Infocratic Perspective on the Delivery of Personal Financial Services

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INTRODUCTION

In recent years, two factors – an increasingly relaxed regulatory environment and the growth of the Internet — have changed the competitive landscape of the personal financial services industry, particularly with regard to the potentiality of horizontal integration. Had financial regulation eased 10 years ago, most companies would have had little choice but to pursue a strategy of acquisition and merger to attain the capacity for providing integrated financial services. However, the Internet creates opportunities to build organizations, real and virtual, based on the control of information rather than the ownership of assets. Here we explore the potential for control of information to affect organizational strategy in the delivery of personal financial services.

BACKGROUND

The response of the financial service industry to deregulation is predicated, in part, on the will of companies to respond to consumer expectations and preferences. Pundits in the industry believe that consumers will demand a full integration of personal financial services. They believe, for example, that the consumer of the not-too-distant future would like, at a single Web site, to pay her bills, check her account balance, add money to her smart-cash card, check her credit card balance, check the current value of securities in her portfolio, buy and sell stocks and bonds, buy insurance, and issue instructions to reallocate the investment mix of payroll-deducted deposits into her 401K plan.

The quality of the integrated service experience will depend not only on the quality of the user interface, but also on the completeness of information and access to all the user's financial resources and on the features provided. Ideally, every financial instrument owned by a customer will be internally liquid and appear to be centrally located and controlled, restricted only by the legal and financial parameters of the instrument.

INTEGRATION OF PERSONAL FINANCIAL SERVICES – THREE MODELS

Three pure models and hybrids of these models can characterize the strategies of companies that have begun to offer integrated personal financial services (IPFS). The first model, which we call the Unified IPFS, describes companies that provide all or most of the services a consumer might want within a single corporate structure. Today, most Unified IPFS companies exist as holding companies, and, while their services are not yet well integrated, they are attempting to achieve a more seamless service delivery system through expanded investments in information technology. Unified IPFS providers currently differ in their degree of integration and the extent to which they can provide a full range of financial services.

The second model, which we call Allied IPFS, describes companies that provide diverse services through inter-organizational alliances. These companies focus on one primary area, such as banking, but provide a broad range of services through alliances with other companies. An example of such a company is Sovereign Bank, which provides, for example, investment products through their partner Lantern Investment Services and annuity products through IFS Agencies, Inc.

The third category, which we call Portal IPFS, describes companies that provide no direct, transactional services of their own but act as portals through which consumers can manage all of their financial services. An example of such a company might be Quicken, with its relationships with Ameritrade for brokerage services and Firstib.com for banking services. Although Quicken does not currently provide the seamless integration that we expect from the Portal IPFS firm of the future, it clearly hints at what this future might be.

Hybrid IPFS models are possible. For example, a company that appears to be a Unified IPFS provider might outsource some of its low volume products or services to companies that specialize in providing them. The result

Table 1. Customer perceptions

	Unified	Allied	Portal
Customer value proposition	One-stop shopping Lifetime relationships	Best in class Flexibility	One-stop viewing Unlimited providers
Perceived competitive vulnerability	Lost focus Exposure to niche players	Complex customer service Coordination/run costs Revenue sharing	Customer service Brand Ambiguous revenue model
Sources of customer resistance	Lack of diversity (performance) Perceived eggs in one basket	Customer servicing Limited choice in service providers	Security Privacy Permission granting

Table 2. Organizational components

	Unified	Allied	Portal
Anticipated competitive advantage	Cross-selling Brand development Integration options Full revenue capture	Internal focus Provider diversity Reduced start-up costs	Flexibility Lowest start-up costs Integration of non-financial data
Competitive Focus	Share of wallet	Share of customer	Share of information
Core Competencies	Intra-organizational integration	Inter-organizational integration	Cross-industry integration
IT Focus	Information management	Information transfer and integration	Screen scraping and presentation
Service focus	Service bundling	Service matching	Service aggregation
Examples	Schwab; Fleet; Citigroup	Sovereign Bank; Trustmark Bank	Quicken; InsurBank; Yahoo

would be a company that is dominantly Unified, but selectively Allied. A portal could also provide its own banking or brokerage services, creating a Portal/Allied or even a Portal/Unified hybrid.

Table 1 summarizes from the consumer's perspective the relative advantages, disadvantages, and risks of dealing with businesses pursuing each of the three IPFS strategies. Table 2 compares the strategies from the supplier's perspective as to competitive advantage, competitive focus, required core competencies, information technology focus, and service focus. It also provides some examples of organizations that are pursuing each strategy. The remainder of this section elaborates on each strategy.

Unified IPFS

A distinct advantage of the Unified approach is that a single corporate entity captures all revenues and maximizes its "share of wallet" with the customer. A unified company can increase the market share of each of the services it provides by cross selling. Such a company aims to "own" a customer from "cradle to grave," providing banking for the young, investment and retirement planning services for the middle-aged wealth accumulator, and trust management and reverse mortgage services for the elderly wealth distributor. The opportunity to establish brand recognition is also a benefit for a Unified IPFS provider.