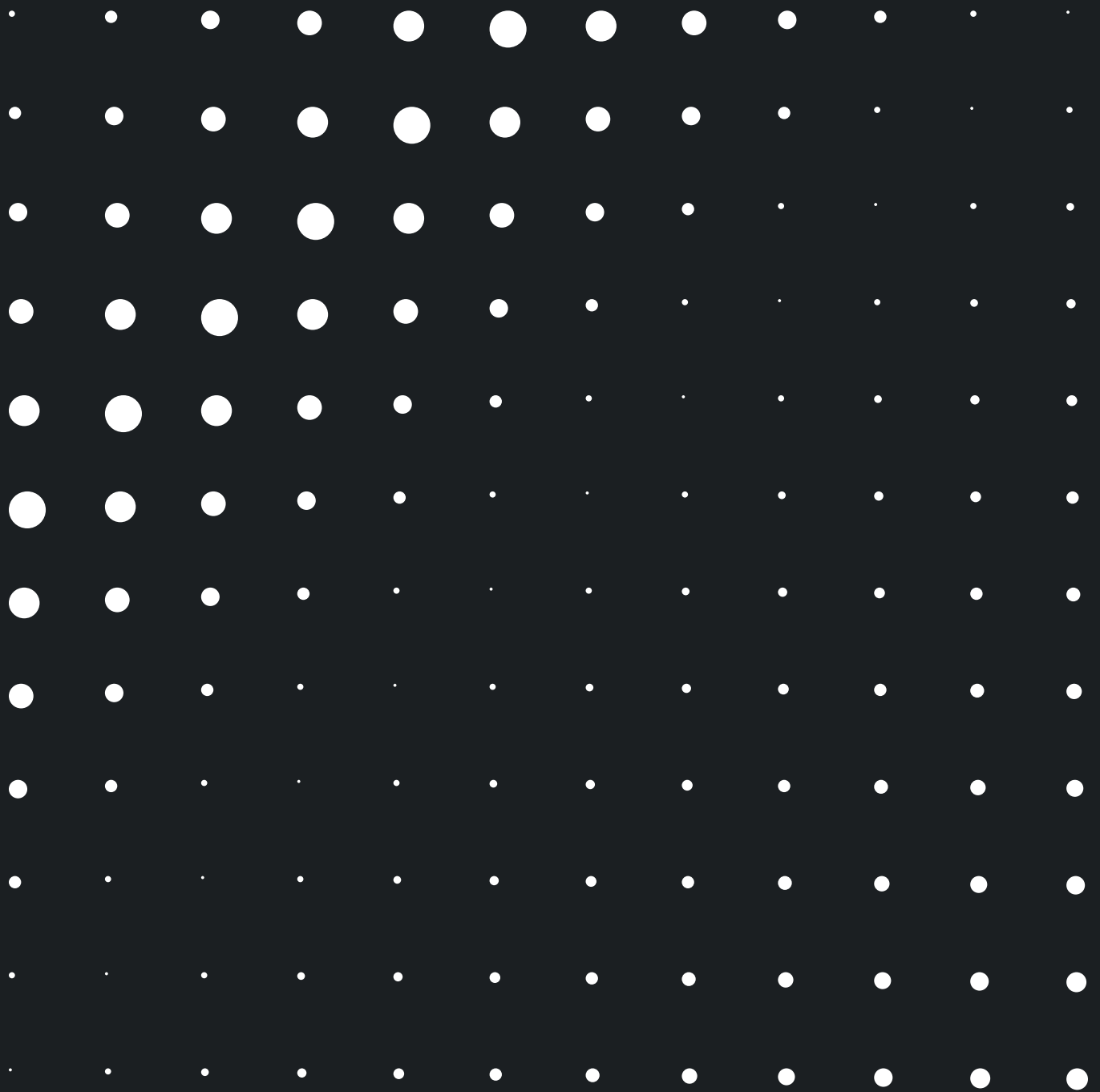


bud



Beyond Open Banking

Part One: What people want

Introduction and methodology

Part one of a two-part report.

In this part of the report, we look into the insights generated from a recent survey covering public appetite for features enabled through Open Banking.

About this document

The insights covered in this document offer a fair but selective representation of those uncovered by the data set as a whole. If you would like to contact our team and arrange a session to run through the data in more detail please email insight@thisisbud.com and a team member will be in touch.

Introduction

There's a theoretical consensus within the finance industry that Open Banking will be a precursor to new business models for banks. Theory, however, is one thing. Investing time and resources is another.

The main questions at the heart of both Open Banking and the marketplace model that comes next are around value, how to deliver it to customers? and how those early value propositions drive consumer adoption? Without this insight, it's impossible to plan for the impact of new models or to create accurate business cases for their adoption. The tension comes from the fact that waiting for hard evidence of the answers to this risks allowing other organisations to benefit disproportionately through first mover advantage.

Methodology

This study was designed to help answer these questions. YouGov¹ surveyed 2075 UK adults between the 11th and 12th of August 2019, asking them to read a series of statements

relating to the kind of features that we expect to see evolving as part of the next wave of banking innovations.

Against each of these features we asked respondents to specify whether they would use the feature or not and, as a proxy for their level of intent, we asked those who said they would use a feature whether they would: use it if their bank made it available, download a standalone app to use it, or switch banks to an institution that did offer the feature if their bank didn't. (For detail on individual use cases and how they are mapped to the functional areas highlighted in the report, see the annex)

We included existing use cases like aggregation and energy switching as well as those we expect to emerge over the coming months. In analysing these responses, we were able to build an understanding of the demographic factors that affect uptake including: age group, parental status, working status, personal and household income bands, primary bank account and adoption of digital and/or challenger banks.

Summary

The data in the report 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.

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The ~~loyalty~~ **apathy** penalty

The concept of the 'loyalty penalty' is well known: the idea that existing customers are penalised by companies charging them higher prices than the rates they offer new customers. But the low levels of trust in institutions (financial or otherwise, as detailed in Section 4 of this report) don't suggest that loyalty ever really existed, the data suggests that the comparatively low switching levels are driven more by apathy or inertia.

The gap between engaged and disengaged, defined in this case by the difference between the number of people that would consider taking an action to access a feature, and those who would be open to using the same feature, but don't want to seek it out themselves, is something that is costing people every year. This gap represents a huge opportunity for banks to create new revenue streams.

Only one third (36%) of people we surveyed were opposed to the features open banking can introduce to their financial lives (this rises to more than half (53%) among over 55s, but drops to 18% and below for those under 34). In half of all the use-cases we explored, the single largest group was those who would use the feature / service but only if their bank provided it.

For banks, the opportunity to build relationships with their customers is clear. Helping customers to find new products in-app can offer a significant improvement in the UX of both switching and fulfilment, solve a pressing problem for customers and create significant new revenue streams.



Key take-out

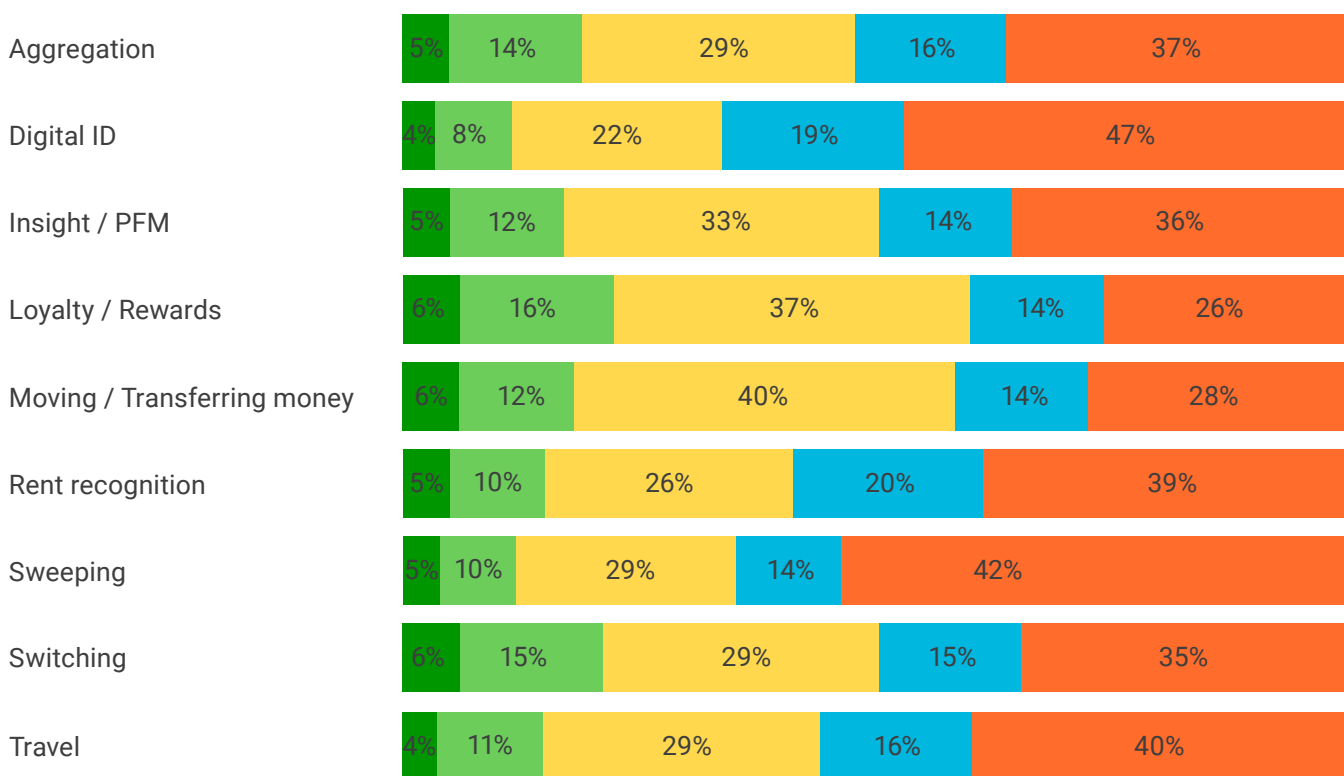
73%

73% more people would use the services we described if their bank provided it for them vs the number of people who would take action to find the same service for themselves

The ~~loyalty~~ **apathy** penalty

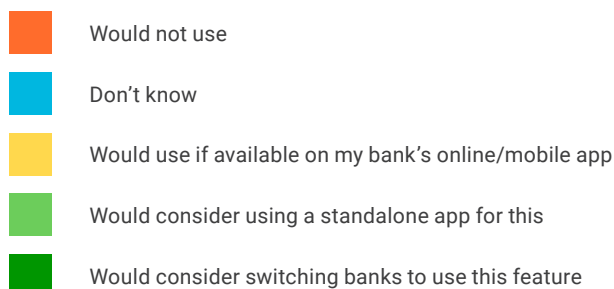
The most startling of all the results uncovered in the report focused on the opportunity surrounding apathy. Across all of the 21 use cases that we explored, users were almost twice as likely to engage in open banking-enabled features if they were provided by their bank.

Open Banking use case



% of Total Weighted number of responses

% 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

Bud's aggregation, regular payments and merchant ID services make it easy to build loyalty programmes for your customers. Get in touch by emailing insight@thisisbud.com

Parents of **younger** children



Across all groups, concerns about privacy or security were more or less the same (68% 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

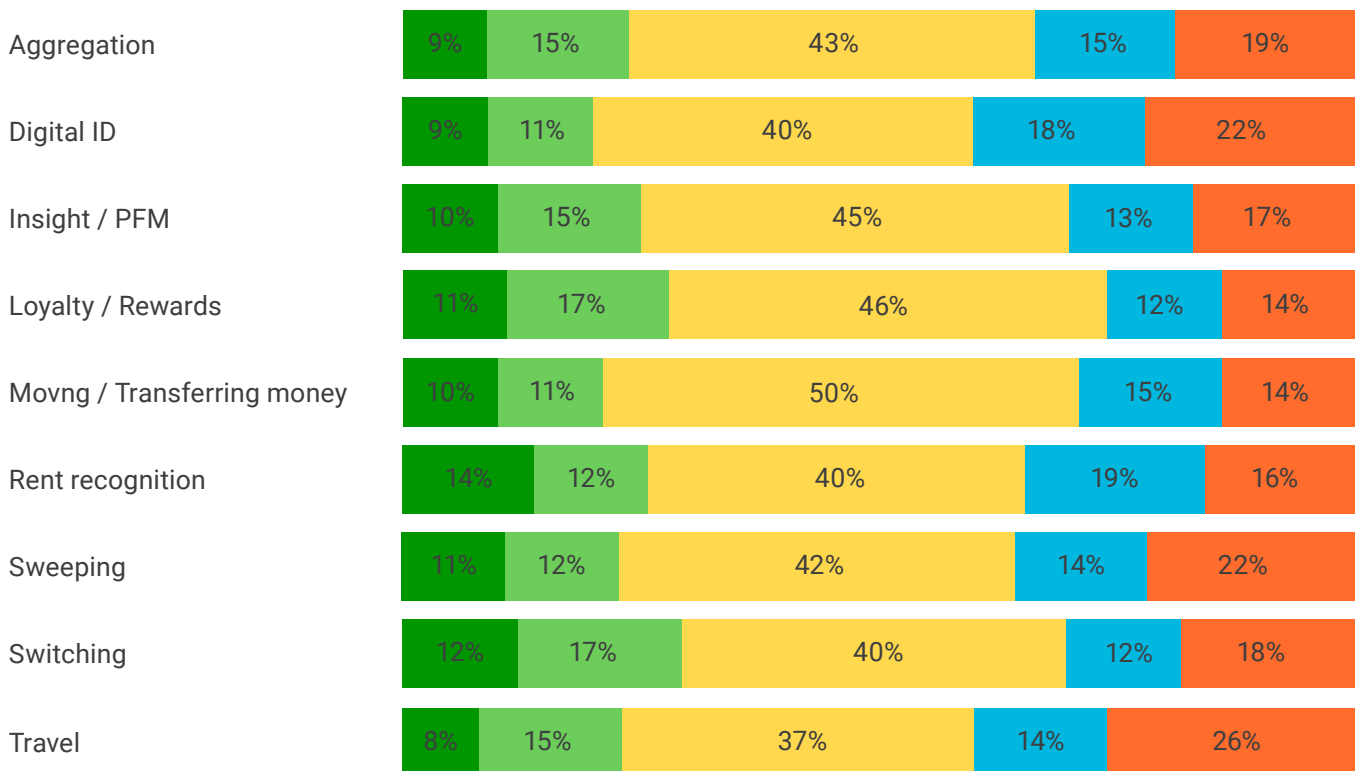
in the same age group who were not parents. Across all demographics, the level of concern around issues like security and privacy is almost identical. Roughly 68% of people have some level of concern around the security or privacy implications of the use-cases discussed. Of those, roughly 60% would use 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.

The **impact** of parenthood

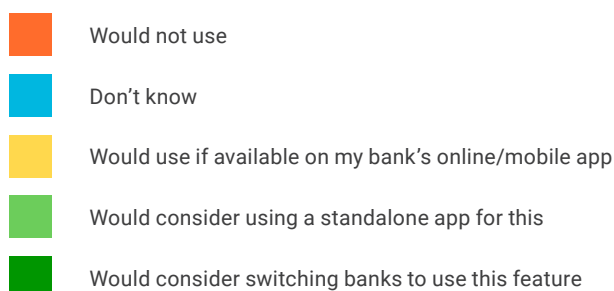
Across the board, parents of young children over-indexed on their enthusiasm for the kind of features we described. Their overall levels of concern re: privacy and security showed very little variance from the average, so it is a logical conclusion that the group has a more acute need.

Open Banking use case



% of Total Weighted number of responses

% 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.

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 population² – 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

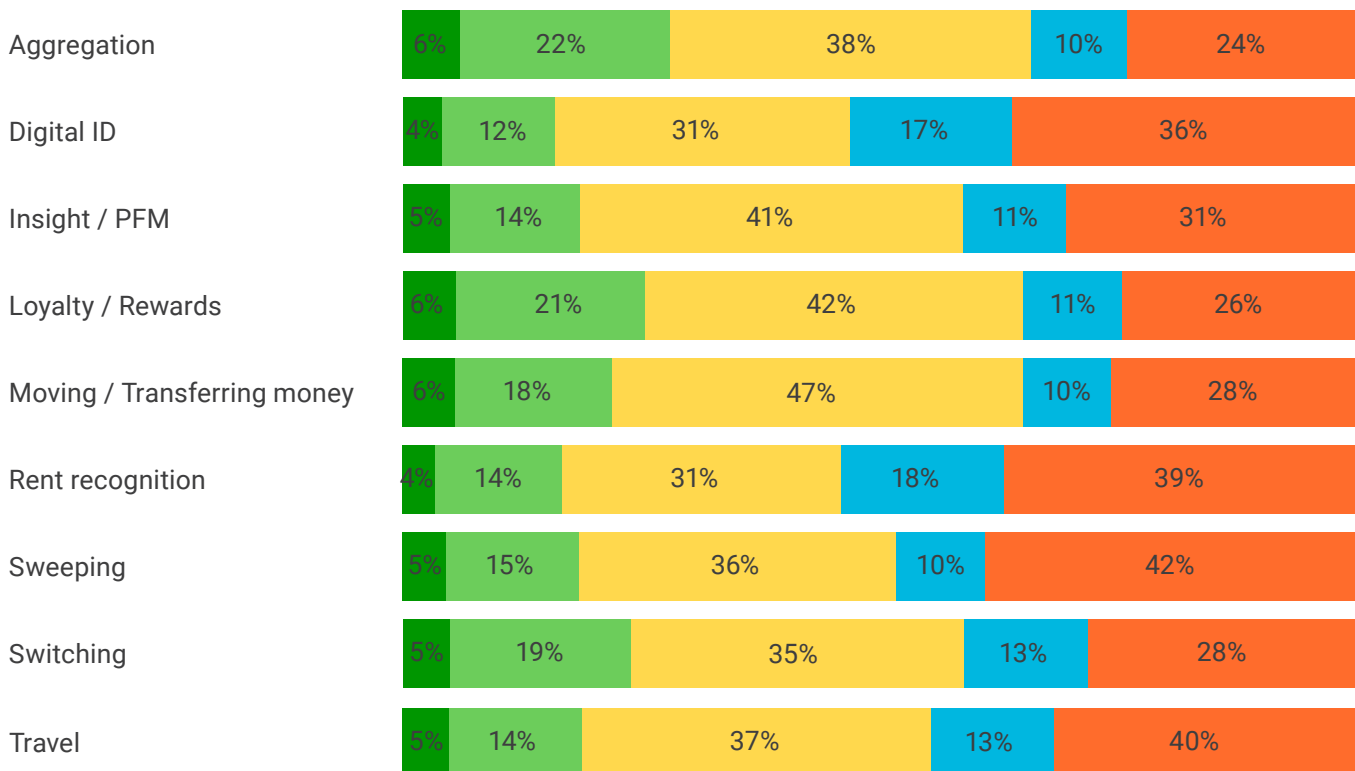
64%

Open to switching use cases

Disposable **income** and its **effect** on uptake

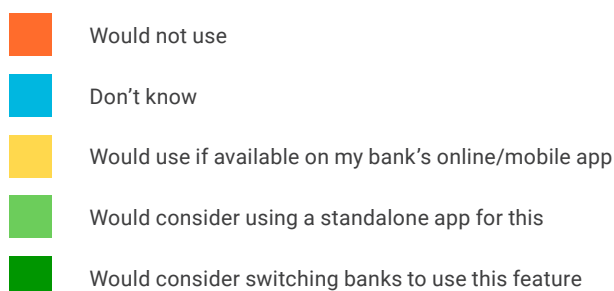
Users with a household income of between £50,000 and £100,000 displayed significantly higher levels of trust in financial institutions. This leads to an increased open-ness to new solutions and an opportunity for institutions who can offer features that help them establish a financial future.

Open Banking use case



% of Total Weighted number of responses

% 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

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

Trust, **privacy**, **security** and personal data

When people talk about trust in financial institutions, it's easy to look at the issue on a macro level. Scan headlines over the last year and it's evident that, more than ten years on from the 2008 financial crisis, there are still deep-rooted concerns around banks and their ability to act in the best interests of their customers.

But trust is contextual. Out of all those sectors with the potential to deliver open banking features to consumers, people trust banks most readily with their personal data. Even when questioned about personal data outside of the financial sphere, the sentiment remains – for most people, only their personal GPs and the NHS rank higher than their bank.

So what does 'trust' really mean to typical banking customers in the UK? Or, more specifically, does the amount of money someone has correlate to the level of trust they have in their bank?

For the mobile-first demographic covered in Section 3, for example, confidence is high. They over-index on their level of trust in banks to look after their personal data (56%, compared with an average of 47%), as well as traditional financial service institutions (22% versus an average of 16%), fintechs (9% vs 6%) and comparison sites (13% vs 9%).

Households that earn £25,000 per year and below (around 1 in 4 across the UK)³, however, register much weaker levels of trust than their more affluent counterparts when it comes to their data. Less than half (49%) trust banks, just 15% trust traditional FS institutions and only 4% trust fintechs.

Key take-out



47%

would trust banks

16%

trust other FS institutions

9%

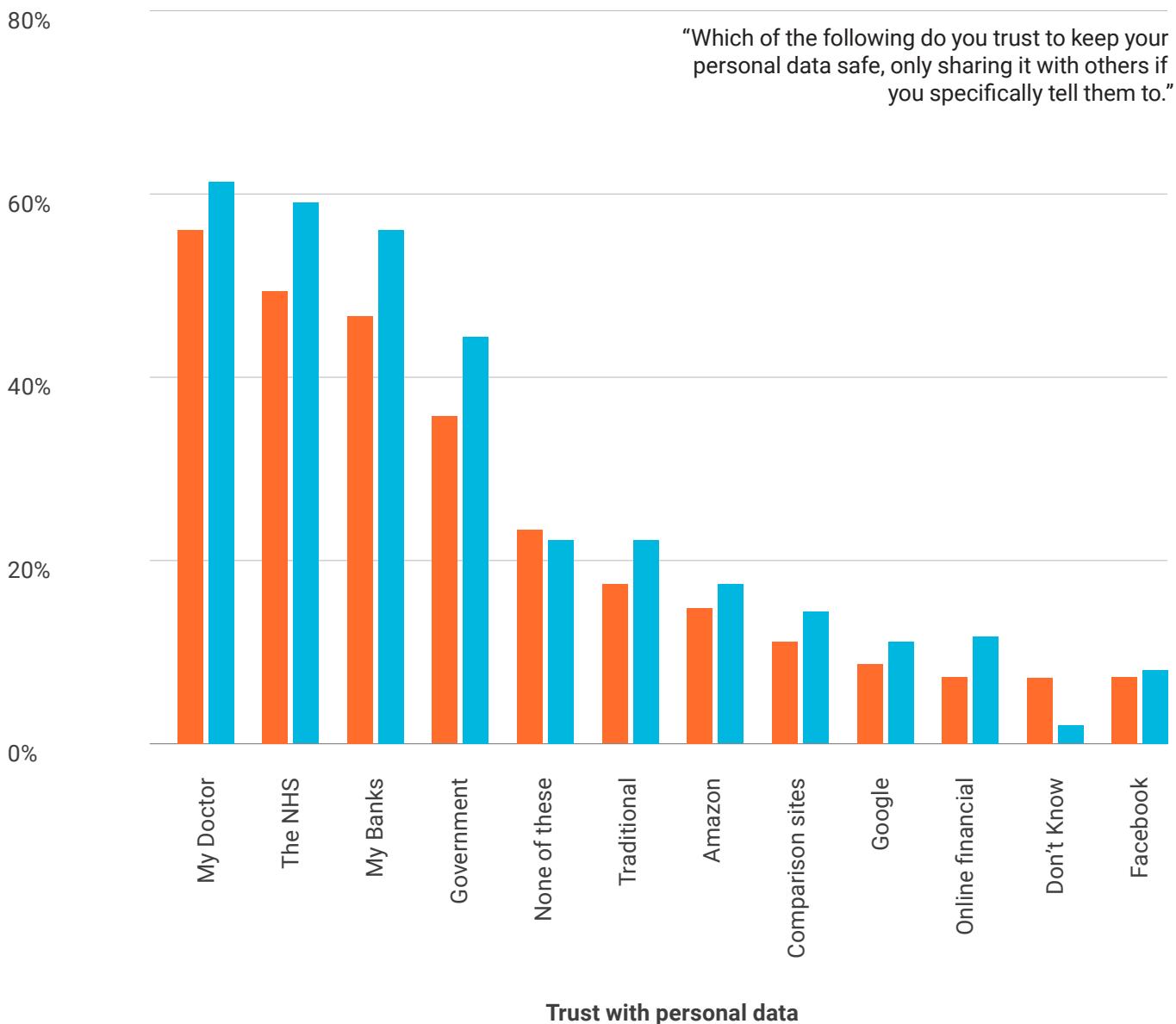
trust comparison sites

6%

trust digital FS players

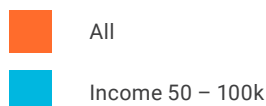
Trust in institutions

Trust in financial institutions was a key factor in adopting open banking usecases. Those who did not trust banks were significantly less likely to adopt any of the features than those who did. Trust also correlated closely with income as demonstrated in the graph below.

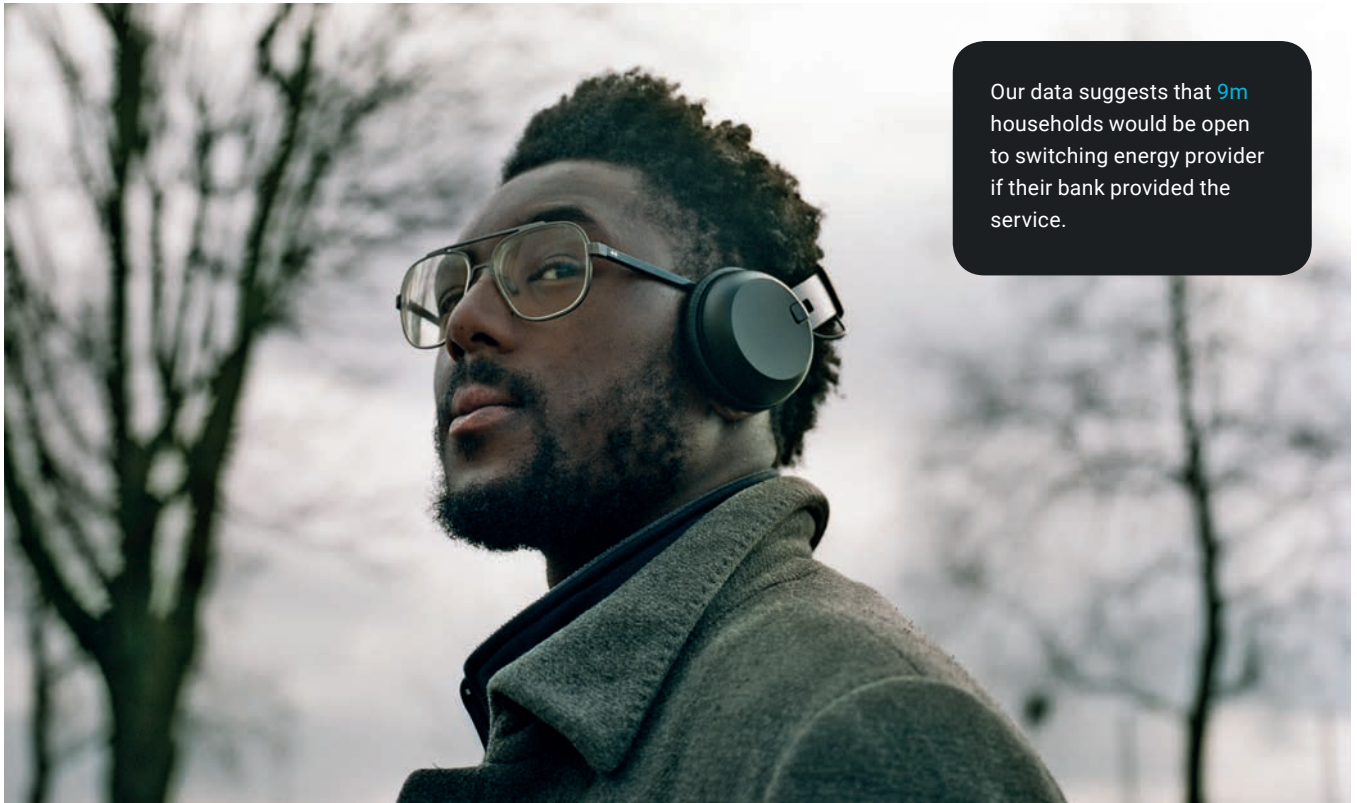


How we can help

Bud is at the forefront of industry practice when it comes to securing user data. We use unique encryption keys for each customer and train our models on anonymised data to protect users' privacy. For more on how we help to deliver on the potential of open banking without putting user data at risk, get in touch by emailing insight@thisisbud.com



A **spotlight** on switching



Our data suggests that **9m** households would be open to switching energy provider if their bank provided the service.

Last year, the Competition and Markets Authority (CMA) investigated a ‘super-complaint’ led by Citizens Advice into the loyalty penalty.

The findings were telling. Across the five markets at the centre of the claim – cash savings, mortgages, household insurance, mobile phone contracts and broadband – the CMA estimates that this penalty is around £4 billion a year. This is the real-world cost of apathy covered in Section 1.

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,

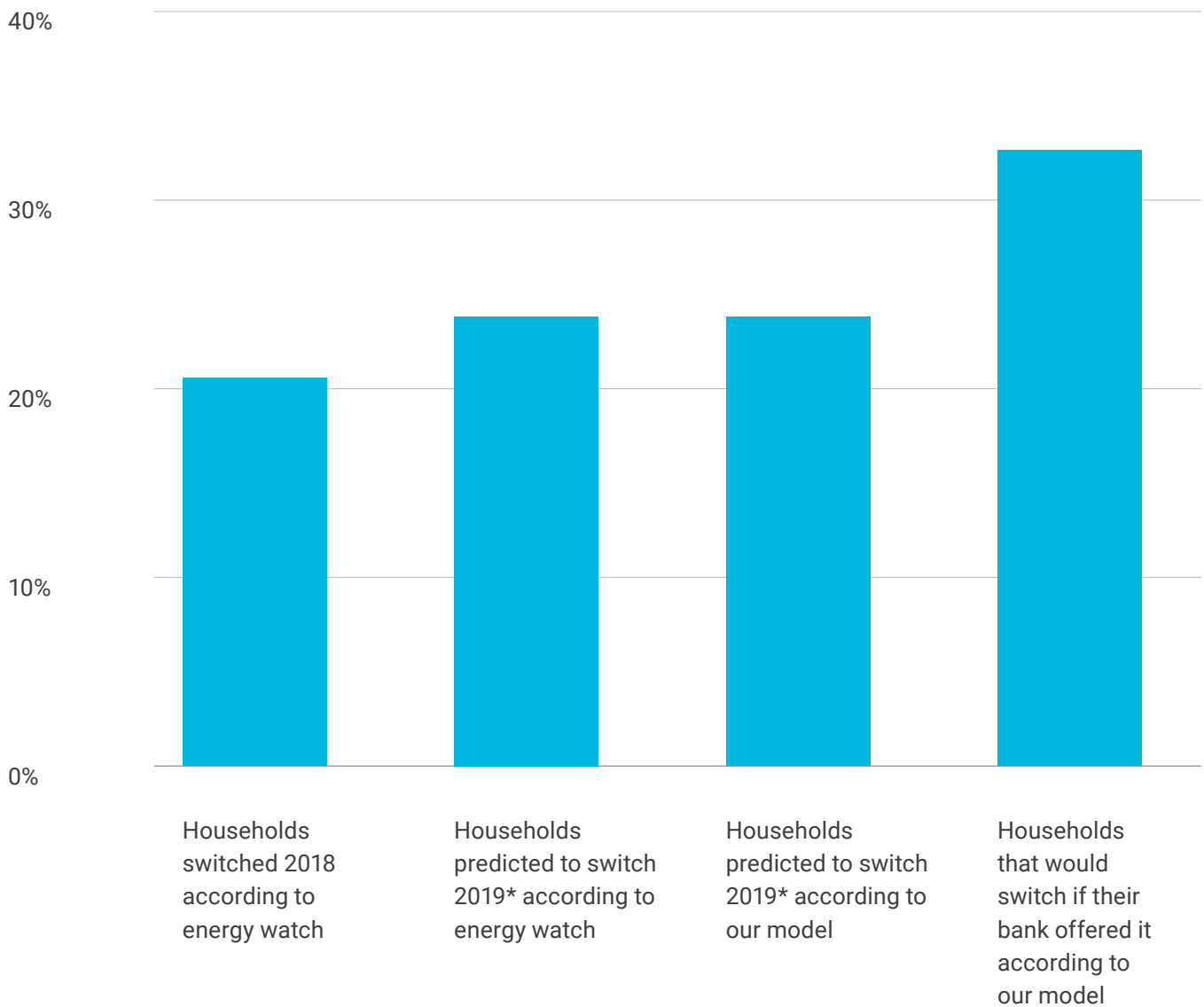
the projected number would be 6.12m – an identical 24%.

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.

A spotlight on switching

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.

Summary



Open Banking is not a revolution, it's a tipping point.

There's nothing inherently revolutionary about the Open Banking regulations. They make it incrementally easier for tech companies to build safe, engaging and useful tools that run on transaction data. That increment means that a new ecosystem is evolving to support the marketplace model and as that market matures, it's inevitable that someone will step in to lead it. The data suggests that the "someone" should be a bank.

To prepare for marketplace models, banks need to set up in the right way – from the data intelligence that puts transactional information into context, to risk and compliance processes that facilitate fast collaborations. Business owners who move early will reap rewards in the coming months by creating the capacity to react to what will inevitably be a fast moving environment.

It's not all about preparation though. There are some early wins too. Whilst the infrastructure for some of the popular use cases we looked at (e.g. loyalty rewards / investments) is still



in development, some of the use cases are already available and commercially viable. Energy switching is a prime candidate for early movers – both the consumer need and the technology already exist. Likewise rent recognition, a use case that would drive more than one in ten 18-24 year olds to switch banks.

There are of course, many more insights within the report and if you'd like to go deeper into the use cases that will win the hearts and minds of each demographic, or how these findings might impact your business, email the team on insight@thisisbud.com and we'll be in touch.

Annex

References

1. Use case data is based on Bud's analysis of the raw data provided by YouGov, not on analysis by YouGov.
2. Source - Office for National Statistics
3. Source - Office for National Statistics
4. <https://www.energy-uk.org.uk/media-and-campaigns/press-releases/440-2019/6996-another-record-year-for-switching.html>
4. <https://www.energy-uk.org.uk/media-and-campaigns/press-releases/440-2019/7166-half-a-million-customers-switch-in-may.html>

Use-case questions

For each of the questions below respondents were asked to pick which of the following statements apply to you (pick any that apply)

1. I would use this feature if my bank provided it in its main app
2. I would download a standalone app to use this feature
3. I would consider switching to bank that offered this feature if mine didn't
4. I would not use this feature
5. Don't know

Question text

Many banks in the UK are considering how they can work with other companies to offer new digital services to their customers...

Below is a list of features that banks are considering offering to their customers.

Please read each of the following features carefully. For each feature, please select all options that apply. (If you would not use or consider using this feature please select 'Not applicable')

Statements

1. A feature to show me all of my other bank accounts in one place
2. A feature to show me information about all my investments and pensions in my banking app
3. A feature to speed-up applying for

- a mortgage by sharing data from my bank account with a mortgage provider (at my request)
4. A feature to move spare money automatically at the end of the month into a savings or investment account
5. A feature to move spare money automatically at the end of each month to pay-down outstanding balances on loans or credit cards
6. A feature to make it easier for me to view recurring subscriptions (e.g. Netflix, Spotify, gym membership etc.) loans or credit cards
7. A feature to show how much money I have left to spend (i.e. money in my account minus regular outgoings between now and payday)
8. A feature to let me know if I was overpaying on an energy bill and help me switch provider easily
9. A feature to let me know if I was overpaying on my mobile phone and/or broadband bill and help me switch provider easily
10. A feature to use my history of making regular payments (e.g. rent) to get better interest rates if / when I take out credit
11. A feature to help me save time by using my bank account as my digital ID when signing up for new financial products (e.g. credit card, investment accounts etc.)
12. A feature to alert me to relevant discounts and loyalty schemes run by businesses I frequently spend money with (e.g supermarket, online retailers)
13. A feature to let me know if I'm incurring fees when spending abroad and suggest cheaper ways of getting foreign currency
14. A feature to help me to take out travel insurance easily if my bank account data suggests I'm abroad without insurance
15. A feature to tell me when insurance policies are due for renewal and help me find a better deal

Annex

16. A feature to help make sure I'm on the best possible mortgage rate (e.g. by prompting me when my fixed rate is about to end and helping me switch to a new provider)
17. A feature to transfer money instantly between my different bank accounts (e.g. current accounts, credit cards, savings accounts etc.) without having to switch between apps
18. A feature to help me understand my spending by categorising my transactions (e.g. groceries, health, entertainment, etc.)
19. A feature to link loyalty cards to my bank account so I automatically collect points when spending without having to scan my loyalty card (e.g. Nectar card etc.)
20. A feature to help me understand my spending by grouping my spending into buckets (e.g. bills, non-essential spending, savings, etc.)
21. A feature to help me to understand the ethical and environmental impact of my spending habits by showing me sustainability information about the companies I spend money with.

Question numbers mapped to main functions

Aggregation: Qs 1&2

Digital ID: Qs 3 & 11

Insight / PFM: Qs 6, 7, 18, 20 & 21

Sweeping: Qs 4 & 5

Rent recognition: Q 10

Switching: Qs 8, 9, 15 & 16

Loyalty / Rewards: Qs 12 & 19

Moving / Transferring: Q 17

Travel: Qs 13 & 14

