

March 2018

Open Banking: The New Normal

Opportunities in banking and beyond

The phrase 'Open Banking' is everywhere at the moment. You've probably heard about it in the office, seen it in the news, or read about it on social media. So, what's all the fuss about?

Open Banking with a capital O and a capital B is a technical directive that mandates the opening up of current account data (currently between nine major banks, the so-called CMA9) through open APIs. This means customers can give permission for any legitimate third party to access their transaction history. That is, to give that third party full visibility over what you are paying, when and to whom.

This swing of control from the banks to the individual is where things get really interesting. The customer and commercial applications of the regulation, open banking with a small o and small b, will force financial services providers to question their existing business models. It will create huge opportunities within and beyond the financial services sector.

Much of the coverage to date has focused on the technical implementation and security-related aspects of the change. But the conversation is now moving into the commercial opportunities. Put simply, the impact could:

1. RE-EDUCATE customers on how they spend, save and manage money day-to-day
2. REDEFINE what customers consider a 'financial service provider' to be
3. CREATE new business models and payment types across industries
4. REPURPOSE what you deliver within your business and how

Don't believe us? Here's a whistle stop tour of why you should...

Re-educating the customer



What could the future look like?

The Open Banking customer vision is huge. The purpose of the regulation was to give customers a fairer deal. By opening up access to information on how they spend their money, it's intended to create a new competitive environment for financial services providers. In turn this will enable customers to make better informed decisions over who they buy from, when and how much they pay.

Where are we now?

Of course this won't happen overnight. The implementation of Open Banking is phased, with a clear customer outcome for each phase. The first phase, which went live on January 13th 2018, focused on two things:

- **open data** which makes all financial services products comparable, which anyone can access.
- **closed data** which makes an individuals transactional data available, at their consent, to any authorised party.

What do we do next?

The missing piece of the puzzle is getting customers to join in. Unless people actively give permission to third parties to access their data, the benefits of open banking remain a pipe dream. So the industry has three important steps yet to take...

- **People need to know about it.** People have to understand what it is and trust what's new. When it comes to data-sharing, thanks to mis-selling scandals and data-breaches, recent media coverage has been overwhelmingly negative. So consumers' default setting is, understandably, 'data sharing is bad'. There is work to do from the centre to ensure open banking is established as a force for good.
- **People need to use it.** Customers have to know how to access the new products and services that will come out of open banking. The Open Banking Implementation Entity is collating a Directory which will list all the FCA approved third parties who can access the open APIs.
- **It needs to make a difference.** The value of giving permission to unlock new services has to be clearly expressed and, ultimately, real. Many of the services are generally digitally focused, which isn't going to help vulnerable groups who, for whatever reason, aren't using digital channels to manage their money now.

The end state could be as radical as this. Imagine people using a single interface to manage all their financial affairs - from how much money you have, how you make a payment, to how you access a loan.

To get it right, there are three important steps:

1. Land customer trust
2. Make services easy to access
3. Think about every audience

Redefining the 'financial services provider'



What could the future look like?

Driving competition and therefore innovation is the key principle behind open banking. Initial indications are good. There are murmurs in the market both from non-financial players starting to offer financial services and exciting new entrants pioneering different value propositions (like Monzo or Starling). However, there hasn't been a huge upturn in the market, yet.

Where we are now

Early movers have prioritised the customer interface: organising information from multiple providers and displaying it simply, so the customer can see what's where.

Because the first two phases of Open Banking have focused on transactional data and payment initiation, the first innovators have tended to spring up in that space - such as personal financial aggregator Bud.

The onus has been on personal financial management tools and price comparison websites, driving fairness through transparency and simplicity.

What do we do next?

- **Fill the gaps.** There is no requirement for providers outside the CMA9 to share transactional data. This means even if you do sign up to a service such as Bud, any of your financial affairs outside the CMA9 would be excluded from your 'holistic' view. The alternative data collection methods are manual and comparatively less safe, such as 'screen scraping'. (This is where an organisation can "scrape" a screen every time you log into your banking and use it on aggregator tools etc.)
- **Fulfil the promise of improved comparability.** The theory goes that Open Banking will improve comparability by enabling greater pricing transparency and a clearer view of eligibility. But the market has been slow to enact any sort of price comparison updates. Either because there is a fear of losing out or because current accounts are largely 'free' services in the UK, the notion of comparability is a moot point at this stage of the rollout.
- **Get together.** There are two main spheres of innovation. First, new players on the edges of the market who are free of legacy but as yet lack the scale to initiate major shifts in behaviour. Second, there are the incumbents who have the size and customer relationships to deliver material change, but are battling the drag of legacy systems. Both sets of parties are playing their cards close to their chests.

Imagine a landscape where people choose one single interface to manage all their financial 'life'.

An interface on top of a complex network of products, services and account types, that the customer never sees.

They no longer need to worry about which one is the best deal. The interface does it for them.

The three key focuses to getting it right:

1. Get everyone on the bandwagon, not just the CMA9
2. Use the open data available to critically evaluate your customer promise, and innovate
3. Find ways to collaborate that speed up the learning (and failure) process

Create new business models



What could the future look like?

The key to turning Open Banking from a technical directive into a major customer revolution is being able to articulate its value to customers and businesses alike. The value proposition of open banking needs to spell out how it makes the customer better off and the service provider more successful. Until now the market has focused on getting the technical implementation down. The focus really needs to shift to why we are doing this and what impact it can have, on painting a picture of how the world could change thanks to Phase 1.

Where we are now

There are three big potential areas of value starting to emerge...

- **Owning the relationship as a tool for acquisition and retention.** The race is on to become the platform that owns a customer's interactions, regardless of how many different suppliers are plugging into it. HSBC are currently beta testing such a platform.
- **New, more tailored, products and services.** Knowing what somebody spends, on what, over time creates huge opportunities for value adding services. Currently in development, for example, is a replacement overdraft service. It monitors outgoing and pending transactions against your balance to work out when the account holder is likely to go overdrawn. It would automatically deposit a small loan into the account at a cheaper rate than the overdraft charge. When the account goes back into the black, the service repays itself.
- **Customer data for customer understanding.** Transactional data is open to any member of the FCA Directory. You don't have to be in financial services to get listed. Any brand with a deep degree of customer trust can access a full view of their customers' transactions data, leading to new loyalty and retention propositions, perhaps based on share of wallet rather than number of interactions.

What do we do next?

- **Shift the focus from tech to customer outcomes.** So far, the central Open Banking organisation has focused primarily on teams within the CMA9 banks that are ensuring the technical requirements are delivered. The conversation needs to get out of the tech teams and into the proposition and marketing teams.
- **Single-minded focus on adoption.** For the wider business to harness the potential of open banking, the starting point – and potential sticking point - is adoption. The communicators need to answer the key customer question, 'why should I give my permission to share this data? What do I get back in return?'
- **Time the move to market.** Pioneers are going out on a limb. First mover advantage could be critical in this new world or it might be that those who act in haste, repent at leisure. The battleground is trust, and consumers are notoriously unforgiving.

Imagine a future where people subscribe to a single utilities management service. What they pay for their energy, water, broadband, tv subscriptions and so on would be automated and fully transparent via that single interface.

Today, we are already seeing aggregators within the Financial Services space, and non-Financial Services becoming authorised to access Phase 1 closed data.

The three things to be thinking about:

1. Define the market facing value proposition
2. Focus on customer adoption
3. Don't rush if it could damage your customer trust

Repurpose what you deliver



What could the future look like?

Once a business has worked out what to do about Open Banking they need to work out how to get it done. With so many opportunities opening up, deciding on a clear plan of action won't be straightforward. It may be better to capitalise on the new interface and aggregation opportunities, to deliver more bespoke products and services or to better adapt billing methods to customers' real financial capabilities. Step one may be simply to mine the huge well of newly available data to work out what next.

Where we are now

As with any new proposition or business model delivery, there are so many things you could do that de-cluttering the conversation is half the battle. Here are some starters-for-10 to get the discussion going...

- **Pick an audience and build everything for them.** Monzo have publically stated they have no desire to be a giant bank. A customer base of c500,000 would mean they've scaled, but to a level where they don't need to compromise on top notch customer service.
- **Build a marketplace and borrow capabilities from elsewhere.** Banks are forming white label partnerships with a range of providers to offer customers a broad suite of offerings, all accessible through a single app bearing the bank's brand
- **Find some clever start-ups and buy them.** OK, this model is not so new! Acquiring the start-ups who are building the new interfaces or carving out niche propositions in the market can be a way to fast-track evolution. In continuing to be on the front foot of innovation within the market, there is an opportunity for the resurgence of incubators and accelerators offering funding to start-ups even earlier in their journey.

What do we do next?

- **Open up the discussion.** Talk that Open Banking will be the catalyst for the complete commoditization of current accounts has traditional players running scared. Some have retreated, closing the doors to discussion and idea sharing. Given the initiative was intended to encourage openness for the customers' benefit, the irony of this isn't lost on many in the sector.
- **Push for consistency.** All the interactional elements - the way the data is shared and how a customer validates access to it - is, as yet, non-standardised. It's not clear which third parties will operate alongside which banks, or how. Consistency of experience is a crucial aspect of building engagement and trust so must quickly become a collective priority for all players.
- **Security, security, security.** Open Banking itself is inherently secure, but with a rapidly expanding market it is essential that clear standards are set to ensure services are always run in the customers' interests. Monitoring any impact on fraud, especially as adoption increases, will remain a key concern.

Value is the product of potential and feasibility. For a financial services provider, designing a compelling future vision will require a fresh and focused look at existing core capabilities and a clear-headed plan for the new capabilities they'll need to build, borrow or buy.

Where to start:

1. Stand for something
2. Think about the wider experience and interoperability
3. Put the customer at the heart

Got it, now what?

Come to our event

Open Banking: from implementation to transformation

At The Hospital Club, Covent Garden in London on March 22.

[Register here](#)

Speakers include:

Miles Cheetham, Head of Propositions, OpenBanking

Patrick Frith, COO, Bud

Sarah Guha, Product Director, Starling Bank

Richard Rous, Competition Strategy, Lloyds Banking Group

Mick McAteer, Director, Financial Inclusion Centre

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Manifesto is a growth strategy consultancy with extensive experience working with world-leading clients in payments and financial services, media, FMCG and beyond. We're thrilled to partner with Bacs on this event as part of our ongoing work designing the future of the UK payments industry.