

# Seizing the open banking advantage

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## As the deadline for PSD2 looms, are banks looking beyond compliance to create winning commercial strategies?

**E**uropean banks have their hands full preparing for the European revised Payment Services Directive (PSD2) and the UK's Open Banking Standard.

Compliance is clearly a top priority, to ensure they give third parties access to customers, while maintaining data privacy and cyber security, and preventing fraud and financial crime.

As they work towards the January 2018 deadline for PSD2, IT professionals have been busy getting the systems infrastructure into shape to accommodate the new standards. This involves building and testing APIs, and making appropriate changes to payment processing, ledgers, anti-money laundering and sanctions screening, reconciliation and reporting.

In such circumstances, it's perhaps understandable that we've heard relatively little about how banks plan to defend their market positions against new competitors, and even less about their strategies for launching new products and acquiring new customers. Many types of new entrants could conceivably emerge, such as peers, challenger banks, retailers, fintech startups, and new technology entrants like Google, Apple and Facebook. Any or all of these organizations have the chance to disrupt the market by giving bank customers a better payment experience, or by using account

information to provide targeted offers and enticing new lifestyle-related services.

These actions are serious threats to customer loyalty. To succeed in this new world, where data and, possibly, customers are shared, banks need to look beyond compliance, to consider how they can best compete and, ultimately, innovate with new products and services.

**Comply:** create and implement a regulatory action plan.

**Compete:** defend your ground against new and existing challengers.

**Innovate:** gain a competitive edge by seizing new market opportunities.

### Responding to the competitive threat

Given the wide range of potential new players, banks should be aware of the key risks and carry out a robust competitive analysis. A comprehensive scenario plan can identify the main emerging players, their likely products and tactics and the customers they're most likely to target to assess the impact on the current business and on future strategies.

It's particularly important to gain a clear picture of the various segments within the bank's customer base, to understand

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their behavior and motivation, and to run scenarios based upon their anticipated responses to open banking and the bank's products. One obvious example is older versus younger customers, where the latter are likely to be more digitally literate and willing to share data with numerous different organizations, and, therefore, may be more easily tempted by new providers promising a simple-to-use 'digital wallet'. Other contrasting segments that may have differing needs are house owners and renters, salaried employees, freelancers, and members of the so-called 'gig' economy and urban versus country dwellers.

Any defensive product/marketing strategy has to address the needs of these different groups in a bid to avoid attrition. Banks already know a great deal about customers' spending habits and will have segmented them in various ways and targeted appropriate products. As new opportunities arise from open banking, they have a great opportunity to further fine-tune products and tailor marketing programs — like, for instance, rewards-based incentives based upon spend, or premium/basic services.

### Innovating for success

Curbing competitors' attempts to steal your customers is just the first part of a strategic response. Equally important, if not more so, is an assessment of potential opportunities arising from open banking.

Open access to banking information isn't just a threat; banks can also find out more about their own customers' spending with other banks and credit cards. This information can be used as part of an advanced digital wallet service, where customers access all their different accounts via a single, bank-branded smartphone app. At a glance they can view budget and spend analytics, access all accounts and see their current balances, receive alerts of upcoming payments due and pay bills. Fintech provider Moven, which partners with a number of banks, has recently come up with a new app that uses AI to enable the bank to learn and adapt to customer habits in real time.<sup>1</sup>

Rather than go it alone, banks may well choose to partner with fintech startups and/or invest in incubators to gain the agility to get such services out into the market quickly.

Again, any new products and services require strong business cases that evaluate channels, marketing budgets, pricing, costs, revenues and take-up to predict future income streams. Such cases should consider a range of scenarios including competitor behavior, consumer behavior and uptake, and economic factors like Brexit.

### Towards a new type of customer relationship

The situation facing banks is not dissimilar to the impact of deregulation of industries like energy, telecommunications and transport, where greater consumer choice has driven an intense battle for customer loyalty, and where some of the incumbents have succeeded by changing and adapting to new challenges.

Historically, banks have had complete control over their customers' transactions and associated spend information. PSD2 and open banking may take away this advantage, but, conversely, also bring a unique opportunity to know even more about customers. With a renewed focus on relationships and service, banks could build on their traditional role as guardians of consumers' finances.

### Three key questions for banks

- Comply.** Do you have a comprehensive regulatory action plan covering PSD2 and the UK's Open Banking Standard, incorporating full systems and data requirements?
- Compete.** Do you have a defined defense strategy supported by appropriate operations to enable you to avoid large-scale customer disintermediation?
- Innovate.** Do you have the resources and the analytical capabilities to conduct a major assessment of opportunities? And are you ready to align your operating model and technology to these new opportunities, possibly in partnership with one or more fintech?

<sup>1</sup> Moven builds AI into latest app upgrade, Finextra, 14 September 2017.

<sup>2</sup> American Express and MineralTree Announce Partnership to Help Streamline B2B Payments, American Express press release, 1 August 2017.

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### SME and corporate market opportunities

Small- to medium-sized enterprises (SMEs) may be another area of opportunity arising from PSD2. Accessing and analyzing spend data across all of a customer's accounts and connecting other available information, could provide a platform for offering enhanced services.

And with their complex transactional history, larger, multi-banked corporations may also benefit from providers that can give them sophisticated analyses of their spending behavior, possibly to access purchasing economies of scale and other benefits.

MineralTree, an accounts payable and payment automation solution provider operating in the business-to-business space, has recently announced a partnership with American Express to provide Amex's business customers with a platform that incorporates corporate card expenditure into their accounting workflows.<sup>2</sup>

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