2020: the year of value creation

The investments and returns of open banking

tink

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A new decade of financial services

In the run up to 2020, many financial executives in Europe approached open banking from a compliance perspective — in particular to meet the set requirements of PSD2. But as we begin a new decade, open banking investments have become **central to the digital transformation of the industry** itself.

For financial institutions in Europe, the median spend on open banking lies between €50-€100 million, with 44.8% of financial executives indicating that their investment budgets are even bigger.

Nearly two-third of financial institutions (62.8%) indicate that their spending has increased compared to 2019 — only 10% indicate that their spending has contracted. And the average annual open banking spending growth rate is 20%-29%.

The decision-makers responsible for these budgets typically project a **payback period of approximately four years.** Institutions that have allocated larger budgets for their open banking objectives indicate a tolerance to longer payback periods, whereas those with smaller budgets are expecting the accumulated benefits to exceed the costs in a shorter time frame.

Most of these open banking investments cut across the broader organisation and have a cost impact on operations functions such as compliance, risk, and IT. However, there are also a large number of financial executives exploring how open banking can create value for the business itself in terms or revenue, customer satisfaction, and ultimately, costs saved.

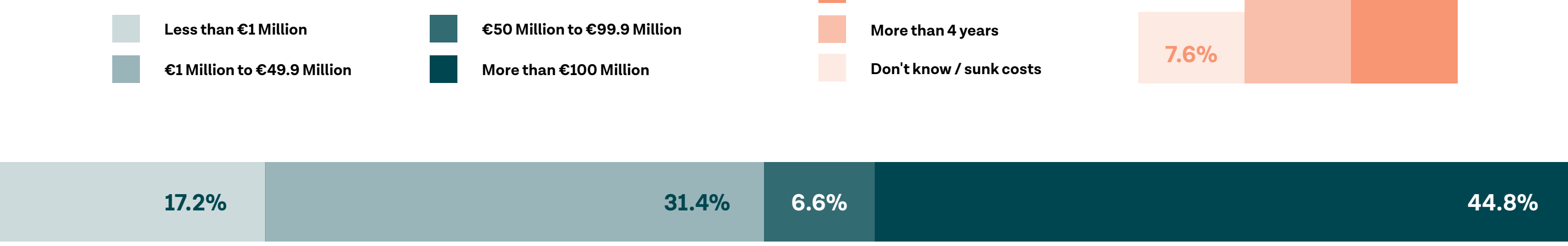
This report presents the findings from a survey of 290 senior decision-makers and influencers working at regulated financial institutions across Europe. It provides evidence that the industry is on the verge of a **monumental shift towards data-driven solutions.**

The short version

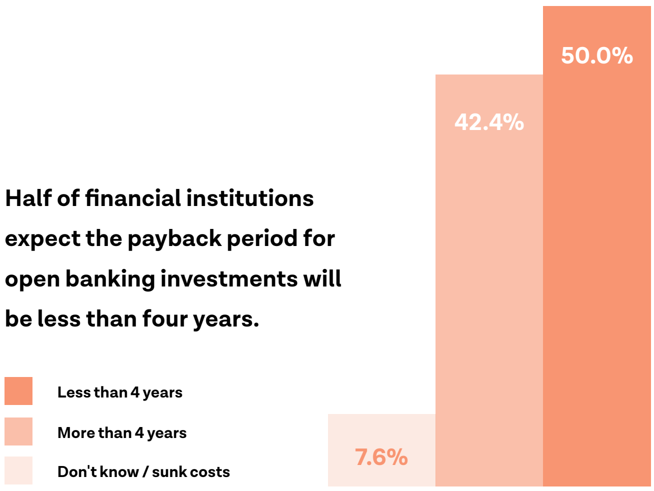
Want to cut to the chase? Here are some of the top findings from this report.

The high-level conclusion: open banking is real. Financial executives are making big investments and are expecting big returns.

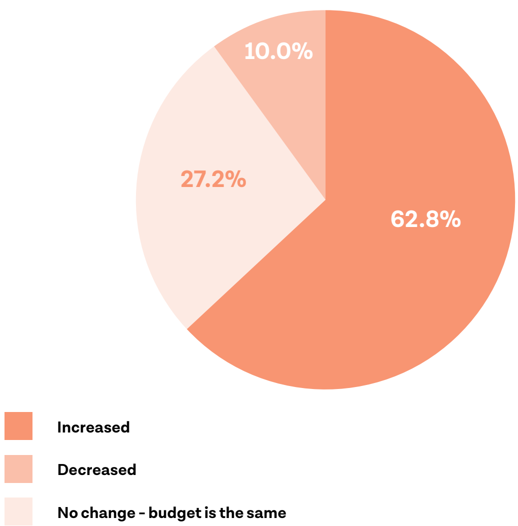
Median open banking spending lies between €50-€100 million, with 44.8% of financial executives indicating that their investment budgets are even bigger.



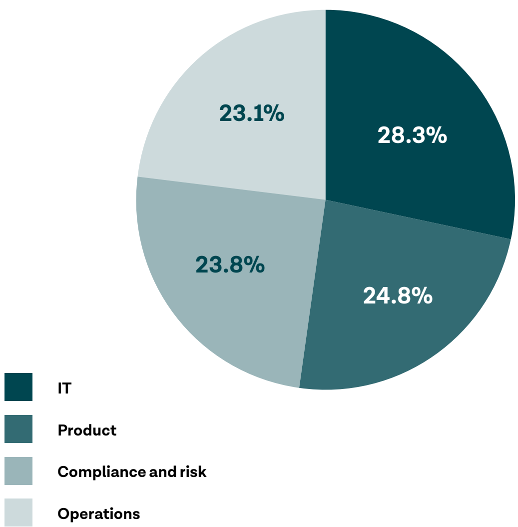
Half of financial institutions expect the payback period for open banking investments will be less than four years.



Nearly two-thirds (62.8%) of financial executives indicate that their open banking spending has increased compared to 2019 — one in ten indicate that budgets decreased.



Open banking budgets are distributed across the organisation, although the IT department is taking the lion's share (28.3%) in most organisations.



About this survey

To better understand how the market has shifted since 2019, Tink teamed up with market research firm YouGov for the second year in a row. This time, we wanted to learn more about open banking attitudes, investment budgets, and investment priorities across Europe – so we surveyed 290 financial executives from 12 European countries to hear what they had to say.

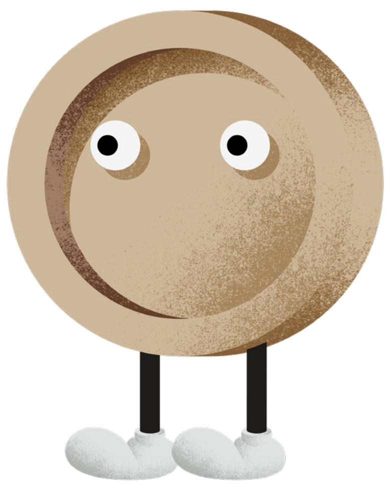
This is the second report based on our 2020 survey, zooming in on the **investments, returns and metrics** associated with the open banking movement, highlighting key differences between countries.

On changing circumstances

The coronavirus has quickly changed how we go about our daily lives, how we conduct businesses, and created uncertainties regarding the long-term impact on the market. Please note that the data in this survey was collected before the coronavirus surged in Europe, so it doesn't account for any potential shifts in business priorities or investment budgets brought on by this crisis.

The attitudes towards open banking captured in this study are very positive – and since open banking is not a cause of the problem but provides a potential solution, we don't think that the attitudes will change.

If anything, the urgency to provide remote services may lead even more executives to look into how this can play a role in their digital transformation journey, and how different open banking use cases can deliver immediate value to its business and operations by improving customer acquisition and engagement, and employee productivity.



A new banking paradigm

Open banking has taken the financial services industry by storm. Financial executives all around the world are making investments in order to take advantage of a new industry paradigm.

Traditionally, the relationship between a financial institution and its customers has been one-to-one. The rules were simple: service providers controlled the data and owned the infrastructure — customers had few alternatives. Now, financial executives are betting on a future where the democratisation of data provides the opportunity to change this.

As open banking started to appear as a more prominent agenda item over the past few years, executives have had the opportunity to explore **how it will start adding value to their operations.**

The attention that open banking has drawn is reflected in the positive shift in attitude towards the movement and the partnerships that are being formed to access open banking technologies.

Open banking in a nutshell

Essentially, open banking describes the exchange of data between financial institutions and third-party providers (TPPs), with the aim to boost competition and deliver new capabilities and enhanced experiences to the market. Open banking rests on the key principle that the customer owns their data, and should therefore have the power to grant TPPs access to this data.

We dubbed 2019 as the year of open banking because financial institutions across Europe needed to prepare for the final stages of the revised payment services directive – PSD2. This is an important milestone for the open banking movement because it puts a rubber stamp on the services that were previously unregulated, ensuring TPPs can access the customer data in a transparent way.

Show me the money

While positive attitudes are a good indication, they don't necessarily reflect the significance of this movement. The real proof is in the money that's being invested towards open banking initiatives.

And now it's clear that open banking investments have become central to the digital transformation of the European financial services industry itself.

Investments are massive

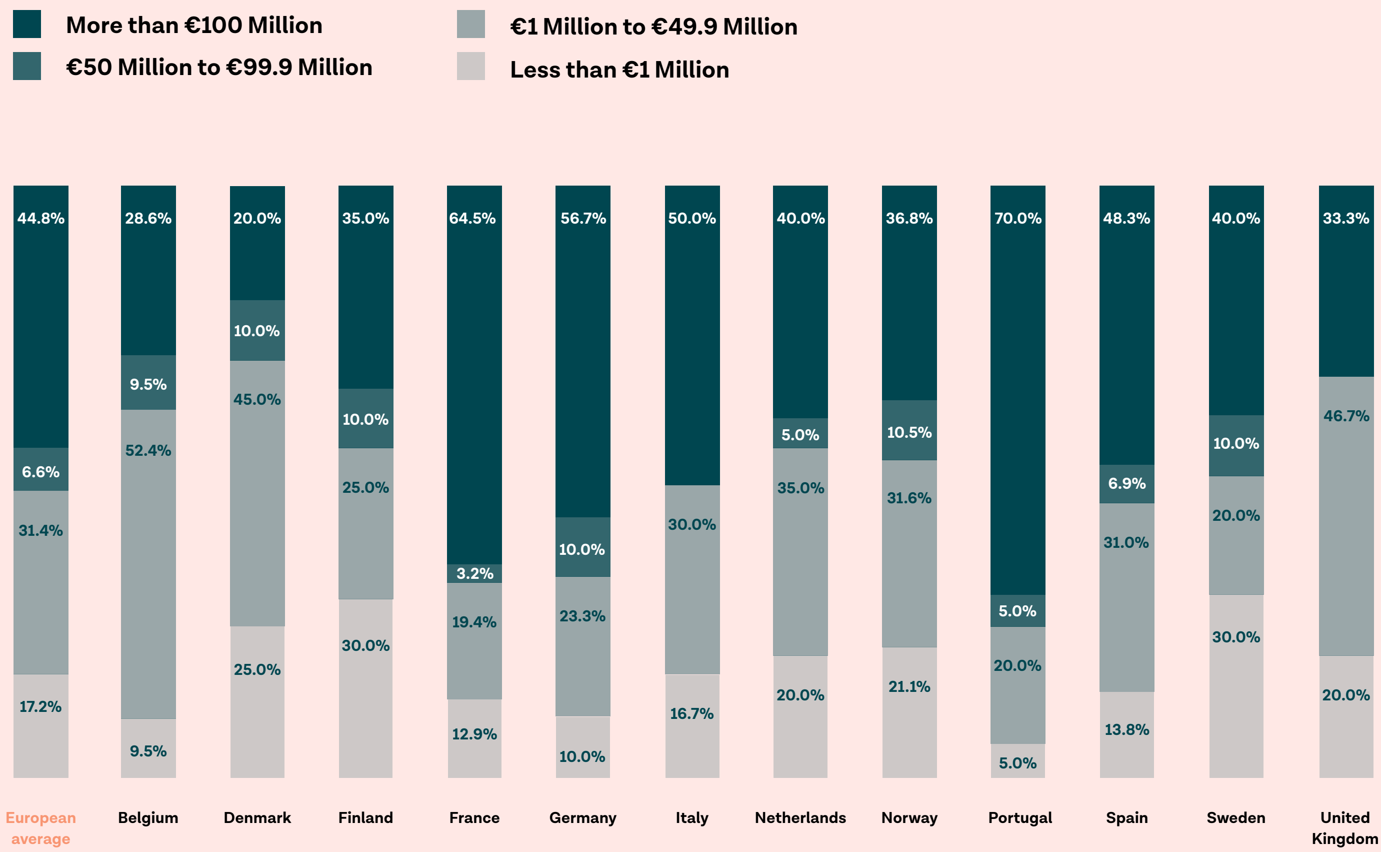
In order to understand how much financial institutions are investing, financial executives were asked to provide an estimated range of how much their organisation is spending on its open banking objectives per year.

The results show that the median investment budget for open banking lies in the range between €50-€100 million, with nearly half (44.8%) of regulated financial institutions indicating that they have budgets exceeding €100 million.

Approximately one-fifth (17.2%), is spending up to €1 million, and just under one-third (31.4%) has allocated open banking budgets in the range of €1-€50 million.

Spending on open banking objectives

Q. Which range best describes how much your organisation is spending on its open banking objectives?



Note: Respondents understood that open banking spending may include IT, product, and process modernisation investments in relation to open banking objectives and the exchange of financial data with other banks or third-party providers.

Source: Tink & YouGov, 2020
All respondents (n=290)

It’s interesting to note that the investment budgets for open banking are considerably larger in some countries than others. The median investment budget in Portugal, France and Germany are well over €100 million. To understand why this is the case, it's important to look at the dynamics per country.

In Portugal, for instance, financial institutions have become accustomed to open banking long before PSD2 was enforced. The Portugese multi-banking app called MB Way (launched by the banks in 2014) counted over 1 million users in November 2018 and is still being used by today. However, with the rollout of PSD2, banks that were previously working together under MB Way are now in a position where they need to deliver their own open banking solutions. In other words, these banks are basically having to start from scratch – and compete to attract customers with their own open banking innovations.

France is home to some of the world’s largest banks (e.g. BNP Paribas, Crédit Agricole, Société Générale), and all are going through a significant digital transformation. In the previous report from this survey, we found that the French executives clearly see the benefits of open banking, but do not sense there's a clear strategy for the organisation. The investments among the French financial institutions, however, show that open banking is a core element of the overall strategy.

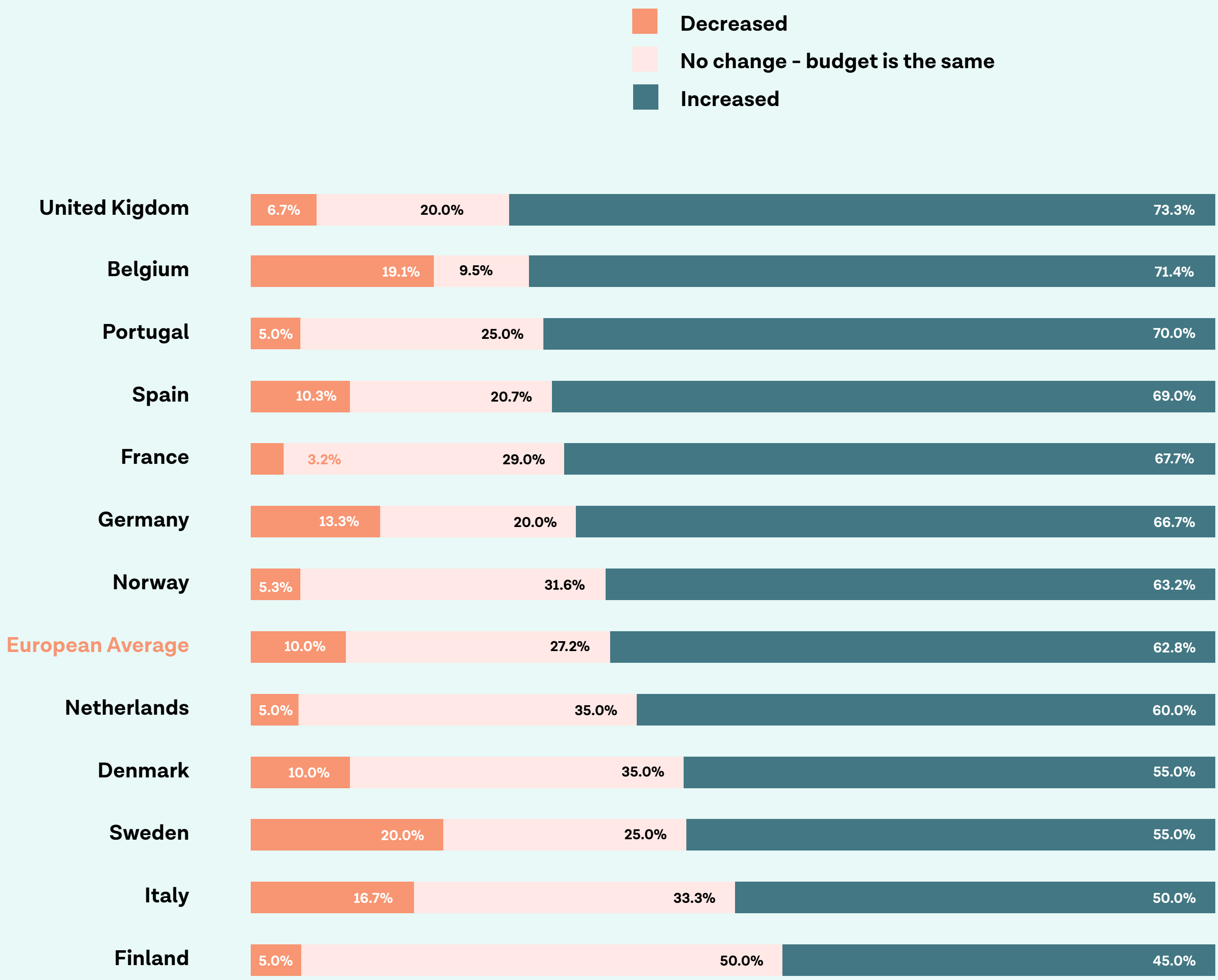
Germany is the birthplace of many of the open banking innovations that pre-date PSD2. Today, the German open banking market is characterised by little standardisation, with most financial institutions approaching PSD2 in their own unique way. This also appears to be reflected in the large open banking budgets, as most financial institutions are taking on the costs of creating and maintaining their own APIs, instead of relying on a centralised service provider or framework.

Open banking budgets are growing

Investments are also trending upwards. Nearly two-third of the financial institutions (62.8%) indicate that the spending has increased compared to 2019 — only one in ten indicate that their spending has gone down. The countries where more than 70% indicated that spending increased are the UK, Belgium, and Portugal.

Change in open banking spending

Q. How has your spending on open banking objectives changed compared to the previous fiscal year (2019)?



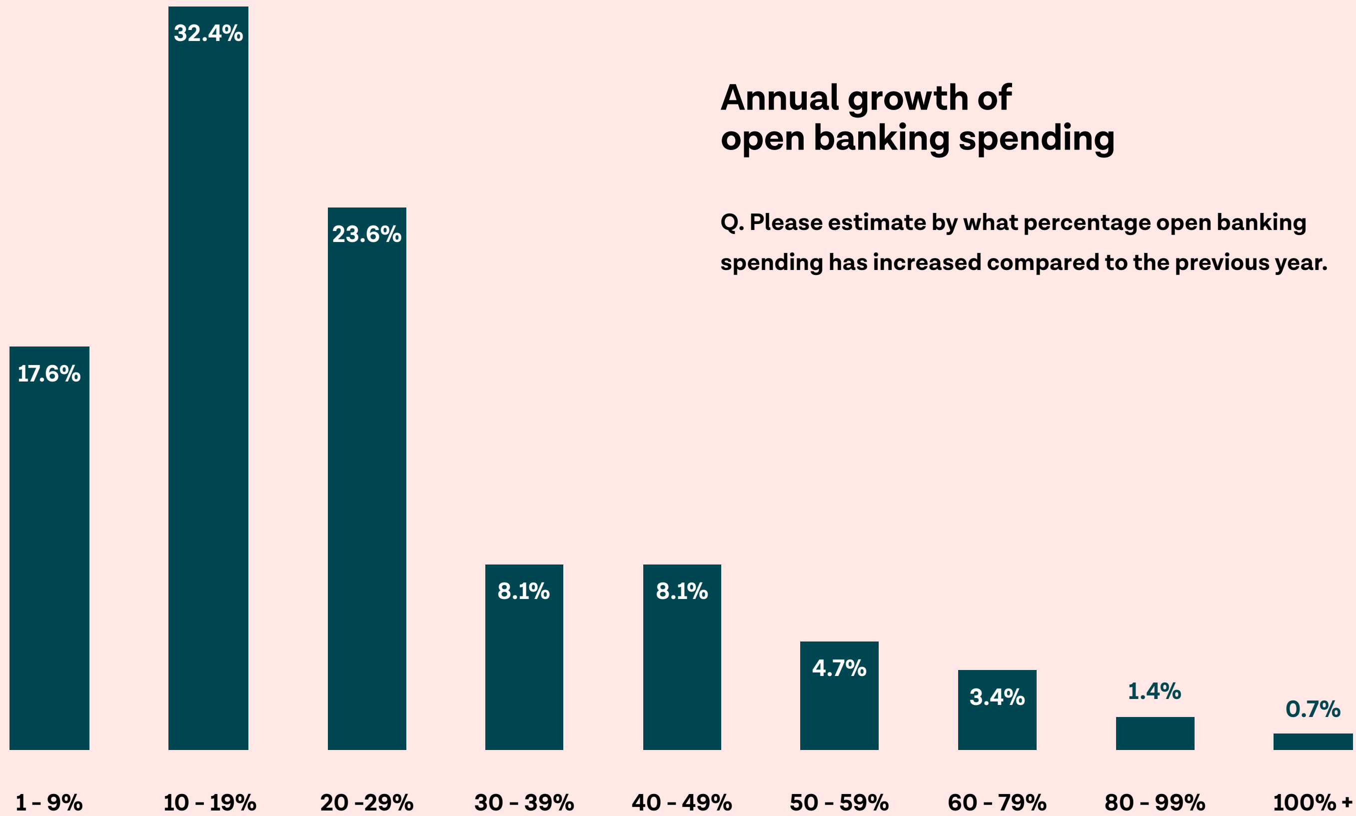
All respondents (n=290)
Source: Tink & YouGov, 2020

And annual growth numbers are also significant. The median annual open banking spending growth rate is 20%-29%. A quarter of the financial executives (26.4%) indicate that the spending by their organisation has increased by more than 30%.

The significant open banking budgets and growth rates are indicative of a transformational move that goes across the entire organisation. It is an intrinsic part of the digital transformation and technological modernisation of the whole company.

Annual growth of open banking spending

Q. Please estimate by what percentage open banking spending has increased compared to the previous year.



Only respondents with spend increase (n=148)
Source: Tink & YouGov, 2020

“Open banking is central to the next generation of financial services.”

Insights from an industry insider

Who she is: Maria João Borges Carioca Rodrigues (Maria), Member of the Board of Directors and Executive Committee of Caixa Geral de Depósitos, SA, since March 2017. She's the former CEO of Euronext Lisbon, and former executive board member of SIBS Pagamentos.

Why we spoke to her: Maria has seen every corner of the industry and has been a champion for open banking before it was cool. She’s responsible for the rollout of Portugal’s multi-banking payment scheme prior to PSD2.

What she's known for: A passion for technology, a direct approach to investments, and always looking out for concrete returns and outcomes – anything measurable.

How much is your company spending on open banking?

For CGD, open banking is a part of our overall digital transformation program and on top of it, we have a technological transformation program to do away with a lot of the legacy systems that banks are normally attached to.

If you put all of that together as we do, you definitely go into a €100-€200 million budget for open banking.

What do you see as the biggest opportunities of open banking?

When it comes to open banking, the motto I often use is 'whatever, wherever, whenever'. Open banking has the potential to change everything we do. It's connected to every platform that we operate and it's central to the next generation of financial services.

At the end of the day, people don't want a mortgage, they want a house. Open banking allows us to get closer to the customer's real needs and aspirations and help realise their lifetime goals.

What do you see as the biggest challenge for open banking?

One of the most underestimated challenges is culture change. In order to embrace open banking, we have needed to change our mindset from the protective approach to adopt an opportunistic attitude instead.

What are three things that you'd recommend to those who are trying to capitalise on open banking?

The first thing is to **keep asking questions.** What does this mean for the client? How will I measure impact? Is this sustainable? It's important to stay realistic.

Then, it's to **stay sober but challenge yourself.** Sometimes you do the math and the results are hazy. It's important that you don't get overly excited, but you also don't want to risk killing a great idea. It's an important balance to find.

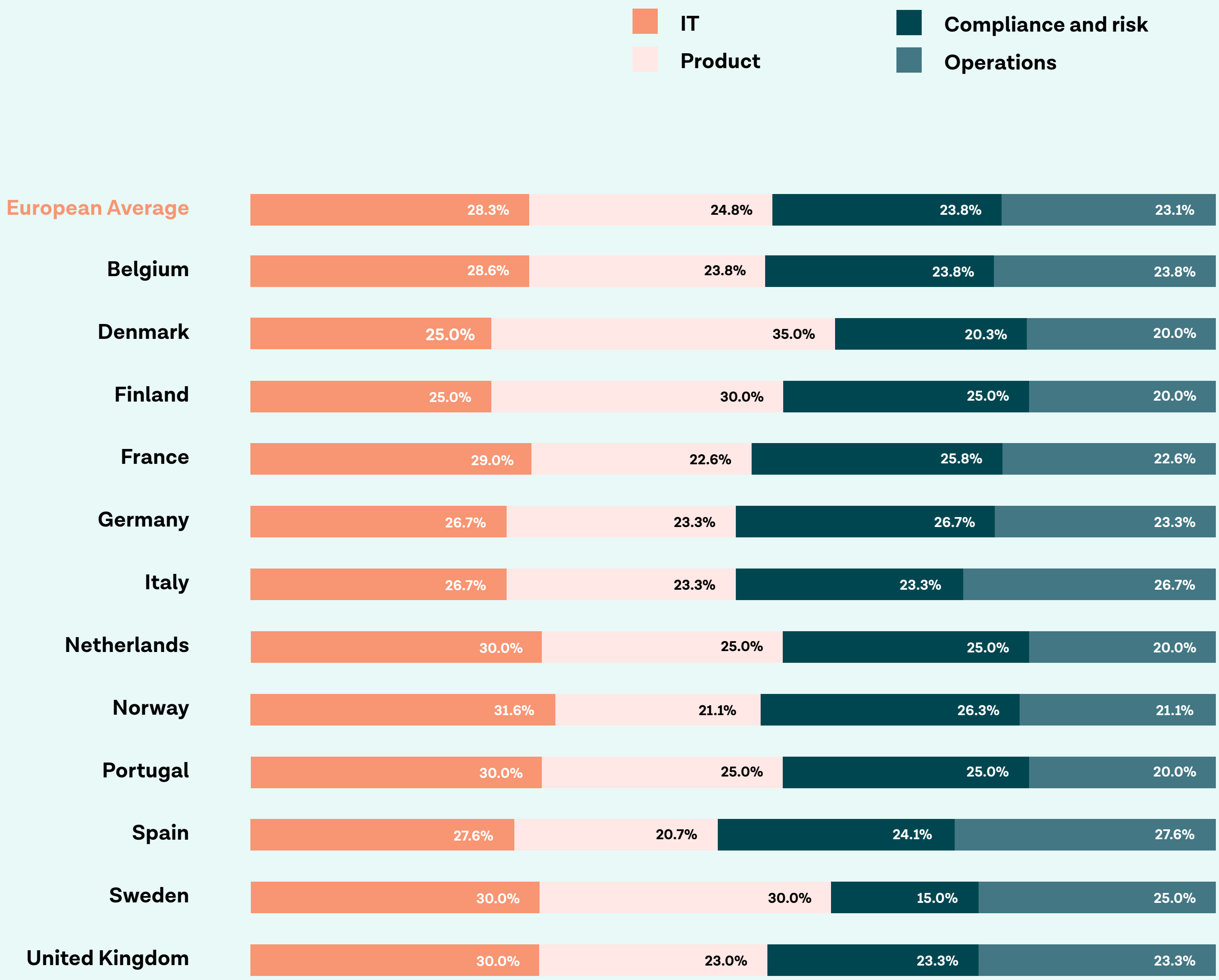
Finally, **bring it back to your core strategy.** Have a clear idea of what you stand for and make sure that the investments align with this.

Budget spend is allocated across the board

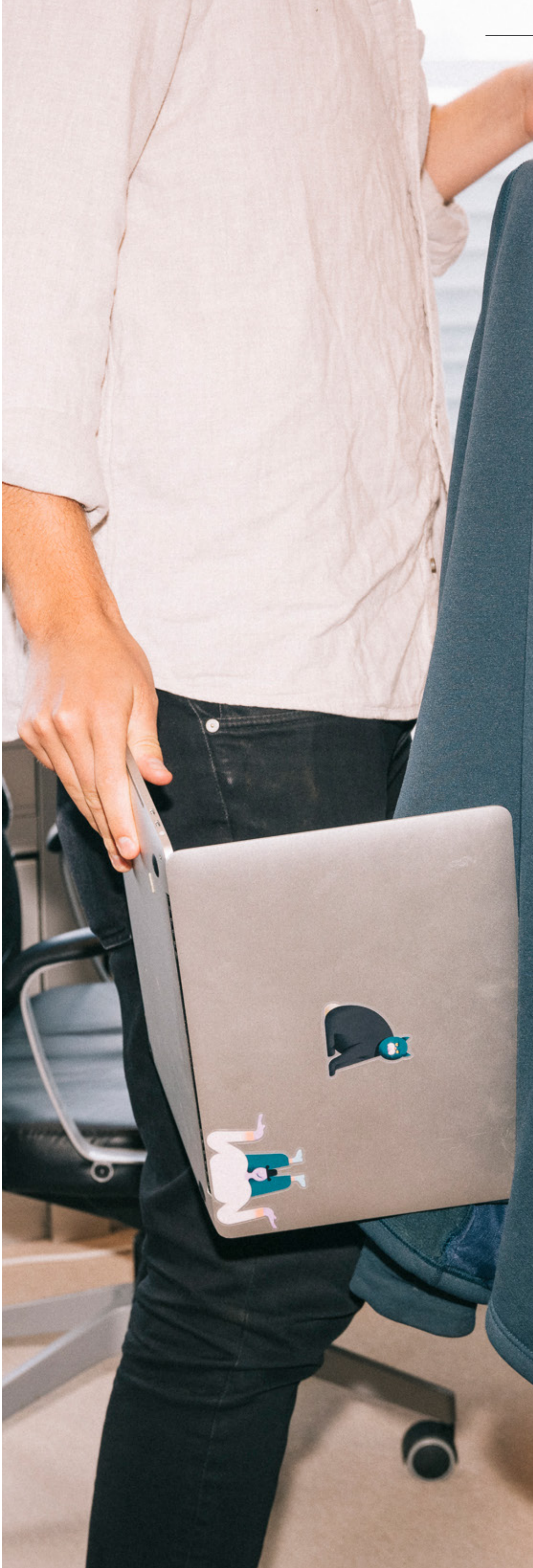
Open banking spending of this caliber can span across every department in the organisation.
To uncover where the budgets are spent, respondents were asked to divide the spending across four areas: compliance & risk, IT, product, and operations.

Budget allocation by function

Q. Please indicate how your open banking spending is divided across the following categories. (Please ensure that your answers add up to 100%.)



All respondents (n=290)
Source: Tink & YouGov, 2020



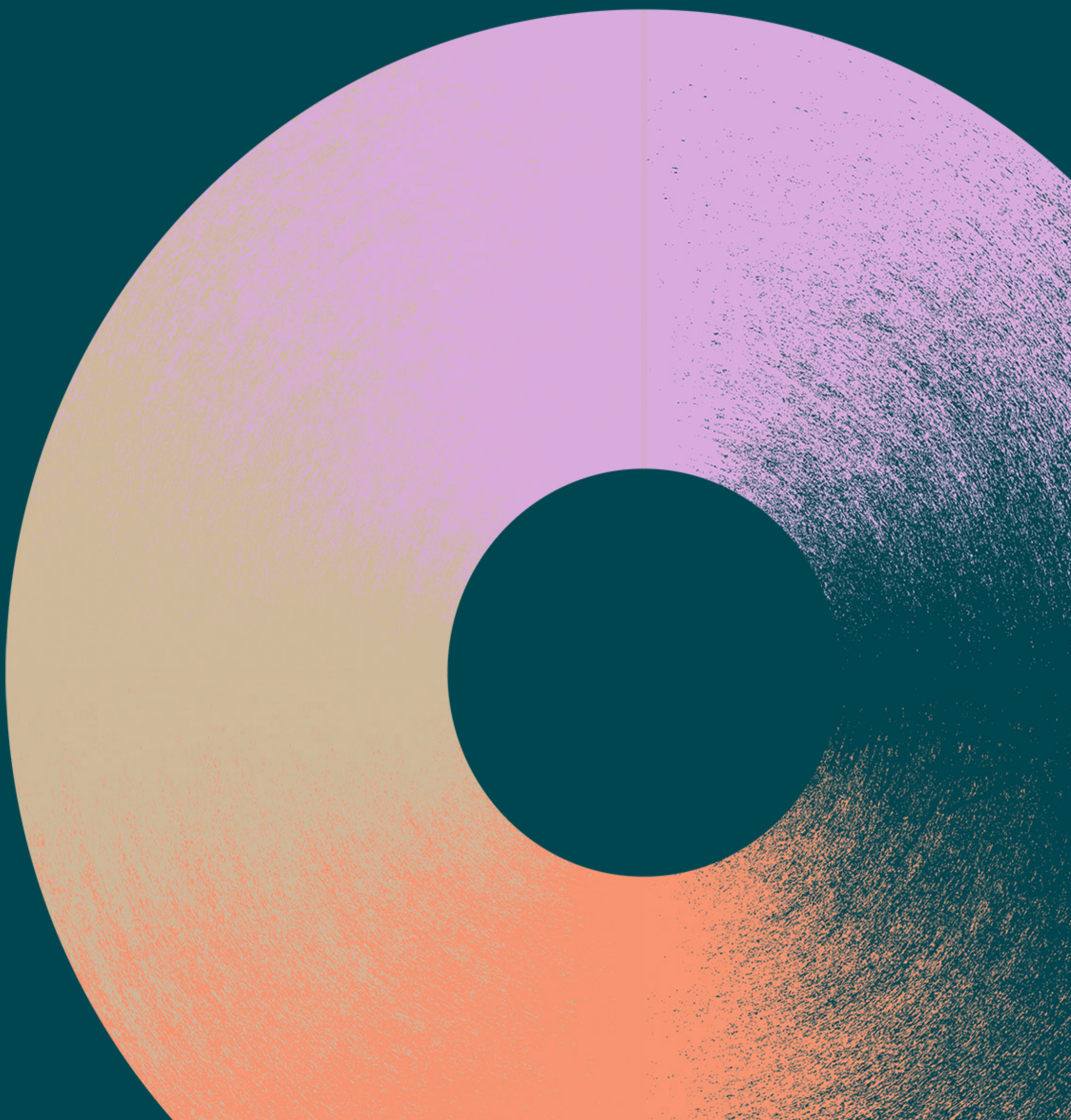
The results show that, on average, the IT departments are responsible for the largest share of open banking spending at 28.3% of all investments, followed by product departments at 24.8%, compliance and risk departments 23.8%, and finally, the spending in operations accounts for 23.1% of the investments.

From a country perspective, respondents from Denmark, Sweden, and Finland have attributed the largest share of spending to product. As indicated in our previous report, the perception toward open banking in these countries is relatively advanced. As such, financial institutions from these countries may have been able to be more efficient with their investments, and are moving ahead by integrating open banking into their products and services roadmap.

Respondents from Germany, Norway and France, are attributing the most spending to compliance and risk. In response to PSD2, many German financial institutions have found themselves in a difficult situation where expectations weren't clear, along with to what extent open banking would allow them to innovate for their customers. Norway is not part of the EU, but the Norwegian Ministry of Finance voluntarily implemented the parts of PSD2 to ensure harmonisation with the broader EU landscape. Some of the Norwegian financial institutions may have not been prepared for this.

Drivers and barriers

The magnitude of investments show that open banking has become central to digital transformation programs. The investment drivers and barriers can highlight what the main objectives are and where the money is going.

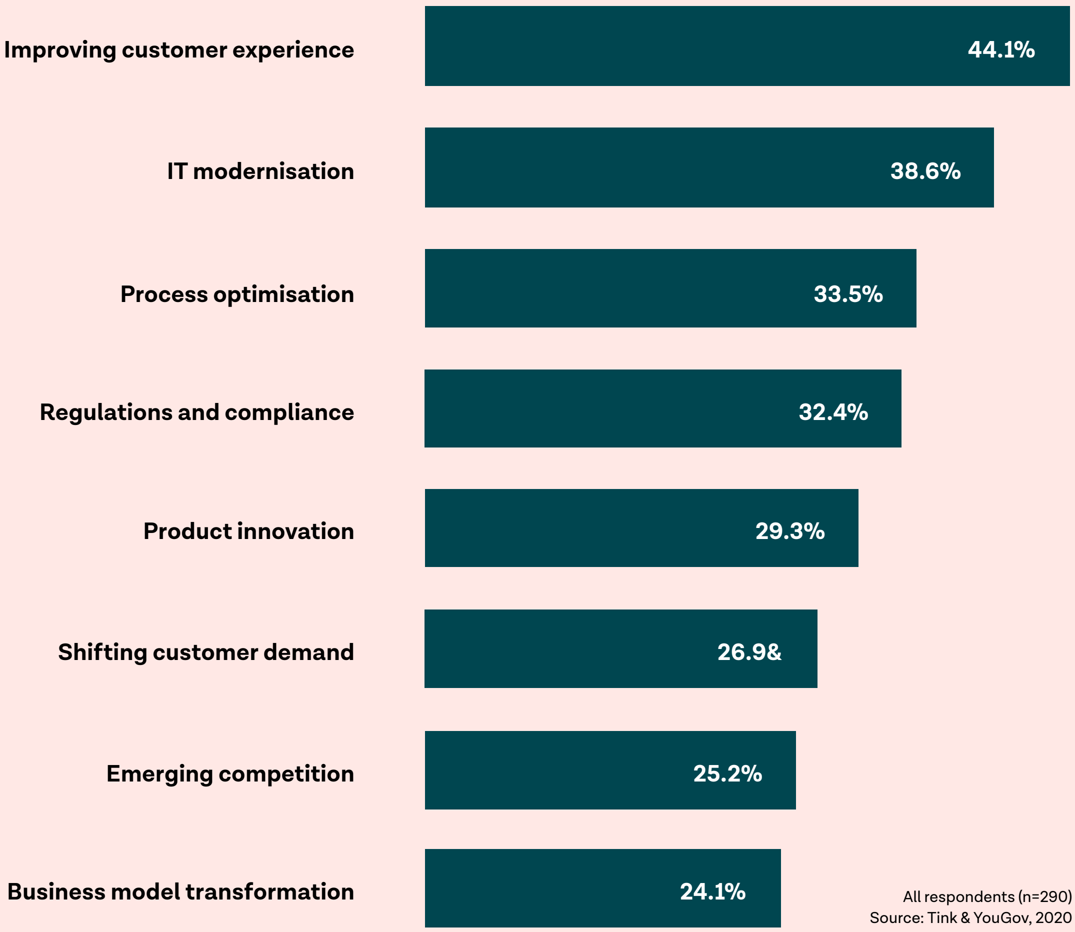


Customer experience driving investments

The top ranking driver for open banking investments is improving the customer experience (44.1%). Ultimately, open banking will be about finding new and better ways to meet customer expectations. Financial institutions will need to enhance services and launch new offerings, so they can maintain the relationship and acquire new customers. And most importantly, all open banking use cases need to have a clear benefit for customers, as they expect to get something in return for sharing their data.

Open banking investment drivers

Q. What are the top 3 driving forces behind the investments in open banking? (Select up to 3 options.)



All respondents (n=290)
Source: Tink & YouGov, 2020

IT modernisation (38.6%) comes up as the second main driver for investments. Most incumbents have needed to upgrade their technology stack in the aim to build dedicated interfaces under PSD2. Some banks have needed to build API gateways and improve the security framework, others have accelerated the move towards cloud-computing or launched data lakes to finally break down some of the internal data-silos. Under open banking, executives have managed to move some of the necessary technological investments forward.

The third most important driver for open banking investments is process optimisation (33.5%). Open banking is recognised as an opportunity for financial institutions to enhance existing services, but also to increase the return on equity and improve operating margins. The economic challenges we face today, combined with the low interest rates in Europe, imply that financial institutions need to search for, and invest in, use cases that enable them to engage with customers, assess risk remotely, and deliver financial services efficiently over digital channels.

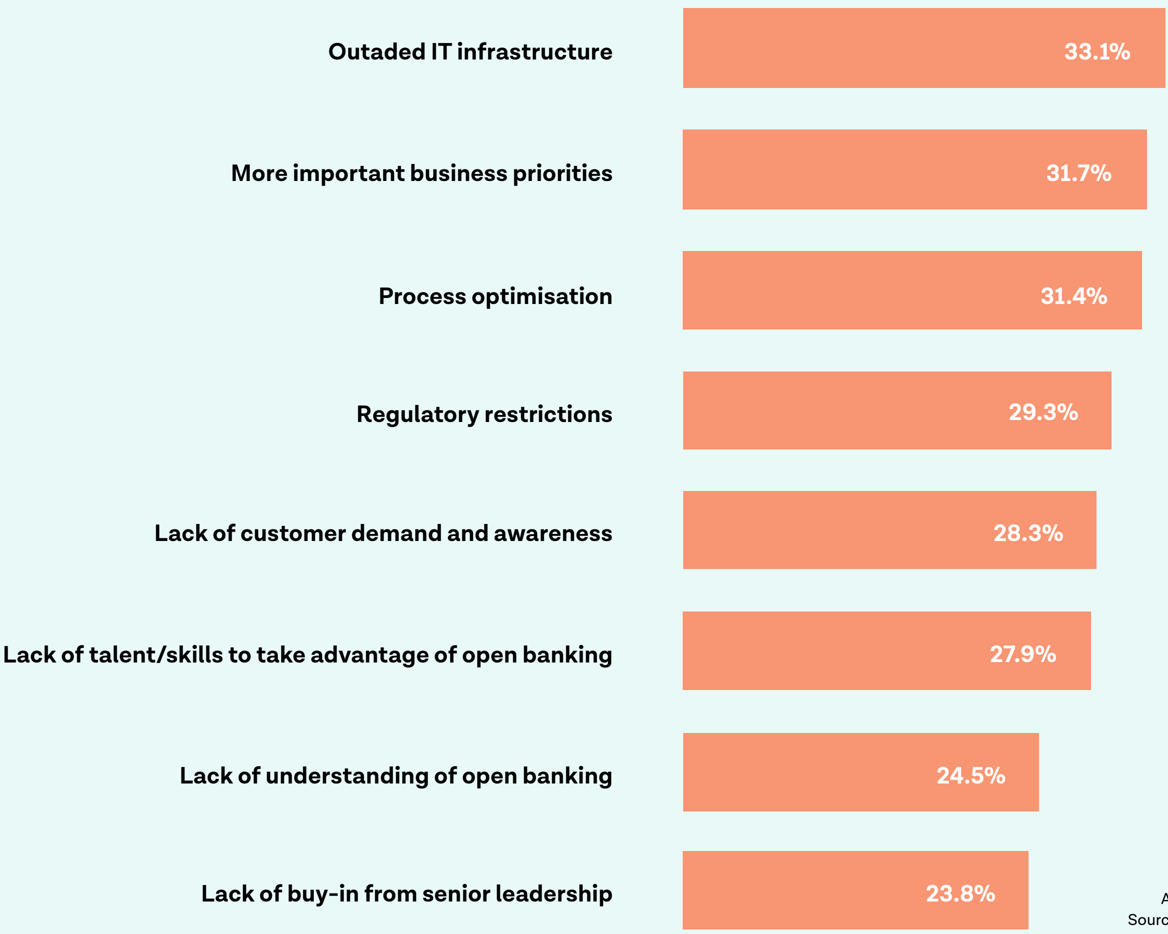
Legacy IT standing in the way

When it comes to investment barriers, it's no surprise to see that legacy IT came out on top (33.1%). It's interesting to note that IT is both an inhibitor and a driver – this indicates that open banking investments have allowed banks to move forward with IT modernisation efforts, as they discovered that legacy IT was getting in the way of the progress.

The IT challenge comes down to the fact that many financial institutions continue to successfully operate on traditional mainframe systems. Although this is a huge burden from a maintenance perspective, these systems are keeping the lights on.

Open banking investment drivers

Q. What are the top 3 driving forces behind the investments in open banking? (Select up to three options.)



All respondents (n=290)
Source: Tink & YouGov, 2020

This is creating a lot of challenges internally. Maintaining legacy systems can be incredibly costly, which puts pressure on the operating margins. But more importantly, the teams that need to build compliant access interfaces and authentication flows are frequently faced with internal compatibility issues that slow down the pace of innovation and the feasibility of projects.

And the challenges related to legacy systems go even deeper. For instance, even if a bank has created a working access interface connected to a mainframe, it can still encounter compatibility issues with the different types of eIDAS certificates from licensed TPPs.

More important business priorities (31.7%) – indicating a lack of urgency — and regulatory restrictions (31.4%) are also significant barriers to investments. When considering that open banking investments are a part of a digital transformation program, it's important to bear in mind that room needs to be made for other projects these programs might require.

Payback time

Calculating the return on investment (ROI) of technology can be difficult, and the benefits cannot always be boiled down to revenue or a monetary value.

Often, technology is deployed to enable cost savings or process improvements. For this reason, it's important to have a good understanding of what the benefits are and where they're generated.

One way to illustrate ROI, is by looking at the estimated payback period for investments. And in the case of open banking investments, it seems executives expect to see returns quite soon.

Returns expected in less than four years

Respondents were asked to indicate after how many years they expect to see a return on their open banking investments.

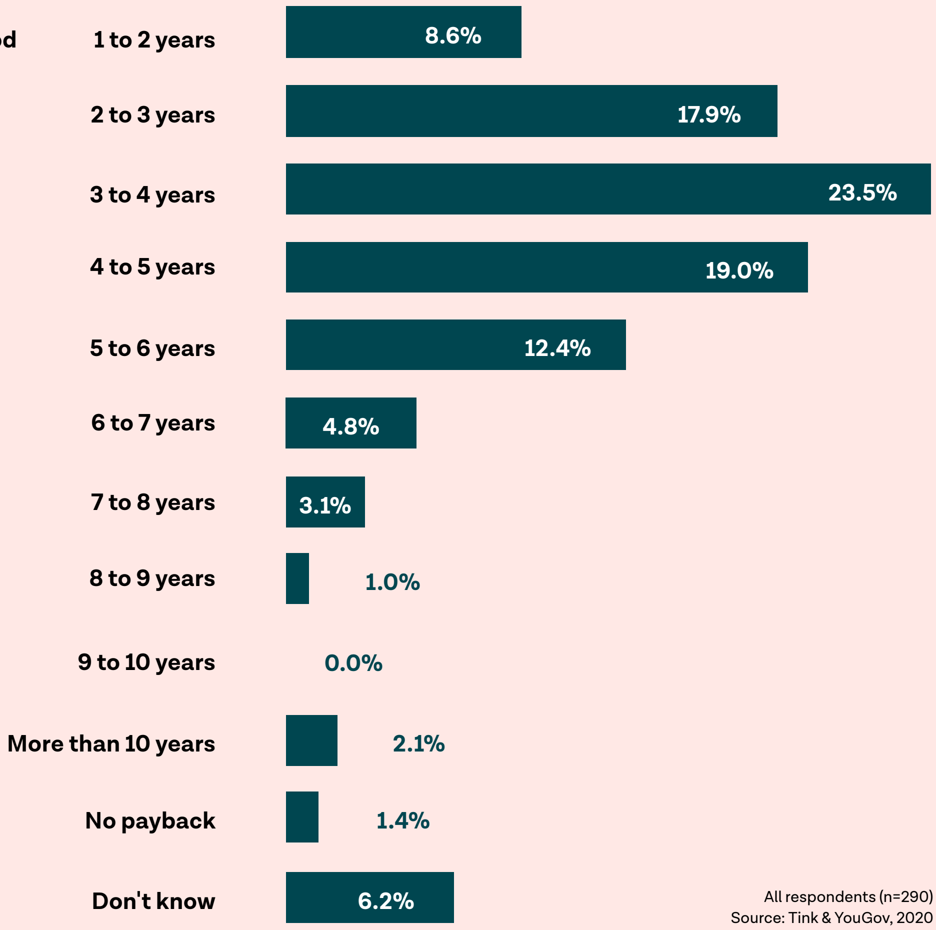
The results show that exactly half of the financial executives estimate that the payback period for open banking investments will be less than four years — with two-thirds (69.0%) projecting the benefits will outweigh the costs in less than five years.

Only 1.4% of financial executives believe that there is no payback at all and that open banking investments are sunk costs.

A deeper dive into the data also suggests that respondents with open banking investment budgets over €100 million are more likely to expect longer payback periods than respondents with budgets up to €1 million. Institutions with larger budgets are more likely to be using the investments to transform business and operating models. Institutions with smaller budgets will typically be looking at the low hanging fruit, which include use cases such as multi-banking, risk assessments, and seamless customer onboarding.

Open banking investment payback period

Q. What is the estimated payback period for your open banking investments?



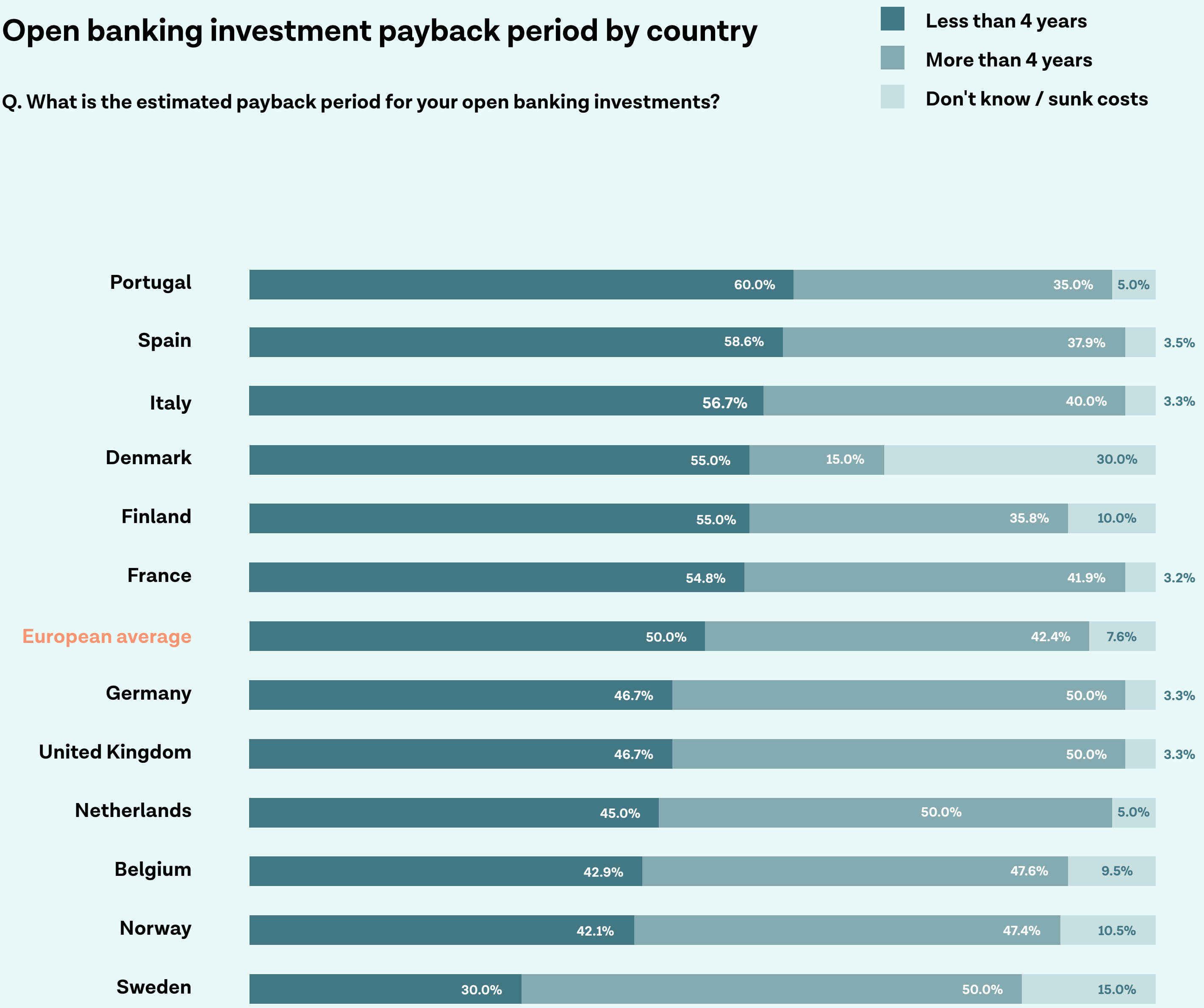
All respondents (n=290)
Source: Tink & YouGov, 2020

The results imply that, although open banking investments are part of a grand transformational scheme, financial executives have allocated budgets to realise very concrete objectives. It indicates that a business case for open banking expects value generation — even if the value is implicit.

From a local perspective, it seems the countries where banks have outsourced a lot of the PSD2 compliance efforts expect shorter payback periods than others. Nearly all of the banks in Portugal, Spain, and Italy have sided with a single national service provider of PSD2 APIs — i.e. SIBS, Redsys, and CBI Globe. By centralising many of the compliance efforts, financial institutions can benefit from economies of scale — ensuring high efficiency in terms of costs.

Open banking investment payback period by country

Q. What is the estimated payback period for your open banking investments?



Note: Answers are grouped for simplicity;
In Denmark, 25% of the respondents responded "Don't know".

All respondents (n=290)
Source: Tink & YouGov, 2020

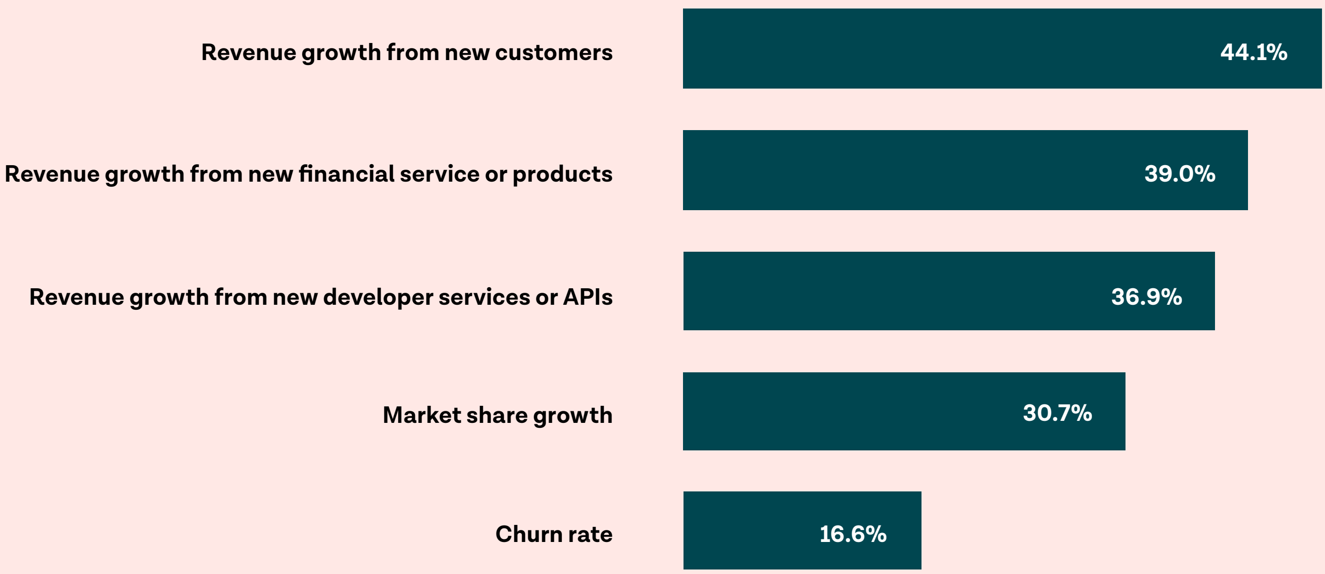
Calculating open banking impact

In order to calculate the benefits, executives need to make results measurable for the top- and bottom-line results. Most businesses will be assessing the impact of their investments using one or more key performance indicators (KPIs).

From a top-line perspective, cash is king. The most important business KPI for open banking investments is increasing revenue from new customers (44.1%). This not only proves that open banking has significant commercial value, it also shows the industry should expect an increase in competition over the next few years.

Top-line KPIs

Q. Which of the following KPIs, if any, are most important for your open banking investments? (Select up to 3 options.)



All respondents (n=290)
Source: Tink & YouGov, 2020

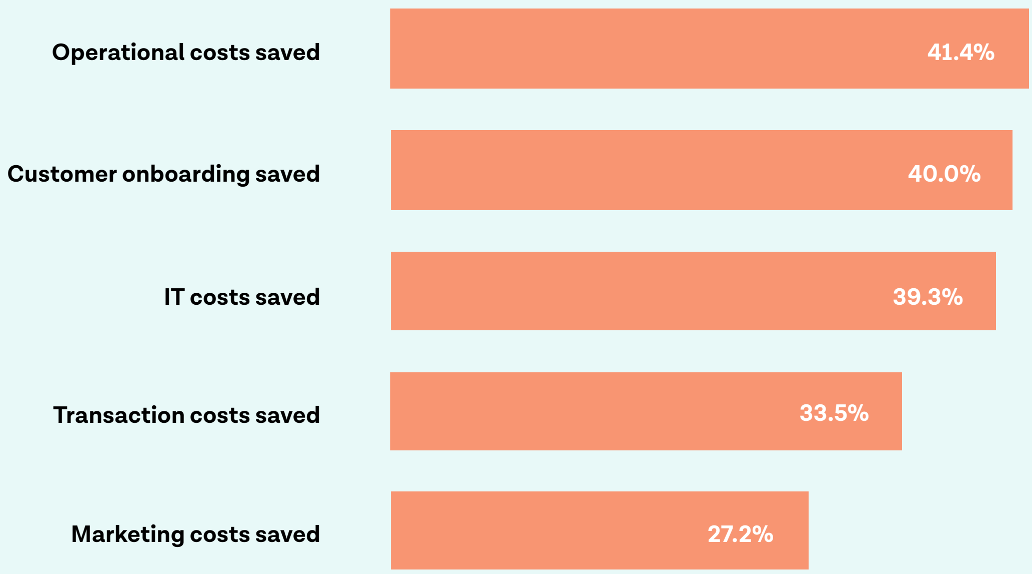
The second and third most important business KPIs are also related to revenue, but are measured in terms of the commercial benefits from new products and services (39.0%), and the monetisation of data by offering developer services or APIs (36.9%). The latter indicates that over one-third of the financial institutions across Europe are looking to generate new revenue streams by transforming the business model.

From a bottom-line perspective, the opportunity executives are looking to is saving operational costs (41.4%) by making processes more efficient. Savings costs with customer onboarding (40.0%), and IT (39.3%) are also high on the agenda.

Many of the open banking use cases allow financial institutions to make their services more digitally accessible to customers. The customer registration process, the risk assessment process, and the onboarding process are all areas that can be improved and optimised using open banking technology today.

Bottom-line KPIs

Q. Which of the following KPIs, if any, are most important for your open banking investments? (Please select up to three options.)



All respondents (n=290)
Source: Tink & YouGov, 2020

“To embrace open banking, we should put as much emphasis on ‘compete’ and ‘innovate’, as on ‘comply’.”

Insights from an open banking regulator

Who he is: Imran Gulamhuseinwala, Trustee for the Open Banking Implementation Entity (OBIE) appointed by the UK's Competition and Markets Authority (CMA) in April 2017.

Why we spoke to him: As Implementation Trustee, he is responsible for rolling out open banking in the UK and ensuring the country's nine largest banks implement the OBIE Standard for Open Banking APIs.

What he’s known for: Calling on banks to improve the quality of the APIs and encouraging them to innovate beyond the CMA mandate.

How do you think open banking will shape the future?

Open banking rests on the principle that data belongs to the customer – not to the bank. Sure, open banking will drive competition and innovation, and it also can help improve some of the vulnerabilities. But crucially, it's about data rights.

Open banking is just the stepping stone, ultimately we will move into open data. And open finance will be the shift as we move beyond PSD2, including mortgages, investment, and other data types.

In the UK, we'll be looking at what open data will look like for telco, for utilities, and other industries. I mean, why shouldn't customers be able to use their data? There's a ton of stuff to do.

Ultimately these investments need to generate ROI. Where are the low hanging fruits in open banking for banks today?

We're currently seeing the most tangible open banking business models in the area of credit. The provision of credit is a valuable value chain, but there are many consumers with a thin credit profile. Open banking will be able to support underwriting, improve suitability, and automate elements of KYC. It's a service that was being paid for in the past, and open banking will be able to add a lot of value there.

Emerging business models will be what I like to call the silicon valley business models, such as PFM, marketplace economics, provisioning additional services, and concierge services to assist with switching providers. In the corporate space, cloud-based accounting software will benefit greatly from open banking.

What are your three recommendations for financial executives embarking on an open banking journey?

The first would be to **embrace open banking.** There are three aspects to this: comply, compete and innovate. And my suggestion here would be to put as much emphasis on compete and innovate, as on comply.

The second would be to **acknowledge that open banking is about ecosystems**. This also means that TPPs are partners to the banks, not competitors.

Finally, I'd recommend **building for the future.** Making sure that the technology investments are built on a flexible, extendable, and API-driven platform.

Reaping the rewards

The financial services industry is on the verge of a monumental shift towards data-driven solutions. This is not a conceptual idea any more.

Industry stakeholders are placing their bets with enormous investments to back it up.

Open banking has become integral to the digital transformation of financial institutions and spans across all parts of the organisation, both internally as well as externally. Financial executives now need to look at how they will be taking advantage of open banking.

By going beyond compliance, and focusing on the competitive and innovative nature of data-driven financial services, businesses can unlock new market opportunities and improve customer experiences at lower costs.

Here are our recommendations for how to go about it:

#1

Make open banking core to the digital transformation

Open banking has now essentially become a key element of the digital transformation journey for most organisations. In order to get funding for open banking use cases, it's important to associate these investments with the core strategy for the business. Executives can do this by focusing on the use cases that can be complementary or an extension to the existing objectives for the business lines.

#2

Create an open banking roadmap

Despite the astronomical investments in open banking, most financial executives are expecting the payback period for open banking investments to be less than four years. However, mastering open banking and the transformation of the financial services industry will take a lot longer than that.

It's important to stay realistic; every financial institution needs to start somewhere. By creating a roadmap, executives can outline what they hope to achieve long-term, and start laying down the foundation for these objectives today.

#3

Focus on the low hanging fruit for your business

Not all decision-makers in financial institutions have access to the astronomical open banking investment budgets described in this report. And for some, every coin invested needs to count. By focusing on the low-hanging fruit and taking advantage of open banking by operating as a TPP, financial executives can experiment with elementary use cases with clear outcomes, before proceeding to more advanced and exploratory use cases.

An open banking scorecard can help measure the impact of investments and help set clear parameters that help navigate the open baking journey.

Next up...

So far we've addressed open banking attitudes and investments, but stay tuned for the next reports in our series. Next up, we'll explore the most popular open banking use cases by industry segment – complimented by real-life examples. Stay tuned.

If you're already eager for more insights into the world of open banking, check out all our latest reports and reading materials on our resource page:

tink.com/resources

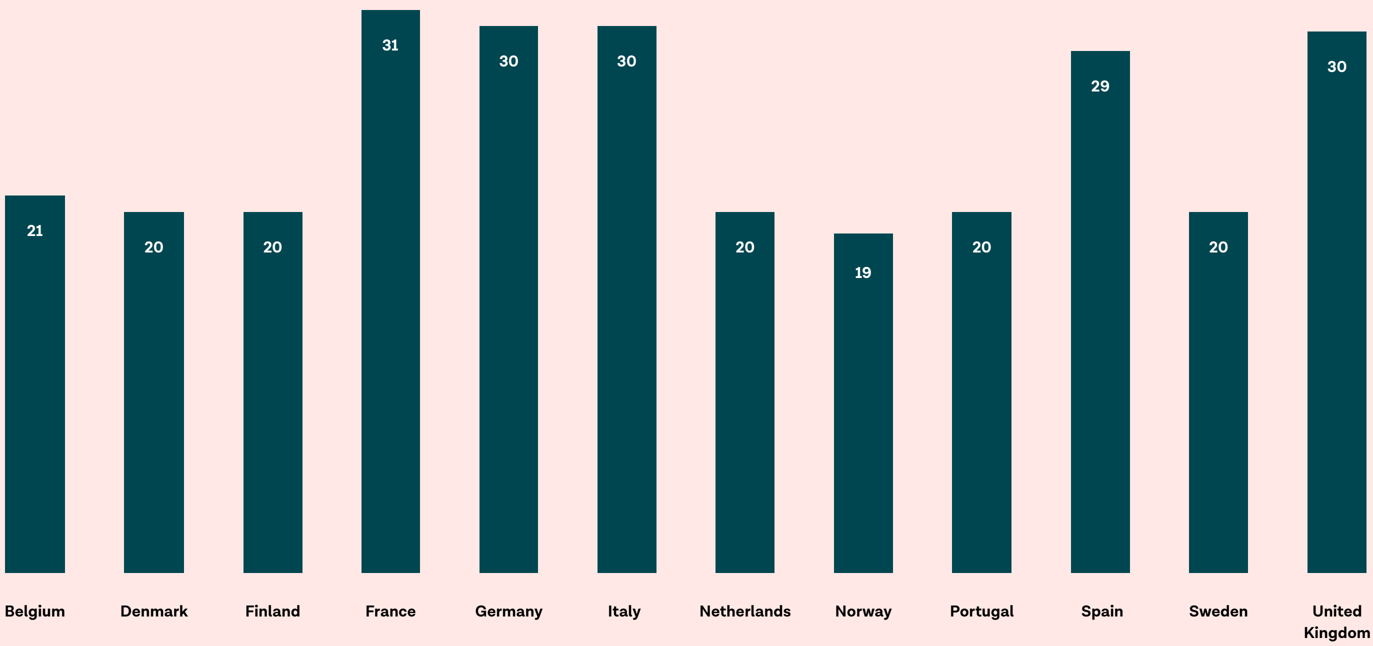
About
this research

Tink enlisted the help of independent market research organisation YouGov to conduct a wide-ranging survey on the state of open banking in Europe.

All interviews were conducted by YouGov between 28 January and 3 March (2020), and included 290 prominent financial services executives spread across 12 countries.

Sample size by country

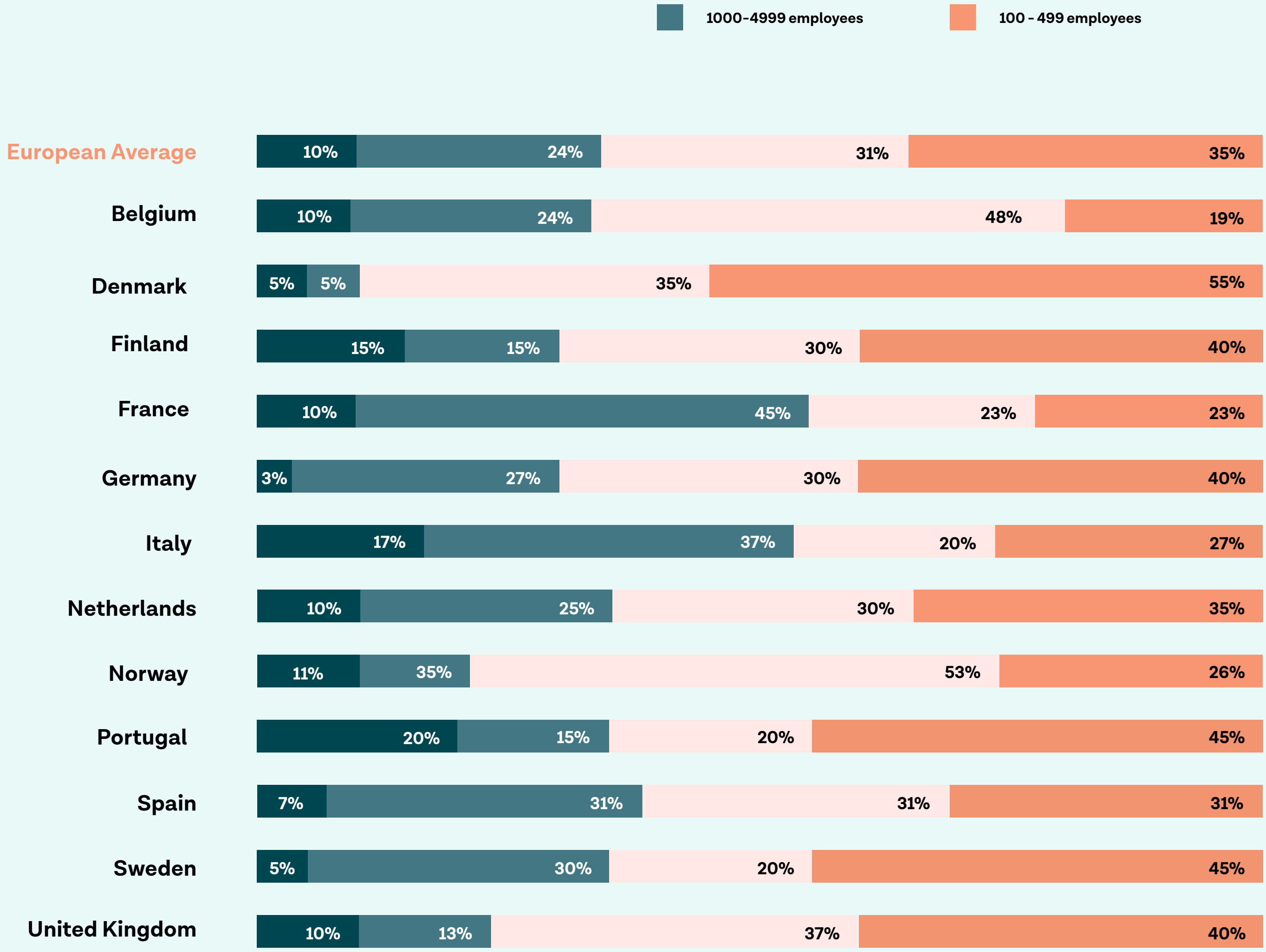
Q. Where are you based in terms of daily operations?



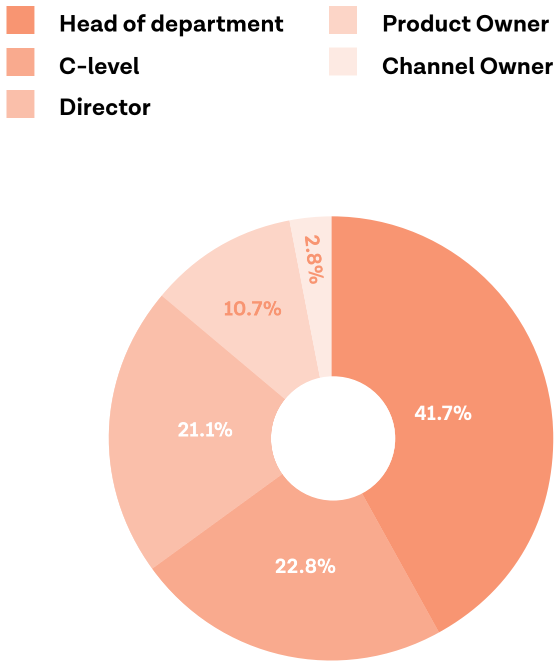
The participants answered questions through telephone interviews and an online questionnaire (in their local languages, to improve the validity of responses).

In order to participate in the survey, participants needed to be i) senior decision-makers or influencers, ii) employed by a regulated financial institution, iii) have at least some knowledge of PSD2, and iv) insight into the open banking investment plans.

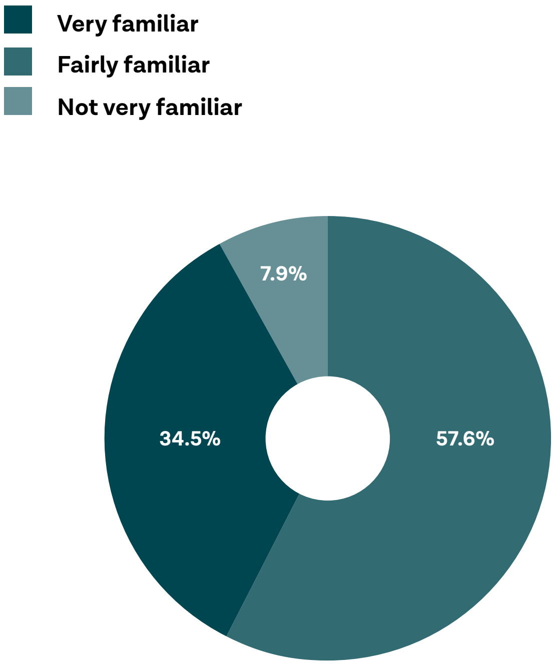
Size of organisation by country



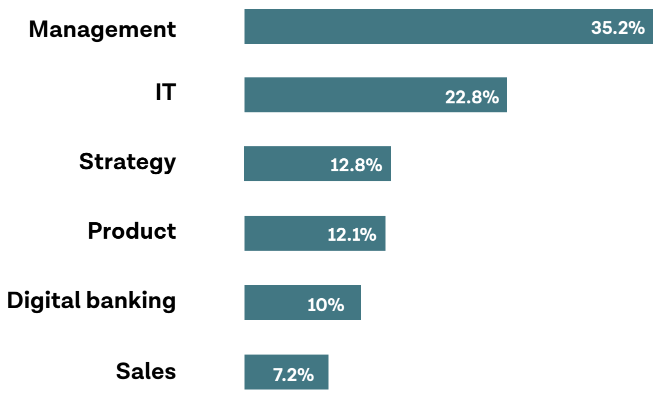
Respondent seniority



Respondent familiarity with PSD2



Respondent by department



About Tink

Tink is Europe's leading open banking platform that enables banks, fintechs and startups to develop data-driven financial services. Through one API, Tink allows customers to access aggregated financial data, initiate payments, enrich transactions and build personal finance management tools.

Tink connects to more than 2,500 banks that reach over 250 million bank customers across Europe. Founded in 2012 in Stockholm, Tink's 270 employees serve 14 European markets out of 12 offices.

Let’s talk about open banking

We have a clear vision of where the banking industry is headed, and would love to discuss it with you. Contact us for a meeting and let’s talk about a potential collaboration:

partnerships@tink.com