bud

Beyond Open Banking

What people want and how the industry is going to provide it

Introduction and methodology

This report is designed to build an understanding around a single key question - what happens next after Open Banking?

In order to answer that question we needed to understand two key areas. Firstly, where is there demand now, what do people want from open banking and how can we infer from that demand where future demand will fall. Secondly, we needed to understand what the industry viewpoint is - how are companies gearing up to fulfil that demand?

Our response to this challenge was to commission two independent pieces of research. We worked with YouGov to develop a consumer barometer, testing demand for 21 use-cases - hypothetical banking features. We asked users if they would use a feature or not and, as a proxy for their level of intent we asked them if they would:

- Use the feature if their bank provided it
- Download a standalone app to use the feature
- Switch banks to a bank that offered it if theirs didn't

In order to provide a more granular level of insight, responders provided data on, amongst other things, their income bracket, age, gender, parental status, primary bank account provider, and any fintech products they had adopted.

In assessing the state of the industry response we worked with a number of fintech journalists to curate a sample of 50 leading UK fintechs. We then interviewed tech leaders at each with a set of questions around their API capabilities and strategy, the importance of third party distributors in their economic models and their expectations of industry progress.

The consumer survey data shows that responding to problems raised people's natural inertia will require fintech APIs that can meet the minimum requirements necessary to deliver a connected experience. In order to assess readiness for this we broke down the APIs into one of five categories

1. Read - API enables people view data held on them in a third party application
2. Read + write - as above + the ability to edit that data
3. Read + write + create: As above + the ability to create new customer accounts
4. Read + write + create + fulfil: As above + the ability to acquire financial products
5. Read + write + create + fulfil + transact: As above + the ability to initiate transactions

APIs in stages 4 or 5 are considered marketplace ready

The results of both of these surveys were analysed by Bud's data and commercial teams alongside independent banking industry experts. The analysis forms the basis for the rest of this report.

Executive Summary

The data from the consumer survey clearly shows that there is a real opportunity for banks and fintechs to work together in a model that aligns their interests with their customers'. It shows that people are apathetic about the many small changes that come together to improve their financial situations but they are open to new solutions if delivered in the right context and that some demographics have a particularly acute need. It shows that concerns around privacy and security are real but that people balance those concerns against the perceived value that services offer. Finally, it shows that banks are uniquely positioned as a trusted partner in minimising the risks of security and privacy breaches.

This picture is mirrored in our survey of fintech leaders. The demand is there, the fintechs are working on new distribution models and recognise the opportunity that marketplace banks offer. The current state of readiness is enabling early use cases and the next 6-12 months will see big steps forward in the industry's capacity to meet the latent demand. There are challenges around regulation and partnership but this too is an area where significant progress is being made.

Marketplace banks are coming and mass adoption is probably around 2 years away.

The question is, how will you prepare for it?

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Section 1

Short term developments for people and the industry

The beginnings of marketplace: The next 2 years

The first steps towards a mature model

Open Banking, in the first 18 months since its January 2018 launch initially provided plenty of column inches for pessimists supposedly expecting some sort of digital Rome, built in a day. That obviously didn't happen. There was a slow start in encouraging financial institutions, particularly the nine largest banks that the new regime was designed to shake-up, to get going.

Recent signs suggest momentum is now gathering a quicker pace in the sector. Friction is being removed, data portability is becoming easier and more and more firms are seeing the value that robust APIs, strong fintech partnerships and a mindset to improve outcomes for consumers brings.

By requiring banks to make customers' data available to third parties, at their request, a new era of fintech disruption has begun. Firms, whether they be banking challengers or providers of other services, could now help banks build some really useful things. In fact, they stand poised to totally transform the UK banking industry and the way we use and manage our money every day through competitive and fully integrated marketplaces.

So what could the next few years bring?

Who could be some of the earliest beneficiaries from the mass adoption of marketplace banking?

In putting this report together, Bud collected data from 50 CEOs, CTOs and other senior fintech leaders about their plans and strategies to use APIs and marketplace banks to grow their businesses.

Nearly all said they had ambitions to develop their APIs further and 75 per cent said that they expected developing their API further will become a more important project over the next 12 months. In total 70 per cent said they had read APIs.

We also asked them what could likely be early 'wins'. While many expect the medium term to bring about big things, there are still likely services that can kick start mass adoption in the shorter term.

One of the most common answers was bringing cash savings products into the banking marketplace, which was mentioned by two thirds of responders.

While cash has become arguably less attractive in recent years as an asset class owing to historically low interest rates, and ahead of potential further cuts in the event of Brexit-induced cataclysm, cash has been a fertile ground for digital banks looking to add attractive features.

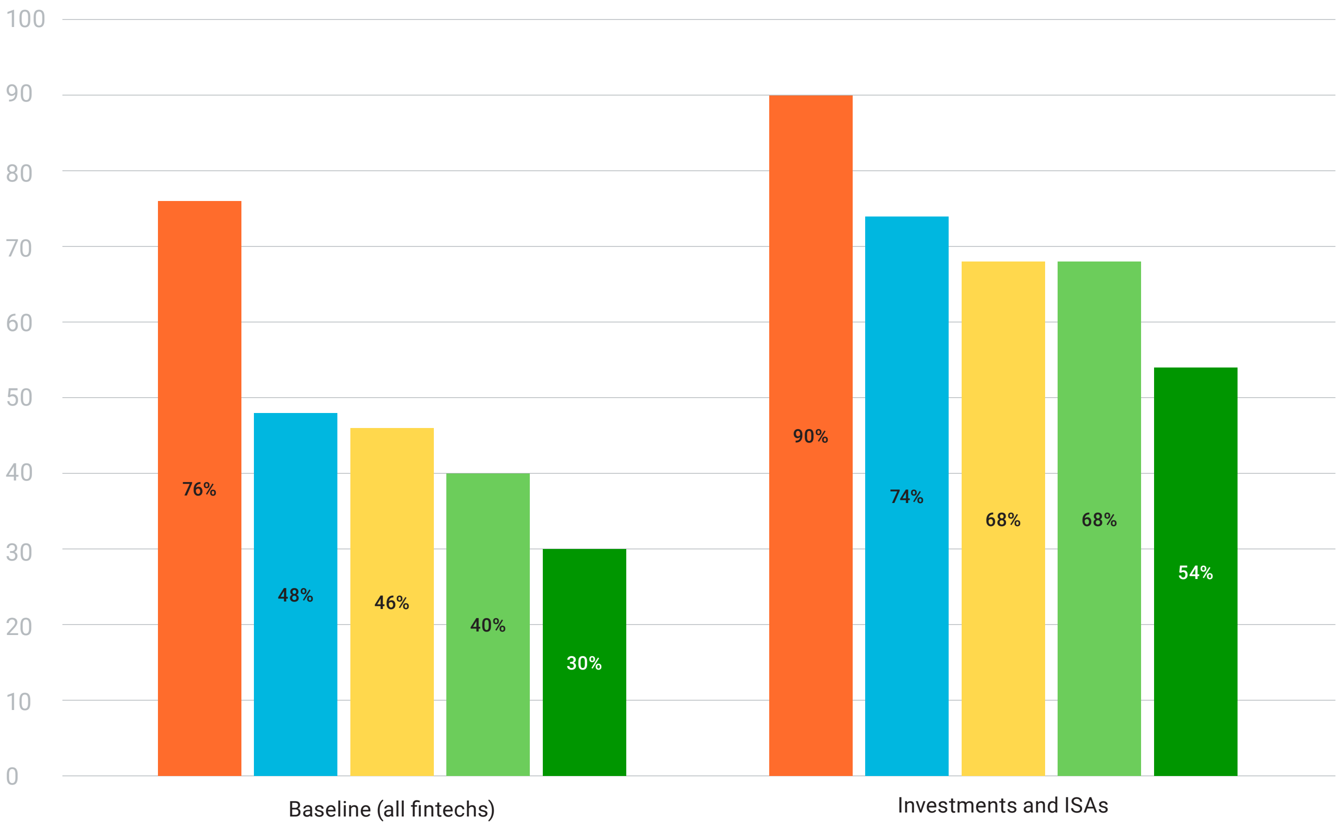
Investment bank Investec and challenger bank OakNorth have both been prominent third party providers of cash savings accounts for customers for the likes of Monzo, Starling Bank and Moneybox. Goldman Sachs meanwhile has attracted more than £6.5bn with its cash savings platform Marcus in a short space of time. So why could cash fit easily into marketplace integrations?

Cash savings is a staggeringly big market with approximately £270bn sitting in cash ISAs alone, according to the latest figures for the 2017/18 tax year from HMRC. There are also over 1000 UK providers of cash ISAs offering vastly different rates and yet it doesn't really matter where your cash is parked. What matters is the interest paid on it and the speed at which you access it.

With just 9 per cent of savers having switched their easy-access account to another provider in three years, according to research from the Financial Conduct Authority, the market needs improving and only two simple variables determine consumer competition.

In our own research of attitudes among 2000 UK consumers, we found that only 6 per cent of customers would switch banks to a provider that had a feature to move spare money automatically at the end of the month into a savings or investment account, but an average 40% would use

Investments vs Baseline fintech API readiness



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% of Total weighted number of responses for each functional area of the features in the survey. Colour shows detail about response. The marks are labelled by the % of Fintechs from our sample reporting functionality available through external APIs

Early steps could include any simple, transactional products where customers are used to making snap decisions. "anything where the alternative is going to a comparison site"

this if the feature was available within an existing account. This figure also rises when personal income rises, to near to 50 per cent for all income brackets over £30k per year.

The numbers are also highly correlated with age, with 58 per cent of those aged 25-34 saying they would use this feature if it existed in their main banking app compared to just 28 per cent of those responders aged over 55.

As well as savings, other simple transactional products could be early beneficiaries of marketplace banks, a number of fintech leaders said. They have "fewer sandbags around them," according to Rob Fairfield, VP Platform at Trussle.

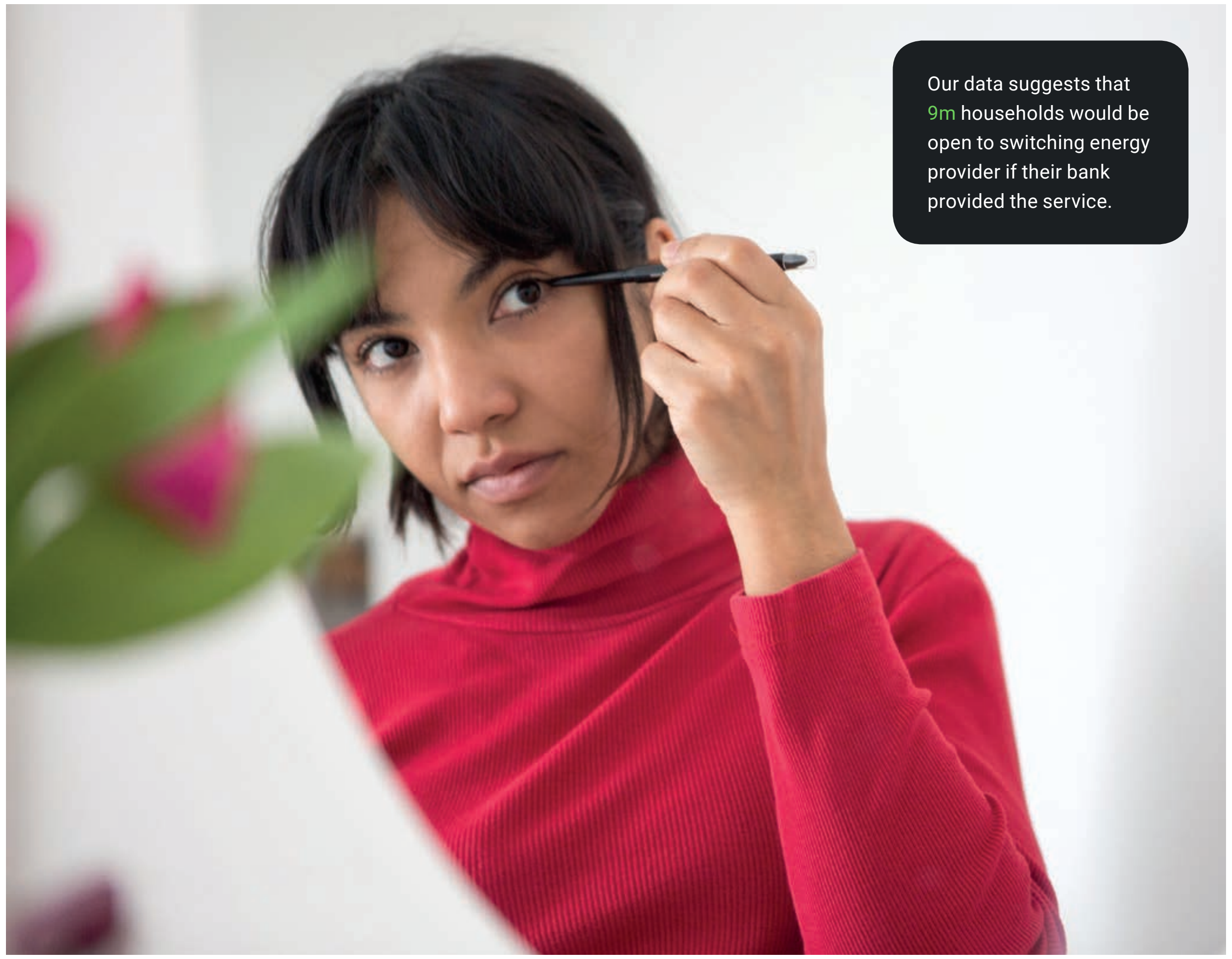
"These could be overdrafts, small loans, credit cards perhaps even car finance. Anything where the alternative is going to comparison sites today and customers are used to making snap decisions," he said.

'Sandbags' in this instance refers to regulatory hurdles. The more complex the financial product, the more complex the regulations that surround it. Easier 'wins' could include rent recognition for borrowing, utilities switching – something CYBG is already doing, and comparisons across other products such as mobile phone costs or internet providers. In all these product verticals data plus API connectivity can offer consumers upfront ways to save money and plan for a better future through more targeted financial products.

But what about incumbents, how should they respond to the coming shift? People want these services but want them in an environment that they're familiar with and feel secure in, as our research shows. The desire for it is there, disruptive firms want to provide it and the infrastructure is beginning to support it.

For banking giants and challengers alike the battle for the most viable future business model is a quickly moving target but there are ways for both poacher and gamekeeper to benefit now.

A closer look: Switching



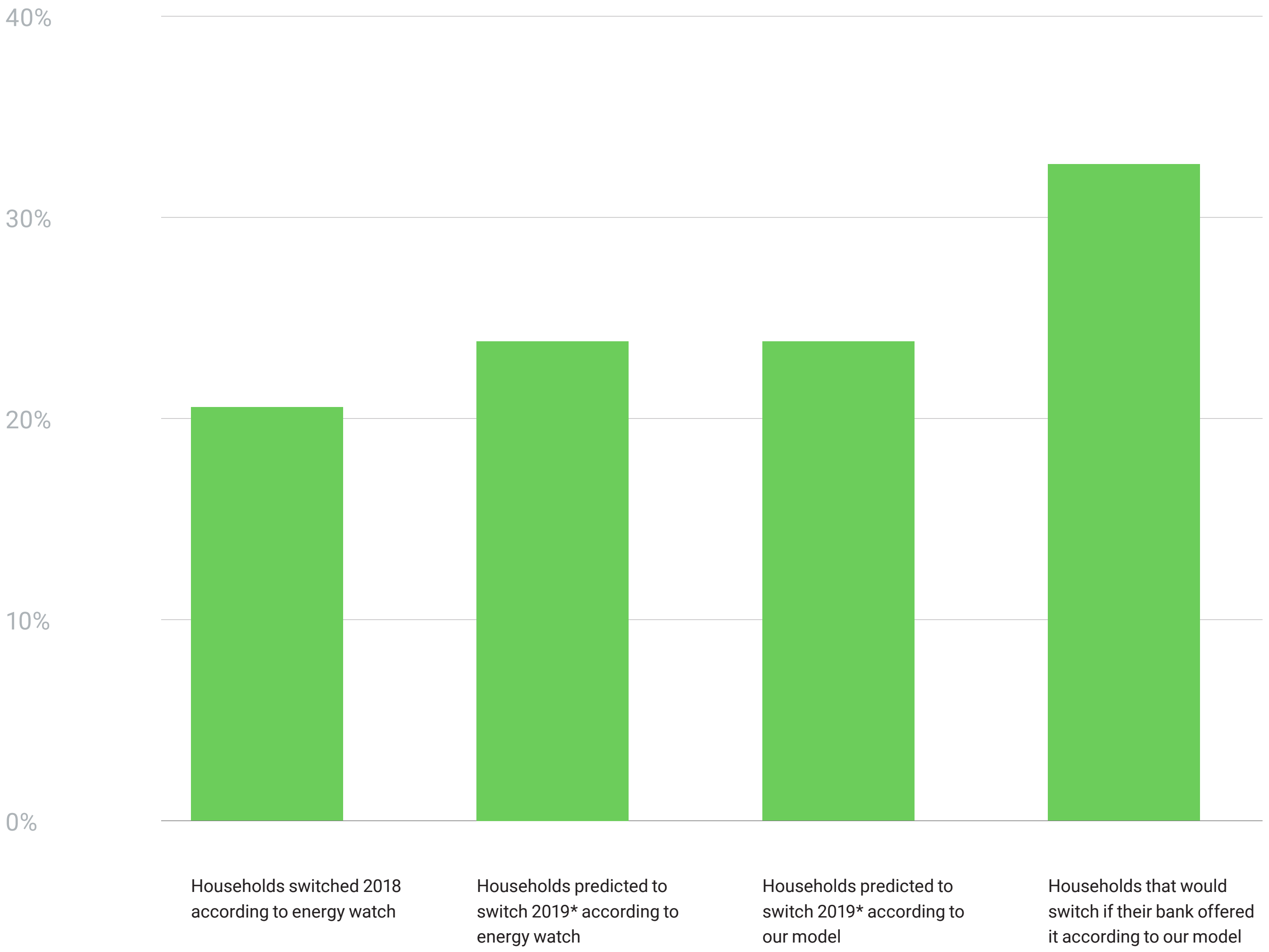
Open Banking, whilst a powerful tool for the industry, is meaningless to customers unless it actually affects their lives – and energy switching is a prime example of this.

According to Energy UK1, 5.8m of the 27.2m UK households (21.3%) changed provider in 2018, whilst in our survey 24% of people suggested that they would either download a standalone app or switch banks to access easier switching services. If we account for the 14%2 increase in switching reported by Energy Watch in the first six months of 2019, the projected number would be 6.12m – an identical 24%.

Capitalising on this is an opportunity available exclusively to the provider that customers turn to most often when it comes to managing their day to day finances, normally holders of the primary current account.

This new market can only be delivered in an environment where increased trust reduces the barriers to switching, where access to unique datasets increases the capacity to create relevant triggers (e.g. detecting a higher than usual bill payment,) and where portable KYC information allows for a dramatic reduction in friction through-out the process. Together, banks working with fintechs possess all of the necessary capacity to deliver this now.

The number of people predicted to switch energy provider in 2019 exactly matched the number of people in our survey who said they'd switch banks or download an app that helped them to switch energy providers. If we project the same level of accuracy to the people who would be open to an in-app switching service but wouldn't actively seek one, we get a figure of 9m households in the UK.



How we can help
Bud's intelligent marketplace provides all the third parties and APIs necessary to perform end-to-end utility switching journeys in-app, with mobile and broadband coming soon. Contact insight@thisisbud.com for more information

Where the banks are now: Challenger perspectives

Pictured: Anna Mitchell, right; and Will Sorby, below

An interview with Anna Mitchell, Head of Marketplace of Starling, UK and Will Sorby, General Manager of N26, UK

"We've proven the initial concept, now it's time for us to evolve the next iteration and bring in a smarter marketplace"
— Anna Mitchell

The utopian promise of open banking, it is fair to say, is yet to materialise fully formed but more recently things have started to shift quickly. Many digital banks and other fintech firms are investing substantial resources in building out the early versions of marketplace banking platforms and integrations.

That is particularly true for Starling Bank, who built out one of the first marketplaces, populated with a number of third-party integrations, for its customers nearly two years ago at the end of 2017.

Now, with the spectre of growing momentum among fintech firms prioritising API development and incumbents apparently looking to build their own marketplaces, banking challenger models are both evolving and diverging as the space becomes more crowded.

Anna Mitchell, head of marketplace at Starling Bank, says we are currently seeing the rise and rise of the API economy and that marketplace banking is one likely beneficiary.

"We focus on our core banking proposition and ensure we have the best business and customer accounts and then partner with best in class providers [for the Starling Marketplace]," she said.

"As the API economy sees more and more entities catch up to where we are, you are going to unlock further opportunities and deeper integrations," she added.

Mitchell, who joined Starling at the start of 2019 from OVO Energy, says PSD2 and other regulation is pushing incumbents too in the general direction of marketplaces but adds "it might take a bit of time". She says that there is an overt improvement in the quality of integrations as more firms look to build out externally accessible APIs.

"We are starting to see clusters of early movers. It needs to be a much more connected industry, where you have an increasing number of integrated partnerships and data."

It is not the only emerging model, however, as N26's UK general manager Will Sorby points out.

"There will be a space somewhere in the market for a marketplace model. I don't believe that will be the mass market solution that takes off and really transforms banking," he said.

N26, he adds, is not planning on becoming a marketplace bank any time soon.
"Our vision is very much about having everything in one place in the most simple way possible."

Sorby says, to this end, that the firm, is less focused on pure customer number growth as a metric at present and more on engagement with the N26 banking app for customers on a day to day basis.

For us, it is about helping customers understand their finances better and then guiding them to the products that are the most suitable and add the most value for them in their daily lives." he said.

Since launching in the UK in just under one year ago, N26 now has approximately 200,00 UK customers, with 3.5 million across Europe.

Starling, which has about 820,00 accounts with a goal of 1 million by the end of 2019,

“

As the API economy sees more and more entities catch up to where we are, you are going to unlock further opportunities and deeper integrations

Anna Mitchell

which it says will now easily reach, now has a total of 16 marketplace integrations including Pensionbee and Habito. These are exclusively for its retail customers while the likes of Xero and Growth Street serve its business customers.

Starling’s plan over the medium term, Mitchell says is to build out its market pace further with a goal of having 48 partner integrations by 2023.

“We have now proven the initial concept, now it’s time for us to evolve the next iteration and bring in a smarter marketplace.

The efforts to evolve the marketplace are nested in the £100m award from the Banking Competition Remedies (BCR) fund in February following which Starling made a commitment to help SME customers.
“It’s a high priority and a cornerstone of Starling. We want to add value to our customers and the marketplace is the means to an ends,” she said.

For some of the firms launching marketplaces, Sorby says, the strategy is being drive as a way to build revenue first.

“What you are seeing is banking products being built in a compare the market setup. If it is done really well then it will be of great interest to customers because you’re saving them money,” he said.

“What we are trying to build for our customers is not about saving them money on a commodity insurance product. It is about giving them something that helps them with their daily financial lives.”

“It is thinking of the customer first rather than the business first.”

Sorby adds that the big risk to marketplace banking is whether it delivers something that customers want to use but that there will likely be space for several different models over the medium term.

Both Starling Bank and N26 focus on harnessing the potential power of technology and delivering improved products and ultimately value to their respective and rapidly growing customer base as well as growing revenues over time to match their rapid growth in users.

Their respective models, however, are increasingly different with Starling pursuing a next generation marketplace approach with an expanding number of partner integrations. N26 aiming for loyal customers doing everything within the bank’s app that is as simple and straight forward to use. Both could be successful but which model will larger incumbents follow suit?

No doubt there will be examples of both but incumbents do have a potentially good reason to follow a marketplace model.

Bud’s insights, explored in the first section of the report generated by a recent survey of 2000 adults showed that many customers do want marketplace features but apathy is not on the challengers’ side.

Only a small percentage of the 2000 people taking part in our survey said they would switch banks for open banking-style functionality, typically between 3 and 7 per cent, (and that group - the pro-switchers correlated highly with people who were already challenger bank customers,) but at least five times more said they would use the functionality it if it existed in their existing banking app. The innovation being driven by challengers is impressive but customer apathy is still on the incumbents’ side.
The retention challenge for banks will be to move before the challengers can establish new norms - something that is already happening with services like categorisation of transactions.

With divorce more common than a change of bank, how can banks and fintechs work together to address the loyalty penalty?

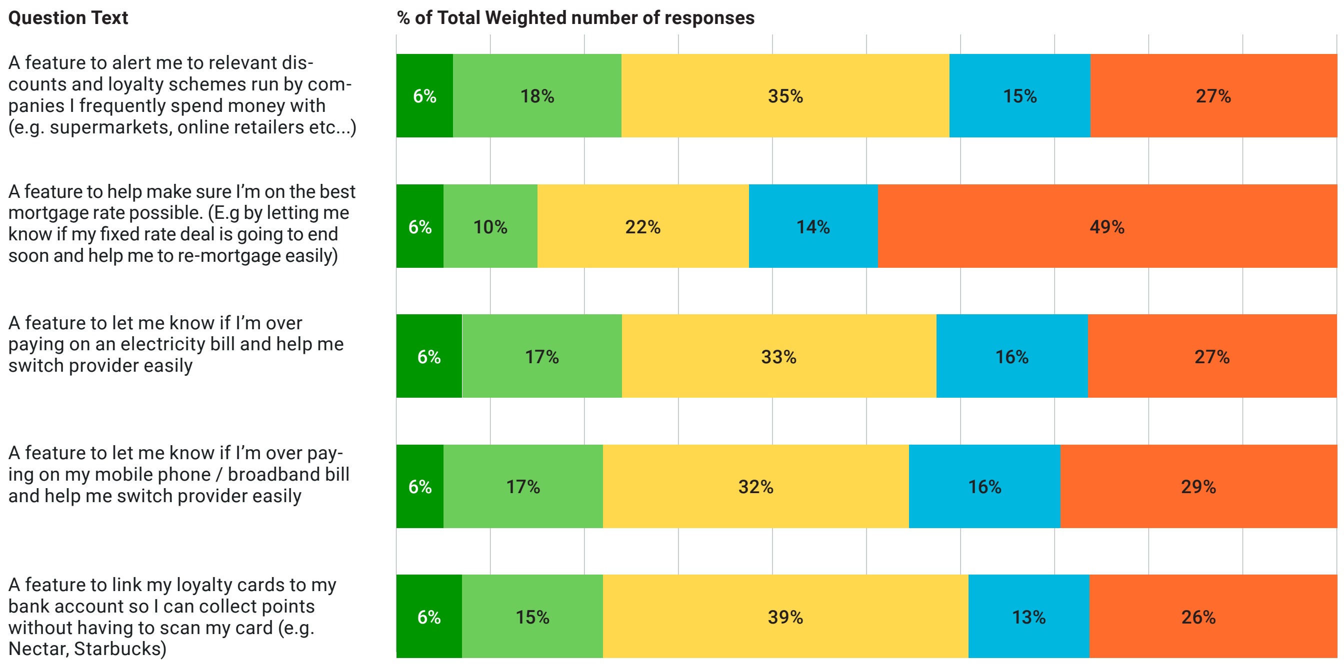
Friction in financial services: Loyalty and Switching

You would think that top of any good businesses' priorities is to reward long term customers' loyalty, but what if they don't really need to worry too much in order to hang onto them? Across huge chunks of the retail economy, customers consistently lose out by staying with the same provider for many years - to the extent that a new term has entered the lexicon to expose the irony of this apathy: The loyalty penalty.

Last year, the Competition and Markets Authority received a complaint from the charity Citizens Advice which said that customers in five markets — including telecoms, mortgages and savings — were losing out to the tune of £4bn a year owing to the loyalty penalty. In short, the system was broken, but could a digital fix be around the corner?

The depressing truth is that divorce is more common than current account switching. You are more likely to stay with your bank than with your spouse. It is no surprise

Switching and **loyalty** use cases



- Not applicable – I would not use or consider using this feature
- Don't Know
- Would use if available on my bank's online/mobile app
- Would consider if using a standalone app for this
- Would consider switching banks to use this feature

% of Total weighted number of responses for each functional area of the features in the survey. Colour shows detail about response. The marks are labelled by the % of total weighted number of responses.

There are two ways to tackle the loyalty penalty, making loyalty more attractive and making switching easier. Open Banking creates new possibilities for both.

therefore that profound customer apathy for switching was one of the findings of Bud's consumer survey. Despite this, the UK's retail banking market, still concentrated among just a handful of firms, is becoming an intensely disrupted industry.

Technology can already help fix this problem on both sides of the issue - both by rewarding loyalty and by making switching easier and less time-consuming.

Following the launch of Open Banking and the emergence of a burgeoning marketplace ecosystem in the past 18 months, banks keen to innovative before the competition, are increasingly embracing integrations from third parties and working with fintechs that can do this but more should follow suit.

In Bud's customer survey between 5 and 7% of responders said they would switch banks in order to get helpful new marketplace features such as being shown greater visibility on bills or how to get better interest rates when taking out credit. However, up to

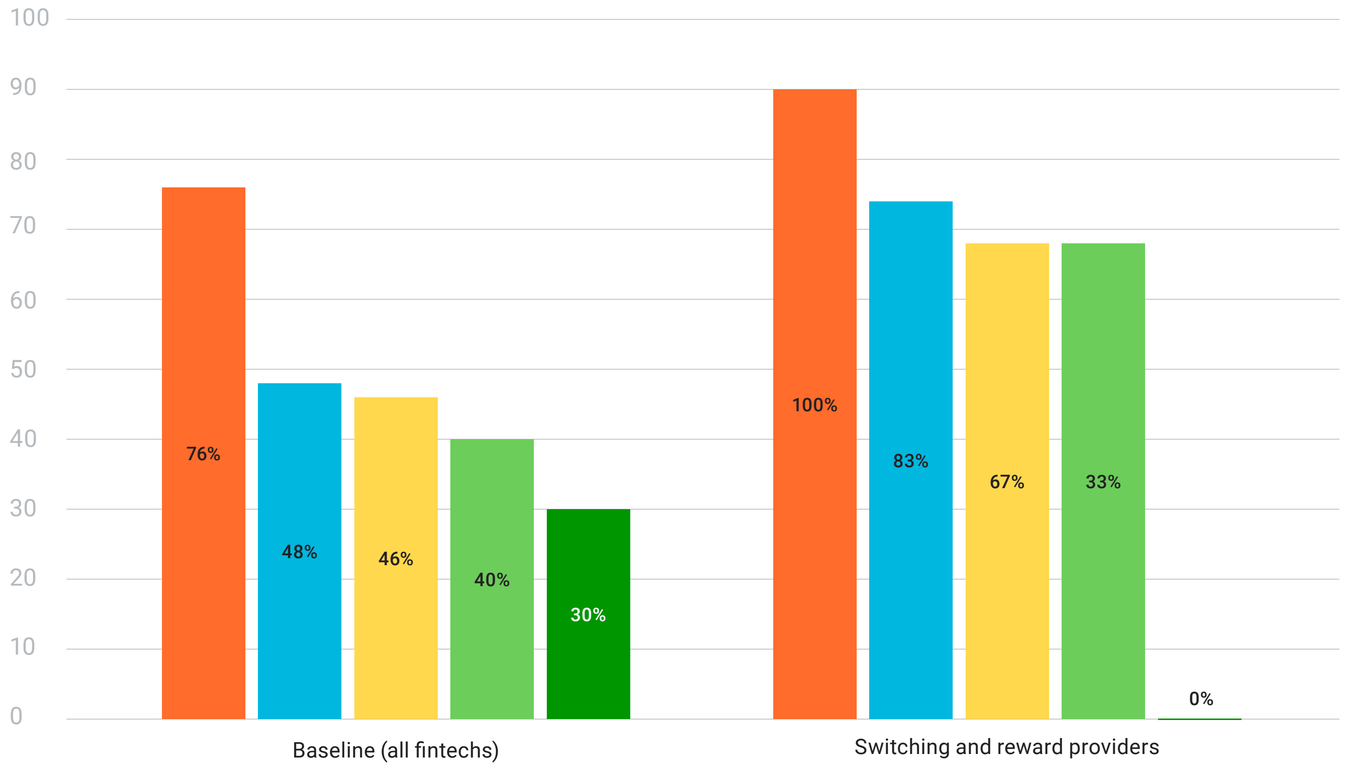
40% said they would use these services if they were offered within their existing banks' online service or mobile app suggesting an inherent existing apathy that may prove an advantage to banks moving to a marketplace model.

Going a level deeper, the data in our survey show these features are more popular with younger people. We found that 57% of total responders would use a feature that would "let me know if I was overpaying on an energy bill and help me switch provider easily". This rises to 68% in total for younger people; those aged between 18 and 34 of whom more than half would only use the feature if it was available in their bank's app. Younger savvy customers may not be too keen to find the best deals, but they're open to it if it comes to them.

When it comes to the other side of the coin, making loyalty more attractive, Flux is a great example of a fintech company that is using data to attack the problem. Its initial task is " liberating" a data set that has not been available before: paper receipts. Through partnerships with the likes of Barclays, Monzo and Starling Bank, it has created over 500,000 digital receipts since launching two years ago. This is not simply a more efficient way and to save on paper. Being digital allows the data to be interrogated that otherwise would not have been used and removes the need for physical loyalty cards.

The standard 'stamp' card - where you buy nine coffees and get the tenth free - is easy to digitise and currently represents about half of what flux does in the space. In the

Switching and Rewards vs Baseline fintech API readiness



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% of Fintechs from our sample reporting functionality available through external APIs. Colour shows detail about response. The marks are labelled by the % of total weighted number of responses.

longer-term, the firm is looking to provide more convenience to customers by digitising 'points' based loyalty rewards schemes. Think Tesco club card.

We tend to forget our loyalty cards or not wish to carry around a dozen or so at one time and therefore not use them as much as we should.

Integrations like Flux help by saving customers money and making things easier: a double win for those looking to take charge of their finances with ease.

API marketplaces are key to powering both sides of the industry's response to the problem posed by the loyalty penalty, helping to fundamentally evolve the portability of personal data. It's this portability that underpins both CYBG's in-app switching and Flux's loyalty solution.

"The partnerships and collaboration that marketplace banking fosters is the key to the future success of so many fintechs, including Flux, " says Roisin Levine, head of banks at Flux.

The loyalty penalty exists in greater force where there is a lack of competition, something that has been improving in banking in recent years but still has a huge way to go. The technology that can help with this is already here, especially in lighter touch markets.

Offering their customers more choice and better value by harnessing both loyalty and switching using this technology will therefore likely be a winning strategy for large banks when it comes maximising customer satisfaction in the first few years of adoption of marketplace banking.

Firms ignoring the new world of connectivity and transparency will be hit hard, and where it hurts the most.

Liberating data from 11bn receipts

An interview with Flux CTO Tom Reay

"Would you like your receipt?" We all get asked this question hundreds, if not thousands of times a year and give it little thought apart from whether we might need to return the item or are concerned about the shop's security guard loitering over by the exit.

Data, as you know, underpins the disruptive potential of fintech. A huge data set, one of the most valuable from a consumer perspective has however remained in the analogue world. That's the belief of Flux, a recently launched fintech firm, which is trying to digitise the UK's 11.2bn annual receipts and bring the data into the marketplace banking ecosystem.

"We're trying to liberate the world's receipt data," said its chief technology officer (CTO) Tom Reay.

"The crazy thing is that you have all this valuable data and then it just doesn't go anywhere. It's not available to you as a customer or your bank," he added.

Reay was an early employee at Revolut, joining in 2014, where he was VP Development but left after two years to join Experian. After just nine months he joined ex-colleague, and former chief marketing officer at Revolut, Matty Cusden-Ross and Veronique Merriam Barbosa, who was Revolut's head of partnerships, at the newly launched Flux.

The firm is part of an emerging banking ecosystem that is uninterested in standalone apps and more focused to plugging into fast growing challenger banks as well as well-known big banks that recognise the importance of embracing a marketplace style in order to serve customers more.

The UK banking market, whilst undergoing huge disruption, is still incredibly concentrated with the vast majority of customers still banking with traditional providers. A 2016 investigation by the Competition and Markets Authority found that since 2005 Lloyds, Barclays, HSBC and RBS - the 'Big Four' had seen their market share fall by just 5% to 70% of the market. Of course, this has changed

in three years but still means for fintechs leveraging open banking there are huge benefits to working with traditional players as well as the newer digital banks.

Flux users activate their wallet by going into their Barclays, Starling Bank or Monzo apps (Flux has partnerships with all three) and requesting that their data is shared with Flux. Their transactions are connected to Flux's systems and monitored in real time. So far the firm has created over 500,000 digital receipts since launching its services in April 2017, growth becomes exponential as each new merchant or bank is on-boarded.

Currently, the firm has merchant partnerships with EAT, KFC, Itsu, Pod and Pure as well as a specific loyalty partnership with KFC.

Receipts are just the first part of the company's plans, however. The idea, Reay explains, around Flux is by unlocking that data and, through open APIs, giving people access to it you open up a new world of banking potential through the marketplace. When you know what someone is buying at a product level you can attribute loyalty points or rewards where you otherwise might have missed them. You can

"Switching is the same thing. If you're presented with the option to press one button to switch then you're much more likely to do it than if it takes 10 minutes. It's what the big banks are most scared of"

then provide offers that are far more relevant to that customer.

"When we see that you have scanned the loyalty card at KFC you can link that to Flux and then every time you spend money at KFC we'll automatically swipe that card for you and you don't have to remember your card. Brands want to own their loyalty schemes, what we can do is provide a much better service to the customer," Reay said.

By fostering competition, and providing an extra layer of information on purchase data, flux is becoming more and more part of the marketplace banking ecosystem. This in turn is reshaping the notion of customer loyalty and lowering the friction involved in changing suppliers of a host of services.

"If it becomes trivial to switch why would you be loyal? Every time you make the thing that you should be doing easier, the more likely you are to do it," Reay said.

"Switching is the same thing. If you're presented with the option to press one button to switch then you're much more likely to do it than if it takes 10 minutes. It's what the big banks are most scared of," he added.

These earlier wins for marketplace banking are clearly positive and beneficial for customers but, Reay says after this is likely to come innovation that no-one could conceive of having existed in the first place.

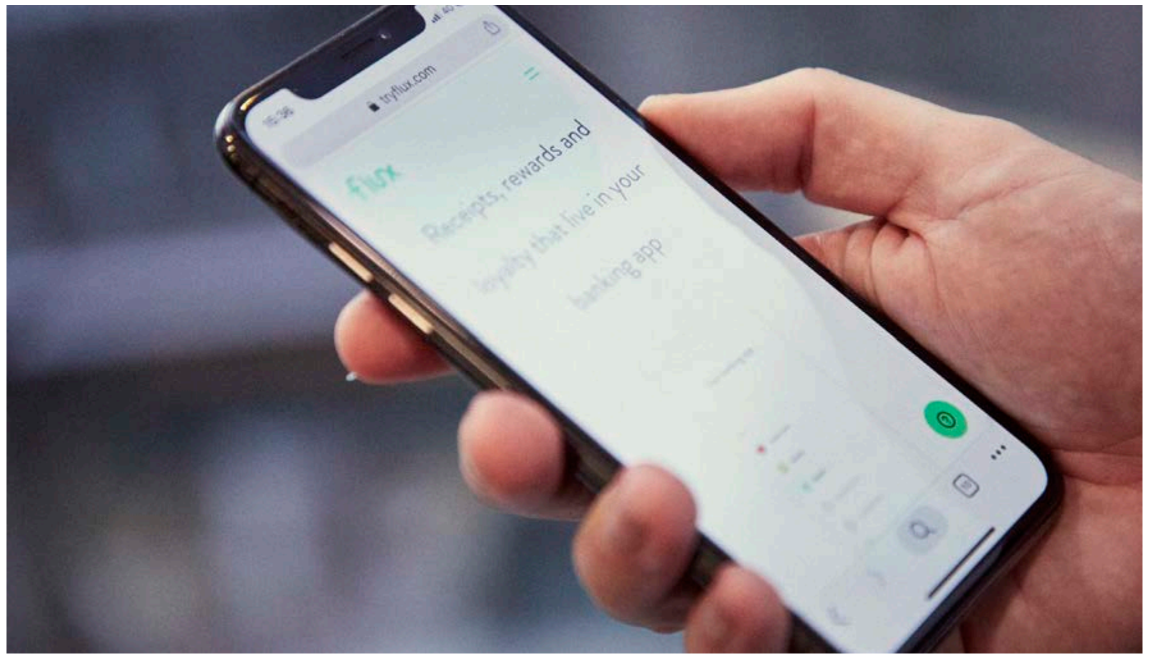
"That's why having APIs that are open and restricted to a specific use case and making the data available to developers who want to build stuff is important. That's really exciting for us.

"When the iPhone launched you could never have considered Uber. Once all of the key parts were in place that's when Uber came along," he said.

Having an open API is central to the firm's operations Reay says and that developing the firms API has become more important in the last 12 months and that he intends for its development to become more important still in the next 12 months.

"Without it, we can't do anything."

The humble receipt may yet prove win over a new generation of fans as it helps to save money and reward customer loyalty, as well as cut down on all those annoying cards. After all, the API economy has already convinced us that strangers' cars are a preferable option to get from A to B. But, companies like Flux also offer way more still as this data flows back into customers hands and out of the waste paper basket.



Section 2

What a mature marketplace model means both for people and for the industry

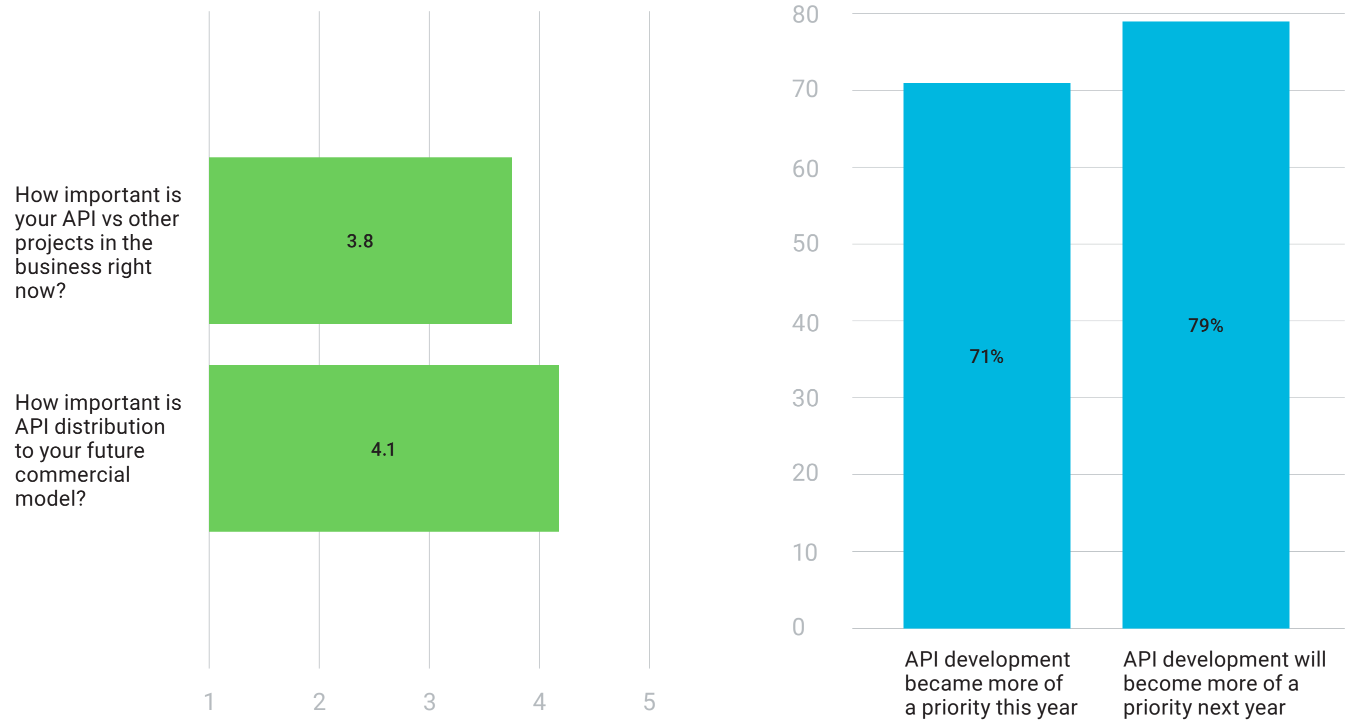
The medium term and beyond

On average, CTOs we talked to said marketplace banking would be a reality of every day life with 2.3 years. What does it look like after that?

A decade can be a long time in banking. Just look at the last one. The creative destruction wrought by the Global Financial Crisis coupled with the birth of the smartphone conspired to create an almost unimaginable revolution on the retail banking and personal finance landscape. It has improved user experience, lowered costs and even made people choose to wear a t-shirt with their favourite bank's logo around London.

Similarly today another rewiring is happening that looks set to be even more revolutionary although most people could be forgiven for not being aware it exists. Open Banking and PSD2 allow customers to grant third parties access to their payment account information or to make payments on their behalf. Both are important milestones but just a first step in what may be around the corner.

To what extent are fintechs prioritising **API development**?



"We tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run."

— Roy Amara

This new connectivity both empowers customers and raises standards but equally importantly, it is prompting the emergence of a marketplace banking ecosystem with hundreds of fintechs lined up to provide innovative functions and competitive prices.

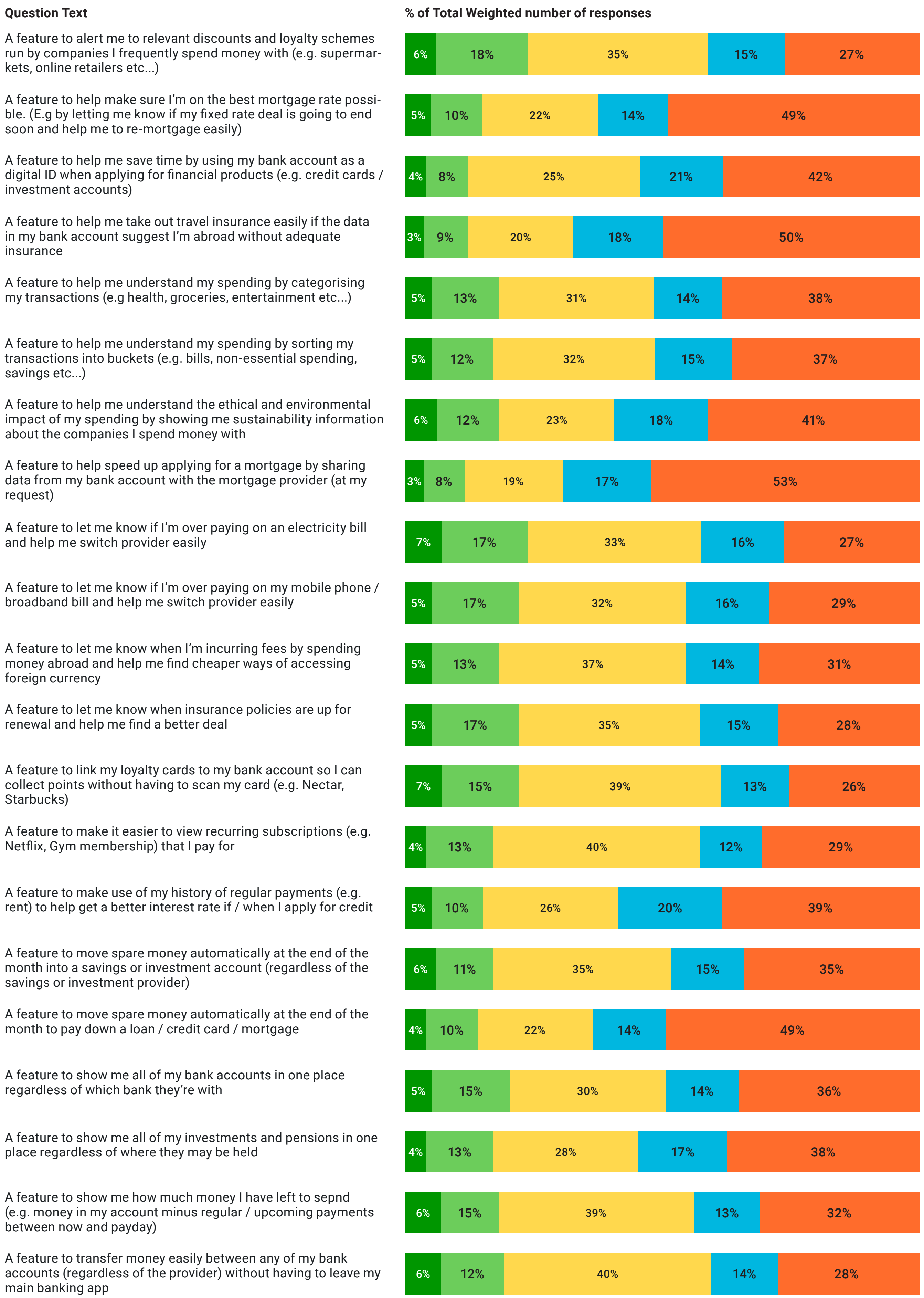
In Bud's survey of 2000 people across the UK, while only a small number of people – between 3 and 7 per cent - would consider switching banks to benefit from an array of marketplace banking features, consistently respondents were happy to use this type of functionality if it was available in their own banking apps.

For example, 35% per cent would use a feature to alert them to relevant loyalty schemes within their bank app but only 18% would download a separate app to do the same. Similarly, 32 per cent would use a service in this way that told users if they were overpaying for a mobile phone or broadband bill and could a cheaper offer elsewhere vs 17% that would download a standalone app.

The regulator is clearly on board also. The Financial Conduct Authority (FCA) recently set up its Advisory Group on Open Finance to discuss the potential of extending Open Banking-like data-sharing to a wider range of financial products.

For example, it might help to improve the financial health of consumers and businesses by enabling them to see all of their accounts from different suppliers (banks and non-banks) in one place and helping them to manage savings, loans, investments and pensions.

Breakdown of appetite for all 21 use-cases in the survey



"I can't see in 10 years marketplace banking not being a stalwart for most UK consumers"
— Rob Fairfield, Trussle

Whilst we've already covered some of the short term changes that we can expect to see, it's in the medium to long term that we can expect to see most of the more far-reaching changes. When we talked to a sample of 50 tech leaders at fintechs 76% of them thought that marketplace banking would be a commercially important distribution channel for them - on average they expected the process of reaching mass adoption to take 2.3 years.

So what can we expect once that countdown has run out?

Marketplace banking, or API distribution is a huge priority among fintech leaders. Of the fintechs we spoke to, 79% said that they planned to further develop their externally accessible APIs and almost four out of five (3.8) said that it was a "High Priority" to do so.

It won't happen immediately though. Despite more than three quarters saying that marketplace banks will be important distributors for their products in the future. Just one in five said that this was likely to be in the next year while three quarters said this would be between two and three years away.

So, what types of products could fit into a longer-term view of marketplace banking?

As we covered in an earlier article, simple transactional products are likely to be early beneficiaries such savings, and ones that are less regulated or have less advice around them such as energy switching. These could also include access to overdrafts, small loans and credit cards. Essentially, where the alternative is going to comparison sites.

Longer term, things like larger investments above £10k where consumers need financial advice, complex life insurance and mortgages are still likely to come on stream, according to our survey of ecosystem players.

"I can't see in 10 years marketplace banking not being a stalwart for most UK consumers," said Trussle's Rob Fairfield.

Longer term, the retail banking and financial services landscape is certain to look vastly different to how it looks today. But how and in what way is much harder to ascertain and will likely depend not just on what interesting and useful products fintech firms can build using transaction data - the essence of the technology. It will also depend on what larger banks do to respond to successful digital challengers that have got a headstart in building marketplaces.

Customer desire is there for better options when it comes to managing money. Third parties want to build products to satisfy this growing demand. The rest depends on the first movers to build a next-generation marketplace from a large bank that can bring these two powerful forces together.

- Would not use
- Don't know
- Would use if available on my bank's online/mobile app
- Would consider using a standalone app for this
- Would consider switching banks to use this feature

% of Total weighted number of responses for each use case in our survey. Colour shows detail about response. The marks are labelled by the % of total weighted number of responses.

Longer term, more complicated financial products are harder to distribute via third parties, but is the gain worth the investment?

Helping people **build for the future**

Helping customers make good long term financial choices is one of banks and other financial firms most important jobs. The internet, since its early days, recognised this and has worked wonders over the years to bring more information to customers but the results have so far been limited to price comparisons.

More recently, however, progress has been accelerating, particularly in the UK, thanks in large part to developments in fintech. Most of the early wins have so far been in helping people with issues around traditionally short-term problems (e.g. utility switching but this is changing)

A huge swathe of start-up financial firms are now helping users with their mortgages, savings, investments and pensions and life assurance. In short, all the long term things you really want to get right. It is a sequence of innovation driven by the complexity of these types of products. Regulations are more intricate and closely guarded, for good reason. This means digital integration and automation is more challenging but also potentially more rewarding.

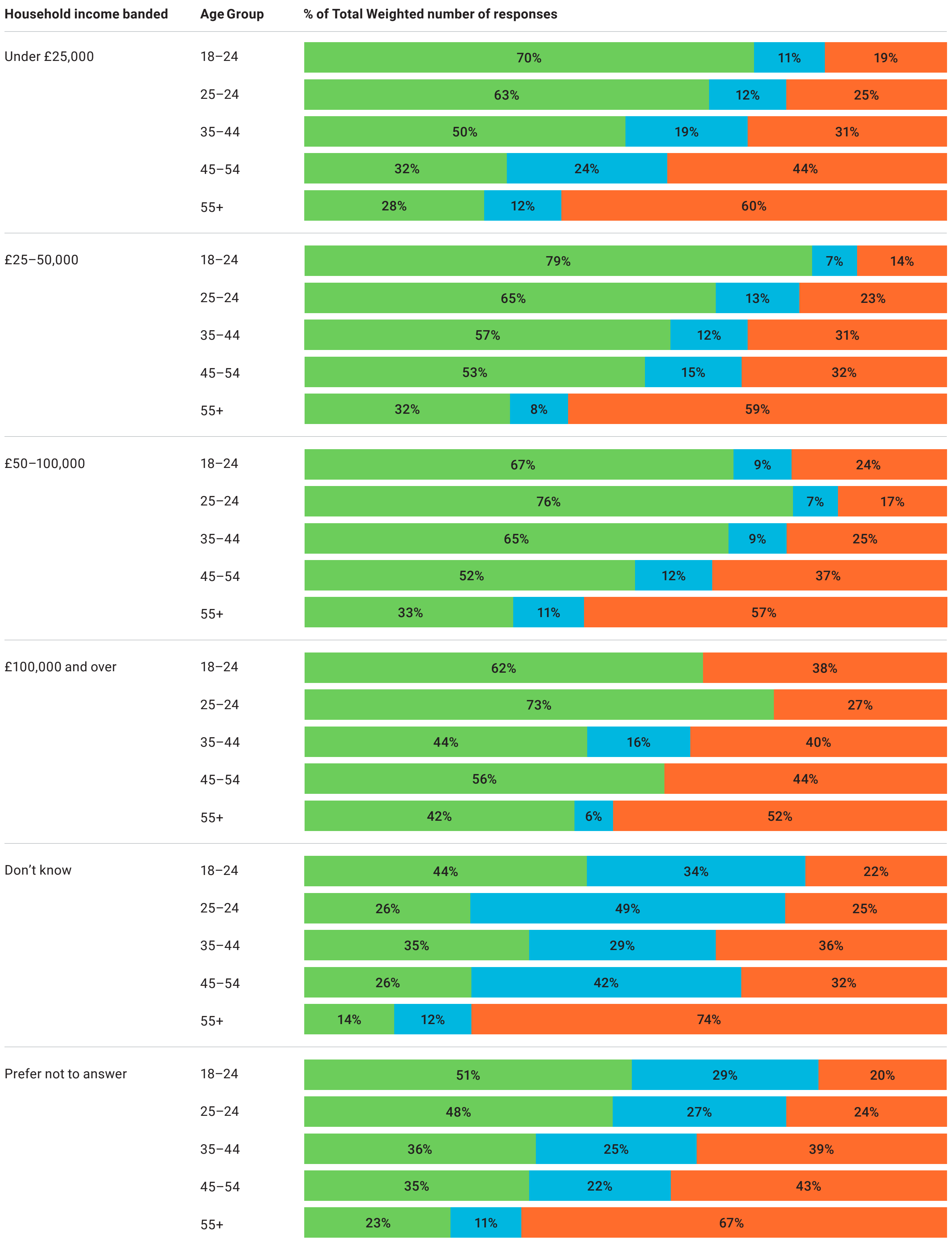
So far, few firms offering more complex long term ‘future building’ fintech products have yet reached anything like near the scale they need to sustainably up-end the system. Many firms, therefore, are now looking to API distribution through marketplace banks to access customer pools large enough to power the next stage of growth.

It makes sense. Large banks have tens of millions of customers but desperately need to increase the level of service to customers and lower costs. Digital banks too, growing at breakneck speeds, are starting to offer larger pools of digitally engaged customers.

Take one good example: financial advice and investments. A mere 10% of people seek out professional financial advice, according to a study by Aegon, most are put off by the cost of advice. Some hundreds of thousands of retail investors now use digital only platforms to invest their money via automated or hybrid low cost financial advice and/or investment solutions, such as Moneybox, WealthSimple and Scalable Capital. All three firms have either been utilising open APIs to plug into banks or have plans to.

Simon Miller, UK CEO of Scalable Capital, says financial product verticals where there are only a few metrics by which you can compare them are easy wins for the marketplace banking model but that larger investment portfolios are more complex. “In our world, there are lots of different metrics and you don’t find out for 10 years or so whether it was a good decision. The less transactional, and more service orientated [products] require more trust in the brand,” he said.

A younger demographic eager for help and advice



Would use the feature
Don't know
Would not use the feature

% of Total weighted number of responses for investment-related use-cases in the survey. Colour shows detail about response. The marks are labelled by the % of total weighted number of responses.

Ashleigh Petrie, Senior Product Manager at Moneybox, says offering longer-term financial products is something the firm wants to do to have long term customer relationships.

"It is important for us as a brand and a company, especially with the launch of pensions. Making sure that they are the kind of products that have a longer term benefit for the customer. We want to be the place that people come to, to help grow their money for the future," she said.

Moneybox has attracted over 200,000 users who all use its round-ups features to build savings and/or investment pots. The firms offer ISAs, general investment accounts, the Lifetime ISA and currently has a pensions offering in beta.

Pension Bee meanwhile has spear-headed the push into disrupting the gargantuan pensions industry. It has more than 46,000 active customers as well as having a total of 181,000 registered users signed up to its app since it was launched two years ago in 2017. It was a relatively early adopter of Starling Bank's marketplace.

Trussel, one of the first online mortgage brokers, is now arranging £1bn of home loans a year and is focused also on marketplace banking and externally available APIs to boost growth and customer numbers.

In Bud's recent survey looking into attitudes to marketplace banking, we found an encouraging degree of resonance for these types of services among a number of demographic groups, particularly younger, more affluent professionals - for whom longer term financial planning is starting to come into sharper focus.

The figures rise further still for those who are parents, particularly those with young children. More than two-thirds (68 per cent) said that they would use digital banking features that help them have greater control and transparency in their finances, the figure was 17 per cent higher than for those that do not have children.

Financial tools that help with future-building, well-being and prosperity have never been more seamless and integrated with personal circumstances than they are now. At the same time, it seems clear that despite the direction of travel, for the majority of potential users, the potential remains unfulfilled. Evidence from the consumer survey suggests that for the sector to deliver against its promise there needs to be a further reduction in friction before people are willing to take the all important first steps.

A decisive 79 per cent of the fintechs' questioned in our survey suggested that continued focus on delivering flexible APIs will deliver the necessary infrastructure to support this final reduction and will be available within the next 6 - 12 months. It is then that we'll see the real potential start to be realised.

A closer look:
Parents of younger children

Across all groups, concerns about privacy or security were more or less the same (C65% have some level of concern). Parents of young children's increased openness to adoption can only be interpreted as driven by an increased need.

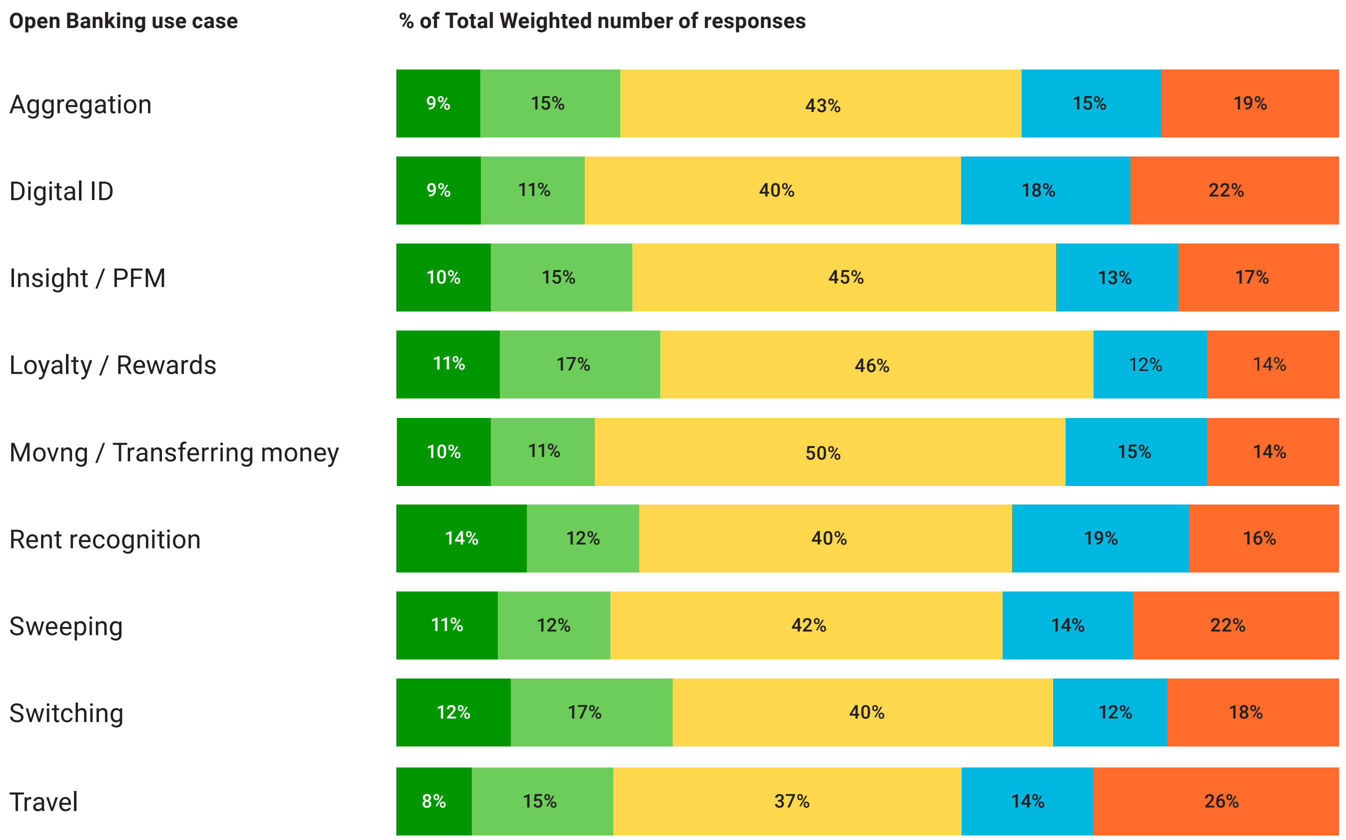
Traditional financial products, designed for the 'nuclear family', are less relevant to people with young children. They face a different set of challenges to those before them and, in looking to tackle them head on, there is an openness for new solutions.

More than two-thirds (68%) would use the kind of digital banking features mentioned in the survey to help them manage their finances – 17% more than those without children, and 25% more than those with children aged five and above.

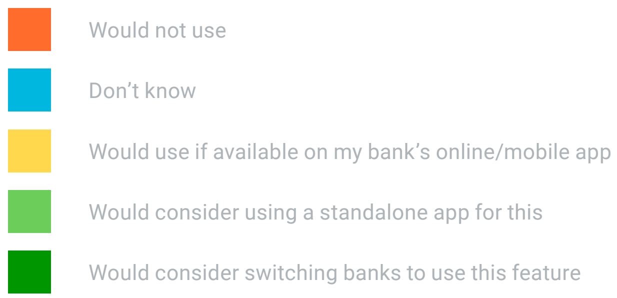
This trend isn't just led by age, either. Despite the fact that parents of younger children are more likely to fall under certain age brackets, the data remain consistent. Compare the results of parents with children under 4 to those in the same age bracket without children, and the impact of being a parent remains consistent: 73% of responses from 25-34 year olds with children under 4 indicated that they would use the kind of features discussed. This vs 67% for 25-34 year old parents of older children and 62% for those in the same age group who were not parents. Across all demographics, the level of concern around issues like security and privacy is almost identical. Roughly 65% of people have some level of concern around the security or privacy implications of the use-cases discussed. Of those, roughly 60% would use the services anyway if they save the respondents either money or time.

This group's adoption curve is driven by an acuteness of need. When we compare this cohort with others, they show more desire for services despite a consistent level of concern – a factor that further highlights the opportunity for the industry to support this demographic as they seek to establish a sense of financial security.

Across the board, parents of young children over-indexed on their enthusiasm for the kind of features we described. Their overall levels of concern re: privacy and security showed very little variance from the average, so it is a logical conclusion that the group has a more acute need.



% of Total weighted number of responses for each functional area of the features in the survey. Colour shows detail about response. The marks are labelled by the % of total weighted number of responses.



How we can help
Young families over-indexed on a desire for insight into their family finances. Bud's double-layered categorisation model offers industry leading levels of accuracy and flexibility. Contact insight@thisisbud.com for more information

A closer look: Income and its effect on uptake and trust

'High earners, but not rich yet' (aka HENRYs) are people that have significant disposable income, and whose salaries – defined by Bud as having a household income of between £50-100k a year, and who make up roughly 16% of the UK population – indicate that they are on the path towards the accumulation of wealth.

These are individuals that represent a key area of potential growth for financial service providers. With the beginnings of wealth, a desire to build a solid financial base for the future drives their decision-making process – despite the possibility that many may not possess the knowledge or know-how required to do so in the most effective manner.

This sentiment is reflected in their openness to using services that would help them make progress against these goals (for the majority of the features we put in front of our respondents, this group were the most enthusiastic overall).

Almost two-thirds (64%) said they would use a function within their banking app that enabled them to switch energy tariffs if they were found to be overpaying; three-quarters (74%) wanted an ability to link their loyalty cards and access reward schemes; 68% wanted to be able to manage insurance policies, pensions, investments, subscription services and more within one place.

This is a group that wants to start making plans for a financial future and features that help them save time or effort as they do so, provide a valuable service. They also serve to connect the provider with a group of people who are at the beginning of a valuable stage in the customer lifecycle.

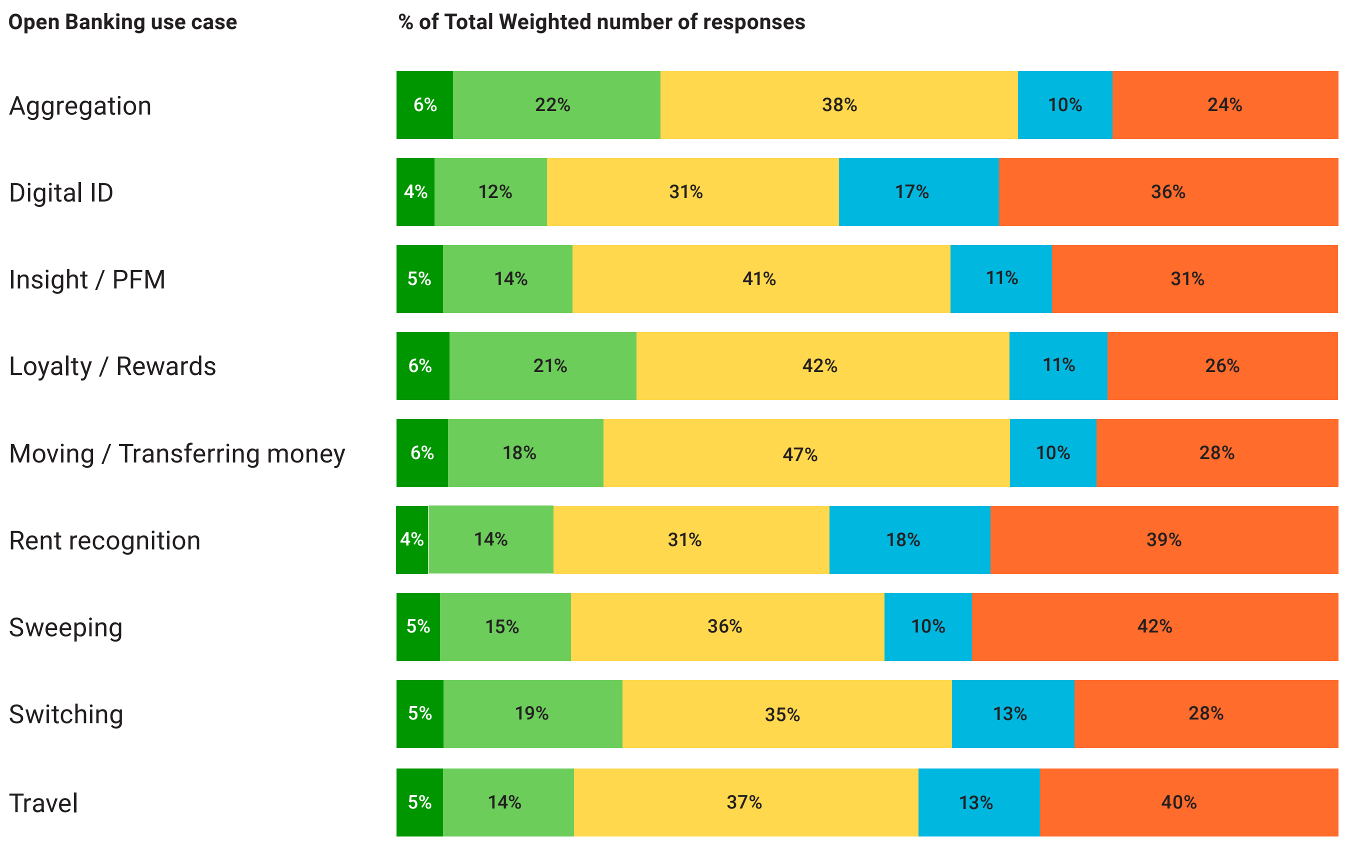
Key take-out

69%
Open to loyalty use cases

68%
Open to aggregation

64%
Open to switching use cases

Users with a household income of between £50,000 and £100,000 displayed significantly higher levels of trust in financial institutions. This leads to an increased open-ness to new solutions and and opportunity for institutions who can offer features that help them establish a financial future.



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- Would consider switching banks to use this feature

How we can help
As part of the survey we tested wealth propositions against this group. For the detailed breakdown of wealth use-cases get in touch by emailing insight@thisisbud.com

Pictured, Toby Triebel, European CEO of Wealthsimple. Photography: Crusoe Weston

Differentiating investments through data portability

An interview with Toby Triebel, European CEO of Wealthsimple

Seismic changes have happened in the world of investing and wealth management in the past 10 years but most firms offering pensions and long term investment portfolios still have the stereotypical pinstriped Mayfair stockbroker or overworked analyst hunched around eight screens of flashing data look and feel.

Toby Triebel, Wealthsimple's Europe CEO, however, looks more like an architect and is on a mission to rebuild the industry further as the landscape quickly shifts. He thinks digital wealth managers can encourage a new generation of investors by integrating with other large financial services firms, whether they are large banks or digital challengers, though open APIs.

He has been at the centre of the fintech startup scene, both in London and Berlin, for the past five years. Triebel, after studying at the London School of Economics and Cambridge University, started at Goldman Sachs before moving to the hedge fund world. After this, as one of the founders and CEO of a fintech firm - still going strong - the SME lending platform Spotcap, Triebel already has form in financial services disruption. Wealthsimple too is already a pretty big deal in the world of digital wealth management, also formerly known as 'robo advice'.

The firm, originally from Canada is now live in three markets (Canada, the US and UK) and recently raised £60m led by the investment arm of insurance and asset management giant Allianz to fund growth.

The task to build the scale-up fintech firm into a profitable player is no easy one. While the robo advice industry has been around

"The UK is clearly ahead of the curve when it comes to adopting Open Banking. At the same time, it all felt pretty rushed. Banks had to all of a sudden comply with a pretty strict timeline. They weren't really ready for it. If you ask people on the street they have no idea what Open Banking is. That has to be changed"

for a decade, it still lacks the assets under management that will bring about a profit and most firms are looking at new ways to adjust their businesses to grow customers.

Digital wealth managers originally sprung up to tackle a huge problem in society termed the 'advice gap'. So-called because there is a catch 22 in wealth management. Firms really only have an incentive to offer affordable financial advice, a regulated process, to clients with large portfolios. This means those trying to build up one from humble levels struggle to be able to afford good advice.

A key strategy for Wealthsimple's Europe operation goes beyond offering a lower-cost advice, a slick digital-first user experience and more transparency on fees. Triebel says the firm is planning to harness the coming mass adoption of open banking and marketplace banking by consumers plugging into Wealthsimple's investment services.

"It should definitely help the investing market. Savings it will even help before then," he said.

Open Banking allows regulated companies to access your account information and initiate payments from users' accounts (with their permission). The core principle is that your financial data should be yours, and if you choose to, you should be able to allow a third party to access it. Marketplace takes this a step further and brings together third-party services that can be bundled to the consumer allowing price competition. "Marketplace banking is very central to Wealthsimple's long term strategy, compared with other robo advisors, in the medium to long term," he said.

Wealthsimple has two main fintech partnerships at the moment in the UK: the first with Starling Bank and one with money management app Emma.

"Starling Bank was the first place we saw marketplace banking happen," says Triebel.

Of course, it is relatively early days for open banking and for marketplace banking, although as we previously said earlier in the report, momentum appears to be quickly increasing.

Triebel says that in two to three years time he expects marketplace banking to be critical to Wealthsimple's overall business and revenue streams globally but that it is already "reasonably material" to revenues here in the UK.

Awareness is still the biggest risk to the adoption of marketplace banking, however, he adds.

"The UK is clearly ahead of the curve when it comes to adopting Open Banking. At the same time, it all felt pretty rushed. Banks had to all of a sudden comply with a pretty strict timeline. They weren't really ready for it. If you ask people on the street they have no idea what Open Banking is. That has to be changed"

Data Point

1 in 3

More than one in three respondents to our survey said they would use a feature that allowed them to see pensions and investments all within their online or mobile banking app.

He says that PSD2 was a great first step but there is still a long way to go.

"We are yet to feel the huge benefits that open banking and marketplace banking can bring. There will be companies, fintechs and even banks that should benefit but at the same time it is not without risks and the consumer should be in control of their data."

Financial firms wanting to engage the next generation of investors should be careful of ignoring the new wave of wealth managers and the growth of the marketplace banking. Those with some money who want it to grow over time are seeing an ever increasing array of digital options - and they are starting to plug directly into the bank accounts that form the everyday interactions that these people have with their finances. Those that are connected to the network can compete on both price and UX, giving them an unfair advantage in landing the younger generations that inevitably become the high value customers of the future

Creating a **culturally relevant** savings channel in an **API economy**

An interview with Ashleigh Petrie, Senior Product Manager at Moneybox

Millennials get a pretty hard time of it when it comes to money. Whether it is the stereotypes of feckless spenders perennially tethered to the Bank of Mum and Dad or overly bullish amateur speculators looking to become millionaires overnight by investing in the latest cryptocurrency Ponzi scheme.

The truth, thankfully, is that millenials - the rough proxy of those born in the 1980s and 1990s that began to come of age around the year 2000 - are perhaps keener than any other generation to take charge of their financial future both via day to day banking habits as well as long term wealth creation.

The trouble for this age group is, however, according to a report published by the UK regulator the Financial Conduct Authority earlier this year, that it faces a series of difficulties in actually building wealth. This is due to the combined impact of rising house prices, insecure employment, and higher debt (including student debt) – which limits their ability to save for retirement during core earning years. Compared to Baby Boomers, they only start building property wealth later in life.

Ashleigh Petrie,
Senior Product Manager
at Moneybox

Perhaps that is why apps that help facilitate healthy long term habits such as Moneybox are becoming so popular?

"We're trying to help a new generation save for their future. We want to be the place where people come to help grow their money and invest or save," said Ashleigh Petrie, Senior Product Manager at Moneybox.

Moneybox helps users save a pot of money, either in cash or a risk-targeted investment portfolio of diversified assets. After downloading the app and connecting a bank card, you go around spending your cash as normal. You spend £1.79 on coffee, 21p will end up in your Moneybox portfolio and your bank is debited with £2 in total, although you will still see the transaction for the coffee. It launched in 2016 and now has about 200,000 customers using its 'round-ups' feature to build up their ISA, pension or general investment account. It has expanded into pensions and cash savings.

Petrie came to Moneybox from fellow fintech Tandem Bank, another digital challenger where she joined in the bank's early stages of building out its first products. Before this, she worked for Jaguar Land Rover cutting her teeth in product design of their in-car entertainment systems.

For Moneybox, Petrie says, the API economy presents substantial long term rewards and the firm already has several partnerships with other fintechs and banks.

"The whole premise of open banking is an amazing thing and I think marketplace banking is also brilliant. People should have access to their own data and be able to decide where they want to put their money," Petrie said.

The firm has partnerships with OakNorth and Investec who power its LIfetime ISA and 95-day savings account, respectively. Moneybox also plugs straight into Monzo and Starling Bank's platforms through the two banks' APIs.

"The API economy is very much of interest in growing the business," Petrie said.

"We want to be a consumer-facing company. The people who use those APIs and absorb them and make the service better for customers in order to be that B2C. The benefit to us in having OakNorth or other businesses as partners is we can switch you to a better rate," she said.

So will marketplace banks become more important distributors for Moneybox in the future?

Petrie says the firm hasn't got to that stage yet but "There's a lot of things we want to add."

If you look at house buying, for example, she says it could make sense to have mortgages for example integrated to Moneybox.

"Where you save for you Lifetime ISA with Moneybox and then see and find the best mortgage, either through us or another bank and then that money transfers across. That would be a great opportunity for us."

"It would be an amazing end-to-end journey for that user who has a great experience of buying a house."

She says she doesn't see it in the nearer future but says it could make commercial sense longer term in three years or so. "You can imagine a beautiful service when that happens."

For incumbent banks not ready to have a marketplace a key issue for this model is that they cease to have the brand loyalty that they use to have.

"You then have to compete with the likes of Starling who are doing marketplace banking and can tell you you're not earning enough interest on your savings and, one press of a button and you're done."

"That is the way it should be, but if you're an incumbent and you're not ready for it then that is your challenge."

Marketplaces clearly have the potential to shake up the investing market like never before in convincing not just millennials and the next generation to squirrel away their savings and investments. It seems, though, the opportunity doesn't stop there in the API economy and Moneybox at least, is looking to make the most of it.

"The API economy is very much of interest in growing the business"

Summary

This report, its 2000+ consumer respondents; 50+ fintech leaders; and in-depth interviews, was brought together to test the hypothesis of a future we see as inevitable. In writing it, we have uncovered both an unquestionable need from real people for better access to services and a firm commitment from the fintech ecosystem to provide them.

The report highlights two huge shifts: first, fintechs understand that there is very little desire amongst large groups of the population to go looking for new financial products, and are gearing up to provide access to their products through other channels; second, that banks are in a unique position to dominate and commercialise those new channels.

Over the next 2 (2.3) years, the shifts will result in three key things happening. Fintechs like those in our sample will make significant progress in delivering product though externally accessible APIs, a new breed of connected services will be brought to market by financial platforms like Bud, and banks will place a greater emphasis on building their understanding of customer data “in context”. These three developments will combine to make it possible to distribute financial products with the same levels of seamless relevance with which Uber distributes taxi rides.

The technical developments to underpin all this have already happened. Just as it’s impossible to imagine Uber before establishing the concept of smartphones with reliable GPS and cheap, abundant data provision, it is impossible to create ‘marketplace banks’ without Open Banking, and the concept of universally portable personal data. But just as with Uber, as soon as those things are in place “platformication” becomes inevitable.

The data from the consumer survey paints a very simple picture. People don’t engage with their finances until they’re forced to by a change in circumstance. Is it any wonder that parents of young children massively over-indexed in their openness to solutions that would help them start to build a financial future? This is not to say that people don’t want to be better at managing their money. They do. There is just so much friction and inertia and apathy and psychological avoidance in the system that initiating any kind of change is immensely effortful.

The data also shows that banks are in a unique position to solve all of this. They index highly on trust, can create action by building triggers based on transaction data and they can overcome friction by making KYC data more portable. No other companies have the same combination of reach, trust and capacity.

What banks lack is enough variety in the products and services they can offer.

That’s where the fintechs are stepping in. Already 30% of our sample have developed full-spectrum APIs capable of offering access to / control over all of their company’s digital products and services through a third party. The data suggests that this number will increase dramatically over the next 6 - 12 months and that consequently, the platform bank will be a reality in two years time.

There is one obstacle that banks need to overcome for this reality to happen. They need to find a way to partner with and integrate fintechs seamlessly and with minimal operational impact. This is where Bud comes in. For more than four years, we’ve been building the platform: the underlying infrastructure that supports this model. A platform that a bank only has only to connect with once in order to be able to integrate the spectrum of fintech products into their digital apps and commercialise Open Banking.

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