Innovating with Open Banking

Fintech Insight Series

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Published by Meniga Ltd.

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Executive summary

Data-driven innovation is transforming the banking sector. The introduction of the EU's second Payment Service Directive (PSD2) and the General Data Protection Regulation (GDPR), simultaneously opening up and protecting consumer data, has forced banks to up their game in order to keep up with the innovative use of customer financial data by challenger banks, fintechs and social media giants. At the same time, banks must work harder than ever to build trust and a strong value proposition so that customers consent to a data-led relationship in 2019 and beyond.

Contents

I. The Open Banking landscape

The seismic regulatory events of 2018 changed the face of banking. The Open Banking revolution, sparked by new data laws, forced banks to up their game. Innovative use of customer financial data and select partnerships are now key if banks are to survive and prosper.

PSD2, which came into force across Europe in January 2018, allows consumers to authorise third-party providers to access account and transaction data and authorise payments from their accounts. PSD2 is driving ‘Open Banking’, whereby third-party developers can now build applications and services using Open APIs – publicly available secure application programming interfaces that enable them to access a customer’s data via the bank’s API.

All financial institutions were required to have API solutions available for external testing by the end of March 2019. By the end of September 2019 all companies within the EU must comply with PSD2’s Regulatory Technical Standard (RTS).

Hot on the heels of PSD2, the EU’s data protection regulations (GDPR) came into force in May 2018, giving individuals more control over their personal data than ever before. GDPR compliance is estimated to have cost banks, on average, £66m each[1]. Banks that can transform that from CapEx to investment in data innovation will be those that succeed in the post-PSD2 and GDPR world.

Banks face a real challenge aligning their response to GDPR’s demands for tighter data protection with the PSD2 drive to Open Banking. In one study, almost all global banks (94%) believed there is a contradiction between PSD2, which requires banks to share more data, and GDPR, which compels them to be ever more careful about sharing data2. Any regulated party who obtains user consent to access their data, whether that is an established bank or a startup, can begin to provide services, blurring the lines between banks and third-party providers and driving competition in the banking sector.

By early 2019, an estimated **61 million bank accounts remained idle** in the UK as consumers did not close their account but switched their main banking activities to **challenger banks**[3]

II. Emerging opportunities

By early 2019, an estimated 61 million bank accounts remained idle in the UK as consumers did not close their account but switched their main banking activities to challenger banks[3].

As a result, traditional banks are losing valuable consumer spending data, instead just seeing “£500 transferred” to Monzo, Revolut or another challenger.

In addition, a number of entrants, ranging from fintechs to app developers, are providing standalone personal finance management (PFM) apps, such as Money Dashboard, Yolt, Emma, Mint and YNAB. PFM services have moved beyond simply tracking and categorising spend and represent an opportunity to offer consumers payment, loan and mortgage services that are a substantial portion of banks’ profits. Banks have met this challenge by releasing their own apps or going into partnership with providers who can help with this. Apps that are integrated with the full banking experience provide stiff competition to standalone PFM apps.

While technology giants such as Apple and Amazon were the biggest threat five years ago, in 2018 when PwC asked retail banks, 'Which non-traditional entrants to the retail banking industry will be your company's biggest competition in the years to 2020?', 'payment players' were cited as the biggest threat[2]. More than half (53%) of retail bank respondents said that 'payment players' such as PayPal, Alipay, Apple Pay, Square, Ripple, WorldPay, Visa and Faster Payments represented the greatest threat to their business.

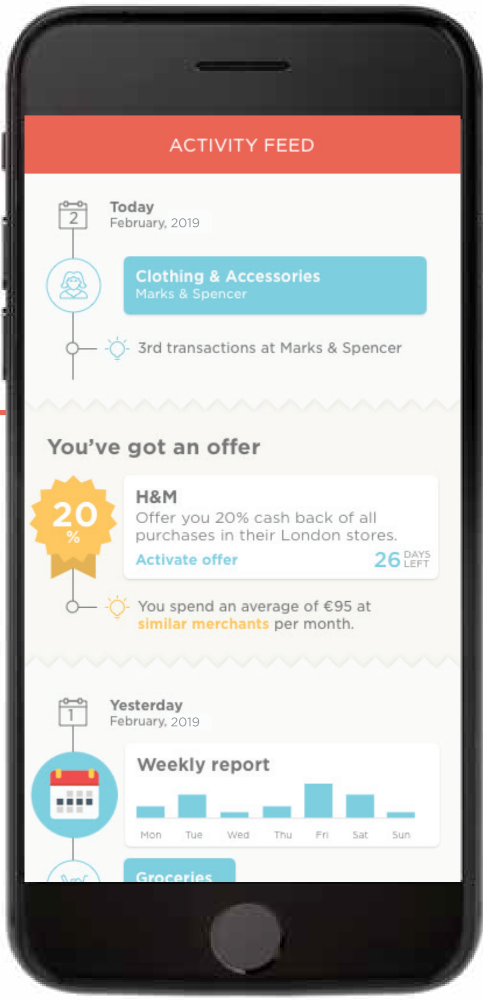
By contrast, Neo Banks (Starling, N26, Fidor, FiveDegrees, Monzo), technology disruptors (Google, Facebook, Alibaba, Microsoft, Apple) and peer-to-peer lenders were viewed very similarly when it came to posing the biggest competitive threat, each cited as a threat by 28% or 29% of respondents.

New financial ecosystems continue to emerge. The recent partnership between Apple and Goldman Sachs to provide Apple Card, a consumer credit card, has created an entirely new 'found money' ecosystem based on Open Banking. When the consumer uses the card to make a payment, they receive a percentage cashback that goes straight onto their Apple Pay card. As with previous cashback payment cards, Apple receives cashback from the merchant, which is passed to the card holder. What is new is that Apple also earns income from the 'interchange', the part of the merchant fee that the card issuer, Goldman Sachs, collects from the merchant.

Engage with Rewards

Meniga is creating the largest transaction-driven marketing platform in the Nordics which forms an ecosystem of innovative banks, savvy consumers, leading merchants, retailers and brands.

Consumers receive highly personalised cashback offers, merchants and brands are ensured high ROI for their sales and marketing campaigns and banks get a new revenue stream.



However, when the consumer uses the card to buy Apple products (or products sold by so-called special partner merchants), Apple pays no interchange fee, saving 2%. This way, it can make it very attractive for consumers using the card to buy its own products by offering discount incentives. One commentator has suggested that over 10 years, over 10% of Apple's profits could come from the payment card alone[4].

This is a global playing field. Challengers from Asia – Tencent, Alibaba and WeChat – are gaining increasing traction in Europe as Chinese tourists demand these forms of payments abroad. Meanwhile, Monzo, Revolut and lately N26 have their sights set on the US market.

All this represents real opportunities for the banking sector. Banks are well positioned to compete, armed with a long-established customer base, trust and a banking licence, all of which put them ahead of new entrants in the starting grid. In fact, forward-thinking banks can use the emergence of Open Banking as an opportunity to strengthen existing relationships.

Capgemini research found that 67% of consumers trust their bank to look after their data – a level of trust higher than any other sector[5]. But banks must continue to build trust – 48% of retail banking customers state d that security is their biggest concern with Open Banking.

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Open Banking will be won and lost in the field of data-driven intelligence, so banks are trying to capture as much data as possible in order to provide the best services. The end goal is to own the customer interaction, whether that be with the bank's own products or through the bank's fintech partner – with the bank remaining the main brand and interaction point.

III. Open Banking – where are we now?

Following the introduction of PSD2 and GDPR, the banking sector has seen:

1. Open Banking become a global revenue opportunity.

PwC forecasts a £7.2bn global revenue opportunity created by Open Banking by 2022, by which time 64% of adults are expected to be adopters6. Across a range of selected SME and retail customer propositions, by 2022 – based on expectations for SME and retail customer adoption – PwC forecasts that the total revenue of the selected propositions will reach £7.2bn – with £5.9bn representing revenue at risk for incumbent banks. Retail money management will account for £2.4bn in revenue and retail overdraft decoupling is forecast to attract £2.1bn in revenue by 2022. New entrants are expected to threaten existing bank overdraft revenues by leveraging transactional data in order to automatically identify opportunities to offer customers lower cost alternatives.

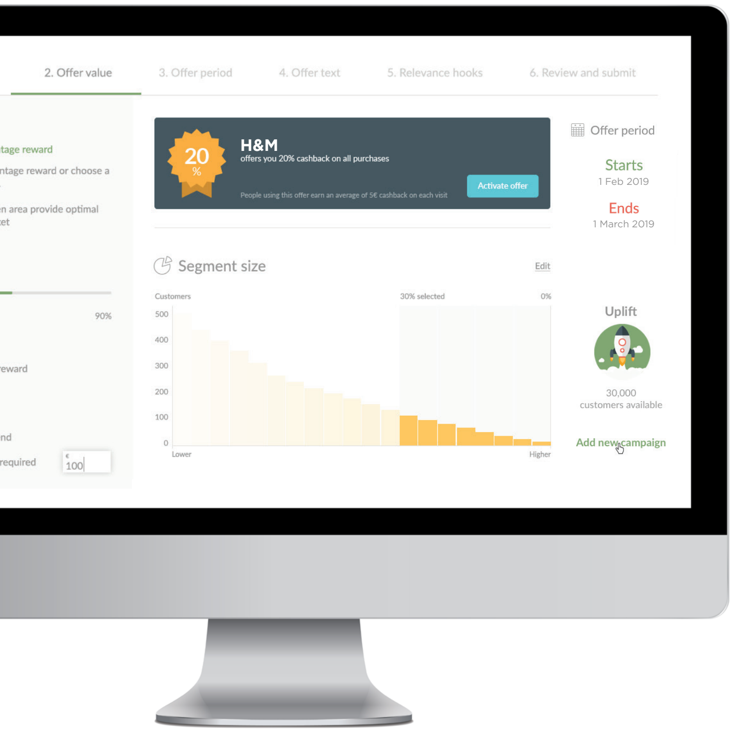
2. Increasing investment in the infrastructure for open API access.

APIs look set to become key to bank profitability – once banks have successfully addressed the challenge of monetising this channel. According to Accenture findings, major card services could offer at least 25 API products that enable core business services access to data insights7. There is increasing investment into fintechs that are looking to exploit banks' customer data and create some form of value from it, either in competition with banks or in partnership with them.

The introduction of PSD2 and GDPR sparked a butterfly effect: banks know they have to comply with the regulations and provide certain data free of charge, but they are going further than regulatory compliance, opening departments and pushing through initiatives dedicated to Open Banking. Banks using APIs include Santander, for its Money Plan app, and ING's Yolt. Others, such as BBVA's API marketplace, Barclays Open Banking, Deutsche Bank API Program and Erste API Hub are providing API services.

3. Banks enhancing their digital banking channels.

Customer data can underpin a digital channel similar in look and feel to a social media app, offering a constant stream of information and alerts about the customer's personal finances, loans and investments. While banks can't charge for the data they make available under PSD2, there is potential to charge for value-added services beyond that. This is a key area, and banks are not rushing in. Many are working hard on their monetisation strategy to make sure they get this right. They may choose to monetise the new digital channel by charging for parts of their open data in the future. They may choose to provide access to partners that can add value for their customers – or they may use the open data internally to build better solutions themselves.



4. New business models delivering a plethora of data-driven innovations.

Accenture research estimates that different business models could impact up to 80% of existing banking revenues by 2020[7]. Banks are moving beyond traditional services towards analysing customer data in order to provide more valuable services to customers and merchants. In the open API landscape, some banks will focus their strategy on retaining control of the customer interface and becoming their customers' bank of choice, even if this means that they will not exclusively offer their own end-to-end products, but rather curate an attractive ecosystem with select partners.

It is impossible to predict what lies ahead, but the proliferation of new services is now being followed by a consolidation. Increasingly, the customer's bank is the focal point, offering services bought in from third parties. There will be greater choice; traditional boundaries will blur, and banks may start offering other banks' products, while new types of services will emerge. For example, banks or other service providers might use customers' transaction data to serve them personalised offers relevant to their spending patterns and behaviour.

Many banks are preparing to aggregate their customer data with data from other banks, so that if a customer banks with Bank A they can choose to import all their transactions from Bank B and review all the data on a single digital platform provided by Bank A. Bank A is not only offering the customer the convenience of having all their financial transactions in one place, but may then also offer services – such as recommending products – on more solid terms than the competition, due to having better visibility of the customer's finances.

Some examples of what the future of Open Banking will look like in practice are beginning to emerge. Swedish fintech startup Minna Technologies, which enables people to manage, switch or cancel their existing utility and media subscriptions, has gone into partnership with Danske Bank to launch its product in Denmark. According to Nordic Business Insider, more than 200,000 Swedes use the service through Swedbank and the startup's stand-alone app. Barclays bank customers in the UK who have a personal or business current account with Lloyds, Halifax, Bank of Scotland, RBS, NatWest, Nationwide or Santander will be able to view their balances and transactions when they log into the Barclays Mobile Banking app. HSBC, with its Connected Money app, Deutsche Bank and BBVA are also enabling their online banking users to aggregate external bank accounts.

Banks are partnering with fintechs for lead generation too. TD Bank has partnered with Roostify, a fintech offering a digital mortgage platform that finds and processes mortgage applications, while Coutts has partnered with Mortgage Brain, a fintech offering voice activated mortgage search. JP Morgan has also partnered with Roostify and set up a disruptive partnership with TrueCar, enabling consumers to set up car finance online before even visiting the car dealership. This way, JP Morgan aims to take a slice of the car loan market that was not previously up for grabs.

Accenture research estimates that different business models could impact up to **80% of existing banking revenues by 2020**[7]

5. Increased consumer focus on data protection driving middleware services.

There is growing consumer interest in how organisations are dealing with their data and an increasing consumer awareness of the value of their personal data to businesses. Yet, at present, if consumers request their data, there is very little that they can do with it. This may change, as new middleware entrants to the market offer consumers the ability to analyse their own data and take advantage of it. In European markets, in particular, where there is a culture of individual consumers gaining control of their own data powered by GDPR, people may choose to use third-party services to control their data. They could do this, perhaps, by using the services that manage data permissions for banks and other businesses to use their personal data, whereby permissions are revoked after a period of time.

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IV. Strategic options for banks

At this time of great change and opportunity, banks have three strategic options:

1. Keep operations in-house and wait and see.

There is no doubt that most banks have been getting their houses in order ready to be responsive to changing opportunities. Smaller and medium size banks, not wanting to be at the bleeding edge of change, are still watching and waiting as the sector transforms and just doing enough to keep on the right side of regulations.

2. Fight for the customer relationship in partnership.

Banks should compare their customer interactions with those of Amazon, Facebook and challenger banks such as Monzo, Revolut and N26, and consider how they can take inspiration from them and think outside of the box. For many banks, this will mean working with new partners. When asked what was their main strategic objective in partnering with fintechs, the majority of banks (85%) aimed to improve customer relationships, while 53% said they wanted partnerships to deliver new capabilities[8].

3. Become the best OpenAPI provider.

The best API providers will go beyond regulation and will provide the richest data feeds in the market. A study from ACI Worldwide and Ovum found that 87% of banks globally plan to move forward with OpenAPIs – a dramatic increase from 2017 – while 92% of European banks have an API development strategy in place (82% in the US)[9]. The PYMNTS December 2018 B2B API Tracker™ forecast the API market to be worth $1bn by the end of 201810. As this model develops, some banks and financial institutions will move away from traditional closed partnership agreements and will become a central marketplace for data. PWC has called this the 'best API wins' model.

V. The way forward - extract value from your financial data

The banking sector stands at an inflection point reminiscent of that facing the telco sector, when it underwent deregulation.

National incumbent carriers, such as BT in the UK, Televerket Sweden and Deutsche Telekom in Germany, lost a large market share after deregulation. Banks that are used to owning the whole value chain, from current account to mortgage, via credit card or savings account, need to act now to protect those revenue streams and be ahead of the pack in developing new ones.

Retail banks have a number of strategic options available to them and the successful banks of the future will be those that effectively extract value from their customers' financial data. PSD2 and GDPR compliance activities can be a stepping stone for banks to transform their customer relationships from one of providing monthly account statements, towards meaningful two-way engagement on a weekly or even daily basis.

Going beyond banking

Meniga is preparing for a future where banks might want to integrate data from social media apps, enrich their transaction feed with customer reviews for stores or restaurants or show data from their fitness app. All this is enabled by obtaining the user's consent and interfacing with the social media platform's APIs.

A study from ACI Worldwide and Ovum found that **87% of banks globally** plan to move forward with OpenAPIs[9]

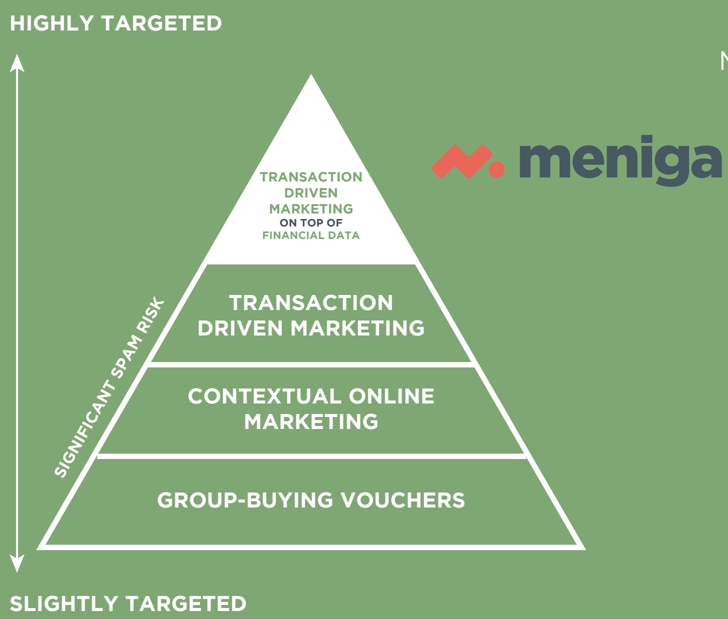
1. Expand the financial data ecosystem beyond the walls of the bank.

Forward-thinking banks that develop a data platform connecting banks, merchants and consumers are in a good position to expand service offerings to non-financial products and services, in partnership with third-party providers, with potential for new revenue streams. This might include using consumer data to source highly personalised offers. These types of extremely targeted offers drive higher engagement levels than traditional loyalty programmes – Meniga's Transaction Driven Marketing (TDM) programme sees opt-in rates of over 90% for active users. In turn, this drives a significant stream of new revenue for the banking sector partner. Íslandsbanki in Iceland has completely replaced all of its loyalty schemes with a transaction-driven rewards programme. And Bank of America's merchant-funded BankAmeriDeals platform offers cashback to customers.

2. Build a compelling digital banking experience.

Most banks are moving forward with an API development strategy. It is vital to use your API to introduce innovative personalised digital banking solutions as soon as possible. The most successful API providers will offer a platform with granular and enriched access to data, ranging from standing orders to demographic data and market data analytics. It is key to monetise access to this data and build close relationships with emerging AISPs (Account Information Service Providers) and PISPs (Payment Initiation Service Providers), building an environment that facilitates meaningful engagement with each individual customer, based on highly personalised financial advice and services. Notification-driven engagement through apps that mimic the best of social media and health tracker apps will mix core banking with personal finance advice.

Competing after PSD2: Transaction Driven Marketing Rewards



Metrics from Meniga's TDM program

More than 90% opt-in rate for active users

600 merchants on platform live to date

6 banks live to date

€5 ARPU (Average Revenue Per User/annum)

Up to €1,000 per annum saved for most active users

3. Offer real-time market intelligence from aggregated consumer data analytics to SME customers.

This could include real-time market share tracking against competitors, right down to store-by-store level, cross-competitor spend profile analysis and demographic segmentation. Businesses buy consumer data from market research companies, but this data is based on interviews, not transaction data. Nedbank launched its MarketEdge market intelligence platform in South Africa, which draws data from card transactions providing businesses that subscribe to the service with granular detail about customer spending patterns, and market data that enables businesses to understand their competition and discover new markets. In Iceland, Íslandsbanki bank is providing offers on top of the Meniga platform. In South America, Columbia-based Bancolumbia has launched Plink, an analytics solution that brings together merchants and consumers, providing value to both — based on the bank's repository of consumer and retailer data.

Build the foundation or miss the innovation boat

Data driven innovation in the post PSD2 and GDPR world cannot happen without a strong foundation of data aggregation and consolidation.

For the past decade Meniga has made the aggregation and consolidation of banking data a cornerstone of its banking innovation platform. In Iceland, Meniga runs a customer-facing app where users can easily track all of their finances, even if they bank with all three major banks which lead the Iceland retail banking market. Around the world we work with 70 banks with some 65 million users. All of those projects owe their success to sophisticated data aggregation, consolidation and processing.

Flexible handling of consents and eIDAS certificates

The new Meniga Aggregation Hub enables third-party providers to initiate payments and aggregate accounts on behalf of end users, provided they have the end user's explicit consent.

V. Introducing the Meniga Aggregation Hub

To enable banks to innovate and take the lead in a post GDPR and PSD2 world, Meniga has developed a cost-effective and simple-to-use aggregation hub which is explicitly built for the Open Banking world.

One-stop shop for data aggregation and payment initiation

The Meniga Aggregation Hub is an aggregation service, built on restful API, which integrates with multiple aggregation partners, anti-fraud system and PSD2 data sources. It provides banks with a single API for financial data aggregation and payment initiation. Data is seamlessly stored, enriched and worked with through the Meniga Digital Banking Platform and its powerful REST API, offering diverse PFM services. Being designed as an independent micro service, the Aggregation Hub can also be used independently of other Meniga products.

Cost-effective & simple API

The new Meniga Aggregation Hub eliminates the complexity of integrating different banking data aggregators and PSD2 standards. Under PSD2, third-party providers initiate payments and aggregate accounts on behalf of end users, provided they have the end user's explicit consent. This is all handled by the Meniga Aggregation Hub.

Flexible delivery model

Aggregation Hub can be set up and run on-premise. Banks can also host the Aggregation Hub on a dedicated SaaS instance operated by Meniga or a multi-tenant SaaS instance which is controlled by Meniga.

Our advice on reacting to PSD2 : Summary

Tackle PSD2 head-on: step up your game - go beyond compliance to defend the relationship to your customers

Be bold in use of data: use personal financial data to deliver value to your customers — before others beat you to it

Work with agile Fin Techs: use the Fin Tech community to help elevate to excellence in non-core activities

Learn from the best in: avoid re-inventing the wheel — apply best practice to your own platforms

Get moving ASAP: The clock is ticking — make a plan and start executing as soon as possible

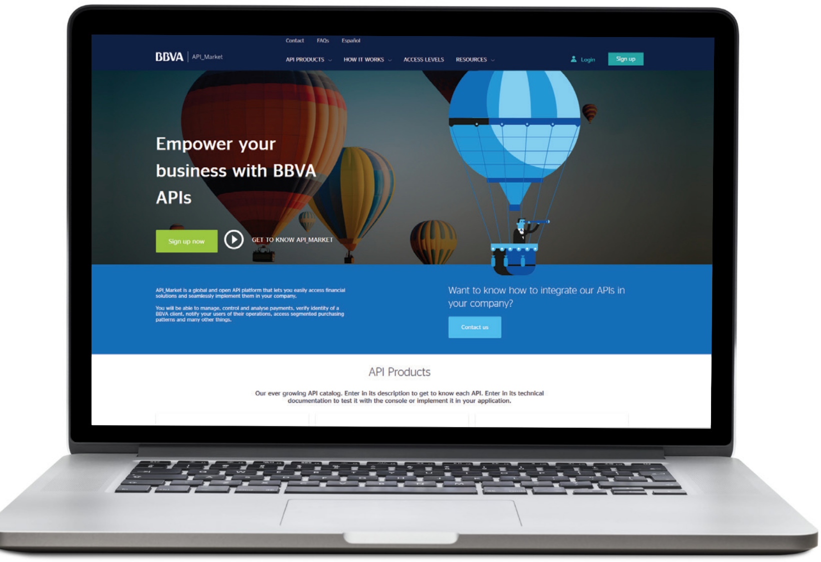
VI. Be a better bank

The foundations of a new banking model are being built. Banks have had to cope with many regulatory changes and it may seem that some have missed the boat in terms of keeping up with fintech developments.

However, banks have the opportunity to not just catch up, but completely redefine relationships with customers, and do better than they have ever done before – if they take advantage of the data they have and use it well.

Managing data privacy effectively is one of the big topics of our time. Consumers are waking up to a realisation of just how much of their personal data is out there – and that has been out of their control, until now.

The game-changing regulations of 2018 are driving investment into new solutions and infrastructure in the banking sector, which will result in more choice for consumers and better prices. In this climate of innovation, there is no doubt that in 2019, market-leading service offerings will emerge. It is impossible to predict what these will be, so established banks and newer entrants are readying their API platforms for whatever the market may bring. The winners will be banks that maximise the new regulatory environment and use open data effectively to drive meaningful customer engagement and develop new revenue streams.



Case study: Best practice at BBVA

BBVA bank has set up an API market, which it describes as a platform of financial APIs from different BBVA entities or countries, including Spain, Mexico and the US. PSD2 entered into force in Spain on 24 November 2018. Companies, small businesses and developers interested in building value-added services based on financial APIs can sign up and test them in a sandbox environment free of charge. The bank will then approve the resulting applications and agree a fee for transitioning into and using the production environment

Pan-European Open Banking

Banking and payment card businesses across Europe are collaborating to create a financial platform based on an open API model. Alior Bank has announced a pan-European collaboration with Raisin, solarisBank and Mastercard.11 When someone opens a bank account on solarisBank, they will immediately receive access to multi-currency accounts with Alior and Raisin's savings options.

ING bank has announced plans to expand its UK smart money app to France and Italy as part of its ambition to build a pan-European money platform. Yolt helps users to actively manage their personal finances with a one-stop overview of their accounts with the majority of UK banks. ING's strategy is to disrupt banking by growing fintechs of its own, and innovating by partnering with more than 150 fintechs, while focussing on creating a differentiating experience.[12]

User experience is king

There is a real risk that traditional banks will become disintermediated from their customers if they do not focus on user experience. Banks can no longer take it for granted that consumers will continue to use their channels if third parties and even other banks are offering easier and more rewarding access to data-driven services. As more and more sales are driven through banks' digital channels, they need to make sure that their product offerings are being seen at the right time, capitalising on making sure that these offerings are relevant, timely and being noticed – hence the need for features like an activity feed to be that dialogue channel with the customer

It is vital to get the basics right before delighting consumers with additional services that are the icing on the cake. New banks such as Monzo and Revolut are achieving traction by getting the basics right. These new entrants don't necessarily have more advanced technology, but using their app for basic banking is easy; user experience is driving their success.

There is a lot of talk about building sophisticated algorithmic AI-driven engagement, but simplicity is key to success. Monzo's popularity shows customers want easily achievable categorisation of their spending and goal setting for budgeting or saving.

A focus on the user experience will help banks differentiate through superior functionality. This might include automated, notification-driven personal finance insights, such as alerts for unusual spending and low balances, as well as insightful nuggets on spending behaviour. Playful savings challenges and personalised offers will help ensure users are engaged, spread the word and keep coming back for more.

ING's strategy is to disrupt banking by growing fintechs of its own, and **innovating by partnering with more than 150 fintechs**, while focussing on creating a differentiating experience.[12]

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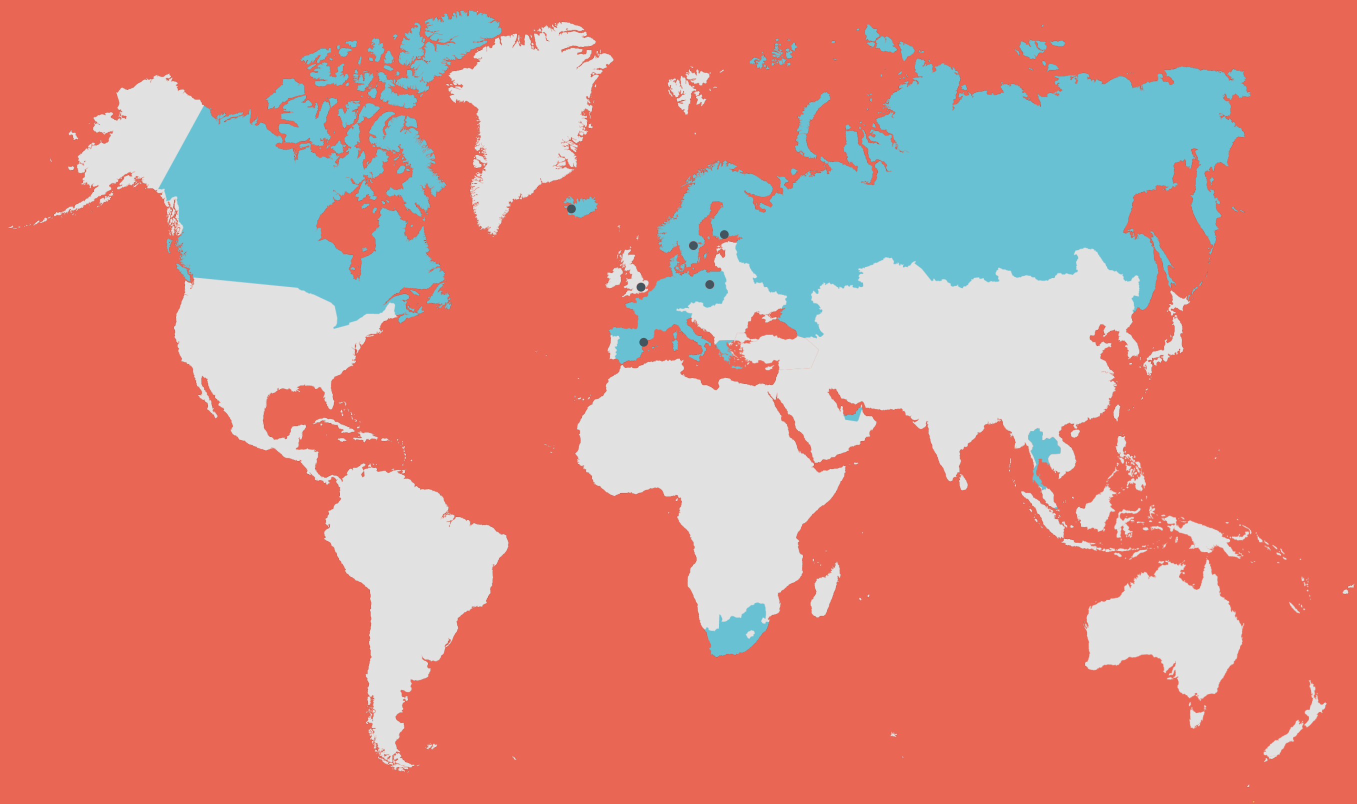
Meniga helps leading banks worldwide build meaningful customer engagement and develop new revenue streams.

Meniga is a global leader in white-label digital banking solutions. Its award-winning products enable the world's largest financial institutions, such as Unicredit, Santander, Swedbank, BPCE, Commerzbank, Intesa, UOB and ING Direct to personalise and dramatically improve their online and mobile digital environment, enriching the user experience of over 65 million digital banking users across 30 countries. Meniga has developed a framework for next-generation digital banking around advanced data consolidation and enrichment, meaningful customer engagement and new revenue opportunities. Meniga's offices are in London, Reykjavik, Stockholm, Helsinki, Warsaw and Barcelona.

Meniga was awarded "Best of Show" at Finovate Europe in 2011, 2013, 2015 and 2018, "Best Company" at European Fintech Awards 2017 and was featured on Fintech50 in 2014, 2016 and 2017.

Meniga was founded in 2009 and is headquartered in London, UK



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