The "sharing economy" and Financial Services: friend or foe?
In its essence, the P2P-services are not a new phenomenon.

The historic foundation of our economic system is based on people exchanging goods or services directly with one another, based on mutual benefit. Only with the creation of enterprises and money, our economy has gradually become more centralized. Today, through technological evolution, we experience a shift back towards a more decentralized economy by making it easier for people to connect, communicate and trade.

In customer’s everyday life, this has sparked the rise of yet another phenomenon: the “sharing economy”. Peer-to-Peer (“P2P”) and sharing initiatives such as airBnB and Uber are challenging existing business models throughout different industries. Also within Financial Services more and more initiatives are starting to spark. Today, they have become large enough to merit reflection on the side of traditional players. This is especially the case given that these initiatives typically touch the core activities of financial players, being it payments (e.g. Paypal, Venom, Snapchat), lending (e.g. Lendingclub, Crofun) or risk underwriting (e.g. Friendsurance, Inspeer).

The Financial Services industry provides more natural barriers to large-scale adoption of P2P initiatives compared to other industries

One has to keep in mind though, that the Financial Services industry provides more natural barriers to large-scale adoption of P2P initiatives compared to other industries. Therefore, digital distribution and sales, a prerequisite for P2P initiatives to reach clients, are less developed and less adopted than is the case for say online hotel bookings, a domain which AirBnB revolutionized. This is driven by two key factors. First, the services are less transparent and less commoditized, making it more difficult for P2P initiatives to differentiate and position themselves as equal substitutes both with the advantage of either higher convenience or lower price. Second, relating to this point, there is more at risk for the client. A negative taxi drive ordered via Uber will not significantly alter a customer’s life. In contrast, a negative experience with P2P initiatives in Financial Services might have a more substantial impact (e.g. loss of savings money on P2P lending, no refunding of house fire damages on P2P insurance platform).

TOWARDS A TWO-TIERED P2P LANDSCAPE

For traditional players, the key strategic question is hence whether these innovations will threaten and eventually make redundant their traditional business model. To formulate an answer, one must first assess the current status of adoption and how far it will ultimately reach.

As for the current status of adoption, although growing in size and visibility, P2P initiatives remain largely marginal compared to bank’s traditional business. For example, despite its growth over the last years, P2P lending in Belgium still represents less than 0.01% of total credit. We see two reasons why this is the case. First, because of the small overall size, it is difficult to set-up and scale-up a viable business model. Second, many of these initiatives currently operate in a legal vacuum with an unclear regulatory framework. This is especially the case in the field of customer protection, even more so when compared to the heavy regulation in the traditional domains (e.g. MiFiD). This uncertainty might hold off both investors to set-up P2P initiatives, as well as customers who don’t have sufficient trust to hand their money to these new platforms.

On the long term, we believe in a two-tiered landscape for P2P initiatives, where two types of P2P solutions co-exist:

First tier: new entrants – pure P2P initiatives by new entrants will complement traditional players, rather than disrupt them. They will do so by taking on activities which traditional players no longer can or want to take on due to the increasing pressure by regulation to take on less risk, e.g. the financing of small, young enterprises.
On the long term, we believe in a two-tiered landscape for P2P initiatives, where two types of P2P solutions co-exist.

**Second tier: traditional players** - P2P startups will inspire traditional players to develop their own P2P solutions, which will be anchored onto their existing offer. Traditional players have distinct advantages over new P2P players for rolling out these initiatives, being a.o. brand, distribution and capabilities (credit scoring, risk assessment...).

**WIN-WIN FOR CLIENTS AND TRADITIONAL PLAYERS**

By initiating their own P2P initiatives aimed at enriching their existing product offer, traditional players can create a win-win for both clients and themselves. Take the example of lending. A bank could launch a crowdfunding platform where it creates a win-win for clients and itself. For its clients, they can provide a risk screening and scoring to P2P projects, something a P2P player would find more difficult to do. Additionally, by linking their private banking clients to the platform, it would also gain in value by attracting the kind of people willing to invest, which is valuable for those looking for funding. For the bank itself, it represents a potential for a differentiated offer and an alternative, fee-based source of income.

As another example, it is also clear that traditional insurers, with their mass of client data and actuarial capabilities, are well-positioned to facilitate clients towards P2P insurance. They could for example aid clients in identifying peers whom they wish to mutually insure because they have a similar risk profile. Additionally, they could still underwrite the portion of the risk which goes above the financial threshold an individual would be willing to guarantee towards his peers.
WE WELCOME YOUR QUESTIONS, COMMENTS AND SUGGESTIONS

GRÉGOIRE TONDREAU
Partner
gregoire.tondreau@rolandberger.com

JOERI GUSSÉ
Senior Consultant
joer.gusse@rolandberger.com

This publication has been prepared for general guidance only. The reader should not act according to any information provided in this publication without receiving specific professional advice. Roland Berger Strategy Consultants SA/NV shall not be liable for any damages resulting from any use of the information contained in the publication.

© 2015 ROLAND BERGER SA/NV. ALL RIGHTS RESERVED.