

Open Banking World Series

Edition 1: UK and Ireland

Ready for the revolution

June 2019



NUAPAY

Nuapay, a Sentenial company

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Introduction

More than just
words?

Open Banking has received much publicity and hype since it was first muted some 5 years ago. The concept is big on promise. As the Open Banking Implementation Entity (OBIE), a UK standards agency, proudly explains: “Open Banking has the power to revolutionise the way we move, manage and make more of our money”. Or as PWC forecast “Open Banking will shape the future of UK retail and commercial banking”.

But what is the reality? Nearly a year and a half has passed since PSD2 became law, providing ample opportunity for the market to have swung behind the initiative. Has anything of substance actually happened or is Open Banking more words than action?

Open Banking impacts two aspects of financial services provision: introducing a new way to pay and putting customers in control of the information a bank holds about them.

In turn, Open Banking based payments offer considerable benefits for merchants as they have the potential to deliver lower costs, speed up the process of receiving the funds from their customer and greatly reducing, if not completely eliminating fraudulent transactions. There are also many benefits for consumers including ease of use and removal of the fear of account take over.

With respect to the use of data held by a bank, customers can now, under their control, share any aspect of that data electronically with third parties in real time.

Already there have been some encouraging signs of this technology being deployed. Banks including Barclays, HSBC, Lloyds and NatWest have all introduced Open Banking based apps that allow their customers to view the details of accounts held at other banks. Another example gaining traction is the speeding up the process of a mortgage or loan application by using Open Banking mechanisms to eliminate the need for paper in the associated affordability checks.

But despite this, the views of many observers is that Open Banking has been slow to take off. Public awareness is low. Just one in four people have heard of Open Banking, and only one out of five know what it means. The pace of change has been slow. As a result, in April 2019 the Competition and Markets Authority [CMA] issued enforcement directions to five of the UK’s nine major banks which had not delivered all aspects of their app-to-app functionality.

Is Open Banking just meeting the needs of niche markets, or will Open Banking prove to be the revolution that’s only just starting to show its colours? At Sentenial, our conversations with customers and other market stakeholders have led us to believe that Open Banking is about to change up a gear in the UK. From a payments perspective this is in part driven by the growing demand seen from merchants keen to benefit from Open Banking services; and where demand is present, supply is seldom far behind.

To test this hypothesis, in April and May 2019 we commissioned Censuswide to survey 100 senior finance, payments and product professionals from industries including commercial aviation, supermarket retail and the subscription economy. The following report presents back our findings. As you will see, the understanding of and demand for Open Banking from businesses is far greater than expected, suggesting the time has come for banks and PSPs to walk the talk.

¹ Open Banking, Open Banking March Highlights, April 2019 <https://www.openbanking.org.uk/about-us/news/open-banking-march-highlights/>

² PWC, Insights, <https://www.pwc.co.uk/industries/banking-capital-markets/insights/open-banking-shapes-future-uk-retail-commercial-banking.html>

1.

Merchants spy opportunity in Open Banking

Consumers know little about Open Banking. Ask a person on the street whether they've heard about the initiative and you're likely to be met with a blank stare. This has been raised by commentators as a general inhibitor to the uptake of Open Banking. However, consumers are often not worried about underlying technology, and instead just look for something that makes life more convenient. Take the UK Faster Payments scheme as an example of this, processing payments for individuals for over 10 years but users will not know the name.

The good news, however, is that businesses and merchants appear to be well aware of Open Banking – what it is and the considerable benefits it offers both them and their customers.

In our survey, only 11% of respondents admitted that they have not yet assessed the impact Open Banking will have on their organisation. Moreover, only 2% were of the belief Open Banking would have no impact – the remainder demonstrated a good understanding of the full range of benefits unlocked by Open Banking (see Figure 1).



Reduction in transaction fees



Direct settlement to bank



Improved access to loans

Figure 1: The top three benefits of Open Banking for merchants

Over half of the merchants surveyed are clearly aware that the cost of processing an Open Banking payments will be much less than the cost of existing options. Merchants will also benefit from getting their money more quickly, in the UK Open Banking payments rely on the Faster Payments system

³ FT, Open banking: the quiet digital revolution one year on, January 2019 <https://www.ft.com/content/a5f0af78-133e-11e9-a581-4ff78404524e>

⁴ Finextra, CMA chides big banks for Open Banking delays, April 2019 https://www.finextra.com/newsarticle/33658/cma-chides-big-banks-for-open-banking-delays?utm_medium=newsflash&utm_source=2019-4-9&member=105027

to move money, meaning that the merchant can have cleared funds within a few seconds of completing the transaction. With the improved customer experience there will also be fewer checkout abandonments thus increasing sales conversion levels, particularly with the trend to mobile commerce.

Apart from the actual transaction fee the merchant will also benefit from the reduced overhead needed for card processing of providing layers of security. In this Open Banking environment the merchant has no access to sensitive data about their customers' banking so nothing to store, nothing to encrypt and nothing for hackers to steal.

Importantly, merchants not only understand the advantages for themselves but also have a strong grasp of the knock-on benefits to their end customers (see Figure 2). Chief among these were the closely connected benefits of greater control (68%) and improved customer experience (51%).

These findings are important because they demonstrate that merchants see Open Banking as an enabler for improving customer experiences – one of the key competitive battlefields of today (indeed, 87% of the people we spoke to said customer experience is important to their business). Organisations that can provide simple ways for merchants to deliver against the customer experience imperative will be seen as highly valued commercial partners.

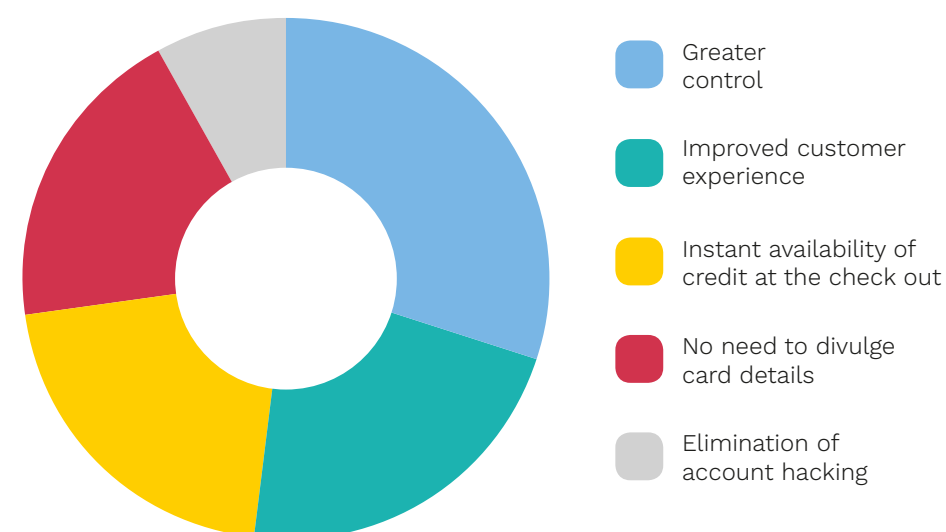


Figure 2: The main benefits of Open Banking for customers according to merchants

OPEN BANKING

The wheels on Open Banking are beginning to gain momentum. Sentenial's research confirms our view that merchants are embracing the benefits that Open Banking enabled payments can bring. We expect to see momentum ramp up considerably in the second half of this year, with some really exciting services and partnerships hitting the market, ultimately helping people move, manage and make more of their money.

Huw Davies,
Premium API Director, Open Banking Implementation Entity

Key takeaway #1

Merchants are primed for Open Banking and ready to use it to drive efficiencies and effectiveness in their own businesses while enabling more compelling experiences for their customers.

2.

The tipping point approaches... fast

There's a difference, of course, between understanding something and acting on that understanding. So, are merchants actually taking any steps to rotate towards Open Banking services?

Our survey answers this question with a resounding 'yes'. Not only are a combined 79% of the people we spoke to certain that their company is planning to use Open Banking services and are ready to do so, a further 19% are planning for Open Banking, but do not believe they are quite ready. Only 2% said they had not considered using Open Banking in their organisation.

So, how long will it take for the businesses that are only at the planning stage of their Open Banking journey to catch up with the early movers? If our survey is anything to go by, not long at all (see Figure 3).

The early movers certainly encountered teething problems with the initial implementation, particularly with payment processing, but these have now been resolved clearing the path for organisations to start to realise the benefits offered by Open Banking.

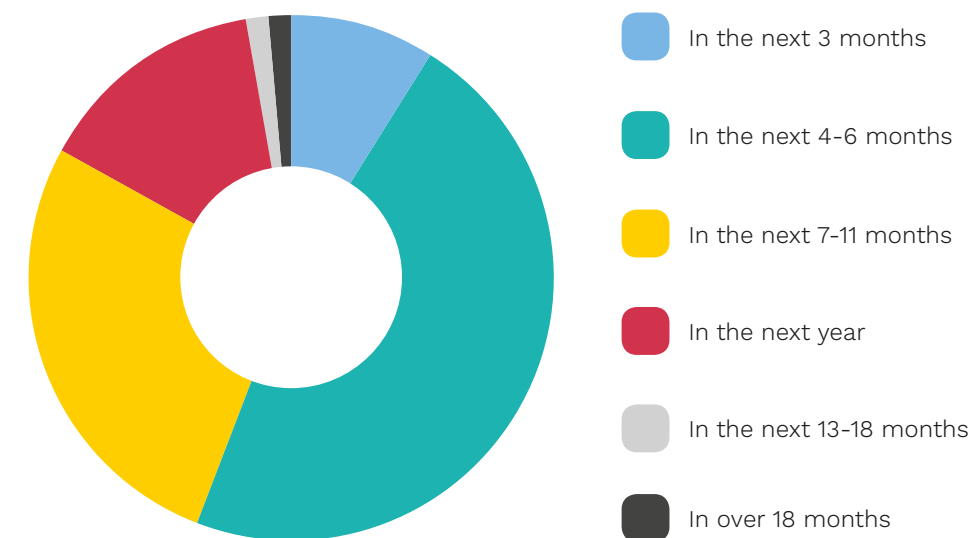


Figure 3: Timeframes within which merchants are looking to implement Open Banking initiatives

This bullishness extends to the success with which respondents believe their Open Banking initiatives will be rolled out. 86% of the people we polled that are rolling out Open Banking or are considering its use say they are 'very' or 'somewhat' confident that they will realise the opportunities of Open Banking in their organisations.

Significantly, organisations see Open Banking functionality providing opportunities right across the enterprise, and are looking at initiatives to improve efficiencies in everything from finance (77%), marketing (59%), operations (47%) and product (43%).

The confidence with which merchants are approaching Open Banking is high despite the fact that 76% believe implementing it will be a challenge. Additionally, many respondents perceive some level of risk associated with the use of Open Banking processes such as security (71%), data protection (56%), lack of take up (54%) and the rise of hacking (38%).

Much of these worries can be put down to the newness of the processes together with a raft of spoiler blogs and articles that circulated around at the time of the introduction of Open Banking. Needless to say there has been much thought given to all of these points with Open Banking set to deliver an environment that is free from fraud and where no sensitive data is left lying around for hackers to find.



Merchants are actively exploring the possibilities of Open Banking. With this in mind the onus is on solution providers to support these initiatives and help merchants them overcome the perceived challenges associated with Open Banking.

**Charles Damen,
SVP Payment Strategy, Worldpay**

worldpay

Key takeaway #2

Businesses of all types are moving to adopt Open Banking. They have a realistic understanding of the challenges involved and are nonetheless pressing ahead with the rapid rollout of Open Banking initiatives across their businesses. This represents a significant opportunity for financial institutions, PSPs and technology providers to capitalise on this demand.



3.

The partnership ecosystem

One of the intentions of PSD2 and Open Banking is to enhance competition within the banking sector and provide more choice to consumers when it comes to the way they pay. Our survey suggests that the legislation is having the desired effect and merchants are looking to a range of potential partners to enable new payments services.

Over a quarter of the businesses we spoke to that are either using Open Banking or considering its use are already actively discussing the Open Banking opportunity with external partners and suppliers (29%). A further 69% are planning to do so.

And whilst many are looking towards traditional suppliers for support in realising Open Banking opportunities; such as banks (70%) to gateway providers (63%) and merchant acquirers (55%), there is a definite trend towards enlisting the services of companies that have developed specific expertise in Open Banking.

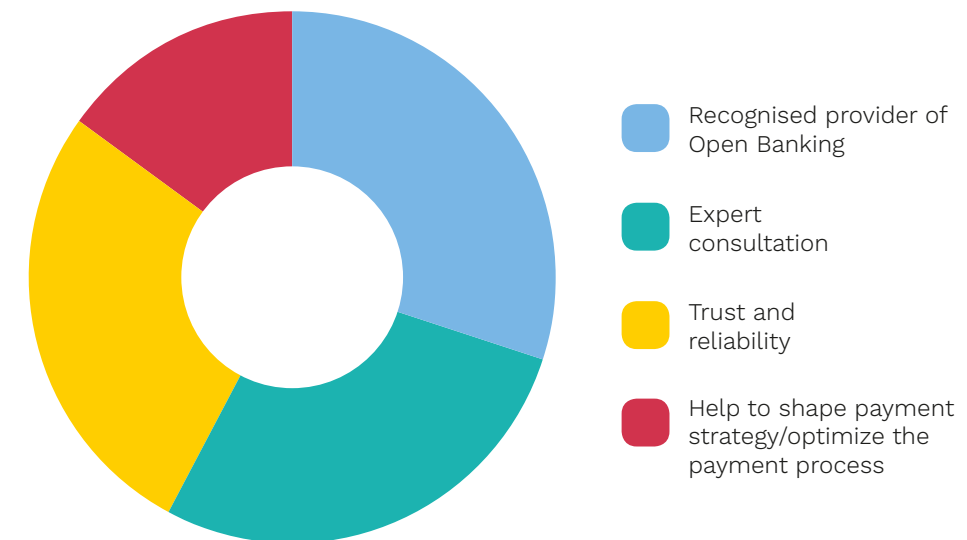


Figure 4: What merchants look for in partners/suppliers when it comes to realising the benefits of Open Banking

Key takeaway #3

If merchants are not already talking with potential partners and suppliers around Open Banking, then they are about to do so. Now is the critical time for financial institutions and PSPs to get their Open Banking services out in the market so they can deliver compelling experiences for their customers.



Conclusion

The quiet
revolution gets
noisy

If Open Banking in the UK has been something of a slow burner to date, our research suggests that when it comes to demand from organisations of all types the conditions are set for it to catch fire. The results demonstrate that businesses' understanding of Open Banking is advanced and that many are planning to have initiatives up and running within months. As merchants make their preparations, they are beginning to reach out across the financial sector to make new partnerships and find the suppliers they need.

While consumers' understanding of Open Banking no doubt lags that of businesses and merchants, there's no denying that they love exceptional experiences, and that as soon as Open Banking propositions become more widely available delivering convenience, ease of use and security, consumers will be quick to adopt the services.

As with anything new, there has been some time spent understanding how the processes work and what is possible but now the stage is set and the actors know their lines. Let's look forward to a revolution in the way we pay and the way we manage our finances.

About Sentenial/Nuapay

Sentenial is a pioneer of Open Banking and is the industry's leading provider of Account-2-Account payment solutions. We securely process over €42bn every year delivering services directly to businesses of all sizes as well as being an outsourcing provider to many of the world's leading Banks.

Nuapay, a subsidiary company of Sentenial, is licenced by the FCA as a Payment Institution with the ability to provide accounts to businesses, process payments and deliver Open Banking functionality. Using the full scope of its licence, Nuapay has developed fully integrated products that extend the benefits offered by Open Banking and simplify the process of deployment.

Today, we offer partners a fully comprehensive, integrated payment solution that removes all traditional banking inefficiencies and unnecessary costs, saving you time, money and resources at every turn. This is banking as it should be.

About the report

The research was conducted by Censuswide, with 100 CFO, Financial Director, Head of Payments, Head of Product, Chief Product Officer in the following sectors: airlines, supermarkets, subscription economy in the UK/ROI between 03.05.2019 - 10.05.2019. Censuswide abide by and employ members of the Market Research Society which is based on the ESOMAR principles.



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