

Open
banking
2019:

Inside the minds of German bankers

We take a closer look at the responses from German financial executives in Tink's European survey. Learn more about what they perceive to be the biggest opportunities, threats and challenges the open banking movement brings to the unique German market – and what this reveals when compared to the overall European results.

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German results vs. the European trend

In May 2019, we surveyed nearly 270 financial executives across 17 European countries to get their views on the open banking movement. While the results point towards a recent shift in attitude – with an increasing number of bankers across Europe feeling positive about the changes and embracing the opportunities an open market enables – it is clear that not every country is on the same page.

A look at the country-level data confirms there is no European-wide consensus when it comes to open banking. Naturally, some differences are to be expected. Each market has their own unique challenges to deal with, as the level of digital maturity in the financial industry and tech adoption by the different populations across Europe is far from uniform.

Germany, in particular, stands out as one of the countries where we found some of the most negative responses. Compared to their European peers, the German executives we surveyed report feeling less optimistic about open banking in general – and less prepared to handle the changes in the coming years.

Concern over threats (like regulations and big tech) outstrip their enthusiasm over future opportunities, and they don't seem to be as willing to go beyond the minimum required for complying with PSD2.

For now, losing customer loyalty is not as big a concern in Germany as it is in the rest of Europe. But they are aware that they need to invest in improving user experience, and partnering with fintechs to do so is now a pressing matter for them.

A market in transformation

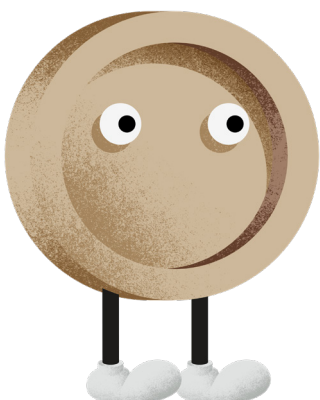
2019 was the first year in which card payments surpassed cash in Germany. Although this may seem surprising to some, it says a lot about the current state of the local market, where a lot is happening as opposing forces come to a clash.

On one hand, there's a very conservative market. Until recently, cash has reigned supreme partly because of a commercial need (many vendors don't accept credit card payments), but also because a large part of the population still prefers having a physical relationship with their money – and their banks.

On the other hand, emerging challengers and virtual banks are becoming more popular, especially among the younger, digital-native customers. The demand for good digital experiences and a shift to cashless payments is rising.

The technology needed to satisfy this demand is certainly available. In fact, some of Europe's top innovators within financial technology are emerging from Germany. But the banking sector hasn't yet reached the same digital maturity seen in other European countries, partly because customers have been resistant towards adopting new tech. Until now.

As this digital shift becomes a reality, banks are having to work hard to keep up. Adjusting to this new era – and the new regulations that come with it – is demanding a big overhaul of not only their IT systems, but entire business models.



Executives feeling unprepared for what's to come

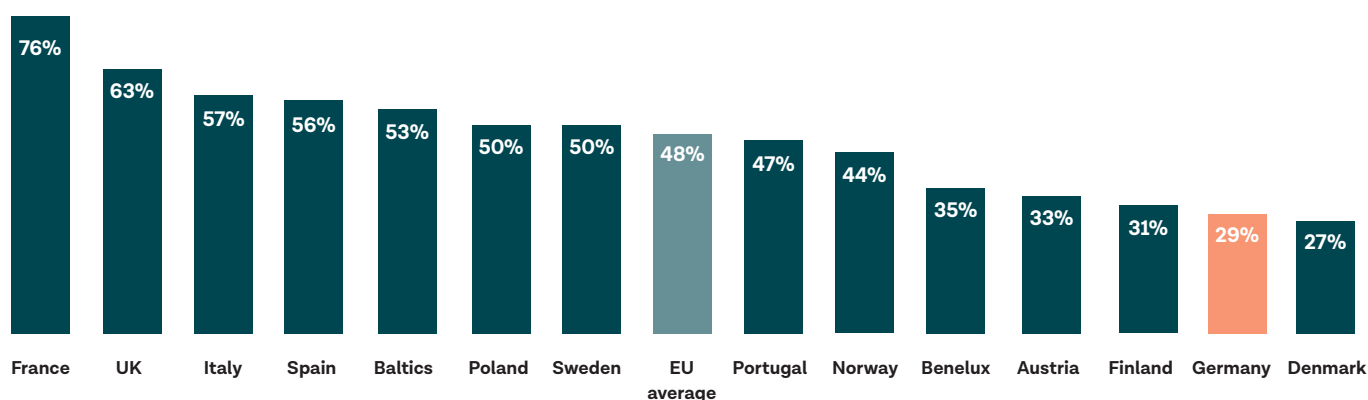
Change is coming, and the financial industry can no longer resist the wave of digital transformation that has already turned many other industries on their heads. Open banking has gone from a futuristic pipe dream to a concrete, policy-backed reality with regulations like PSD2.

When it comes to tackling a changing regulatory landscape and the demands brought by an industry-wide shift, executives in some countries report feeling significantly more prepared than others.

The results from Germany, at 29%, are the second lowest in Europe – a far step below the EU average of 48%. Perhaps a surprising result for a country that contains some of the continent's top innovators, and where policy makers essentially sparked the PSD2 movement by ruling in favor of third-party providers to promote competition.

This unease could be caused by many factors – from technical challenges in modernising IT systems to the uncertainty over what the future holds. The structure of the financial industry in Germany has remained relatively unchanged for the past 150 years, and bankers are now having to adapt to changes that are happening at an unprecedented scale – not to mention pace.

Organisations that feel prepared for the next five years:



A negative
sentiment
shared across
the country



The results from our survey show that German respondents are less positive towards the open banking movement than most other European countries on average.

A breakdown of the results further reveal that 29% of the German respondents feel (‘very’ or ‘somewhat’) negative towards open banking – almost twice as much as the European total at 15%.

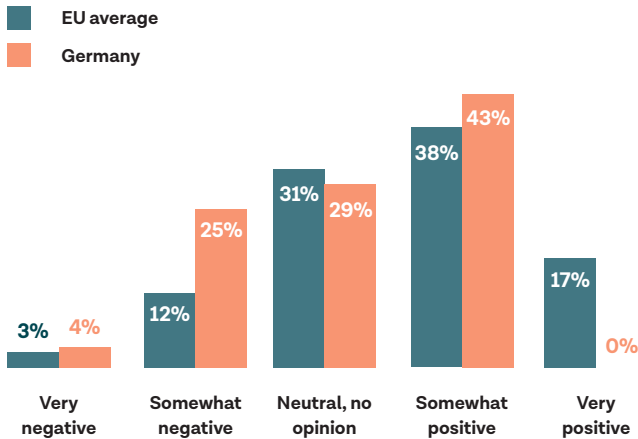
55%

European Union

43%

Germany

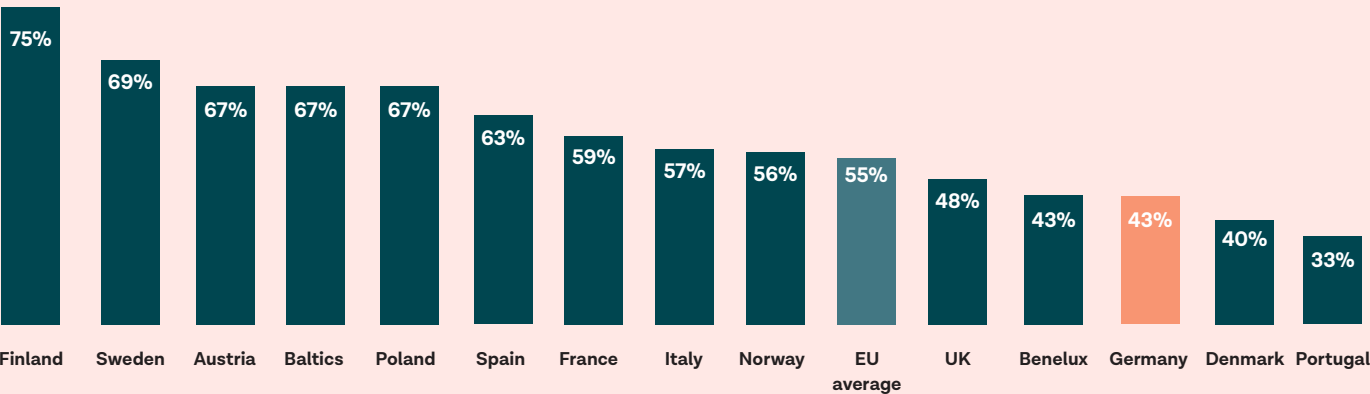
What is your general attitude towards the open banking movement?



While German policy-makers are making a push for a more competitive market, bankers have been very vocal about their reluctance to give access to their customer’s data.

And it’s worthwhile to note that this lack of optimism is not exclusive to the financial industry. As German economists are bracing themselves for a recession, different sectors across the country are reporting a bleak outlook for the future.

Countries that feel most positive towards open banking:

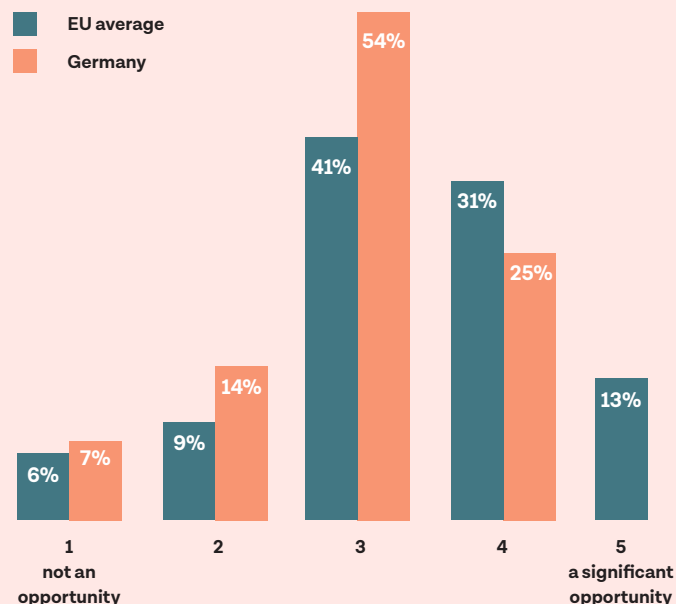


Similarly, none of the German executives think that the open banking movement presents significant opportunities for their organisations.

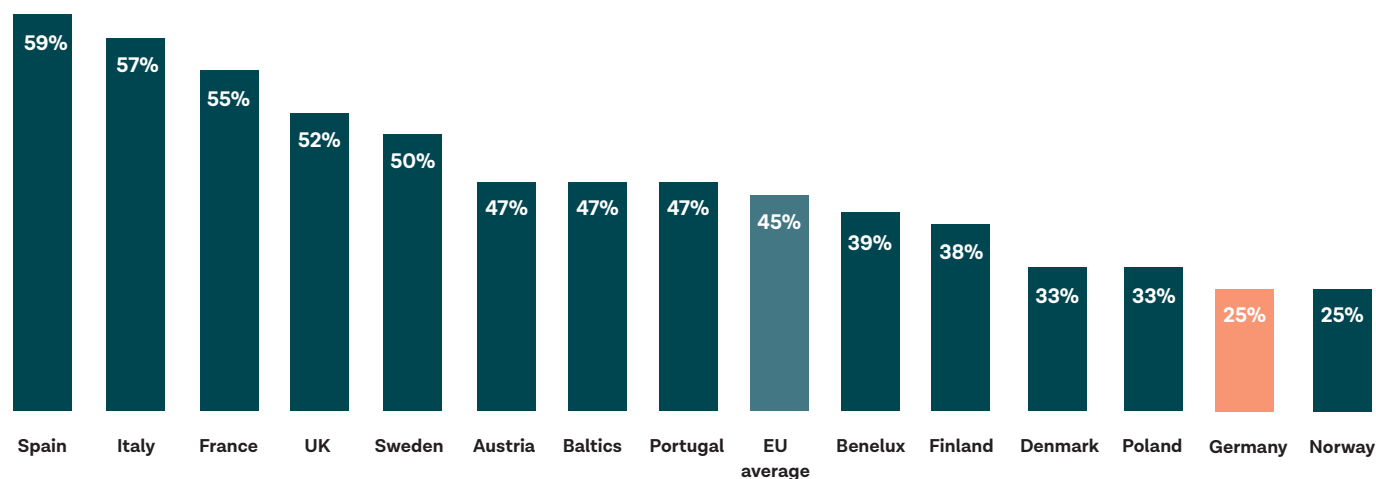
In fact, Germany (together with Norway) has the lowest score among all surveyed countries when it comes to seeing opportunities enabled by opening up the industry and democratising access to financial data, with a total sum of 25% – a full 20% below the median.

Does your organisation see the open banking movement as an opportunity for your business?*

Please rate on a scale from 1 to 5, where 1 is 'not an opportunity' and 5 is 'a significant opportunity'.



Countries that see the open banking movement as an opportunity*



This could be tied to the general pessimism and lack of preparation that also comes up in the responses. Or maybe to a lack of clarity as to what the opportunities could be. The pushback from German bankers on open banking initiatives across the continent indicate that they are not only hesitant to share customer data, but to use it at all.

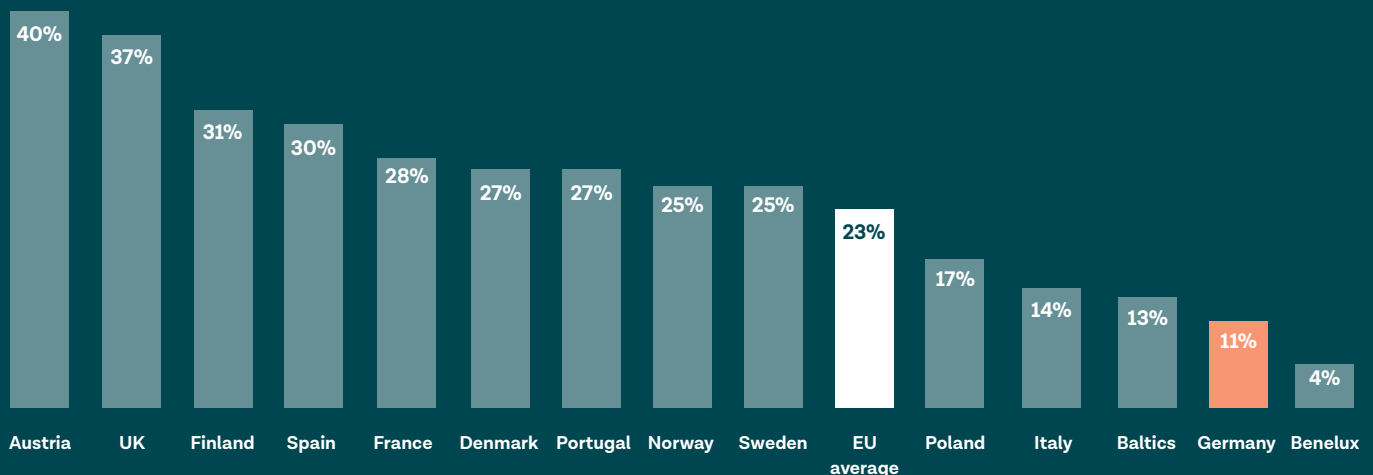
While privacy concerns should of course be taken into consideration (consent is key), consumers worldwide are generally very open to the idea of sharing their data – as long as it means they get valuable services in return.

*sum of values in EU average is higher due to rounding

Looking to get ahead **with fintech partnerships**

Germany is one of the countries where we found the fewest financial institutions already in fintech partnerships (at 11%).

Organisations currently in a fintech partnership:

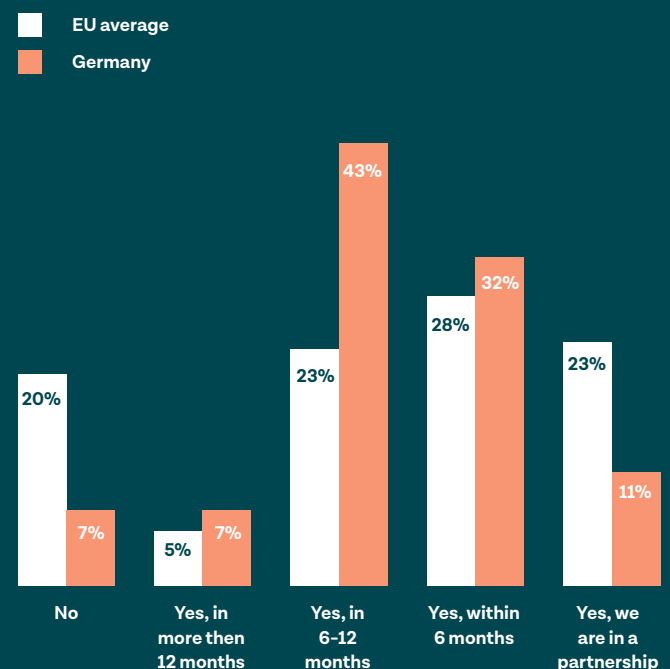


This can be explained due to the fact that, until now, direct partnerships have not been the norm for the industry. Most German banks have historically employed technology service providers that act as an intermediary between banks and IT vendors.

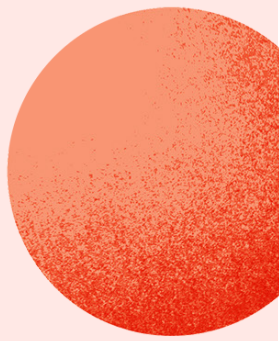
But a closer look at the results reveal that this is likely to change. And soon. A whopping 75% of German organisations are looking to partner with fintech companies in the next 12 months. And only 7% report that they do not plan to form such a partnership, a much lower number than the overall response.

It's a clear indication that banks understand they need to change the way they operate. German financial institutions have a long way to come towards modernising not only their IT systems, but their work processes. And it seems they are looking to team up with fintechs to accelerate this transformation.

Do you plan to partner with a fintech to access open banking technologies?



Exploring open banking 'beyond PSD2



When it comes to concerns over losing customer loyalty, the bankers from Germany are significantly less worried than their European colleagues. The younger, more digitally demanding population is still a demographic minority, and the conservative ageing population usually has strong ties to their banks.

Do you agree with the following statements?

Germany EU average

Consumer loyalty towards banks will be significantly reduced because of open banking



The financial industry will evolve significantly as a result of open banking



Financial institutions who only do the minimum required by PSD2 will lose out to more innovative competitors



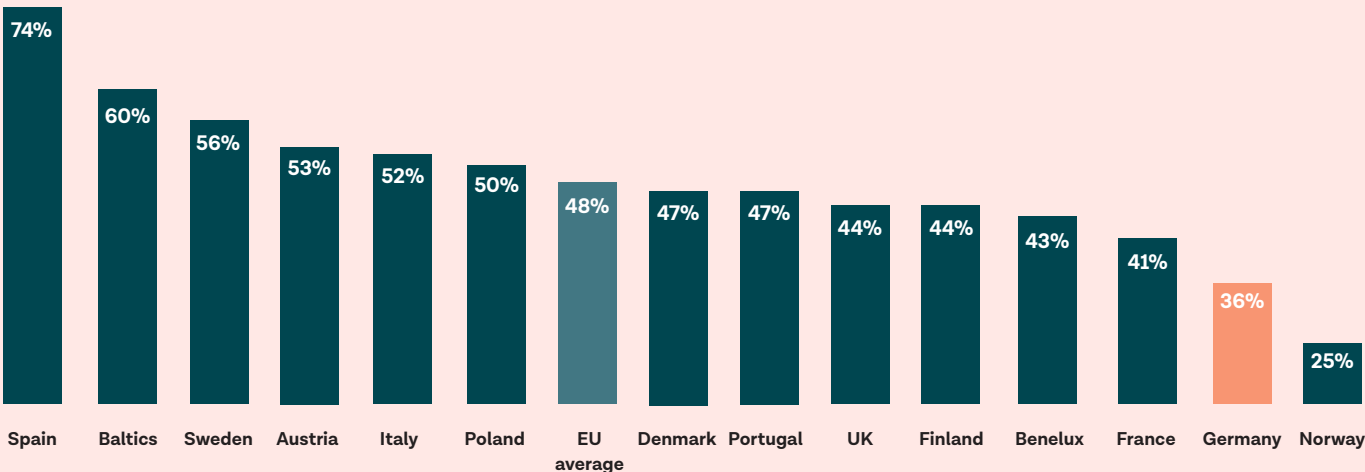
Financial institutions must enhance their service to attract and retain customers.



Worry among bankers about losing loyalty seems to be such a non-issue that, unlike many other countries in Europe, the majority of German bankers are not

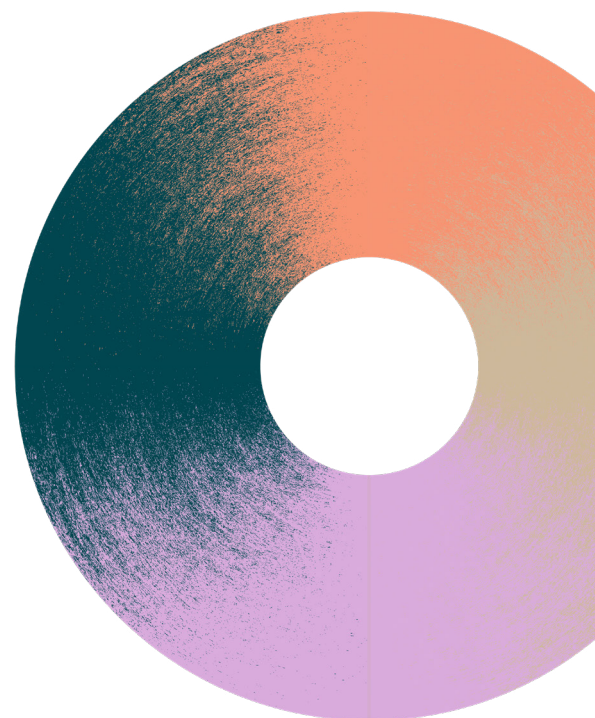
looking to reduce customer fees to match the offers from challengers.

Organisations likely to reduce banking fees:

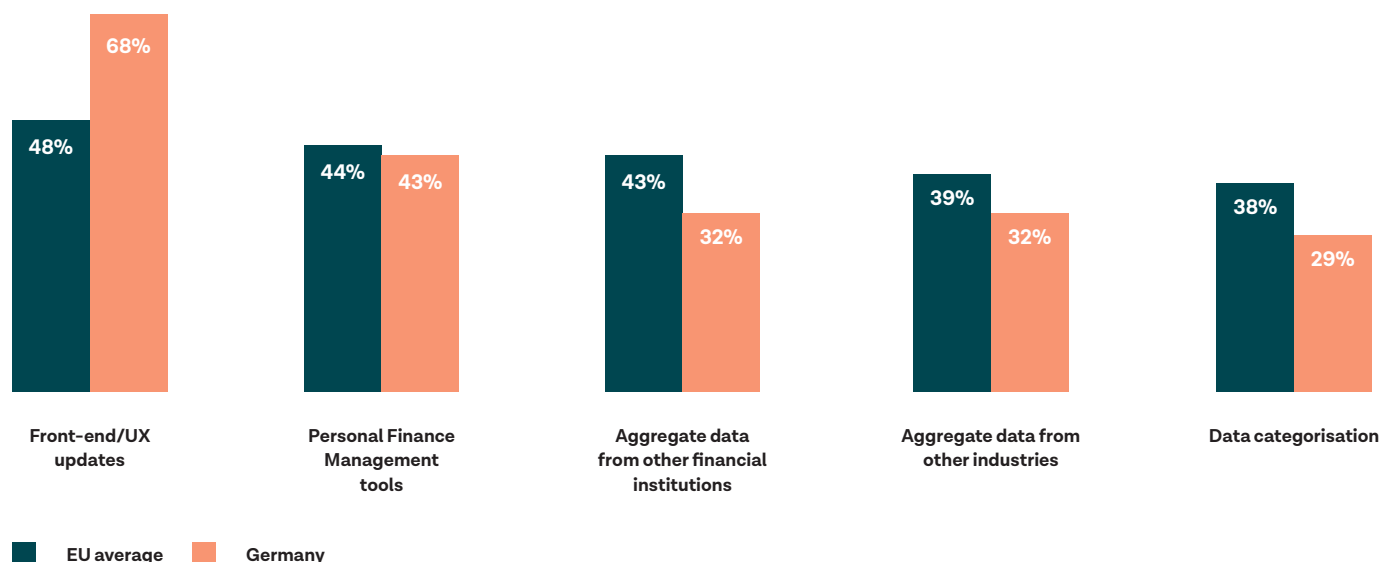


Only 46% of the German respondents think that institutions who only do the minimum required by PSD2 will lose out more innovative competitors, whereas this is the majority belief across Europe (at 61%). In other words, German bankers don't seem to be as concerned about exploring open banking opportunities beyond the scope of the new regulations for now.

On the other hand, the fact that financial institutions need to up their offering and that the industry will evolve significantly as a result of open banking is something that the majority of German respondents could agree on (just like everyone else). And they are aware that there are areas that need improvement.



Which of the following does your organisation need to improve in the near future?



When asked about their near-term strategies, German executives pointed to front-end and user-experience (UX) updates as the main focus area when it comes to improving their offering. This is indeed an area where most German banks are behind.

Banking apps are only now starting to play an important role in the previously cash-dominant market, and the digital challengers can usually boast user-friendly interfaces as one of their biggest strengths.

Threats seen as bigger than the opportunities

As we've found in the results from [our European-wide survey report](#), the different countries' attitudes towards open banking often correlated with their perceptions of EU regulations. Those who are less positive towards open banking are more likely to consider regulations like PSD2 a threat to their business. This is definitely true for the German market.

Respondents who considered open banking regulations as a threat:

#1 Benelux 61%

#2 UK 56%

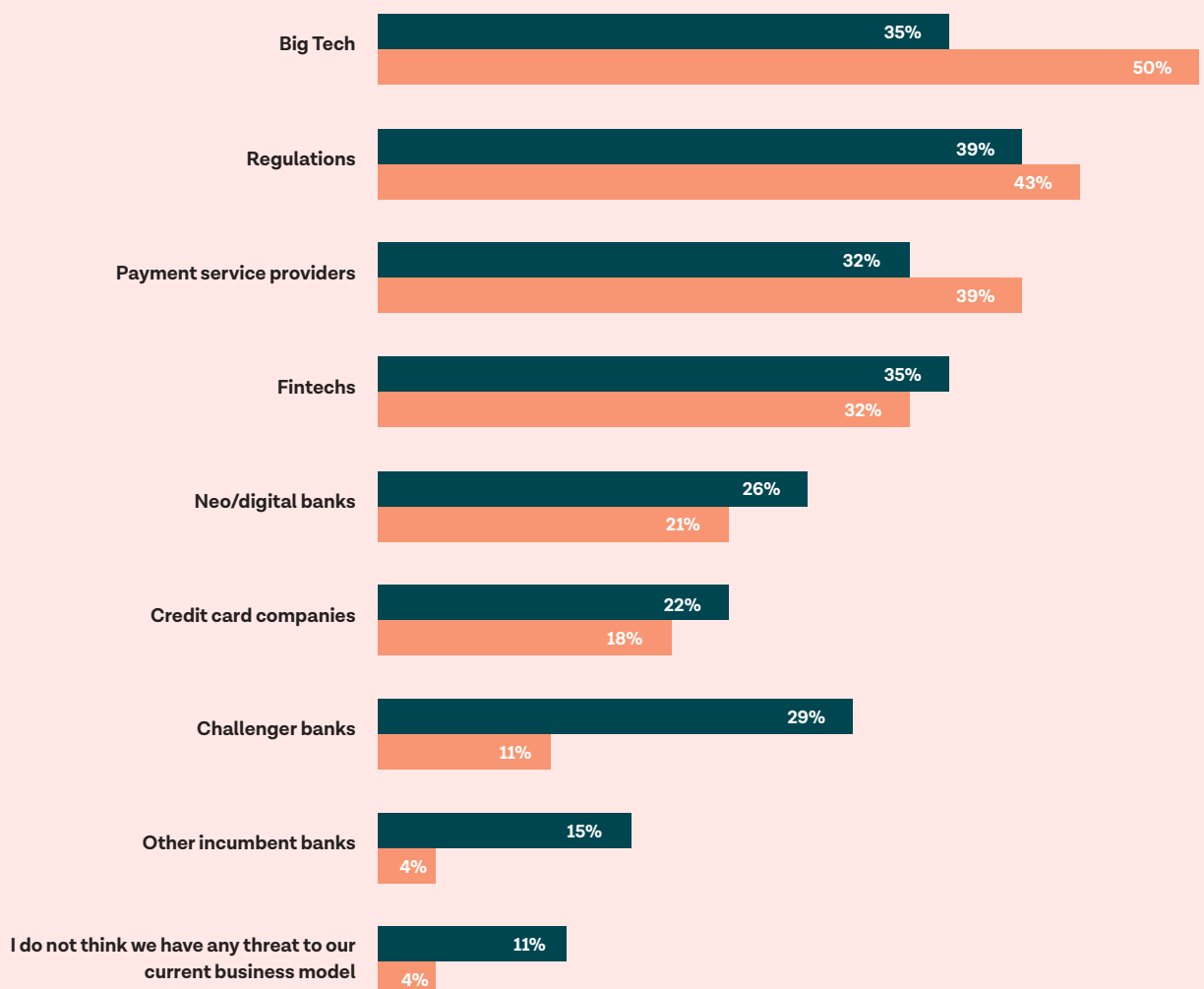
#3 Germany 43%

EU average 39%

While regulations are a considerable concern, big tech topped the charts with 50% of the German respondents reporting they see giants like Google, Apple and Amazon as a threat to their business.

These companies have already significantly disrupted the local market and are taking over an ever-increasing number of segments by leveraging their large user base, brand recognition and customer loyalty. And the financial services space is in their sights.

What do you consider to be a threat for your business?



When it comes to the opportunities, we've seen that the German respondents aren't as enthusiastic as most other executives in Europe.

While they do point to some possibilities open banking could enable for their business, they were far less likely to select items from a list of opportunities than from a list of threats.

Top opportunities for the German market:

#1

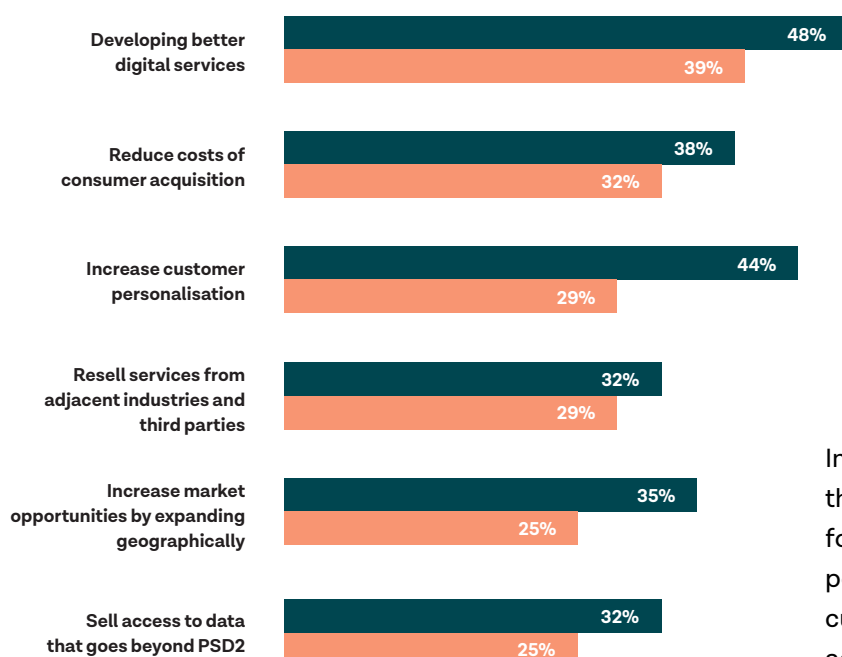
Developing better digital services

#2

Reducing the costs of customer acquisition

Which of the opportunities below does open banking present to your organisation?

■ EU average
■ Germany



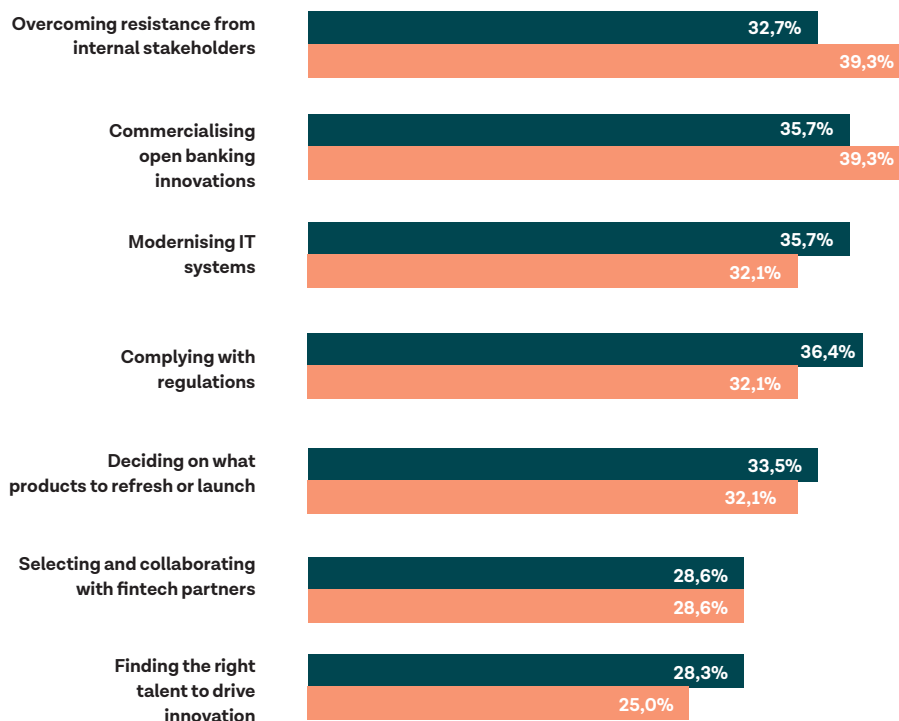
Increasing customer personalisation, which got the #2 spot in the overall results, isn't as big a focus for the German executives as for their European peers. Instead, being able to reduce costs related to customer acquisition is a more relevant opportunity according to the German results.

Stakeholder resistance is a major challenge

As for the challenges, the German executives are not as concerned about complying with regulations, which was the biggest hurdle pinpointed in the overall results. For them, overcoming resistance from internal stakeholders and finding ways to commercialise the innovations enabled by open banking came out on top.

Dealing with regulations and legacy IT systems are not seen as such a big challenge in Germany compared with the rest of Europe. The biggest blockers here seem to reflect a market-wide resistance towards change.

Which is the biggest [open banking] challenge for your organisation?



It's possible the German hesitance towards using customers' financial data may be at play here. If the industry is unsure about how to commercialise open banking innovations, it's easy to understand why stakeholders might also be resisting.

Tips for moving forward

The financial industry is going through a significant change, and some countries are impacted more by the new wave of digital transformation than others.

The German market has a lot to contend with: challenger banks and a rising demand for better digital services by the younger generation on one side, pitched against resistant industry stakeholders and a largely conservative population resistant to adopting new technologies on the other. All of this while having to deal with a massive consolidation of the market, changing business models, and of course, new regulations to comply with.

Navigating through these turbulent times may seem like a daunting task, but finding – and paving – the way forward will be an industry-wide effort. The opportunities are in everyone's reach. But how do we get there?

After a lot of trial, error, near misses and successes, we've gathered some good experience in how to succeed with open banking partnerships. Here are our top recommendations based on what we've learned and what these survey results reveal.

Embrace the open banking movement beyond PSD2

The changes being driven by new regulations like PSD2 are just a first step in what will be a long journey towards reshaping financial services. While staying compliant is definitely a big challenge for banks, it's important to think long-term and look to the future opportunities open banking will enable.

While most German executives may not agree with this view, it is very likely that those who only do the minimum required by regulations will lose out to more innovative competitors. The market is changing significantly, and consumer expectations along with it.

This is the time to look beyond securing the next quarterly results and focus on exploring a new range of services that create added value to customers. This could mean anything from personalised financial advice for consumers or fraud detection management through banking-as-a-service for merchants.



#2

Get ahead by partnering with fintechs

Partnering with fintechs allows banks to overcome some of their biggest challenges and quickly tap into the talent, technology and quick processes necessary to innovate at the same pace in which the industry is evolving – and have a fighting chance to beat the big tech giants to the punch.

The good news is, German executives are aware that this is a pressing need, and the survey results show that 75% of the respondents already have partnerships in sight for the near future.

Combining the fintechs' scalable technology and customer-focused culture with the incumbent banks' well-trusted brands and established customer bases puts all players in a great position to come out as winners. All while creating better services that deliver real customer value and empower people to better understand and take control of their financial lives.

Anticipate the customers' need

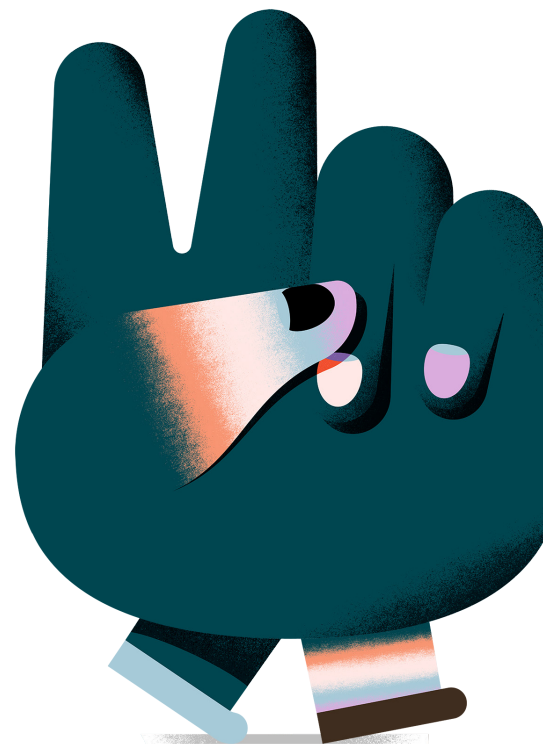
Customer loyalty is not (yet) a big concern for the German respondents, but as better and more affordable services emerge, it's reasonable to expect that consumers will come to demand more. Focusing on delivering better customer experiences is key to attracting new customers. And perhaps more importantly, retaining them too.

A wide variety of industries have already been disrupted and completely reimaged by the digital wave that is only now reaching banking. If there's one thing we've learned is that the best (and most successful) digital services have been the ones that put the customer's interest above everything else.

The big techs of the world understand this better than anyone else, and the best way to stay relevant is to beat them at their own game: being obsessed with understanding customers and exploring new ways to create services and experiences that improve their lives.

#3

About this research



Tink enlisted the help of independent market research organisation YouGov to conduct a wide-ranging survey on the attitudes and opinions towards open banking in Europe.

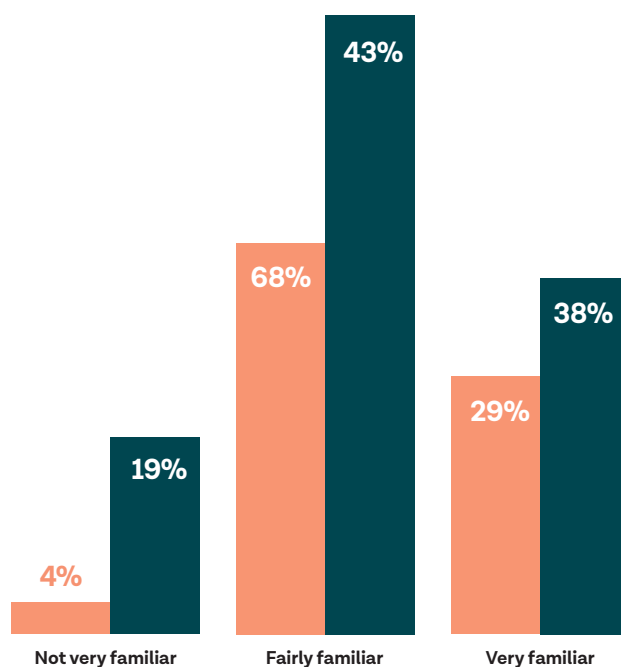
All interviews were conducted by YouGov between 8th April and 7th May 2019, and the [European-wide research](#) included 269 of prominent financial services executives spread across 17 countries. This report compares the European average with the responses gathered from the 28 respondents from Germany.

The participants answered questions through both telephone interviews and an online questionnaire, which was translated to their local languages to improve the validity of responses.

In order to be selected for the survey, participants needed to have at least some knowledge of open banking. One screener question asked if they are familiar with the revised payment service directive (PSD2). If they weren't, we excluded them from the survey.

What is your awareness of PSD2?

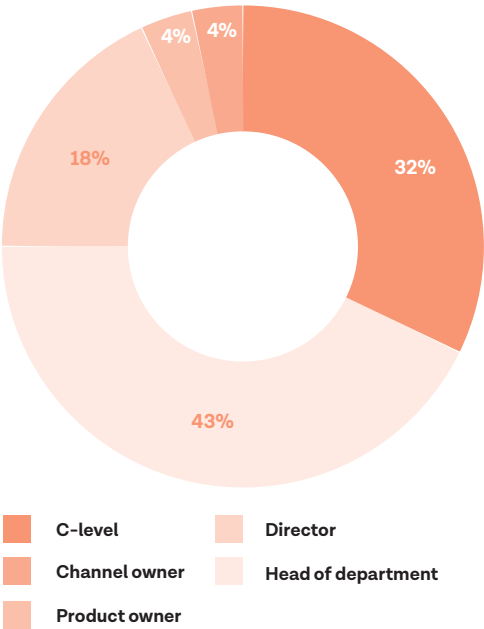
Germany
EU average



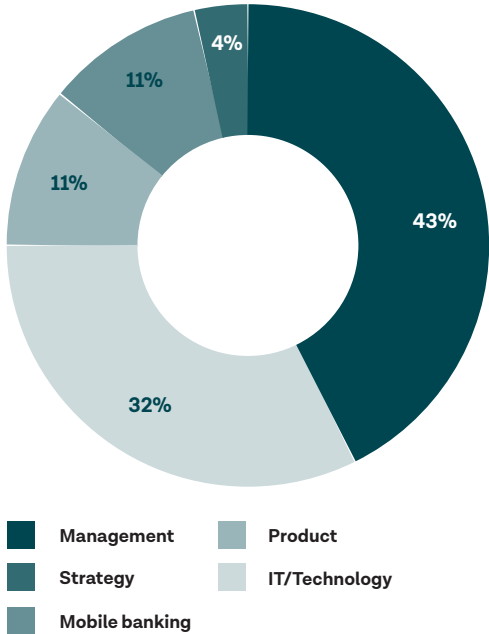
Out of the German participants, 75% are either C-level executives or head of a department or function, the same percentage that represents those that work in management or IT. The overwhelming majority (93%) are one of the key decision makers when it comes to matters related to digital innovation.

The graphs below show the detailed distribution of the surveyed German executives per position, function and involvement in decision-making.

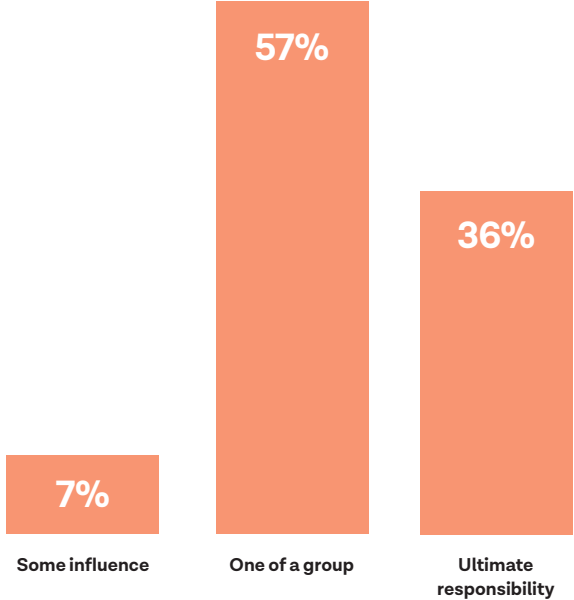
Which of the following best describes your position within your organisation?



Which of the following functions do you work in?



Which describes your involvement in decisions regarding digital innovation?





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