

Open Banking World Series

Edition 2: UK Consumer Report

**Consumers looking for better
payment choice**

December 2020



NUAPAY

Nuapay, powered by Sentinal

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Introduction

UK Open Banking launched to much fanfare in January 2018. But initial adoption and use by consumers remained low. Early services had challenges: poor user experience, inconsistent and unreliable service from the banks, and lack of consumer understanding all meant challenges for both consumers and third party service providers in delivering the much spoken about value of Open Banking.

Specifically in payments, the ramp up has been even slower. Despite strong demand and interest from merchants, the reliability needed to support payments was not available, and many merchants were concerned about the low potential customer adoption. In January 2020, two years after UK Open Banking went “live” there were only 385,000 API calls.

In 2020 though, Open Banking looks like it has turned the corner, with some significant developments across the industry.

Firstly, the consumer experience has now been supercharged. All major UK banks now offer an “In-App” mobile authentication journey, meaning consumer can authenticate and pay using the biometrics on their mobile device. API reliability has also improved. In July 2020, the major banks provided 99.25% availability, with 99.12% of all API calls successful, meaning consumers can now use the services with confidence.

Secondly, a number of notable merchants are now going live with Open Banking payment solutions, particularly in the financial services sector. These “halo” type merchants are leveraging the power of Open Banking payments to enable their customers to pay in a fast and frictionless manner. With the consumer brand and trust they have, they are able to quickly drive use and adoption of the payment option within their customer base.

And lastly, use of Open Banking has started to become more wide spread amongst consumers. UK Open Banking Implementation Entity (OBIE) announced that Open Banking had hit the 2 million users mark in September 2020, and payment API calls having grown by more than 300% from January 2020 according to the OBIE.

But despite these developments, consumer awareness of Open Banking remains low. Uptake (or lack thereof) by consumers is perceived by merchants as one of the biggest barriers to the successful integration of Open Banking into a merchant’s checkout options. The current growth in the Open Banking ecosystem is being driven by a handful of successful payment use cases. The question remains as to when and what will trigger the broader adoption of Open Banking payments by consumers.

This report, based on a survey of over 2,000 UK consumers in September 2020, explores consumer perceptions on payment methods, and outlines willingness to adopt Open Banking payments in various use cases and situations.

About the research

The research was conducted by Censuswide, with 2,028 consumers in the UK surveyed. The fieldwork took place between 09.09.2020 - 11.09.2020. Censuswide abides by and employs members of the Market Research Society which is based on the ESOMAR principles.

The survey examined consumer behaviours towards payments in general, and in particular payments in the following 12 sectors: Everyday Retail (e.g. groceries); Fashion Retail; Large Ticket Retail (e.g. furniture, appliances); Flights; Package Holidays; Financial Services; Insurance; Utilities; Education; Government; Charities & Gaming.

1. Consumers demand better security in their payment methods

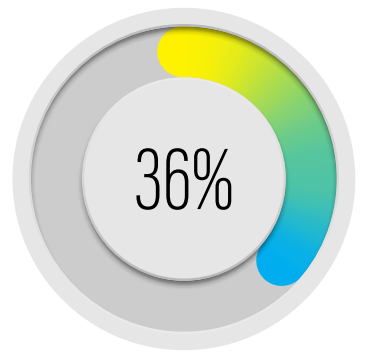
Payment security is critical for consumers

Consumers, rightfully, demand strong security from their payment methods. They want confidence that their transaction and payment credentials won't be compromised, putting them at risk of fraud or unauthorised transactions. For online payments, 58% of consumers list security as their biggest concern – ranking higher than any other factor – while for in-store payments, 38% of consumers still list security as their biggest concern.

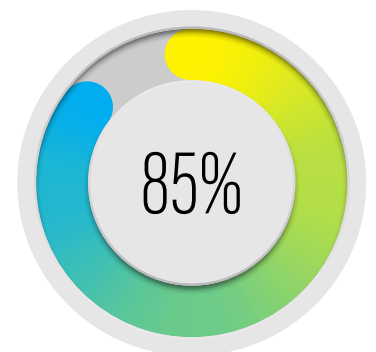
Concerns about the security of payments have implications for the way that consumers behave and pay.

Merchants will lose sales opportunities if they can't present secure payment options for customers. For example, 36% of consumers have refrained from buying goods or services from a particular online merchant because of concerns about payment security. Furthermore, only 15% of consumers will always store their payment card details with a merchant for easy checkout, while 23% of consumers claim they are never willing to store such details. This is due to concerns about the security of their payment credentials and personal information, as well as a lack of trust in the merchant to handle the stored card details appropriately. If merchants aren't missing out on sales opportunities because of this, at a minimum it means it is harder for customers to make repeat purchases, reducing a consumer's stickiness with a merchant.

Security concerns are not just an issue in the online payments world, but in the instore environment too. 52% of respondents have never used their phone to make a contactless payment, with the primary reason for not doing so being concerns about storing card data in the device. This stops consumers being able to leverage the benefits of biometric authentication on their device (and the

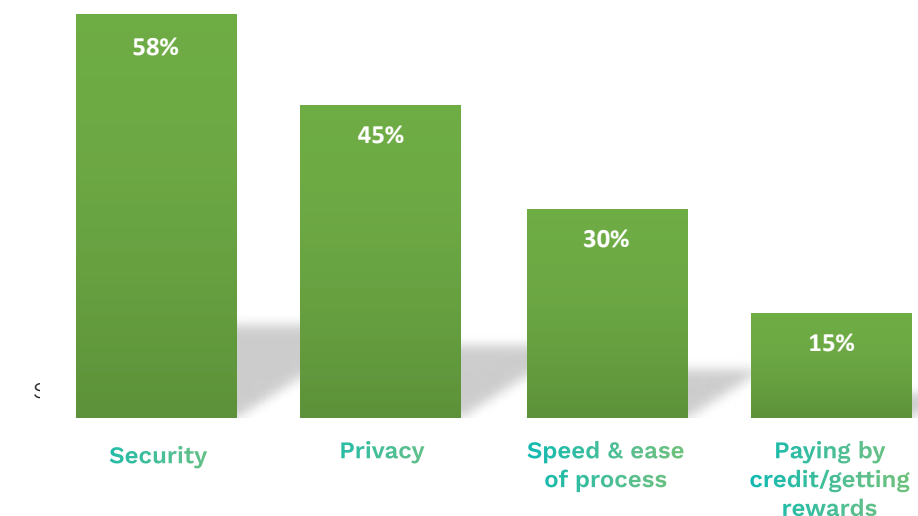


Consumers who have refrained from buying something online due to concerns about payment security.



Consumer who won't store their card details with all merchants

Concerns when paying online



² UK Finance Fraud – The Facts 2020, <https://www.ukfinance.org.uk/system/files/Fraud-The-Facts-2020-FINAL-ONLINE-11-June.pdf>

Consumer concerns about security are not unfounded.

Payment methods present security risks

Payment fraud is high. The UK's most ubiquitous payment method, cards, suffers from ongoing challenges from fraudulent payments stemming from stolen card details and poor merchant processing practices. Our consumer research found that, in the last 6 months alone, 12% of cardholders claim to have had a fraudulent or unauthorised transaction on one of their payment cards.

UK card fraud has been trending up over the last decade. Total losses from card fraud in the UK reached £620M in 2019 according to UK Finance⁽²⁾. This equates to 7.5p for every £100 spent in the UK.

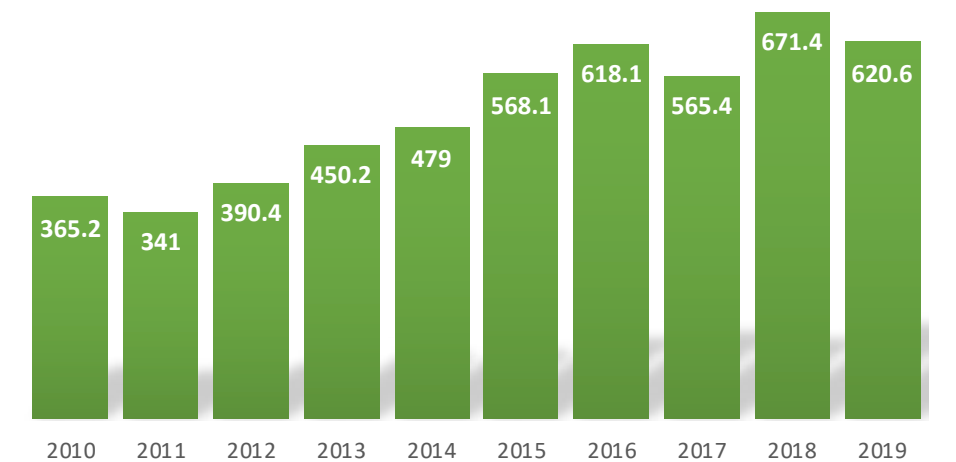


Total losses from card fraud in the UK reached £620M in 2019.”

According to the study, the vast majority of the fraud in the UK – about 75% - comes from card not present fraud. This is where stolen card details are obtained, i.e. from a data breach on a merchant site, and used to purchase items online. This accounted for over £470M in fraud losses in the UK in 2019. Another recent report, Dark Market Report by Armor, highlights how inexpensive it is to buy cloned card details on the dark web to carry out this type of fraud ⁽³⁾. The research shows UK Visa and Mastercard details sell for between £11.50-15.00 online.

These fraud costs (losses) could be avoided if a consumer wasn't required to share their card details with a merchant just to make a payment.

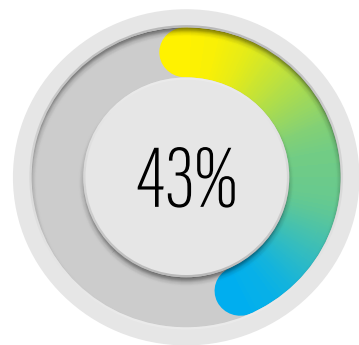
Annual losses from payment card fraud in the UK (£M)



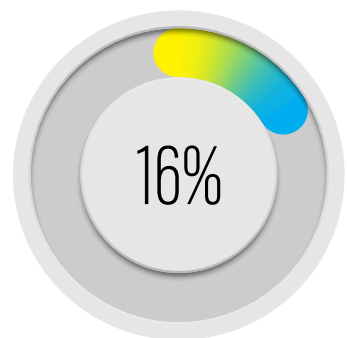
³ Armor, Dark Market Report: The New Economy, <https://www.armor.com/resources/the-dark-market-report/>

Key Takeaway

Consumers are concerned about security with their payment methods, and this impacts their propensity to make purchases online.



Consumers who say 3DS 'takes time and adds complexity'



Consumers who say 3DS puts them off paying by card

Are card schemes doing enough?

It seems payment cards have still not implemented additional payment security measures to address the risks with fraudulent transactions. This is despite the European Union introducing new rules for payment cards requiring Strong Customer Authentication (or SCA) to be used (initially to be implemented by September 2019, and now extended until as late as March 2021).

With the final implementation deadline looming many consumers are yet to see the use of SCA for their online card payments. According to the research, only 39% of consumers claimed to have needed to use SCA to make a payment via card online – a low number for late 2020.

The challenge for payment cards is the full introduction of SCA may only cause greater challenges. Only 40% of those who had used 3DS (the card schemes solution for SCA) described it as “seamless and easy”. On the flip side, 43% said it “takes time and adds complexity”, while a further 16% said that it is “painful and annoying” and “puts them off paying by card”.

Furthermore, recent analysis by CMSPI ⁽⁴⁾, a payment consultancy business, found 24% of online card transactions could fail if 3DS was introduced with a cliff edge. Failure rates that high would cause significant lost sales for merchants, not to mention causing mass consumer frustration.

⁴ CMSPI, SCA Impact Assessment, September 2020

Plastic cards have biosecurity risks too

In a post Covid world, biosecurity is expected to become a more pertinent concern for consumers. Surprisingly plastic, payment cards don't stack up well here.

A research study by LendEDU ⁽⁵⁾ in May 2019 found that cards were in fact the dirtiest payment method of those studied, having an average germ score of 285. This compares to 160 for cash and 136 for coins. This is likely a result of their constant use, passing through multiple hands or being left on tables and bar counters. Equally, while the contactless limit has been increased in the UK, consumers still need to use PIN pads for a large number of transactions, a prime opportunity for the spreading of germs.

Consumers are now conscious of the risks of germs. The consumer research found that 42% of payers were concerned about the germs on payment cards. As payment methods and choices rapidly evolve, there may be a further evolution away from plastic cards, in favour of touchless payment solutions.

“42% of payers are concerned about the germs on payment cards.”

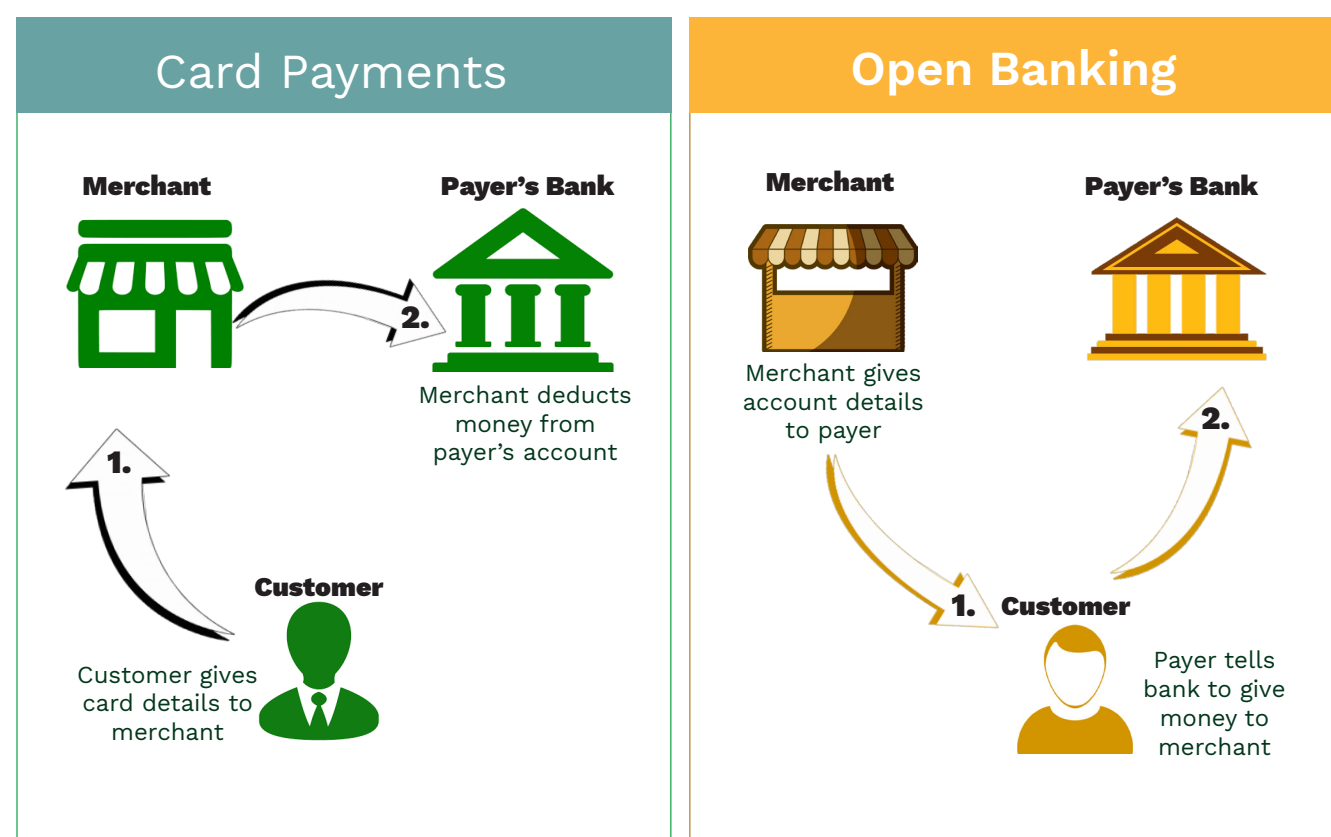


Consumers deserve a better option

Consumers and merchants both deserve better. They deserve a secure payment solution which doesn't require a payer to share their details, which enables a customer to complete SCA in a seamless way, and has low levels of fraud.

Open Banking payments have some fundamentally different security design features compared to payment cards.

Open Banking is designed as a push payment – that is, customers go to their bank and push a payment from their account to the merchant. This is the reverse of card payments. With card payments, a customer gives their card details to a merchant, who then goes to the payer's bank and pulls the money from the consumers account.



Push and pull illustration, highlighting a card payment where the merchant pulls money from the customer's account vs an open banking payment where the customer pushes a payment from their bank account to the merchant.

With Open Banking, consumers authorise the payment using their existing internet or mobile banking log-in credentials, directly into their normal mobile banking interface. In many cases, this authentication and authorisation of a payment is done using biometrics in their banking App, providing a seamless user experience. Importantly, no account credentials are ever shared with the merchant under this model, significantly reducing the risk for payer and merchant.

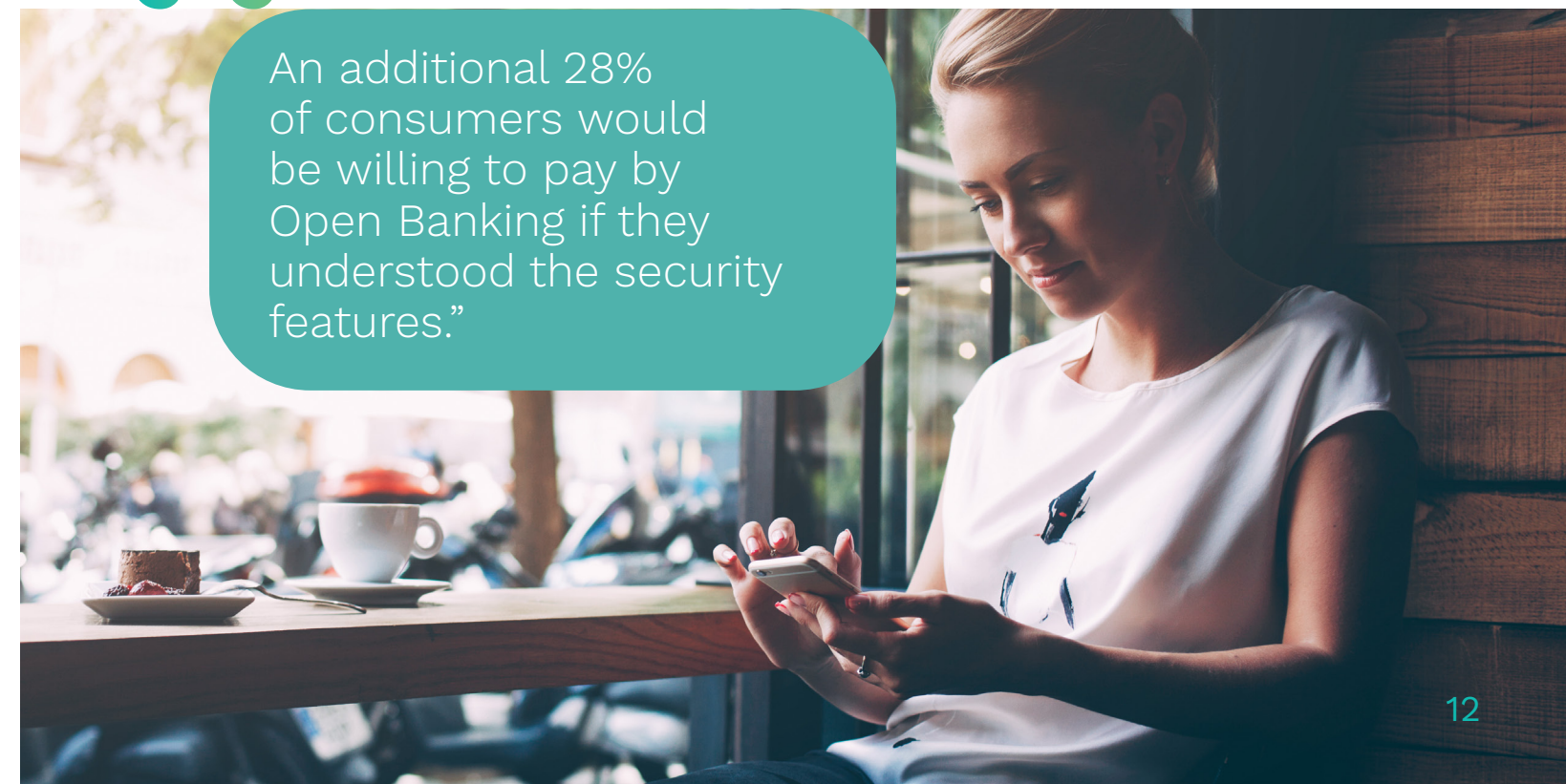
While these benefits are well understood by those in the Open Banking and increasingly the merchant community, these security benefits are not always understood by consumers. 32% of consumers that wouldn't be willing to pay via Open Banking said this was because they "don't want to share" their account credentials with the merchant – a complete misconception given the fact that Open Banking under PSD2 is inherently designed to avoid credential sharing.

This is the challenge of Open Banking providers to overcome.

Providers must communicate effectively with potential payers, explaining how the payments work and, most importantly, how they are authorised securely. If providers and merchants can overcome this challenge, then adoption will likely accelerate. Our research revealed an additional 28% of consumers would be willing to try making an Open Banking payment if they understood more about the security features of Open Banking.



An additional 28% of consumers would be willing to pay by Open Banking if they understood the security features."



⁸ LendEDU, Dirty Money, <https://lendedu.com/blog/dirty-money-credit-cards/>

2. Convenience drives payment choice

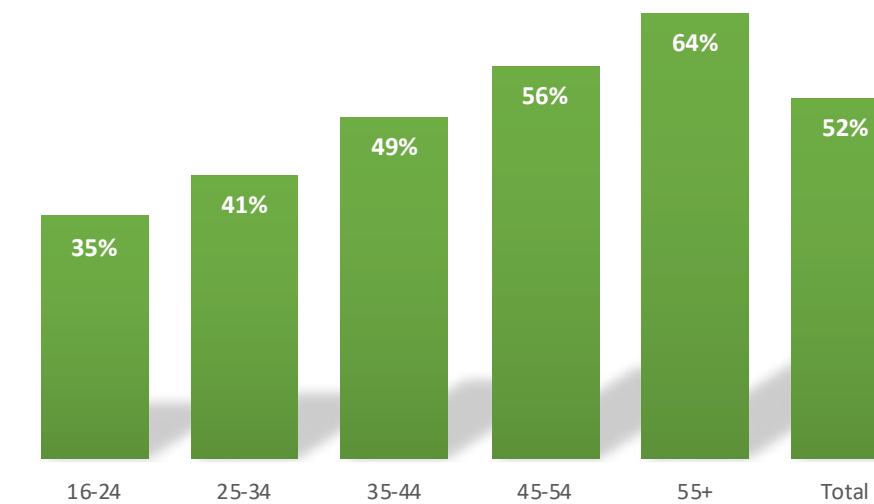
In today's "always on" hyper-connected world, we are all becoming accustomed to having everything at our fingertips, accessed instantly from a mobile device. Is it any wonder then, that when consumers select their payment method, convenience and ease of payment is the number 1 driver impacting their choice.

Convenience & ease of use is number one

While security rightfully ranks as the highest concern of payers, when it comes time to pay they choose the payment method that provides convenience and ease – 52% of the time payers say this is the factor driving their choice of payment option.

This is consistent across all consumers, although most pronounced for the older age groups. Convenience is the reason behind choice of payment method for only 35% of payments for those in the younger age groups (16-24 years) growing to 65% for those in the older age groups (55+).

Consumers indicating 'Convenience / Ease of Use' is reason for preferred payment method - By age group



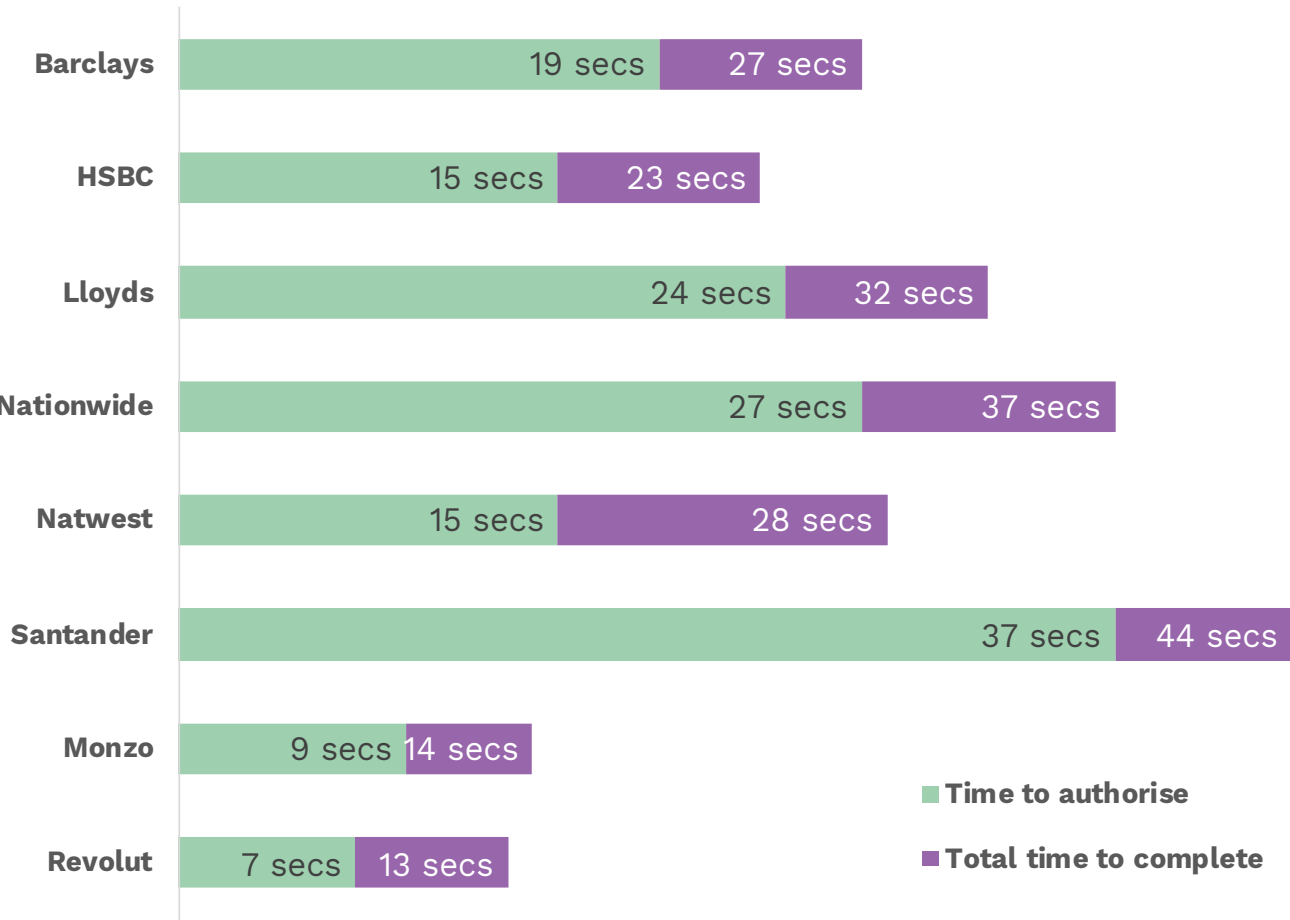
Equally, convenience is typically the number one driver across all sectors tested in the consumer survey, albeit it varies by sector. Convenience is most important in the Everyday Retail and Utilities sector where it drives the payment choice for more than 3 out of 5 consumers, while less so in Education and Gaming payments where it is relevant for only 33% and 37% of payers in those sectors respectively.

Open Banking can deliver fast, convenient payments

An element of convenience and ease is speed to make a payment. For mobile first, digital savvy consumers,, the ability to pay and checkout quickly can be critical. Nearly 50% of respondents have lost out on goods or services, for example concert tickets or special sale items, because the payment process took too long.

Open Banking performs well on the speed front. Data from Nuapay transaction processing demonstrates how quickly consumers can pay on their mobile device. While it varies significantly by provider, payments can be authorised in as little as 7 seconds with the bank challengers (Revolut), while customers with the CMA 9 banks can authorise a payment, including SCA, in as little as 15 seconds with HSBC and Natwest.

Time taken for Open Banking payments - minimum transaction time by UK ASPSP

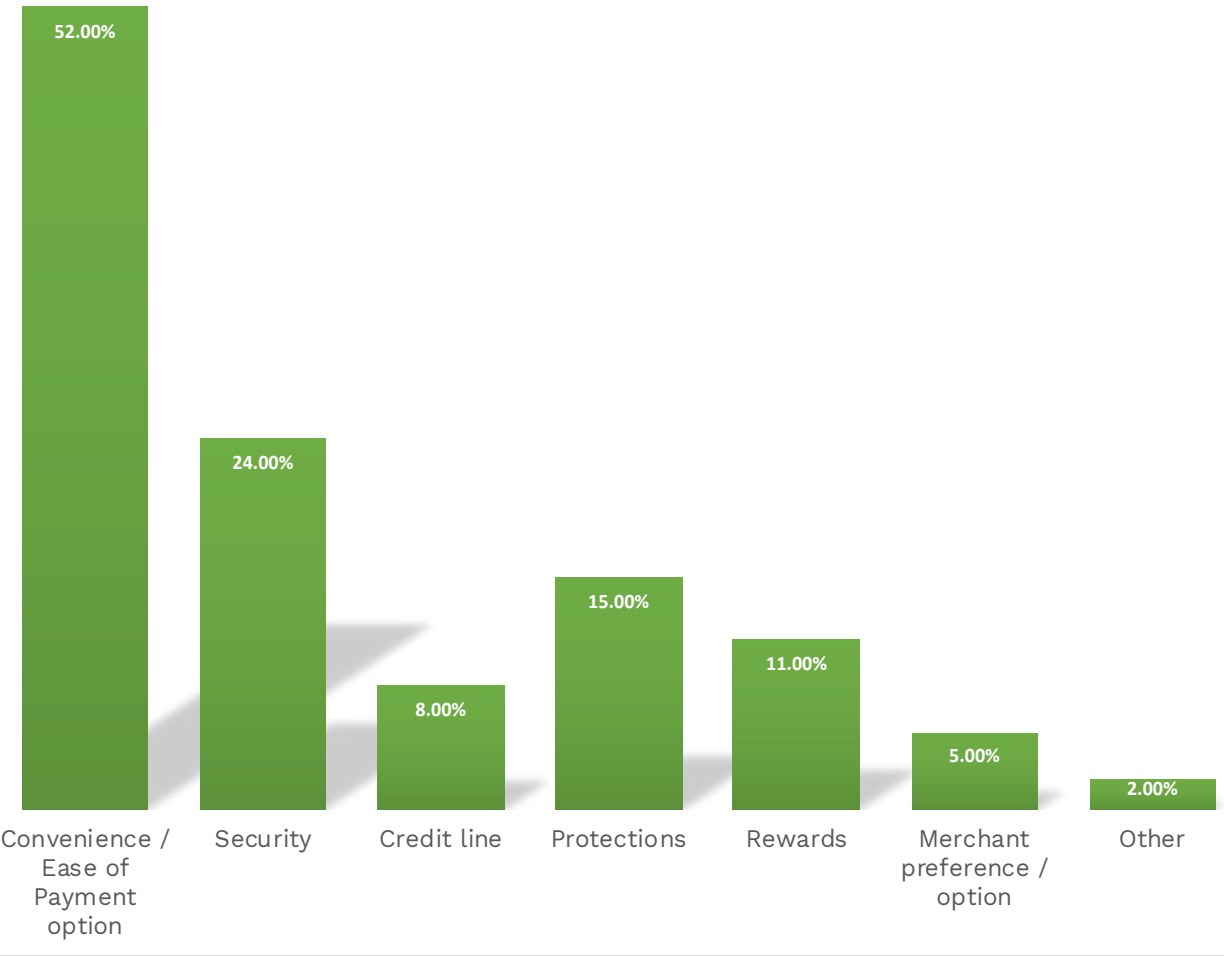


Note: "Time to authorise" measured from the time payment commences with Nuapay until payer's ASPSP notifies Nuapay authorisation is complete. "Total time to complete" measured from point payment commences with Nuapay until funds are received in merchant's payment account at Nuapay, including authorisation time. Timing will vary depending on a range of factors including payer's device, internet connectivity, and authentication settings with the ASPSP.

But it isn't always about convenience

While convenience is a key driver for most consumers, it is not the only driver, with security, reward or loyalty points, ability to use a credit line, and consumer protections all driving a payers choice of payment method.

Reason for payment method choice



Note: Consumers had option of selecting multiple options if appropriate.

Reward points are particularly important for purchases of Groceries (Everyday Retail), Fashion, and Flights.

Credit is particularly relevant in the younger age groups. Those in the 25-34 age bracket said the ability to use a credit line was the reason for their preferred payment method 15% of the time – this drops down to only 3% for those in the 55+ age bracket.







While 15% of payers said the consumer protections offered by card schemes were a driver of their payment method, this varies significantly by industry. Unsurprisingly, this is most relevant for Flights and Package Holidays, where more than 1 in 4 payers (29% and 27% respectively cited consumer protections as driving their choice of payment method,

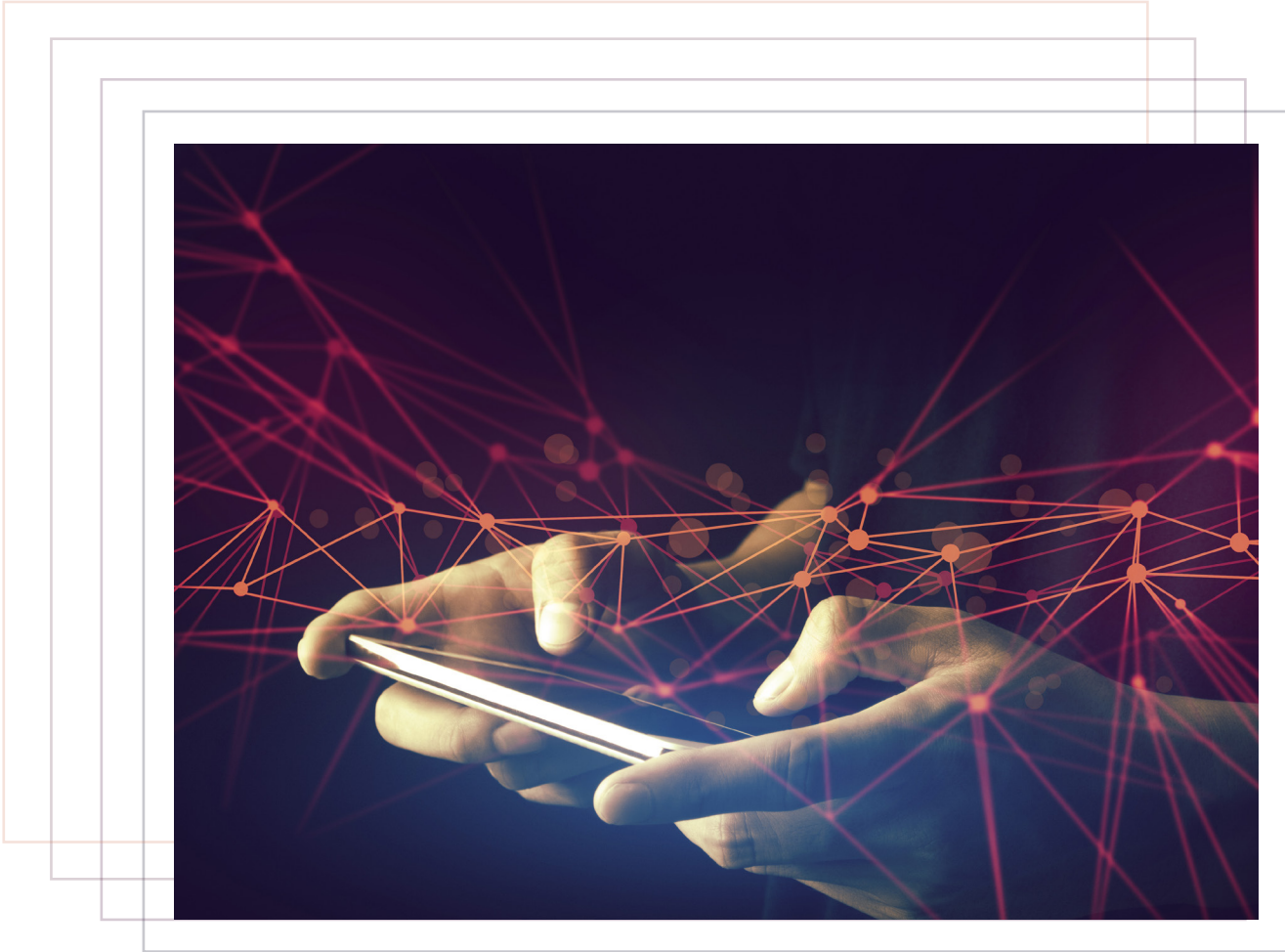
Many have argued that Open Banking is unlikely to be a payment method payers choose for travel purchases, but these findings show that consumer protections are still less relevant than convenience and security for payers in these sectors. This may be due to the lack of success claiming on those protections when they were needed during the Covid crisis. 19% of consumers claim to have put in a chargeback request to their bank as a result of Covid-19. However, of those that made a claim, only 24% of consumers say they were immediately successful receiving a refund from their bank, although a further 26% subsequently received a refund over time (after disputing the decision, or raising it with the merchant).

However, one thing that doesn't drive consumers is merchant preference. Overall, only 6% of consumers choose their payment method based on merchant preference, and this is similar across all sectors.

Even in the charity sector this, surprisingly, this is still only 6% of payers. Much of this may be down to a lack of understanding of the impact of different payment methods on the merchant. Only 44% of consumers are aware that a percentage of the donation is taken by the card companies in fees when donations are made to charity. Merchants may have a better chance of influencing consumers to use a particular payment method if they communicate the implications on the merchant more effectively, or align the incentives between consumer and merchant.

Reason for payment method choice - sector differences

Key driver		Most relevant for:	
	Convenience / Ease of Use	Everyday Retail – 63%	Utilities – 61%
	Security	Flights – 31%	Package Holidays – 30%
	Credit line	Education – 11%	Package Holidays – 10%
	Consumer protections	Flights – 29%	Package Holidays – 27%
	Rewards	Everyday Retail – 18%	Fashion – 14%
	Merchant preference	Utilities – 7%	Insurance – 7%



3.

Consumers ready for Open Banking

With security and convenience at the forefront of their mind, consumers should appreciate the benefits of Open Banking based solutions, as a fast, mobile friendly way to pay. However, use of Open Banking – while growing – still remains relatively low. In October 2020 the OBIE announced that there were more than 2.7 million payment API calls across the UK.

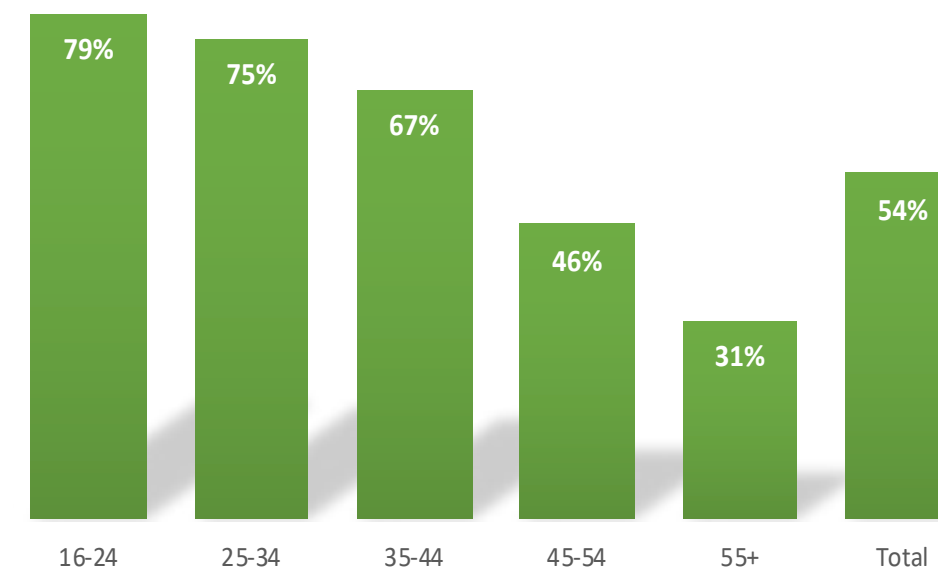
Many consumers are willing to make an Open Banking payment

However, consumer research in the UK has shown a strong willingness to make payments via Open Banking amongst UK payers.

54% of consumers who use online banking, would be willing to pay via Open Banking today for at least one type of service. This rises to 64% amongst consumers who use mobile banking on their smartphone today. If just a fraction of them can be converted, this represents a significant chunk of UK payments.

Not surprisingly, those in the younger age groups are more inclined to use Open Banking. The 16-24 year age bracket is the most willing – with nearly 4 out of 5 payers saying they'd pay via Open Banking.

Willingness to use Open Banking - Age Groups



Nearly 1 in 10 would be willing to use Open Banking for payments in all sectors tested, while the other 44% would only be willing to use Open Banking for some payments. This demonstrates that consumers are selective about their payment method, and change their preference or payment type, depending on the industry and type of services they are purchasing.

Willingness to use Open Banking differs by industry

These differences between sectors are not surprising. Today, consumers preferred payment methods vary significantly depending on which sector they are making a purchase.

Debit or Prepaid Cards are typically the preferred way to pay by consumers. They are most popular for payments in the Everyday Retail sector (54% of payments), while they are less preferred for payments to the Utility and Charity sectors (only 24% of payers prefer to use).

Credit cards are most popular for payments in the travel sector, being preferred by 42% of consumers to pay for flights, and 41% of consumers paying for package holidays. Direct debits are typically preferred for payments in the Utilities (52% of payers), Government (42% of payers) and Insurance sectors (34% of payers), but rarely preferred in other sectors.

This is not surprising. All payment methods have different features – payment experiences, customer protections, funding source, ability to recur. Consumers, therefore, pick their payment method based on the situation and scenario, and the value they place on these things. The fact that credit cards are preferred for travel payments reflects the higher value and advance purchase nature of these payments, and hence consumers higher desire for credit and consumer protections.

Equally, the UK consumers surveyed are discerning about where they may be willing to use Open Banking.

Consumers are most willing to use Open Banking for Education payments, with nearly 1 in 2 online banking users saying they’d pay for Education services via Open Banking. Utilities (47%), Financial Services (45%), Charities (45%) and Government (44%) also have a high willingness of users to pay via Open Banking. All are industries where merchants are relatively trusted, and consumers tend to pay from their debit account sources already today. At the opposite end of the spectrum, consumers are less willing to pay for Flights or Package Holidays via Open Banking (each only 39%).

Willingness to use Open Banking - by sector

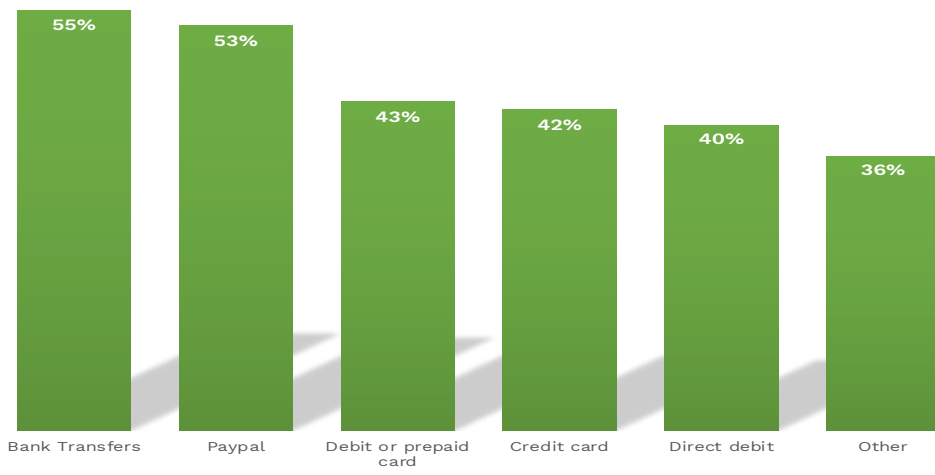
	Preferred method today (% of payers)	Willingness to use Open Banking (% of payers)
Education	Debit or Prepaid Card – 28%	50%
Utilities	Direct Debits – 52%	47%
Financial Services	Debit or Prepaid Card – 32%	45%
Charities	Debit or Prepaid Card – 24%	45%
Government	Direct Debits – 42%	44%
Everyday Retail	Debit or Prepaid Card – 54%	42%
Insurance	Direct Debits – 34%	41%
Gaming	Debit or Prepaid Card – 39%	41%
Fashion Retail	Debit or Prepaid Card – 44%	40%
Large Ticket Retail	Debit or Prepaid Card – 38%	40%
Package Holidays	Credit Cards – 41%	39%
Flights	Credit Cards – 42%	39%

PayPal at risk from growth in Open Banking

Consumers different reasoning for choosing one particular payment method over another does lead to the question: If Open Banking accelerates, then which payment methods will be disrupted the most by Open Banking?

Testing of nearly 20,000 payment scenarios with consumer shows that PayPal is one of the most at risk from the rise of Open Banking. In fact, in an incredible 53% of cases where mobile banking users prefer PayPal today, the users indicated they would be willing to switch that payment to Open Banking. Unsurprisingly, those that preferred bank transfers today were willing to switch more than 1 in 2 (55%) payments to Open Banking, while those consumers who prefer Debit or Prepaid cards would be willing to migrate to Open Banking 43% of the time.

Willingness to use Open Banking - by preferred payment method



The high willingness of those that prefer PayPal to migrate to Open Banking is likely due to similarities between PayPal users and mobile banking users - i.e. users are from the younger age brackets, and are more digitally savvy and mobile enabled.

Addressing consumer concerns will create even more potential to drive Open Banking adoption

Interestingly, customers that currently pay via bank transfer today were only willing to pay by Open Banking in 55% of scenarios. This is particularly interesting as Open Banking is nothing more than an automated, more convenient way to make bank transfers. With convenience and security being important for consumers, one would expect most people who prefer bank transfers today would flock to Open Banking.

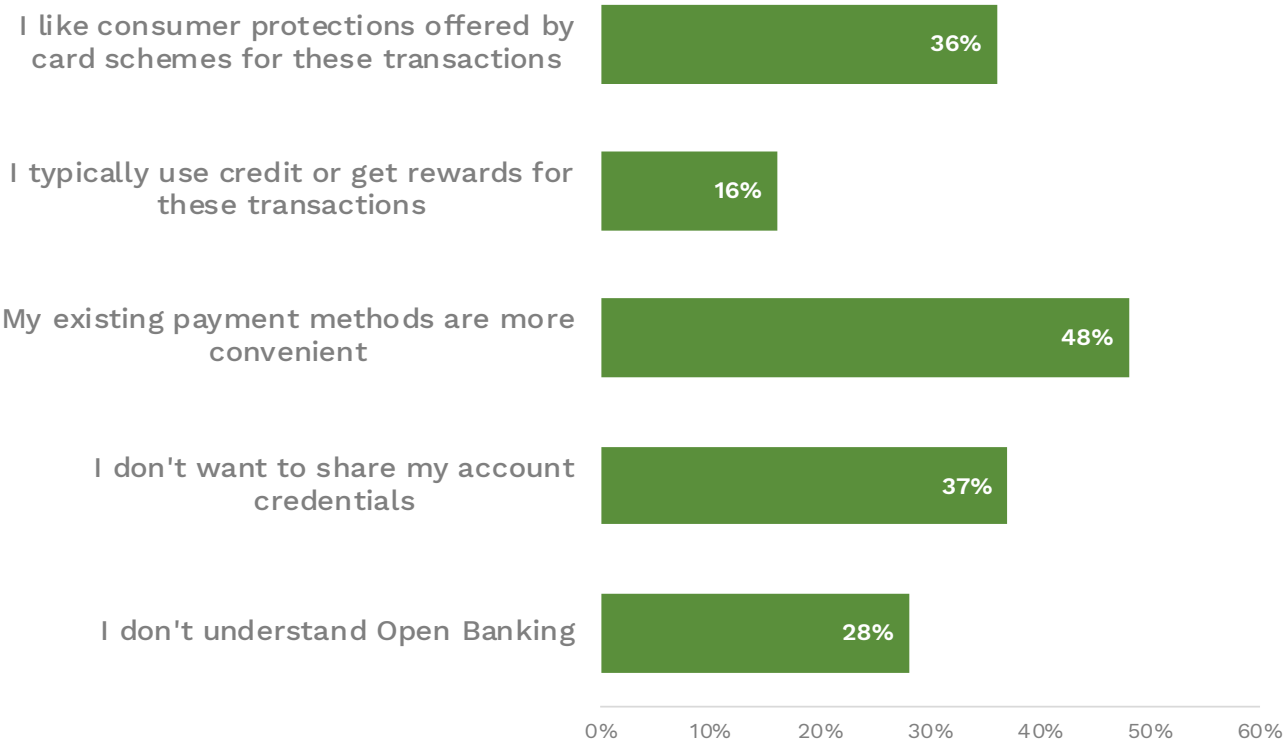
So why are some consumers unwilling to pay via Open Banking?

According to the consumer survey, “convenience” is the key reason for not being willing to use Open Banking – 42% of respondents who said they wouldn’t be willing to use Open Banking. 48% of respondents who said they wouldn’t be willing to pay via Open Banking responded ‘My existing payment methods are more convenient’. This is particularly the case for older age groups, with 57% of online banking users aged 55 and over claiming their existing payment methods are more convenient.


Consumers also cited concern about sharing their banking credentials with the merchant (37% of consumers not willing to pay via Open Banking cited concerns about not wanting to share their credentials with the merchant to make a payment). This demonstrates a lack of understanding by consumers about how Open Banking works and the security features present in the current design of the UK Open Banking Implementation Entity standards, where a payer’s security credentials are only ever entered directly into the interface of the payer’s bank [Open Banking security works]

Other reasons holding back the use of Open Banking were a consumer preference for the protections offered by card schemes on some payment types (37% of those unwilling to use Open Banking), as well as a lack of understanding about Open Banking (28%) and the desire for credit or rewards for their payment (16%).

Reasons for not being willing to pay via Open Banking - % of those unwilling



“Note: Respondents were able to select multiple reasons.”



For merchants looking to adopt Open Banking, some of these responses are highly addressable. In particular, consumer concerns on not wanting to share credentials or a lack of understanding about Open Banking are points that can be addressed with some strong consumer education and awareness about Open Banking solution and how they work. In particular appropriate positioning of Open Banking solutions on a merchant's checkout page or cashier, can help quickly overcome some of these objections.

Conclusion

Since launching Open Banking has gone through an incredible growth journey, driving significant change across the financial services landscape, and spawning an array of new services for consumers.

It is clear from the survey that what Open Banking has the potential to deliver for consumers. It addresses the security and convenience challenges of existing payment methods and consumers demonstrated a strong willingness to use Open Banking payment solutions once they were better informed about how it works.

The challenge now for the ecosystem players – payment providers like Nuapay, industry bodies and merchants alike – is to drive Open Banking into its next phase, and build consumer adoption. The key to this will be to educate and familiarise consumers on how Open Banking works, and the benefits for them as payers, particularly in the mobile environment.

If the ecosystem is to achieve this, it will need a collaborative effort from players. Nuapay believes there are two key actions needed:

1. Collaborative education and positioning: To date, the industry has been focused on developing products, but we now need to turn our efforts to driving adoption. A key to this will be how we communicate our products and solutions to consumers. Currently, there are many brands, logos, terms, explanations, being used to position Open Banking within a payer's checkout experience. These lack consistency, and don't yet tackle consumer concerns in a considered and aligned way. There is a need for the industry to work together on this topic, with consistent messaging and even imagery. 37% of consumers said they'd be willing to use Open Banking if they understood it better, including how secure or convenient it was, and the industry needs to do this collaboratively. As the saying goes, a rising tide lifts all boats.

2. Halo retailers: But for real adoption, the ecosystem also needs some large halo brands willing to take the lead not just in integrating Open Banking solutions, but in educating consumers and encouraging adoption. While merchants had, understandably, been reluctant to be a leader and dip their toes in the water until the technology is more proven, this is starting to change. More merchants are currently scanning the market for solutions they can put in place now, given that significant payment use cases have now been proven. Our survey found 29% of UK consumers said a trusted brand would influence them to switch to Open Banking, while nearly 28% said they could be encouraged to use Open Banking by a trusted retailer who offers incentives or loyalty points. This firmly gives merchants the opportunity to take the bull by the horns in order to educate and influence consumers to try Open Banking and make the switch.

With strong collaboration across the ecosystem, to educate and drive adoption by consumers, the Open Banking sector has the power to transform the payments landscape, and continue the rapid, and accelerating, growth of fast and seamless payments.

About 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.

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