Orange Bank: The first telecom-bank

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Abstract:
In a rapidly-changing world of banks, customers and technology, the Orange Group decided to launch a native mobile banking system that offers an incomparable user experience. To do so, Orange was able to draw on a set of unique strengths: a strong brand that embodies key values such as security and reliability, a solid distribution network, the Group's capital base and, above all, the trust of its 28 million customers.
This legitimacy in the financial services world has already paid off, with the popularity of Orange Money, a mainly Africa-based payment system, and with the successful launch of Orange Finanse in Poland.
This new activity is a natural extension of Orange's core telecom business. The stock model we have chosen will make it possible to build a profitable, sustainable business.

Introduction: mobile banking as seen by a telecommunications operator

Orange is taking a new, exclusive global approach and embarking on retail banking. Mobile financial services are one of the cornerstones of Orange's diversification strategy, and one of the group's key growth drivers. We seized this opportunity in order to leverage our digital know-how to open up new markets. Above all, it's a way of being even closer to our customers in their digital lives, like their Internet access, fixed or mobile telephony, content and connected objects.

For a telecom firm, the idea is to benefit from changes in the banking market, technology and new customer behaviours, and to use our many strengths to offer a new banking model that includes the widest possible forms of payment, while also offering a full range of banking services, with a view to building a business that is profitable over time.

English version: Translation Centre of the French economy and finance ministries

Business models

The business models for payment services and retail banks diverge. The term "neo-bank", which is often used by observers, generally applies to payment institutions and not to credit institutions.

Payment: a flow model

Regardless of the technology and media used (contactless payment by smartphone, bank card, SMS, etc.), e-payment has a flow business model. The operator's turnover consists of commissions on payment – or on top-ups in the case of electronic wallets – associated with the means of payment. As a result, it is the flow of transactions that generates revenue.

In Western European countries with very high rates of access to banking services, most customers have a credit card that is already invoiced by the bank (on a per-card basis or as part of a package). From an economic point of view, it is therefore not rational for the customer to have to pay an additional commission to have the right to pay for goods and services.

This is why the FinTechs' payment offers are either free of charge – in which profitability cannot be guaranteed – or not, in which case they are aimed at a niche market. Even in the latter case, however, profitability is far from sure: prices remain low and cannot absorb fixed costs.

Moreover, technological developments or, more simply, new regulations and standards currently being implemented (SEPA, DSP2, Instant Payment) will continue to challenge payment providers' business models. The investments needed to provide a secure, robust service (and thus to keep the trust of users who are always ready to change suppliers) will certainly outstrip the financial capacities of players who are too diversified.

Because of this, FinTechs specialising in payment are seeking either to sell themselves to investors who want to acquire the relevant technological know-how, or to team up with traditional banks that can value their business (for example, by offering customers complementary credit or insurance products).

Retail banking: a stock model

Retail banking, on the other hand, is based on a model of incorporation over the life of a business. Initial investments in terms of designing the offer, process management and IT are relatively high. The cost of acquiring new customers is also higher than that for payment operators.

The profitability of the operation is ensured over time by keeping customers faithful and offering margin-generating products: loans, savings products, property and personal insurance, etc.

If, in addition, the rates for "everyday banking" products are very competitive, in order to quickly sign up as many customers as possible, a balance is reached in the first five to seven years.

Profitability is therefore built on the basis of an expensively-obtained stock. Once this stock is built up, the business becomes very profitable, especially if you have efficient, simple and qualitative management processes and the number of new clients recruited is marginal compared to the number of clients already acquired.

Naturally, the financial soundness of the investor (the bank itself or the group to which it belongs) is both a key success factor and a barrier to entry for new entrants, in particular what are (incorrectly) called "neobanks", which are more or less focused on payment activity.

Fast-moving, thoroughgoing changes

This changing environment offers many opportunities for new entrants. Regulation, technology, uses – payment, although it is central because it is part of the bank's daily operations, is nevertheless only one facet of the banking profession - a profession that is in upheaval!

Banks: the need to reinvent themselves

Since the mid-1990s, traditional retail banks have sought to move customers out of their branches based on the fact that that they wanted to spend more time on sales. Sales teams had to favour sales contracts over counter operations (delivery and collection of cash, cheques, transfers, etc.), which were not very profitable, but which generated traffic. The way bank branches operate has changed: a wall of machines encourages customers to carry out their own transactions, and a reception desk bars the way to the bank managers' offices, who receive by appointment only! It's a real success story –customers no longer come to banks at all!

It must be admitted that banks have undergone, and continue to undergo, many changes in their environment, including a flood of regulations that increase costs and squeeze margins. Salespeople devote an increasing amount of time to mandatory administrative formalities in order to comply with the law.

Retail banks have historically expanded their branch networks based on the observation that their market share is proportional to the number of branches. They have also developed alternative channels (Internet, call centres and, more recently, mobile apps), which are essential for the range of services offered to customers, but which also alleviate the burden on branch networks in terms of low value-added operations. Often, these channels were seen more as a constraint generating additional costs than real business development opportunities.

At the same time, new specialised players (credit and insurance brokers, payment institutions, crowdfunding platforms and aggregators) emerged and were quick to challenge established banks. All of them pushed the banks' activity back behind their last, solid bulwark: their balance sheets. However, banks' prudential management of their balance sheets ensures that the financial system is sound and thus the banks' ability to finance the economy, particularly through loans.

Retail banking will henceforth have to adapt quickly by simultaneously accomplishing multiple, sometimes almost incompatible, changes, which may foster the emergence of new operating models: information systems, distribution networks, product and service offers, acquisition of technological know-how, etc.

Next-generation customers

Today, Millennials are very autonomous and, as a result, are heavy users of the Internet, smartphones and social media. Even if their bank accounts were originally opened in branches, those branches are no longer the first point of contact with the bank. Generation Z, the post-millennials, is totally immersed in digital technology and completely ignores bank branches in its day-to-day relationship, including for opening accounts.

Paradoxical attitudes abound: customers expect a high degree of customization of offers, while demanding simple products. They are fans of confidentiality, but nevertheless reveal everything on social media. They fear that mobile banks will use Big Data techniques to decode their behaviour, but at the same time allow the digital giants to spy on their actions in real time via their geo-localised smartphone that sends all sorts of information into the cloud! They want to be followed by a dedicated counsellor who is available all the time! They increasingly choose banks without branches, but consider that physical contact is still necessary for a real estate loan, etc.

Technology: the smartphone at the forefront

Smartphones are now the main means of contact between customers and banks. In fact, for the past two years or so, the smartphone has replaced the Internet, relegating agencies to the back row.

Better yet, a smartphone banking app is one of three applications that most people check first thing in the morning, along with e-mail and weather.

However, smartphones didn't really really take off until the iPhone, the first tactile smartphone, was introduced just ten years ago. And contactless payment has only been available in France since the summer of 2016!

In any case, as in other European countries, France can expect to see traditional banks lose customers to mobile banks, whether they have no branches or consist of a branch of an existing network which can be consulted only remotely.

No wonder, therefore, that virtually every bank has announced sharp reductions in the number of branches. Those who haven't announced them have already begun to make cuts, but very discreetly.

From payment to the bank

It all starts with online payment and the obvious connection to mobile telephony. On the strength of its success in Africa with Orange Money (30 million users, and a billion euros in transactions each month) and taking into account the findings mentioned above, the Orange Group, under the leadership of Stéphane Richard, its CEO, decided to get involved in retail banking on a European scale. In Poland, the successful launch of Orange Finanse – a banking offer supported by mBank and distributed by Orange – confirms Orange's potential in the retail banking market. In Western Europe (France, Spain and Belgium), Orange Bank will offer a complete, native, mobile, real-time banking service with an incomparable customer experience.

A telecom capital to be valued

The payment experience gained in Africa with Orange Money (but also in Europe, with Orange Cash) shows the way forward. In an over-saturated market that is expected to become more fluid and shift towards banks with no branch networks, Orange relies on a combination of essential assets to succeed:

- 28 million customers
- A dense distribution network (800 shops in France, for example), which means that an account can be opened in a physical contact point
- Trust in the brand, which transmits key values: safety, reliability and solidity
- A financial base, which is needed to ensure the investments needed to build a sustainable business and which reassures authorities (the Prudential Supervision and Resolution Authority and the ECB) that quite rightly pay close attention to innovative initiatives
- Our technological know-how: information systems, mobile apps, security, contactless payment
- The ability to offer cross-fertilization between telecommunications and banking offers, which ensure profitability and keep customers loyal

To accelerate the implementation of its strategic goal, Orange has forged a strong partnership with Groupama, which has a network of 3,000 points of sale and recognized expertise and key assets in banking and insurance. On 4 October 2016, Orange acquired a 65% stake in Groupama Banque, which has since been renamed "Orange Bank".

A comprehensive retail banking offer

The innovative choice of a stock model is proof of Orange's strategic, long-term commitment to retail banking, which is a real driver of economic growth.

The aim is to offer a full range of retail banking services for private individuals, including, of course, all forms of payment and current accounts – the backbone of the banking relationship – but also the more profitable products mentioned above.

Beyond the obvious bank/smartphone connection, which is the *raison d'être* of this initiative, the creation of value will result in very significant profitability once the initial phase of investment and recruitment of customers is completed, and, consequently, the creation of a banking business. The reduction in churn rates expected on the telecom side should lend further weight to our strategic vision.

To be continued!