2021
survey report

Open banking
investments and use cases

Following the money

tink

This report presents results from a survey of 308 financial executives conducted by independent research firm YouGov (commissioned by Tink). We take a closer look at the open banking budgets and investment areas.

Foreword

by **Daniel Kjellén,** Tink CEO

Last year, we were surprised to learn that institutions were allocating such big budgets for open banking. We found that the median budget in relation to open banking objectives for Europe's financial institutions was between €50 million and €100 million, with the IT department taking the lion's share in most organisations.

Of course, back then no one could have anticipated the impact of the pandemic and how it would affect budgets of all shapes and sizes.

The central banks across Europe did all they could to save the economy and provide resilience to the financial systems. Despite the fact that European banks were hit hard by the pandemic, it's heartening to see how the industry has weathered the storm so far.

Many financial executives believe the effects of the pandemic are long-lasting, acknowledging an irreversible digital transformation in the industry. Additionally, two-thirds say the pandemic has increased their focus on open banking as it's propelling banks to launch new digital services, improve the customer experience and restore profitability.

This is a view that is becoming more common as the share of executives who are positive towards open banking has increased significantly over the years.

Working with some of Europe's largest banks – such as BNP Paribas, Santander, NatWest, and ABN AMRO – we know that there isn't one solution, but rather a plurality of possibilities and use cases to explore. All with the potential to improve the customer experience while delivering significant improvements to internal processes and operations.

It's been interesting to get a glimpse into the investments that financial institutions have made over the last few years, and see which open banking use cases executives are betting on. These sorts of insights are of great value to help us navigate product development, and I hope it might also help you identify new opportunities for your business.

Enjoy the read – and reach out if you'd like to share any thoughts.

In this report

Executive summary

To better understand priorities related to open banking, we've been running yearly surveys to pick the brains of financial executives across Europe. In this report, we explore how investments are shaping up and what use cases executives have in sight.

Across all segments of finance, the mean spending on open banking objectives in 2020 was €32 million. When just looking at retail banks and wealth management firms, the spending was significantly higher – at a mean of €84 million and €79 million, respectively.

The pandemic played havoc with budgets in 2020, with executives ending up spending less than they'd initially budgeted. (Last year, financial executives shared they had open banking budgets in the range of €50-€100 million.)

Despite the significant impact on spending last year due to uncertainty associated with the pandemic, in 2021 investor confidence is back up and open banking is high on the agenda. In fact, although one third (30%) say budgets declined in 2021, the largest chunk of executives (46%) indicate that their budgets have grown year-on-year.

When it comes to where the money might be going, financial executives have set their sights on a broad set of open banking use cases:

- **Payment initiation services comes out on top as the most important use case across all segments.**
- **Opportunities to improve the customer experience follow, with use cases related to financial management and onboarding.**
- **Risk-related use cases also rank high – especially for retail banks, credit institutions and mortgage providers who consider these 'extremely important'.**
- **Differentiators and add-ons (such as subscription management, loyalty programmes, targeted advertising) rank lower on the list – although they are still important to the majority of respondents.**

The findings in this report suggest that financial institutions should move fast as open banking is tearing down barriers and allowing new players to enter the market. To keep a competitive edge, it's important to focus on enhancing the core business, while working with partners to take differentiating capabilities to market.

Open banking spending to drive new wave of value creation

All around the world, financial institutions are being introduced to the open banking movement. Authorities are introducing data and financial regulations that give authorised third-party providers (TPPs) the rights to retrieve financial data, initiate payments, and even provision financial services on behalf of their customers (with consent).

In other words, open banking is about enabling choice, competition and innovation by democratising access to the data and services.

Financial institutions are increasingly benefitting from the opportunities that open banking offers in order to improve customer experiences, lower costs, and enable new digital services. Our research shows that the share of financial executives who feel positive towards open banking increased from 55% in 2019 to 71% in 2021. More importantly, even though nearly half (44%) of financial institutions expect that it will take more than a decade to complete their open banking objectives, over 8 out of 10 (83%) say that open banking represents a revolution for their industry.

However, open banking also brought about regulations that have been imposed on financial institutions.

Regulations such as the EU's revised payments services directive (PSD2) which was enforced in 2016 – in addition to the intervention by the UK's Competition and Markets Authority (CMA) in 2017 following its Retail Banking Market Investigation – have entreated banks to develop so called 'dedicated interfaces' for the provision of open banking services. These dedicated interfaces are commonly referred to as 'PSD2 APIs' and have become a significant obstacle for financial institutions in their goals to start monetising their investments.

This number, however, does not capture the total amount of spending on open banking objectives, which may include investments across IT, product, and third-party services. In other words, the open banking total addressable market may be even bigger.

The results from this survey indicate that European financial institutions spent a mean of €32.1 million on their open banking objectives in 2020. This number is significantly higher for retail banks (€84.1 million) and wealth management firms (€78.7 million) than for mortgage providers (€28.9 million), wholesale banks (€28.0 million), challenger banks (€25.7 million) and other types of financial institutions.

€32m

Mean open banking spending in 2020

€84m

Mean open banking spend **by retail banks** in 2020

While some financial institutions stop at providing compliant PSD2 APIs, others are leveraging the connections available in the market to come up with new ways to enhance existing banking products and services. They are targeting opportunities to **improve the value propositions in payments, retail banking, wealth management, insurance, investments and other segments of finance.**

These developments are responsible for a new wave of value creation. Accenture Research estimates that **the global open banking market could be worth as much as $416 billion** for the financial services providers that succeed in creating value for their customers and partners.

Respondents that identify their organisation as payment service providers (PSPs) reported open banking spending lower than all other segments in Europe. PSPs that do not offer payment accounts have been in a privileged position to enjoy the benefits of open banking without needing to make significant investments in offering PSD2 APIs themselves.

Open banking spending in 2020 (€M)

Q. How much has your organisation spent on its open banking objectives in 2020?

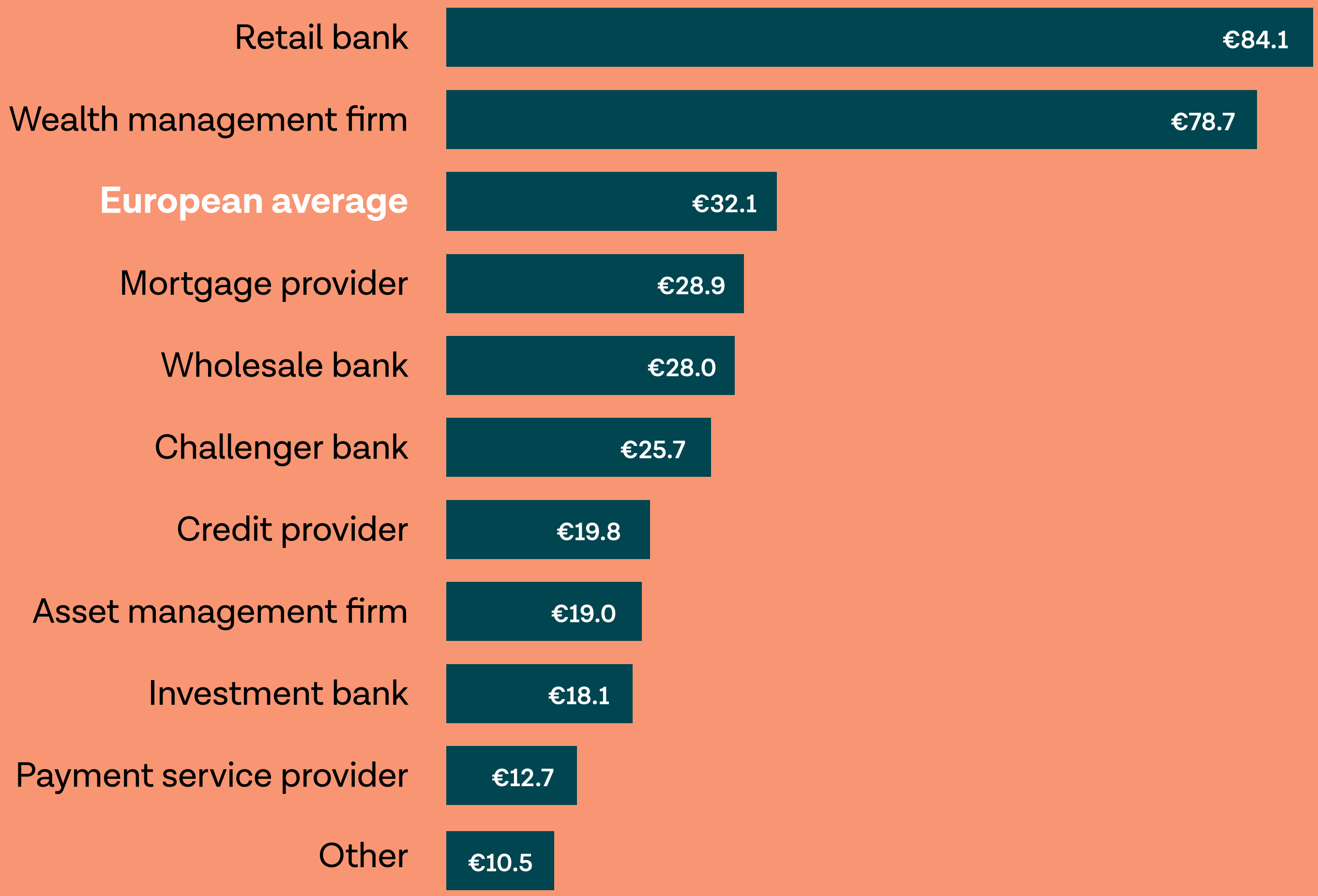


Figure 1
Note: Spending may include IT, product, and process modernisation investments in relation to open banking objectives and the exchange of financial data with other banks or TPPs.
Base: Limited sample (n=213)
Source: Tink, 2021

The Tink take on spending

Although all businesses have needed to reallocate budgets due to COVID-19, retail banks and wealth management firms, in particular, have been hit by a double whammy as they've needed to make significant additional investments to provide compliant PSD2 APIs.

Not only have they dealt with ongoing clarifications from regulators on the expectations of what a PSD2 API should be able to do, they've also needed to overhaul legacy infrastructure to meet the institution's current and future open banking needs.

Many of these financial institutions hope to extend their PSD2 APIs and leverage the capabilities gained from these efforts in order to pursue a banking-as-a-service (BaaS) strategy. Now that the foundation has been established, these banks can first pivot their investments to start enhancing their core banking services and then pursue more transformational projects over time.

The big open banking budget shake up

The survey data suggests there's a disconnect between the open banking budgets allocated in 2020 versus the true spending in 2020.

Last year, Tink reported that the median budgets allocated by European financial institutions for open banking were roughly €50–100 million. A lot has changed since then – the world has needed to respond to and recover from a raging pandemic.

When Europe went into lockdown, financial institutions had just launched their first PSD2 APIs into the market to allow the first wave of authorised TPPs to start using them. After the EBA published its opinion on obstacles, most financial institutions recognised they needed to increase investments to deliver the quality regulators expected from them. These additional investments were not only allocated to improve API quality, but also the required developer support and documentation.

However, in parallel, many financial institutions have needed to consolidate budgets to ensure business continuity, resilience of financial systems, and restore profitability. It's safe to say that most businesses, including financial institutions, made serious changes to their budgets across all departments.

23%

report a significant impact on open banking budgets

The survey suggests that nearly a quarter (23.4%) of financial institutions experienced a significant change to their open banking budgets. Over half (54.9%) say it had a moderate impact, and just one-fifth (21.7%) say it had a low to no impact on budgets.

Pandemic impact on open banking budgets

Q. To what degree did the pandemic impact your open banking budget?

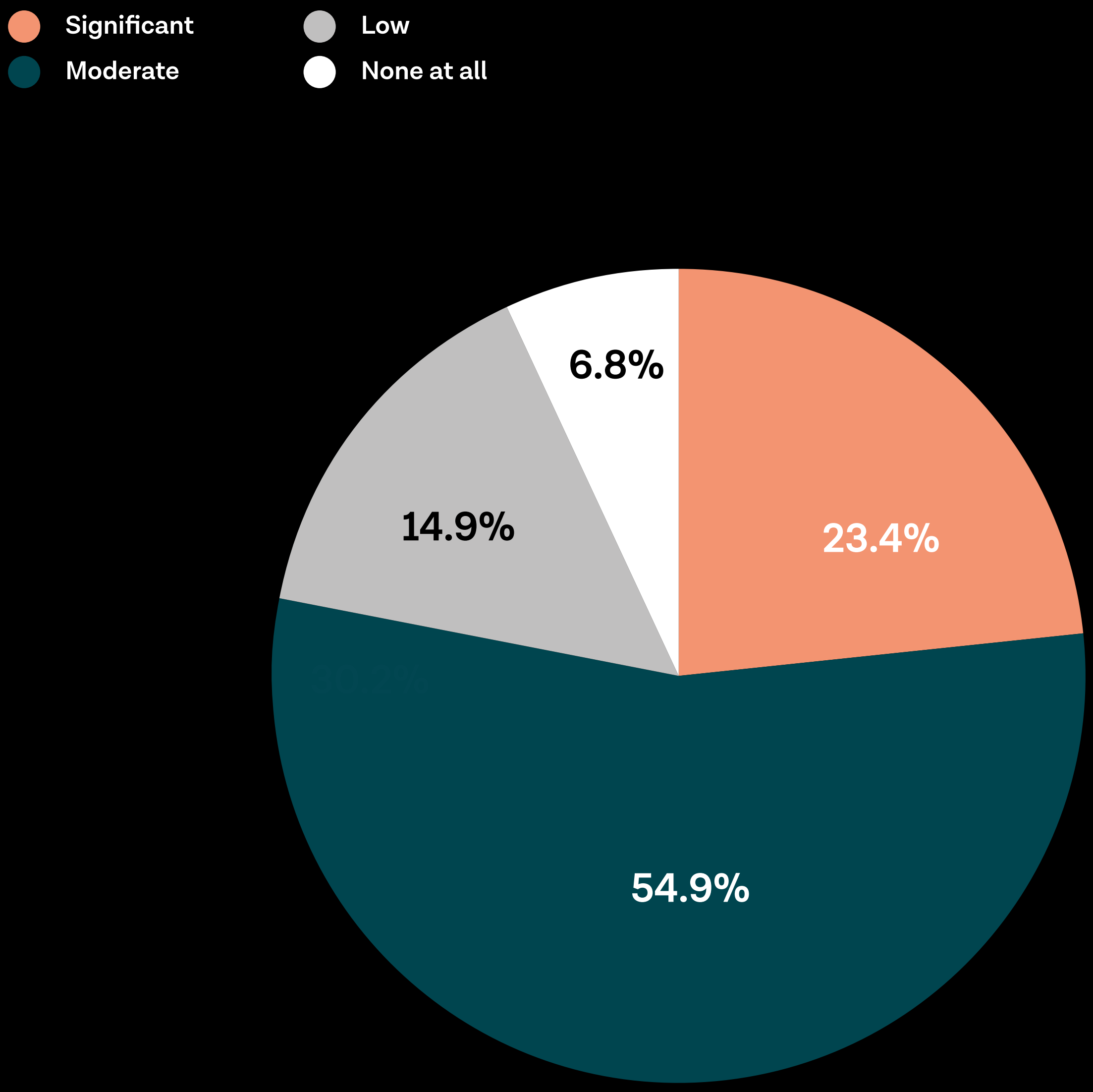


Figure 2
Base: All respondents (n=308)
Source: Tink, 2021

47%

indicate open banking budgets increased in 2021

Although the budgets for open banking have been impacted by the pandemic, confidence appears to be back up.

Survey results show budgets are growing again, albeit not as much as in previous years. This year, 46.8% of financial executives indicate that the budgets have increased. In contrast, 29.9% of executives indicate their budgets declined in 2021.

Taking a closer look at the budget growth, numbers reveal that 29.2% of respondents expect budgets to grow up to 5% and 17.6% of respondents indicate that their open banking budgets are growing more than 5% compared to last year. The relative slow down in open banking budgets suggests that spending growth may start to follow typical technology market growth patterns.

Change in open banking budgets in 2021

Q. How has the open banking budget changed in 2021?

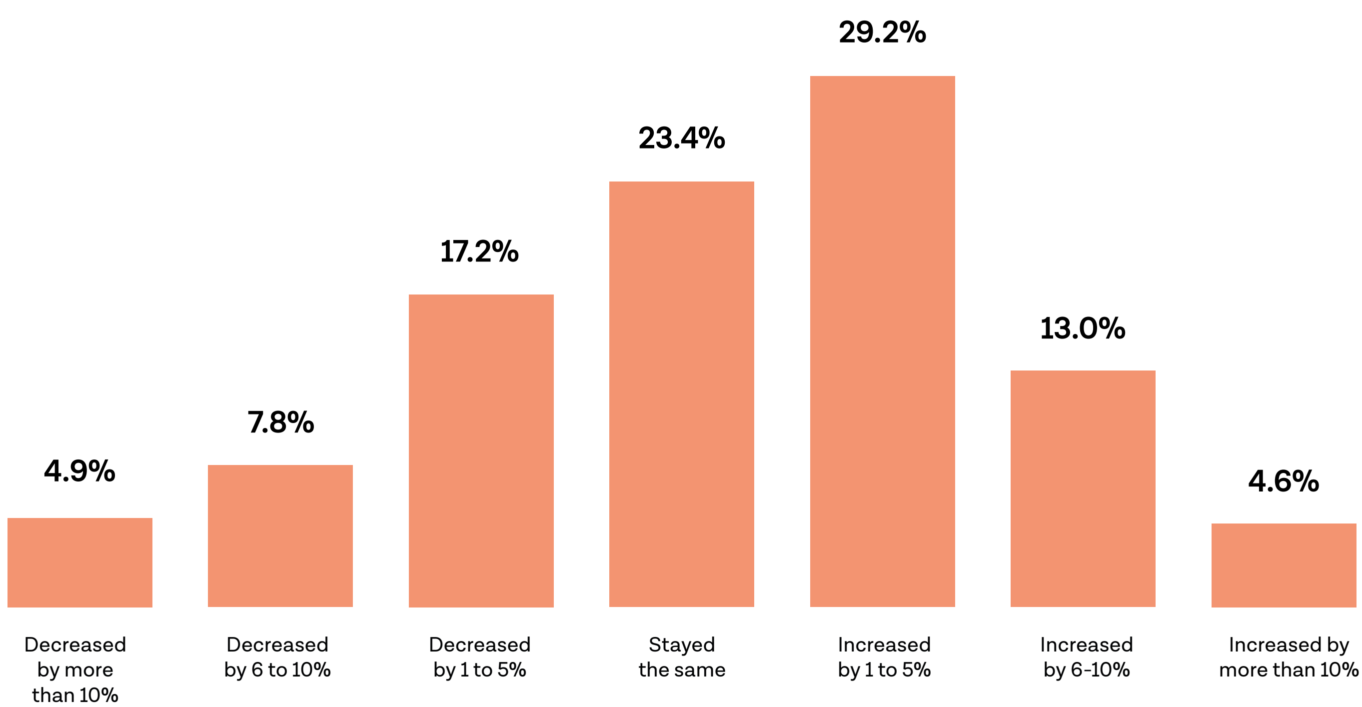
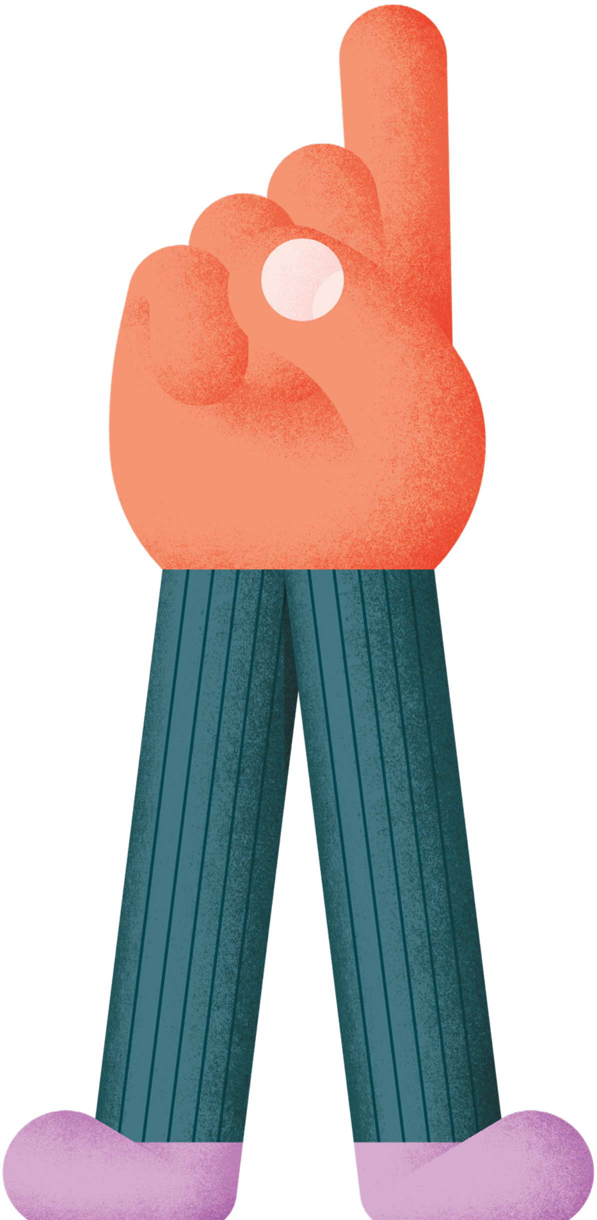


Figure 3
Note: The spending may include IT, product, and process modernisation investments in relation to open banking objectives and the exchange of financial data with other banks or third-party providers.
Base: All respondents (n=308)
Source: Tink, 2021

Tink take on budget growth for 2021



Open banking is a unique industry movement as it’s driven by market demand, technological innovation, as well as regulatory intervention.

It’s safe to assume that the majority of investments by European financial institutions so far have been spent in light of compliance goals and building competence for data monetisation and premium API services.

As the spending on compliance goals slows down, financial institutions will start to approach open banking as a technology investment to enhance or augment their existing strategy.

This means institutions are required to develop sound business cases that show proven results. Incumbent financial institutions are usually not the quickest to adopt new technologies, which is why it’s important to look at how open banking has already delivered significant improvements to business processes.

By working with over 300 enterprise customers, we've found that the most successful organisations are looking for ways to enhance multiple KPIs in the customer journey and across different lines of business through their open banking projects.

A breakdown of budget developments by segment provides a deeper insight into how different markets are responding to the challenges of the pandemic and the open banking opportunity.

Highest increase in open banking budgets

#1 Wealth management firms

#2 Wholesale banks

#3 Credit providers

Wealth management firms, for instance, have experienced the strongest increase in open banking budgets (57.9%) followed by wholesale banks (54.5%) and credit providers (51.3%).

On the other end of the spectrum, nearly two-thirds (63.6%) of executives representing mortgage providers indicate that their open banking budgets have declined – which is the biggest change measured across all segments.

Change in open banking budgets in 2021 by segment

Q. How has the open banking budget changed in 2021?

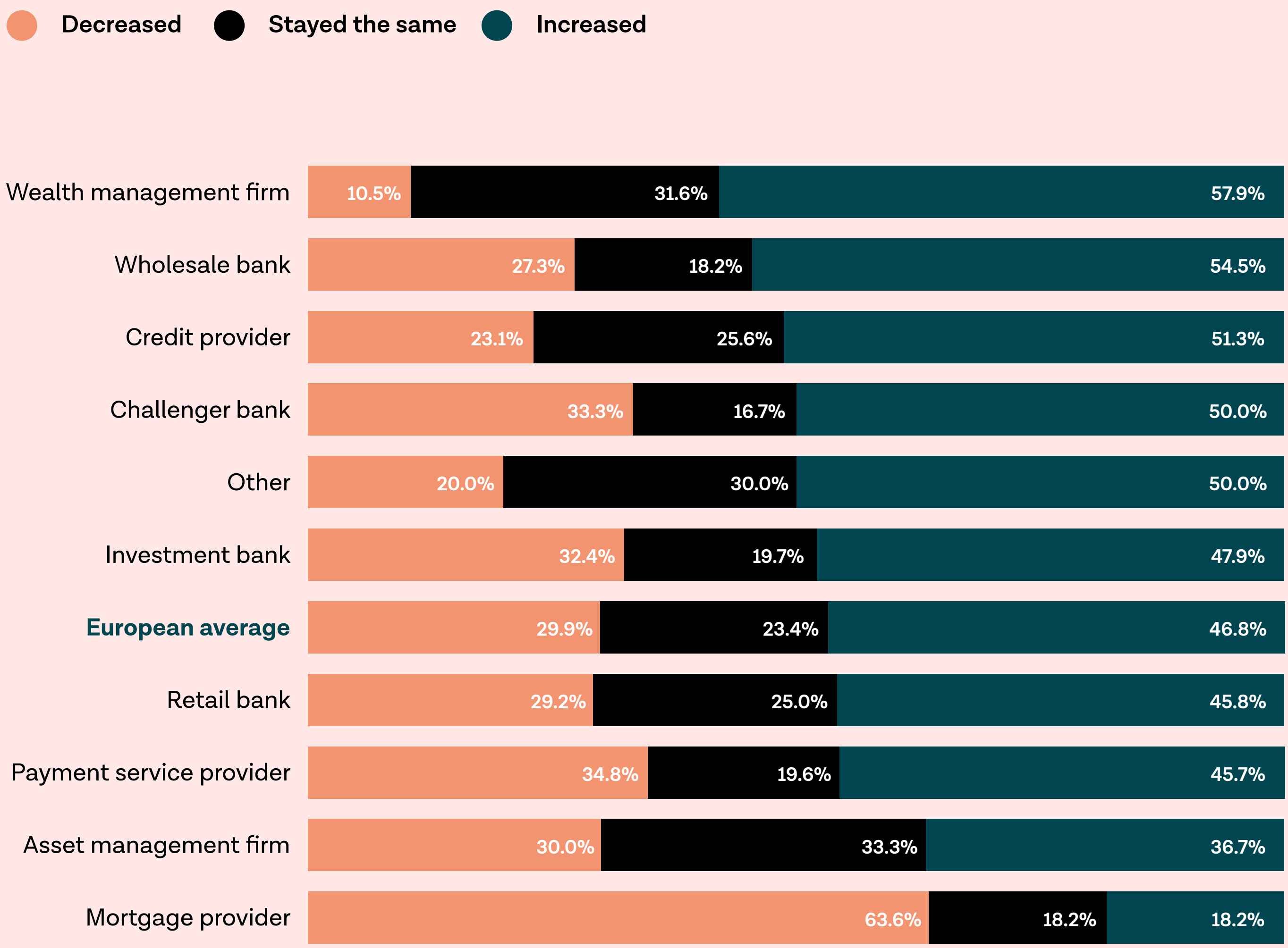


Figure 4
Note: The spending may include IT, product, and process modernisation investments in relation to open banking objectives and the exchange of financial data with other banks or third-party providers.
Base: All respondents (n=308)
Source: Tink, 2021

The Tink take on mortgage providers

In the wake of the pandemic, the European Central Bank introduced various measures to mitigate a potential economic shock on the financial services market. These measures included state guarantees for certain business loans, easing capital and liquidity requirements for lenders, and mortgage breaks for borrowers.

This resulted in mortgage interest rates reaching the lowest levels in history. In fact, in countries such as Finland, Denmark, and Portugal, the average mortgage market has dropped to sub 1% interest rates.

On one hand, these measures provided the means to maintain business and consumer confidence in the real estate market which allowed the mortgage segment to remain relatively stable during the pandemic.

On the other hand, the low interest rates also mean that mortgage providers will be seeing their operating income being cut by at least one-third compared to ten years ago.

With an uncertain economic outlook for 2022, it appears some mortgage providers have delayed innovation projects in order to focus on the core business and continuity of services.

This leaves a window for competitors to leverage open banking to streamline mortgage origination processes. By improving onboarding and automating risk decisioning, they can increase productivity by reducing time and costs involved with manual application reviews.

The expected payback period hasn't changed significantly over the past 12 months. However, it does appear as if more executives have come to realise that the return on investment associated with certain open banking objectives will take a bit longer to realise than initially expected.

Where the median payback period was three to four years in 2020, it is now four to five years. Also, the percentage of financial executives that believe that it will take over five years to find a positive net return has grown from 21.3% in 2020 to 29.9% in 2021.

Expected payback period for open banking investments

Q. What is the estimated payback period for your open banking investments?

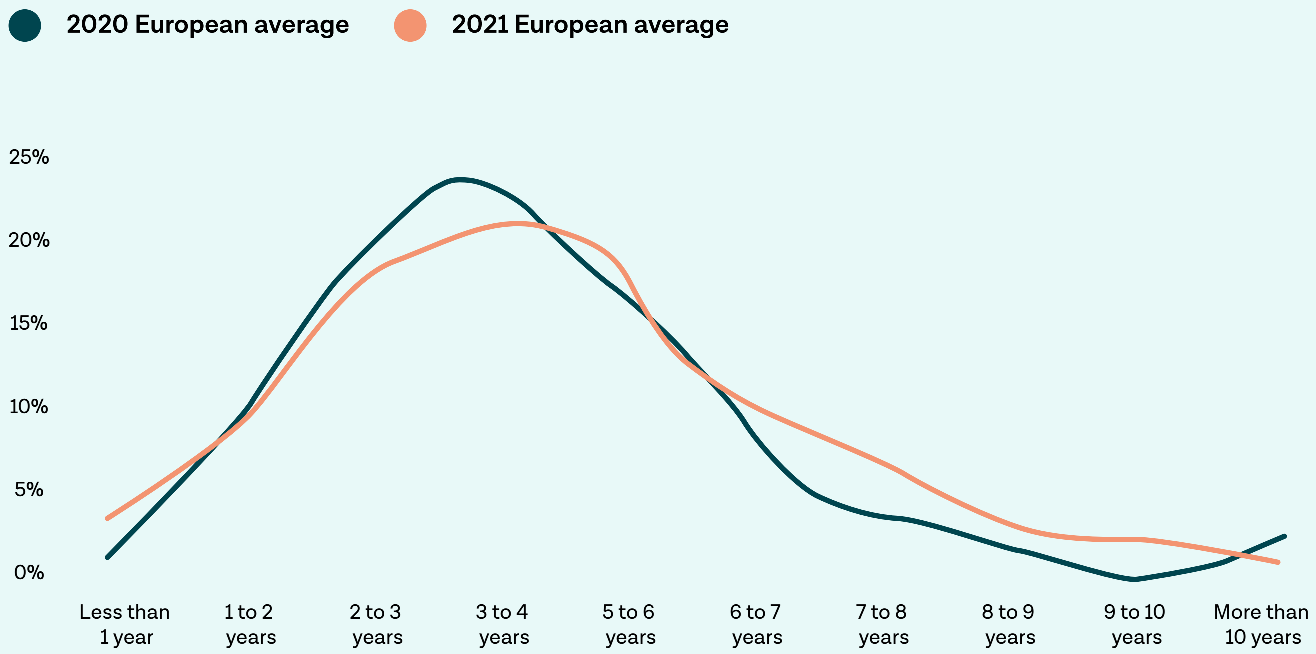


Figure 5
Note: Respondents were asked to estimate the number of years they expect it would take for the cumulative cash flow benefits of their open banking investments to exceed the cumulative cost
Base: All respondents (n=308)
Source: Tink, 2021

‘We estimate that in 2030 up to 50% of the profits we generate will come from new or not yet invented services or products.’

Who he is:
As SEB’s Head of Exploratory Banking & Strategic Partnerships, Stefan Stignäs is responsible for translating the bank’s 2030 vision into practical outcomes.

What he’s known for:
Stefan is a no-nonsense kind of guy. He’s a doer with a deep interest in people and performance management.

Why we spoke to him:
With a 2030 vision, Stefan is responsible for launching and running the initiatives that will define SEB’s new way of banking which, in one word, is all about data.

What are some of the trends that you see today?

It's hard to overstate how much the world is changing around us, and financial services with it. And there are many trends impacting this. **Digital transformation, unbundling of financial services, open banking. It's all changing how we engage, operate and go to market.**

One of the mega trends we often take for granted is the shift towards 'subscription services'. In essence, this means that the number of high-value assets that people own are in decline and they're being replaced by a large number of recurring transactions. Not only does this pivot financing opportunities towards the businesses providing these subscription services, it also requires us to rethink creditworthiness models.

Going forward we'll need to take into account subscriptions as a risk factor, as much as income and debt. On top of that, it also means we may need to reconsider which financial solutions we take to market as a bank. Customers may be more willing to pay for financial services as a subscription, instead of long-term contracts.

Another mega trend is what some people would call 'consumerisation', but for us it's fundamentally about introducing our innovation from the retail and private banking side into the corporate banking world. A good example of this are some capabilities that have been built around PSD2 in order to expose financial data. These developer services have now been tested and trialed with retail customers, but we've only dipped our toes into the opportunities that can be realised in the corporate realm.

Furthermore, **data-driven processes with real-time decision making are more common in retail and private banking than what is currently being offered to large corporate customers.** I believe SEB still has ample opportunity to leverage data in more meaningful ways to help our large customers. For instance, by anticipating cash deficits which can be caused due to seasonality, due to FX changes, or a sudden run on inventory, we can help them become more solvent and deliver consistent shareholder value.

Why is SEB focusing on exploratory banking?

We operate under the assumption that the financial services industry is going through tremendous change. There's no denying that financial services are being commoditised, innovation is accelerating, and competition is increasing. This means we're investing in areas that we believe will meet demands of our customers in the future.

SEB has launched a 2030 vision in order to set a direction towards a more innovative and forward-looking way of working. Within SEB's Corporate & Private Customers division, **we estimate that in 2030 up to 50% of the profits we generate will come from new or not yet invented services or products.** For context, this division is one of the main divisions within the SEB Group and represents approximately 35% of the total profit.

For us, exploratory banking will be the department responsible for identifying the opportunities that will generate these new streams of revenue and profit in the future. That means that we'll be looking for opportunities enabled by digital services and data. This will include initiatives related to banking-as-a-platform, banking-as-a-service, and everything in between.

What will banking in 2030 look like?

We believe SEB will still have local branch offices in the countries where we operate. From our perspective, having local representatives is an important factor for 'service-oriented' businesses. That said, in 2030, you won't start your customer journey in the branch, but digitally, via whatever platform is convenient for you.

It will be our job to make sure we provide our customers with the right services at the right time and through the channels they require. Whether it's to make a payment, to request a loan, or to transfer data. Imagine that you don't have to go through the cashier in case you enter any kind of store to purchase something. You can choose to have your own checkout solution in your phone or even in a chip implant which automatically debits you as you scan the goods.

By 2030, I also believe that more of our services will be automated. Steps like onboarding with digital identity verification will become common. I can also imagine risk assessment processes that won't require users to submit documents any more.

However, I don't expect that banking will become invisible yet. In fact, there will probably still be situations where banks will require customers to submit an income statement or a copy of their employer contract. In most situations data and AI can help replace and automate physical artefacts and auto processes, but there are also situations where we'll need to stick to the 'old' ways of doing things.

Where's the money going?

It's wrong to look at open banking as merely a data or regulatory trend. The true scale of open banking only starts to reveal itself when considering how the industry is shifting towards open APIs.

Banks recognise that there is value to be gained in both exposing and consuming financial data and services.

This, combined with the ongoing digital transformation of the industry, as well as the unbundling of financial services, presents **opportunities for financial institutions to redesign business models, propose revenue sharing propositions, and drastically improve processes.**

As presented in Tink's last survey report, there are four main open banking archetypes that characterise the investments and goals that financial institutions pursue as part of their overarching strategies.

While many incumbent banks are pursuing strategies related to the banking-as-a-service (BaaS) and banking-as-a-platform (BaaP) archetypes – where the value chain is shared with an ecosystem by exposing or consuming APIs – most financial institutions will see quick returns by focusing their efforts on optimising their existing banking services (the'enhanced banking' archetype).

Financial executives may have different goals in mind when considering which open banking use cases to deploy for their organisation. It greatly depends on the company's primary business, exposure to regulations, and how innovation is managed inside the organisation.

Based on how respondents ranked their importance, the enhanced banking use cases can be grouped in four categories:

#1 Payment initiation services

#2 Improving the customer experience

#3 Optimising risk models

#4 Differentiators and 'add-ons'

Enhanced banking use cases

Q. How important are the following open banking use cases for your business? (Based on a scale. Chart shows percentage of respondents selecting 'Very important' and 'Extremely important')

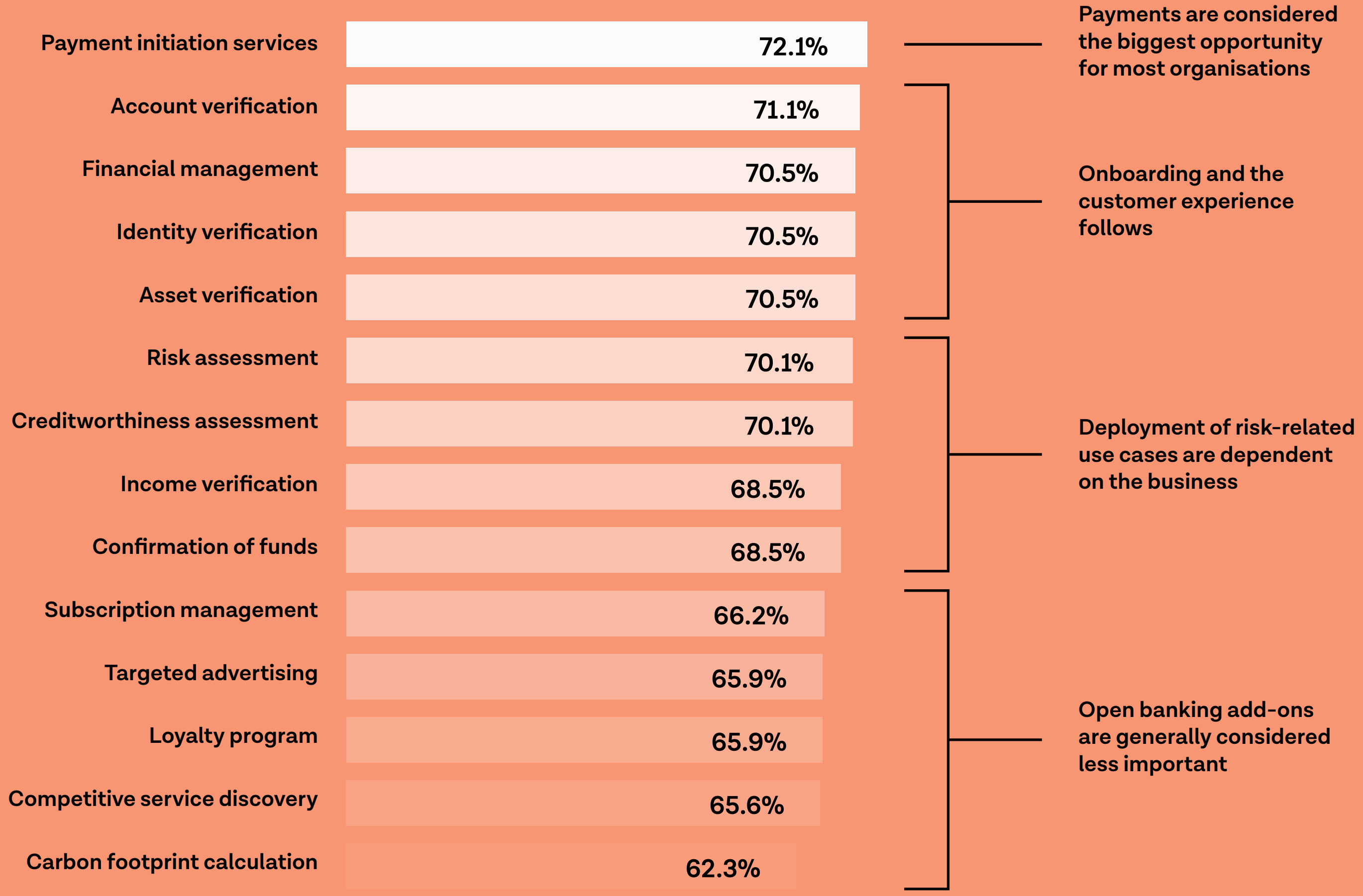


Figure 6
Base: All respondents (n=308)
Source: Tink, 2021

#1 Payment initiation services

The highest ranking open banking use case is payment initiation – with 72.1% of financial executives indicating it's either 'very important' or 'extremely important' for their business.

Payment initiation services (PIS) has the potential to make transactions significantly more affordable for businesses.

By operating as a payment initiation service provider (PISP), financial institutions can initiate account-to-account transactions between consumers and businesses. Doing so creates a far more efficient payment mechanism with lower fees than are typically charged by traditional payment methods.

Finding payment initiation ranked as the most important open banking use case suggests that some financial institutions are planning on moving down-stream to deliver payment solutions directly to their business customers for e-commerce or invoice settlements.

Other financial institutions may also see value in using the technology to enable customers to move savings, top up bank accounts, and pay off credit.

#2 Improving the customer experience

The second most important area of enhanced banking use cases relates to the customer experience. There are two aspects that financial institutions are improving with the listed use cases: the onboarding journey and the user experience of the bank interface.

There are three onboarding use cases ranked in close proximity to each other: account verification (71.1%), identity verification (70.5%), and asset verification (70.5%).

These use cases make it simpler for users to switch or sign up with new financial service providers. For instance, instead of asking users to make a 1 cent transaction ('micro deposit') to verify if account details are correct when setting up a Direct Debit Mandate, open banking lets users simply authenticate against their primary bank, automatically fetching all the necessary details. A job done with just a couple of clicks, in less than 30 seconds.

Similarly, identity verification and asset verification lets users give financial service providers access to their information to complete a customer due diligence flow without needing to submit any documents, or having to wait days or weeks to get a response.

Another important open banking use case is financial management (70.5%), which aims to help users better understand their finances and increase engagement with digital services.

Financial management is an important investment area for several reasons:

- **Financial institutions recognise the risk of 'disintermediation' as TPPs start to hijack the customer relationship. This is why they're looking to strengthen and consolidate the customer relationship by providing valuable, engaging services in their digital banking offering.**
- **Studies have shown that the more time a user spends inside their primary bank app, the more likely they are to stick to that same provider for other services.**
- **Not only does financial management help reduce financial distress among users, it also helps financial institutions find opportunities to offer relevant financial products or anticipate a customer's inability to complete loan payments.**

Customer experience use cases are critical to the enhanced banking archetype and they allow financial institutions to impact KPIs across multiple fronts: **by providing convenience, financial institutions can optimise processes, increase productivity and reduce the risk of errors and fraud, while increasing conversion, customer satisfaction and share of wallet.**

#3 Optimising risk models

The deployment of risk-related use cases are also considered important by most financial executives – although the results are skewed by respondents representing retail banks, credit institutions and mortgage providers. Risk and creditworthiness assessments (both selected by 70.1% of respondents), were more likely to be considered 'extremely important' by executives in these segments.

Financial institutions that are in the business of offering credit can leverage open banking to complement insights offered by credit bureaus (such as personal information, debt registrations, payment history) with real-time and up-to-date information from the customer's payment accounts (such as income details, liabilities, frequency of ATM withdrawals).

Although risk assessments can be a relatively broad approach (and an ongoing process) to determine potential business risk, creditworthiness assessments are regulated activities to be conducted when a customer requests an unsecured loan or mortgage.

Instead of building complicated data models and algorithms to do full-blown assessments using open banking data, over two-thirds (68.5%) of financial institutions are also looking at transaction details to complete the income verification requirement of a loan origination process. By simply receiving the transaction details and categorising them to identify salary, benefits, pensions, and other types of income, financial institutions can enhance one step in the process without needing to reinvent the wheel.

Confirmation of funds (68.5%) is a use case that is particularly relevant for payment service providers (PSPs) that would offer post-purchase settlements (also known as 'Buy Now, Pay Later') and credit. This helps PSPs understand to what extent the payer is able to afford the purchase at the point of sale before authorising the payment.

4# Differentiators and open banking 'add-ons'

Finally, at the end of the list are the open banking 'add-ons' that can be deployed by financial institutions as a way to create additional value for their business, their partners or their customers.

For instance, many financial institutions are looking at subscription management (66.2%) to help users better manage their recurring costs and services. Some TPPs, such as Swedish subscription management solution Minna Technologies and Dutch money savings startup Dyme, have centred their business on offering these services to consumers and 'renegotiating' contracts at the end of their terms.

Some financial institutions are also using open banking technology to target offerings to specific customer segments based on their buying profile and preferences. Targeted advertising (65.9%) is seen by most financial institutions as an opportunity, and it's already being used to present financial services when they are timely and relevant.

The use cases for open banking are constantly evolving and it's becoming more and more common to see the launch of loyalty programmes (65.9%) based on transaction details. This is typically a replacement for traditional cash-back programmes to promote card usage. With open banking, a business can attribute points based on spending with specific merchants, partners, or categories.

Just like targeted advertising and loyalty programmes, competitive service discovery (65.6%) is intended to increase the topline of the business. Even though the majority of financial institutions recognise it as an important opportunity, it's still ranked relatively low on the list.

Competitive service discovery is often done to offer customers more affordable or relevant financial products or services by identifying their existing financial needs and service providers. Some mortgage providers use this to calculate the interest rate people are paying for their mortgage in order to offer a cheaper alternative.

Finally, although carbon footprint calculation (62.3%) appears at the bottom of the list, it's still a highly relevant use case for most respondents – particularly for the retail bank segment, where it ranked as one of the top overall priorities.

In light of the increased focus on sustainability measures, this lets them help customers understand (and eventually minimise) their environmental impact by associating their transactions with the publicly available environmental, social and corporate governance (ESG) scores of the companies they buy from.

Tink take on use cases for retail banks

Looking at the ranking of use cases by segments shows that retail banks – the segment with the
largest open banking expenditures – are particularly focused on using the technologies to lower costs and reduce risks.

With uncertainty in the market and the goal to restore profitability, retail banks are looking at leveraging risk-related use cases in order to anticipate financial distress among their customers before they default on their loans.

The insights required to identify financial distress have evolved significantly over the years as the 'gig economy' has increased the number of self-employed people and the variance of income.

'Extremely important' use cases for retail banks

#1 Risk assessment

#2 Identity verification

#3 Financial management

#4 Carbon footprint calculation

More importantly, where traditional creditworthiness assessments could be based on income and debt, the rise in the average number of subscriptions and recurring expenditures means that it has become a lot more difficult to predict insolvency.

Similarly, retail banks are also playing to the sentiment of their customers and innovating to find relevance at a personal level. Investments into carbon footprint calculators is a good example as retail banks take a user-centric approach to their propositions.

‘Every day I speak with people across the organisation to educate them on how they can benefit from APIs.’

Who he is:
Koen Adolfs is the Lead Product Owner for Open Banking & Enterprise Integration Technology at ABN AMRO. You could say he’s the API shopkeeper who’s helping the bank innovate inside-out.

What he’s known for:
Koen is known as the in-house innovation evangelist who has brought a rush of enthusiasm for open banking and API development across the ABN AMRO organisation.

Why we spoke to him:
Koen knows everything there is to know about APIs and creating value for different lines of business using technologies.

How has ABN AMRO approached open banking?

At ABN AMRO, we believe it's important to organise API development close to our business lines, combined with centralised support and capabilities. This way we can provide APIs fitting the user's needs, scalable platforms, internal and external developer portals, new ways of working, and technological expertise in an efficient and impactful way.

We trigger conversations with executives by asking them about their API strategy and educating them about what's possible. We use this approach to develop APIs for internal usage, strategic partners, and third parties like TPPs for PSD2. **For us, API development has become part of the business culture rather than something that only concerns the 'IT' or 'innovation' departments.**

If we go back in time, our organisation had many capabilities available for internal integration, but preparing for PSD2 required a different strategy. We knew we had quite a journey ahead of us, so to kick-start it we wanted ABN AMRO to become the first major Dutch bank with a developer portal. With it, we could start to learn for ourselves how to service third-party developers as our new customers.

With this in mind, we found the perfect opportunity through our ambitions with our request-to-pay app Tikkie – the leading peer-to-peer payment service in the Netherlands. By bringing the Tikkie app into the developer portal as an API product, businesses could start sending payment requests via WhatsApp, SMS, email, and other channels of choice. **We quickly found that businesses were getting creative with our services to accelate processes with automation.** Nearly all applications of the API have been around retrieving payments faster, while ensuring a great end-user experience.

Having launched our ABN AMRO Developer Portal and first set of APIs in 2017, we were prepared for the launch of our PSD2 APIs in 2019. However, besides developing the API platform and a developer portal, also developing the PSD2 APIs themselves required significant investments.

Developing the PSD2 APIs was actually quite challenging, as there were limited technical standards on how to design and secure these APIs. Considering this was a relatively new piece of legislation, both regulators and banks were still figuring out what it would mean from a technical application perspective. And to be honest, we're still working on shaping this world together.

Nevertheless, the experience gained around the Tikkie API (and PSD2) allowed us to also look at other commercial APIs. For instance, if we just look at transaction banking, we're launching commercial APIs that allow our customers to benefit from push notifications, real-time insights, and new payments features.

How do you service both internal and external customers via one system?

We're quite proud of this from a technical perspective. Initially, we organised ourselves like many other enterprises. We wanted to modernise the IT landscape, make our systems more flexible, modernise legacy services, and enable real-time communication between enterprise applications. In essence, we started developing a Service Oriented Architecture (SOA).

After PSD2 was enforced, we realised that we needed to find a way to make our services available through our bank interface, but also through third-party channels. To do this effectively, we've needed to overhaul our SOA design and introduce an External API Gateway responsible for adding a layer of security, but also converting the data and services we use internally into a format that external customers can use.

Now, depending on who the developer is, and the capabilities they're accessing, we can manage the services effectively without sacrificing performance. **Our services are fast and used both internally and externally to improve customer experiences, automate processes, and build new fintech solutions.**

How will your customers benefit from open banking?

Every day I speak with people across the organisation to educate them on how they can benefit from APIs – whether it's to improve experiences, generate real-time insights, lower operating expenses, reduce risks, or increase revenue.

I try to help both internal and external customers understand that we can make their processes easier and more efficient, which increases transparency into their financial value chain.

For instance, in the credit management space, we have worked on projects that allow customers to easily set credit limits and improve the reconciliation process of different data sets. We've also worked closely with the customer care, to help them settle complaints and invoices more easily. And we've also helped our customers' corporate treasury departments set balance limits, notifications and automate payments.

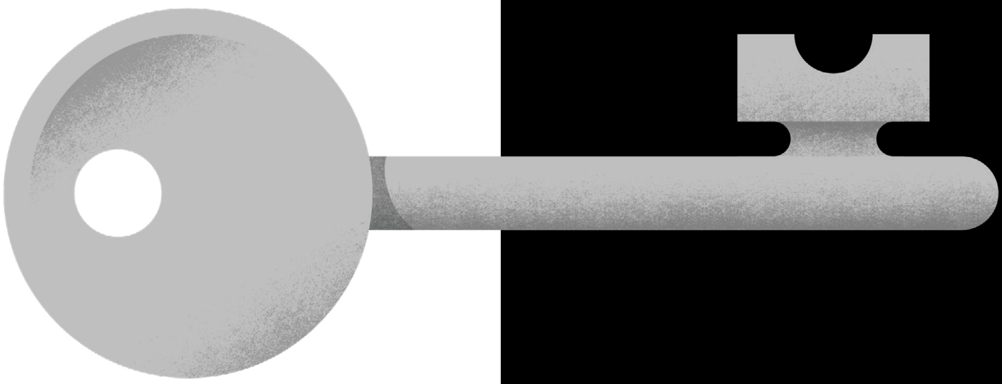
Every company has the potential to become a financial services company

Although some of these open banking use cases may be familiar to financial institutions, they are increasingly being adopted by other industries as well.

As open banking matures, more businesses will be able to offer embedded financial services. This means that financial incumbents will be challenged to keep up with the pace of innovation and forced to fence off new generations of market entrants.

One of the key trends in the transition towards an open banking ecosystem is the blurring of boundaries between industries. Although finance has always been the bedrock upon which many businesses operate, it's becoming increasingly embedded into the services that consumers and businesses enjoy every day.

There are already plenty of existing examples of non-financial institutions moving across industries. Online and physical retailers (Tesco, Walmart, Amazon), hotel chains (Hilton, Marriott, Best Western), and telcos (Orange, Vodafone, Telefonica) have moved into the realm of banking, seeking opportunities to create loyalty programmes, offer financing, and improve customer experiences with embedded finance.



Tink take on market entrants

With open banking making it even easier for industry newcomers to compete for bank customers, more industries are moving into this territory.

Take for instance Enel, one of Europe's largest energy providers. They're not just looking to solve an energy challenge, but also a payments challenge for their thousands of business customers and the distribution of electric vehicle charging points across southern Europe.

To do this effectively, Enel has launched Enel X Pay which will utilise open banking to better serve customers, lower transaction fees, and diversify revenue streams.

Enterprises across all industries – just like Enel – understand that open banking is lowering barriers to switching for businesses and consumers. This means that **financial institutions need to be on their toes and should not lay down innovation budgets either, as they should continue to focus on creating improved digital services for their customers.**

‘As we see society become digital and sustainable, we're literally seeing it "electrify". That's where Enel X comes in. Enel X was founded to help society electrify across all verticals. (...) [This is why] we're building an ecosystem enabled by cutting-edge financial technology for our customers and our business partners.’

– Matteo Concas,
Head of Global Digital Banking Solutions at Enel X

Read full interview here

‘I believe open banking, and open finance, are going to be supporting nearly all financial innovation over the coming decade.’

Who he is:

Bruno Cambounet is the Head of Research at Sopra Banking Software (SBS) and Co-Chair of the openFinance Advisory Board at The Berlin Group.

What he’s known for:

Bruno is a passionate engineer and seasoned banking technology specialist. He’s been a champion for open banking for many years, and started talking about it long before the introduction of PSD2.

Why we spoke to him:

Not only does Bruno understand the opportunities and challenges for his customers, he’s also helping pave the future for open banking through his work at The Berlin Group.

Where do you see open banking heading?

When it comes to open banking, there are different approaches around the world. In Europe the movement accelerated through the introduction of financial regulations, specifically in payments. But in other parts of the world, we are seeing adoption primarily being driven through market demand.

Sometimes I hear people say open banking won't deliver real results, but I'd beg to differ. I believe open banking, and open finance, are going to be supporting nearly all financial innovation over the coming decade. People who cannot think beyond the 'multi-banking' use case don't truly understand how significant this movement really is.

Still today, I meet many financial executives who perceive PSD2 as a regulatory burden. At SBS, **we believe that financial institutions can transform this regulatory burden into a business opportunity and embrace open banking as a transformation accelerator.**

Seeing the potential of the open banking movement, we've decided to launch the Digital Banking Engagement Platform that will not only allow our customers to create more efficient processes and increase user engagement, but also generate new revenue streams. Which they can do by publishing and consuming commercial APIs to and from the ecosystem.

What should we expect from The Berlin Group over the next 6-12 months?

When it comes to open banking, there are different approaches around the world. In Europe the movement accelerated through the introduction of financial regulations, specifically in payments. But in other parts of the world, we are seeing adoption primarily being driven through market demand.

The Berlin Group has been developing the NextGenPSD2 Access to Account (XS2A) Framework, which puts forth the technical standards that approximately 75% of European banks use in order to publish compliant APIs.

In 2020, we started moving the conversation from compliance to commercial APIs beyond the PSD2 scope. And in 2021, we introduced openFinance API Framework standards and investigated a broad range of use cases that financial institutions will be able to support. **Embedding financial services into such use cases would bring additional value to all ecosystem players, including banks.**

It's a fact that financial institutions have been making massive investments into their open banking programmes. Some of those investments were necessary to provide compliant APIs, but most were made to transform the IT organisation in order to support commercial opportunities that are coming out of The Berlin Group.

As a result, we now see a much closer relationship between the supply-side (typically the banks) and the demand-side (typically the TPPs, merchants, etc). I see this as a strong signal to the market that TPPs (and others) are not just here to criticise the design principles proposed by banks, but also to launch revenue-sharing propositions in order to create value for mutual customers.

What would you recommend bank executives do from an open banking perspective?

First of all, always start by focusing on your customers and consider that your customers may be segmented. You may have internal customers, representing different lines of business, who are looking to increase productivity and optimise operations. Your customers might be the consumers and businesses looking to get a loan in minutes instead of days. They may be the developers working at corporates, fintechs, or even the TPPs who are expecting immediate support when issues occur.

Regardless of who your customers are, taking a customer-centric approach to open banking will help reveal opportunities for value creation and unlock new business models.

The second thing I'd recommend is to focus. Most banks today are taking a platform approach to banking and pursuing innovation projects across the organisation. As a result, we frequently find a deficit of resources around the projects that will deliver the immediate impact on the organisation. **Banks need to be sharp in deciding where they want to be leading the end-customer experience and where they will supply services to distributors.** In every sub-segment that they operate, they need to understand how to generate value.

Becoming a data-driven organisation is not just about digitalisation, it's also about measuring results and responding accordingly. Executives need to be honest, objective, and unafraid to stop when they see something isn't working the way it should.

Even if it's easier said than done, the final thing I would underline is that **pursuing an open banking strategy also means changing the operating model**. In particular, this means organising oneself as a supplier of services as well as a partner of services.

Tips for staying ahead

Open banking spending is very significant and although the pandemic played havoc with budgets in 2020, we can expect to see investments continue to grow over the foreseeable future.

Indeed, financial executives are optimistic about their open banking strategies and are ramping up investments in areas that have a direct impact on their business and customers. Specifically, payments, customer experience, and risk are common areas of interest across industry segments.

However, there's is no stopping enterprises from other industries exploring these use cases either.

In order to stay ahead of the curve, financial institutions should consider the following actions.

Make enhanced banking central to your open banking strategy

There are a range of different open banking strategies that financial institutions can explore to generate revenues and lower costs. Our recommendation is that financial institutions should focus on their core business when considering open banking investments.

Although there's a big movement towards BaaS propositions, **ultimately where open banking can help today is in increasing transparency of credit risk, consolidating the customer relationship and increasing customer's total lifetime value by up-selling and cross-selling financial services.**

It's important for incumbents to take on a strategic approach as open banking use cases can typically impact multiple lines of business and processes in the customer journey.

#1

#2

Accelerate innovation capacity

Although some large financial institutions have recently been downsizing their innovation teams to focus on core operations and profitability, **it's important not to lose sight of the value that innovation can bring to the business.**

One of the biggest challenges has always been enabling efficient digital innovation by allowing developers to recycle code and easily scale application updates across markets.

Open banking technology platforms can greatly simplify the investment, giving a one-stop-shop to ingest, enrich and categorise financial data, while deploying value-added services into core systems.

When selecting a platform, consider to what extent it can accelerate innovation and if there's potential to create value across multiple departments.

#3

Create value together with quick returns

In light of the uncertain future outlook, and the ongoing focus on profitability and the customer experience, financial institutions should consider working with partners that have a proven track record in the enterprise segment.

Since many executives expect that it will take years to realise their open banking objectives, it's important to consider long-term partnerships with open banking technology vendors.

Building confidence with the business will require stakeholders to show a quick return on investments.

By focusing on low-hanging fruit with proven use cases, financial institutions can become fast-followers before the market transitions into a state of hyper competition. Such partnerships also ensure that initiatives do not go down the sinkhole of just building and maintaining.

About this research

For the third year in a row, we turned to independent market research organisation YouGov to conduct a wide-ranging survey on the attitudes and opinions towards open banking in Europe.

All interviews were conducted by YouGov between 25 February and 27 March 2021, and included 308 prominent financial services executives spread across 12 countries.

The participants answered questions through telephone interviews and an online questionnaire (all in local languages, to improve the validity of responses).

In order to be selected for the survey, participants needed to be i) senior decision makers or influencers, ii) employed by a regulated financial institution, iii) have confident knowledge of PSD2, and iv) have insight into the open banking investment plans.

Where are you based in terms of daily operations?

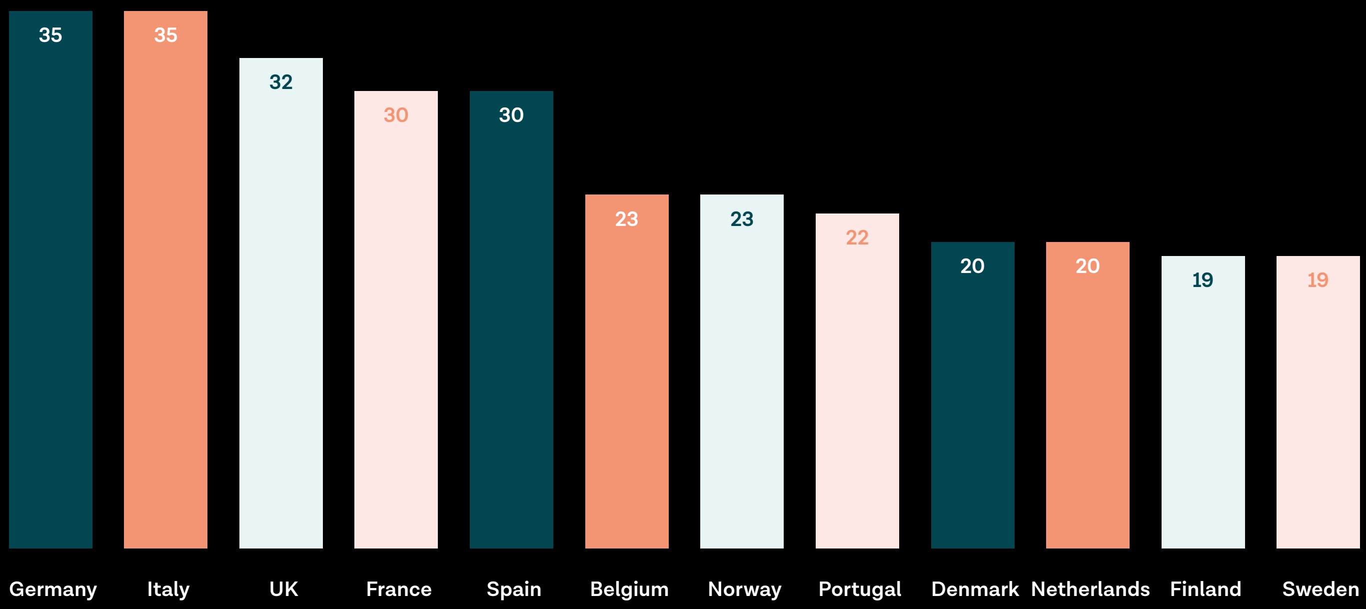


Figure 7
Base: All respondents (n=308)
Source: Tink, 2021

Which of the following best describes your position within your organisation?

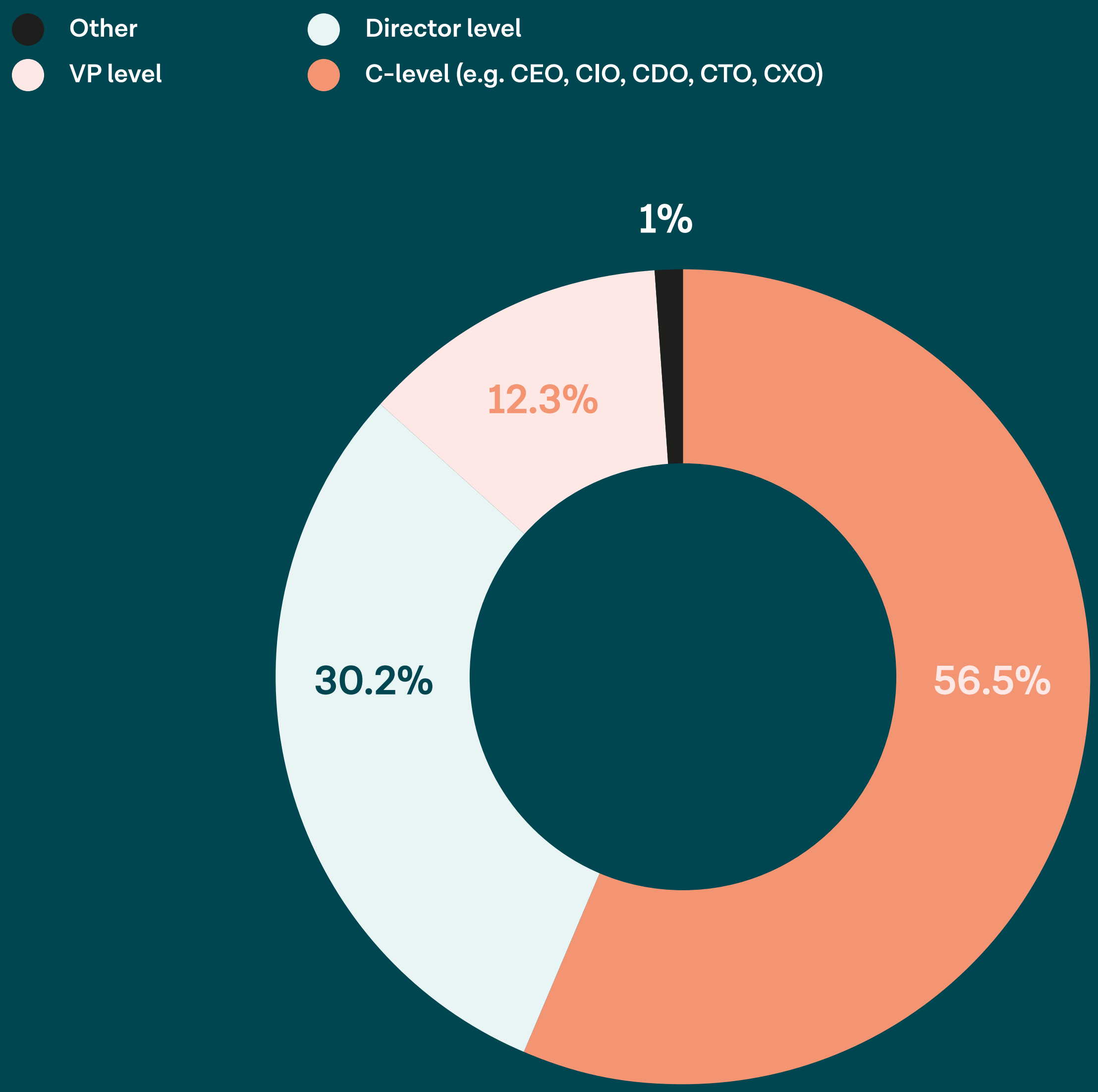


Figure 8
Base: All respondents (n=308)
Source: Tink, 2021

What type of financial institution does your organisation represent?

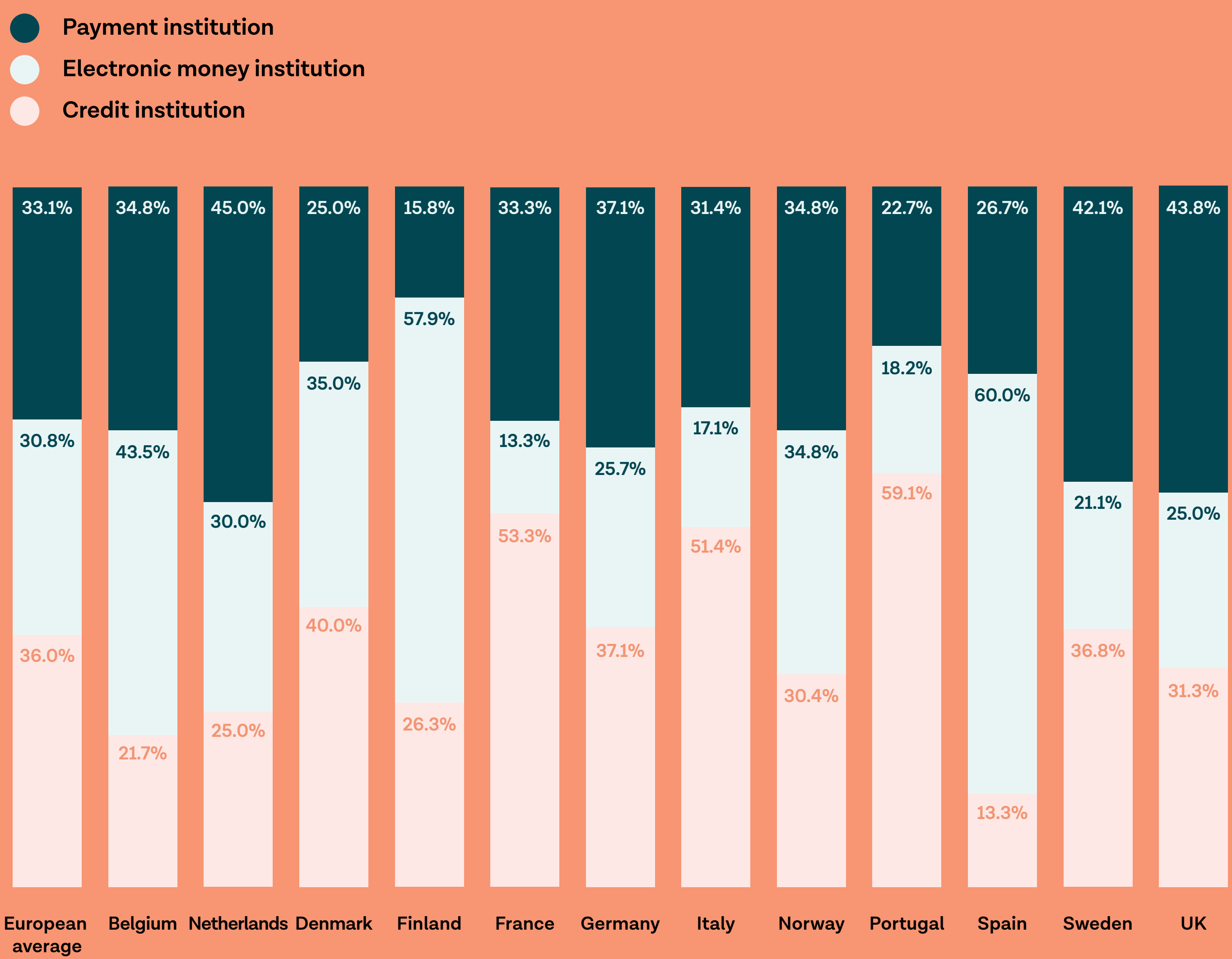


Figure 9
Base: All respondents (n=308)
Source: Tink, 2021

About Tink

Tink is Europe's leading open banking platform that enables banks, fintechs and startups to develop data-driven financial services. Through one API, Tink allows customers to access aggregated financial data, initiate payments, enrich transactions, verify account ownership and build personal finance management tools. Tink connects to more than 3,400 banks that reach over 250 million bank customers across Europe.

Founded in 2012 in Stockholm, Tink's 400 employees serve more than 300 banks and fintechs in 18 European markets, out of offices in 13 countries. We power the new world of finance.

See you in 2022

This is the third (and final) report based on the findings from our 2021 survey. The first one, released earlier this year explores the role of open banking in the post-pandemic world. The second looks at the perceived impact of open banking and emerging archetypes. But of course, we intend to keep tracking the progress and perception of open banking in Europe, so we're looking forward to bringing you fresh insights in 2022.

If you want to throw yourself further into the world of open banking, go to our resources page for all our past reports, handy guides and other reading materials:

tink.com/resources

Want to explore new possibilities?

We've been at this whole open banking thing for a while, and have experience powering ideas of all sorts and sizes. If you already have a specific use case you'd like to explore, or just want to chat about open banking in general – reach out:

partnerships@tink.com

Learn more at:

tink.com