

Open Banking

Impact on Digital Customer Acquisition

About

This report has been researched and produced by the Open Data Institute for Temenos, and published in 2019. Its lead author is Josh D'Addario.



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Executive summary

Open Banking is revolutionising the financial technology landscape in both the United Kingdom and globally, and financial service providers of all stripes need to be ready to ride the wave.

Open Banking unleashes the power of data into the financial sector as customers of both personal and SME banking services are able to provide their data more freely to trusted third parties. This new landscape of opportunity brings direct benefit to customers by encouraging the better matching of existing products, more tailored product creation, and the ability to greatly incentivise customers to switch both accounts and providers.

This change in both policy and behaviour creates greater choice in the market. Greater choice in providers of financial services and greater choice in available products. This is happening because these changes allow for more entrants into the market, and more specialised products being created to tailor to new and existing customers. The two major opportunities for organisations in this field to pursue are around an improved customer journey through faster onboarding, and a greater product offering range. Greater access to data through sharing and consent means a more frictionless onboarding process for the customer, and more opportunities for a wide variety of FinTech services to capitalise on this new trove of data.

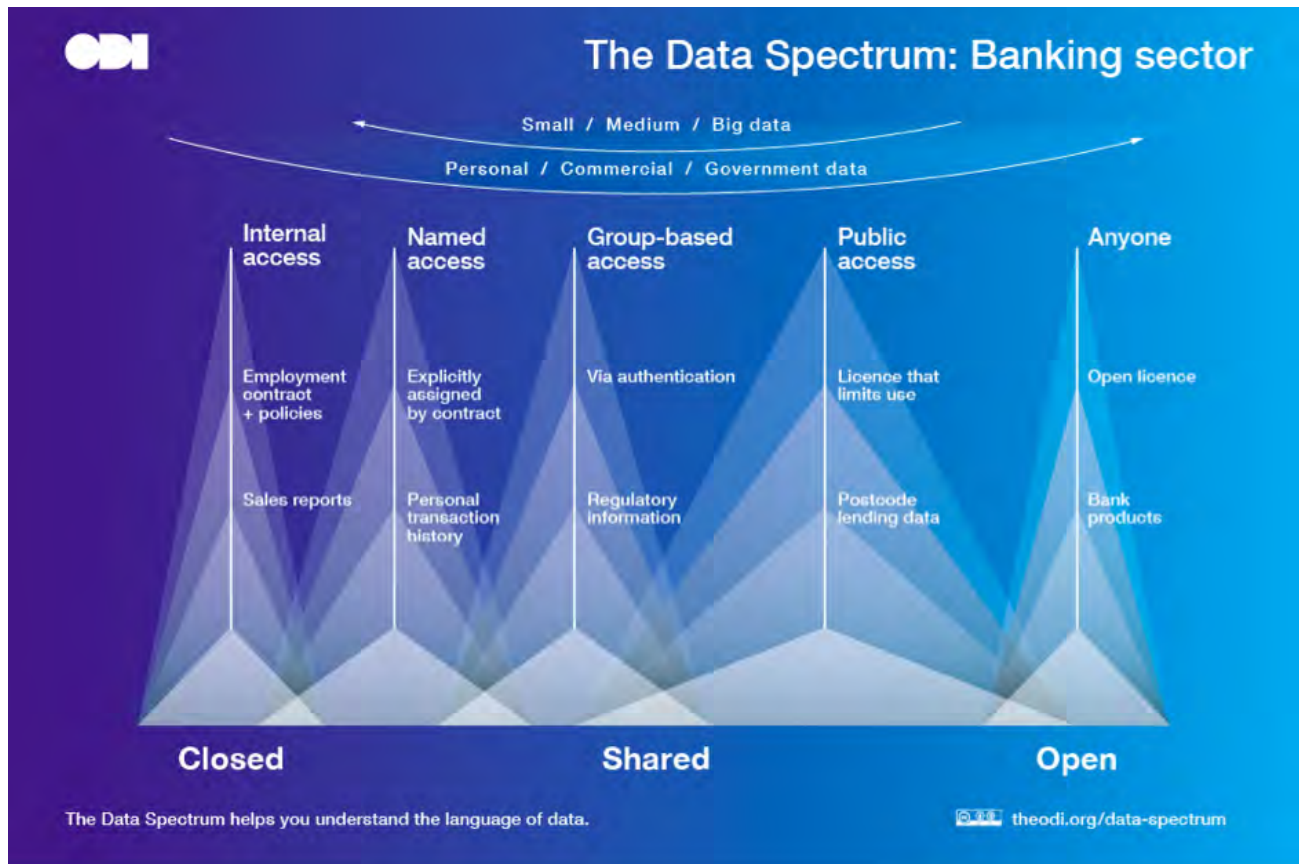
Open Banking is an international movement. Although the UK currently enjoys the leadership position, many other countries are positioning themselves to reap the benefits as well. The other markets at the forefront of this change are Mexico, Australia, and the EU, who all have fledgling and growing movements within their borders to open their financial sectors to greater customer choice and innovation. Other countries beginning their own journeys down this path are the USA, Canada, Malaysia, Singapore, Hong Kong, India, Japan, and New Zealand. The movement is truly global.

These changes are consistent with wider shifts across society towards transparency, data standards, and sharing. The benefits of Open APIs in the financial sector are not limited to just Open Banking, and other sectors are opening up their data as well. For reasons both similar and diverse, Open APIs are gaining steam in energy and utilities, telecommunications, and more. As more sectors create these APIs using open data, the value that organisations in the customer acquisition and onboarding space can bring to their customers increases too.



More than ever, financial service providers, from payment services to customer acquisition and onboarding specialists, need to be at the forefront of this new space in the digital revolution. They need to capitalise on

the wellspring of data now available given the changing landscape of permissions and opportunities now available with Open Banking.



The Data Spectrum for banking helps you to understand the language of data within the banking sector. Download The Data Spectrum at <https://theodi.org/about-the-odi/the-data-spectrum>

Background

What is Open Banking and PSD2 and what does it all mean?

The term Open is being heard a lot these days. People in the technology community will recognise the term 'open software' that started appearing decades ago, and now those guiding principles are seeping into the wider society. An example of this include Open Government, the belief that the way the government and civic life operate should be transparent but also respecting of personal security and privacy to provide the maximum benefit to society. Open Banking follows similar contours, giving greater permission and access to organisations, based on principles of trust, and ultimately to improve the sector and society at large.

Introduced in the UK in 2016, the Open Banking Standard was created to increase competition in what was seen as a stagnant industry - personal and small-medium enterprise (SME) banking. A working group was created with participants from banks, industry groups, and other key stakeholders to implement the standard. The main focus of the group was to understand how to improve the sector by giving customers greater control over the lifeblood of the industry, data. By developing a set of standards, tools, techniques and processes that could safely allow data to be shared more widely, the Open Banking Working Group hoped to use this new framework to boost competition

and innovation in the banking sector. With its implementation, the 9 largest banks were forced to allow their customers to share key account information and payment authorisation with trusted third parties.

At the same time, the European Parliament adopted the revised payment services directive (PSD2). Though not using open standards like Open Banking in the UK, the goals were similarly in boosting innovation and competition in the banking-related payments sector. Ideally PSD2 would make it easier, faster, and less expensive for customers to pay for goods and services, both allowing incumbents to improve their offerings, and providing room for new third-party providers to bring new ideas into the industry. PSD2 requires all payment account providers across the EU to provide third-party access, much like Open Banking, and much like Open Banking this all must be accomplished while ensuring enhanced security and strong customer protection. Though different in many ways, PSD2 is seen as the framework for which national and EU-wide Open Banking schemes will be based upon.

Beyond strictly financial service provision, Open Banking is really about opening up data through secure APIs to inspire innovation off of that financial data. There are many different



types of non-bank organisations becoming involved in this. The FinTech scene has exploded with the possibilities this innovation as afford them, from account aggregation across banks and other financial services, process improvement in customer onboarding

and acquisition, advice and analytical tools and much more. Other sectors are becoming involved as well as telecommunications firms, energy and utilities firms and others all seek to capitalise on the opportunities afforded through Open Banking.

Benefits of Open Banking

How does Open Banking affect the current players in the finance sector?



The benefits that Open Banking brings to the financial sector vary depending on the position of the actor involved. One way to breakdown actors into distinct groups in this sector is to look at customers of banking and other financial services broadly, traditional banks, challenger banks, FinTechs, and finally government and civil society.

Customers

- Greater choice among service providers
- Greater choice among products
- Products better suited to customers
- Potentially decreased prices for products
- Higher quality customer service

Traditional banks

- Greater customer understanding
- Improved “know you customer” (KYC) for security purposes
- Opportunity to increase market share
- Opportunity for cross-sectoral synergies
- Reduced costs for customer transactions

Challenger and digital banks

- Become the platform of choice due to first mover advantage
- Superior customer engagement
- Opportunity to disrupt traditional market
- Opportunity for cross-sectoral synergies

Non-bank FinTech organisations

- Opportunity to create new and innovative solutions
- Significantly increase customer base
- Access to integrated platforms both within and without sectors
- Access to larger marketplaces



Government and civil society

- Improved competition
- Improved consumer protection and benefits

- Improved innovation in society
- Financial inclusion
- Increased tax base

Impact of Open Banking on customer acquisition and onboarding

What do the changes brought on by Open Banking mean for firms customer acquisition and onboarding?

Customer information & KYC

Open Banking create the conditions for the development of APIs available to access customer data directly from their banking institutions, whether this be current accounts for personal banking, or those for SME accounts. This technological advancement allows customer acquisition and onboarding to be accomplished in a much more accurate and frictionless way. Banking and other financial institutions will now be able to properly assess customers better, understanding how best to attract their business through greater knowledge of their financial history. In the case of business banking, information related to business size, industry and location can also be used to provide a better banking experience can be combined for a better relationship. Adding to this seamless onboarding process is the ability for greater automation. This is accomplished by a banks and other service providers using existing consensually shared account information to provide details for a new accounts at new institutions. This reduces time and cost for banks and other financial institutions while improving the overall customer experience.

Through greater information sharing across sectors via trusted sources using Open APIs, banks and other financial organisations are able to access wider information about customers. This broader open data ecosystem is growing to allow permissions to the access of adjacent customer that may impact their relationship with banking and financial institutions. Access to personal and business customer profiles from their energy or telecommunications company, or openly shared geospatial data, gives digital customer acquisition and onboarding organisations the opportunity to incorporate this information into their acquisition and onboarding processes. This not only allows banks with the fullest profile of a customer available, but through a greater data picture of a customer, also the strongest verifiability.

The increase in information available about personal and business customers allows for a significant improvement in “know your customer” (KYC) to banks. Additional banking information verifying customer identity and assessing potential risks is bolstered with this new cross-sector and geospatial information across the open data ecosystem. These extra verification steps, and consensually shared



transaction data provide a significant boost towards anti-money laundering (AML) efforts as well. With a more transparent ecosystem of financial transaction, criminal activity will be easier to prevent and expose, especially given the growing popularity of open banking participation worldwide. FinTechs are currently beginning to even employ AI-based solutions in AML as well. Open APIs for banking are also designed to be as secure and standardised as possible according to the Open Banking regulations. Customer acquisition and onboarding done in this new environment through the Open Banking APIs help guarantee both security and verifiability for banks and their customers.

Customer offerings and journeys

On the customer side of the relationship, the information that they share with organisations in the banking sector can quickly bring them benefits in the form of offerings that make the most sense for them. Customers will quickly be able to be presented with available products that best need their current financial needs, ensuring they receive the most value from the relationship. Banks also have the opportunity to create specific offerings in some cases to optimise value for customer and institution alike. New challenger banks and non-bank FinTechs have been capitalising on these product and service creation opportunities more so than the large banks. New products are being created for personal bankers broadly, but the opportunities exist for SME-targeting products based on numerous criteria such as industry, location,

and transaction type that has never been easier to access. This improvement in offerings from different financial organisations can be leveraged by organisations involved in customer acquisition and onboarding by being the interface that guides this improved customer journey.

Personal and business customer journeys in the age of Open Banking can capitalise on the release of specific information that banks must now disclose. Journeys can incorporate product prices, all bank charges including interest, features and benefits, terms and conditions, and customer eligibility. Reference information such as all branch and business centre locations, all branch opening times, and all ATM locations is now freely available in the open data ecosystem to be used in the customer acquisition and onboarding process as well. This wider open data ecosystem can improve customer journeys even more by accessing geospatial data, Open APIs from industries related to banking and payments such as telecommunications and other utilities, and open government data more broadly. Personal and SME banking customers should look for the services allowing them to connect across various banking institutions and FinTechs, as well as connecting their banking and finance activities more broadly to other industries such as utilities and telecommunications.

These improvements in customer offerings and customer journeys also extends beyond banking into the realm of credit reference agencies and other financial institutions. The use of secure Open APIs for banking, paired



with the broader open data ecosystem, allows personal and business banking customers to more quickly receive credit reference checks, loans, and other non-bank activities related to their financial information. New opportunities exist for customer acquisition and onboarding organisations to partner with credit reference agencies, and other types of non-bank organisations to provide improved customer journeys across the open data ecosystem.

Account switching

In a modern finance system, personal and business customers have relationships with numerous organisations. This could be having accounts across multiple banks, being customers of non-bank financial entities, or using financial information in a different sector of the economy. New customer acquisition, like its counterpart, customer loss, is a necessary part of the continuous customer journey cycle that all participants experience. With Open Banking making the playing field more transparent this fact has never been more important.

This opportunity will be capitalised on most by AISPs that have been granted permission to access customer accounts and view their available information. These organisations will be able to potentially identify or help banks offer better deals to customers. Financial technology firms are already providing the platform to allow customers to switch accounts for better deals with competitors, though so far there has been less of this than expected. However, as the Open Banking mandate expands outside the big 9 banks,

and begins involving more complex products such as savings accounts and credit cards this is expected to increase.

Organisations providing customer onboarding and acquisition services need to keep an eye on this aspect of Open Banking. Though currently this has not been the major activities in Open Banking that was predicted, the potential exists now and even more so on the horizon. Partnering with FinTechs currently providing account switching services, or becoming a platform to facilitate this possibility will make them the key facilitator of this particular aspect of the customer journey.

Consent management

A principal tenet of both the Open Banking movement and wider society is the concept of the rights that individuals and organisations have over data about them and others. Whether this is formalised in the European Union's GDPR, or Australia's Consumer Data Right, it pervades most aspects of the digital economy. The chief mechanism for the opening of the value that these rights safeguard is through consent. With the introduction of Open Banking, organisations see the value in innovating the existing forms of consent management.

Financial information users require access to their customers' bank transaction data. Providing consent management to customers during their sign up journey allows them a more efficient process to allowing service provider access to their financial information, while retaining control and security of the operation. Consent managers collect data,



provide visibility into what data is being accessed and helping control access in the future. Once given consent, customers can control and monitor those consents, and manage multiple consents in one place.

Given the importance of consent management with both personal and SME banking customer journeys, organisations involved in customer onboarding and

acquisition can connect into this process. This can be done through partnerships with consent management providers, or through incorporating consent management into the customer acquisition and onboarding process itself. Regardless of the method it is done, combining these two process in one place with deliver additional value to customers.



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Conclusion

Open Banking is already starting to bring about data-driven change in the financial sector, greatly improving the activities of customers of both personal and SME banking services as they provide their data more freely to trusted third parties. Greater competition, choice, and innovation emerge as providers of financial services work in partnership with FinTechs to provide new solution to benefit all types of customers.

These changes are international, the UK leads now, but up-and-comers such as Mexico, Australia, and others are changing policy to capitalise on this trend as well. This is also consistent with wider shifts across society towards transparency, data standards, and sharing that echo in other industries such as telecommunications and utilities. Financial service providers from customer onboarding and acquisition, to account and platform aggregation, need to ensure they are ready to take advantage of the changes happening from Open Banking.

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