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# Banking 2.0: Effects on the banking sector with a focus on Germany

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## Bachelorarbeit

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## 1. Introduction

*“Banking is necessary banks are not”*

*Bill Gates*

Yesterday when I had to hurry up to an appointment I stopped by the ATM to pick up some cash. In that rush I typed in the wrong Pin Code, twice! I didn't want to risk a block on my banking account, because it always takes about two weeks to get a new card and a new Pin Code and they also charge clients 10 Euros for the process. Furthermore, I always need a while to keep the new Pin Code in mind so I decided to go to the bank adviser at the cashpoint inside the branch and ask him to pay me out some cash.

So, I entered the branch and waited perceived 20 minutes in a completely empty branch until the bank advisers stopped their coffee party and noticed me. But he just turned around and continued his talk to his colleague for further couple of minutes. Is this the optimal way to operate customer service? Aren't their ways to give customers a better experience?

That evening I had to search for my letter with the Pin Code because customers aren't able to just change it and bank advisers don't have the power to just delete my wrong attempts.

We live in a complex, global and fast changing world, where people are able to interact in real time over Web 2.0. Is this the most efficient way to solve little problems like that? Is the richest man of this world, Bill Gates, right with his above-mentioned statement? This paper discusses different factors of multiple perspectives of different player in the financial sector.

First of all there is a brief overview about the traditional financial sector, their main tasks and their relation to customers (Chapter 2).

Internet influences all industries in different ways especially customers and their behaviour based on the ability to use new information sources. Chapter 3 gives a general conspectus about the development of Web 2.0 and with that of social media. Mobile devices like smartphones and tablets are more popular than ever and are able to change common payment methods.

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All these aspects have immense influences on the financial system illustrated in Chapter 4. New technologies have entered the market and banks therefore need to fear new competitors that are taking over market shares with their innovative and modern opportunities. Many small start-ups respectively fill gaps in the market of customer demands, which were ignored by banks. Also new alternative banks have established themselves and gain in importance. All these international innovations have also affected Germany.

In Chapter 5 a SWOT- Analysis gives an overview about the external and internal factors on banks with a focus on Germany. The comparison of different aspects tries to suggest action strategies for traditional banks. Banks need to take advantage of opportunities and avert threats of external factors like competitors or governmental barriers.

The ambition of this work is to figure out how these new influences based on Web 2.0 are affecting traditional banks with a strong focus on Germany and how they need to react to survive on this global competition. The goal is to design important action strategies for the banking industry in Germany that are important to save their market power.

**Research issue:** Are banks ready for future banking?

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Banks need to set up new impulses to gain customer of every age group. The different generations have dissenting opinions and demands. It is the customer's liberty for options that need the most attention because they are deciding over the life cycle of the banking industry. Cooperation is a key strategy for a great innovation capacity. So to a degree, innovation is essential for the duration of banks

## **8. Limitations & Conclusion**

This paper considers new trends and evolutions of different countries and gives an overall impression over the change in the financial sector. The comparison of the situations of many different countries doesn't regard the cultural and geographical differences. For that reason not every trend can be implemented in every country. Just because an innovation like M-Pesa in Kenya worked out successful it doesn't mean that it would work out the same way in a developed country such as Germany. The people in Kenya have for example a different infrastructure and can't for example reach a branch and open an account there. The potential customers have completely different needs. People in Germany feel queasier by passing over private information and want their data to be more secure than for example people in the United Kingdom. For that reason the new trends of banking 2.0 need more time to establish on the German market.

The demographic change is also an important aspect that influences the chances of success for innovative instruments. Older people want to stay with their common ways of banking. The younger generations that grew up with digitalization are more interested in new possibilities.

The suggested options for actions in the chapters before need serious cost-benefit analysis to make sure that they are profitable.

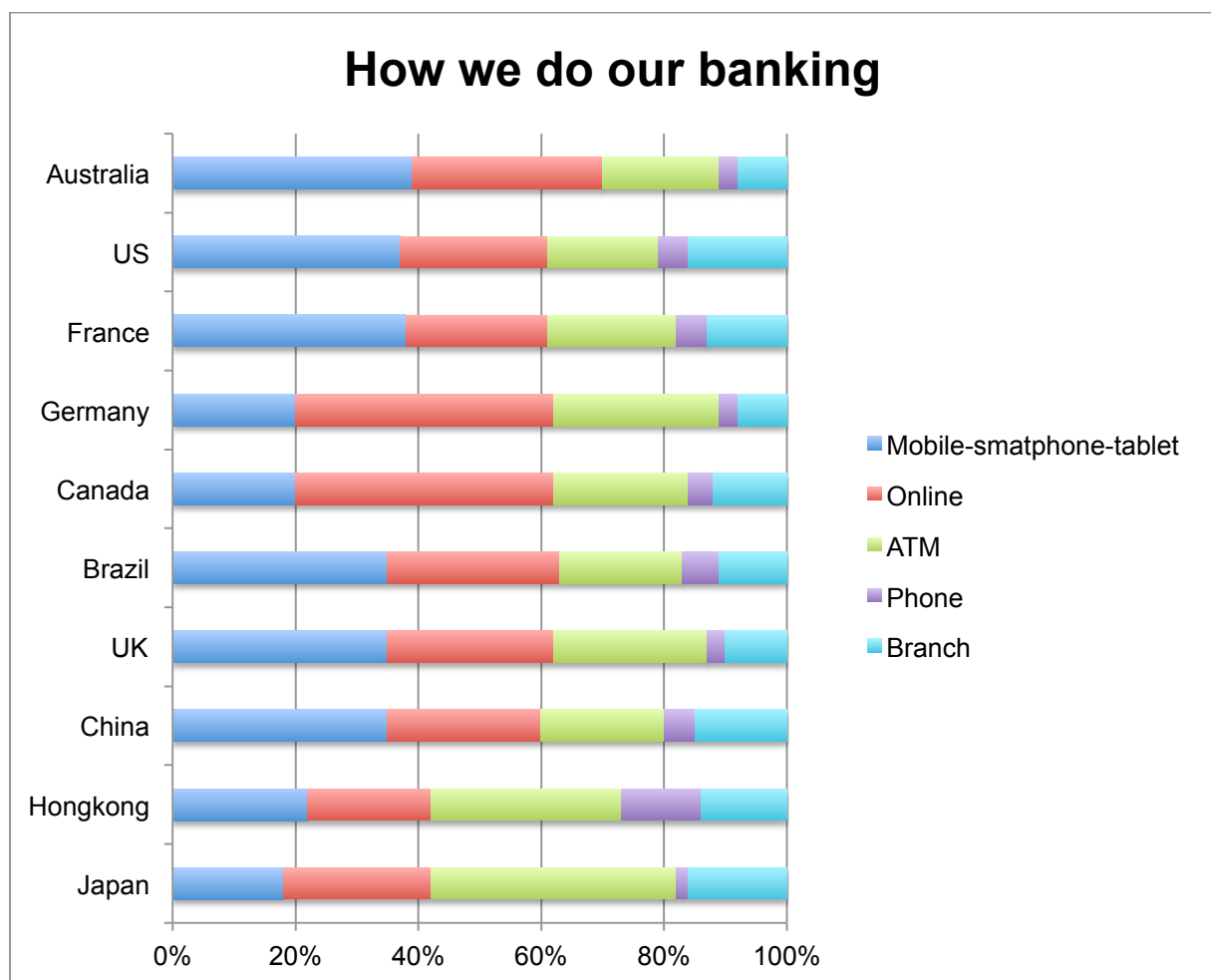
There are several new players in the changed financial sector, which is based on the expanding digitalization. Web 2.0 has changed the customer behaviour. Transparency of banks disappears more and more in the basis of social media. The customers' demands take over the centre stage. The asymmetric information has changed to the advantage of customers based on blogs, panels and other social media instruments that gained more in importance than ever.

Alternative banks and other start-up companies with great innovative ideas have entered the market. The banking sector that has forgotten to satisfy their customers need have to live with these new competitors that are taking over market shares. Little start-ups like PayPal have grown to top selling and international known

company just because banks have missed to react to their customer demands. By going their traditional ways many other companies used their chance to establish in the market and obsolete banks. Some bank activities that are taken over by new competitors are just more efficient that way.

Technology is a permanent changing factor that is very costly and demands for a lot of attention. It is a competitive advantage to keep up all the time. Banks need to figure out if it wouldn't be better to give up some tasks to external provider instead of investing in businesses that aren't profitable and concentrate in their main tasks. The paper has shown that cooperation with start-ups or social media can be very wise for banks to open up new markets, improving innovation and change their image in a better way.

The following figure shows the comparison of different countries all over the world and their way to do banking. The usage of online opportunities and mobile devices such as smartphones, mobiles and tablets play a major role all over the world.



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**Figure 17: The percentage of how selected countries do their banking.**

Figure data: Percentage of total interactions

Source: own representation based on Bain/Research Now NPS surveys 2014

Banks will save their market power and improve customer loyalty if customers are able to use an optimal combination of digital and conventional access paths to a time and place independent banking. The customer wants to be flexible and demands online and offline ability for interactions with his bank.<sup>73</sup>

In the future money will change the owner without any importance of time, location and with minimal barriers. The currently existing bank system can't offer that.<sup>74</sup> The power of Web 2.0 has just begun to change the industries. Today we can't even imagine what happens in the future. Technologies are changing faster than ever. Who knows what kind of innovations the newest generations that are growing up with digitalization will create.<sup>75</sup>

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<sup>73</sup> Cf. Bergmann, M., Vater, D., (2015)

<sup>74</sup> Cf. King, B., (2014)

<sup>75</sup> There is a video added on the CD of GFT Digital Banking, which gives an insight into opportunities that can be common very soon