Competing in an open banking landscape

Insights from the live roundtable dinner hosted by MoneyLIVE and TIBCO
The status of open banking – where are we now?
**Setting the scene**

On Thursday 11 October, leading banking professionals gathered for an exclusive and interactive roundtable dinner, to discuss the latest trends and implications of open banking.

During the course of the discussion, it became clear that the competitive landscape and reorder of market leaders within open banking is radically changing, and changing all over the world.

Lessons were learnt from both regulated and unregulated markets but there is still a much needed desire to better understand where, and how, value is created along the open banking value chain.

Under the Chatham House rule and hosted by MoneyLIVE and TIBCO, here’s how the conversation played out:

The discussion kicked off with an overview of where the industry is now and what the level of involvement was from specific stakeholders. The group identified that among the 9 banks live in open banking in the UK who currently offer current accounts, there is traffic of circa 5 million API calls across them. Among them there is one third-party provider in open banking right now that’s managing 96% of that traffic.

One attendee then highlighted the point that: “If you look at the other key actors, you’ve got about 40 firms right now who are regulated and able to go live with APIs. There are then another 120 who are engaged in the open banking ecosystem and then finally, you have all the other banks.”

The group concluded that while this has resulted in a lot of excitement and a potentially significant shift in leadership, there are other areas where it’s gone viral. One participant noted:

> “There are many regions where people are talking about doing open banking but still need to mandate it and others, like China, who have gone ahead and launched into an unregulated market.”

Head of Open Banking, Leading Retail Bank A
Furthermore, they added: “Open banking is definitely happening... give it 24 months and there will be around 2 billion people in markets where open banking will be available – regardless of whether it’s regulated or unregulated.”

Another respondent added: “While Europe has regulation that will help ensure new launches, it may fall behind in terms of the innovation that other, unregulated markets experience.”

**The winners and losers of open banking**

Participants were then asked who were going to be the winners of open banking. There was widespread agreement that the winners will be the ones who figure out their niche and target that niche appropriately. The ones who try and compete in all corners of open banking will inevitably fail, and ultimately, will get stuck worrying about too many angles.

One individual then highlighted the point that “shouldn’t the customer experience be at the focal point of who wins?” Contributing further:

“**My fear is that it’s going to be GAFA that wins. They are experts at offering consumers the right products with the right experiences and that’s what counts.**”

Head of Open Banking & PSD2, Leading Retail Bank B

But in response to that, one member of the group suggested that competing head on with the likes of GAFA is irresponsible and banks, instead, should focus on offering more trust to their customers rather than products.

Furthermore, one participant commented that the point of banking is largely just friction and that at the end of the day, nobody has a desire to put more effort and time into their banking. From a satisfied customer point of view, it’s actually a case of needing to do less banking.

“The point of banking is largely just friction and the less friction customers have, the more successful banking will be.”

Director of Digital, Leafing Retail Bank C
Optimising the banking value chain
Optimising the banking value chain – the wholesale opportunities

After being asked about where banks should be adding value, or focusing their open banking strategies, the group noted that it was vital that the optimisation of customer need at the point of sale was prioritised. And at times, this may mean that the customer journey requires no interaction between customer and bank.

For example, “It’s like buying a sofa from John Lewis but having an API in process that allows you to better complete that transaction there and then. If an API can simply connect the transaction to my bank and streamline that process then John Lewis have helped a consumer by supplying credit at the point of sale but with the consumer having knowledge that they’re using trusted partners.”

In addition, another attendee added:

“Open banking gives us a channel that’s distinct from product reach. Winners will be the banks that take advantage of these channels to serve customers at their most optimum moment.”

Head of Digital Strategy, Retail Challenger Bank A

So, should banks even be trying to compete with wholesalers? If customers already prefer the experience and the journeys provided by them, then should banks focus on integrating APIs into that journey? This is where the group agreed that real value could be gathered for them in the new environment of open banking.

Harnessing advanced technology for wholesale

For large established banks, perhaps much of the value that is attained by harnessing advanced analytics, AI and machine learning, is now found on the wholesale side of banking rather than retail.

“Retail banking isn’t as profitable anyway. It’s an overcrowded industry and there’s more mileage in the wholesale market where a data-rich economy gives banks more space to compete.”

Head of Open Banking, Leading Retail Bank A

For the main incumbent banks in particular, this is potentially where they have a great opportunity to compete better in the wholesale space.
because they are not facing quite the same challenges from disruptive newcomers as they are in the retail environment.

"With challengers driving initial growth primarily around single product offerings to consumers, there's now large potential profitability in wholesale. But how can they use analytics to best realise this potential?"

Head of Financial Services – UK & Ireland, TIBCO

The group then posed the question: "Can banks purely focus on wholesale, given the history they have in retail banking and the significant change of direction that would be required to move away?"

One thing that was apparent was that whatever the path turns out to be for banks, the control, security and governance of the APIs is crucial, and new advanced technologies and systems need to be explored that will allow banks to do that.

Disintermediation

Moving forward, the roundtable conversed on whether or not customers really care about disintermediation of the value chain. Customers are looking for solutions that protect their money and protect their identity, but to what extent does having a preferred customer journey take over their preference of solutions? If it does, then do incumbent banks need to shift their focus away from the journey and more towards back-end solutions?

One participant commented:

“If you look at other commoditised services, the winner will be the first bank that forgets the front-end play and focuses on being the best back-end service provider. This will likely come through offering the best service platforms, voice technology, AI and chatbots.”

Director of Digital, Leading Retail Bank B

In support of this, the group agreed there were financial gains to be made by adopting this approach but some commented at what risk does this cultural shift threaten the advantages that banks already have over challengers, including the fact that they currently have the trust and loyalty of consumers? If this starts to fall because of a loss of engagement, will that advantage, or any other for that matter, ever be regained?
Big data integration
Big data integration

Next up the moderator explored the topic of data and asked the group what they were doing about it and how, and if, they’re exploring new channels to maximise it’s value?

Some members commented immediately by saying that more investment was needed into hiring people with the right skills to leverage new data. Alongside this was a recognition that AI and other advanced technologies need to be brought into the wider conversation of how the open banking landscape is shifting and what it ultimately means for banks and their customers.

“If banks don’t explore new data sets and new technologies they run the risk of sleepwalking into danger.”

Open Banking Lead, Leading Retail Bank E

“You've got the CMA pushing for innovation and competition and then you've got GDPR which is shifting the ownership of the value of data. Is there now value in using analytics to achieve self-segmentation?”

Head of Financial Services – UK & Ireland, TIBCO

Essentially, giving hyper-personalisation back to the customer and allowing them to dictate their own interfaces with the providers they prefer to use. But does this open up additional risks?

“As soon as we open up APIs we’re potentially increasing the risk of our customers’ data being hacked.”

Head of Open Banking and PSD2, Leading Retail Bank C

While open banking does increase the number of providers who can aggregate data, many of the group spoke about trust and how there are ways to mitigate the risk of data insecurity – the ultimate drawback is that you might not be the first to market but you will be secure with the data you’re using thus avoiding pitfalls that others have already fallen into.

Another participant spoke about self-segmentation and how banks should be leveraging the vast reams of data, coupled with analytics, to allow customers to self-segment.
“If you add a license or a level of insurance to your platform then you’re adding trust to the system. You might not be first through the door but you’ll definitely survive.”

Head of Technology Risk, Leading Investment Bank A

The group concluded that ultimately, it’s about trust. If banks are going to convince customers to aggregate their data, thus allowing them to add more value at multiple stages of the customer journey, then they have show trust and loyalty. Banks have an advantage in this space already but challengers are hot on their heels.

“Trust is pivotal. It’s advocacy….and this results in customer retention.”

Digital Transformation Strategist, TIBCO
The profitability of open banking
The Profitability of Open Banking

On a final note, the group explored how banks should be monetising open banking in the long-term. The increased level of competition in retail banking is forcing banks to re-think their strategy and while there is a risk of them being forced out by more agile, consumer-friendly challengers, are there opportunities that are rising because of this shift?

One participant commented that we have potential here to finally move away from unprofitable business models. Think of a world where banks are utilities, fine-tuning back end processes that maximise returns on capital and where a stronger emphasis is put on wholesale services. Alongside this, another speaker put forward:

“A strong model would be to keep things simple and safe and let FinTech accelerators take over. Let’s take no risks and see what they can do with our data.”

Director of Digital, Leading Retail Bank B

In conclusion, retail banking is facing a significant re-structure of its platforms and banks need to quickly identify their purpose and proceed with security. They need to think deeper about segment-by-segment profitability and ultimately how they will harness new tools to streamline whatever segments they decide to focus on. Potential has been seen in big data virtualisation, advanced analytics and blockchain technologies for example, but the challenge is to truly know where to place them in your system and then how to align them with your wider business models.
Thank you for reading

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