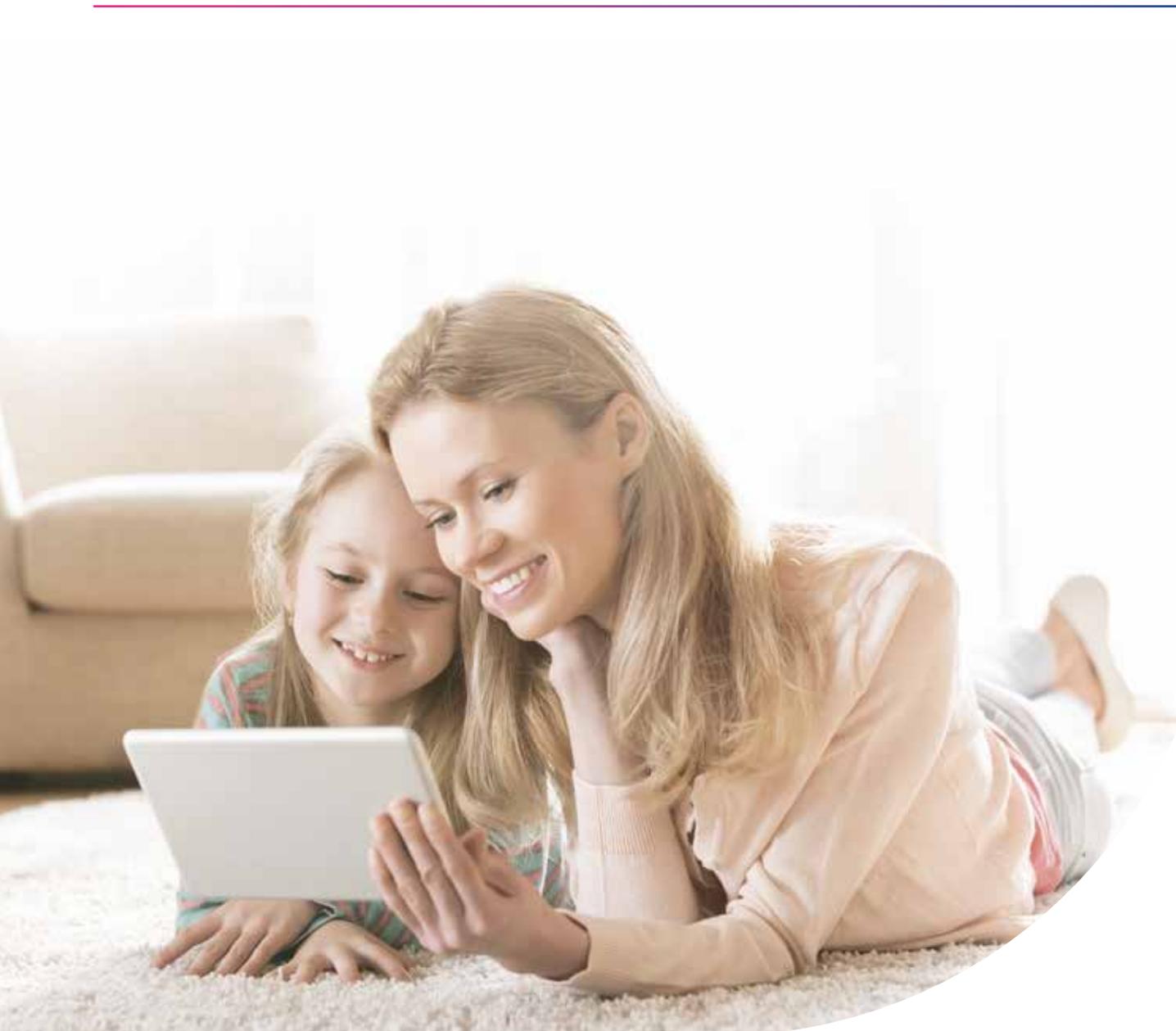


Open banking

Creating a new era of data sharing



Open banking

The announcement by the Competitions and Market Authority (CMA), in August to implement Open Banking is set to transform how data is shared and how traditional banking is managed by the bank and the customer. This new regime will give people a much better understanding of the benefits they can receive from their bank through transparent, clear and fair communication.

Competition is intended to increase as individuals begin to switch suppliers and accrue the benefits of new services. The data sharing that Open Banking facilitates will also make the switching process much easier and generate fresh insight for service providers based on access to more detailed information on a customer's financial behaviour,

This paper outlines the opportunities and risks that Open Banking presents, highlighting the areas that financial service providers need to consider to capitalise on the opportunity and safeguard customers.



Heralding a new era

One of the main components of Open Banking is to allow the secure exchange of a customer's account information, this may extend to credit card and savings account information as well as their current account transaction data. This new data sharing ecosystem has profound implications for how individuals engage and consume financial services.

The transition to Open Banking takes place at the same time as the adoption of the Payments Service Directive 2 (PSD2). PSD2 seeks to implement the same principles of data sharing that Open Banking does and requires banks to open access to a customer's current account and give third party providers the ability to initiate payments.

Information, such as current account transactional data, that was previously under the guardianship of a limited number of institutions will soon be available to a much wider range of 'accredited organisations'. This information will only be available with the consent of the customer.

This data sharing ecosystem is expected to create a new era of increased competition, encourage better products and improve customer service. What we're witnessing is a profound change in the relationship between banks and their customers.

For customers the promise of better service and better value products comes in return for allowing organisations to access some of their most personal data.

For service providers it requires the implementation of a new, secure data exchange underpinned by real-time identity verification, informed consent and personalised data analysis.

Organisations that succeed will be those that can gain the confidence and trust of their customers, encouraging them to share their data in return for better value services that are not only secure but easy for them to consume. Those organisations that deliver an underwhelming experience that relies on out-dated infrastructure, poorly positioned products and limited customer service are the ones that are most likely to suffer.

Open banking

However, Open Banking is often mistakenly positioned as a struggle between new market entrants keen to capitalise on access to new data, and established providers offering a range of well-entrenched banking services. The reality is far more complex and sophisticated and requires the creation of new partnerships that will fundamentally change the way services are provided and consumed.



Sitting at the heart of this ecosystem is the customer where security and privacy must take priority if confidence in data sharing is to take hold. Integral to this is a commitment to make Open Banking a transformational strategy that can shape the way financial service providers deliver, manage and interact with customers.

The value exchange of Open Banking

The UK has already made headway in becoming a global leader in the provision of financial services, and as a result UK businesses and people are already benefiting.

It is important to not see Open Banking as a regime that is purely affiliated with banking as a service. It is part of a wider agenda that sees the principles of open data extending into a variety of other industries including utilities, pensions and telecoms. The belief – rightly or wrongly – is that established providers in many of these markets are stifling competition and innovation which is detrimental to customers.

Increasing services for customers

The hope is that by allowing customers to make more informed choices about their personal finances, new services will emerge.

- Open Banking for small business is seen as a way of freeing access to capital to encourage growth – an important driver for maintaining the health of the UK economy.
- For individuals, Open Banking is seen as a method of getting access to better value products and services.

Many people have said they find it difficult to understand if they are getting value from their bank. Bank charges are perceived as complicated and any rewards appear to deliver little value.

In addition customers perceive it to be difficult and risky to change provider.¹ As a result nearly 60% of personal customers have stayed with the same bank for more than 10 years, and over 90% of Small and Medium Sized Enterprises (SMEs) get their business loans from the bank where they hold their current account, rather than shopping around.² Competitive pressures are weak.

Enabling data sharing

The introduction of the Current Account Switching Service (CASS) has made the process of switching accounts much easier for customers, but 1 in 4, still aren't aware of this service. The CMA wants everyone to be aware of the opportunity to switch – and the ease of doing so.

The introduction of Open Banking will enable personal and SME customers to securely share their transaction history with other banks and trusted third parties.

It mandates the UK's leading banks to create a common set of APIs (Application Programming Interfaces). These APIs will enable permitted third parties to access key information about banking products, such as interest rates and terms and conditions, as well as a customer's transactional data and current account information.

¹ Source: Experian commissioned research with Consumer Intelligence. October 2016

² Source: <https://www.gov.uk/government/news/cma-wants-banks-to-work-harder-for-their-customers>



Price Comparison Websites (PCWs) can use the data to promote products that are tailored to a customer's individual financial circumstances directing them to products that best suit their lifestyle and individual needs. This analysis will take place in real-time, will be digitally driven and highly personalised.

Giving customers the ability to compare the benefits of different current accounts means they can make more informed choices as to who they bank with. This presents a threat to many established providers as customers are attracted to potentially better value products provided by competitors.

A consolidated view of the customer

Under PSD2, organisations who make payments will be seeking permission from the customer to access their banking details to process a payment on their behalf. PSD2 allows for the creation of Account Information Service Providers (AISP).

Organisations that issue payments can – with the consent of a customer – access all of their accounts across multiple banks to provide a consolidated view of their income and expenditure. PSD2 will accelerate the pace of change and increase competition by allowing more organisations to provide services such as payment initiation that previously had been limited to a few.

New technology is seen as a catalyst for change in Open Banking because of its ability to bring new and innovative products to market quickly and cost effectively.

Driving new innovation

The UK is seen as one of the world's leading Fintech centres and this has already made an impact on the provision of financial services by capitalising on the customer's desire for simple, personal, digitally-driven services.

Open Banking and the provision of transactional data is seen as an enabler for these services predicated on the analysis of transactional data to offer real-time, personalised services to customers.

Whilst the real impact of Open Banking is still to be seen McKinsey estimates that between 10% to 40% of banking revenues (depending on the business) could be at risk from Fintech by 2025. Data sharing will fuel this risk.

6 opportunities to improve your business

1 Acquire new customers

Many organisations are seeing Open Banking as an opportunity to acquire customers.

Their acquisition strategy is being managed through the use of new digital based services that are efficient, simple and intuitive. This, with access to more detailed information on a customer's financial circumstances, can be used to drive acquisition programmes. Better insights based on more detailed behavioural data, enables providers to segment and prioritise customers based on their risk, lifetime value or growth potential. Providers need to think about how they can use this improved insight to acquire intelligently by matching their risk profile to those of their customers.

2 Become more relevant

Many financial services barely differentiate themselves in the eyes of the customer.

Failure to differentiate reduces the relevance of these services to customers. Product features and pricing are frequently viewed as complex and confusing, and any advice given has been biased. Many banks have relied on quite limited data such as demographics and product preferences in order to tailor their services to individuals. Access to transactional data provides an opportunity to take a fresh look at customer behaviour in order to deepen your understanding of an individual's financial status and tailor services to create a greater level of personalisation. Linking transactional data with information from other data partners, or using transactional analysis to provide offers and discounts to customers based on their purchasing habits, gives you the opportunity to add value and improve the relevance to an individual's everyday life.

3 Harmonise distribution

The days of banking being dominated by personal interactions are diminishing.

Customers visited a branch 427m times in 2015, compared to 895m logins via a mobile banking app. Face-to-face contact is forecasted to drop to 268m by 2020, while mobile usage is on track to double to 2.3bn. However, it is also worth remembering that more than 20 million customers don't bank online at all. Whilst digital is on the rise and will dominate financial services, some customers still want face-to-face contact, particularly when seeking advice. Digital channels and face-to-face contact need to complement each other. Service providers need to use the insight from Open Banking to provide a consistent service that allows customers to transfer the data regardless of channel.

4 Minimise risk

The provision of credit has to-date been based on historical data provided by customers or sourced from third parties such as Credit Referencing Agencies (CRAs). Open Banking provides the opportunity to access more detailed information – with the customers consent – on current, as well as historical income and expenditure. This can be combined with credit information to provide a more complete picture of a customer's financial status. Data can be provided in real-time so that lenders can make accurate decisions on the eligibility of the customer immediately and qualify their suitability for a product. Lenders can limit their exposure and manage their risk profile whilst improving the speed of their decision making and quality of the customer experience. The outcome is that people will get access to credit based on a better understanding of their ability to repay the loan.

5 Reduce debt

The average total debt per household, including mortgages, at the end of October 2016 was £55,855. Outstanding credit lending was £190.13 billion and 264 people a day are currently declared insolvent or bankrupt, this is equivalent to one person every 5 minutes 28 seconds.³ Open Banking provides an opportunity to address some of the challenges associated with debt by giving lenders access to data that provides a better understanding of an individual's financial status – throughout the life of their loan. Lenders can demonstrate their commitment to lend responsibly and work collaboratively with individuals to manage their finances and therefore avoid the risk of them falling into arrears. In so doing the national burden of debt can be reduced.

6 Deliver better customer experiences

The ready adoption of new and more convenient technology has accelerated the speed of a banking transformation that many customers now perceive as the benchmark for a great customer experience, even if it isn't. The revolution in the adoption of smart technology and mobile banking has become a part of people's everyday lives. Open Banking will change the way organisations and customers engage with each other. Customers are expecting outstanding service quality, easy to use products, 24/7 availability, transparent pricing and personalisation – all giving a consistent experience. Most importantly of all, customers want organisations to help them extract value from their data and improve their lives. Organisations that can deliver an exceptional customer experience are those that are most likely to benefit from Open Banking.

³ Source: The Money Charity, 2016

What is the future of credit scoring?

Some industry commentators have suggested that Open Banking is a death-knell for credit scores. Why do you need a credit score, if you have 12 months of transactional behaviour for a customer?

This is a curious observation, some of which is based on a misconception that Credit Reference Agencies (CRA's) see the sharing of transaction data as a threat and not an opportunity.

There's also the assumption that because credit data is a reciprocal arrangement that somehow credit providers will not be motivated to share credit data in a lending environment, where current account information is freely available.

At the heart of this discussion is the question of what additional value CRAs and other providers can add to transactional analysis that helps both lenders and customers?

Originally credit scoring was based on historic financial behaviour, in particular the consumption of credit. More recently it has included an assessment of a customer's current circumstances which has been based on banks sharing summarised current account behaviour.

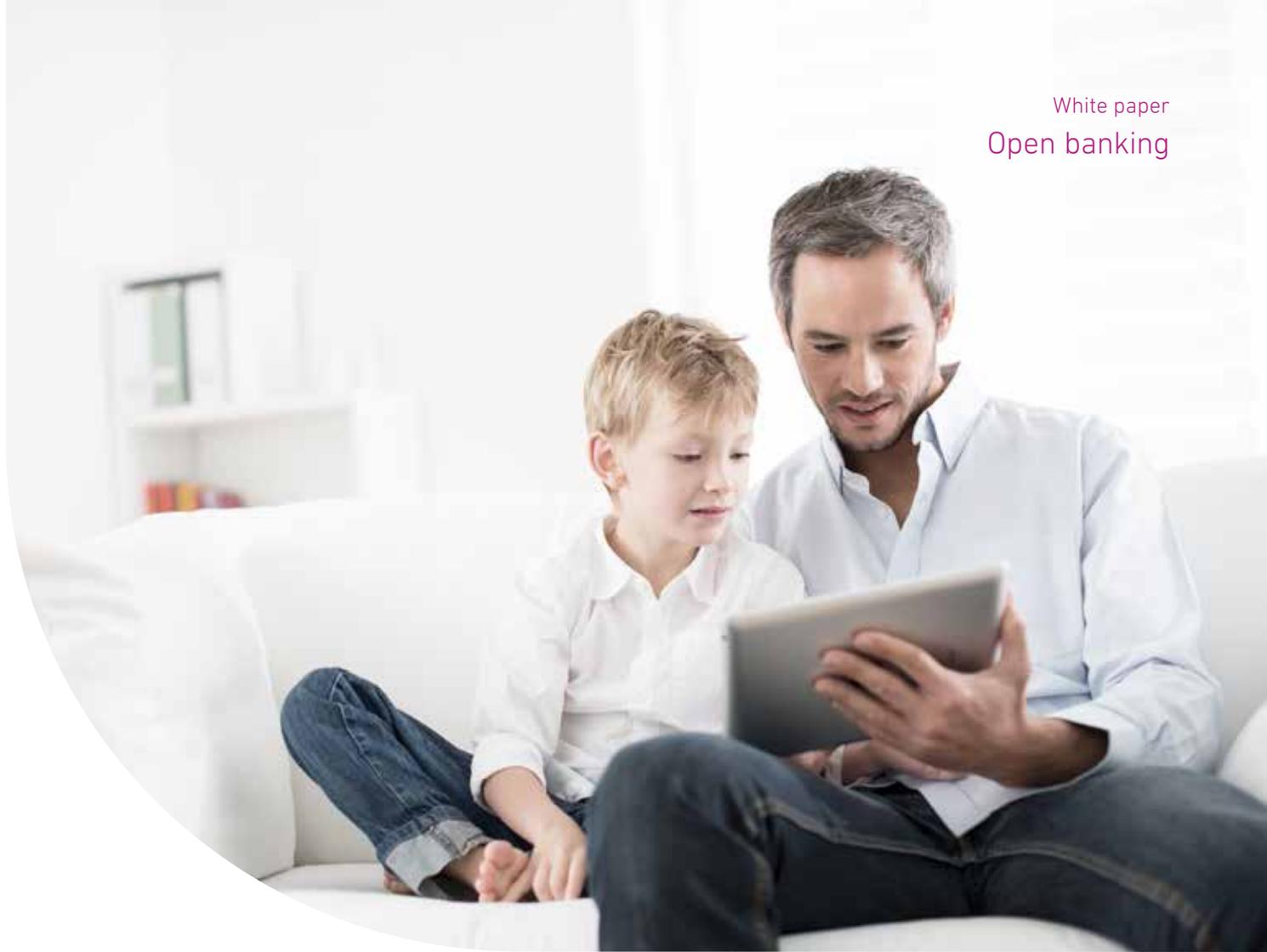
Future analysis will assess a customer's financial circumstances based on a mix of credit and detailed transactional behaviour.

Real-time analysis of transactional data will enable the provision of scoring that can more accurately reflect a change in an individual's personal circumstances now, and in the future. This can provide organisations with a more sensitive and timely measure of a customer's financial status.

Now we enter a world where credit scores and transactional data become the components of a new scoring regime focussed on measuring affordability.

The sharing of the current account data mandated by the CMA provides an opportunity to deliver a more accurate and timely assessment of your customer's financial well-being throughout the life of a loan. It holds the promise of delivering a better and more informed view of an individual or business' suitability for products.

Data sharing will not only provide a measure of 'affordability to purchase', but may soon also provide a measure of our 'affordability to live'.



Now is the time to prepare

Open banking won't be in force until 2018, but it is important for organisations to consider how they can prepare now. Whilst there are some technical and functional changes that are essential, some areas simply reinforce the basics of a good operational and customer centric strategy. The areas where you need to focus are:

Avoid disintermediation

4 out of 10 customers express decreased dependence on the bank as their primary source of financial services.⁴ If banks become less relevant to customers they run the risk of becoming utilities, leaving the door open for competitors to deliver more satisfying and engaging customer experiences. To be successful in the world of Open Banking organisations must ensure they put the customer at the heart of their business and create services that are relevant to people's everyday lives. Providing services that extend beyond those traditionally offered is a great way of broadening engagement and adding value. Another is working collaboratively or in partnership with Fintech to develop better digital services.

⁴ Source: EY, Bank Relevance Index 2016

Build trust and confidence

To realise the aspiration of increased competition, people must have the confidence to share their data. Organisations that seek to capitalise on the opportunity of data sharing must acknowledge their collective dependency to act responsibly. Customer perception is that banks are generally very secure. This puts established providers at a distinct advantage when asking their customers to share their transactional data. Established banks will be keen to ensure this reputation is not undermined in the drive to open up the market and increase competition. New market entrants must find ways to build customer confidence in ways that can win the hearts and minds of customers. Being honest about the purpose for which you require data is essential. Those that remain true to their brand purpose and reflect this in their engagement with customers throughout the data sharing experience are those that will be most successful in securing the confidence of customers.

Four fundamentals for brand loyalty

1 Ensure your brand purpose and promise resonates throughout the customer journey.

2 Identify how your brand can drive choice, loyalty, value and trust.

3 Use your knowledge of how customers interact with you to identify key moments in the customer journey that enable you to reinforce your brand.

4 Empower everyone in your organisation to deliver a great brand experience. Put the customer first in everything you do, and place security at the forefront of your thinking when it comes to Open Banking.

Leverage your brand

Brand can be a significant differentiator, particularly in a highly competitive market. Understanding how to leverage your brand to acquire customers is the key to success.

Organisations with the strongest brands can capitalise on their equity where issues of trust and security will be key differentiators in getting customers to share their data. Research confirms that those organisations who provide competitive pricing and excellent customer service are the ones that engender the most loyalty from their customers. For the younger age groups, the issue of brand is one of the highest factors in driving engagement, whilst the importance of customer service increases with age.⁵

New market entrants will have to rely on the excellence of the experience to quickly build brand reputation and gain the trust of customers and appeal through advertising as a means to acquire.

Improve your data management

Open Banking may add to the overall confusion of 'data', what it means and what it is. People are concerned about the issues of data privacy, identity theft and fraud that

data sharing brings; few understand the benefits that may come as a result. Organisations need to educate customers and emphasise the benefits of data sharing in order to gain the confidence of customers. Organisations have a duty of care to limit the use of the data to the purpose for which the customer gives consent.

Clarity and transparency are vital to securing this consent, as is the customer's right to opt-out of data sharing. Terms and conditions for products must be simplified and tools created that allows individuals to control and manage access to their data at any point. Failure to recognise this and abuse trust could result in a breach of data protection and make you non-compliant.

Re-examine your governance model

Customers need to know who they can turn to when things go wrong. Everyone involved in the data sharing ecosystem needs to ensure they have well-honed processes in place for resolving customer complaints quickly.

Start developing your customer service model for data sharing now, and develop your scenario planning for how to deal with queries and complaints. Speed of response and commitment to customer care will be significant differentiators in a system driven by the sharing of personal information.

Organisations need to focus on earning trust by doing the right thing for the customer and providing excellent customer service.



⁵ Source: Experian commissioned research with Consumer Intelligence. October 2016

What does the future hold?

As Open Banking becomes a reality in the next 18 months, so does the opportunity to create truly innovative services that can change the way you interact with your customers.

As with any new approach, the future will write itself as time goes by but, there are certain elements that Open Banking will inevitably influence. These include:

Identity verification

The ease at which customers are able to securely authenticate their identity before making a payment, or sharing transactional data, is seen essential to defining the quality of the experience in Open Banking. Providers may seek to use this for competitive advantage and by differentiating their service and use this to acquire customers. The alternative is that providers create an ecosystem that allows for the sharing of authenticated customer identities. If providers can reach an agreement on the sharing of a liability for providing access to a customer's account, then considerable cost savings could be made.

Product comparison

Open Banking's initial focus is to improve competition in the provision of current accounts and payment initiation – but it is anticipated that comparison services for mortgages, asset finance, unsecured loans and savings will quickly follow as organisations capitalise on open data access. Much depends on gaining the confidence of customers to share transactional data, and on price comparators using this data to demonstrate the value of products to encourage switching. The future promises a more competitive product comparison environment.

Better personal financial management

The exchange of transactional data and provision of payment initiation provides a unique opportunity to create more personalised financial services based on an integrated view of an individual's income and expenditure. This, augmented with credit behaviour savings and asset information and real-time perpetual data analysis, allows providers to create services that are timely, personal and provide relevance to peoples everyday lives.

Consent management

Service providers must define and communicate the value that will persuade customers to share their personal information. Those that succeed will find the right balance between creating services that are relevant and personal to make them invaluable – whilst avoiding becoming intrusive, irrelevant or over-bearing. Those who can balance this will find the right model that offers competitive advantage and customer appeal. Managing consent and ensuring the 'right- to-be-forgotten' will instil trust and confidence.

Risk forecasting

The growth in available data provides new opportunities to forecast short and long-term risk. Providers will be able to better manage their risk portfolio through access to more detailed and sensitive transactional data. When aligned to key indicators of macro-economic performance, this will enable providers to more accurately forecast risk and responsibly manage their services.

Conclusion

Open Banking is a watershed moment in the relationship between customers and financial service providers. It creates a unique opportunity for everyone involved in the provision of services to increase relevance and trust by focusing on products that create value and improve the quality of people's lives.

Creating relationships that are transparent, honest and fair, and that enable customers to feel confident and secure in the knowledge that their well-being is a priority and privacy safeguarded, is what we believe is the key to creating meaningful, long-term relations that will revolutionise the way products are consumed.

In the window of opportunity between the announcement of the CMA's remedies for retail banking and the deadline for implementation, Open Banking mandated organisations should focus their efforts on building an infrastructure that supports change and generates value for customers.

Organisations should be looking to create services that are secure, engaging and personalised that deliver real-value from the intelligent and compliant use of personal data.



About the author



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Rob has spent most of his working life associated with the commercial use of consumer and business information, helping organisations understand more about their customers to optimise their engagement. His latest projects include co-ordinating the implementation of a new insolvency score to monitor the financial health of UK pension providers, and establishing a real-time data sharing network for banks in the UK and abroad. This includes use of Open Banking Standards (OBS) and employing transactional data to provide a better measure of affordability for consumers and businesses.

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About Experian

Experian unlocks the power of data to create opportunities for customers, businesses and society. At life's big moments – from buying a home or car, to sending a child to college, to growing a business exponentially by connecting it with new customers – we empower customers and our clients to manage their data with confidence so they can maximise every opportunity.

We gather, analyse and process data in ways others can't. We help individuals take financial control and access financial services; businesses make smarter decisions and thrive; lenders lend more responsibly, and organisations prevent identity fraud and crime.





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