Open Banking Interview Output Summary

June 2019

Introduction

- PSE conducted interviews with ten leading Open Banking companies in the UK & Europe.
- The terms Open Banking has been used in a very broad sense to cover European initiatives from UK Open Banking through to the Berlin Group standards, PSD2 AIS/PIS etc.
- Views were sought on the success of Open Banking thus far, together with how the future was anticipated to unfold for both payment initiation and account information products & services
- The benefits, threats & opportunities were also considered from the perspective of consumers, SMEs, corporate merchants, banks & fintech

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Interview Participants





















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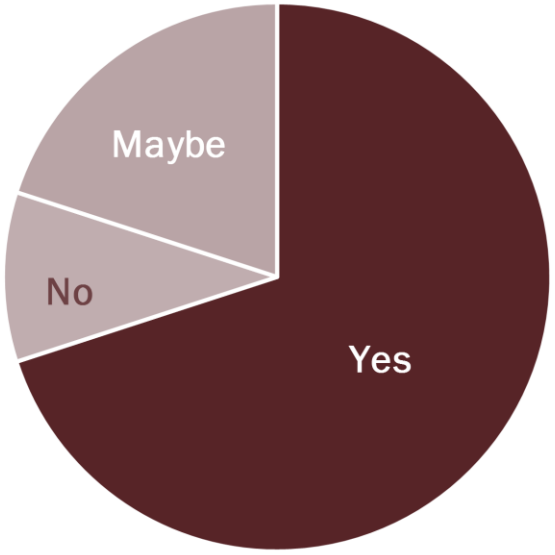
Regulatory Outcome

Do you believe that the intended regulatory outcome of Open Banking will be achieved in the next 2-3 years?



The consensus is that the intentions of OB will be achieved but it will take a lot longer than envisaged:

- A lack of incentive for banks to fully co-operate with fintech to create better customer outcomes – too many see is as a regulatory burden
- The complexity of adhering to standards set by the regulators is slowing banks and giving them an excuse
- Some national regulators not compelling banks to meet deadlines
- The lack of one standard API for fintechs to link to is stifling development
- There is also a perception of limited latent consumer demand

> "It is a journey and it will succeed in the end but may take 5 years"

> "OB is a great initiative and regulators will ensure it is delivered"

> "It has started a revolution but we need to build on the foundations"

Source: PSE Consulting Survey June 2019

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Drivers & Barriers

What are the biggest drivers and barriers to the uptake of Open Banking services?

Drivers

- Operational **cost savings & better UX**
- **Big merchants** pushing payments the OB route by **offering customer incentives** – free post, free membership etc.
- Price **comparison websites** aimed at businesses whose cost of banking tends to be high(rather than consumers)
- Enabling **small businesses** to have access to services presently reserved for corporates e.g. international payments
- Bank development of **premium chargeable APIs**

Obstacles

- SCA friction causing a **poor customer UX** – consumers will not tolerate friction
- **Lack of consumer awareness, need & trust** – for years people have been told to never divulge bank login details
- Banks & merchants being **risk averse** and playing a waiting game
- Banks making life difficult for fintech through complex set-up and authentication and **not being compelled** to do better
- The **lack of ubiquity & consistency** between banks drives up the costs of set-up
- Consumers are used to the **ease & benefits of using cards** and are suspicious of change

Source: PSE Consulting Survey June 2019

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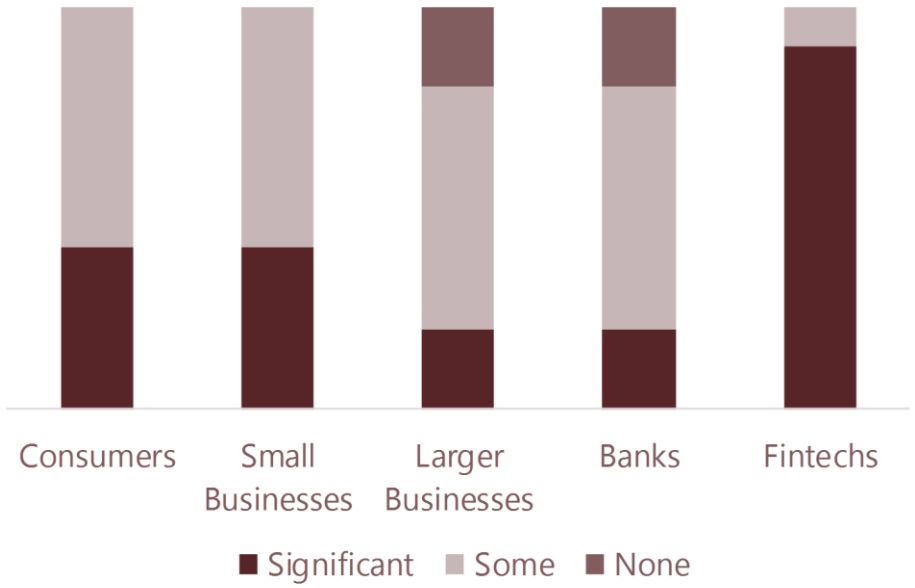
Benefits of Open Banking

How much benefit will Open Banking deliver to consumers, SMBs, corporates, banks & fintech?



- **Consumers & Small Businesses** are likely to benefit from more competition, choice and free new services
- **Larger Businesses** will see some benefits from AIS through operational efficiency and possibly in time from PIS payment methods
- **Banks** benefits are most likely to be operational savings and ability to retain customers rather than generating new revenue streams
- **Fintechs** are expected to have the most to gain, most likely through partnering with banks or enabling banks to meet regulations

> "Millennials will love the benefits of OB and will happily switch to take best advantage"

> "There are too many fintechs at present and many will fail or be acquired by banks"

Source: PSE Consulting Survey June 2019

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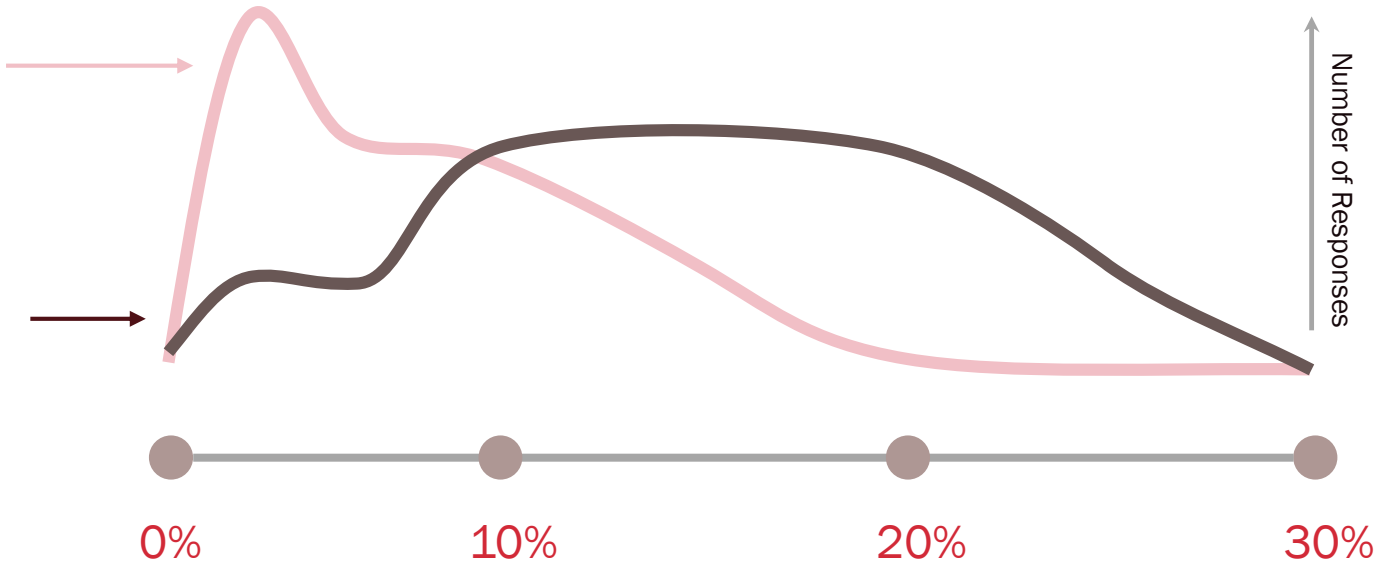
Payments & Data Migration (1 of 2)

What share of payment transactions and consumer bank data interactions do you believe will move to Open Banking solutions in the next two years?

By 2022…

How much online retail **spend** will migrate?

What share of bank **data** requests* will migrate?



**3rd party requests for data from banks e.g. for mortgage/credit applications*

Source: PSE Consulting Survey June 2019

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Payments & Data Migration (2 of 2)

What share of payment transactions and consumer bank data interactions do you believe will move to Open Banking solutions in the next two years?

Payments

- Most respondents felt that there would be **minimal** take up of OB payments in the **short to medium term**, at least until **concerns regarding fraud & consumer redress** are rectified
- Markets where there are **screen scraping payments already** may see more move across to OB, but as this is already working, **effects will be minimal**
- **B2B payments** could be more popular as a convenient way to settle invoices through accounting software etc.

Data

- Data take up will be a bit higher as **there is a better UX improvement and cost saving** to be had making data sharing more compelling
- Banks & corporates can easily see the advantage of using data to better **onboard** and **credit score** clients
- Older consumers will still need convincing that sharing account logons is safe, **having been told for years that it is not safe to divulge** those details
- The majority of TPPs are AISs, who are working independently, and in partnership with fintech & banks to create solutions

Source: PSE Consulting Survey June 2019

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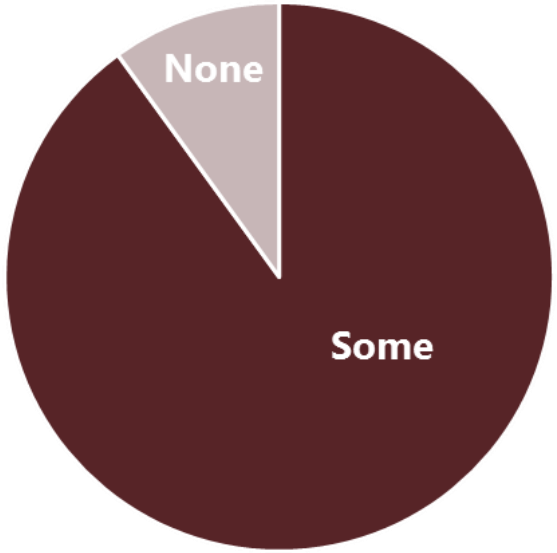
Effect of Interchange Reductions

How much has the drop in card acceptance costs removed the incentives for merchants to switch to new Open Banking payment types?





- The feeling is that although the reduction in interchange in Europe to 0.2% for debit & 0.3% for credit has **reduced but not removed** the incentive to explore OB solutions
- Merchants are more concerned about **improving UX** than saving a few bps on payments fees as profit margin on sales far outweighs these costs
- Their preference is to offer consumers a **friction-free** check-out and as many options as practical for payment, including finance
- Commercial cards are **not included** and bills for **high ATV debit card** merchants have seen their **costs rise**
- **Scheme fees are increasing** which is countering reduction
- **Gateways and acquirers are supporting OB payments** to protect their margins at the expense of issuers. They may be able to share in merchant cost saving

> "Major merchants will push OB payments anyway"

> "Businesses still think MSCs are too high"

Source: PSE Consulting Survey June 2019

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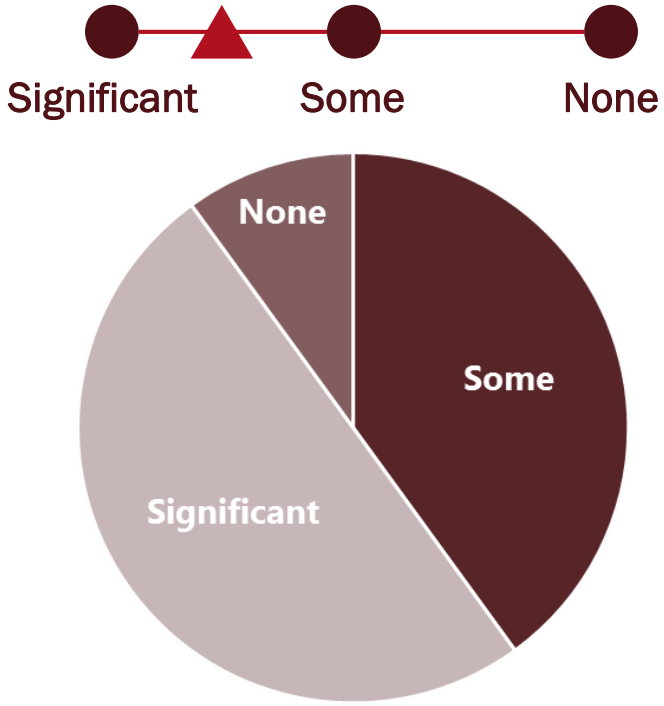
The Effect of SCA

How much will the PSD2/EBA rules on authentication (SCA) inhibit 3rd party innovation?



- The rules on SCA are **far too complex** and there are still many areas that remain unclear
- Although 3DS 2.X will take some of the implementation burden away for EMV Co payments, it **does not solve check-out friction** or cover all domestic schemes
- Many banks are opting for the **redirect model** which launches a web browser so a user has to authenticate on the bank's on-line portal – **unnecessary friction & poor UX**
- Recent regulatory guidance has only added to confusion
- The SCA rules **preclude regular payments** as the payer needs to be present to make a payment therefore restricted to immediate payer initiated only

Source: PSE Consulting Survey June 2019

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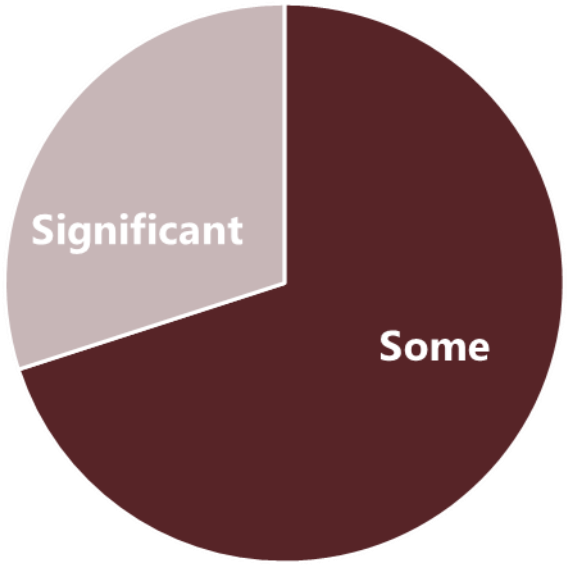
Credit Transfer Functionality

Is the lack of retail functionality (e.g. refunds, chargebacks) within credit transfers a barrier to merchant and consumer uptake?





- In **card orientated countries** it is very likely that consumers will be **less inclined to change** on-line payment habits as they know they have protection
- An equivalent **protection for B2C payments** may be needed before there is strong uptake
- Larger merchants may get around this barrier by offering **payment guarantees & incentives** to pay by bank transfer
- B2B payments & payments for the likes of utilities are more likely as the **payee will be trusted**
- In countries like Germany & the Nordics who are used to paying by bank transfer this may be less of an issue, but there is a **general lack of fraud awareness** and a belief that the bank would bear the brunt

Source: PSE Consulting Survey June 2019

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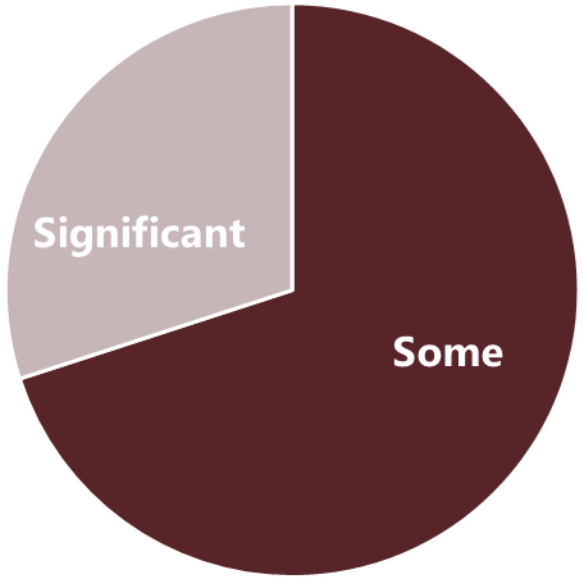
Impact of Real Time Payments

Will the roll-out of real time credit transfers (SEPA Inst) have an impact on the success of Open Banking?





- Instant credit will **enhance the Open Banking** initiative
- Fintech companies are able to hold onto funds on behalf of a business during the day and settle once a day by batch if this is **better for reconciliation**
- Many acquirers now offer T+1 settlement so the **need for instant settlement is reduced** slightly
- From past experience the SEPA framework took a **long time** to roll out and this will not be different. Cross border volumes are relatively low and in domestic transactions seem to work OK anyway
- Unless SEPA Inst **becomes mandatory** many banks will ignore the initiative

Source: PSE Consulting Survey June 2019

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Gaps in PIS & AIS Services

What do you see as the major gaps/failures in the original vision for PIS & AIS services?

- There has been a **collective failure** thus far by regulators & banks to **educate consumers & business** about what OB will mean to them
- Too much focus on **payment account only** in Europe – without credit cards, savings, mortgages etc. benefits of OB are very limited
- A real **consumer demand** for PIS & AIS solutions is still **unclear** and OB is **not really fulfilling** any pressing consumer need
- There should be less emphasis on consumer needs and more on **businesses** as they have a greater cost burden and lack of choice
- Lack of certainty is stifling investment into PIS & AIS services
- **Authentication processes are complex** & will cause friction. There needs to be a European digital ID scheme like there is in India to simplify the process
- **Lack of PIS uniformity** e.g. RBS are restricting PIS initiated transfers to £250 though there should not be a limit
- There is **no certainty as to what data will be available** bank by bank which will limit the effectiveness of data services
- Many consumers have **more than one bank account** giving doubts as to whether the full picture will really be seen

MIND THE GAP

Source: PSE Consulting Survey June 2019

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Use Cases

Where have you seen successful use cases for PIS & AIS services?

Payments

- Accounting software providers like Xero & Sage already provide access to bank data & will move to become payment initiators to allow digital settlement of invoices from within their software
- Foreign transfer business will be revolutionised by the likes of Treasury Xpress/Ebury & TransferWise making the process simpler & cheaper for businesses
- Big Tech companies are planning B2C payment initiation & P2P payments via their platforms (e.g. Amazon & Facebook) to save costs & improve UX

Data

- ID verification & KYC will become much easier and great for the likes of property rental companies and financial institutions
- Credit scoring will be much quicker, cheaper and more accurate and is already being used by the likes of Iwoca. Especially helpful for consumers with non-regular income
- Price comparison sites & financial marketplaces for small business will bring more choice for lending, business cards, foreign transactions etc. Funding Xchange are already doing this and banks have on their roadmap

> "Nothing seen thus far with a 'wow' factor. PFM tools will become BAU"

> "The race is on between banks and Big Tech to be the primary customer interface"

Source: PSE Consulting Survey June 2019

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Revenue & Cost Saving

Where do you believe players will create new income streams or cost saving benefits?

New Income Streams

- **Marketplaces** giving banks & third parties the opportunity to earn commission and/or sell their products
- Existing and potential customers can be **pre-approved for loans** and be made bespoke, flexible offers
- More **accurate credit scoring** could provide **niche lending propositions** to borrowers happy to pay a premium e.g. the 'gig' economy
- The offer of competitively priced **finance at the point of sale** that cuts out alternative funding methods and creates an upsell opportunity
- Although **PFM** may not be chargeable provision will **reduce churn** by deepening the relationship

Cost Savings

- More accurate **internal credit scoring** will **save external costs and could reduce bad debts**
- **On boarding/KYC** will be quicker, less costly and reduce abandonments due to improved UX
- Larger businesses as well as banks will also benefit from the above and would be willing to pay for solutions that improve operations
- Major merchants can save considerable sums by moving to **cheaper payment methods** but would need to convince their customers to pay a different way

Source: PSE Consulting Survey June 2019

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