

CASE

Destroy The Bank!

Stefan (Strategic Management Consultant) thinks that the world of startups is fascinating. Yesterday he spoke to some young guys who started a company in 2014, called Blocktail. These guys told him that their mission is to make banks obsolete because they focus on the real need of customers. First, Stefan thought they made a joke. But after a long conversation, Stefan woke up feeling uneasy, this morning. These guys were no mavericks. They perfectly knew what they were talking about. They said: "Bitcoin is to banking what internet was to the telephone". And although their mission is a bit far-fetched, it is not completely impossible. Actually, Stefan felt excited about it.

Background information

During the last years, DZ Bank has felt the waves of change and crisis, probably even more than other banks. Going from a private fund to a company with government support made very clear how difficult the times really were. Quiet times have gone completely. DZ Bank faces some significant challenges for the near future. One of them is the way payments are being made.

There are already digital currencies that do allow you to pay without using a bank, such as Bitcoin, powered by a technology called Blockchain. David Peters, head of DZ Bank's Innovation Centre, "recently said: "It is clear that Blockchain technology can turn the financial world upside down". Peters continues: "This will not only effect banks, by the way. Also insurance companies, brokers, notaries, etc. will need to redefine their roles. It is relevant for each third party, in each transaction. It effects currencies, trade and agreements. Real estate, identity issues, loyalty programs and elections." Stefan is thinking about what David has said. "That is pretty impressive!", he thinks. On the other hand, a colleague of Stefan told him not to worry too much. "This is a hype", he said. "Bitcoin is almost dead, and this whole rubbish of blockchain technology will be over in two or three years." His colleague is not alone. Citi's chief economist recently claimed at the World Economic Forum that "Bitcoin is a complete failure", adding that "anything that can be programmed can be hacked".

To Stefan, his colleague eerily sounds like the Kodak case: in 1996 they were the 4th brand in value in the US, in 2012 they filed for bankruptcy, because they missed the boat when the market move to digital camera's. Of course every business is different, but one should never underestimate a threat, never let go of a big opportunity. But could it be that his colleague is right?

Meanwhile, DZ Bank just announced to invest in Blockchain-startup Digital Asset Holding DAH, together with 12 other banks. DAH is run by former JPMorgan Chase-executive Blythe Masters, and has collected a total investment of \$50M.

Stefan knows that more non-conventional competitors will enter the market as a result of PDS II (legislation from the EC: http://ec.europa.eu/finance/payments/framework/index_en.htm) that allows third parties to provide financial services using bank customer data. It is one thing that other parties are allowed, it is another thing whether customers are willing to trust these other parties with their hard-earned money. The question of consumer trust has risen Stefan's attention about a year ago. It was then that ING announced that they considered experimenting with transaction data to advertise. ING, a major Dutch bank, announced a novel initiative in March 2015 that must have seemed like a good idea to someone at the time: It would deliver targeted ads to its customers based on how they'd been spending their money. The program was styled as a pilot project, starting with thousands of ING customers and growing from there. The idea is simple: ING knows when their customers pay for what. Since customers are paying more and more digitally, the data become richer and richer. Big Data is the buzz term. If ING knows that you buy new shirts every two months, that would be very useful information for advertisers such as H&M and Outfittery. When ING announced their experiment, many of their customers were outraged. People realize more and more that their data contain value. ING has betrayed their customers' trust. Will it be easy for a new entrant in the market to gain trust in the financial field, or will customers be hesitant to put their trust in a new player's hands and stick to the older parties? Parties such as Knab have realized market share in relatively little time in the Netherlands. The question is whether consumer trust in banks is a threat or an opportunity in banks. Stefan hesitates to give an answer to that one!

Next to trust, a current and growing trend is that people want to be master of their own data, including their financial data. As the ING-case has shown, consumers are more and more aware of the possibilities. As Facebook shows, however, such data can and will be used, without paying the consumer: Facebook sells their knowledge of consumers to advertisers. It goes even further: advertisers cannot reach their Facebook-customers anymore if they don't pay. And although that is exactly what enraged the ING-customers, Facebook seems to get away with it. Facebook is a different type of company, but their customers are the same... What would the role of DZ Bank in such cases? ING or Facebook?

Furthermore, new technologies will definitely come forth that will put further pressure on the way people and companies are doing (financial) business. Blockchain technology has already been mentioned, but there are other examples. Tipalti simplifies company usage of payment systems, Invoice Ninja speeds up the payment process. More technologies are being built right now. How should DZ Bank deal with them? It is a tricky question, Stefan realizes: If you pay attention to them all, you will always be running behind. If you choose a few of them, you may be right. But you also may be wrong, with probably high costs, maybe even bankruptcy.... Should DZ Bank go for product development or business development? How different would these strategies be? What is needed for each strategy?

The disruption of the financial sector has already started but banks and employees have not yet completely woken up to it. The sense of urgency within DZ Bank is high and some initiatives to deal with this disruption are starting to take place. How can they deal with their own “old bank” legacy, and at the same time be leading with new banking opportunities? Indeed, not every employee will be ready and able to deal with this new challenges. Does DZ Bank have the time to train their employees to go from the old to the new world?

Stefan leans backwards in his chair. Should he stay with DZ Bank, or would it be wiser to pursue his career as a startup-owner? Develop his own disruption? He gets excited! Start his own company! Develop a disruption in the realm of Blockchain technology or possibly something else that may be even more disruptive! He needs bright young people to get some advice.



This case is used in the business competition [Rotterdam 100](#) 2016.

Vor privacy reasons, the names of the companies and characters are changed. The occurrences and circumstances described in this case are based on reality.

This case was written by lecturer Gerard van der Star and dr. Arne Maas of the Research Centre for Entrepreneurship & Business Innovation, Rotterdam University, university of applied sciences