

Open Banking: A Strategic Opportunity for Digital Businesses

The 451 Take

In simple terms, open banking is a framework that enables third parties, such as merchants, to access consumers' banking information – with their consent – through the use of open APIs. This unlocks a variety of new opportunities for digital businesses to level-up their payment and checkout processes.

With open banking in varying stages of evolution in markets around the world, merchants should begin to familiarize themselves with this emerging business opportunity and develop strategies to embrace it. Those that execute it stand to realize a variety of tangible results, running the gamut from operational improvements and customer experience enhancements to innovation. Enabling payments through open banking can lead to quantifiable business results, generating both top- and bottom-line improvements. Consider that:

- More than three in four (78%) consumers say that if their preferred payment method isn't accepted, they are less likely to shop with that business in the future. We expect open banking to increasingly factor into consumers' payment method preferences in geographies such as Europe, positioning it as a conversion and customer loyalty factor.
- More than two in five (42%) merchants say keeping payment acceptance costs as low as possible is a top priority for their organization. Open banking can contribute to this goal by minimizing the number of intermediaries in the transaction flow.
- Over half (53%) of consumers say fast and convenient payment options are highly important to improving their online shopping experience. Merchants can build their own branded payment flow on top of open banking, creating a streamlined and efficient checkout option.

Open Banking Caters to Consumer and Merchant Priorities

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payment initiative for merchants this year is increasing acceptance of alternative payment methods

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Source: 451 Research's Voice of the Enterprise: Customer Experience & Commerce, Merchant Study 2021, 451 Research's VoCUL: Consumer Population Representative Survey, Connected Customer, Q3 2020

While the opportunities are apparent, realizing the success of open banking will not be a 'build it and they will come' phenomenon. It will require strong and experienced payments partners well versed in technology, regulatory requirements, and data access and integration. Further, it will demand investments in customer education to build confidence and awareness around this new payment experience. Digital businesses that prioritize these areas during the development and execution phases of their open banking strategy stand to see the most pronounced results.

Business Impact

The first step in crafting an open banking strategy is to develop a business case. We see three key areas of opportunity that organizations should prioritize:

Customer experience. More than four in five (83%) merchants have seen a rise in their customers' expectations over the past 12 months, amplifying the importance of delivering a strong customer experience. Open banking creates greater choice at checkout by giving customers a payment option beyond wallets and cards. It can also be leveraged to streamline account enrollment and signup by pre-populating data pulled from a customer's financial institution. Ultimately, this leads to a more personalized and streamlined customer experience at the point of conversion.

Operations. Open banking supports both revenue and profit from several angles. Merchants can leverage account information services through open banking to receive enhanced customer insights for use cases such as credit scoring, which leads to the presentation of better financing and packaging options. Open banking may also help reduce fraud risk since customers submit transactions directly to their bank using multi-factor authentication. Given the real-time nature of open banking, there are also opportunities for improved cash flow, in addition to a lower cost of acceptance compared to traditional cards and wallets.

Innovation. Open banking creates opportunities for digital businesses to become more innovative in the way they harness payments and payments data. For instance, using open banking to underpin a merchant-branded payment option can allow digital businesses to take greater ownership of their checkout flow while more closely integrating loyalty and rewards programs within their payment experience. Similarly, leveraging the 'request to pay' use case can allow digital businesses to expedite funds collection while providing their customers with a fast and efficient invoicing option.

Looking Ahead

There's a lot to be gained from open banking, but realizing the benefits requires a well-crafted strategy. This is a technology that is still evolving, which means merchants must be thoughtful about implementation. While merchants will harness open banking differently depending on their business model, business requirements and vertical, there are several key best practices all must follow.

Data control and protection must become a cornerstone of any open banking strategy. This means clear opt-in and opt-out options for customers, in addition to transparency about what type of data is being collected and how it is being used and protected. It's also essential to generate top-of-funnel awareness around the availability of an open banking payment method. Driving education and awareness of this new payment experience across the journey will help to promote customer adoption and comfort.



Worldline's Solution for Online Businesses

Businesses wanting to take advantage of the possibilities of Open Banking should consider Worldline's Online Bank solution. For online businesses with a strategy of promoting their own brand to consumers throughout the entire checkout experience, Worldline can help offer a white-labelled payment initiation product. All API complexity is handled by Worldline, so businesses can simply and easily offer customers a new payment method.

To find out more about WL Account-Based Payments, powered by open banking technology, please visit Worldline's [dedicated website](#).