THE # NEXTGENBANK

PSD2 AND OPEN BANKING: THE OPPORTUNITY FOR BANKS

WHITE PAPER

PSD2 AND OPEN BANKING ARE SHAKING UP THE BANKING MARKET FOR THE BETTER, EVEN THOUGH BANKS HAVE BEEN SLOW TO REACT

New technologies and innovations are revolutionising the way consumers interact with their banks. For example, with the click of a smartphone, users now benefit from fast, easy payments and convenient ways to manage their money.

The popularity of such (relatively) new ways to bank is not likely to subside any time soon. Capgemini and BNP Paribas forecast growth of 10.9% in worldwide digital payments by 2020, more than 726 billion transactions according to their 2017 World Payments Report.

With consumers demanding more from their banks, new legislation has been introduced to ensure consumers have better control over their money and are receiving the best possible service. Starting this year, the EU Second Payment Services Directive (PSD2) requires the UK's nine biggest banks including HSBC, Barclays and RBS to share information on consumer bank accounts with third parties such as FinTechs and start-ups. These organisations can then use the data to get to know the customers better and develop new services that appeal to them. Decoupling customer channels from the back-end means that customers are given the freedom to use their bank's interface to carry out transactions. They can use their bank's channel or another application. This customer choice is a key benefit of open banking.

In theory, it shouldn't be too difficult to implement the directive. Banks have a lot of experience of processing of confidential information and understanding risk. They also benefit from strong customer bases and very high transaction volumes which put them in a position to be able to enact real change in the industry.

However, according to research released in October 2017 by Efma and Microsoft, 49% of financial institutions were not technically ready to implement the legislation in their systems at the time of survey. Worryingly, of the 49%, 32% did not even have plans in place to implement the change. This presents a real problem for this third, because delaying compliance with the new directive means turning every possible opportunity into a threat.
Banks have a decision to make about how they respond to the new measures, as this greatly impacts the extent to which they benefit from or lose out to the legislation change. Banks could decide to merely comply with PSD2 and do nothing more. However, this would mean they risk loss of

potential revenue. The new legislation allows third parties to carry out transactions without bank intermediation;, (something 53% of respondents in Microsoft's survey were concerned about) as a result of PSD2. Ultimately, banks that continue to opt for traditional methods of providing services and ignore other business possibilities risk losing their competitive strength.
Some banks however are creating new business models to capitalise on PSD2. For example, they might offer new services, become an Account Information Service Provider, or a Payment Initiation Service Provider or become a 'supermarket of financial products' of sorts through the use of Open API. This last is one way for the open economy and the open API to bring added value to the consumer.

MEET THE FINTECH

One possible solution for banks is for them to collaborate with third parties and view Open Banking as a catalyst for better banking services. To achieve this, banks need to leverage data by analysing it and using it to inform business decisions. All this will be invaluable to banks in their ability to differentiate their offer, hold a competitive edge and therefore remain a preferred destination for consumers.

Collaboration between banks and third parties such as FinTechs also offers a host of other benefits yet to be realised. Although Fintechs may be seen as threats by banks, they provide opportunities. Among the advantages that could be drawn include a greater agility and responsiveness to consumer demands due to data sharing, speeding up the process of a bank designing a new service and taking it to market. Another is potential cost savings and increase in profitability as evidenced by Accenture research. Banks can also offer greater personalisation – using Big Data to understand customers and tailor offers closely to customers' needs. The increased frequency and quality at which banks receive data means they are able to identify profitable and unprofitable activities. While GDPR has placed a caveat onto the use and collection of data, more agile and high performing banks are set to benefit.

This is possible through APIs which can be used to integrate and combine different vendor and vendor services. The common goal is a single interface that combines the services and products of so-called 'third party players'.

API connectivity is at the heart of successful business models. In order to achieve this goal, banks need to become a platform in order to manage, run and scale their participation in the world of Open Banking, but most FIs have not yet adopted a platform approach.

One key for maintaining this potential network of partners is technology. No bank can remain competitive with outdated technology. One aspect that makes them stand out and differentiate themselves is data management: Open Banking is about sharing financial data which was once private and in this Open APIs enable widespread adoption, since there are global standards for data sharing and distribution.

Looking abroad, many start-ups are specialising in the offer of APIs and SaaS platforms that take advantage of payment institute technologies such as MangoPay used by Growish, to offer a layer that interfaces with payment institutes' APIs offers key services "in hand" to other B2B entities. Here we are talking about services focused not only on technology but also on the customer experience, with all those features that can evolve a payment system into a marketing tool.

In short, the keyword is 'open innovation'. This approach requires a review of our business models and infrastructures but will certainly lead to collaboration between different parties in an ecosystem whose objectives are innovation and the offering of value-added services to end customers.

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