Open banking report:

Inside the minds of Italian bankers

We dive into the results from Tink's European survey, taking a closer look at the responses from financial executives in Italy. Learn more about what they perceive to be the biggest opportunities, threats and challenges that the open banking movement brings to the Italian financial industry — and how it compares to the overall European results.

tink

Italian results vs. the European trend

In May 2019, Tink 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.

Italy, in particular, stands out as a country that is closely watching the developments around open banking. Not only are Italian bank executives generally more positive and optimistic towards open banking than their European peers, four out of five (81%) bankers also believe the industry is going through a significant transformation as a result of it, compared to two-thirds (64%) of their counterparts across Europe.

The survey results also indicate that there's a greater sense of urgency around developing better digital banking services in Italy (57%) than in most other European countries (48%). This appears to be driven by two primary trends.

On the one hand, the government has begun a progressive shift towards cashless payments by enforcing regulations that encourage the use of digital payments and foster an environment for fintechs to thrive.

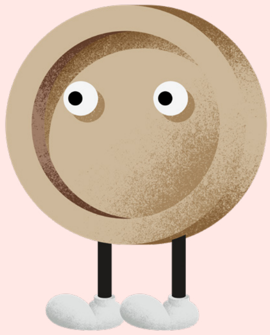
On the other hand, the threat from big tech — like Google, Apple, Facebook and Amazon — in Italy is more apparent than anywhere else. This is pushing bank leaders to invest in open banking projects that improve banking services, improve customer onboarding processes, and reduce the fees associated with those services.

For now, the main focus will be in the practical execution of open banking opportunities by finding return on investments, and deciding which products to refresh or launch. And of course, it includes complying with regulations so banks can retain customers and improve the services that they consume.

Open banking is the start of a decades-long movement

What is open banking?

Open banking is an industry movement that describes the exchange of data between financial institutions and third-party providers, in order to deliver enhanced capabilities and experiences to the market.



The financial services industry is embarking on a radically new path. Open banking is not simply defined by regulations that rubber-stamped this change; it's the start of a decades-long movement that offers the opportunity of a lifetime to do banking better.

Now that the final parts of the revised Payment Services Directive (PSD2) have come into force, it has effectively given a green light for businesses to fundamentally change the way money is managed.

While banks across Europe have been working hard to meet all of the PSD2 requirements on time, the gigantic task of being regulation-ready is only half of the open banking puzzle. At the same time, banks are trying to work out how to get the most out of open banking, in order to protect their existing business and generate new revenue streams.

This is critical because open banking has created a power shift — from financial institutions to consumers — by democratising access to data through licensed third-party service providers and incentivising financial institutions to meet new consumer expectations in an increasingly digital world. The winners in this movement will be those brave enough to innovate and create truly consumer-centric services.

Bank executives are having to carefully balance investment in two major areas. The most significant is IT, to make sure they can actually meet the PSD2 implementation requirements and digital transformation objectives. The second is to invest in building digital products and services that leverage the open banking opportunity, and add real value for customers and shareholders.

In order to better understand how financial executives are responding to one of the biggest industry shifts in generations, Tink surveyed 269 financial executives across 17 European countries who gave their opinions on the threats and opportunities this open banking movement presents for their businesses. This report dives into the responses from financial executives in Italy, how they relate to recent developments, and how they compare to other European countries.

Country profile: Italy is on the lookout for opportunities

Italian financial executives have been through a lot since the European debt crisis started near the end of 2009, but things are starting to look better. Much better. The country has been through continuous economic recovery ever since it has been granted loans by the European Central Bank (ECB). Although Italy today owes more than €2.4 trillion in public debt — putting it at an all time high — interest rates are low, and the restructuring by the Bank of Italy has dramatically helped improve the balance sheets at the country's banks.

Getting to this point has not been easy. Over the past decade, there have been many clashes between the Italian government and the European Union (EU) over the country's heavy spending plans. However, the current coalition — formed by the anti-establishment Five Star Movement and the centre-left Democratic Party — has been more cooperative with the EU than expected, as it seeks to improve the country's finances even further.

Some of the reforms by the Bank of Italy have been progressive and enforced across all segments of finance. In particular, in the payments segment, it has been promoting the adoption of digital or cashless payment options.

One of the most significant changes is that as of July 2018, Italian companies are required to pay out (or advance) salaries through traceable methods. In other words, although it is still possible to pay out salaries in cash via a bank or post office, under the current conditions, the majority of employees will prefer to receive their salaries on a selected current account. Simply because it is more convenient and cost effective.

The banks are embracing these developments as an opportunity. The Italian banks were some of the earliest adopters of instant payment solutions via the SEPA Instant Credit Transfer scheme — created by the European Payments Council (EPC).

Moreover, Italy was also one of the few EU countries to transpose PSD2 on time (January 2018). Indeed, only 9 out of 25 member states implemented PSD2 when it was due — and Italy was one of them.

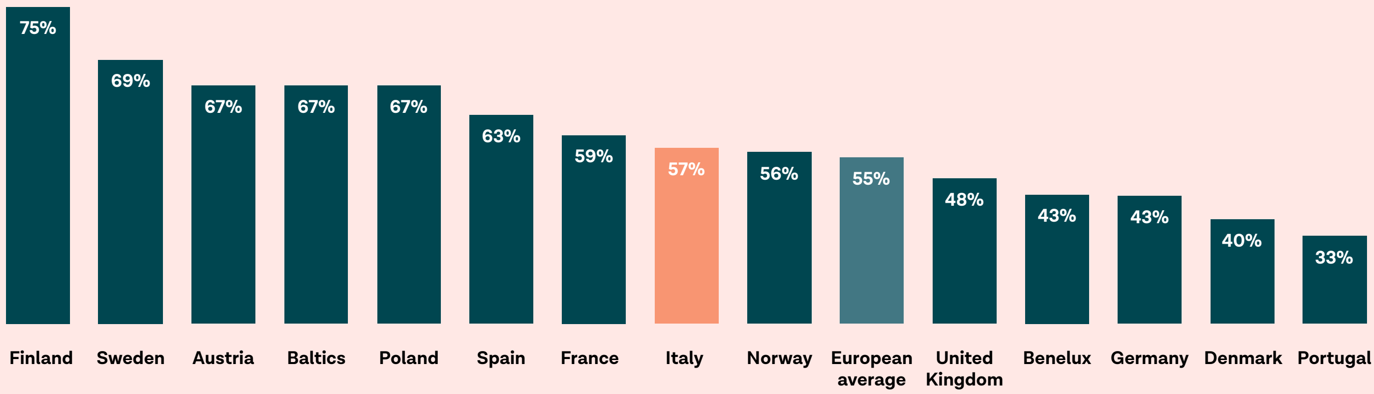
In parallel, the number of Italian fintech startups are growing fast. PWC Research counted 299 fintechs in 2018 — up 27% year-over-year — and expected growth rates for 2019 and beyond are looking very promising according to Fintech District. As such, the growth of the Italian fintech ecosystem is closing the gap with some of its neighboring European countries, such as France and Germany. More importantly, most of the new fintechs are ready to take advantage of the benefits of open banking and digital payments.

Although the use of digital payments is growing fast, Italy still has a long way to go before it would be classified as a cashless society. Italy is still one of the most cash-dependent markets in Europe according to The European House's Community Cashless Society Report 2018.

A progressive agenda, a growing ecosystem, an increasing number of digital payments, and solid economic growth — projected at 1.1% to 1.5% — sets the tone for the survey results on open banking. The Italian bank executives are clearly on the lookout for opportunities. But for the banks themselves, adjusting to this new era of open banking — and the new regulations that come with it — is demanding a big overhaul of not only IT systems and internal operations, but entire business models.

Positive attitude towards open banking

Figure 1. Countries that are positive towards the open banking movement



When talking about the open banking movement — the industry shift that is transforming financial services — Italian banks are slightly more optimistic towards the open banking movement than the European average — with 57% indicating that they see it as a positive development for their industry, compared to 55% (Figure 1).

The relatively positive attitude towards open banking is reflected by the fact that the majority of Italian respondents see opportunities for their business. Although only 10% of Italian respondents see open banking as a 'significant opportunity' for their business — compared to a European average of 13% — the Italian results are generally more optimistic for open banking compared to the European average (Figure 2).

Just short of one-third (29%) of the respondents indicate that open banking might be a concern. But none of the Italian respondents indicate that the open banking movement is 'not an opportunity' nor do any consider it a 'significant threat' (Figure 3). In other words, although banks in Italy are aware that the open banking movement may change their business, the vast majority see the opportunities.

Figure 2. The open banking movement is an OPPORTUNITY for the business*

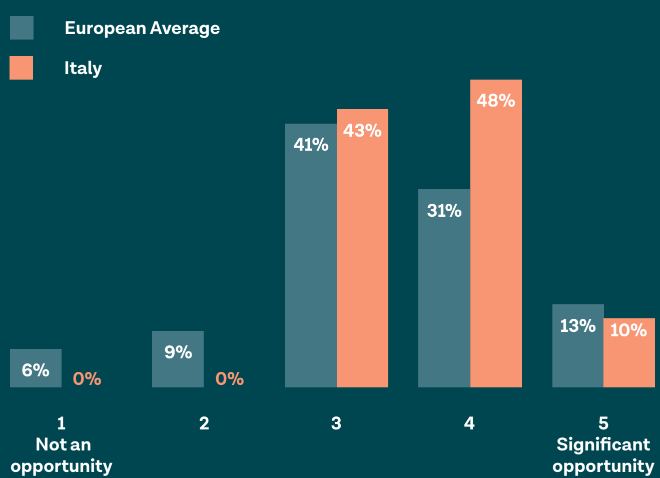
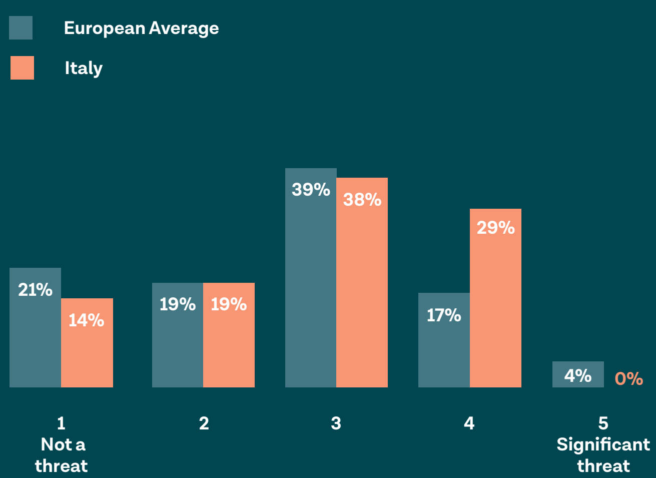
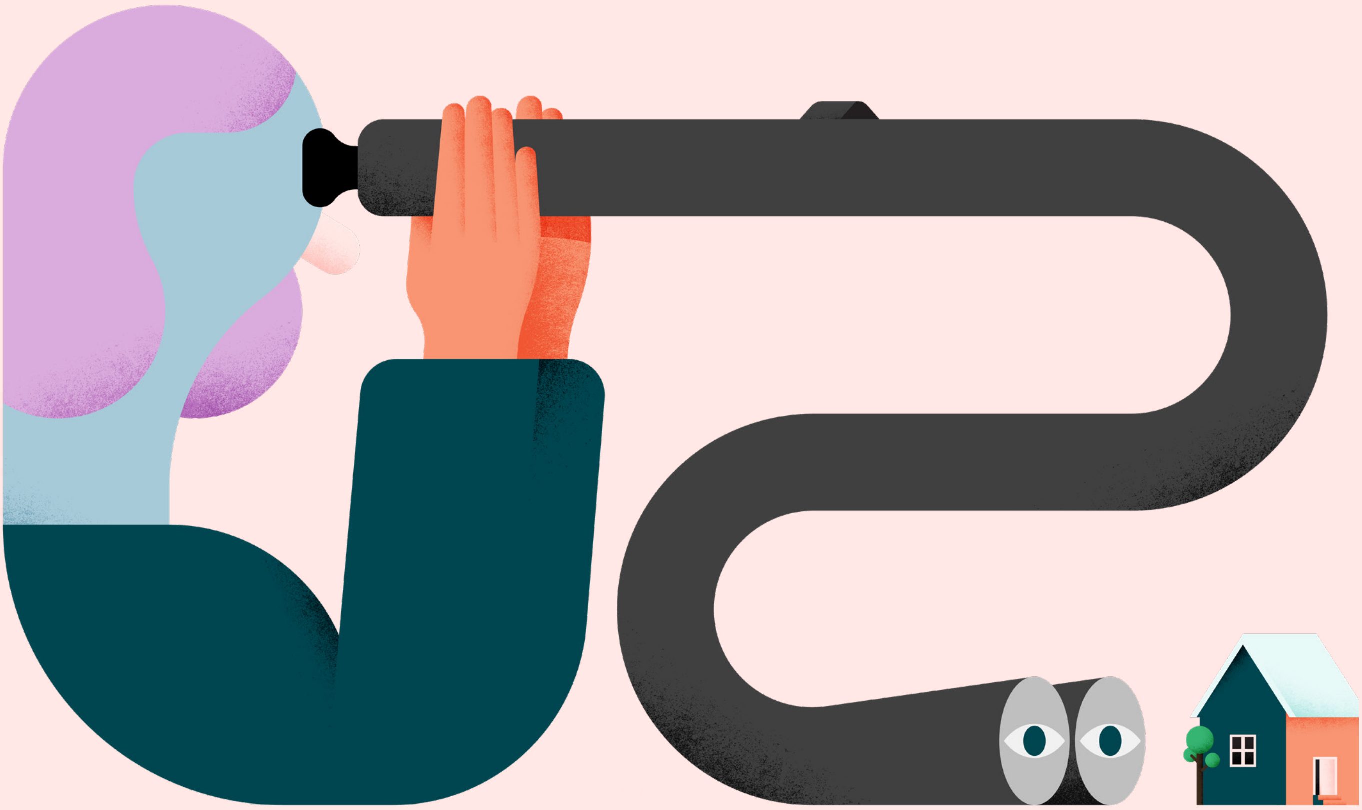


Figure 3. The open banking movement is a THREAT to the business*



*sum of values may vary due to rounding

Open banking opportunities



In terms of open banking opportunities, the Italians are speeding along. Initiatives such as ‘developing better digital services’, ‘reducing cost of customer acquisition’ and ‘selling access to data that goes beyond PSD2’ are considered the three most important objectives in the context of open banking (Figure 4).

Looking at the results holistically, the Italian respondents have been more optimistic towards every single open banking opportunity than their European peers. The opportunity of ‘reselling services from adjacent industries and third parties’ is ranked as the lowest opportunity for both Italy and the European average. Yet, in Italy we still find that 43% of respondents consider this an opportunity, it’s just under one-third on average in Europe.

Top opportunities for the Italian market:

#1 Developing better digital services
#2 Reducing costs of customer acquisition
#3 Selling access to data that goes beyond PSD2

Figure 4. Open banking opportunities for the business

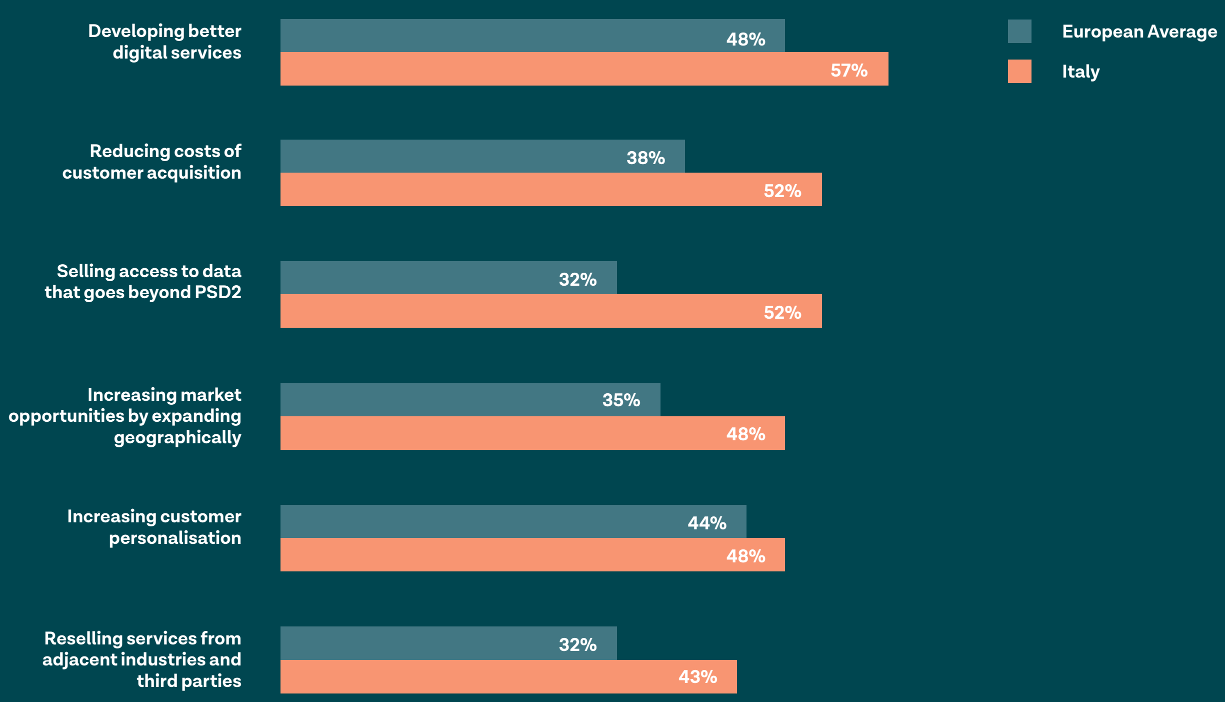
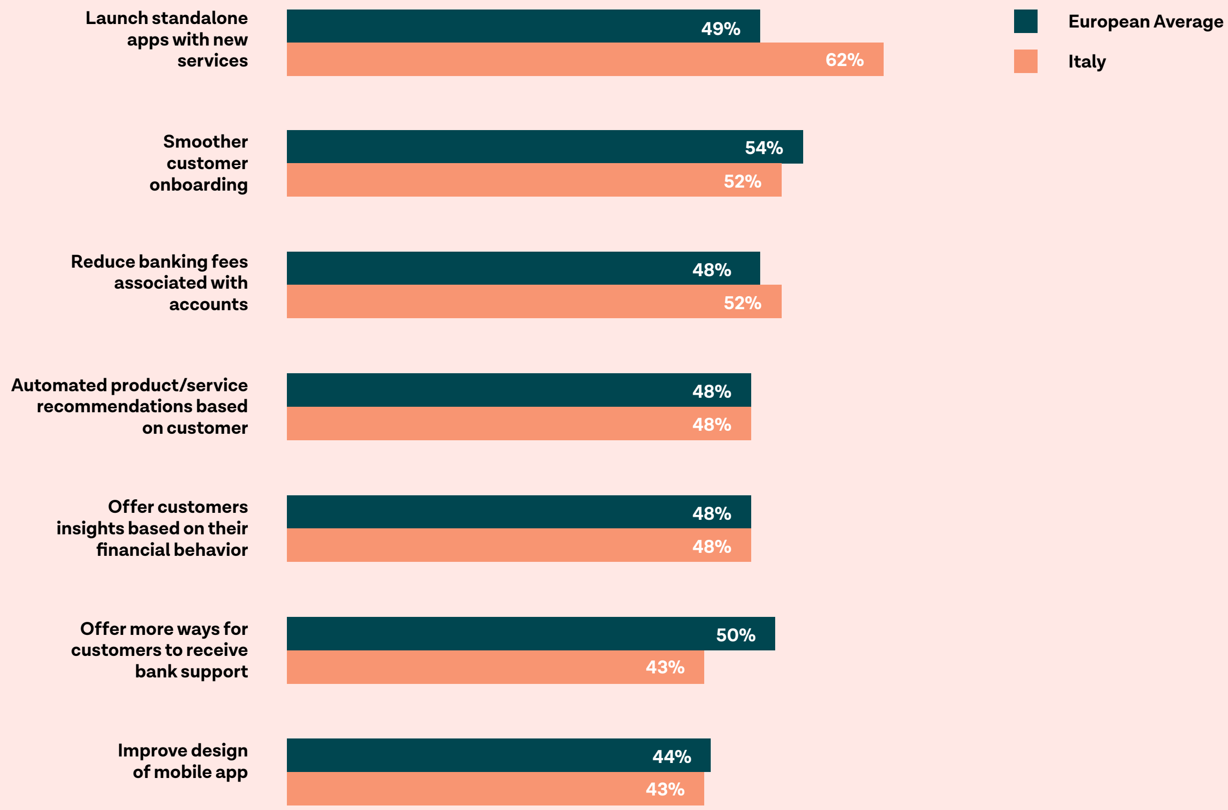


Figure 5. Customer experience initiatives

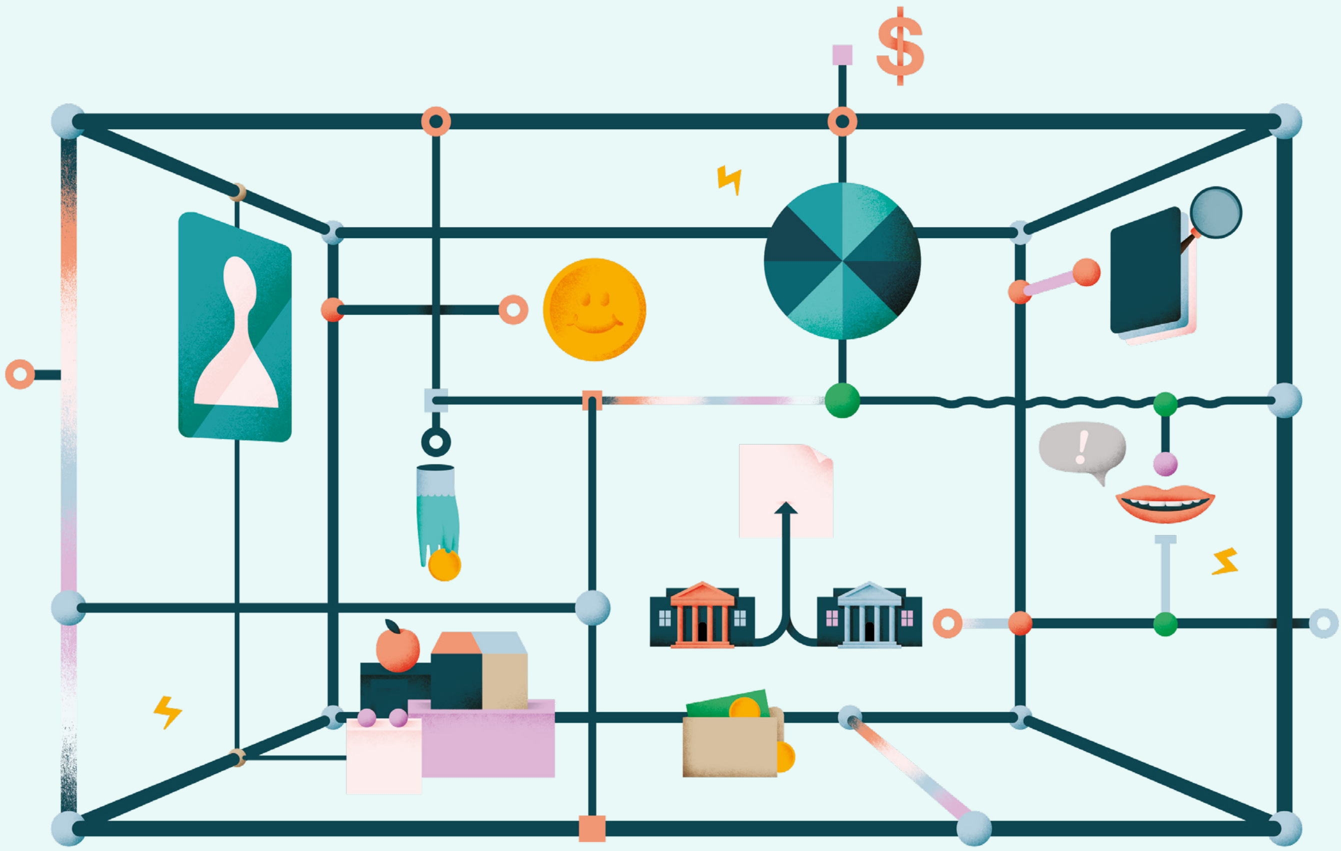


Interestingly, although 'developing better digital services' is the number one opportunity, the initiatives being considered to improve the customer experience explain how the Italian bankers hope to realise their objectives.

Rather than 'improving the design of a mobile app' — which is ranked as the least important initiative — the results from Italy show that banks prefer 'launching standalone apps with new services'.

The results also show that 'smoother customer onboarding' is the second most important initiative for the customer experience in Italy. This initiative doesn't only improve the experience with digital services, it can also offer cost benefits by moving towards a self-service model where customers can sign up to a service without human support.

Life after open banking



Do you agree with the following statements?

Italy
European Average

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

48% 56%

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

81% 64%

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

76% 61%

Financial institutions must enhance their service to attract and retain customers

86% 68%

The results clearly show that Italian banks see the opportunity that open banking presents; 81% of Italian respondents — compared to 64% on average — believe the financial industry will evolve significantly as a result of open banking.

When it comes to losing customer loyalty, Italian bankers are slightly less concerned than other countries in Europe — with 48% and 56% of respondents indicating their concerns respectively.

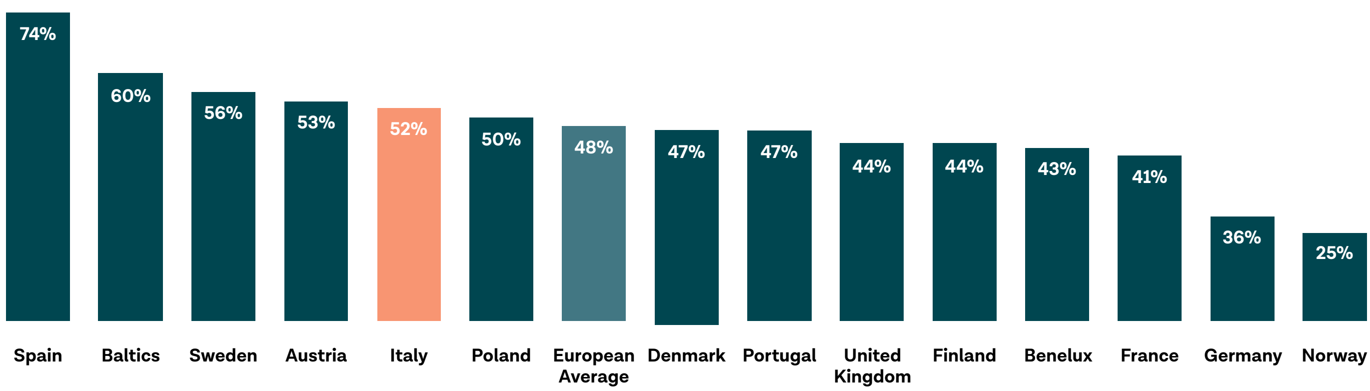
We also find that Italian banks are more convinced than any other country in Europe that financial institutions must enhance their service to attract and retain customers, and that they will need to go beyond what PSD2 demands to stay ahead of the competition.

The majority of Italian respondents (just like everyone else) agree that they need to enhance their services, and that the industry will evolve as a result of open banking. And they are aware that there are areas that need improvement.

In other words, the businesses that do not embrace new business models or shifting customer expectations are the ones that may lose out to more innovative competitors.

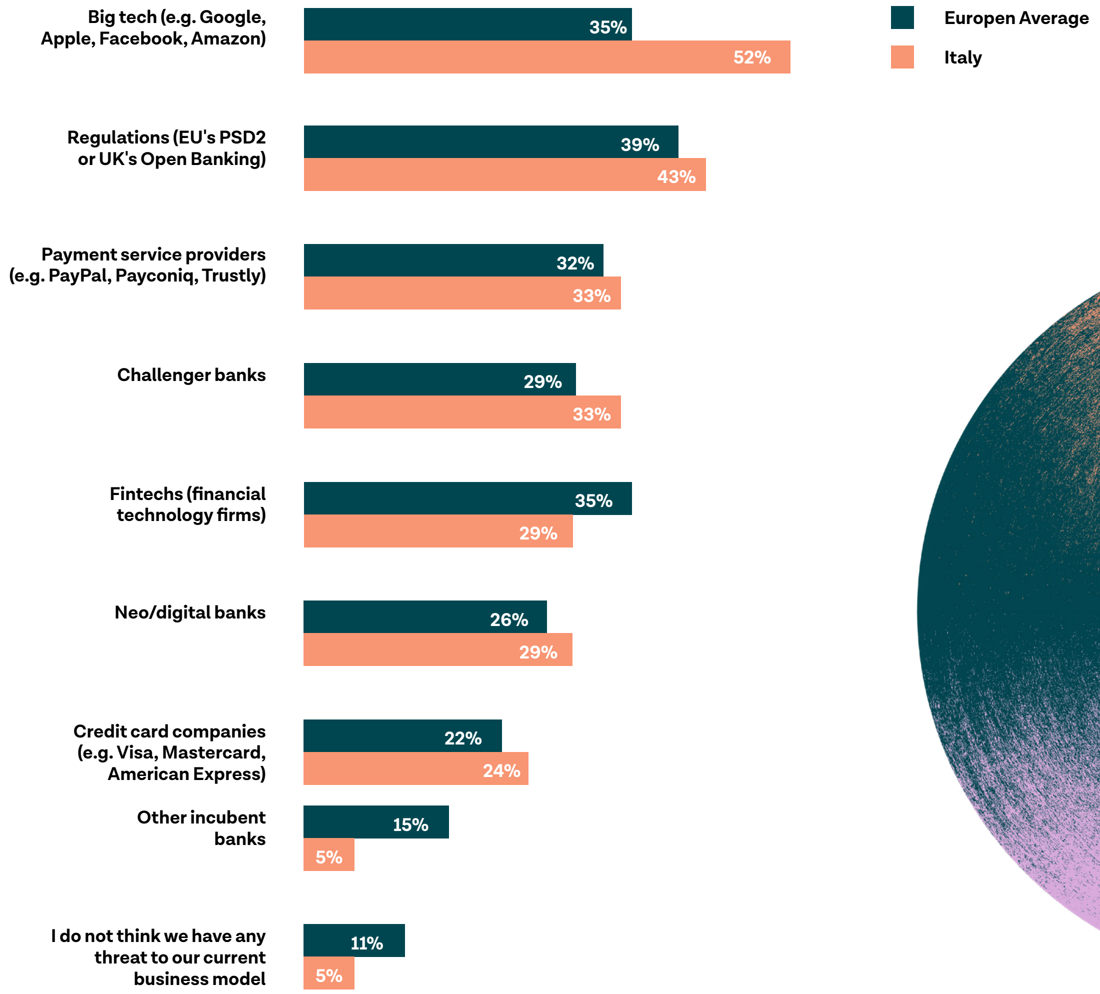
Just over half (52%) of Italian bankers are looking to reduce customer fees to match the offers from challenger banks (Figure 6). Although it is slightly higher than the European average, it appears that the banks in Italy aren't too concerned about churn. On the one hand, this is understandable because Italy lags behind many other European countries in terms of adoption of digital payments, which means that the appeal of digital-only challenger banks will be limited to a small portion of the population. On the other hand, banks that take for granted the speed at which customer expectations are changing may find themselves falling behind over the next five years as challenger banks and new market entrants step in.

Figure 6. Countries where reducing banking fees is very important



Threats:
Big tech is number one

Figure 7. Open banking threats for the business



Tink's European-wide survey report addressed how attitudes towards open banking often correlate with perceptions towards EU regulations. Those who are less positive towards open banking are more likely to consider regulations a threat to their business.

When it comes to regulations, 19% of the Italian respondents believe PSD2 'significantly encourages innovation', compared to the European average of 13%. Yet, 43% see the regulations as a threat to their existing business models (Figure 7).

This is equal to what is expressed by respondents from Germany, less than those from the Benelux (61%) and the UK (56%), and slightly higher than respondents from France (38%) and Spain (41%).

However, the most significant threat identified by the Italian bankers is not regulations, but the rise of big tech in the financial services industry — coming in at 52% compared to a European average of 35%.

Tech giants like Microsoft, Amazon, Google, Apple, Facebook, Alibaba and Tencent are among the 10 largest companies in the world, and they all owe their success to their strong, data-driven customer focus. The expansion of big tech into financial services has been a natural evolution, but it has happened in some markets quicker than others.

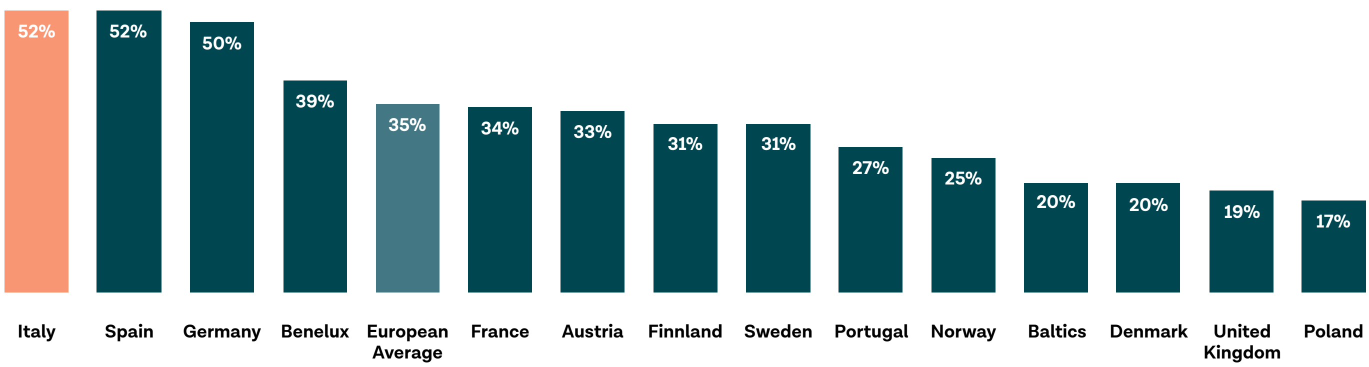
So far, most big techs have moved into finance via partnerships. In the United States (US), Google is partnering with Citibank, Apple with Goldman Sachs, and Amazon is exploring a number of different partnerships — although the big tech has abandoned discussions to launch checking accounts with JPMorgan Chase.

In Italy, Amazon has partnered with Intesa Sanpaolo to enable customers to convert their bank savings into Amazon Gift Cards with an additional 3% bonus amount.

In addition, although big techs have no ambition to be regulated like financial institutions, they are moving into the payments space. Over the past few years, nearly every big tech company has launched its own payments platform. Facebook Libra, Google Pay, Apple Pay, Amazon Pay, WeChat Pay are just a handful of examples.

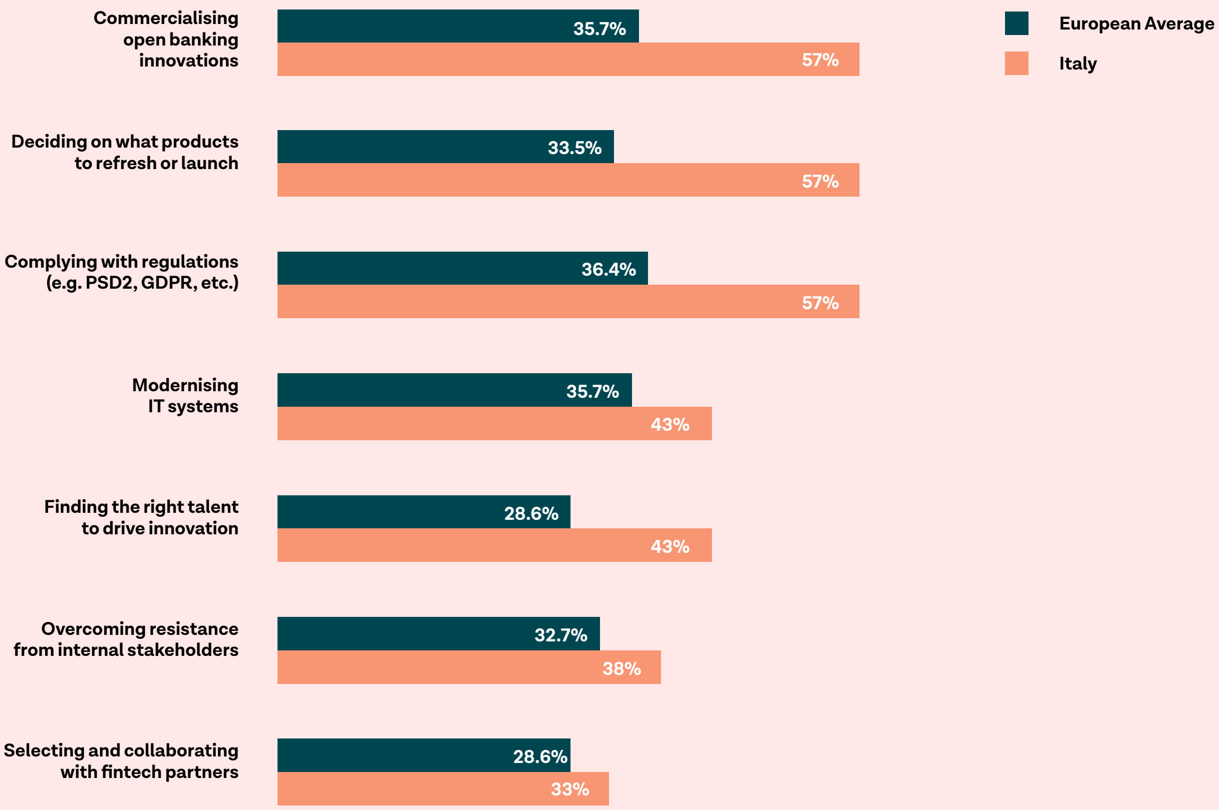
The idea that, for instance, Amazon can use incentives to encourage customers to switch their payment methods will put increased pressure on credit card transaction volume and potential interest income for banks.

Figure 8. Countries where big tech is a threat to the business



Challenge: Balancing priorities in Italy

Figure 9. Business challenges for open banking



Note: Chart shows the percentage of respondents that answered 8-10 (‘very important’).

As for the challenges, Italian financial executives are equally concerned about ‘commercialising open banking innovations’, ‘deciding on what products to refresh or launch’, and ‘complying with regulations’ — with 57% of respondents indicating all three are ‘very important’ challenges (Figure 9).

More importantly, they are much more concerned about these challenges than their European peers. The results imply that Italian banks are trying to balance priorities and are struggling to decide what to do next.

Forward outlook: Executives feeling prepared 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 Italy at 57%, rank third highest in Europe — a far step above the EU average of 48%, but behind France and the UK at 76% and 63% respectively (Figure 10).

The results should come as no surprise as the positive outlook has radiated throughout the results — and are in line with the macro trends in the country with restructured finances, a healthy economy, and ample innovation.

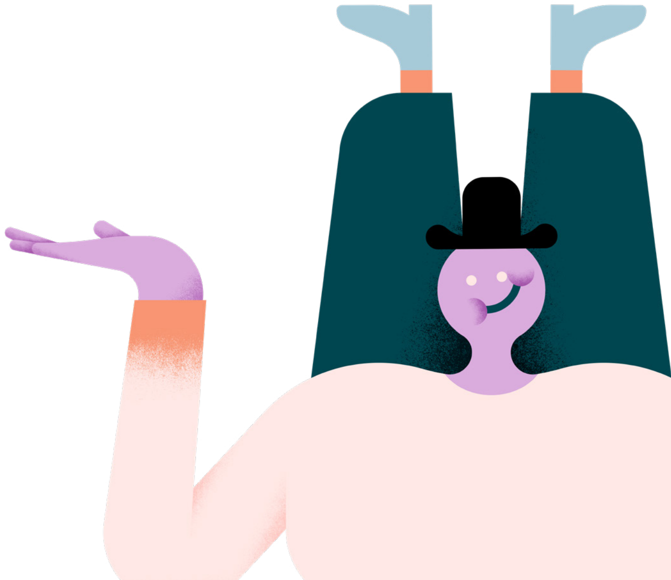
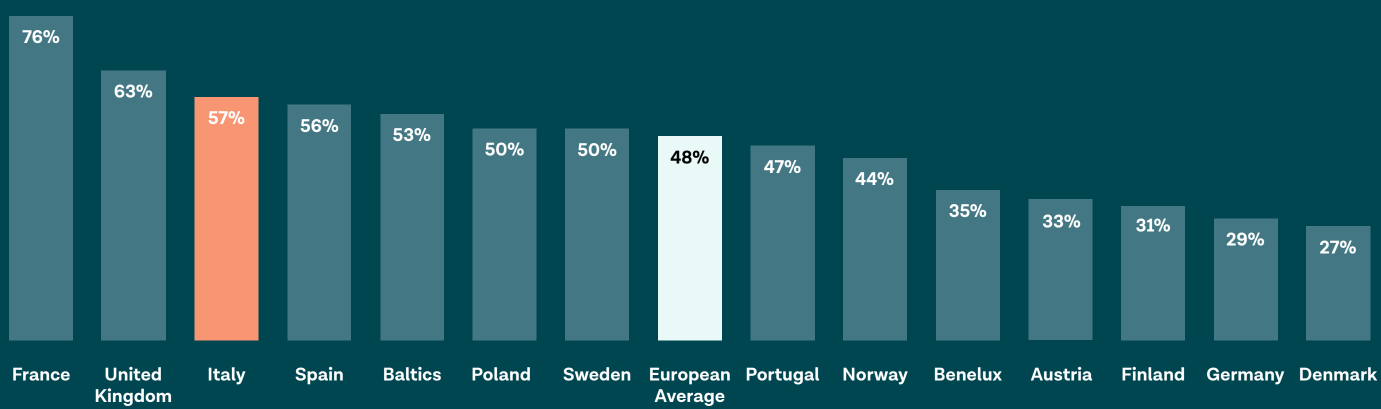
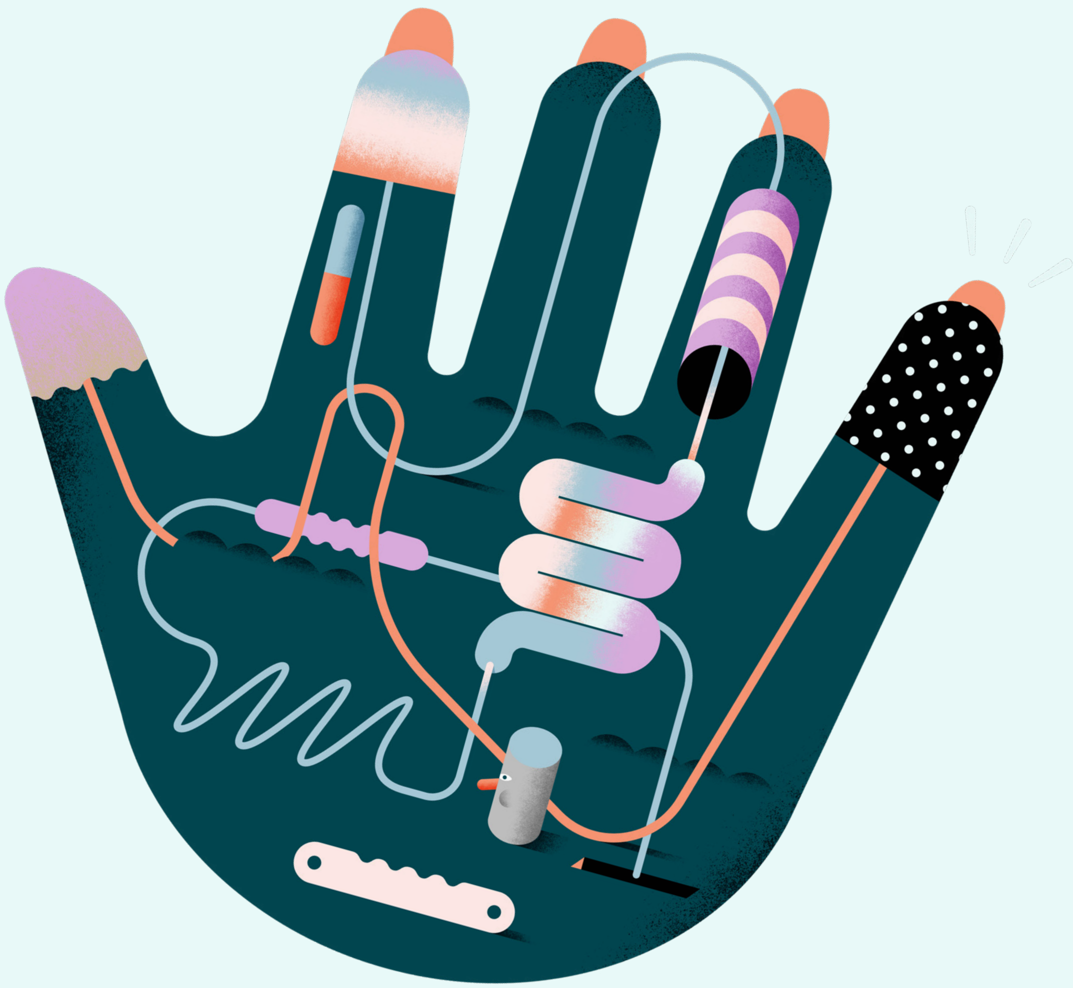


Figure 10. Countries that feel prepared for the future



Recommendation: Reaping the opportunities



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 fact that Italian bankers are feeling confident and prepared for what the next few years may bring is great. However, the Italian market has a lot to contend with, including progressive regulations and emerging big tech partnerships.

It is also about balancing the need to deliver better digital services, with the rising demand for better onboarding experiences. All of this combined with the challenge of commercialising investments, deciding where to invest, and complying with regulations makes for a difficult position.

Although the Italian bankers are generally optimistic, navigating through these turbulent times can seem like a daunting task. But finding — and paving — the way forward will be an industry-wide effort. The opportunities are within everyone's reach. So how do we get there?

After a lot of trial, error, near misses and successes, Tink has 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 results reveal.

#1

Customers at the heart of the business

Although the Italian bankers are not too concerned that customer loyalty will degrade as a result of open banking (compared to the European average), it should not be taken for granted. Responding to a fast-growing fintech ecosystem and the emerging big techs in financial services is going to be more difficult than ever.

In order to maintain customer loyalty, Italian banks should aim to develop customer-centric services and adopt key metrics that reflect, reward and reinforce customer-oriented goals.

Merely meeting customer demands will no longer be enough. Institutions hoping to stay relevant will need to rise to the challenge and exceed expectations. Think personalised recommendations, increasingly better user experiences, and frictionless interactions at every touchpoint.

#2

Anticipate customer needs

A variety of industries have already been disrupted and completely reimagined by the digital wave that is only now reaching banking. If there's one thing we've learned, it's 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

Explore new services and use cases

What the next breakout sensation might be in terms of financial apps or services is anyone's guess at this point. This is a time to look at opportunities outside of the traditional landscape. This could mean challenging current mortgage rates, partnering with other businesses to provide non-financial services, or exploring new use cases within identity management, payments or credit services.

And Italy happens to bring together the right ingredients to foster healthy innovation. With a booming fintech ecosystem that is looking to create value by accessing and initiating digital payments, banks in Italy have an opportunity to take the lead in terms of developing and launching successful open banking use cases.

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 prominent financial services executives spread across 17 countries. This report compares the European average with the responses gathered from the 21 respondents from Italy.

The participants answered questions through telephone interviews and an online questionnaire, which was translated into 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.

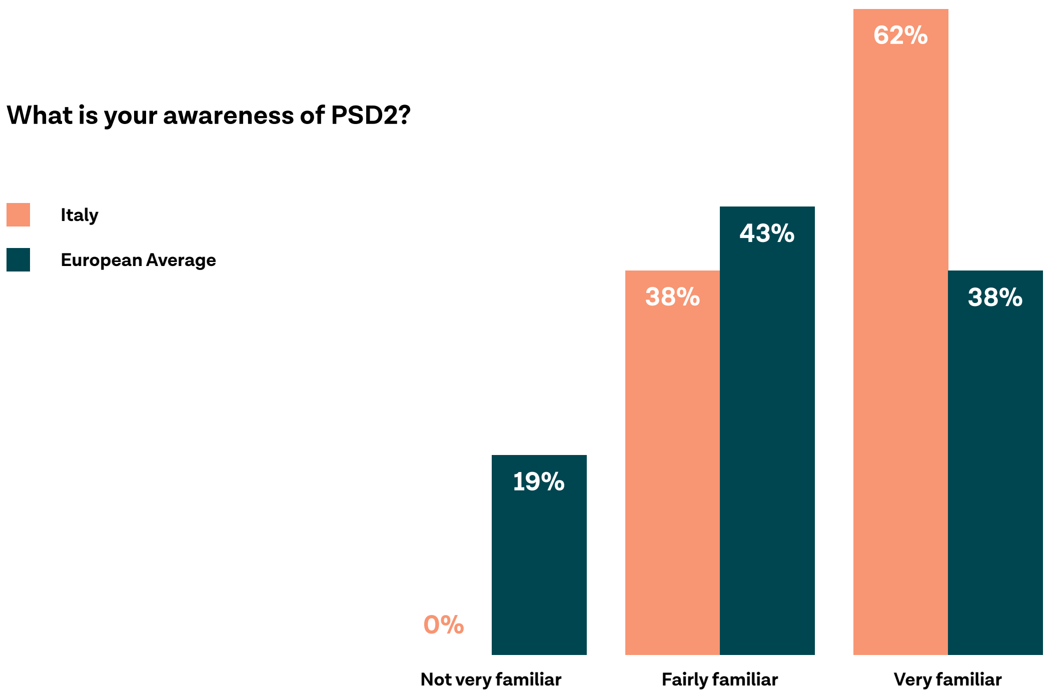
Out of the Italian participants, 52% are either C-level executives and 14% are head of a department or function, 24% are director-level respondents, and the remaining 10% are product owners.

Looking at the distribution by business function, 29% are working in management and the same percentage in (digital) strategy — and 24% in an IT or technology division. The rest are working in either mobile banking or product-related departments.

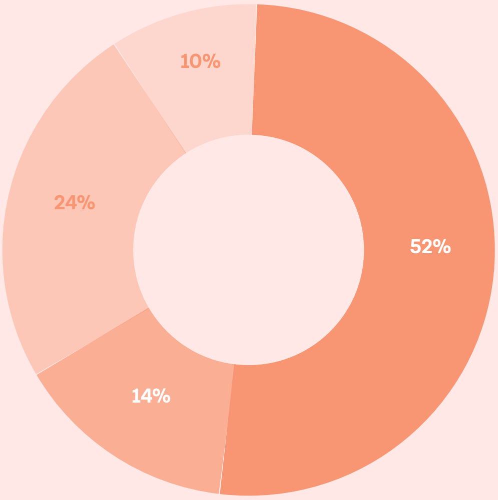
All of the Italian respondents are decision makers, although just under half (47%) indicate that they are solely or ultimately responsible for decisions when it comes to matters related to digital innovation.

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

What is your awareness of PSD2?

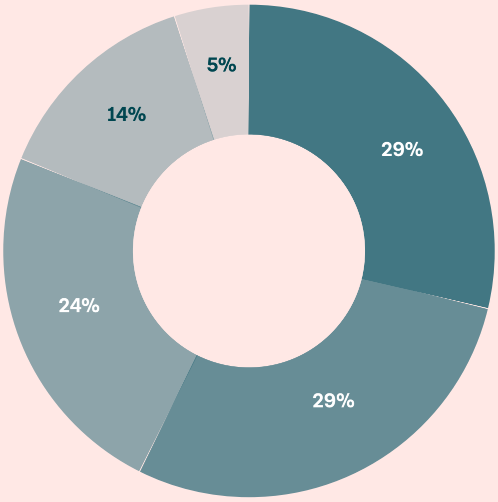


Which of the following best describes your position within your organisation?



- C-level (e.g. CEO, CIO, CDO, CTO, CXO)
- Head of department or function
- Director
- Product Owner

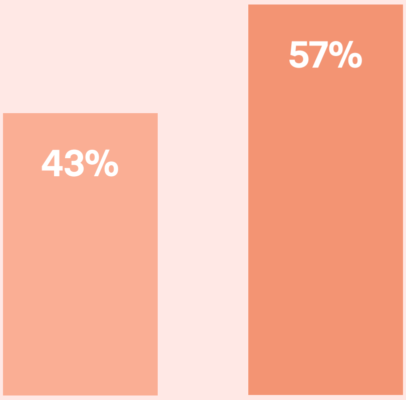
Which of the following functions do you work in?



- Management
- Strategy/ Digital stratehy
- IT/Technology
- Mobile banking
- Product

Which describes your involvement in decisions regarding digital innovation?*

- I am the person with sole or ultimate responsability for such decisions
- I am one of a group of people who make such decisions



*Other possible responses were "I have at least some influence over such decisions" and "I have no responsibility for or influence over such decisions", but none of the participants selected these options.