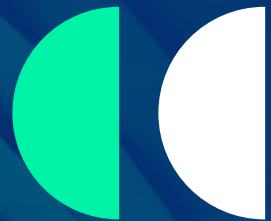


**YTS**

Yolt  
Technology  
Services



THE VALUE  
OF OPEN  
BANKING



20  
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REPORT



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# UNLOCKING THE VALUE OF OPEN BANKING

## INTRODUCTION

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Leon Muis, Chief Business Officer, Yolt Technology Services

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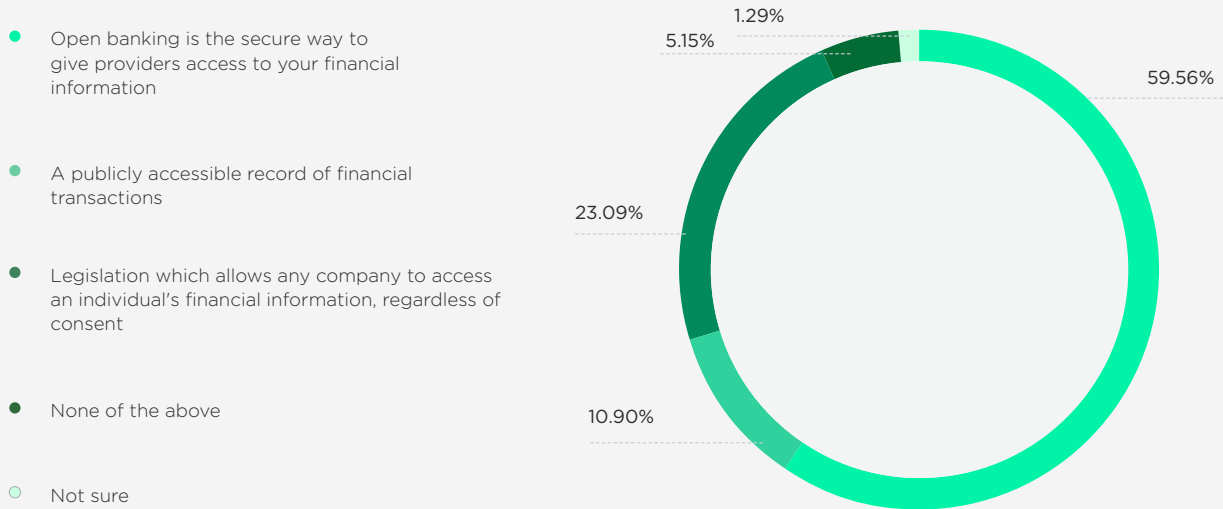
Like the allegory of the blind men and the elephant, how you understand open banking depends on the angle from which you approach it. Is it a payments technology, a financial data aggregation facility, a credit scoring application or a regulatory framework? Well, it is all of them, and much more.

Open banking is a highly versatile opportunity. The use of application programming interfaces (APIs) that allow third parties to access bank account information varies significantly both across countries and industries – and within them. Definitions of open banking matter less than the opportunities it presents.

We surveyed over 1,000 business leaders in the banking, retail, lending, investment platform, and personal finance management (PFM) software sectors across the UK and the Netherlands for their attitudes toward, and relationship with, open banking services. We asked whether it has brought any benefits to the sectors, including the monetary value it represents for them. The results show the variety of ways businesses are already using the technology to improve customer service, cut costs, boost efficiency, and adapt to change. They also reveal the obstacles and sometimes misunderstandings that must be overcome for businesses to fully realise the technology's potential.

The survey confirms that businesses understand open banking in a variety of ways. More surprising, though, is that it still shows a fairly widespread misunderstanding. Most respondents correctly describe open banking as a secure way to give providers access to a person's financial information. Almost a quarter, though, see it as legislation allowing any company to access an individual's financial information, "regardless of consent".

### WHICH, IF ANY, OF THE FOLLOWING STATEMENTS DO YOU THINK BEST DESCRIBES OPEN BANKING?

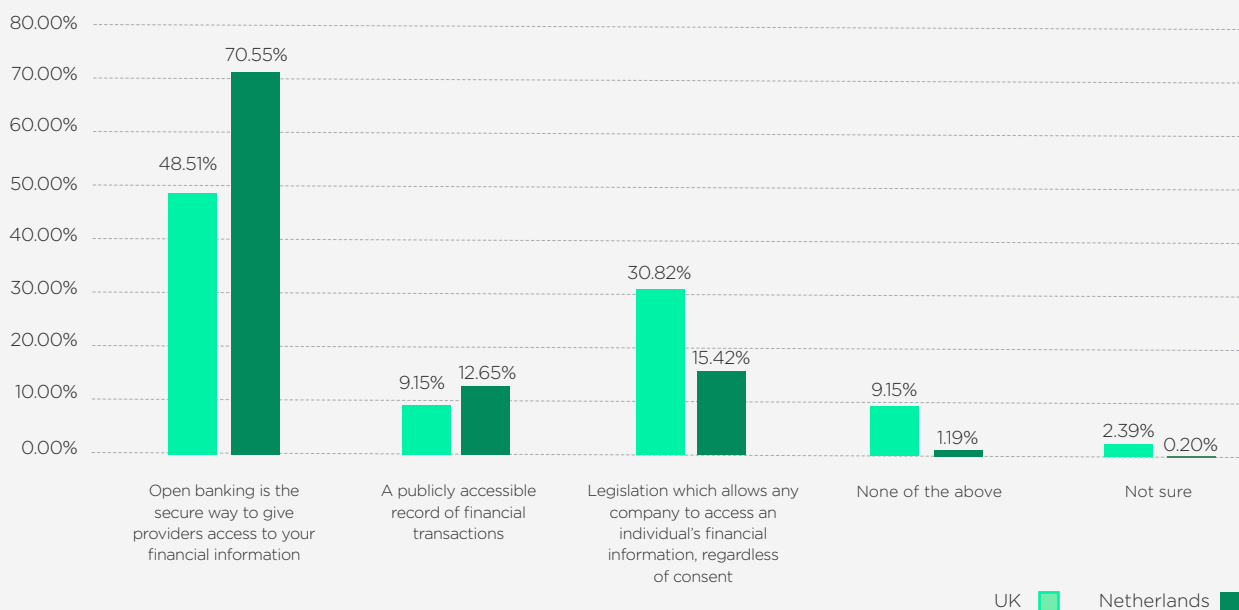


Seeing open banking purely as a legal initiative is understandable, and is much more common in the UK (31% describe it in this way) than in the Netherlands (15%). In Britain, the development of the technology was initiated and driven by the Competition and Markets Authority and the body it set up, Open Banking Limited. Open banking service providers are also regulated by the Financial Conduct Authority (FCA).

The confusion over customer control, however, is less easy to understand and is, in fact, harmful. Consent is at the core of open banking. The regulatory drive behind it has never been to give consumers less control over their financial information, but rather to provide them with more. To secure their permission, businesses in every sector will have to clearly demonstrate the value open banking brings to consumers. Failure to do so will limit its growth.

In fact, it may already be doing so. It is perhaps not a coincidence that our survey shows uptake of open banking products and services is higher in the Netherlands than in the UK. In the latter, confusion over consent is more widespread.

### WHICH, IF ANY, OF THE FOLLOWING STATEMENTS DO YOU THINK BEST DESCRIBES OPEN BANKING?

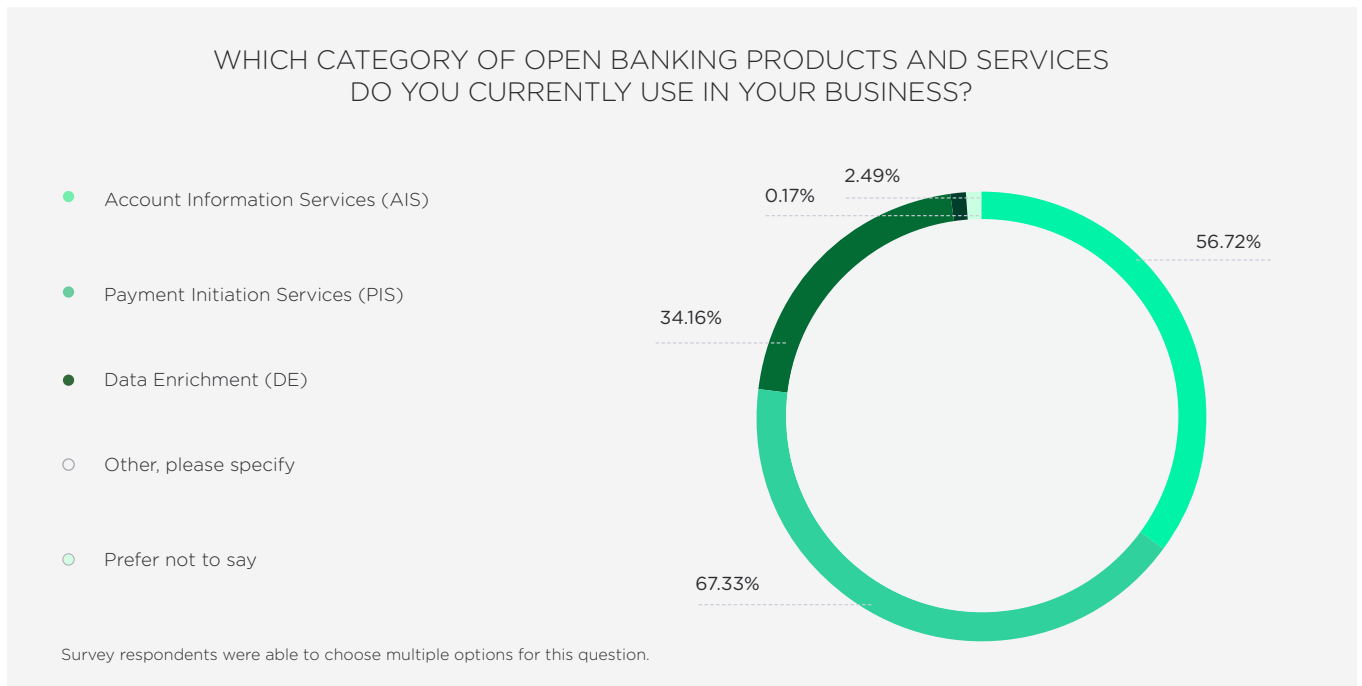




BUSINESS  
BENEFITS



Many businesses in both countries are already using open banking successfully. Some are using account information services (AIS) to draw in customer bank data, and some payment initiation services (PIS) to process payments directly from accounts without cards. About a third using open banking are doing so for data enrichment, drawing insights from the financial information through identifying spending categories, automating income identification and expense forecasting, for example.

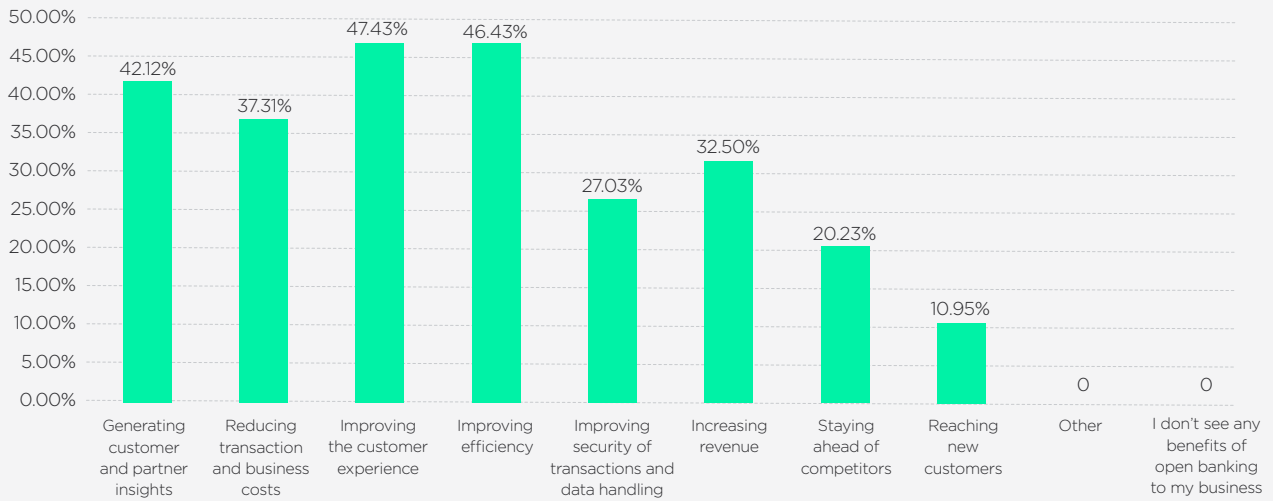


More important than the services they're using are the results businesses are seeing. Those embracing open banking are seeing a range of benefits:

- Improving the customer experience
- Boosting efficiency
- Generating customer insights
- Reducing transaction and business costs
- Increasing revenue
- Improving transaction and data security
- Staying ahead of competitors
- Reaching new customers



## WHAT, IF ANYTHING, DO YOU SEE AS THE KEY BENEFITS OF OPEN BANKING TO YOUR BUSINESS?



As this report shows, those benefits vary significantly across sectors but are significant in all. On average, those in our survey expect open banking to be worth £1.9 million a year to their business. About two thirds (65%) of larger businesses (those with over 500 employees), expect it to be worth between £2m and £5m.

## HOW MUCH WOULD YOU BELIEVE THE VALUE OF OPEN BANKING WOULD BE TO YOUR BUSINESS, IN AN AVERAGE YEAR?



And these numbers are likely to grow in time. The disruption from the Covid-19 virus that has swept the world in recent months makes the benefits of open banking more important than ever. It could prove a tipping point in adoption of the technology.



# 2

## ADAPTING TO CHANGE

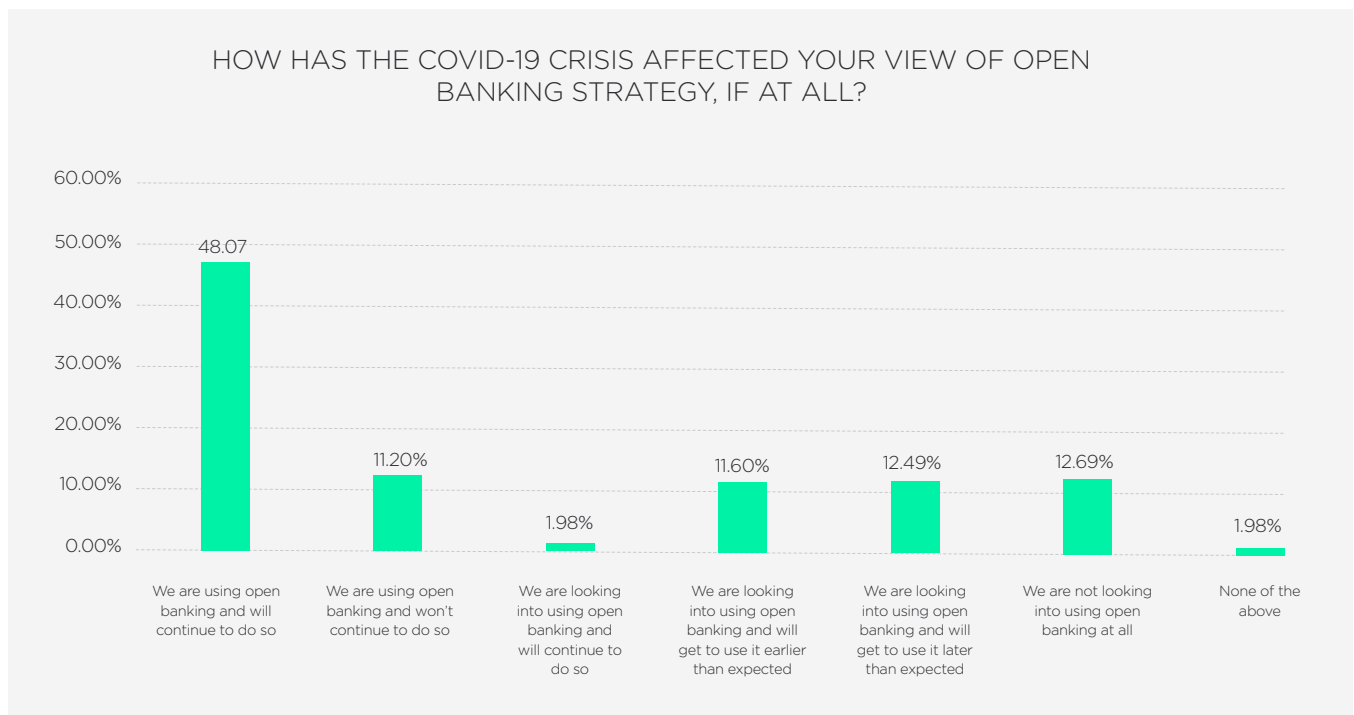




On the one hand, the Covid-19 outbreak has undoubtedly disrupted some existing open banking projects. At the time of writing, the UK is in its fifth month of lockdown, which has naturally pushed schedules back. Moreover, the massive disruption to the economy leaves many businesses with what may seem like more fundamental challenges to tackle: how to recover, or even survive. About half of those in our survey said the biggest business challenge they now face in 2020 is how to recover from the crisis.

Perhaps we should expect IT projects to take a backseat. About one in eight say they are looking into using open banking, but will now use it later than expected. A similar number say they are using the technology, but won't continue to.

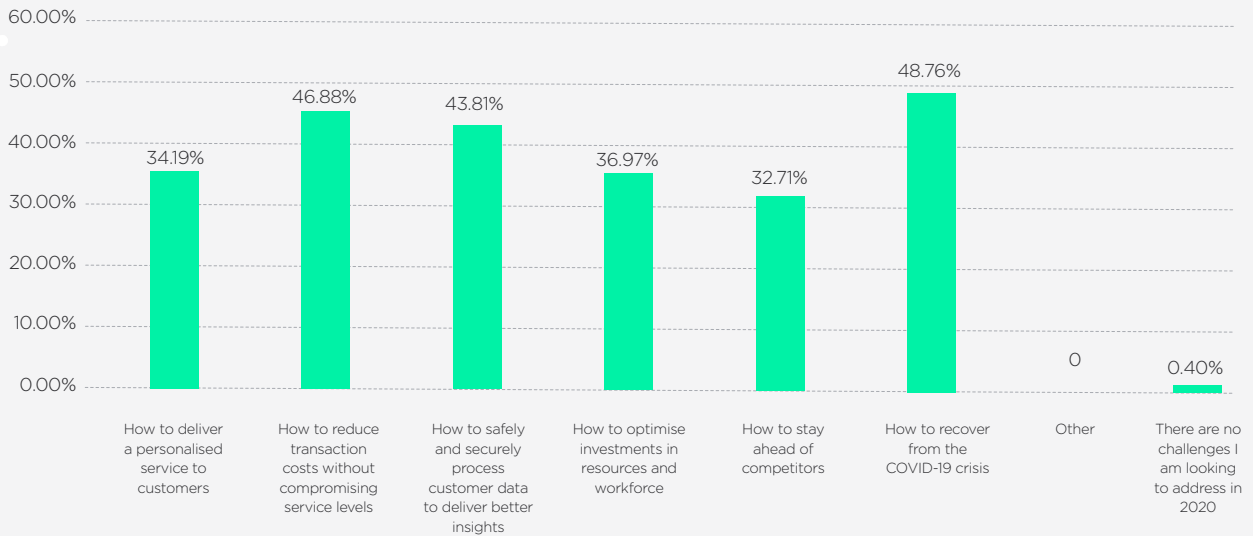
On the other hand, we should note two things. First, most of those using open banking APIs and roughly half of all businesses say Covid-19 hasn't changed this. Second, another 12% who aren't using them say they'll get to open banking sooner as a result of the crisis.



That should not actually come as a surprise. The fact is that open banking offers benefits that have become even more important in recent months. It provides additional insight into customers, helping to reduce risk and realise opportunities; introduces efficiencies to cut costs, improve cash flow and do more with less; and enhances the customer experience to enable businesses to win market share, following a decisive move to online services as a result of the lockdown.

In short, open banking could play a central role in meeting not just the challenge of recovering from the pandemic, but addressing the other key business issues identified for the coming year: reducing transaction costs without jeopardising service levels, safely and securely processing customer data to deliver better insights, and optimising investments in resources and the workforce, among others.

## WHAT ARE THE BIGGEST BUSINESS CHALLENGES YOU ARE LOOKING TO ADDRESS IN 2020?

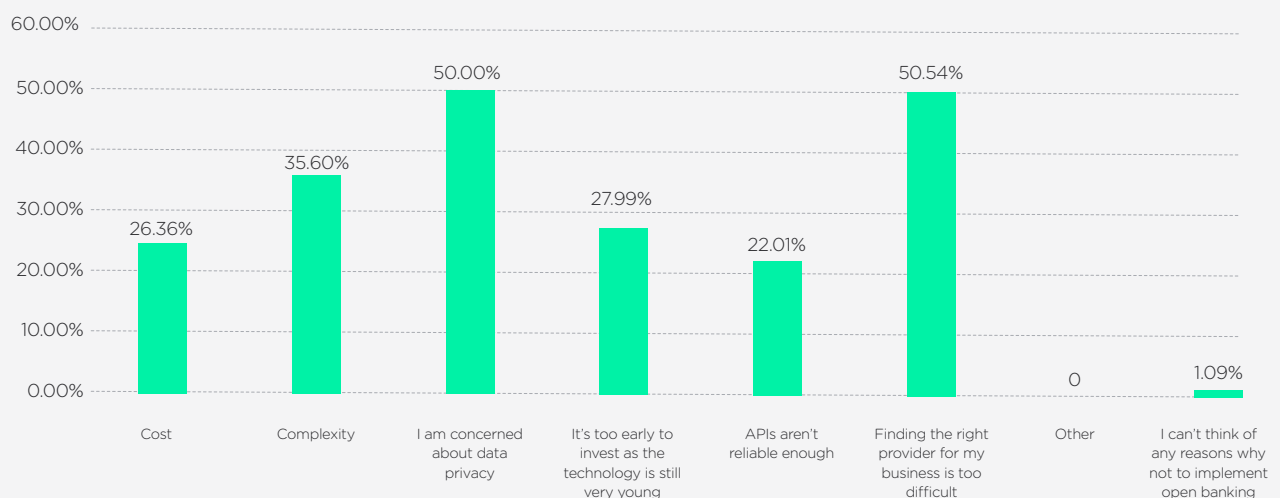


## A BRIGHT FUTURE

We can be confident that the benefits of open banking will grow over time for three reasons.

First, because the technology will mature and improve. Most of the early problems over the availability and stability of the banks' APIs have now been resolved. It may take time for this to be recognised by those who have looked at open banking in the past and under-valued the opportunity it presents. More than one in five (22%) of those not implementing open banking still cite the reliability of the necessary APIs as a key blocker, suggesting more education is needed here. Another 28% say it's still too early to invest in the technology.

## WHEN THINKING ABOUT REASONS NOT TO IMPLEMENT OPEN BANKING, WHAT MIGHT COME TO YOUR MIND, IF ANYTHING?



Second, public acceptance and use of the technology will grow, increasing the efficiencies, savings and opportunities businesses can realise from it. As more companies successfully adopt open banking technologies, more customers will see its value. Demand and expectations will grow. Greater use will also alleviate concerns over data privacy – shared not just by consumers but by businesses not currently using open banking: half cite data privacy as a key concern. Much of this is unfounded. In fact, open banking can enhance the security of data, as outlined elsewhere in this report. As consumers become more familiar with the technology, misplaced concerns should reduce.

Finally, the benefits will grow as the scope of open banking widens. Here we are not just talking about increased adoption by businesses and consumers in sectors where it's already in use; nor even the growing range of applications in banking that regulatory developments make possible, such as recurring payments through payment initiation services. Instead, it's the use of the principles and technology underpinning open banking in investments, pensions, insurance, accounting and an ever-expanding area of daily life. Over time, open banking will become open finance, and open finance in turn paves the way for open data.

That will require an appropriate regulatory framework to support this evolution. The wheels are already in motion for that, with the FCA putting out a Call for Input around open finance that will run to October this year. But it will also need businesses using APIs today to demonstrate the benefits, build public trust among consumers and avoid disasters that could dent confidence in the technology. The direction of travel is clear, but how successful these early efforts prove will in large part determine the speed of travel. We hope this report helps makes the journey a little smoother.



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# UNLOCKING THE VALUE OF OPEN BANKING

## A GUIDE FOR BANKS

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Leon Muis, Chief Business Officer, Yolt Technology Services

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Banks are the linchpin of the open banking infrastructure. The opportunities for other lenders, retailers and personal financial management apps depend on these former gatekeepers of financial information opening up.

That said, open banking also offers substantial opportunities for banks themselves. Open banking provides opportunities to cut costs, enhance the customer experience and boost loyalty. According to our survey, that's well recognised by the industry, but there remains significant room for growth.

### DISCUSSING TERMS

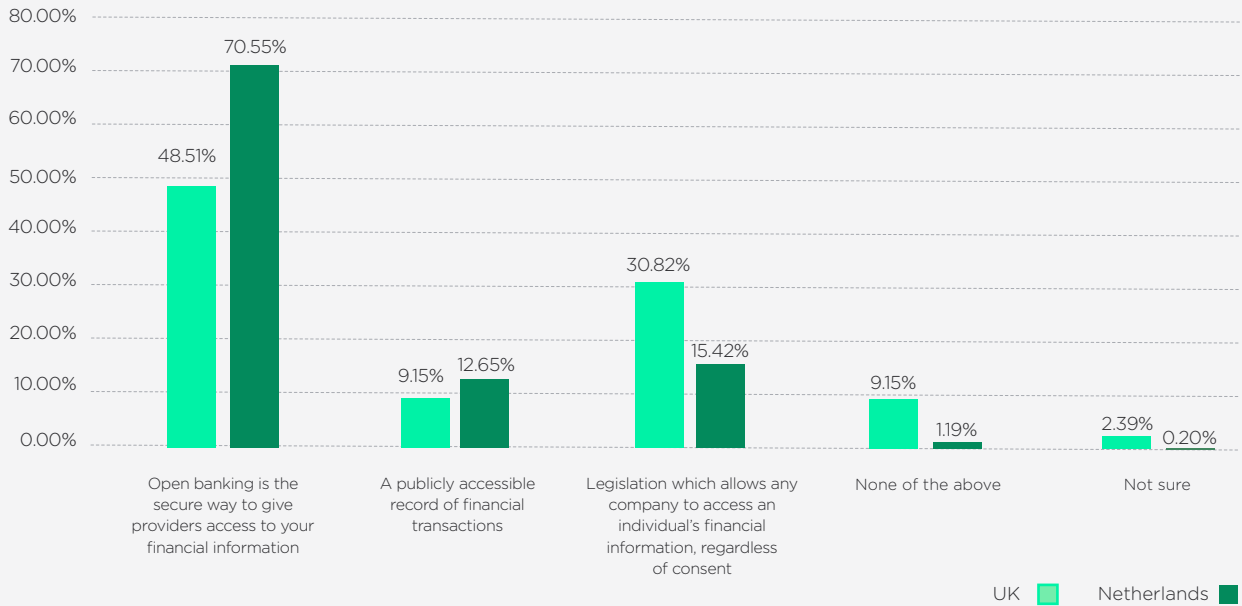
On the one hand, banks demonstrate a better understanding of open banking than any other sector. Seven out of ten (71%) define it correctly as a way for third-party providers to access financial information, even if a quarter (27%) make the same mistake as others in misunderstanding the importance of consent.

Despite the efforts of UK regulators to drive adoption of open banking, knowledge of the initiative is more widespread in the Netherlands than in Britain. That's mostly the result of the iDEAL payments method, which established what's effectively a PIS payment flow in 2005, more than a decade before the arrival of open banking regulations. Their deeper understanding of the principles behind open banking has probably also been helped by other initiatives, like those that use government data and the state's DigiD identity management platform to automatically gather data for pension overviews and mortgage lending.

Overall, across sectors, understanding of open banking is significantly higher in the Netherlands than in the UK, with 71% against 49% having a good understanding of the term.

<sup>1</sup> <https://www.fca.org.uk/publications/calls-input/call-input-open-finance>

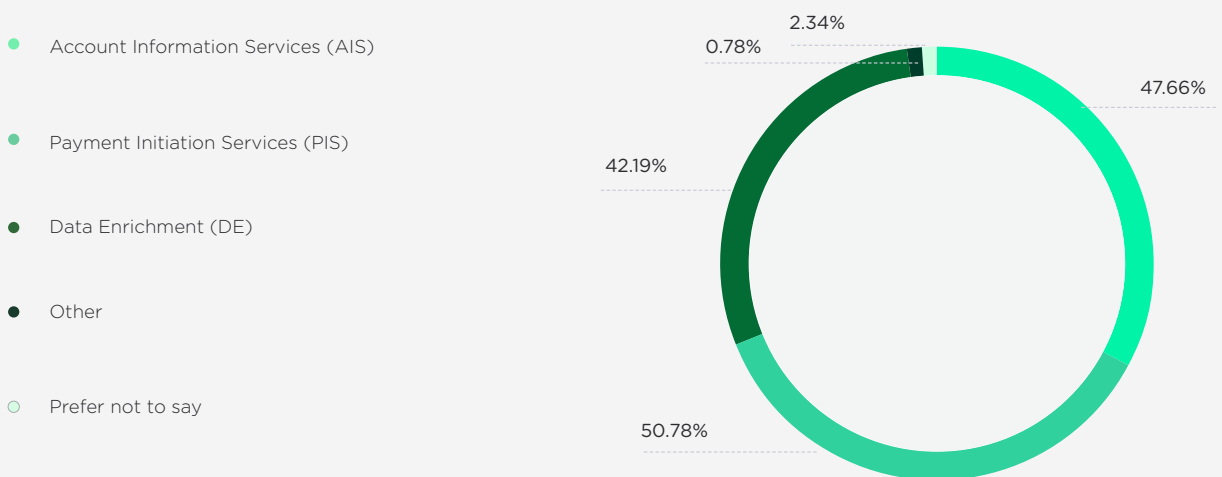
### WHICH, IF ANY, OF THE FOLLOWING STATEMENTS DO YOU THINK BEST DESCRIBES OPEN BANKING?



### RISK AND OPPORTUNITY

Despite banks having better knowledge of open banking than other sectors, implementation remains patchy. Adoption is higher than in most other sectors, but still, only 63% say they use open banking products and services in their own business. Among those that are using it, though, there's significant adoption across PIS, AIS, and data enrichment services.

### WHICH CATEGORY OF OPEN BANKING PRODUCTS AND SERVICES DO YOU CURRENTLY USE IN YOUR BUSINESS?



Survey respondents were able to choose multiple options for this question.

That reflects two points worth noting. The first is the range of opportunities open banking APIs bring to banking. These can facilitate improved lending models through AIS and provide access to alternative data sources. They can improve the customer experience, drawing in data from other accounts to aggregate accounts and provide a complete financial overview. They simplify transfers between accounts through PIS and can help increase sales of other products such as pensions or insurance. Through data enrichment, they can enable notifications of upcoming payments or help personalise services and offers. And they help with fraud prevention and anti-money-laundering compliance.

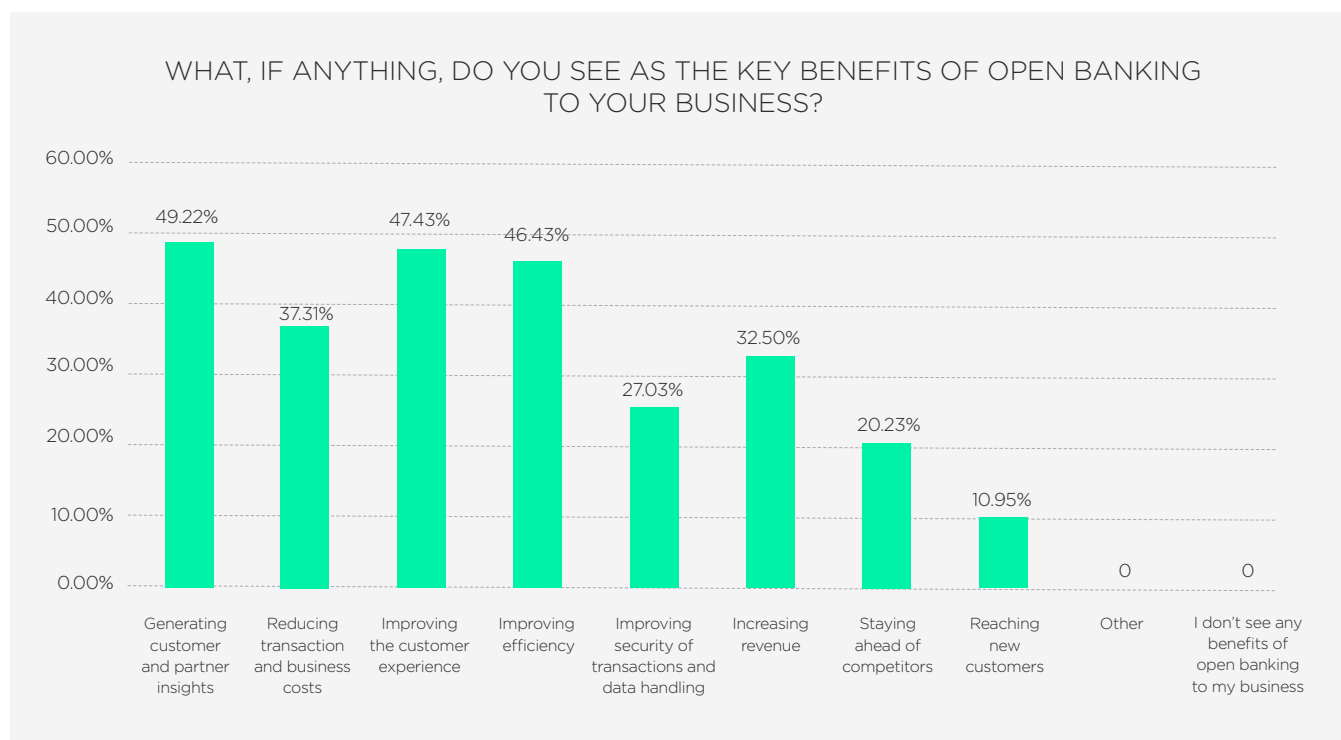
The many uses for open banking also reflect the variety in the sector itself. On the one hand, it is a significant opportunity for challenger banks to build market share and develop relationships with customers whose main current account remains elsewhere. Customer inertia and reluctance to switch accounts remains a significant barrier to challengers' growth, despite regulatory efforts to make switching easier. Open banking APIs provide a mechanism to enable the challengers to provide value during customer's banking activities, even if customers don't actually leave their main account.

## COUNTING THE BENEFITS

On the other hand, the high street incumbents cannot afford to ignore open banking. Expectations around digital services are already being shaped by customers' experiences in other sectors, such as retail. As financial service providers (including the challengers) embrace open banking to offer new and personalised experiences, the demands on incumbents will grow. Moreover, the threat from PFMs, alternative lenders and even the technology giants, who banks worry may displace them in the customer relationship, will not be reduced by shunning the technology. That threat is better faced by banks providing these services themselves.

Our survey suggests banks recognise the potential of APIs to enhance customer relationships: close to half say they expect open banking to improve the customer experience, and 42% hope to generate new customer and partner insights. Such optimism is supported by previous research that shows that customers who are highly satisfied with their digital experience are much more likely to open new accounts with their existing banks.<sup>2</sup>

The potential to boost efficiency is also well appreciated. Open banking could be vital to improving performance when it comes to processing payments in a cost-effective manner – an area where under half (47%) say they're happy with their performance, which is lower than any other sector.



At the same time, however, a relatively small proportion sees opportunities to reach new customers or stay ahead of the competition. That suggests many still underestimate the potential of open banking.



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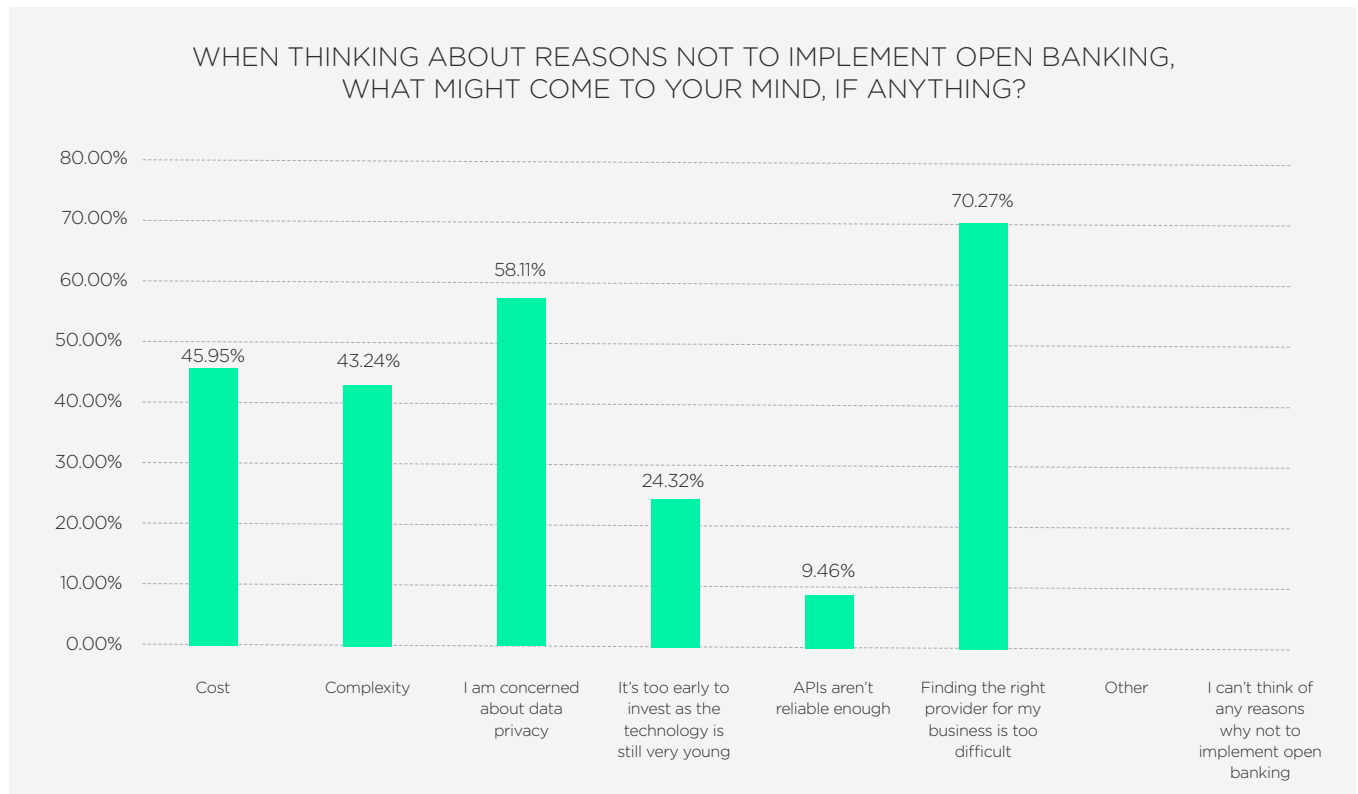
CONSIDERING  
THE CHALLENGE



Just as the benefits of open banking vary between the newer players and incumbents, so do the challenges. In their favour, the high street banks have the resources and budgets to spend on developing their solutions.

Against them, however, are legacy systems that make it challenging to integrate open banking. Analysis of the new data available as a result of APIs could be enhanced by the internal data already held, but combining the two is not always easy. New challengers may not have so many opportunities, but neither do they have the problems.

As a result, some of those in our survey who have not implemented open banking products or services cite cost as the key reason. But complexity was equally likely to be named by respondents as a barrier. Moreover, a majority of the business leaders in banking asked in the survey have two main concerns. The first is worries about data privacy – which the proliferation of existing data on legacy systems does little to allay in established operations. The second is the difficulty of finding the right provider.



Banks, like others, need credible partners to implement robust open banking solutions and to support them for the long term. But the established banks also need partners with the expertise to work with existing, and in many cases ageing, core banking systems to do so. They must pick their open banking service providers with care.

It is worth persevering, however. The pandemic has won over many who weren't already converts to using financial apps.<sup>3</sup> Branch closures are likely to accelerate. Meanwhile, competition is widening to include not just non-traditional banks and other financial service providers but technology firms who see opportunities to disrupt the market. The battle in banking is increasingly moving online. And open banking will provide weapons with which it will be fought.

<sup>2</sup> <https://www.mckinsey.com/-/media/mckinsey/industries/financial%20services/our%20insights/rewriting%20the%20rules%20in%20retail%20banking/rewriting-the-rules-succeeding-in-the-new-retail-banking-landscape.ashx>

<sup>3</sup> <https://www.verdict.co.uk/retail-banker-international/news/covid-19-pandemic-forces-major-shift-towards-internet-banking/>



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# UNLOCKING THE VALUE OF OPEN BANKING

A GUIDE FOR LENDERS

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Bas van Marissing, Commercial Product Manager, Yolt Technology Services

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Open banking doesn't just promise to make lending smarter, faster, less risky and more efficient; it could play a central role in the economic recovery following Covid-19. But that will require both lenders and businesses to overcome the barriers that stand between them and embracing this new technology.

Business lending is going to be critical to the economy's recovery, particularly perhaps for small businesses hit by lockdowns across Europe. In the UK, four in ten SMEs surveyed in May feared they might have to permanently close.<sup>4</sup> Funding, such as the government-backed Coronavirus Business Interruption Loans (CBILs), will be crucial to saving those businesses, and enabling them to invest in growth and employment in the future.

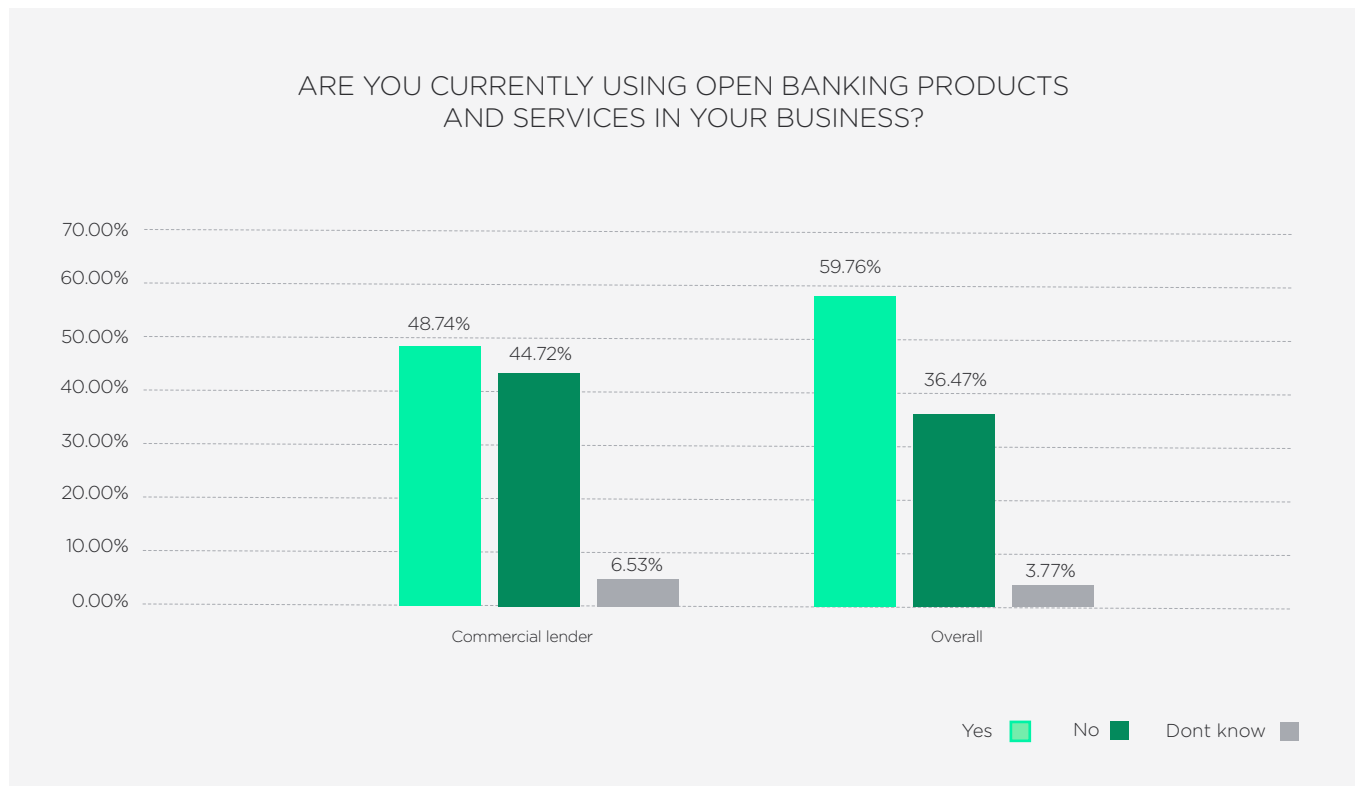
To provide this funding, though, lenders need to be confident that they can distinguish between those that remain viable businesses and those that are irreparably damaged by the upheaval. Faced with that challenge, many have chosen to accept CBILs applications only from existing customers, whose financial history they know.

Open banking could be the key to unlocking CBILs and the other sources of finance that businesses badly need. But, first, commercial lenders need to adopt it.

<sup>4</sup> <https://www.cityam.com/two-fifths-of-uk-smes-at-risk-of-permanent-closure-survey-finds/>

## A WIN-WIN

To date, the penetration of open banking into commercial lending is poor. Our survey shows significantly lower adoption than in any other sector, with fewer than half using products and services based on open banking.



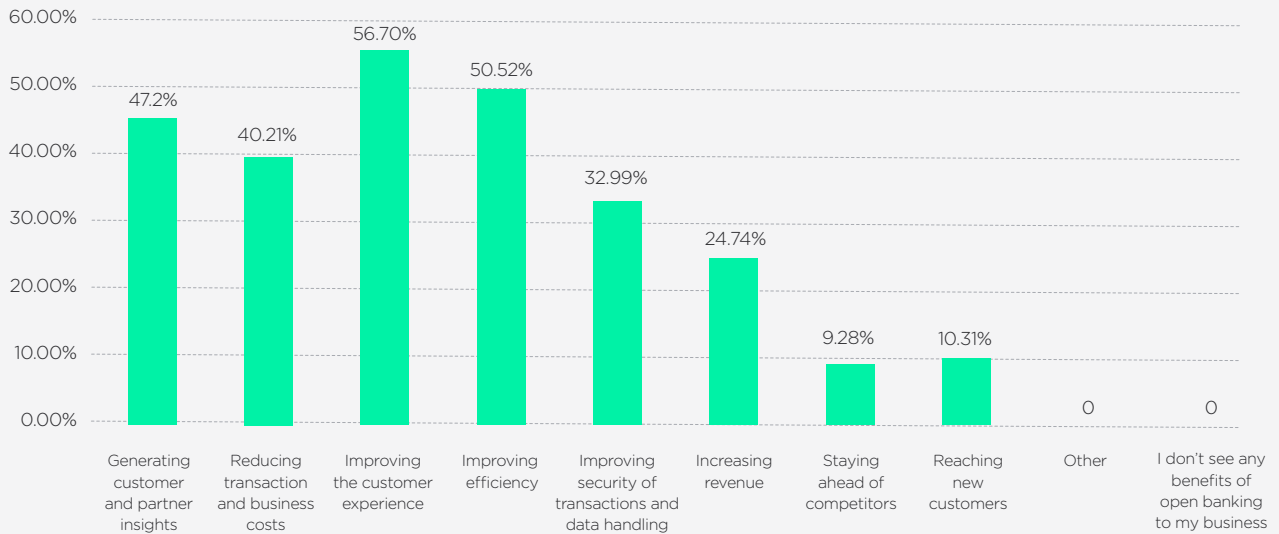
That's despite the clear benefits to be gained from the technology – for both lenders and their customers. For the former, adoption of even just account information services can transform lending:

- Enhanced credit checks and affordability assessments with better quality data, providing full account details and history for clients' banking elsewhere
- Reducing fraud and eliminating errors, drawing account data directly from the customers' bank
- Radically simplifying identification, using the customer log-in for account information services to prove account ownership and confirm identify

Moreover, lenders' interests and their customers' are well aligned. Automating processes through APIs significantly reduces the work required from businesses in the application process and should increase competition. For financially sound companies, it should lead to faster decisions and better rates.

Indeed, the survey suggests lenders using open banking see it as a win-win: improving the customer experience and improving efficiency are the most commonly recognised benefits of adopting the technology.

## WHAT, IF ANYTHING, DO YOU SEE AS THE KEY BENEFITS OF OPEN BANKING TO YOUR BUSINESS?



While only a minority of lenders are using open banking APIs at all, three quarters of those that are say they use AIS (73%), the highest percentage in any sector surveyed. Far fewer, though – just 23% – say they are using data enrichment supported by open banking, despite obvious applications in areas such as credit scoring. That could be because many are early on in their adoption, or it may be because most keep this function in house (and therefore don't consider themselves to be using an open banking “product” or “service”).

Either way, the ability of open banking to generate customer insights was another key benefit identified by almost half (47%) of lenders.

## SECURITY CONCERNS

Whatever capabilities open banking brings, though, they'll only benefit borrowers if lenders adopt it. At the moment, not only do half of commercial lenders say they're not using open banking services, but 58% of them say they've never even considered it.

In part, that's probably a reflection of the opportunity it presents. Open banking is inevitably more attractive to challenger banks and specialist lenders than those with an established commercial banking base, who already have access to their customer account data. Even there, as customer expectations grow, pressure to offer open banking services to customers will increase. However, the reluctance is unsurprising.

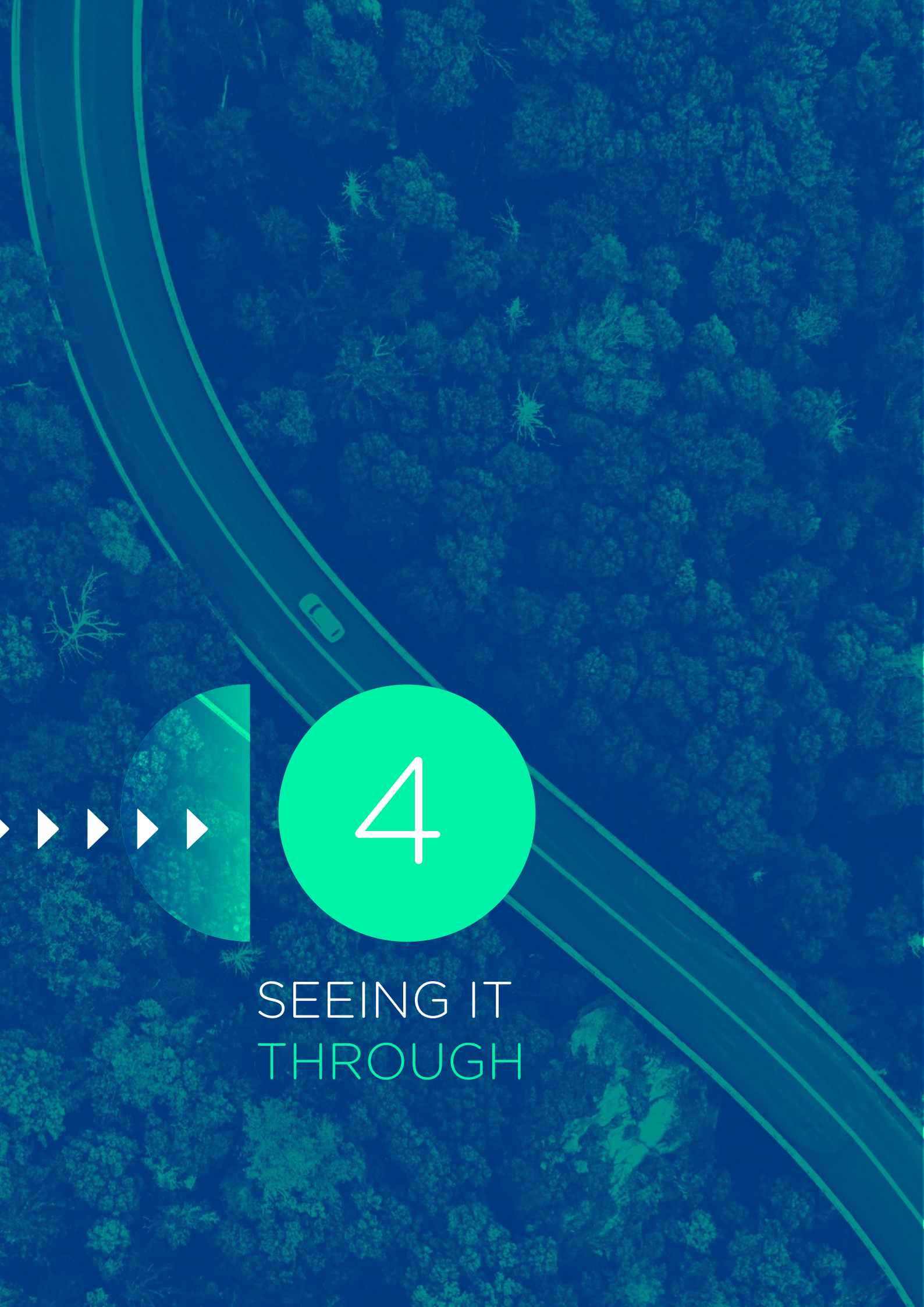
Elsewhere, though, two key factors block the wider adoption of open banking services: concerns about data privacy and the difficulty finding the right provider.

The first is cited as a barrier by two thirds (65%) of those not currently using open banking. There's much to be said (including elsewhere in this report) for the benefits that open banking can bring in leveraging the security of customers' banks. Nevertheless, it remains a key customer concern. Research suggests that more than half of SMEs say their biggest worry over open banking is security.

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That is likely to change over time as the public at large becomes more familiar with open banking. Nevertheless, lenders will have to work to reassure their customers about the security of their solutions. Moreover, as the Dutch proverb goes, trust arrives on foot but leaves on horseback; any failure in data security could have significant consequences for consumer confidence in lending through open banking across the industry as a whole.

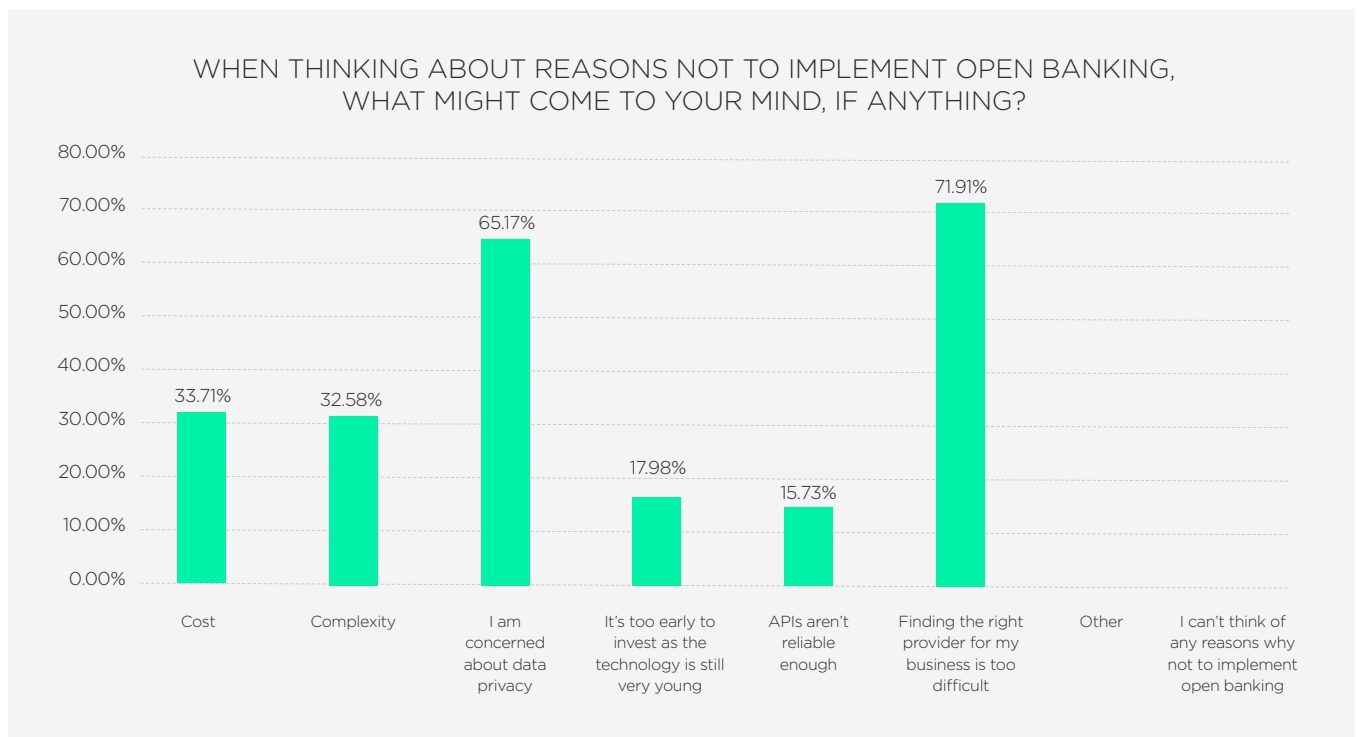
<sup>5</sup> <https://www.pwc.co.uk/industries/financial-services/insights/seize-open-banking-opportunity.html>



4

SEEING IT  
THROUGH

While concerns over security are widespread, the biggest obstacle to greater use of open banking by lenders is finding a provider. More than seven in ten not using open banking said the difficulty of getting the right partner was at least part of the reason. That dwarfs those concerned about costs, for example, by more than two to one.



On the one hand, the number of open banking providers has proliferated over the last couple of years. Sign-posting to relevant businesses has also improved over that time; those looking for a partner can search UK or EU directories of third-party providers.<sup>6</sup>

But the issue is more fundamental. In a relatively new market, lenders are seeking partners with the creditability to deliver a secure service that will retain its commercial clients' confidence. Few providers are yet to have the track record to offer that assurance.

Moreover, no matter how strong the partner, lenders must still deal with their legacy systems and processes.

This is a crucial point, because it can be relatively simple and quick to implement AIS for a number of benefits, such as linking to customer account data - implemented in a matter of weeks. For lenders, that means there are some quick wins in terms of costs and efficiency. For customers, though, some benefits won't be really felt unless the whole process is optimised. If account data is captured using APIs but credit checks are still mostly manual, for example, the process will still lag and offers will be delayed.

To get the most from open banking, then, lenders should take the quick wins. But they should also look at their end-to-end process, too, and talk with providers who understand where the choke points are. As they're resolved, the contrast in the customer experience of those lenders embracing the technology and those forgoing it is likely to become ever starker.

<sup>6</sup> <https://www.openbanking.org.uk/providers/directory> and <https://openbankingdirectory.eu>

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# UNLOCKING THE VALUE OF OPEN BANKING

## A GUIDE FOR PERSONAL FINANCE MANAGEMENT TOOLS

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Pauline van Brakel, Chief Product Officer, Yolt

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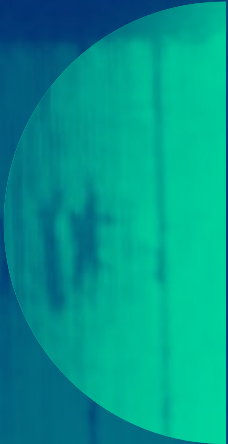
Personal financial management (PFM) apps and software were among the first to invest in the promise of open banking. The question is, will they reap the rewards?

Account information services APIs were the first to be developed, and PFM providers were among the earliest adopters. The ability to automatically draw in account data to categorise, analyse and monitor income, bills, spending and saving has obvious benefits to consumers and businesses. It also promises to answer a question that has long challenged the industry: how to grow the user base and the overall market for PFMs?

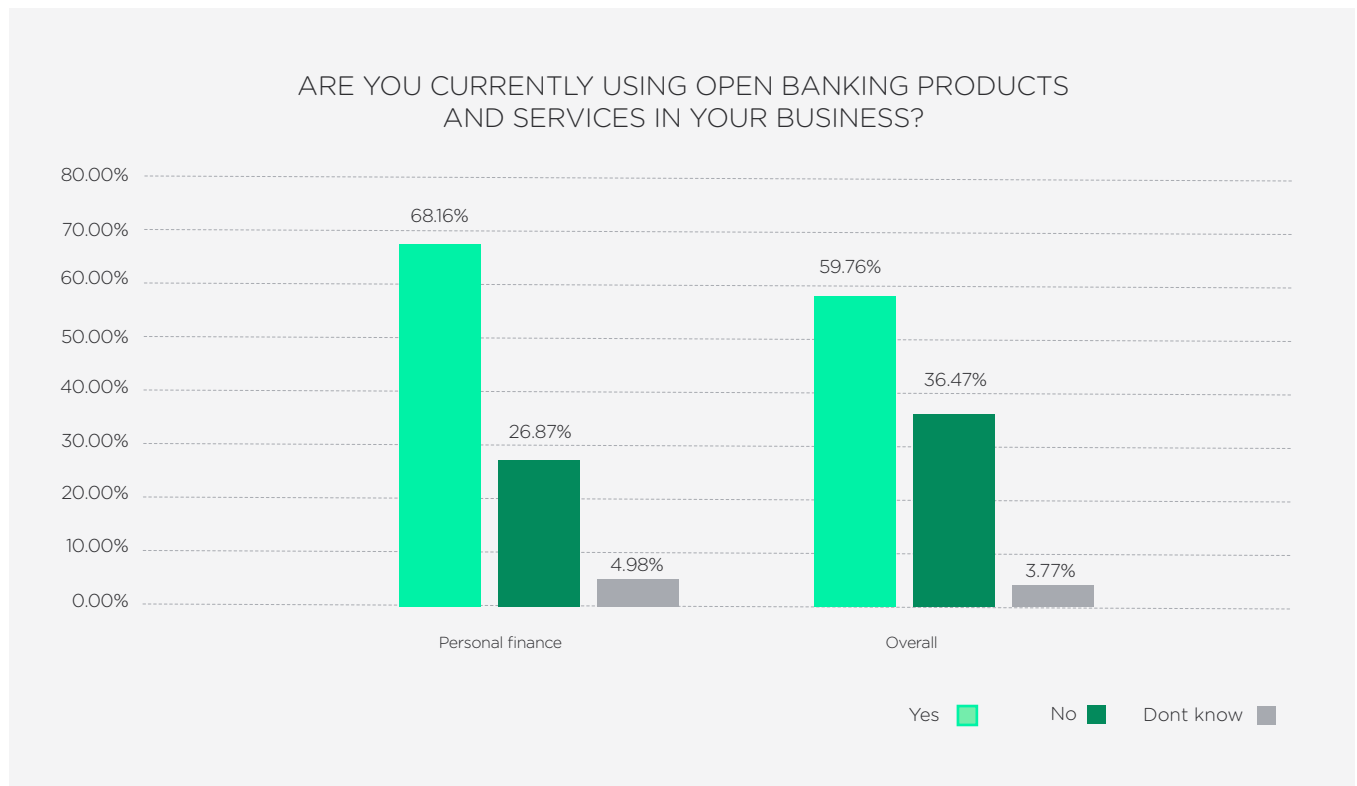
For many, managing finances is a chore, not a hobby. For those wishing to use digital tools to do so, banking apps have been the most obvious choice. But open banking has the capacity to significantly improve the scope, ease of use, and functionality of PFMs, ramping up adoption and making them mainstream. Open banking can eliminate the work of transcribing transaction information. It can also automate the identification of income and spending categories to radically improve the user experience. Analysis from data enrichment can then deliver significant personalisation and value to users, ultimately leading to increased retention and engagement.



EARLY  
ADOPTERS AND  
EARLY ERRORS



The PFM industry's early involvement with open banking is reflected in our survey. It found the use of open banking products and services among PFM businesses higher, at 68%, than in any other sector examined, and significantly above the overall average. Moreover, among PFM businesses not using open banking, only 19% said they had never considered it, which is far lower than elsewhere. In every other sector – banking, commercial lending, retailers and investment platforms – the equivalent figure was at least double that.



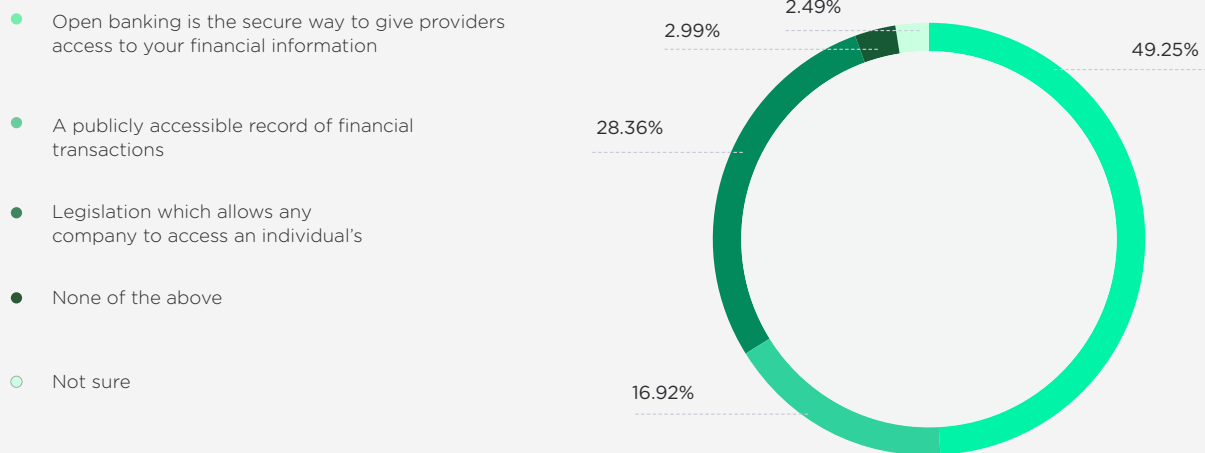
For PFM businesses using open banking, 91% say it is a core element of their strategy moving forward. Nevertheless, there is still over a third not using any open banking products or services.

One reason is that open banking is still relatively new. Even in the PFM sector, the survey suggests there remains some confusion about the technology. Asked to define open banking, the proportion of PFM providers misstating its nature was actually higher than average. Almost three in ten (28%) believed that open banking legislation provided access to account information without consent, for example. That needs to be addressed if PFM providers are to play the crucial role of bringing the benefits of open banking to more people.





## WHICH, IF ANY, OF THE FOLLOWING STATEMENTS DO YOU THINK BEST DESCRIBES OPEN BANKING?



There are other barriers to adoption, too, that are not entirely related to misconceptions.

## COMPETITIVE SOLUTIONS

PFM solutions predate the arrival of open banking APIs by decades. Many providers already had considerable user bases.

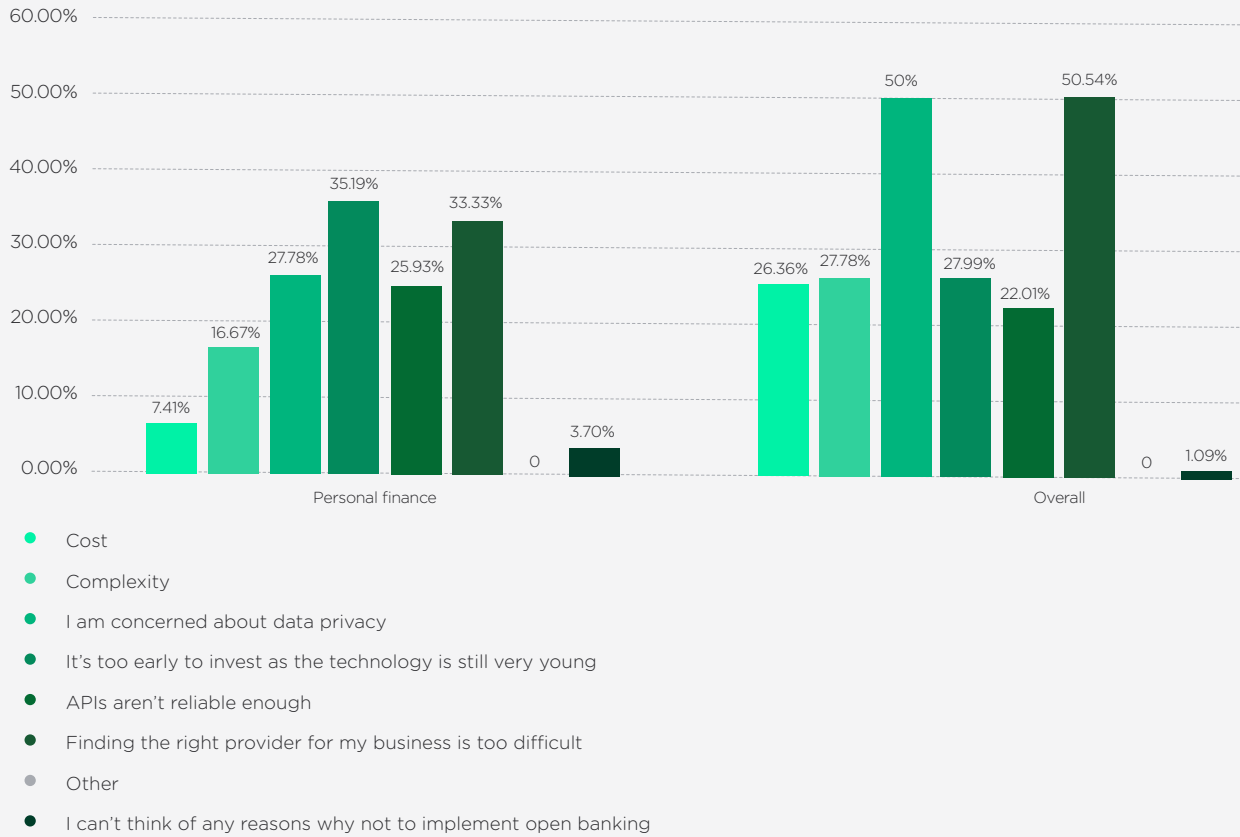
While PFM solutions vary widely in their scope and functionality, gathering users' account or spending data is fundamental to all. Before open banking, the process relied on manual entry, which explains why the biggest competition to PFM solutions remains the pen and paper or Excel; MT940 files, downloaded from the bank; or screen scraping – automatically extracting on-screen data from the bank's online banking page or app as raw text to be used in the PFM.

In almost all cases, secure API connections offer a better solution than both, providing a faster and more reliable way to gather and aggregate data from a range of accounts. However, uptake of open banking by PFM providers – and consumers – has been restricted by the limitations of its scope. Both the CMA's order in the UK and PSD2 in Europe oblige banks to develop APIs for payment accounts only (typically current accounts and credit cards). Most savings accounts, among others, remain outside the scope.

As a result, in some jurisdictions, screen scraping, albeit less efficient and less reliable, remains a viable alternative – for now. As the number of open banking APIs available rapidly increases and support for screen scraping is withdrawn by some banks as Stronger Customer Authentication (SCA) log-in processes are introduced, it's decidedly second best.

Nevertheless, this perhaps explains why, of the PFM providers not using APIs, the most common reason given was that it was too early to invest in the technology (35%) – easily eclipsing concerns over data privacy, which dominate in other sectors. As screen scraping subsides, the range of APIs continues to grow, and the benefits of open banking services such as PIS, which are not even possible with screen scraping, are acknowledged by PFM developers, this argument of prematurity is likely to fall away.

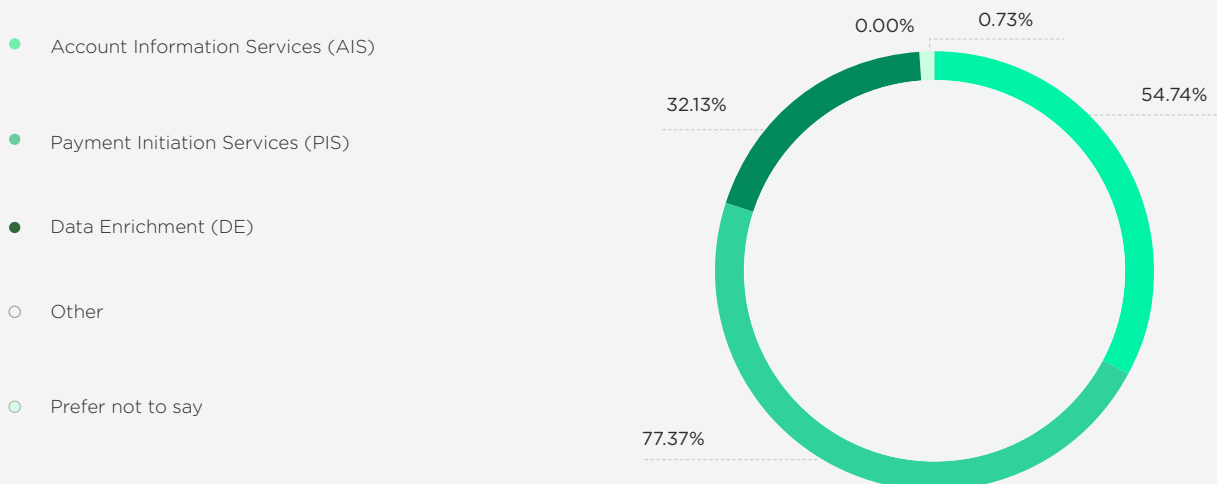
## WHEN THINKING ABOUT REASONS NOT TO IMPLEMENT OPEN BANKING, WHAT MIGHT COME TO YOUR MIND, IF ANYTHING?



## IN-HOUSE OR OUTSOURCED?

The option of screen scraping may also explain another curious finding: more PFM providers say they use payment initiation services (PIS) than account information services (AIS).

## WHICH CATEGORY OF OPEN BANKING PRODUCTS AND SERVICES DO YOU CURRENTLY USE IN YOUR BUSINESS?



Survey respondents were able to choose multiple options for this question.

PIS technology can, of course, deliver significant value for users, facilitating transfers to settle between accounts or pay into regular savings, for example. It is not, however, core to the PFM offering in the way that AIS is.

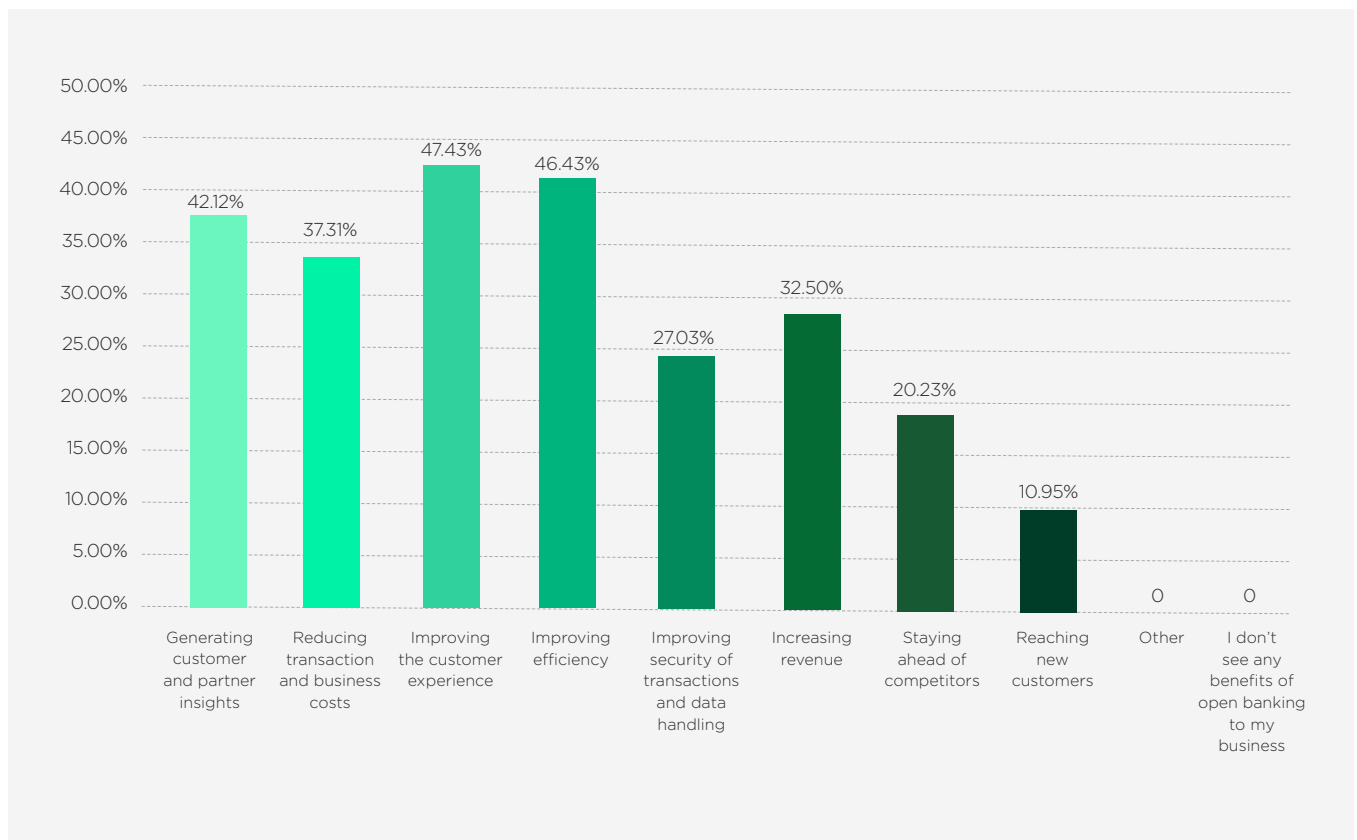
One explanation for the lower use of AIS may be that alternative methods – either manual entry or screen scraping – are being used for gathering data. Meanwhile, PIS as facilitated by API connections, is used to provide additional functionality that screen scraping cannot. This makes API-based PIS a differentiator for players in the PFM market – at least in the UK (those in the Netherlands can use iDEAL). Consequently, while not so central to the offerings, PIS is, nevertheless, more widely used.

Another explanation is also possible: when asked which open banking products and services they currently use, PFM developers may take this to refer only to those they buy from third parties; technology developed in-house to connect to bank’s APIs for AIS may not be considered as “products and services”. With core account information gathering more likely to be developed in-house, and the additional services facilitated by PIS outsourced, this could account for the finding.

In any case, this latter explanation must contribute to the very low number who report using Data Enrichment services – just a third of those surveyed. Such services power core PFM functions: budgeting, expense categorisation and subscription management. If they’re not being bought, in many cases it is likely because they are developed in-house – particularly where the PFM predates open banking.

## A FUTURE COMMODITY

This balance between in-house and outsourced services is likely to be a central issue for PFM solutions going forward. The top two benefits identified by PFM players using open banking products and services focus on cost: improving efficiency (47%) and reducing transaction and business costs (46%). Generating customer insights and improving the customer experience trail significantly behind.



The potential for PFM providers to save through open banking will become increasingly pronounced as the market matures. Technical service provider companies can already often deliver AIS and PIS services at a better price and in a more agile manner than PFM providers can do themselves, and competition in the sector is only increasing. This lowers the barrier to entry for PFMs looking to incorporate open banking capabilities. Enabling new and existing players to scale up rapidly, they relieve clients of not just the costs of developing APIs for every bank, but also of troubleshooting and maintaining them. Data Enrichment services are also likely to grow in popularity and be included in the ongoing commoditisation of open banking services.

PFM providers will, therefore, have greater opportunities to outsource the making of open banking connections and much of the automation and data analysis. They can then concentrate purely on the experience they build with open banking, developing business-specific data models beyond what outsourcing companies can provide, and on growing their userbase.

Still, the underlying technology will remain important. In an increasingly competitive market, with regulatory changes in the wind and the scope of APIs likely to expand rapidly, reliability and swift problem resolution will be crucial for PFMs wanting to maintain a quality customer experience. Furthermore, PFMs that can add new services and accounts as quickly as banks make them available will gain a competitive advantage. All this depends on their in-house development capacity or the flexibility of the outsourcing partner they choose. In short, the choice of whether to outsource open banking services and, if so, to whom, is only going to grow in importance.



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# UNLOCKING THE VALUE OF OPEN BANKING

A GUIDE FOR RETAILERS

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Daniel Belda, Payments Expert, Yolt

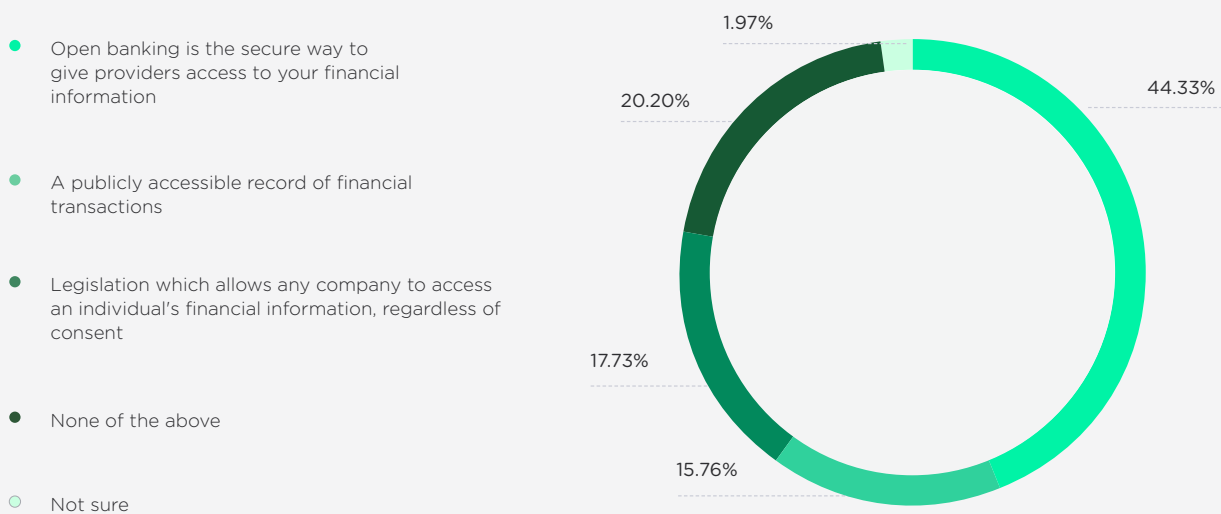
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Retail presents the most broad and mixed understanding of open banking, its benefits and challenges. Unlike the banks, lenders, fund platforms and, arguably, personal financial management apps, retailers sit outside the umbrella of the financial services industry. For them, the opportunity looks quite different. And yet the retail industry could be set to reap more benefits from the adoption of open banking technology than any other sector.

Among retailers, the perceptions of open banking differ substantially when compared to others in our survey. Retailers were four times more likely than average to reject the definitions that most accepted (see graph below), with one in five opting for “none of the above”.

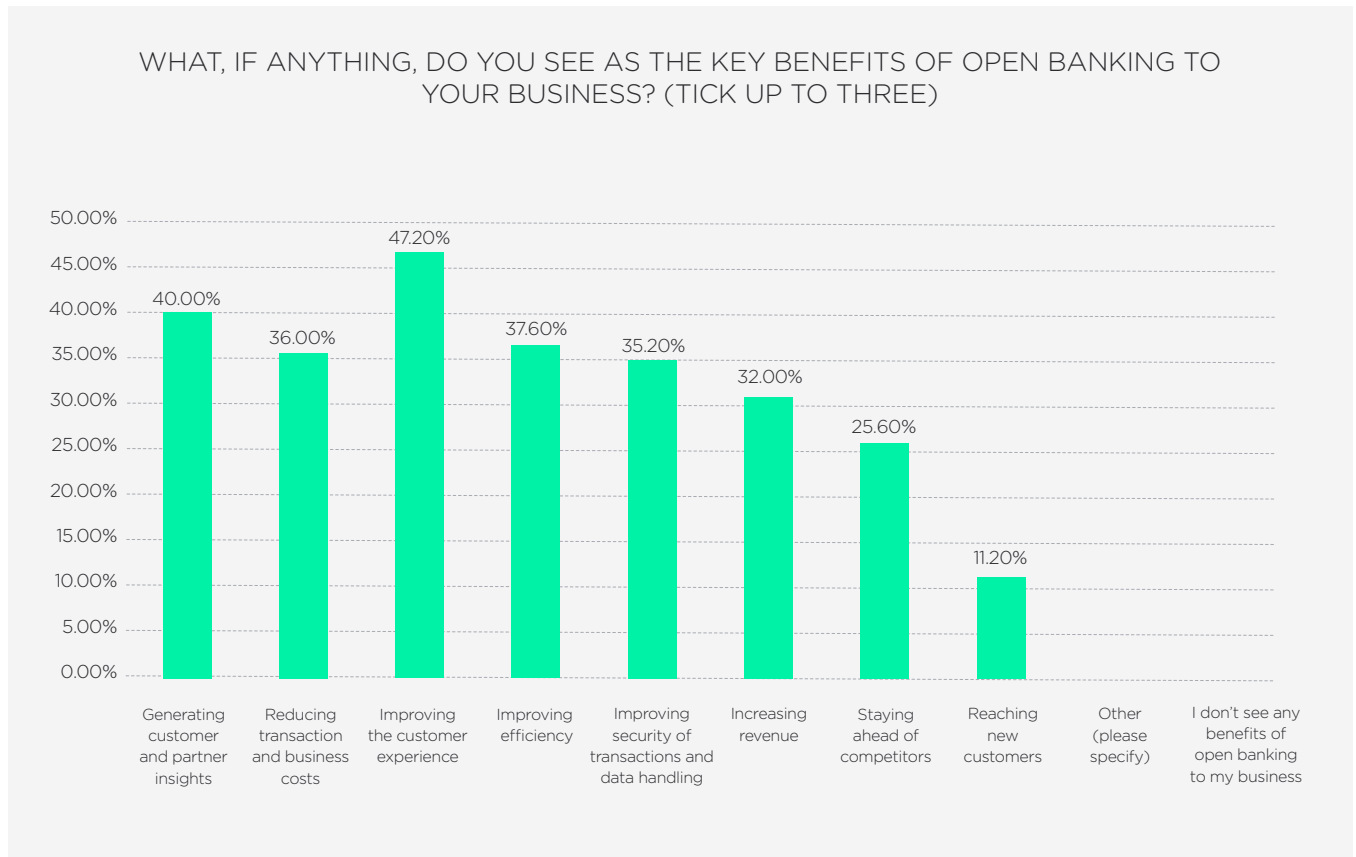
## WHICH, IF ANY, OF THE FOLLOWING STATEMENTS DO YOU THINK BEST DESCRIBES OPEN BANKING?



At the same time, at 62%, adoption of open banking in retail is marginally higher than average and well above the uptake by commercial lenders (49%). Even among those that don't currently use open banking APIs, a majority (56%) have explored doing so in the past.

Among those that do, the most common adoption is for payments. Two thirds of those using open banking technology use payment information services (PIS). Nevertheless, more than half (57%) say they are using account information services (AIS) and a third even use data enrichment services (34%) – in line with the overall average across industries.

The range of open banking benefits envisaged is also broad: retailers most commonly cited improving the customer experience, boosting efficiency and generating customer insights. Just over a third also mentioned reducing transaction costs.



In truth, retailers may come to find open banking both more limited and yet more powerful than they expect.



MORE OR  
LESS

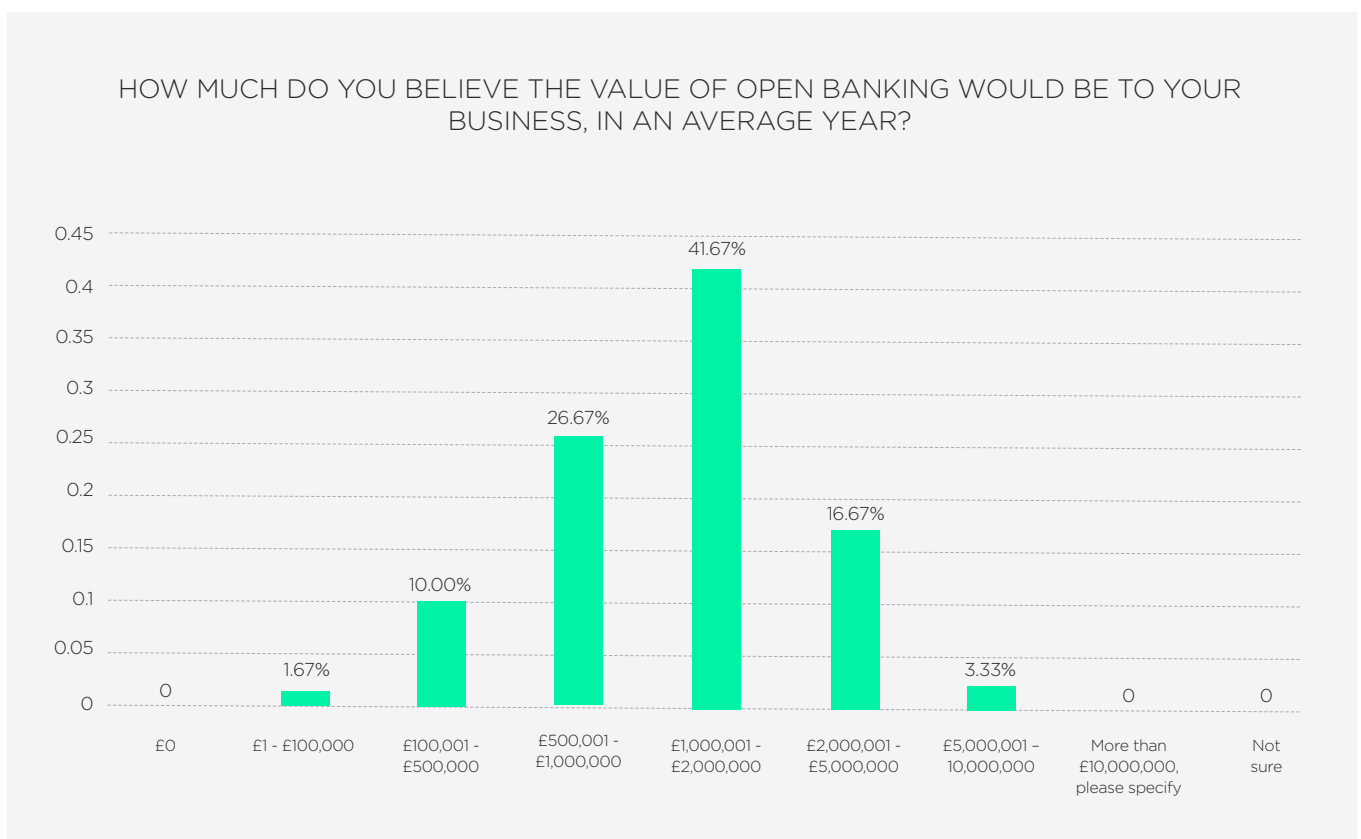


## FIRST, THE LIMITATIONS

AIS could bring benefits for retailers, most obviously by providing a way to credit score customers. Accessing customer account information (and combining this with data enrichment services) could allow retailers to offer finance, such as payment by instalments or buy now, pay later deals. Similarly, AIS can play a role in repeat payments. It could enable retailers to determine the best time to prompt a customer to settle a monthly payment or know when to draw a direct debit.

But these opportunities are limited. AIS may have a role to play in markets where cheap and reliable credit checks are not available, but that excludes the UK, with well-established credit agencies.

When it comes to PIS, however, the benefits for retailers could be profound. Most obviously, a move to open banking technology could save on the millions paid by retailers every year in credit and debit card fees, often between 2% and 5% of every transaction. These savings are likely to make a significant contribution to the value retailers see from open banking - expected at over £1 million a year by six out of ten in our survey.



Moreover, by taking payments themselves, directly from customers' accounts, retailers can smooth cashflows, since most PIS payments are instantaneous. It also reduces fraud risk and eliminates the risk of card fraud, which, for remote payments, costs retailers about half a billion a year in the UK alone, and three times that across Europe.<sup>8</sup>

<sup>8</sup> <https://bdaily.co.uk/articles/2019/07/10/cnp-the-fraud-which-cost-the-uk-506-million-over-one-year>



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# SHARING THE SAVINGS



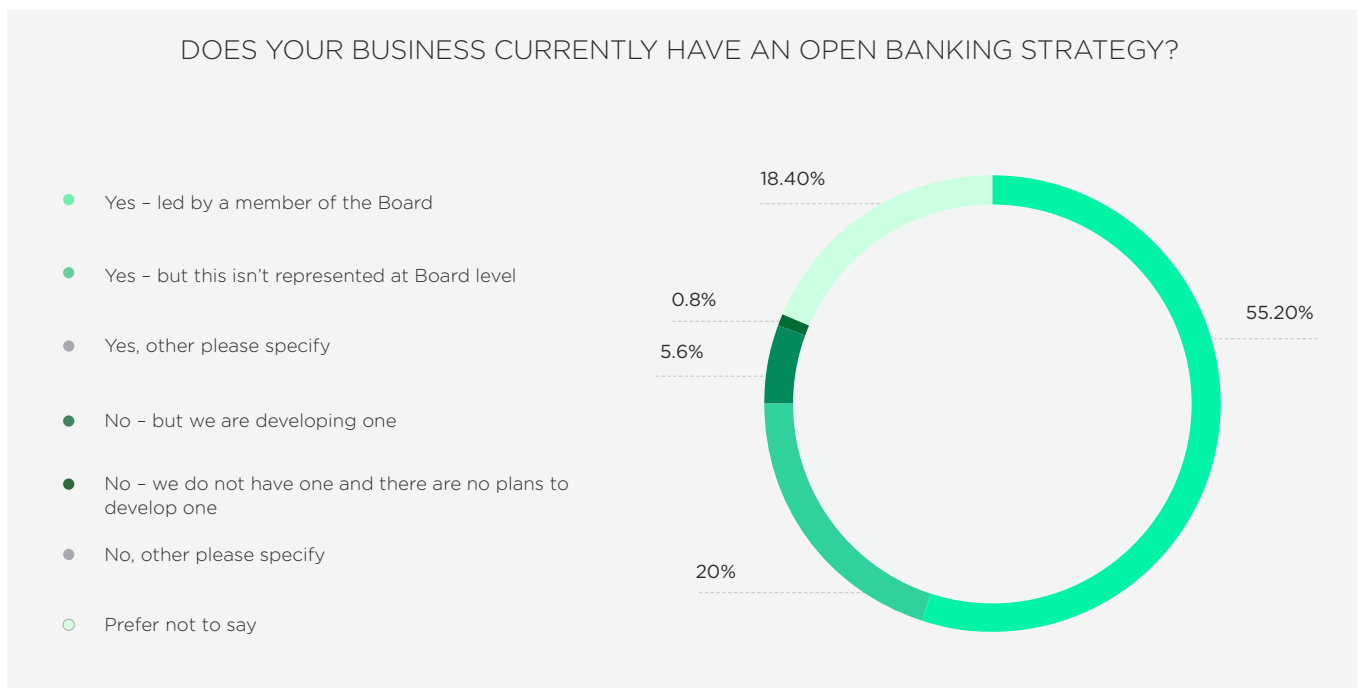
That being said, while the high volume of card payments in countries like the UK present the greatest opportunity for retailers – they also pose the biggest barrier.

The protections cards provide, from fraud protection and chargeback services to incentives such as cashback and other rewards, are central to their consumer appeal – particularly for large purchases. By transferring to PIS, they lose these protections and rewards. The question retailers must have an answer to is what gains customers can expect to see.

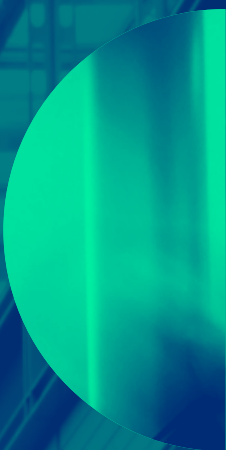
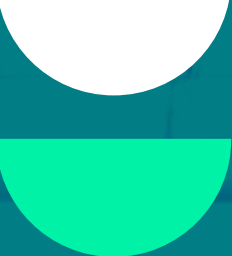
One possible answer is security. To approve a PIS payment, customers must log in every time to their bank, through its app or website. For retailers trying to sell the notion of PIS to their customers, this is not a bug, but a feature benefit. Customer payments benefit from bank-grade security, and no card details or other financial information have to be shared with the retailer.

Another possibility focuses on reward: online retailers could forward on the savings earned by using PIS through customer rewards and bonuses that incentivise them to switch. Returns, which currently cost retailers billions a year,<sup>9</sup> may be another area of opportunity. Retailers could, for instance, offer free returns only to those who pay using PIS.

However they do it, retailers will need a strategy to persuade their customer base to try open banking payments. That will become easier over time as the public becomes familiar with the technology. Still, it is in businesses' interests to accelerate that process. One thing in their favour is that the importance of payments is generally accepted by retailers, and it is usually now a Board-level responsibility. Our survey shows that more than half of retailers using open banking have an open banking strategy led by a Board member.



<sup>9</sup> <https://www.ft.com/content/5bafd9c0-235f-11ea-92da-f0c92e957a96>

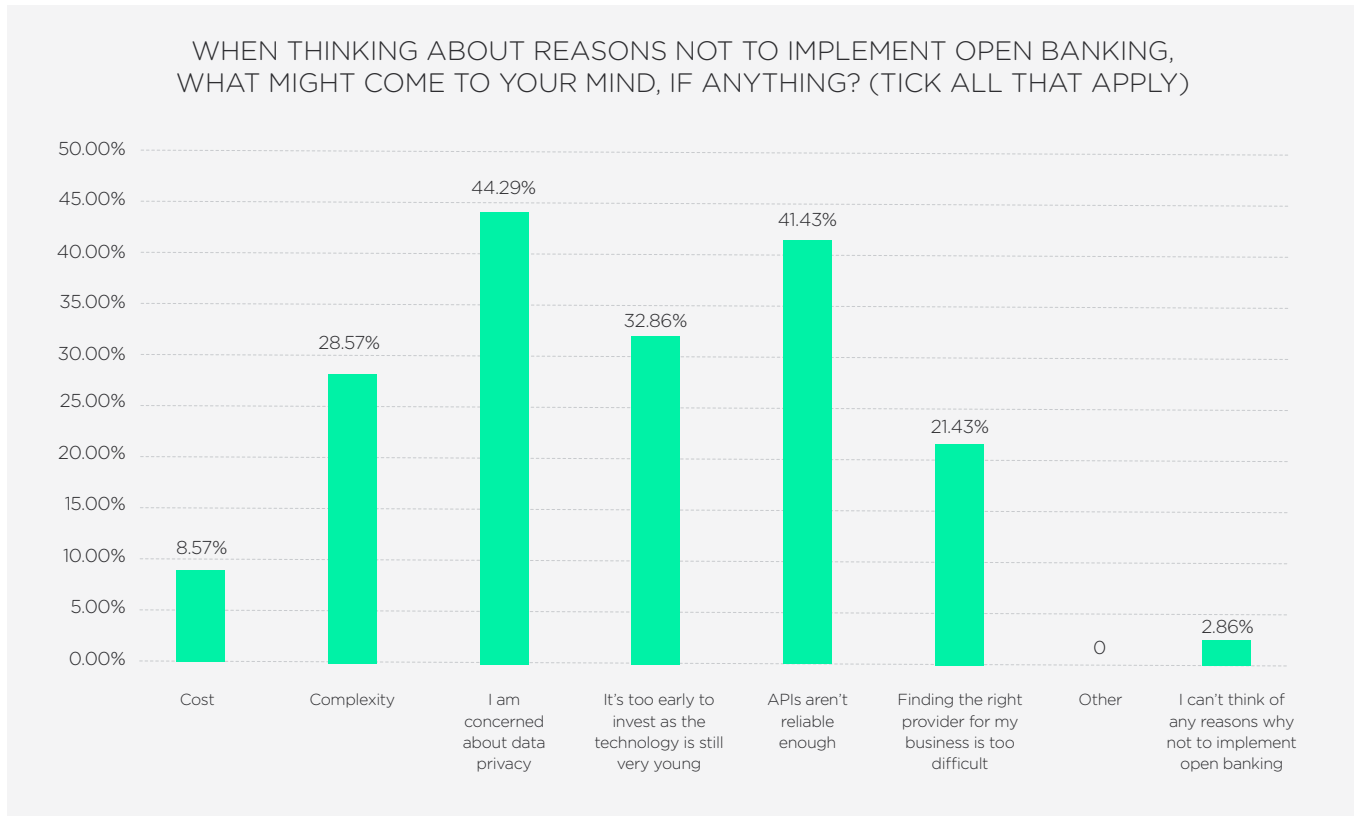


A LONG  
ROAD AHEAD



Finally, if retailers are to persuade customers to switch to open banking, they will have to overcome one further obstacle: their own reluctance.

Over a third of retailers questioned in the survey said they were not using open banking services. Criticism of the technology focused primarily on data privacy, closely followed by complaints that bank APIs are insufficiently reliable.



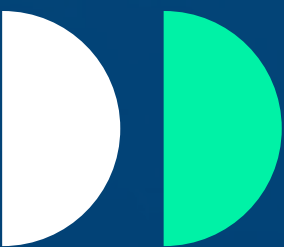
These objections are likely to fade in time because they are not well founded. First, as we've seen, open banking significantly enhances customers' data security, while relieving retailers of the need to store card details. Criticism of bank APIs, meanwhile, is perhaps overdone. As we mentioned in our introduction, the availability and stability of bank APIs has improved significantly in the last year, so that an increasing number of institutions are covered and most now function well with good reliability.

Perhaps the two well-founded objections we're hearing from retailers are the complexity of implementing services and the difficulty finding an appropriate partner. There is little way around this. Integrating a new payments channel with existing back-office systems for recording payment, reconciling funds and financial reporting will, for many, be a significant endeavour. As a result, open banking projects in retail will take time and retailers will indeed need to choose their partners for these carefully.

The potential rewards of PIS, however, promise to make it worthwhile, and could grow rapidly. We've seen before with contactless payments, for example, how initial reluctance can swiftly give way to mainstream use. Customers who today need persuading to use PIS, may quickly come to demand it. At some point, the failure to offer it could mean not just missing out on the savings it brings to transaction costs, but losing these sales entirely. The potential complexity and long lead times of PIS projects for retailers is not, therefore, an argument against open banking. Rather, it's the strongest reason to start working on its implementation without delay.

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REPORT

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