



How Open Banking is transforming online payments

Introduction

Retail banks and existing real-time bank transfers have long held a competitive advantage because they kept such a tight grasp on their customer data.

This has historically allowed banks to own the relationship with the customer, making the barriers to entry for competitors prohibitively high.

Open Banking as a concept aims to facilitate greater competition, innovation and consumer choice within financial services.

It asks banks to make their data open and available through Application Programming Interfaces (API) – provided the customer consents – so that third parties can offer new, innovative financial services, such as triggering payments from a customer's account.

For online businesses, Open Banking represents an opportunity to gain an even deeper insight into customer behavior, and thus grow sales. Because this will depend on access to data and the ability to properly analyze it, Worldline is well positioned as payment provider to help businesses make the most of it. With a broad range of data driven and Artificial Intelligence (AI) payments solutions, we can help you unlock the potential of Open Banking.



How PSD2 is driving Open Banking in Europe

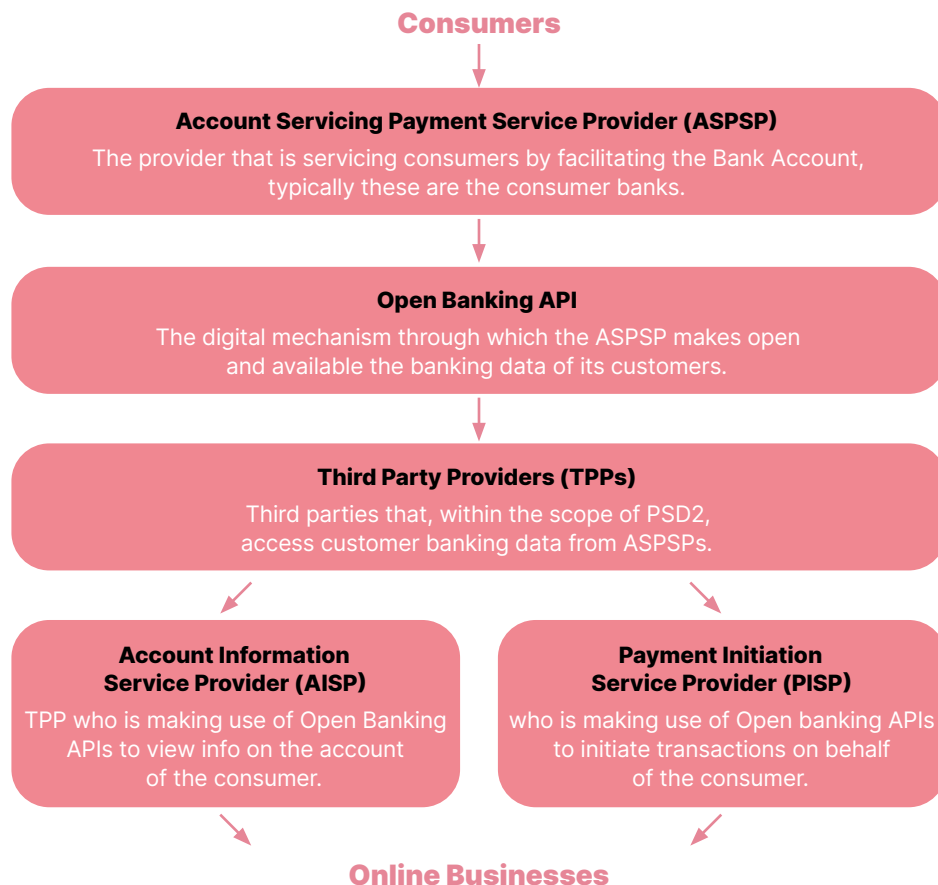
There are many Open Banking initiatives at various stages of maturity across the world (see Figure 1), but the shift in the UK has come through the Competition and Markets Authority (CMA) mandating that the UK's major banks adopt the Open Banking Standard, and in Europe through the EU Second Payment Services Directive (PSD2). The PSD2 regulation created two new categories of Third-Party Provider (TPP) payment service:

Account Information Service Providers

A third party that can access a customer's bank account information and use it to build product offerings, for example: price comparison apps, money management tools or services assisting in mortgage or other loan applications.

Payment Initiation Service Providers

Third parties that can initiate payments or credit transfers from a customer's bank account on their behalf.



Open Banking: Key Roles at a Glance



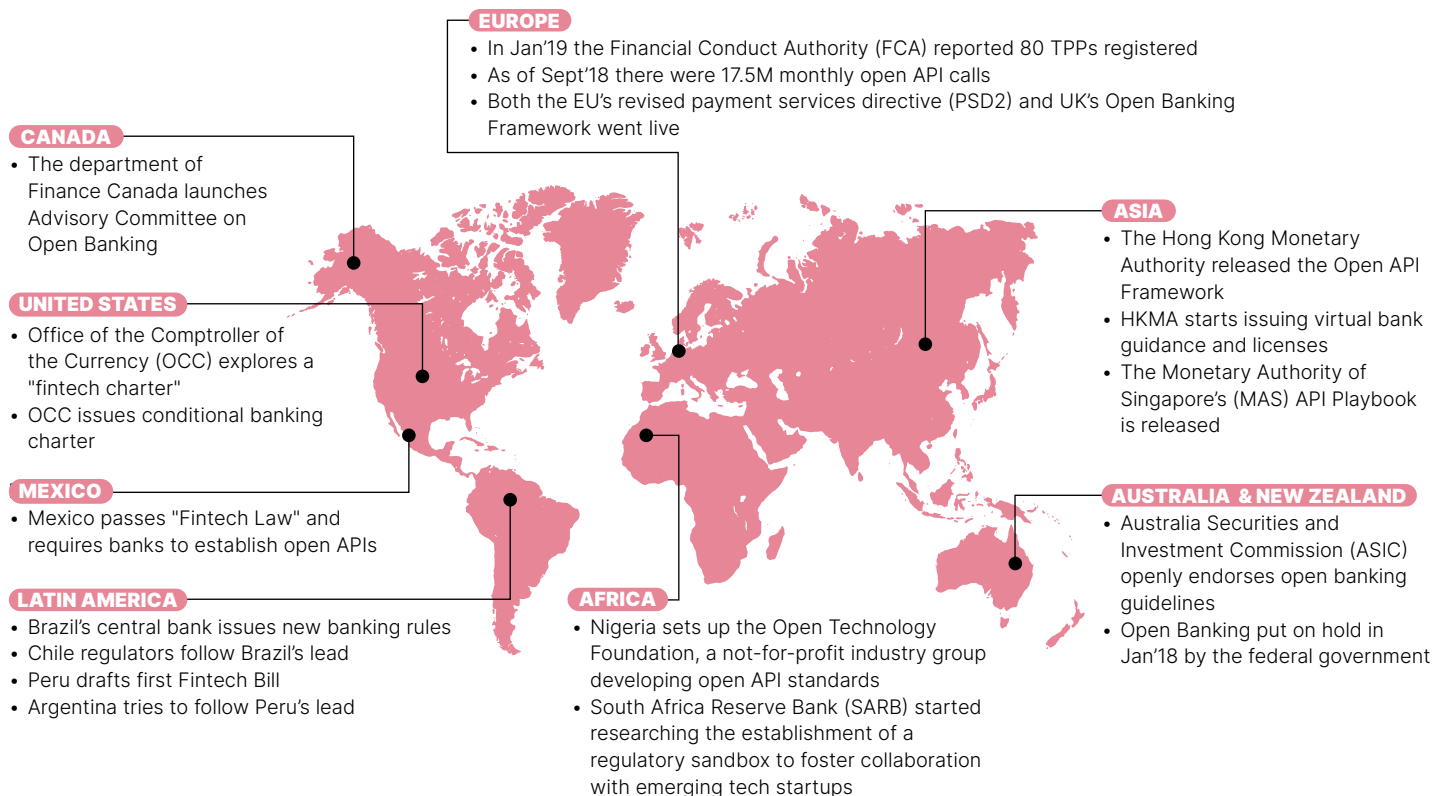
It's worth mentioning that Open Banking in Europe is made possible in large part by the EU General Data Protection Regulation (GDPR). GDPR provides a standard dictating how any organization holding, or providing access to, consumer data must secure that information. For Open Banking to take off, it is vitally important that consumers are assured their data will be protected.

With access to consumer banking data, TPPs will be able to innovate a broad range of new financial products and services that offer customers more choice untethered to the bank they hold their account with. Primarily, PSD2 will also promote greater competition and improve efficiency by removing friction from transactions between companies.

What are the opportunities for online businesses?

Open Banking has the potential to radically change the financial services and payments landscape, so it's something that online businesses should be conscious of. In the short term, you will be able to offer more cost-effective payment methods. In the long-term, Open Banking will allow online businesses to gain a detailed insight into consumer financial behavior, which could be used to build customer loyalty, customer credit scoring and provide more personalized payment options.

In this paper, we will discuss the opportunities for online businesses in more detail, as well as the challenges that PSD2 and Open Banking present and possible future use cases that the regulation will make possible.



Open Banking Initiatives in the Rest of the World

The opportunities for online businesses

The main opportunity for online businesses with PSD2 and Open Banking is the ability to offer new payment options and experiences to customers, particularly a branded payment product. By accessing the customer's account information through the bank's API, online businesses will be able to:

Initiate a payment directly for products or services

Either through offering a branded payment service or through a bank transfer from the customer's account, businesses will be able to take advantage of lower processing costs compared to other payment methods (for example, credit cards), as well as faster clearing of funds.

No chargebacks

The payment solutions facilitated by PSD2 do not support the customer's right

to dispute a fraudulent transaction and claim a chargeback. And while this is in many ways a good thing for businesses, it's a significant disadvantage for consumers. Online businesses will need to find ways to incentivize customers to use branded payment methods despite this.

Incentivize customer loyalty

Offering a branded payment solution will allow online businesses to deepen customer interactions and relationships. Customers could receive discounts and points within a loyalty scheme when using this payment method, for example. Online businesses would also be able to analyze customer banking data and use it to target more relevant offers and discounts based on the customer's transaction history.

From a User Interface perspective, online businesses could design the checkout page to foreground the branded payment method, either through vibrant colors or placing it above other payment methods. This will encourage customers to take advantage of it.

Integrate customer data into checkout

Businesses will also be able to embed customer bank account information into the online store and checkout process, displaying the shopper's balances, e-receipts and transaction history.

The barriers to Open Banking adoption

For businesses wanting to take advantage of the opportunities that Open Banking can bring, there are still some hurdles that will need to be overcome. Fully reaping the benefits will require online businesses, financial institutions and TPPs to address the following:

Consumer trust in Open Banking must be built

High profile data hacks and scandals around how companies exploit personal information have shifted public attitudes towards data security. Consumers are becoming increasingly cautious about giving businesses access to their data.

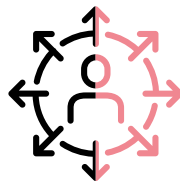
This presents a potential challenge for Open Banking. The entire project is premised on the idea that consumers will consent to having their banking data accessed by TPPs. If customers do not have faith that their data will be secure or that organizations will not abuse it, they will not share their data and Open Banking will not be a success.

It's, therefore, down to businesses, financial institutions and TPPs to build consumer trust in Open Banking and convince the public that data will not be mishandled. There are three main ways that this can be achieved:



Be transparent about how data is used

Communicate with customers about what data is being used, how it is being used, and by whom. Customers should be able to easily see an overview of which information is being accessed, perhaps in an online dashboard, and should receive a push notification whenever a third-party requests to access information.



Put the customer in control

Customers should be able to decide how their data is used by a TPP. They should have granular control over which information can be shared, with the ability to deny or revoke access immediately and without friction.



Educate customers about their rights

GDPR has done a huge amount to safeguard consumer data rights, but it's still necessary to educate people about what this means for them in practice. Explaining to customers that all parties accessing banking data must be compliant with GDPR will help them feel more comfortable with sharing this information. Additionally, reminding customers that GDPR guarantees customers full ownership of their own data – and can request businesses to remove that data on request – could be immensely reassuring.

We're already starting to see some institutions demonstrate the value of Open Banking to customers. HSBC was the first UK retail bank to create an app that shows customers see all their accounts in one place, including those with other banks. Barclays has also integrated Open Banking functionality into its core banking app. The Moneybox app rounds up digital payments and invests the change in stocks, has been gaining traction and recently Klarna launched an Open Banking API to connect to consumer banks.

As more businesses offer these capabilities and demonstrate to customers that their data is used responsibly, the more likely it is that Open Banking will see widespread adoption.



An aerial photograph of two people walking on a paved path made of large, light-colored rectangular stones. The person in the foreground is wearing a light blue t-shirt, dark pants, and a backpack, looking down at a smartphone. The person in the background is wearing a dark t-shirt and light-colored pants, also looking at a smartphone. A white text box with a rounded top is centered on the path between the two people.

There is no API standardization

APIs are the building blocks of Open Banking's digital infrastructure. APIs allow banks to make customer banking data open and available to TPPs so that they can use this information to build new products and services. If Open Banking is a body, then APIs are the veins and arteries that carry blood through it.

However, while offering an API is mandated by PSD2, there are no guidelines on the format that the information must be provided. This lack of API standardization has resulted in a fragmented ecosystem: some banks have developed their own standards, while others are following standards set by the Berlin Group or STET.

Even with these attempts to create standardization, there are still over 50 standards covering thousands of banks in Europe. Not to mention that various local offerings are springing up in each market. In order to bridge this gap, several aggregators have sprung up to offer access to multiple APIs through a single format. In addition to aggregators are players such as Trustly, which offered payment initiation services before Open Banking APIs were available and enjoy a technological advantage compared to new entrants.

As far as online businesses are concerned, when Open Banking APIs are available, it's important to understand which banks sit behind them. Consider the situation from a customer perspective – customers will want to pay with their own bank, so if they don't have an account with the bank that sits behind an Open Banking API or API aggregator, they won't be able to pay.

This is where a PSP can add value to online businesses.

In each country and region, different banks will have different market shares, and a good PSP will be able to give online businesses the breakdown of how many potential customers can be targeted through various APIs or API aggregators. You don't want to offer a payment service if none of your customers use it, so work with your PSP to understand which API standards are worth investing in.

Future applications of Open Banking

The exciting potential for Open Banking solutions in the future is built around data. Banking APIs will give online businesses and TPPs access to large amounts of customer financial data, and all kinds of exciting applications with benefits for online businesses:

Predictive banking

With the access to financial data that PSD2 and Open Banking facilitates, AI could be used to understand customer buying habits and predict what they will buy in the future. This information can then be used by businesses to anticipate stock numbers and invest in supplying the products customers will want. We are already seeing examples of this today – the physical Amazon Go stores use machine learning to know which products customers will buy – but if Open Banking picks up momentum, we could see many more predictive banking applications in the merchant ecosystem.

Instant Payments

PSD2 and Open Banking will give online businesses access to Instant Payments infrastructure, meaning that funds could be immediately remitted into a business's account from the payee. This will be particularly useful as it means that payments could be made immediately over the weekend too – meaning that online businesses could offer a truly 24/7 experience.

Direct Debit

With the financial data set made available by Open Banking APIs, online businesses will be able to understand, for example, when customers receive their salary. Armed with this data, online businesses could intelligently offer personalized Direct Debit dates that fall just after the customer has been paid. This could be incredibly useful for businesses built on subscription models, as it will prevent situations where customers default on their subscription payment because there isn't enough money in their account.

Worldline's solution for online businesses

Businesses wanting to take advantage of the possibilities of Open Banking could use Worldline's Online Bank solution. For online businesses with a strategy of promoting their own brand to consumers throughout the entire checkout experience, we 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.

How does it work?

- Customer buys a product on Your Company's Website.
- Customer selects Your Banking Button as payment method and chooses bank.
- Worldline uses Open Banking API (PISP) to perform Strong Customer Authentication and request permission to Initiate a Payment.
- Customer grants permission and authorizes the transaction. Feedback is provided to the Worldline platform. The consumer sees the debit on the bank account.
- Worldline updates order status and the Seller shows confirmation to customer.
- Funds are transferred from the bank account of the customer to the bank account of Worldline. Worldline reports funds to you.



Considerations

What Worldline offers online businesses is the technology to offer a banking product with their own brand. What businesses need to decide for themselves is whether this fits into their brand strategy, and whether your brand is strong enough to encourage customers to use the payment method. Household names – Nike, for example – might have the clout to offer a branded payment method instore and online. However, online businesses without a strong brand might want to consider whether they would benefit more from offering an existing payment brand such as Visa, Mastercard, PayPal or iDEAL.

With the potential future applications of Open Banking, it is crucial that online businesses look to partner with suppliers with robust payment solutions and strong credentials in data management and analysis. Worldline's solutions can help you access and apply the information that Open Banking APIs make available and unlock the commercial benefit.

To find out more about WL Account-Based Payments, powered by open banking technology, please visit our dedicated website.

About Worldline

Worldline [Euronext: WLN] is the European leader in the payments and transactional services industry and #4 player worldwide. With its global reach and its commitment to innovation, Worldline is the technology partner of choice for merchants, banks and third-party acquirers as well as public transport operators, government agencies and industrial companies in all sectors. Powered by over 20,000 employees in more than 50 countries, Worldline provides its clients with sustainable, trusted and secure solutions across the payment value chain, fostering their business growth wherever they are. Services offered by Worldline in the areas of Merchant Services; Terminals, Solutions & Services; Financial Services and Mobility & e-Transactional Services include domestic and cross-border commercial acquiring, both in-store and online, highly-secure payment transaction processing, a broad portfolio of payment terminals as well as e-ticketing and digital services in the industrial environment. In 2020 Worldline generated a proforma revenue of 4.8 billion euros.

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