Open Banking

Coming of age?

An independent member firm
of Moore Global Network Limited

As we reach the fifth birthday of Open Banking's conception, we consider the key statistics that tell the story of progress to date:

Over 3 million active users in the UK as of January 2021[1].

303 regulated organisations in the Open Banking ecosystem in February 2021[2], growing from 204 recorded in December 2019[3].

A total of 4.3m payments in 2020[4] (although 1 million transactions in February 2021[5]) but still a drop in the ocean out of a total of 1.2 billion monthly card transactions[6].

Only one in three UK consumers[7] had heard of Open Banking one year after its launch. Additionally, only 20% of consumers who had heard of it could confidently explain what it was[8].

A study by CREALOGIX in 2019 also found that less than 8% believed Open Banking was a good idea[9].

Given the Financial Conduct Authority (FCA) and UK Finance are currently considering the regulatory model going forward, it seems an opportune time to ask, what is holding back the tide of progress?

Is it down to defensive behaviour by the big banks, as some of the challengers suggest; the lack of true consumer problems for Open Banking to solve; or is a lack of consumer confidence in sharing their data stopping large scale adoption?

The story to date

Open Banking was conceived in August 2016 when the UK's Competition and Markets Authority (CMA) issued a ruling that required the nine biggest UK banks to allow licensed start-ups direct access to their data. Open Banking was subsequently implemented in January 2018 and essentially refers to technology that allows:

1. The use of open APIs[10] that enable third-party developers to build applications and services for a financial services institution's customers to access.
2. Greater financial transparency options for account holders ranging from open data to private data.
3. The use of open-source technology to achieve the above.

The CMA's Open Banking initiative was designed to increase competition and drive innovation for the benefit of the customer. Primary current account data is rich with insights on customers' financial habits and behaviours and gives the banks that hold these accounts certain advantages if they are able to effectively analyse their data.

To further put things into context, the Big 6 banks hold 87% of personal primary current accounts[11] and 85% of the business current account market[12]. This domination continues despite initiatives that intended to encourage switching, for example the Banking Competition Remedies (BCR) paying, sometimes substantial, dowries to business customers that moved their account away from RBS/ NatWest, after their failed attempts to carve out and dispose of Williams & Glyn's.

In May 2020, the CMA approved amendments, and revised timelines, to the Open Banking Implementation roadmap. This allowed banks to prioritise COVID-19 responses whilst ensuring focus was maintained in three key areas:

- Improving the performance of Open Banking technology.
- Increasing functionality, particularly around payments.
- Customer protection.

According to the Open Banking Implementation Entity (OBIE), around three quarters of implementation roadmap activity was completed in 2020, with the bulk of remaining requirements set out by the CMA to be delivered in 2021. In addition, the OBIE hope to further enhance the platform, grow the ecosystem, drive adoption, and prepare for the future of Open Banking. This is supported by the much awaited CMA endorsement of 'sweeping' functionality which allows the automatic transfer of money between customer's own accounts, and has the potential to increase competition and encourage innovation.

The FCA too, in the wake of Brexit, has proposed changes to Open Banking. These are aimed to boost consumer adoption and to allow data sharing across a wider range of financial products. It is hoped that this will enable the development of further innovative products and services and has been labelled as Open Finance. Clearly, to ensure the success of Open Finance, there are important regulatory and legislative aspects to work through yet already we see firms such as TrueLayer, who today process more than half of the Open Banking volume in the UK, responding to the opportunity with over $70 million raised to fund their expansion. Indeed Francesco Simoneschi, TrueLayer CEO, believes "the next phase is about solving bigger, more complex problems for our customers - layering value on top of the raw infrastructure"[13].

Current uses

Currently, Open Banking is used in a variety of areas, all of which appear to serve a definitive consumer need:

- By challenger banks, gathering information from existing bankers to assess an application for a new account or service.
- By consumers, identifying areas where they can save money and manage their current spending (e.g. Cleo), and to obtain an aggregated view of bank accounts from various financial institutions in one application (e.g. Moneybox or Money Dashboard).
- To enable an alternative and more flexible way for personal and business customers to setup regular payments, as an alternative to Standing Orders and Direct Debits, and to make and receive payments (e.g. using VibePay to scan a QR code).

Building on these uses, Open Finance has the potential to transform the way individuals and businesses use financial services including:

- Increased access to, and range of, individually tailored financial products.
- Empowering better, more informed decision making e.g. through price, products and even provider comparison.
- Supporting the availability of financial advice and enabling greater personal financial management.
- Boosting access to commercial lending leading to increased business productivity.

The finger of blame

Given this evolution and extended capability, why has the uptake in Open Banking been less than stellar?

Some of the neobanks have expressed concern over large incumbent banks not entirely committing to Open Banking. They were certainly slow to make the necessary preparations to enable Open Banking with the original deadline of January 2019 initially being extended to January 2020[14]. Even then, Barclays, RBS and HSBC were all given an extra six weeks to comply, while Bank of Ireland received an extension of several months. Cater Allen (Santander's private banking subsidiary) was given an extra year, as they had to redevelop their systems[15].

Oliver Prill, the CEO of Tide (an SME neobank) claims, "The slow uptake is the result, at least in part, of foot-dragging by some of the large financial institutions, who may have perceived Open Banking as more of a threat than an opportunity." Prill also suggested 'incentivising' the large financial institutions by removing the block on charging to access data imposed by EU legislation, therefore creating a new source of income for large financial institutions. Essentially creating paid-for premium data access services[16].

Yet, the incumbent banks do seem to be embracing Open Banking in their own operations. For example, there are already many examples of collaboration between large incumbent banks and fintechs leveraging Open Banking:

Barclays' partnership with **Flux** - a UK fintech and authorised account information and payment initiation service provider (AISP) using Open Banking API's to facilitate digital paperless receipts[17].

NatWest's initial partnership with **FreeAgent** - enabling small businesses to track their finances and report their taxes digitally (FreeAgent was bought by NatWest in March 2018)[18].

Lloyds Banking Group's work with **Google Cloud,** in relation to their digital evolution and cloud transformation - utilising Apigee, a Google Cloud service, to manage APIs which support Open Banking initiatives[19].

Santander Spain's recent partnership with **Raisin**, an Open Banking pioneer - the collaboration uses an API to facilitate quick and easy registration at Raisin (using Santander Connect) allowing Santander customers access to Raisin's range of investment and savings products[20].

In April 2021, **Santander Norway's** release of a new personal financial management app using Open Banking tools from **Nordic API Gateway**[21].

Fintechs too are improving their capability to directly help customers.

Intelligent banking	Account aggregation	Affordable lending
Bud is an online mobile platform harnessing the power of Open Banking to connect customers to financial products and services, helping them to budget and optimise their spending.	Tully is standalone application rivalling the likes of Yolt. It uses Open Banking to help customers build a budget online by accessing all their accounts in one application.	SafetyNet Credit is an online lending product offering a cheaper alternative to unauthorised overdrafts. Customer current account data is used to carry out affordability assessments on application and at 7 day intervals.

Payment solution	Savings app	Creditworthiness checking
Trustly is an electronic payment solution enabling customers to pay for goods and services online directly from their bank accounts. Middlemen such as credit or debit card providers are removed whilst bank level security is maintained.	Moneybox is an app using transaction data from a customer's selected bank accounts to round up purchases to the nearest pound, and invest the spare change. Cash saving products and long term investment products are also offered.	Credit Kudos uses Open Banking to go beyond traditional scoring and provide a comprehensive view of a borrower's creditworthiness. It transforms complex information in easy-to-use, digital first tools to help lenders make better decisions.

Barriers to adoption

Whilst we have become increasingly wedded to our smartphones and tablets, it also appears that we are also becoming more exposed to, or at least more aware of, the risks that we face from data breaches and phishing attacks. As consumers, we are becoming more, not less, concerned at the threat these represent to the security of our data and our physical and non-physical assets.

Phishing is a common entry point for a hacker and in 2020 alone, accounted for 22% of data breaches[22]. It is also claimed that 85% of all companies, organisations and institutions have been victims of at least one phishing attack[23], and that one small business in the UK is hacked every 19 seconds[24].

Any organisation offering Open Banking services will be acutely aware of the dramatic fallout of a data-breach, which can result in possibly irreparable financial and reputational damage. There are forbidding lessons from the past in this regard:

- 2015 - Experian, one of the largest credit agencies in the world, was hacked and 24 million people had their private information exposed, including almost 800,000 businesses[25].
- 2017 - A data breach at Equifax, a well-known user of Open Banking APIs, exposed sensitive information on more than 147 million customers. Equifax agreed to pay up to $700 million as a result[26].
- 2018 - Ticketmaster was hacked after a vulnerability in a third-party supplied chatbot was exploited by criminals. Up to 9 million EU customer's personal or payment information was stolen[27].
- 2019 - Capital One were victims of one of the largest thefts of data from a Bank, and fined $80m. Data from over 100 million people, including 140,000 Social Security numbers and 80,000 bank account numbers, was obtained in the breach[28].
- 2021 – A number of high profile cases have taken place, including attacks on CNA Financial (one the largest Insurance companies in the US), Australia's Channel Nine News, the city of Florida's water supply and most recently on Colonial Pipeline which carries fuel to 45% of the US East coast.

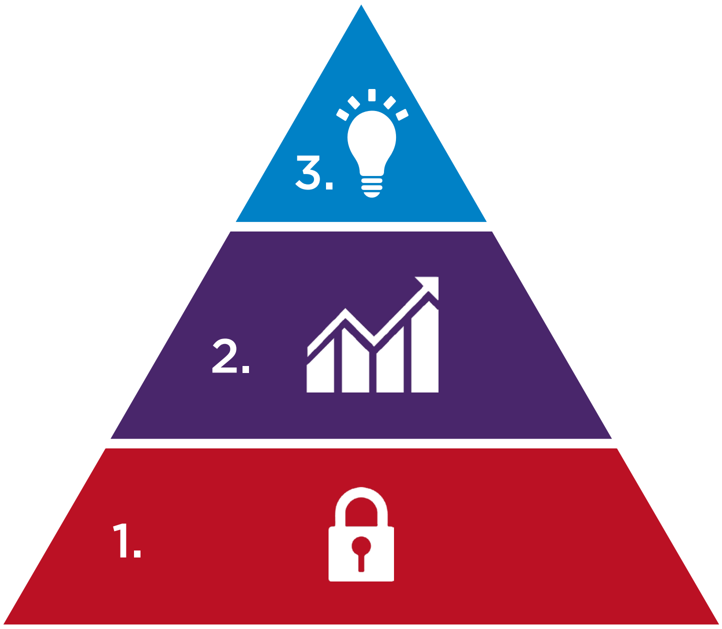
Most banks offer Open Banking with anonymised customer data and then ask explicit permission from the customers to share their non-anonymised data with a third party. Should there then be a data breach through the third party, it is the third party and the customer who will have to resolve the issue and the bank no longer has liability - not exactly reassuring!

The process of customer authentication is an important security measure and requirement under the Payment Services Directive (PSD2). There have, however, been calls from both the industry and customers to address the somewhat burdensome 90-day reauthentication process which many also consider as a hindrance to Open Banking uptake. In response, the FCA has proposed a number of changes to the regulatory framework, including to the rules that govern the secure exchange of information. If agreed, then it is expected to boost Open Banking adoption and enhance the customer journey.

Considering the breaches mentioned above, and the lack of a safety net when these occur, it is easy to surmise why many of us feel apprehensive about sharing confidential financial information. That in itself, is a serious barrier to the widescale embracing of Open Banking.

Scaling up Open Banking

So, if the incumbents are demonstrating that Open Banking represents a considerable opportunity to them and there are already a number of existing Open Banking offerings that fulfil a useful purpose for consumers, could it be that in amongst all the advances and interesting 'use cases' the last five years have seen, regulators, incumbents, neobanks and fintechs have forgotten the hierarchy of consumer needs and wants?



1. Security - the most essential customer consideration is trusting that their money is safe and that any grievances will be addressed fairly. With the Financial Services Compensation Scheme and a highly regulated industry, this level of need has been satisfied for some time now in relation to traditional banking products. However, the paradigm has shifted with Open Banking and the additional data insecurities this represents to many.

2. Performance - consumers then want assurance that the organisations that they trust would reliably and efficiently perform the services they require.

3. Differentiation - considering most banks can meet the basic performance requirements of consumers, their loyalty is becoming increasingly fluid and up for grabs by those in the market willing to differentiate themselves by offering increasingly innovative products and distribution mechanisms.

According to a survey by security software company SmartSearch, 76% of respondees said that they "lack trust towards using their banking services online"[29]. To reinforce the point, 81% answered that for them, "trust is the most important factor in their purchasing journey".

Truly listening and understanding consumer feedback, and then addressing their priorities is key. The scaling up, and acceleration of the adoption, of Open Banking is above all dependent on consumers being both educated and assured on the security and usefulness of Open Banking to them.

Building trust

According to the Edelman Trust Barometer (a survey of 31,000 people in 27 countries), trust in technology has dropped significantly. In the US, trust in technology dropped by 9 points. Edelman claims the reason for this fall is due to an increasingly complicated relationship between the public and technology – including the spread of information, rising privacy alarm and bias in artificial intelligence[30].

To place this in context, technology companies are seen as less trustworthy than industries such as retail and healthcare, however still more trustworthy than financial services. Yet, as we have discussed, the dividing line between technology and financial services is blurred and for Open Banking to succeed, positive steps need to be taken to build consumer trust. The following areas are good starting points.

Data security

Many consumers remain concerned with the security of their financial information. This means that challenger banks, fintech disrupters, and third-party providers will need to create, and potentially guarantee, an environment of absolute trust for the customers. In addition to traditional customer loyalty, or inertia, there is also confidence that any grievance is likely to be addressed fully and fairly. This may be one of the reasons many consumers decide to persist with the large incumbent banks.

To successfully move forward, organisations that are leveraging Open Banking, whether incumbents or new players, need to focus as much, if not more, attention on getting the consumer security foundations right than they have on the performance of their applications and how they carve themselves a differentiated niche in the marketplace.

Close supervision by a reputable and independent regulator has a significant part to play but even with extremely stringent regulation, organisations can never be too careful with the security of customer data or how they build trust in their standards and track record. They must have a strong privacy policy, must not under-estimate the threat, not collect unnecessary information, use multiple layers of security, and educate their employees about potential risks.

Organisations must also communicate clearly and honestly to their customers on the nature and scope of the data they are volunteering and the associated risks and responsibilities. Also, how they will protect themselves and their customers.

The introduction of General Data Protection Regulation (GDPR) reinforces data security as a priority, sets stringent data protection requirements (including on the transfer of data), and has the power to levy significant fines. In 2020, GDPR fines increased by nearly 40% with penalties under GDPR totalling $191.5 million[31]. It remains to be seen if that deterrent is enough for companies to build the required 'container of trust'.

Recovery planning

In the unfortunate event of a data breach, companies must be prepared with a comprehensive and robust data breach response plan, be aware of the relevant data breach notification laws and be in a position to quickly and accurately assess the scale and source of any potential data breach. Additionally, the company must ensure that ethical obligations to its customers are prominent and sincere in any data breach response and not merely a box-ticking exercise.

Transparency and authenticity

Leading UK consumer groups, including Citizen's Advice and the Money Advice Trusts, StepChange Debt Charity and Which?, have joined forces to publish a consumer manifesto for Open Banking calling it a "force for good" in widening access to financial services for everyone.

The manifesto states that the service providers should meet people's positive expectations, be upfront about how they are paid for and how they use their personal data. Regarding personal data, the manifesto states, "they should be sold and delivered in a way which respects people's identity, their data and their right to make the most of their money and live the lives they want to"[32].

Winning the hearts and minds of consumers

The fintech specialists possess a speed to market through quick decision making and their bespoke digital architecture that could erode the incumbent players customer base and revenue. It has been estimated that £6.5bn in revenue could be under threat by 2024 and that Open Banking also has the potential to create a revenue opportunity of £7.2bn by 2022. In addition, the global Open Banking market is expected to reach $43bn by 2026 (up from $7.29 bn in 2019), growing at a Compound Annual Growth Rate (CAGR) of 24.4%[33]. All this depends on consumers being attracted in sufficient numbers to the functionality and advantages that Open Banking offers.

Whilst Open Banking poses a clear challenge to traditional banking models, it also presents numerous opportunities to incumbent banks as well as digital challengers, fintechs and third-party providers. With the continuing rapid progression in the technology, and the new use cases to which it can be applied, Open Banking should become a core and integral part of the financial ecosystem.

However, building and maintaining trust, particularly in the secure use of technology, is critical given the pace of digitisation in financial services today. In fact, it is a pre-requisite in order to eliminate barriers to adoption of Open Banking, let alone the new initiatives heralded with the expansion into Open Finance.

The battle remains to earn consumer trust and, providing this is placed at the heart of the efforts made by all stakeholders, Open Banking and Open Finance will truly come of age.

“If you’re competitor-focused, you have to wait until there is a competitor doing something.

Being customer-focused allows you to be more pioneering.”

Jeff Bezos,
CEO of Amazon

Get in touch

If you would like to discuss any aspect of your Open Banking strategy, then please get in touch with a member of our Financial Services team.

Ewen Fleming
Partner, Financial Services Advisory

07733 236 559
ewen.fleming@jcca.co.uk

Samuel Church
Director, Financial Services Consulting

07775 583 598
samuel.church@jcca.co.uk

Guy Broad
Senior Manager, Financial Services Consulting

07780 687 462
guy.broad@jcca.co.uk

References

[1] https://openbanking.foleon.com/monthly-highlights-infographic/2020-roundup/home/

[2] https://www.openbanking.org.uk/about-us/latest-news/the-obie-highlights-february-2021/

[3] https://openbanking.foleon.com/monthly-highlights-infographic/2020-roundup/home/

[4] https://openbanking.foleon.com/monthly-highlights-infographic/2020-roundup/home/

[5] https://www.openbanking.org.uk/about-us/latest-news/the-obie-highlights-february-2021/

[6] https://www.ukfinance.org.uk/data-and-research/data/cards/card-spending

[7] https://www.retailbankerinternational.com/news/uk-open-banking-consumer-awareness-low/

[8] https://www.retailbankerinternational.com/news/uk-open-banking-consumer-awareness-low/

[9] https://www.retailbankerinternational.com/news/uk-open-banking-consumer-awareness-low/

[10] API stands for Application Programming Interface and in basic terms APIs allow applications to communicate with one another. Generally, API is commonly used to describe a publicly available web-based API that returns data.

[11] https://www.fca.org.uk/publication/research/rb_sector_overview_final_jan17.pdf

[12] https://www.fca.org.uk/publication/research/rb_sector_overview_final_jan17.pdf

[13] https://www.finextra.com/newsarticle/37820/truelayer-raises-70-million-in-preparation-for-open-finance-moment?utm_medium=newsflash&utm_source=2021-4-8&member=133469

[14] https://www.cityam.com/five-uk-banks-given-open-banking-deadline-extension-cma/

[15] https://www.accountingweb.co.uk/business/finance-strategy/five-major-banks-given-deadline-extension-for-open-banking

[16] https://www.finextra.com/newsarticle/37763/tide-proposes-open-banking-data-fees-to-incentivise-banks

[17] https://www.finextra.com/newsarticle/37420/barclays-rolls-out-digital-receipts

[18] https://www.finextra.com/pressarticle/83706/freeagent-integrates-with-natwests-online-banking

[19] https://cloud.google.com/press-releases/2020/0310/lloydsbankinggroup-googlecloud

[20] https://www.raisin.com/press/open-banking-partnership-raisin-and-santander-spain

[21] https://www.finextra.com/newsarticle/37787/santander-consumer-bank-rolls-out-new-pfm-app

[22] 2020 Phishing Statistics That Will Blow Your Mind - Phishing.org.uk

[23] 2020 Phishing Statistics That Will Blow Your Mind - Phishing.org.uk

[24] https://www.hiscoxgroup.com/news/press-releases/2018/18-10-18

[25] https://www.infosecurity-magazine.com/news/experian-data-breach-24-million/

[26] Equifax to pay up to $700M in U.S. to settle data breach, but Canada is not included | CBC News

[27] https://www.bbc.co.uk/news/technology-54931873

[28] https://www.teiss.co.uk/capital-one-fined-data-breach

[29] Only One In Four Britons Trusts Online Banking | CompareBanks

[30] https://www.axios.com/edelman-trust-barometer-tech-5787acea-8ef5-4d0b-9694-6e4f8eb006c4.html

[31] https://www.tessian.com/blog/biggest-gdpr-fines-2020/

[32] https://www.openbanking.org.uk/wp-content/uploads/Leading-Consumer-Groups-Create-Consumer-Manifesto-for-open-banking.pdf

[33] Open Banking market value to reach $43.15 billion by 2026 | Open Banking Expo

JOHNSTON CARMICHAEL

Where sharp minds meet

Aberdeen
01224 212222

Dundee
01382 411790

Edinburgh
0131 220 2203

Elgin
01343 547492

Forfar
01307 465565

Fraserburgh
01346 518165

Glasgow
0141 222 5800

Huntly
01466 794148

Inverness
01463 796200

Inverurie
01467 621475

London
0203 7144 350

Perth
01738 634001

Stirling
01786 459900