Understanding Banking Business Model

In the post titled, '**Understanding Business Model Fundamentals**', we learnt why do we need to understand business models and how to visually represent a business model using the 'Business Model Canvas'. In this post, we will try to understand the business model of a Bank using the Canvas.

A Bank has broadly two types of customers: One who deposits their money with the bank and one who borrow money from the bank. The banks are a kind of an intermediary between the depositor and the borrower. The business model of a bank is very simple: Offer lower interest rate to the depositor and higher interest rate to the borrower. Make the money from the interest rate differential.

People whether salaried or businessman prefer to keep their money with the bank. It is a better option than keeping it at home because this helps them earn interest income. They trust the bank with their money and believe that it will always be available when they need it. The same people in a different situation would want to borrow money from the bank. The banks offer them the money, but at a higher interest rate.

The depositors and borrowers can be segmented into Retail and Corporate customers. Retail customers are individual consumers, whereas corporate customers can be segmented to small companies, mid-size enterprises, and large corporates.

Banks offer different value propositions to different customer segments. To retail customers, banks offer Home loans, Education loans, Auto loans, and Personal loans. Corporate customers in different industries have different loan requirements. For example, Power sector companies need money to fund power projects. Airline companies need money to purchase airplanes. Construction companies need money for building projects. Before offering them money in form of loans, one critical exercise that banks do is the risk assessment. This is to ensure that they will get back the money, along with the interest, they are lending.

Banks use multiple channels to reach out to their customers. They open branches at convenient locations where their customers can physically meet them. They encourage self-service through ATMs at convenient locations. Banks operate call centers to resolve any issues or queries and to service different kinds of requests. Banks are increasingly leveraging Internet and Mobile channels to offer more convenience to their customers.

In order to reduce their channel costs, banks increasingly look forward to automation. However, they appoint relationship managers to enhance their relationships with their wealthy customers.

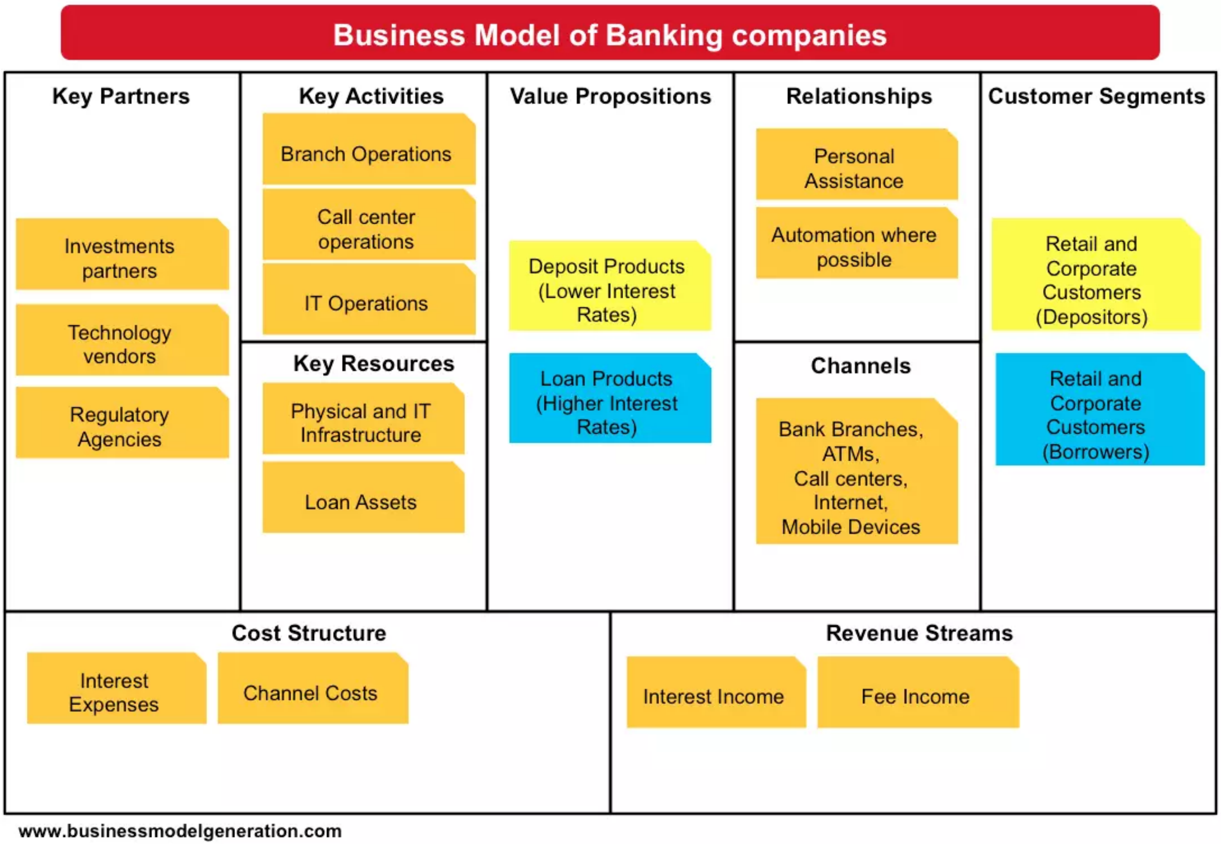
The operations of a bank are highly IT intensive. To fulfill their IT needs, banks partner with technology vendors. The technology vendors provide IT solutions in areas of customer experience management, multi-channel integration, business process improvement, loans origination and processing, Risk Management, Business Intelligence, Predictive Analytics etc.

Banking industry is highly regulated by the government.
regulatory agencies to maintain control over the banks b
an economy. The control is also needed to protect the dep
example of a regulatory requirement is the Reserve requ
reserves that each bank must hold.

Banks have two key revenue streams. First is the interest
is the fee that they charge for different kinds of operation
through Credit cards business. We learnt that in the **VISA**
Channel costs are the key component of the cost structur
by the bank to the depositors is also one of the important

There exist several different types of banks such as commercial banks, community banks, private banks, state-owned banks, credit unions etc. Some operate within a country's boundaries, whereas some operate globally. Some focus just on banking, whereas some get into insurance and investment banking businesses as well. Whatever be the case, the basics remain the same.

The basic business model of a bank can be represented over the Canvas as follows. Does the Canvas help you quickly understand how does a bank works? In your opinion, what are the differentiation strategies that banks can use to differentiate their business models?



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