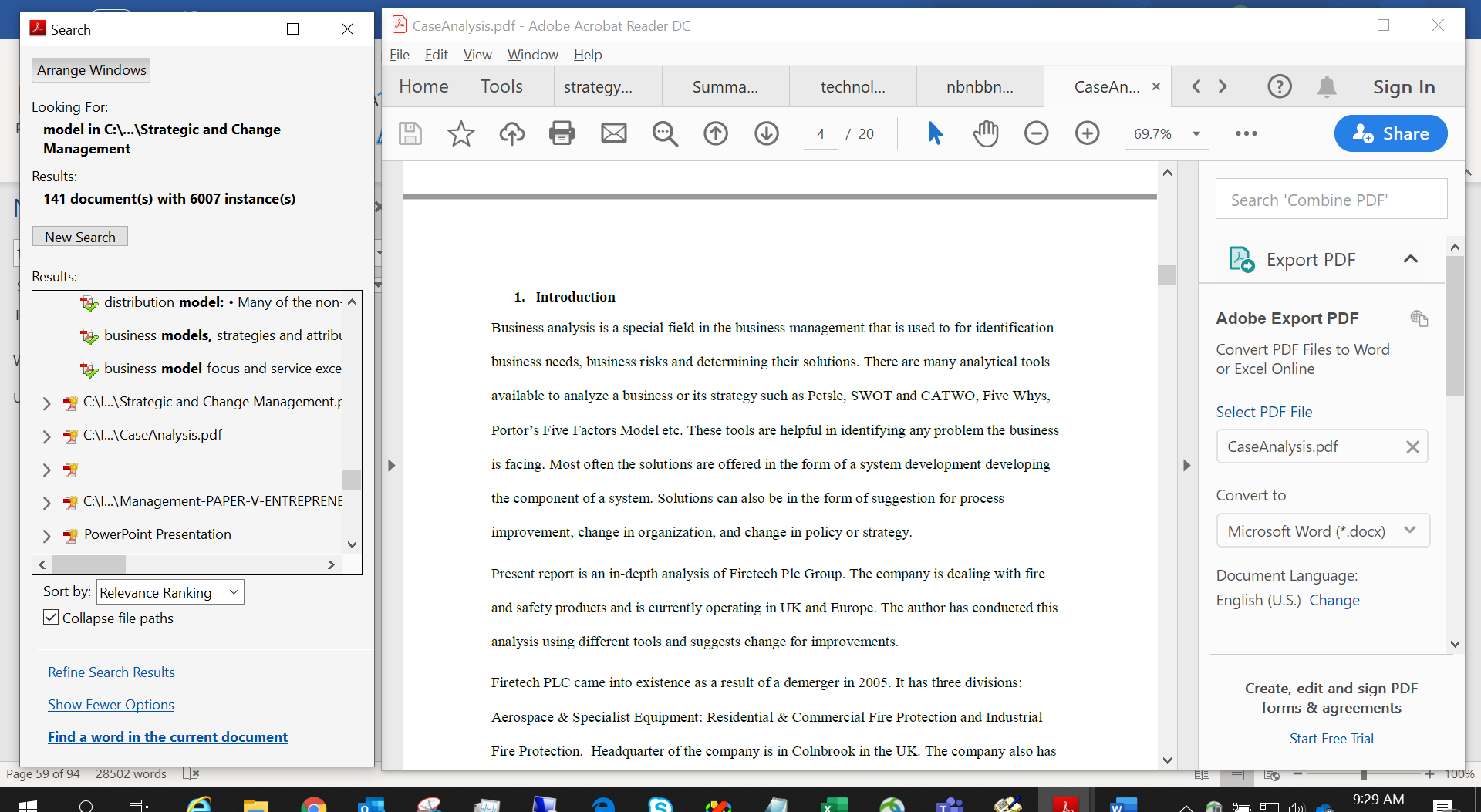
Back then, there were fewer smartphones (it was the age of BlackBerry) and the environment wasn’t inherently as friendly for digital products as it is today. 20Twenty, for example, operated largely through a call centre, and the customer experience was often indifferent.

Though price alone might not be enough to propel the new banks into profit, they are launching at a time of considerable unhappiness over bank fees. It is easier than ever, through apps, to compare fees. Until now, none of the large banks has been prepared to jeopardise their lucrative income stream from transactional fees with a price war. But now they will have no choice.

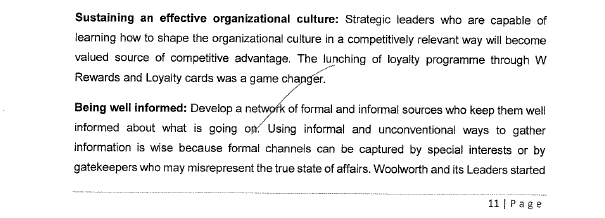
Says Botha: "The big banks will cut fees, but only gradually — they need to cut costs first before they can afford to do so. "At least, in most cases, the big four banks still own the relationship with the customer and can persuade them to stay. Botha says they can be expected to increase their credit spreads on loans to make up for the lost fee income. Capitec is likely to be the least affected, says Chetty, given that it already has a competitive current account with low fees.

This means it will be the big four who will bear the brunt of the industry disruption. Already they’re scrambling, introducing innovations like joining up with just a selfie. But they may have left it too late to ride the tsunami of change.

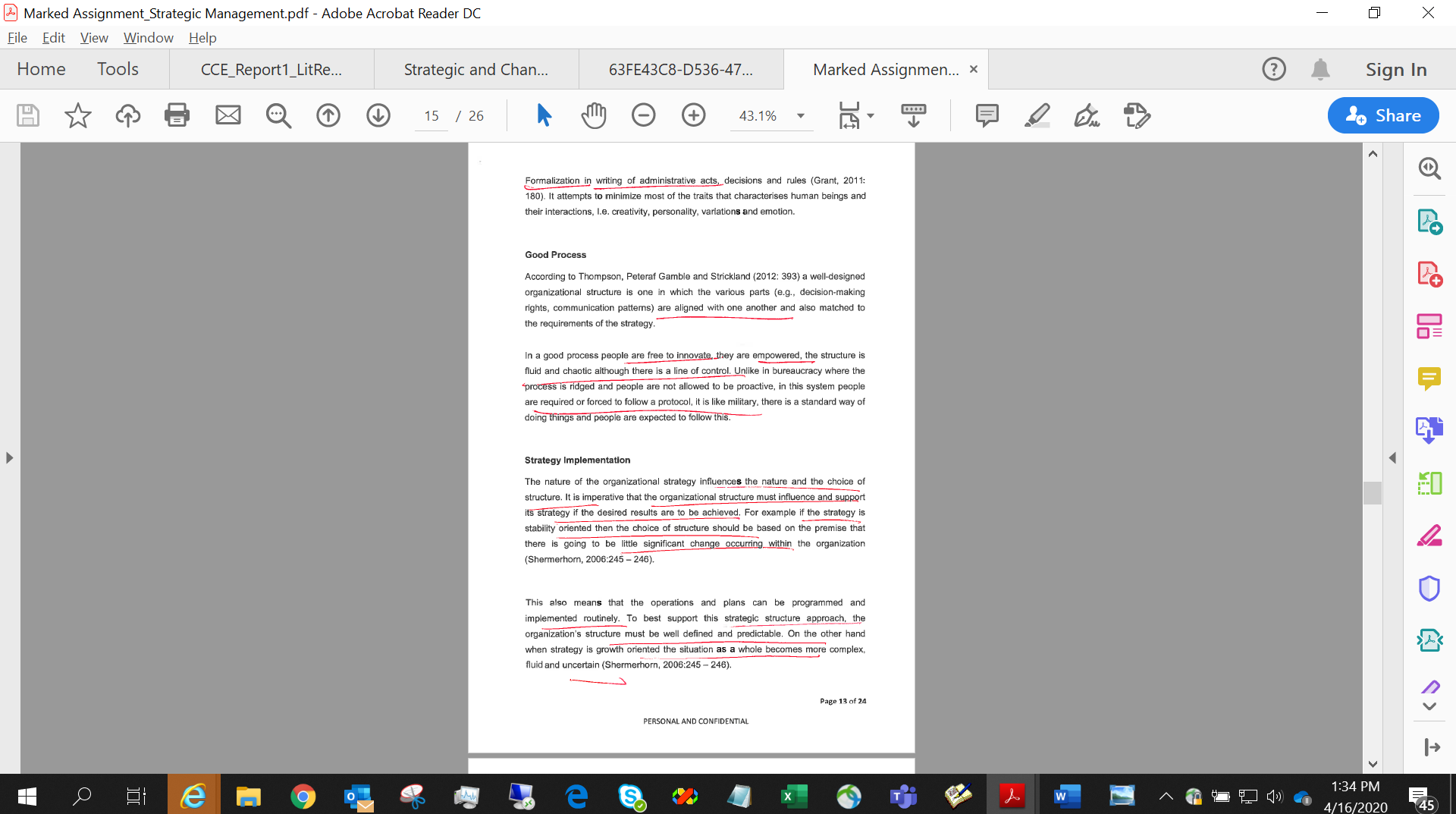
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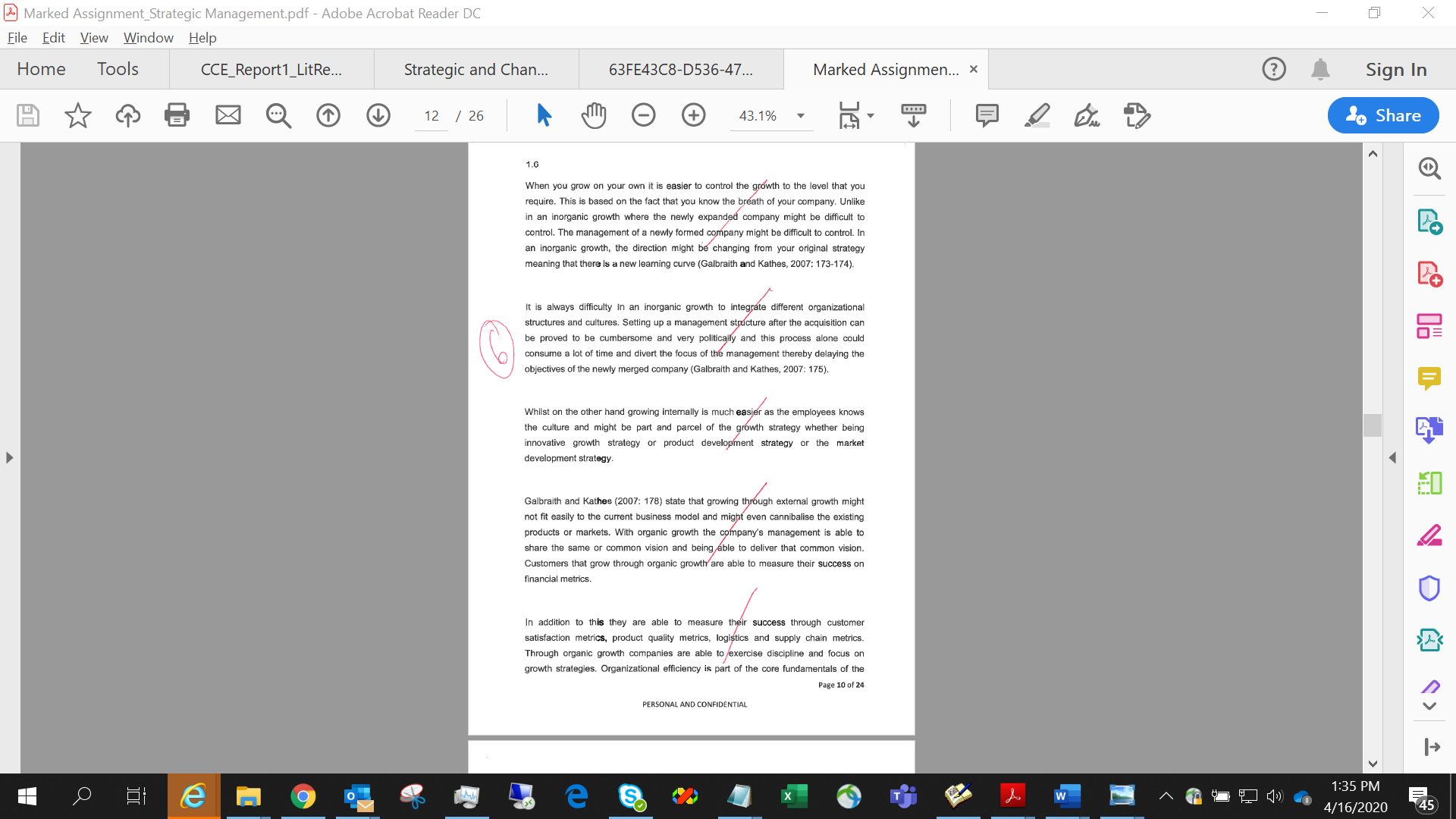
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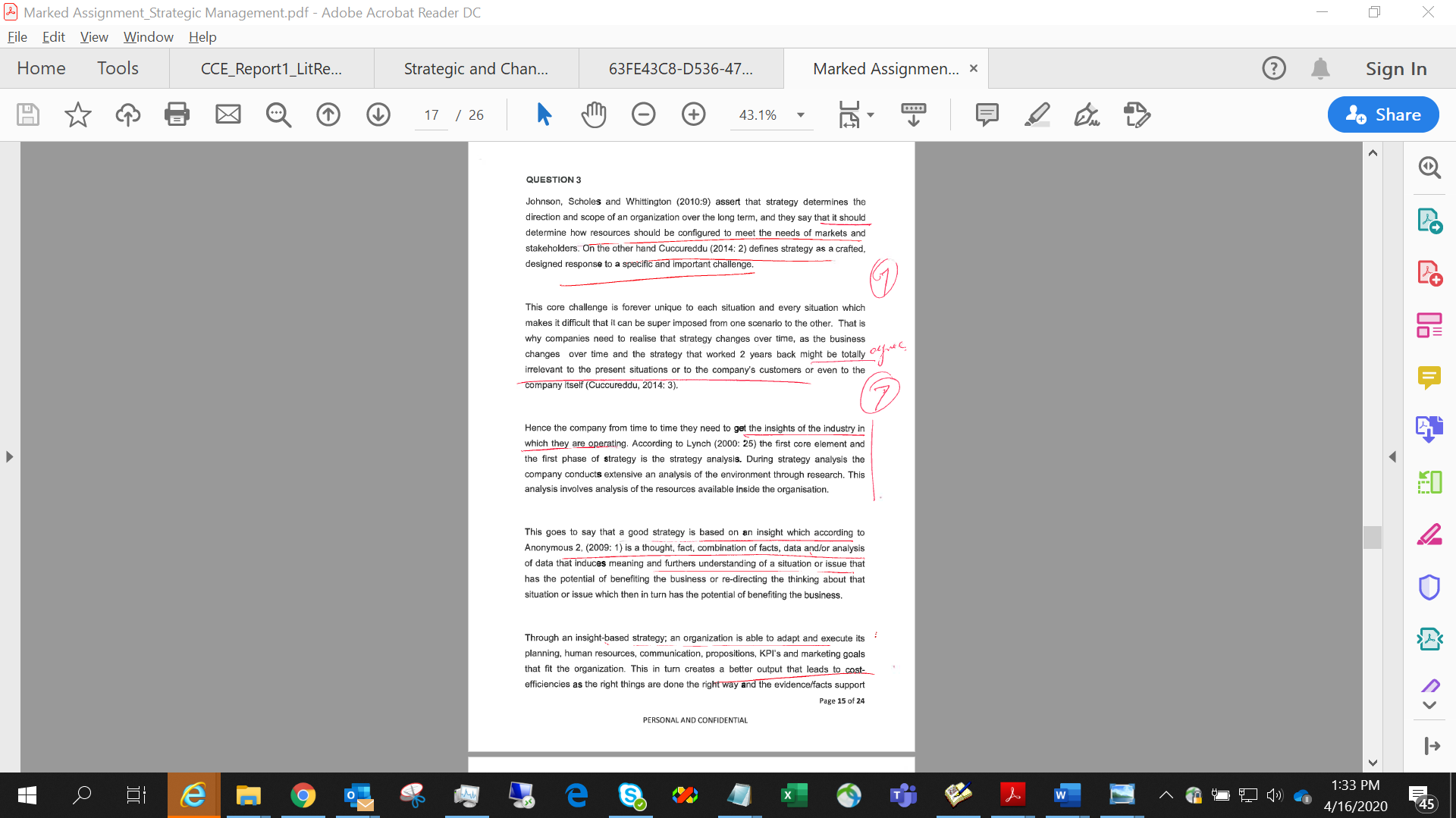
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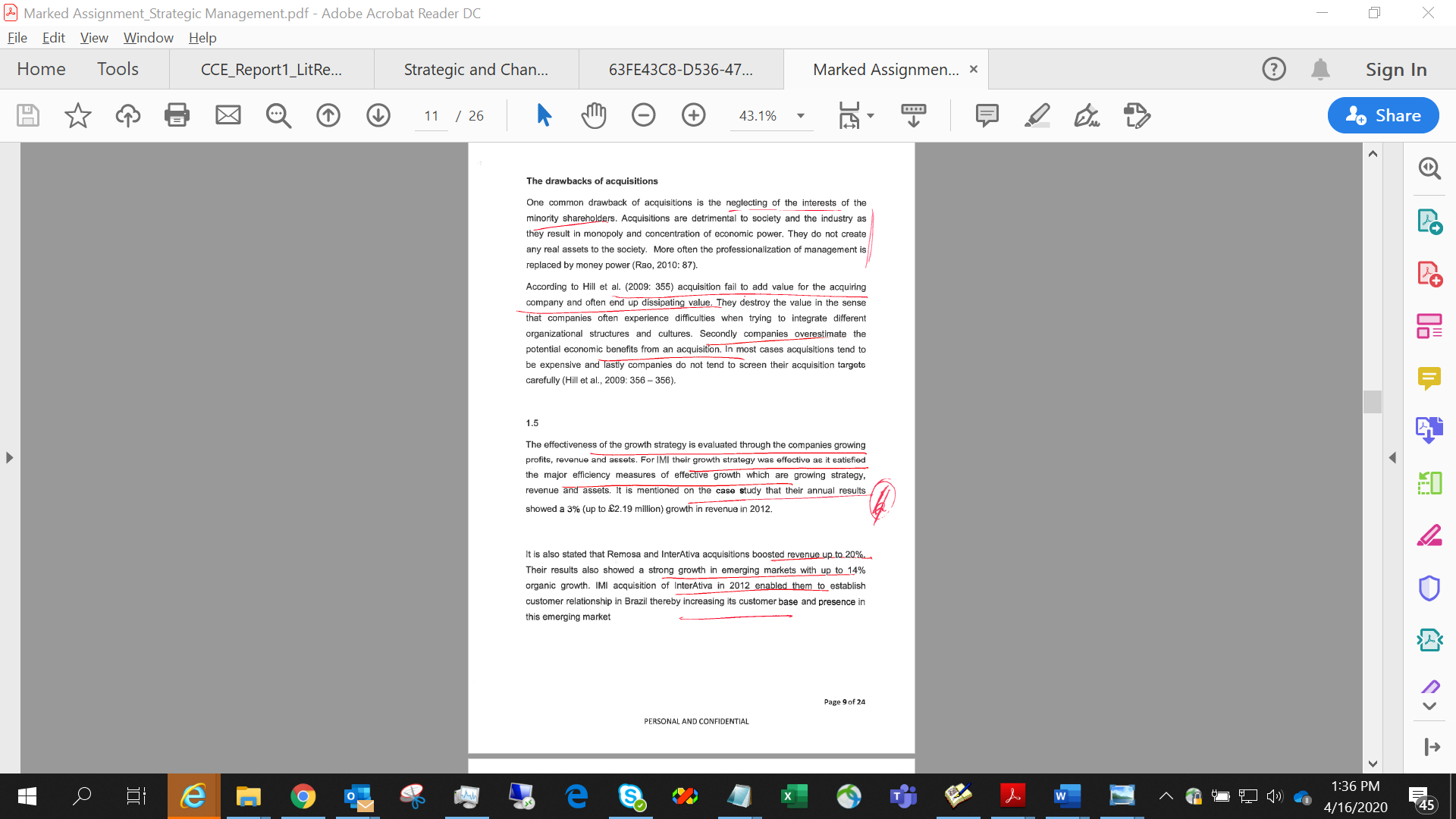
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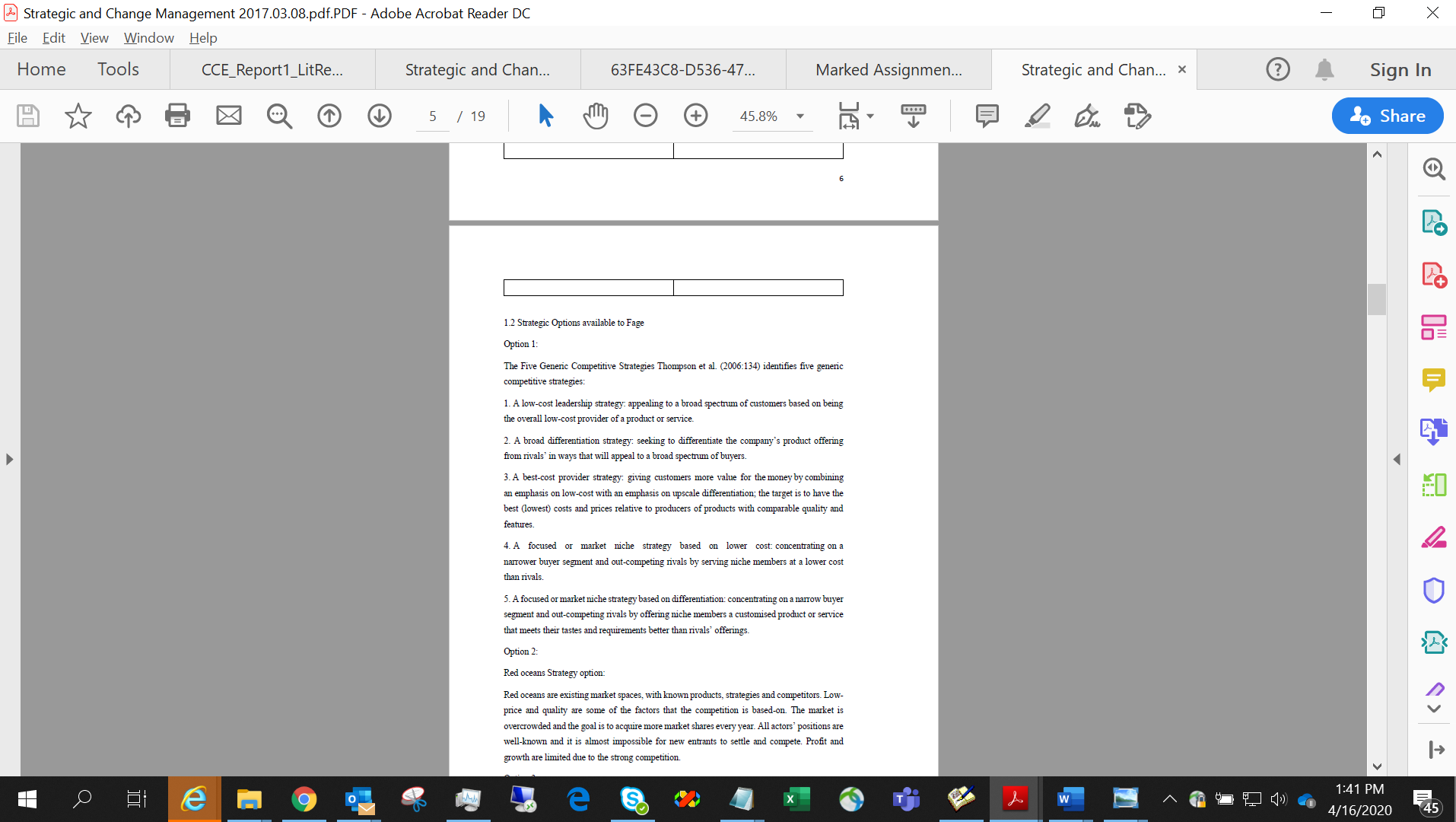
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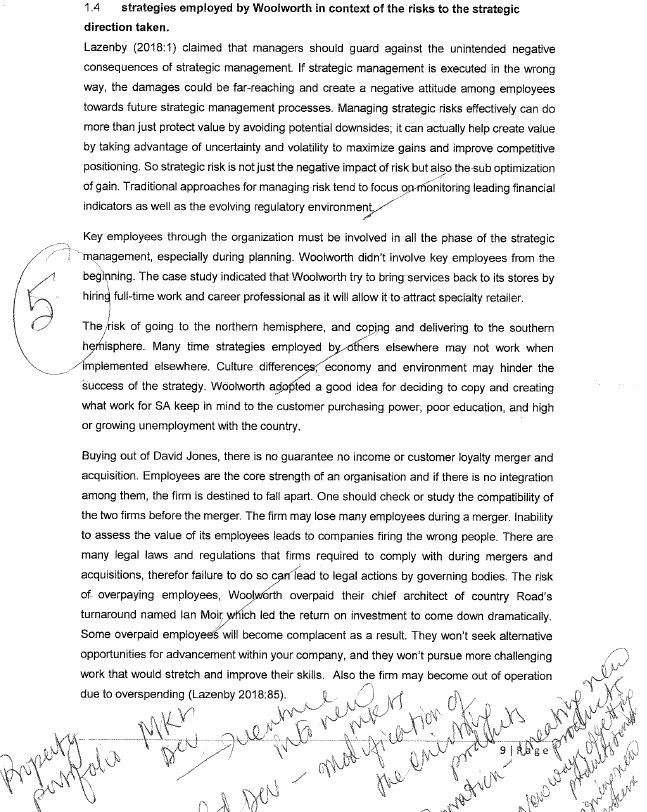
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Schein (1990:111) provides one of the most widely quoted definitions of organisation culture as “(a) a pattern of basic assumptions, (b) invented, discovered, or developed by a given group, (c) as it learns to cope with its problems of external adaptation and internal integration, (d) that has worked well enough to be considered valid and, therefore (e) is to be taught to new members as the (f) correct way to perceive, think, and feel in relation to those problems.”

Bhattacharyya (2011: 268 - 269) emphasizes the following organisational culture change process: ƒ Identify the core values and beliefs ƒ Consider the subcultures within the 19

organisation ƒ List out the incongruence ƒ Establish new behavioural norms ƒ Repeat these steps over a long period of time.

Models of Organisational Change Kanter et al (1992) identified the following themes as the basic assumptions of most change models and/or frameworks:

Awakening the organisation to a new reality and disengaging it from the past. Recognising that the old way of doing things is no longer acceptable. The need to create and embrace a new vision of the future by the organisation. The need to unite behind the steps necessary to achieve the stated vision. The need to solidify’ or ‘refreeze’ the new attitudes, practices and policies. There are as many models of change as the attempts that have been undertaken to change organisations over the years.

Manifestations of Culture Schein 1990) identified three fundamental levels at which the culture manifests itself:

1. the observable artefacts: including the physical layout, dress code, manner of address, the smell and feel of the place, its emotional intensity, company records, products, statements of philosophy, and annual reports;

2. the values: including norms, ideologies, charters, philosophies, why certain observed phenomena happen the way they do;

3. the unconscious assumptions: the taken-for-granted, underlying, and usually unconscious assumptions that determine perceptions, thought processes, feelings, and behaviour.

Culture refers to beliefs, values and attitude held by management and their employees (Passenheim, 2010). Any business like Nokia may have inherent attitudes which do not support change. A change of strategy, structure and technology make it necessary for people (employees) to change their knowledge, behaviour and attitudes. If this is not implemented correctly this can inhibit cultural change in an organisation. Through better training on strategic changes to be implemented in an organisation and allowing employees to accept and adopt to the changes can help facilitate change in an organisation. There are steps to be followed when it comes to approaching cultural changes to avoid obstacles (Passenheim, 2010):

 Analyze the cultural situation

 Accept the cultural barrier, do not ignore it

 Work against it with a communication mechanism or integration methods.

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Cultural change facilitators: Communication the need for change is important. This can be done by developing a business case outlining the reasons for change. Evaluate the readiness for change in the organisation. Ensuring that people support the change, understand the change and are involved in the plans for change. Better communication between the different stakeholders affected by the change. This can be done face to face or in groups to ensure everyone understands. Review the change by putting control measure to check the progress on changes made, areas of improvement.

Cultural change inhibitors

Insufficient problem awareness: this is the reasoning behind any change in an organisation. There are triggers for change processes which are extensively discussed with the management. Awareness arises of existing problems and the necessity to make changes. Workers/employees must have transparent view of the situation of the company, must be informed of the problems and planned changes

Insufficient communication: miscommunication can be a cultural inhibitor in that people like to gain influence regarding their surroundings and have control. Restructing plans for an example in an organisation if not communicated properly can cause chaos.

Bad style: it’s a behaviour that is practised in an organisation where employees are not involved, they are just tod about the changes.

Unprofessional stakeholder management: stakeholders have different interests and numerous persons are affected by the changes.

Workload and speed: involves adoption to change. Normally with changes there is increased workload and time to catch-up to competitors may not be favourable to meet new targets.

Lack of control: if a change process is initiated, one should pay attention to the sustainability of the targeted changes.