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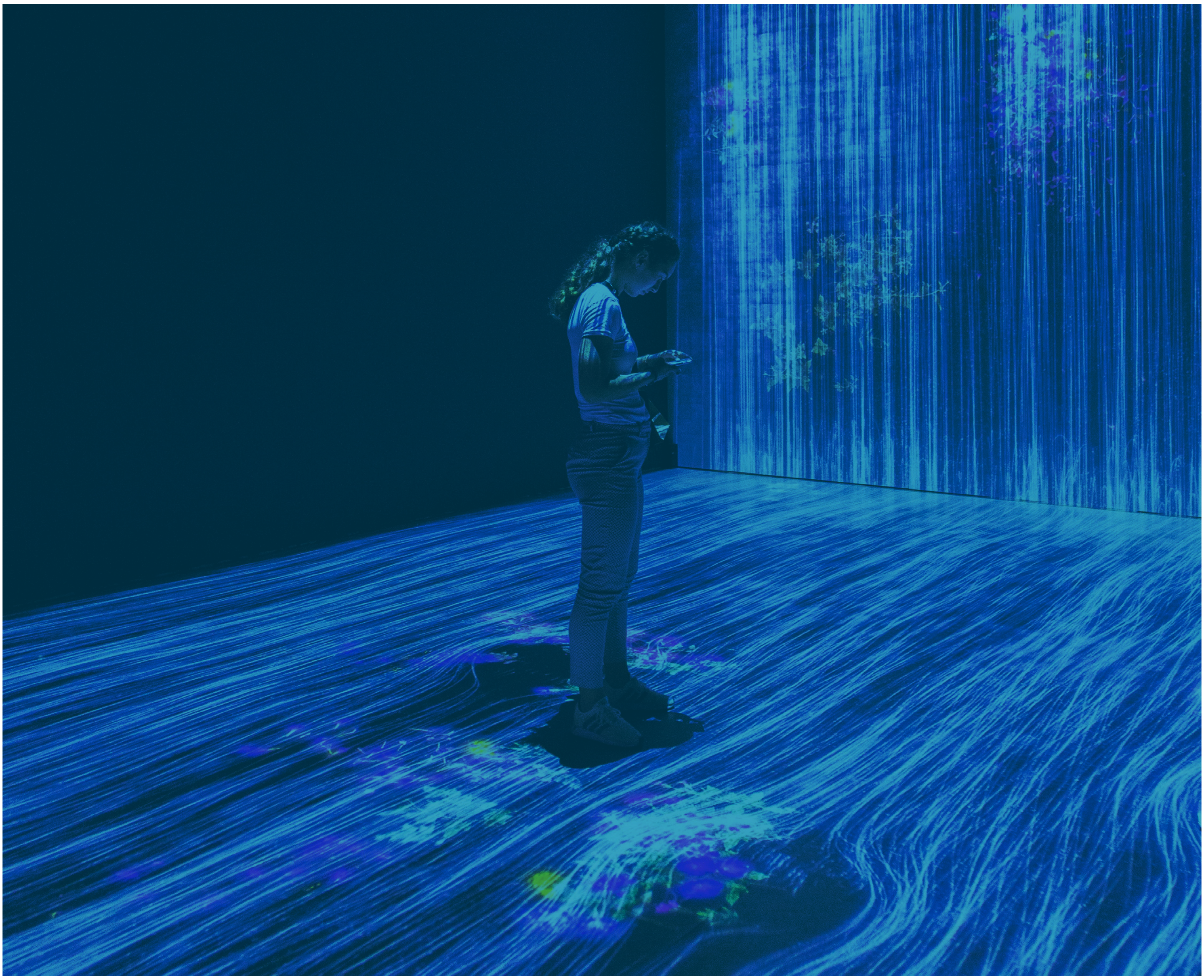
Open banking Europe 2022 - What's next for open banking?



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Foreword

Tom Wijnen,
Senior Product Marketing Manager, Open Banking, Worldline

Open banking started long before PSD2, and it will not even be completed after the introduction of PSD3. The concept reflects the nature of a self-contained eco-system, where supply and demand are easily brought together as in any dedicated marketplace.

It is clearly not in the nature of the financial industry to journey into such open eco-systems that can put pressure on risk management and trust, potentially leading to the loss of customer relationships. But at the same time, big marketplace providers from both sides of the ocean have already proven that they can uphold these concepts in open environments. All this cannot prevent every player in the financial industry from starting to understand that it will be inevitable to position themselves in this new order; notably the major scheme providers as well as the aforementioned marketplace providers, although both from a completely different angle.

Ultimately, it will be the end-consumer who will benefit from the open banking movement and regulation, sooner rather than later, as it is they who will demand the best possible payment experience from all their suppliers, not hesitating to switch to those providers that give it. Is it not obvious that any consumer with a bank account expects to be able to make payments with various means and at any time? And is it not evident that the financial data coming from an account can provide value in, for example, determining personalized offers, and can speed up many financial processes to the benefit of the account holder?

In the end, the question is which party, bank, scheme provider, fintech, 'big tech' or combinations of them all will find the best way to provide this added value to the consumer? For sure, the one that does will be the new trusted financial service provider in the market.

And in this battle, Worldline shows the first signs of its awakening, rising up to take up the gauntlet and presenting itself as a key provider of open banking services. But the matter of how and when is for a multinational always more of a question than the actual need to play a part.

Being a player serving both banks and merchants makes for a natural place to start creating value from open banking in the form of a platform- connecting over 3,500 banks to over 200,000 merchants, step by step, use case by use case, exploiting the experience gained from decades of robust and reliable processing capabilities and providing new payment means to the merchants using the bank account. But also, and importantly, we can now go beyond the payment into the data economy, where reliable financial data is used to personalize financial offerings, improve and accelerate financial processes and even create a more sustainable environment for all of us.

And so we started to provide our first use cases to the market, including an account-based payment proposition for acquiring banks, PSPs and merchants to use on their checkout pages, and later a green banking proposition for banks to enable their customers to make “green decisions” based on a carbon footprint score. But during the launch of these products and the many other use cases that we have put in motion, it is always good to reflect and reaffirm that we are indeed doing the right thing at the right time.

Therefore, in hearty cooperation with Finextra, we decided to undertake this research paper, taking a pulse on the current market status, the uptake of open banking, the barriers that have been overcome or that still hinder progress, as well as providing a glimpse of the future of what we consider to be the most disruptive change of the financial industry in centuries.

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Introduction

Since the European Payments Services Directive 2 was introduced in 2018, open banking has come to mean different things to different participants. Progress, innovation and developments have taken place at varying speeds with varying results. The end user- be that consumer or business customer- has notions of the concept of open banking generally only in the form of new and proliferated services now on offer. And they have certainly become accustomed to the paradigm of data in terms of its value and its proprietary nature, by dint of both campaigns and global events highlighting the importance thereof, but also of other retail sectors, including leisure and travel, as well as telco, energy, insurance and the public sector evolving and finetuning their products and services.

In financial services, certainly, there has been a flurry of new participants- quite as the regulators who ushered in PSD2 intended- and between them and banks and the often-conflicting, sometimes symbiotic relationships that have emerged, the customer has indeed been the recipient of a richer choice of services and providers. But it is still more limited than it might be.

The customer relationship has become the holy grail, and yet no financial service can be launched or be delivered credibly without the unfaltering robust protection and compliance that only organisations with banking licences have the wherewithal to provide. Hence the need for the sharing of data to increase the access to banking rails for Third Party Providers (TPPs). To this end there has been something of a stalemate, because for many banks, the value proposition is still unclear and the question burns brighter by the quarter- do the relevant bodies need to galvanise efforts by introducing stronger direction regarding infrastructure and accessibility?

To understand the future of open banking, one must understand business priorities, technical expertise, cultural ethos, consumer appetite, and system challenges of the financial services industry.

This research paper from Finextra, in association with Worldline, takes the pulse on the development of open banking initiatives from several stakeholders through one-to-one interviews to ascertain where the biggest opportunities lie now and, crucially, what it will take for them to be fully realised.

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Early adopters and innovation momentum

For some industry participants, open banking was something of a no-brainer, despite the huge change it would signal, and the inevitable long time it would take to realise. Société Générale announced plans for a Bank-as-a-Service and Bank-as-a-Platform in 2017, with a very forward-looking strategy.

Claire Calmejane, Group CIO, Société Générale, says, "It was very clear that there was a new segment of clients, fintechs and innovative start-ups that wanted to consume some of the financial services value chain and set up their business models but didn't have the benefit of banking expertise in terms of risk, compliance and IT systems."

The bank already had businesses like this in place, notably Franfinance, a consumer credit subsidiary for B2B or B2C offerings. "The mindset of a modular retail bank offering its capability to an [external] organisation" was in place for a long time, Calmejane explains.

According to Alex Mifsud, co-founder and CEO, Weavr, the whole idea of integrating financial services into non-financial businesses is not a completely new idea, programme managers having always created banking and payment applications outside the context of banks.

Hence, "the moment I heard about the legislation when it was being talked about in 2015, 2016 I thought this was going to be really something that was going to change financial services forever".

Albeit inevitably slow-moving and plenty of work clearly to be done by all parties alike to make perceptible progress, the move did represent the beginning of a sea change, and a welcome one at that.

Of tangible services and products that have been created as a result, Mifsud is less praising. Although he remains optimistic.

"While I'm very bullish about the concept and the potential for it, the way it has unfolded in reality has been quite clunky. There is no interoperability.

There are many different vendors doing things slightly differently and a great degree of latitude in terms of how banks comply. [They] can get away with some sort of screen scraping and very basic things that are borderline unusable by anybody else. This isn't really supporting the spirit of what open banking should enable."

Mifsud says that third party integration is too obvious and awkward, creating unease and confusion for the end user, who from time to time notices a third party within a transaction.

"Even with some of the more established vendors, you can [often] see that there's some variant in the middle facilitating it that you don't have any relationship with. As a user, [you wonder], 'Am I doing the right thing, is somebody hacking me?' The first thing we need to do is to reassure customers when they're adopting it that they're in control, that they're safe. I don't think we've got that right by a mile yet. It's a minimum viable product that we have at the moment and barely that," he adds.

It is clear a little more education is needed, as well as more seamless integration and interoperability such that it is clear for the end user who they are transacting with. He is not the only one not filled with excitement by the resultant innovation from open banking almost four years on.

Marco Bosma, Managing Partner and Strategic Advisor, Fintech4Tomorrow Services BV, bemoans the lack of progress in this area. Successful use cases? "We've been talking about embedding payments functionality in customer journeys [for five years] ... but apart from Uber, I as a consumer haven't seen any other embedded payment example that gets close," he says.

"All banks [consider] at the moment is the outgoing payment. They've missed the boat completely. There is a huge opportunity in looking at where the information flow of the user starts- what the business process for them is, invoices raised, before the payment takes place."

This illustrates the different priorities for progression and opportunity within open banking. There is agreement about causes for frustration from third party providers, and even banks about the slow progress. But that isn't to say that the opportunities are not being visualised and even realised. This is industry sea change and the progress and uptake of open banking will likely follow an exponential curve rather than a straight line of equal and steady increase.

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It's all about the open banking rails and service provision infrastructure

Wouter Stokkel, Product Lead, Banking-as-a-Service, Rabobank, provides a more objective and nuanced view. He says open banking currently is about the way products and services reach the customer. "What I see happening is more like [distributing] what we already have in Banking-as-a-Platform situation, and you do see that we are able to do things a little bit better. But I haven't seen it large scale yet, or in other companies."

As a benchmark, Stokkel does, however, hail Stripe, in the way they created the API as a product. "I think we could learn a lot from that. And the way they create APIs that developers love, as a service."

This kind of model would be very difficult for banks to achieve, he says. "On all angles it's different to what the banks are used to delivering on transactional basis, towards Software-as-a-Service, almost. A totally different operating model, different marketing, governance, everything. It's a challenge," he says.

Of course, this is where several providers would be looking to step in, offering this model, however Stokkel sees it as a challenge worth pursuing, drawing comparisons with the travel industry model where all components of an itinerary can be booked on a single platform.

Having acquired Banking-as-a-Service platform, Treezor, Société Générale, has been able to capitalise on the now-familiar API infrastructure to venture into new markets, such as car leasing, offering Banking-as-a-Service. "We did the acquisition of a start-up called Reezocar, which is a marketplace for used cars, and it's part of the strategy of development. It is important to understand that by 2030, the BaaS market is estimated in ecommerce at 1000 billion euros, and the ecommerce market has been growing 20% year on year." says Calmejane.

> **“The payment initiation part will allow marketplace and payment actors to propose other payments means, and to facilitate the business of ecommerce shops or marketplaces.”**
>
> **Eric Lassus, CEO, Treezor**

Société Générale has also made forays into Banking-as-a-Platform model, whereby the bank integrates fintech capabilities but retains the customer relationship, for example, in its acquisition of Shine, a neobank for freelancers, Calmejane explains, offering company registration, a bank account, expense management, payment functionality and more to foreign entrepreneurs. “It’s so much more than a bank, it’s a holistic approach to what banking could be tomorrow. We’re investing 150,000 clients in Shine”, which incidentally announced recently an application for an e-money licence that was granted by the French regulator.

Eric Lassus, CEO, Treezor, says, “Treezor was part of the early adopters [of open banking]. We were one of the first Bank-as-a-Service platforms in France, providing what we call a One Stop Shop- the entire payment chain by means of an API. And the idea [of the association with Société Gènèrale] was to continue the adventure by disrupting. Treezor was known as the fintech of the fintechs. And now thanks to Soc Gen, Treezor is known as the fintech for banks as well.”

It is no secret that to date, much of the innovation and open banking rhetoric has centred around the retail consumer. But also no secret that the SME and corporate segments are not only ripe for disruption but crying out for improved, and digitally-driven services.

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Strategic business advantages

Further to viable use cases, is there a greater swell towards consumer or business use cases? Offering a view on this, Ulrika Claesson, Head of Open Banking Community, Nordea Open Banking, says the retail banking consumer market is already very mature, with most open banking services directed at the consumer segment. Claessen recognises the opportunities at play for business customers through the provision of services via APIs and sets them out.

“We see that the potential in the market lies in the unexplored opportunities for corporates. There is an opportunity to strengthen our relation to corporates by offering financial services in their products, to their end customers. For us it means extending the reach of our financial services, aka embedded finance.”

“Examples could be extended reach, improved end-user experience and new ways of utilising basic banking services. We have already seen some concrete examples- with direct access, our corporates can reach their accounts from their systems in real-time. Personal customers benefit from [our] services in non-financial channels, in that they create convenience, an improved user experience, and also more choice. Third parties use banking services to power their platforms. For our partners, it can increase sales and for the end customer, it can mean a better customer offering and service.”

Treezor’s Lassus identifies huge opportunity in data-led, “data-driven marketing”. He says this is a role that banks will recognise a key opportunity in. “I’m convinced that everyone thinks ‘my data are secure in the bank’. This means banks have a good home for developing businesses driven by good use of the data.”

He talks of use cases in wealth and residential building management for leaseholders and the digital offerings and payments that could be built into these. “And thanks to the regulators, and GDPR rules, now there is a context to study and reflect on how data can allow us to propose services and anticipate direct opportunity,” Lassus adds.

> **“In terms of what needs to be done and whom by, Stokkel modestly looks inwards conceding the biggest work may lie with the banks to undertake. “API design first strategy: design APIs that developers love and that are easy to integrate, that don’t change a lot.””**
>
> **Wouter Stokkel, Product Lead Banking-as-a-Service, RABOBANK**

Nordea’s Claessen says tech companies and system vendors need to challenge their business models and shift to direct integration (APIs) to make sure that they improve the customer’s experience and outcompete challengers.

“For example, new players in the Nordics offer free accounting software taking some of the market share of the traditional large ERP vendors. Their services are built on direct integration and customer experience, creating a much smoother experience and convenience for the small and medium sized companies that need less administrative staff.

“Banks should consider [embracing] embedded finance, really understand the customer and build relationships. Banks must provide awesome platforms - to attract providers and consumers – that will provide greater efficiency, bigger product reach and future proof their services,” she says.

Furthermore, the ecommerce market is ripe for disruption and brimming with opportunity, as is set out in the following section.

As Calmejane says, the BaaS model, “is a mature area for retail banking to continue to grow, mostly identified in cash management, correspondent banking, etc., but most drivers of growth of bank as a service is about finding growth drivers in the retail business.”

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Onboarding and payments data strategy

For Mifsud, onboarding customers now presents a much higher risk analysis, meaning greater investment for banks and a certain degree of reluctance as a result.

“The responsibility shifts on to companies that are providing the financial services. I think that will have the effect of a lot of financial institutions being much more worried about opening up APIs to third parties because they will say, we’re still responsible, but we don’t have the tools to know the old context and do the risk management in context. The banks would have to invest even more, to be able to deliver solutions to third parties because of the additional responsibility to take a risk-based approach”.

“This is why banks often decide to do the minimum to get on the right side of regulation, and no more, and other banks will invest and become more like banking-as-a-service providers that are geared up to provide this sort of contextual risk,” Mifsud explains.

He details his programme for enabling car parking payments paid for by retailers, in which the average transaction value is £5, and another programme for buying cars in which the average transaction value is £12,000 pounds. Both in the automotive industry but with a completely different risk context. Understanding how money flows and whence it originates becomes a wide open exponent in the world of open banking services, presenting huge new levels of risk and responsibility.

Treezor’s Lassus says the scope for ease of credit line issue will be great, in terms of the security, risk management and KYC that will be enabled and accessible to different providers, once the awareness and the accessibility becomes pervasive. “This feature, when it works perfectly, will allow some banks to provide a really easy way and in real time, some credit line for example, some payment facility. And today, some payment facility, are not used or not proposed, because we are not able to manage the risk in an efficient way.”

“The payment initiation part will allow marketplace and payment actors to propose other payments means, and to facilitate the business of ecommerce shops or marketplaces,” Lassus says.

Stokkel sheds light on increased pressure due to increased customer base as a result of the opened market. "I think it's more challenging, we have a different set of customers, we have developers now, we're not used to that. And they don't always work at the same company, so you have more difficult KYC process. I think that part is changed a lot. And we have some customers that might not want an account, they just want to consume the API or partner with us. So, the customers are not all account holders anymore."

It must be said, the pandemic represented an acceleration in digital onboarding, and financial services in general and, hence, an uptick in consumer demand and amenability towards digitised offerings.

Says Claessen, "We see that the onboarding is not so much driven by regulations as by the customer preferences. Technology, regulations, customer expectations, and changing behaviour drive the adoption and use of banking APIs. The pandemic boosted the adoption of digital banking solutions. Some of that also led to increased use of both regulatory APIs and API-based banking solutions. We saw customers moving to different digital environments, and started providing services through others; this indicates the customer push towards different digital solutions.

Payments innovation is at the heart of new experiences driven by open banking initiatives, and remains a top priority for banks.

"We want to deliver [new] experiences, so it's about figuring out who we can partner with and where our customers are going. They don't want a mortgage, they want a house. So how can we make sure that we are there where the decision making is. That's the challenge but that's also the innovation part of it."

Being the brand associated with the transaction remains a critical endeavour for most banks. Yet Stokkel remains open-minded. "I think if you do it well then you have a very good place in this whole chain of interaction with the customer, and there will be products that can be delivered as an API. We can deliver exceptional service or advice as a bank- that's not something you could just easily do via an API. So, there's still a lot of opportunity."

Claesson says one of her top priorities in payments innovation is to utilise and exploit technology to its greatest potential to enable "real time payments and smooth experiences in any application". Furthermore, the corporate customer is a key target for the kind of improved services that open banking can bring. "Our focus is to improve the services towards our corporate customers where we see a big potential in reducing manual processes and taking away time lags when processing payments, reducing operational risk, and [supporting] our corporate customers in their constant aim to improve cash management."

“When it comes to customers and third parties, for both regulated and unregulated areas, we see a need for fast and effective payment solutions, real time access, real-time payment initiation, real time reconciliation and less cumbersome processes – especially for corporate customers. There are API models that provide account validation which support companies’ needs to reduce payment or partner risk. All these services – payments, AML, KYC – are where we see a potential market increase. Real-time accounts, which combine payments and accounts, are important as well. Getting real-time data effortlessly is a challenging area for corporates and treasurers,” Claessen continues.
Weavr’s Mifsud weighs in on the data value discourse and how this has shaped his own strategy.

“Our own data strategy is built on how we make these data sets available, whether that’s data being generated from an account we create on our platform or data of the accounts belonging to the customers that are issued outside our organisation. How do we get that data into a useful resource for innovators, but also being offered in a way that is safe for the end customer.”

“Thankfully the GDPR is a fairly heavyweight piece of machinery but there’s still practical considerations, in making available customer data in a way that the customer has given consent but it’s actually useful to the user of that data. That’s a challenge but it’s also a huge opportunity and that informs part of our data strategy,” Mifsud says.

“It has become clear that data is something that banks protect very well. They are trusted, a little bit more than other companies with personal data. And I think that trust, protecting that, and making sure that we own that trust and keep that trust is very important. Putting the account holder or the client in charge of their data to share it or not; retrieve it or revoke consent. And also in creating new products like identity services, I think banks can really become an identity provider because they have the data, and they can share anonymously if a person is 18 years or older, without giving any personal data, so I think we can play an important role as keeper of the data.”

What, then, is it going to take to absolve the latency around the development and roll-out of open banking services, and to whom does it fall to drive progress?

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Setting the standard- what is needed to make open banking a success and by whom?

For Bosma, as for others, the prevailing opinion is that a lack of a unified accepted standard is by far the biggest frustration, and indeed the reason for the dearth of credible use cases. While there are ideas and innovative services waiting in the sidelines, the limiting factor is the infrastructure and agnostic interoperability. "There has been a huge debate for years on the PSD2 standards. The established institutions are really scared about this movement- they see it as a huge cannibalisation of existing revenues." While there are potential revenue streams to offset any such losses, he explains, "I haven't yet seen any significant new business coming out of an incumbent bank to offset losses that are projected as a result of open banking."

"PSD2 is essentially built on the promise that by co-creation of new value propositions, you get a better product or a better service for the customer, being the government or an SME or a private person," says Bosma.
And APIs are the vehicle with which the value chain can be disintermediated- in order to rebuild with multiple parties- and recreate the banking proposition as a result, with several, not one, associated brands.

"Managing the payment from a customer perspective, from the front is more important than processing it in the back, in terms of value, so if [a party] charges for a payment, they need to understand where the value is created from a customer's perspective. It's about ease of use, data analysis and insights," Bosma adds. For banks themselves to do this, it requires a change in technology, culture, and creation of a "periphery of companies around the bank that are fundamentally a different breed" than the bank itself. All the while retaining the expert teams and functions for the KYC and compliance. No small task then.

"There's no spirit to allocate tasks and responsibilities in that value chain," he continues, seeing no reason why banks can't join forces to form "a fortress of compliance and KYC to secure that financial ecosystem".

> **"The best comparison is probably the introduction of SEPA, where there was no room to cheat, there was no room to delay, [aside some minor exceptions], but there was an enormous army of force to make sure that change happened, because otherwise the rails wouldn't connect. It's that type of attitude, in terms of a transition that open banking needs. Open banking needs a body that is mandated to force the rebuilding of value change in financial markets."**
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> **Marco Bosma, Managing Partner and Strategic Advisor, Fintech4Tomorrow Services BV**

Bosma highlights the fundamental foundations of an open banking ecosystem- trust and security. A common standard would lay the groundwork for limitless innovation and opportunity. Individual European regions have set about creating standards- the UK, the Nordics as well as the work of The Berlin Group and STET, hence there are different levels of development of services across Europe. The achievement of a common standard would see open banking realised as per its intention.

Incumbent banks feel the same way about standards, as we hear from both Nordea's Claesson and Rabobank's Stokkel. Both sides of the fence feel legislation has been sufficient.

For Stokkel, as far as legislation goes, "it's maybe enough". But he finds the specific absence of unified nomenclature and data fields, hindering developments as a result. This is an expensive process to smooth, of course, hence the value of the integration companies.

"If I make the analogy with travel, it was agreed across the entire travel industry, whether you're talking to an accommodation in China or you talk to an airline wherever, we had the same rule set. Everybody does it a little bit differently. That becomes a problem for the customers who want to implement multiple banks or multiple providers. That's also why you see a lot of these aggregators popping up, taking in that gap, basically," he says.

In terms of what needs to be done and whom by, Stokkel modestly looks inwards conceding the biggest work may lie with the banks to undertake. “API design first strategy: design APIs that developers love and that are easy to integrate, that don’t change a lot.”

Claessen acknowledges the success and the need for integration platforms. After all, these new providers are playing their part in democratising the system. “Flows move from one middleman to another.”

It is clear that clarity and cohesion is required and desired by all parties to enable simple, fast and familiar connectivity between banks and payment and service providers. Only then will open banking, and the goals of PSD2 be truly addressed and implemented as intended, to create greater competition and better choice for the end user as a result

Société Générale and others have navigated a fruitful course around the lack of standards through the acquisition of platform Treezor. Calmejane stresses the importance of upholding a robust banking system.

”For me, what’s very important in the open banking story is that at the end of the day, we don’t introduce systemic risk on the system. Because, you know, I see that in Treezor we have 80 clients outside of France in different countries. But, you know, whatever is your application, it needs to be robust because we have to deal with consumer data,” she says.

Stakeholders have mixed views on the type of further regulatory input they would welcome to accelerate the growth of services.

07

Further regulatory input?

Says Calmejane, "My wish to the regulator is, how can we foster this collaboration between the banks and fintechs in order to really deliver concrete innovation to the market, because at the end of the day, that's my position, how can we deliver the best product the best experience for consumers and Société Générale but more widely for the industry. And that obviously goes through a regulator facilitating the creation of these new startups, but also facilitating when there is acquisition, when there are partnerships, how does it materialise and how can it reach, very quickly, industrial scale."

Weavr's Mifsud says regulators tend to act reactively rather than proactively, and sooner or later some action will be required to help firms navigate risk better.

"There's plenty to do to make it mainstream and to realise its full value: interoperability (between banks and third parties) being one, so that those who are looking to exploit it can exploit it effectively; standards for dispute handling and maybe requiring institutions or third party providers to better deal with risk management and fraud. These are all things that will create more adoption, more public confidence," Mifsud adds.

Bosma says open banking needs a forceful body to push things forward; one which clarified the parameters a little more in terms of innovation Vs. risk, which translates to convenience Vs. risk from a consumer perspective.

"The best comparison is probably the introduction of SEPA, where there was no room to cheat, there was no room to delay, [aside some minor exceptions], but there was an enormous army of force to make sure that change happened, because otherwise the rails wouldn't connect. It's that type of attitude, in terms of a transition that open banking needs. Open banking needs a body that is mandated to force the rebuilding of value change in financial markets," he says.

> **"Banks should consider [embracing] embedded finance, really understand the customer and build relationships. Banks must provide awesome platforms - to attract providers and consumers – that will provide greater efficiency, bigger product reach and future proof their services,"**
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> **Ulrika Claesson, Head of Open Banking Community, NORDEA**

Given that banks are still the most important players by size and volume, Bosma thinks the ECB would be best placed to set up an entity for this action, to bring together the local authorities to ensure overall security of the system, that it's open enough to all players and that certain aspects of the customer journey are set by the ECB.

"If the ECB would spell out preconditions that every customer journey in a recreated value chain in financial markets needs to meet, personally I believe that then there's a likelihood that this whole thing gets traction," he says.

In a similar vein, Stokkel says, "The [regional and European] authorities could also really help in also explaining what's possible. When you want to open up more there's pressure not to take much risk in sharing data, so it's a little bit contradictory to me. I think it would be helpful if the legislator would also be a little bit more open towards innovative activities from banks."

It seems, given the individual challenges, opportunities and trajectories of industry participants, cohesion is required that can only come from an industry body or authority, if progress is to be made at a faster pace. While there is much merit in letting the industry settle into a natural equilibrium of its own accord, and shaped by market dynamics, if the delivery of a better offering could be achieved faster because for some players the new ecosystem represents more risk and uncertainty than for others, then a catalyst of some kind, preferably in the form of a standards mandate, wouldn't go amiss.

Calmejane is emphatic about the need for an enterprise-wide approach to open banking for such a large bank as Société Générale. The shift is wholesale. "You have to make sure all parts of the organisation are moving towards that. It's very important and cannot be just economically-led. It needs to be a combination between economics, people, workforce, strategy and technology, and it's the whole chain that needs to move together. The progress we made

in our cloud strategy, where today we have 80% of our application in the cloud, is also critical to offer modular infrastructure, 'API-sation', which is consumable, in terms of third parties at little cost, because we cannot produce this industrial model at a bigger cost," she says.

Mifsud adds a new angle by way of digital identity, acknowledging a great deal of innovation and progress can come directly from the market.

"Banks spend more money now than they ever did on verifying identities and doing risk management on their customers- is there some way in which that can be packaged as a service where others can rely on the fact the banks have done the heavy lifting on the identity verification. That would be hugely useful to society. It means when you move bank or when go to your lawyers to use their services, they can do an open banking transaction and verify who you are, without going through all that rigmarole again," Mifsud says, adding the market would need regulators on board to push this into action.

Ostensibly and understandably the individual challenges and opportunities are nuanced and delicate. For payment service and platform providers it is a matter of finetuning and in a lot of cases redefining their business models to make the most of open banking. And this takes a while for some of the larger, more traditional organisations. Progress clearly could do with a push, and yet the scope of compromised security is such that a more organic course may be preferable. There are still some very dynamic moves and shifts taking place, and surely as data awareness and consumer demand gathers momentum, innovation will thrive.

08

Customer appetite and awareness

Consumer finance end users still aren't aware, generally speaking, about the concept of open banking, and their experience of it is simply through a new app or service that suddenly connects previously separate transactional activity, such as a payment being embedded in the Uber app.

Behind the scenes of course, providers are a-flurry, to pull things together. Says Mifsud, "What we're trying to do is package in services like open banking and APIs with card accounts and IBANs to automate the movement of money so that it becomes easy for non-specialists who do not understand how banking and payments work, and the security requirements to ensure that data doesn't leak; who can't take the responsibility for compliance in onboarding customers or transaction monitoring- [we're trying] to absorb all that complexity and offer it in simplified chunks, so that non-financial applications can make use of them."

As previously mentioned, Mifsud maintains the experience is often very clunky and even suspicious to the end customer, but they are getting used to third parties unexpectedly cropping up throughout various payment transactions. This clunky user experience needs to be sharpened up. Business customers are less likely to be affected in this way as they are likely doing it through their accounting software, which they already trust so they will trust the accounting provider to have gotten it right. Open banking is lacking the equivalent of the Direct Debit guarantee, says Mifsud, which would be down to regulators to bring in, banks not likely volunteering to provide this.

09

Future outlook- opportunities in integrated sectors

There is clear optimism regarding momentum in the years to come. Banks and providers are not just vying for position and market share but have a clear forward view on their unique offering in the fray, as well as how the different regions will stack up in terms of developments and propositions.

Says Mifsud, “I think we’ll see plenty of this over the next ten years, it’ll be a slicker experience, at least I hope so. More homogeneous, more coverage, more banks really complying, creating the infrastructure. When you can rely on every bank having standards that you can actually use that sets the scene for a much wider exploitation and we’ll see additional value added services.”

“We’re really focused on one mission, which is to make financial services accessible to non-financial applications. Sometimes we have to create new accounts, cards, onboard customers. But the accounts we create, the identities we onboard, can interact with their other accounts elsewhere, that are issued by other financial institutions, in a seamless experience, at least when all the other teething problems have been sorted. So, for us open banking is a very powerful piece of the toolkit to invest hugely in.”

The integration of other sectors such as education, health, property, logistics and transportation, is hot on the cards, according to Mifsud and Claessen. “We’re starting to see so many applications in those areas and they’re never going to be able to do the heavy lifting of dealing with banks and financial infrastructure but when you package it in ways that are easy for them to adopt, they find plenty of uses to create value for their customers to create better businesses,” says Mifsud.

Mifsud hails developments in the UK, such as Confirmation of Payee, and variable recurring payments in place of direct debits but these are not occurring across Europe “in any sort of sense”. Mifsud tips his key markets as being those with the most open banking momentum, those of the UK, Germany, Holland and Italy. Other digital hubs, such as Paris, Stockholm and Lisbon, are not far behind, but he sees Europe as “multi-speed”.

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"Open banking is very established in Germany and the UK. One of the market standards for open banking is through the Berlin Group. That's no accident because open banking started from activism in Germany, originally, so that's, that's a very advanced market in terms of the thinking and even adoption of open banking," he says.

An interesting story in itself, Mifsud touches upon the origins of open banking. It was the somewhat perceived conservatism of German banks that gave rise to open banking, the European Commission having received a complaint from a provider about being kept out of the scheme between banks. As a result, analysis of the market commenced, leading to the realisation of market failure and, hence, open banking legislation ensued.

"In the majority of the Nordic market the PISPs are still using local payment services or the netbanks to initiate payments. Therefore we see that the flows from our netbanks will be moved to the dedicated interfaces instead and dependent on segment and payment need they will also stay in existing local services. We foresee that the payments in open banking will increase in all Nordic countries," says Claessen.

She foresees the proliferation of services in other sectors, via open finance and open data initiatives, all driven by payments innovation and the competition between businesses to be the face and the brand of the customer experience. "We will keep embracing embedded finance by continuing to develop services to our corporate customers and partners and open up more data. i.e. embrace open finance. We will use our API platform beyond PSD2 and be faster and better in utilising our services in our customer's and partner's channels, [meeting] the customers where and when they want to be met. Our ambition is to keep the front runner position.

“The future services are built by understanding the full user journey and need, meeting the customer where they want to be met, in the event where service is needed. It might be that a few large banks will be the providers of the biggest share of open finance APIs. Customers will turn to multiple actors for financial services and therefore we will see more partnerships between banks and various corporates, not only fintechs,” she continues.

Claessen speaks of the Nordics having proved to be a fertile region for fintechs and startups for many years and being a mature market when it comes to technology. By way of example, she cites the national digital ID solutions as a key enabler.

“Because of this we see the Nordic countries as being the most perceptive for open banking use cases. We will partner with our corporate customers to improve their daily cash management and bring the customer closer into the relationship with Nordea. We will improve their offerings to their end customers.

Stokkel gives detail on more integrated financial services, and again sees the business customer need for this being met sooner rather than later.
“For our customers, excellent experiences wherever they are in any context. So, it’s not necessarily new products, but it’s basically making sure that the products that we have, and the solutions are integrated very well.”
He talks also about aggregating and tailor-made services for business customers as well, displaying real-time updates balances alongside transactions, for example.

“I think we can really combine things. More seamless combination of data I think would really help the customer, and are possible now because we have these API’s where you can combine everything. It’s difficult to find real innovative products, but you can combine a lot of data fields into a new product.”

It’s all a means to an end, he explains, and as long as the outcome is an excellent customer experience, then whether the product has been delivered by the bank, built by the bank or brought in from a third party- it’s all fine if it meets expectations of quality and service.

The biggest challenge upcoming, says Stokkel, is delivering Software-as-a Service, delivering something that someone else builds around, that needs to be on and working 24/7; essentially, banks morphing into software companies, or at least operating with the ethos of a software company.

> **"Whatever happened in telco over 15-20 years, has just started happening in banking for five years, and it's the same for energy companies, with new business models coming in around the challenges of climate change and carbon consumption. This innovation is possible because at one point, the regulator encouraged the sharing of the infrastructure, and to some extent, banking is only following this trend. Platforms are here to stay, for a long time, but it takes time for organisations to transform and to open this innovation. This can only happen, like in energy and in telco, if the two work together to really bring the innovation to the market.""**
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> **Claire Calmejane, Group CIO, Société Générale**

"So, we need everything that a software provider has, Service Level Agreements (SLAs), to have these kinds of things in place and that's totally different from selling something with a good interest rate, or doing transaction-based pricing. And I'm not seeing a lot happening on that angle yet, I think we're still thinking that APIs can be financial products and that open banking is just another distribution channel; in a way it is but it's also a different way of doing business."

This involves new hires from different fields, backgrounds, with the requisite business and technical acumen. It is big change indeed.

For Treezor's Lassus, it is all about payments and cost savings for companies who would move to make payments through PSD2 mechanisms than through card. It depends on the regional market, but "it will not take years to be fully reliable, I'd say maybe one-two years would be enough to make it work all over Europe. But I think the complexity of the market in Europe is a little bit higher than in UK. In UK, the fast payment is something that is common. So, in Europe, depending on the country this is not the same story."

"To me, the only way to embed finance in the user experience would be to provide a Bank-as-a-Service feature or Bank-as-a-Compliance feature. Otherwise, you will not be able to embed the finance, and to me, it would be mandatory for a bank to be able to embed finance in the client journey."

For Lassus, it is hard to imagine a sector that could not be disrupted by embedded payments and the open banking paradigm.

"To me, finance will be everywhere. [It's difficult to] reflect on what could be the client journey that could not be impacted by finance somewhere. If you have to buy [a service/utility], and if you can finance it, then why not?" Bosma is impressed by the UK's initiative around standard-setting. "I have all my chips on the UK, when the seven or eight banks got together and decided to at least create the standard for the UK. If you look at all those UK banks from a fintech perspective, I could start tomorrow in London because I can interact through one single socket."

He rates advances in Spain, Australia, and the rich functionality of the banking apps in Kenya, having no legacy to contend with. And of course there are the interconnectors doing a bomb as the facilitators, he acknowledges. Calmejane likens the movement of open finance and banking to changes in energy and telecoms sectors, whereby the state mandated the opening of infrastructure to allow new providers, ushering in a wave of innovative new service propositions.

"Whatever happened in telco over 15-20 years, has just started happening in banking for five years, and it's the same for energy companies, with new business models coming in around the challenges of climate change and carbon consumption. This innovation is possible because at one point, the regulator encouraged the sharing of the infrastructure, and to some extent, banking is only following this trend. Platforms are here to stay, for a long time, but it takes time for organisations to transform and to open this innovation. This can only happen, like in energy and in telco, if the two work together to really bring the innovation to the market," She says.

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Conclusion

Open banking is absolutely putting down roots. Organisations have embraced the changes at different speeds, with different appetites, for obvious reasons. The first few years of open banking have delivered transformation at the heart of financial services infrastructure signifying a cultural overhaul, business remodelling, the disintermediation of the payments chain, the conscient appreciation of the new value and risk that customer data brings, new platforms and modular banking provision.

To embed such huge change into an industry such as financial services is inevitably going to take time, and the crucial piece to understand is that it will be slower at the beginning. There are perceived conflicts of interest for the industry to contend with, and the responsibility of data protection, among myriad other challenges, to establish. However, there is no stakeholder that shows a lack of faith in the goals of open banking to be implemented, merely frustration on the parts of some at the speed with which some participants move.

However, even large incumbent banks are driving the message forward, and making use of a new wave of platform providers and integrators to deliver new offerings to their customer base, both business and consumer.

The swell of interest and progress around embedded payments sets the scene for the next chapter of open banking in which the prize for most is the customer relationship, wherever that may take place, and in which the more invisible the payment mechanics, the better.

As a result, payments, through data and the end user account will thread together all manner of service sectors- credit lending, utilities, tourism, leisure-taking in small business accounts and ultimately corporates along the way.

Future standards and digital identity remain the key nuts to be cracked along the journey but from the looks of things on the ground, the trajectory in embracing open banking and delivering new products and services to the market is likely to take a sharp turn upwards.

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Finextra Research Ltd
77 Shaftesbury Avenue
London,
W1D 5DU
United Kingdom

Telephone
+44 (0)20 3100 3670

Email
contact@finextra.com

Web
www.finextra.com