Open banking 2019:

Inside the minds of Europe's bankers

Tink's key findings and insights from our European survey of nearly 270 financial executives. Learn what they see as the threats, opportunities and challenges this open banking movement presents – and what it means for the industry in 2019 and beyond.

tink

We asked, they answered. Across 17 European countries, financial executives shared their positive attitudes about open banking; the threat posed by regulation; and the focus on customer experience that will reshape financial services.

In May 2019, we surveyed executives in the following countries:

Austria
Belgium
Denmark
Estonia
Finland
France
Germany
Italy
Latvia
Lithuania
Netherlands
Norway
Poland
Portugal
Spain
Sweden
UK

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Open banking gets the green light

55%

are somewhat positive or very positive towards open banking

More than half of the respondents (55%) are positive about the open banking movement – with 17% saying they are “very positive” and 38% saying they are “somewhat positive”. Just 15% indicate a negative attitude about open banking.

The top three open banking challenges:

1. **Modernise IT systems (36%)**
2. **Comply with EU regulations (36%)**
3. **Find the right talent (36%)***

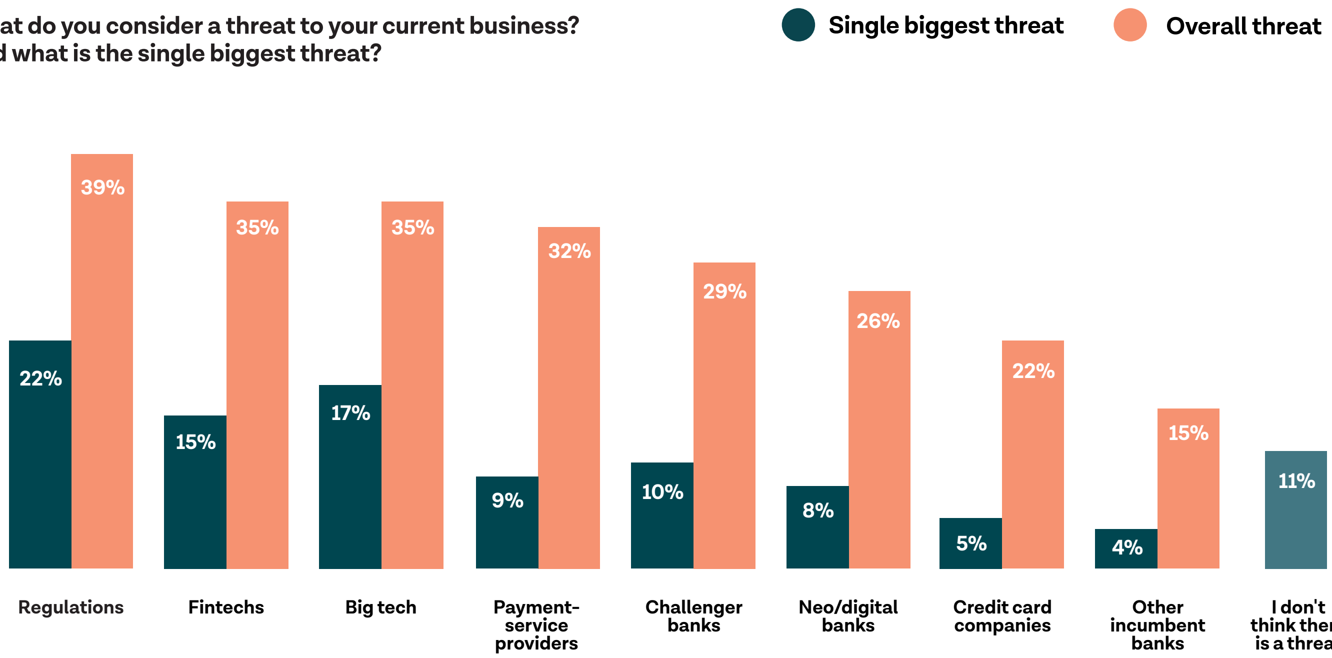
Believe regulations encourage innovation

41%

*Yes, it's strange but all the numbers are the same.

About 2 in 5 respondents regard regulations – such as PSD2 – as the biggest threat to their business model. Technology companies are also a concern. Just over a third say fintechs and the same proportion say big tech are threats.

What do you consider a threat to your current business?
And what is the single biggest threat?



The top three open banking opportunities:

1. Develop better digital services 46%
2. Increase customer personalisation 44%
3. Reduce costs of customer acquisition 38%

While just over two in five respondents feel regulations encourage innovation, a sizeable minority think the opposite is true.

Believe regulations hinder innovation

26%

Opinions as varied as nations

Looking at the country-level data, the conclusion we can draw is: there is no consensus on open banking in Europe. The responses to questions like "is it an opportunity?", "is it a threat?", "how positive are you towards open banking?" are as different as the countries answering the survey.

Financial executives in Finland and Sweden are the most optimistic about open banking, with 75% and 69% respectively saying they are positive towards the movement. Austria, the Baltics and Poland followed, where two-thirds of respondents are also ready to embrace the opportunities of open banking.

However, the most neutral and negative responses come from Portugal, Denmark, Germany and the United Kingdom.

The attitudes towards open banking correlate with their perception about EU regulations. Respondents that are not as positive about open banking are more likely to consider regulations like PSD2 a threat to their business.

This feeling is the strongest in countries like the United Kingdom, Germany and the Benelux nations of Belgium and the Netherlands – places in which there has been significant resistance and political debate about open banking regulations.

On the other hand, Nordic countries like Denmark, Norway, Sweden and Finland feel the least threatened by the legislative changes.

When asked about the biggest opportunities of open banking, financial executives from almost all of the countries rank "develop better digital services" as the most important one. The only exceptions are respondents from Finland, the United Kingdom, Spain and the Benelux nations, who rank "increase customer personalisation" as the biggest opportunity.

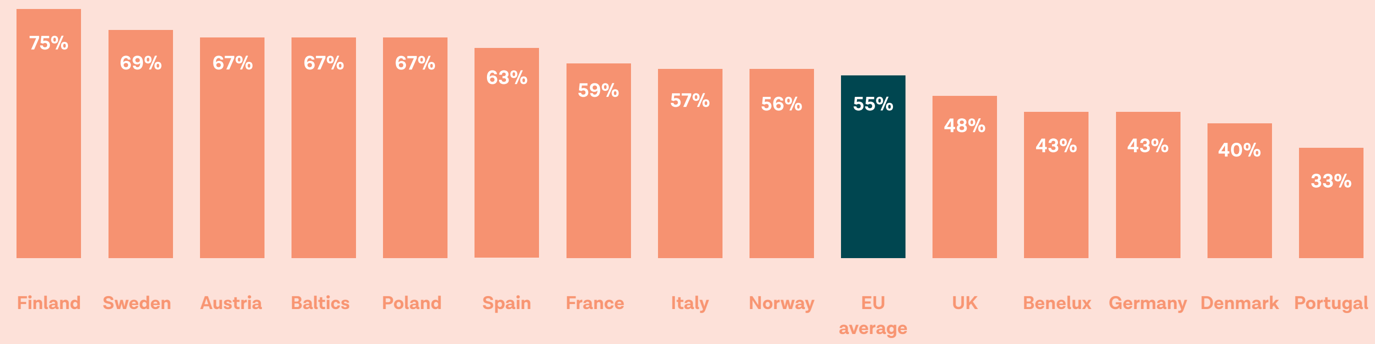
But open banking does pose its challenges. A major one for executives is modernising their legacy IT environments – especially in Spain, the United Kingdom and Italy, where they say it's their biggest challenge. The survey results also show that the same three countries face a significant shortage of talent to drive digital innovation for their organisations.

Looking to the future, financial executives across most European countries have already taken important steps to form partnerships with open banking tech providers.

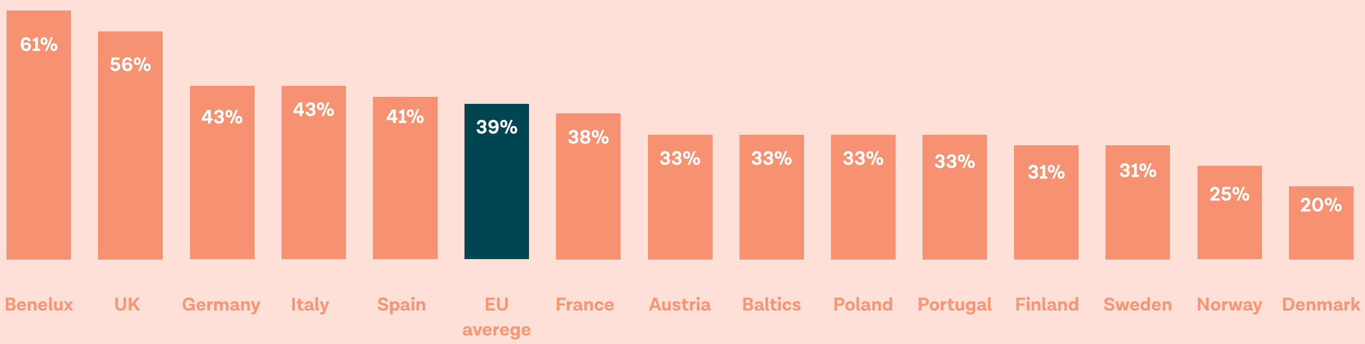
The countries in which we found the fewest financial institutions with a partnership are the Benelux nations (4%), Germany (11%) and the Baltics (13%), which include Estonia, Latvia and Lithuania.

Finally, in a discussion about the importance of initiatives related to improving the customer experience, nearly all countries say "improving the onboarding experience" is the number one priority.

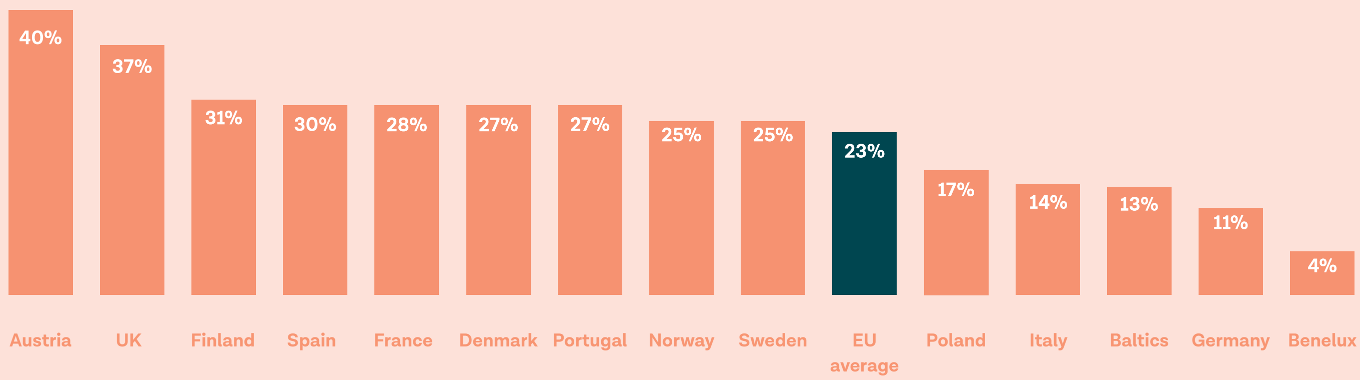
Most positive opinions towards open banking are found among the Nordics



Biggest markets see open banking regulations as a threat



Austrian financial institutions have the most fintech partnerships



Shifting attitudes

A majority of financial executives say they are positive about the open banking movement – representing a considerable shift in attitude in just a few years.

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If you can't beat 'em – join 'em

Our survey of financial executives in Europe shows that their attitudes towards open banking have shifted significantly in the last couple of years. What used to be an active resistance to regulation and a movement that opens up the market has turned into acceptance – not only that the trends towards transparency and innovation are here to stay. But that they will fundamentally change the financial industry.

64%

believe the financial industry will significantly evolve as a result of open banking

Looking at recent history and how we got here, the protective attitudes of Europe's financial executives is not surprising. But their quick turnaround is.

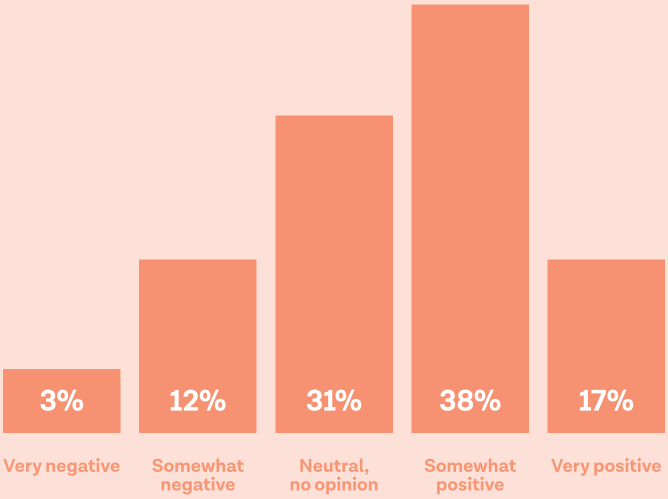
The first payment service directive (PSD1) enforced in 2007 was initially quite simple: simplify and harmonise payments in the EU. It was a development welcomed by bankers at the time because it provided the foundation for a Single Euro Payments Area (SEPA), which streamlined bank transfers.

But the revised payment service directive (PSD2) is different. It's changing the game – and even the way the playing field looks – allowing new players to enter the market by democratising access to the customer data that the banks once solely held onto. These new entrants are not just coming from fintech and big tech. They're also coming from other industries like telecommunications, utilities, retail and more.

With PSD2, virtually any third party can decide to deliver financial services as a broker, a platform or a marketplace – without a banking licence. If they want to aggregate financial data and initiate payments on their customers' behalf, they simply apply for an Account Information Service Provider (AISP) and/or Payment Initiation Service Provider (PISP) licence.

All of this means that banks are now legislatively required by their own governments to make huge investments in order to give these new players a chance to compete. So it's no surprise they would resist losing the dominance they once enjoyed in the market.

But their mindset has shifted significantly in the last couple of years. Instead of seeing this industry change as a threat – which was the consensus just a couple of years ago – financial executives are recognising that open banking could be good for business, good for customers, and good for society.



*Numbers don't add up to 100% because of rounding.

55%

of respondents are somewhat or very positive towards open banking — just 15% indicate negativity towards open banking

A data democracy

The aim of the PSD2 regulation was a good one – to add a level of transparency and governance that was out of scope for PSD1. Despite what the critics might say, it's empowering and protecting consumers who choose to share their financial data.

In the past year, this shift in attitude has accelerated significantly. The industry is facing a tidal wave of change that is starting to reshape how financial services are delivered – and the ways in which consumer data is used to revolutionise personal finance.

EU regulators have rubber-stamped the transformation. The technology that allows third parties to aggregate customer data and initiate payments on their behalf is broadly available. And now in 2019 – as banks launch open APIs to meet the requirements prescribed by PSD2 ahead of the deadline on 14th September – we've officially entered a data democracy, where customers have the power to share their data with anyone they choose.

Perhaps better than anyone else, financial executives know this is where the future is heading, and they want to be on this freight train – not standing in front trying to stop it.

The threat of open banking

Not everyone is as positive about open banking. Our survey found that a minor 15% of respondents say they feel negative about the open banking movement.

More than one-fifth (22%) of respondents say they see the movement as a threat – not just to business but also to customer data privacy, security and integrity – rather than it being a catalyst for consumer empowerment.

Our survey results show that financial executives who are negative about open banking are also:

1 **26% more likely to believe that European regulations hinder innovation**

2 **17% less likely to have an open banking technology partnership within 12 months**

Tink thinks:

PSD2 doesn't go far enough and we have a long way to go before the industry is fully regulated; there are still too many grey areas. Perhaps some of the open banking developments in Australia can provide Europe with inspiration for a potential PSD3.

Interview with Christian Clausen

Senior adviser at Tink, former CEO of Nordea and former chairman of the European Banking Federation

Why we spoke to him: Christian knows how CEOs feel better than anyone, with first-hand experience running a bank and mitigating internal/external challenges.

What he's known for: Leading with an astute eye for driving change and social responsibility.

> "Banks moving to a new business model is not a strategy; it's above strategy. It's more important than anything else a bank will do."

How do bankers perceive the open banking movement?

Their attitudes have changed a lot in the last few years. Not long ago, they were negative towards open banking, and working against opening up. There's been a shift to a more positive attitude about the opportunities. Now the question is: how do you attack it and adjust your business models?

What should banks be focussing on in order to thrive?

There are two real themes going forward. The first is relevance. All banks have accounts, but making them relevant is when you put content into context. If it's relevant, customers will go to their banking app and use it. If it's not, your customers will go somewhere else.

The second is that banks need to make it possible to become a platform for their customers, something you go into by default every day, instead of just being a financial app.

What else do banks need to think about to transform digitally?

They need to build a culture that will allow them to think about the business model of the bank as a platform and not a physical thing. Open banking is only part of the equation. Banks are moving from an old model with old systems to a fully digitalised platform.

What will the tipping point be in banking?

The big shift will be when one of the big banks moves in the direction of creating a platform. Then it's obvious what the others will do about it. But it's not happening overnight, and there's no cookbook for getting it right.

Banks have to move and start trying or they will fail. They need to digitalise and build on the successes they get.

What's your advice for bankers?

Whether you like it or not, open banking is happening. You'd better join the party or you'll be left outside, and you'll lose your customer interface. And most banks are taking steps that move them in the right direction.

The un-comfortable truth

Financial executives open up about the biggest threats to their current business models. On the list? Fintech, big tech and EU regulation.

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The 800-pound tech gorillas

It's something that most financial executives have acknowledged – either publicly or privately – at some point in the last year; the scary and uncomfortable truth that now any player with enough digital competence can move into the financial services industry and gain market share.

35%

see big tech and fintech as a major threat, ranking it as the second- and third-biggest threats to traditional business models

The financial executives we surveyed named big tech and fintech as a top threat. These challengers are businesses that could permanently change the paradigm of an industry that traditionally has not had an incentive to innovate, not had the technology available to create digital services, and thus not been able to gain new customers they might have deserved.

About 17% of respondents called out big tech – the Googles, Amazons and Apples – as their single biggest threat. These firms already have the customer relationship, user base and brand recognition across verticals.

With a view that customer data is their most valuable asset, they have found ways to convert it into meaningful services. And they're all moving into financial services – raising the risk that they could take full charge of the customer journey.

Then there's fintechs, which were named by 15% of respondents as the third-biggest threat. Fintechs are unbundling financial services, and offering them in a way that's more seamless and compelling than what customers are used to getting from high-street banks.

On top of that, the EU is forcing the banks to give these players access to the most precious assets they have – the source of their competitive advantage for the past few decades: customer data.

It is the most uncomfortable of truths – banks being forced to compete in a race they didn't particularly want to run, and embrace a future that will radically shift the way their business operates.

A booming new ecosystem is being created where the competition for customers is fierce. New players don't have to contend with the legacy systems, dated business models and overheads that a bank does. They run at a much lower operating cost, and deliver services that are more aligned to digitally native consumers.

It could be a challenger bank that offers the same service as the banks, but with a better user experience and friendly demeanor. It could be a retailer that allows consumers to pay for goods without pulling out their wallets. It could be a telco that offers a 100% mobile bank, with free services and 24/7 support.

Our survey results show that in the immediate future – the run-up to September and beyond – banks are confronting an urgency that comes from two sides: the consumers and compliance.

Loyalty will be lost

From a consumer perspective, the service they get has become far more important than the financial institution that delivers it.

After September, the cost for a consumer in terms of time, resources and effort to switch from one bank to another (or to any third party) will be low. They will be able to authenticate access to their bank and aggregate all of their financials in one place. And they can use payment initiation to move capital from one account to another in seconds, rather than days or weeks. In short, they get a more seamless, digitally native experience – at a better price.

To a consumer, it might not matter who delivers the service, as long as it's the one most relevant to them. It could be a core reason behind this data point from our survey:

56%

believe consumer loyalty towards banks will be significantly reduced

It creates a tangible sense of urgency that unless a bank can deliver these relevant experiences, they will see a drop in loyalty – and potentially lose their customers.

A potential remedy to this reality could be the following strategy, which nearly half of all respondents report using:

48%

are actively trying to reduce banking fees associated with accounts

Incentivising customers to stay with the bank by matching the low fees offered by challenger banks, neo banks and fintechs is one of their short-term strategies.

The biggest threat of all: regulation

There's another uncomfortable truth – and it has to do with the PSD2 regulation. Because while it's clear what the banks need to provide in order to comply before the September deadline (a dedicated interface for third parties to access current account data) it's still not entirely clear how they should do it.

That lack of clarity and the debates around how to comply – just months away from the deadline – could be a contributing factor to the finding that two in five respondents see regulations as the biggest threat.

39%

see regulations as the biggest threat to their business

36%

say complying with regulations is a major open banking challenge

The deadline of 14th September is not only the day for all European banks to have a working dedicated interface that third parties can use to access data from customers' current accounts. It's also the date for them to have implemented the Regulatory Technical Standards (RTS) on the security elements of PSD2 – namely having two-factor authentication for customers, as well as ensuring secure communication.

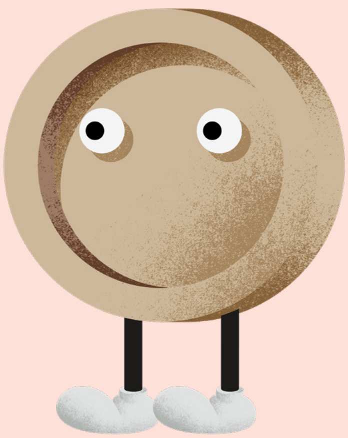
Unfortunately, while EU regulators had some specific aims for PSD2 – promoting innovation and enhancing consumer protection – the directive itself is vague. For many organisations trying to comply, the trickle-down effect has been frustrating.

The European Banking Authority's (EBA) interpretation of the PSD2 directive – the guide for all EU member states when turning the regulation into national law – simply outlined what the interface and the security elements needed to support, but not how. Instead, the EBA has required the banks to sit together themselves to decide what it looks like in practice.

But it's not working. Essentially, the banks have been told they need to build a bridge – except they've never seen one before. Taken back into the context of PSD2, they've seen APIs before but they're not sure what their APIs should look like for external use or the supporting environment around it.

Add to that another element: third-party providers are clamouring for access to the test environments that banks were supposed to provide by 14th March deadline. Unfortunately, the interpretation that most banks have made so far, about the functionality to provide in the dedicated interfaces, hasn't met the expectations of the third parties.

Ultimately, the banks want to succeed in complying with the regulation. The penalties are stiff if they don't; in the worst cases they could face prosecution by local governments for limiting third parties. But moreover, they risk having to make even larger investments and losing competitive ground by not complying.



The race to September

Despite seeing regulations as the biggest threat to their business, an overwhelming majority of financial executives are relatively confident they can meet the PSD2 deadline in September. But there's mounting evidence it might be a bigger challenge than they're letting on.

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With the September deadline just months away, there is a light at the end of the tunnel. The executives we surveyed say that despite the challenges, and seeing regulations as a threat, they feel confident about meeting the deadline.

91%

are relatively confident they can comply with PSD2 regulations. Only one fifth (18%) are very confident.

The race to September is two parts: successfully comply with the regulations; and start looking ahead to the opportunities open banking presents to create better experiences on par with the competition.

Confidence in compliance

Banks have had about a year and a half to prepare their organisations for compliance, and build the dedicated interfaces that third parties will use to aggregate current account data and initiate payments on behalf of consumers. Now in the final stretch, the banks are grappling with the last technical and tactical challenges of rolling out these environments.

But despite the confidence conveyed in our survey results, there is evidence that meeting the requirements of PSD2 will be a significant challenge – with a cascade of deadlines coming in the next few months.

For starters, we observed that 41% of European banks in 10 major markets missed the 14th March deadline to give third parties access to a testing environment or "sandbox", so they could start testing the banks' API connections and integrate them into their services.

Then there's the 14th June deadline for banks to release their production-ready APIs to third parties, the stable and permanent connections that will offer access to customer data. Finally, there's the 14th September deadline, when all banks need to have implemented two-factor authentication and secure communication for their customers.

Investing in the fallback

Even if banks do meet the deadline, there is an additional investment needed – a fallback mechanism. Every bank is required to prepare a way for third parties to access the banks' customer-facing interfaces in the event that the bank APIs break down.

But in order to avoid having to roll it out, they need to apply for an exemption from their national authorities. If they get it, they don't have to release the fallback. If they don't get it or if the quality of their open APIs is poor, they will have to create the fallback environment.

This all highlights that despite deep pockets and plenty of resources, the demands of PSD2 are monumental. Not only do the banks have to meet the regulatory deadlines, but they also have to start looking ahead to how they'll innovate and win new customers.

Preparing for a post-September world

As the last regulatory deadline approaches, banks are already turning their focus towards the development phase that comes after September – and answering the biggest questions on their tables. Like how to build compelling digital products. How to monetise the data that can now be captured. And how to use this opportunity to increase revenue – and beat the emerging competition.

In a nutshell, it's the "what's next" question.

Generally, the banks have two choices. The first is to stop at compliance and allow the status quo to continue, where third parties aggregate consumer data and initiate payments using the banks' customer interfaces. That means third parties will also continue to screen scrape banks' online services or reverse-engineer banks' mobile APIs.

But that's a status quo in which the banks have no control. What's worse, they won't know which third parties are accessing their interfaces. The "comply and move on" tactic takes banks back to a pre-PSD2 reality.

The second option is to use the momentum gained from PSD2 compliance as a springboard – shifting their focus towards embracing the possibilities of open banking technology, and developing a great customer experience. Though this might sound like the musings of an idealistic fintech, our survey of European executives shows they agree.

41%

believe regulations encourage innovation

Embracing the technology

While the challengers and fintechs have led the way in innovating better customer experiences, the incumbent banks have all the same opportunities to operate in the same way.

Account Information Services (AIS) and Payment Initiation Services (PIS) are at the heart of open banking and the PSD2 legislation. Banks can also choose to perform these services – delivering on consumer expectations and offering a holistic overview of their finances that gives them better control.

For both large and small institutions alike, these two capabilities are at the top of their agenda. The technology to aggregate data would allow a small credit institution to create a better risk profile, and offer credit at a lower rate.

For a large institution, the combination of AIS and PIS would allow them to offer services to customers across Europe, no matter their home market. It's technology that erases borders across countries and continents – and the fixed markets that came with them.

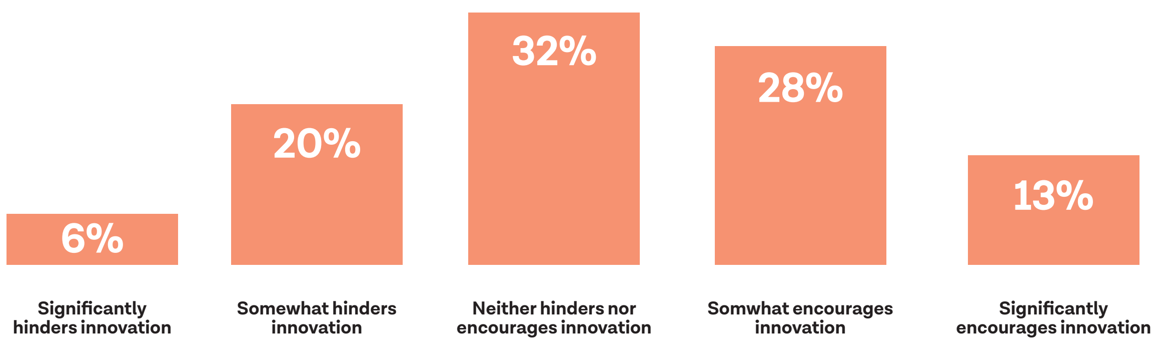
Relentlessly focussing on customers

At the core of open banking tech is the ability to access valuable data and leverage its power to deliver relevant services that offer better visibility, better understanding and more control – for both businesses and consumers.

Given the uncomfortable truth our survey revealed – **that 56% of financial executives believe customer loyalty will degrade over time** – the only way to have a sustainable business going forward is to remain relevant and build customer loyalty.

Banks have not had the incentive nor the access to technology in order to get the customers they might have deserved. But now they have an opportunity to relentlessly focus on them, build their relevance and become attractive for new customers.

Do you feel EU regulations like PSD2 hinder or encourage innovation in the financial industry?



*Numbers don't add up to 100% because of rounding.

Accessing tech & talent to survive

Financial executives reveal the urgency they feel to find the right fintech partnership, which can help them overcome two of their biggest technological challenges related to open banking.

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Tech challenges top the list

36%

say that modernising their IT systems is their biggest open banking challenge

One of the driving factors for us in commissioning this survey is a deep curiosity about what Europe's financial executives see as their biggest open banking challenges. While we assumed that "complying with regulations" would be a significant one – and it is with over a third citing that as a main challenge – the two reasons that top the list revolve around technology.

In fact, overcoming the technology hurdles inherent in open banking – like modernising IT systems and finding the right talent to drive innovation – are their number one and two challenges.

It's not likely to be a surprise that the executives have identified these two challenges. After all, the open banking movement is forcing the incumbents to reconcile an entirely new state of play – one without legacy business models, legacy tech and legacy thinking. Even cash is quickly becoming a chapter of the past.

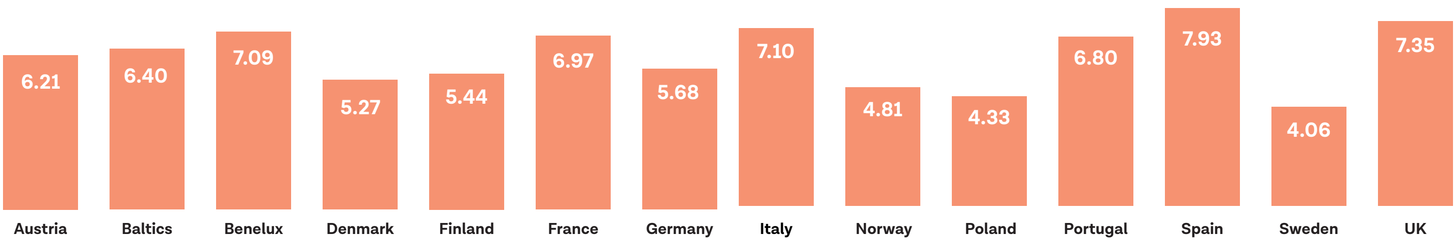
Banks are undergoing – or are at least embarking on – major organisational, technological and cultural transformations inside their organisations. All three are interlinked in many ways, and all connect back to executives' biggest challenge: modernising their IT systems.

Now incumbents have to accept that their businesses are about collaborating with third parties – fintechs, startups and even other banks – and providing them with interfaces so they can access the data the banks once held onto all on their own.

But they're also realising that with the right tech and talent, they can begin to offer their own customers these same services – or perhaps better ones.

On the next page, ABN AMRO's Chief Digital Officer talks about the journey his bank has been on to embrace the transformation within a large incumbent organisation.

How financial executives rank the challenge of modernising IT systems, on a scale of 0 to 10 – where 0 is "not a challenge" and 10 is "a major challenge":



Benelux: Belgium and the Netherlands | Baltics: Estonia, Latvia and Lithuania

6.36 is the European average

Interview with Frank Verkerk

Chief Digital Officer at ABN AMRO

Why we spoke to him: ABN AMRO is one of Tink's first bank partners, and Frank heads up their digital bank. **What he's known for:** An expert in digital IT development, fintech partnerships and digital innovation.

> **"We think it's important to listen to customers and really understand what they want, and totally reinvent our business and business models."**

Why is partnering with fintechs better for your customers?

We decided at an early stage that the rapid change in customer behaviour is at the core of our compass, and decided that partnering in all forms allows us to respond faster to changing demands and be more productive. I foresee that we will speed things up even more.

Are banks getting inspired by fintechs?

I'm sensing that in the short term, all the big financial institutions and retail banks are looking to deliver the most compelling customer experience – on par with the competition from digital banks and neo banks – with the personal finance management (PFM), payment requests and the multi-bank features we expect.

How should banks adapt to get the most out of their partnerships?

It's a two-sided model. If you want to partner with fintechs and other talents, one of the things you expect is that it will increase innovation. But this will only happen if you change on the other side too. The incumbent banks who partner with fintechs need to work to become more innovative. The fintechs can't do that all by themselves.

You can talk about talent and innovation on the fintech side. But if you don't have the talent and innovation yourself, you won't recognise it. We have been on this road for four to five years. It means a big change on the side of the bank that wants to partner with fintechs. You have to change yourself to really partner.

What does the transformation look like within a big bank?

The transformation of a bank the size of ABN AMRO takes a lot of measures. When it comes to tech development, we needed to move towards an agile and scalable approach, so we can become flexible on a large scale. This means working in smaller teams and having high mandates.

That's one of the changes that helps us be better prepared to deliver better software ourselves. And it helps if you've broken down your way of working, so then you can effectively work with a fintech. I have never met a fintech with a complicated governance model.

Most are partnering to prevail

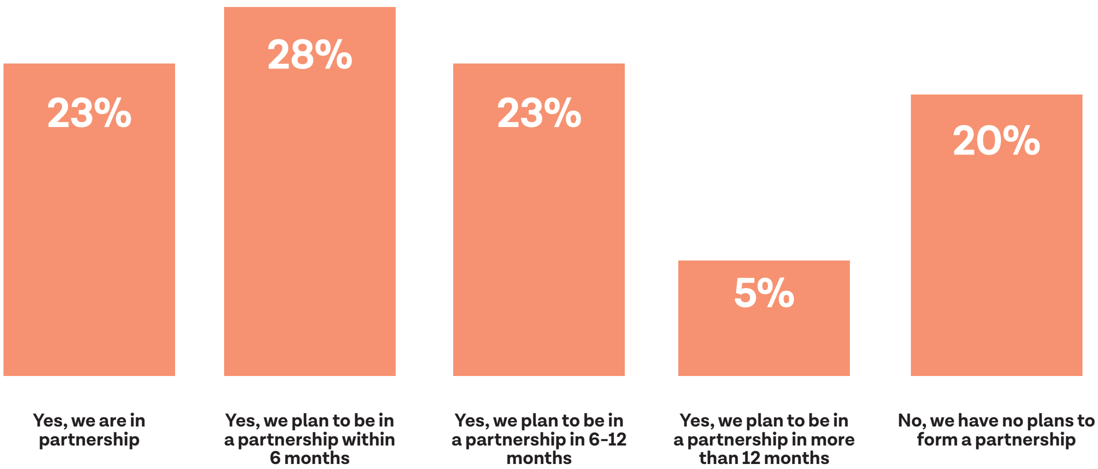
Banks are working to overcome their legacy, in part by teaming up with fintechs that are uniquely positioned with the right talent and resources to foster innovation. Our survey results show that banks realise the value of these partnerships, and feel a sense of urgency to create the right ones.

The banks also know they can't outsource the kind of talent they need. It's expensive, impractical and interim. To truly drive innovation inside the organisation, they know that finding the right talent needs to be core to their banking strategy.

74%

of financial institutions are in a fintech partnership or are looking for one in the next 12 months

Are you already or do you plan to partner with a fintech to access open banking tech?



38%

are partnering with a fintech to access talent

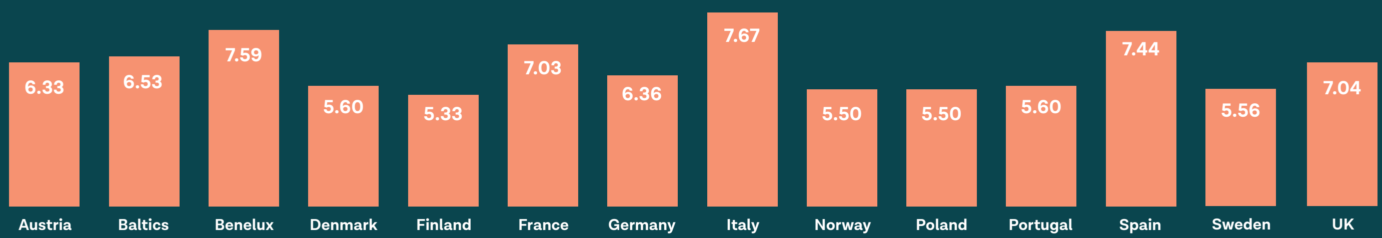
Despite the September deadline, the immediate focus for any bank is the digital transformation on which they're embarking. A new generation of skills will be required to deliver digital services that meet consumers' expectations. This means fewer financial experts and MBAs; more programmers and developers.

Many banks have already made significant investments in acquiring those skills through M&A. BBVA, for example, acquired big-data startup Madiva all the way back in 2014. One reason is that it's impossible to hire talent at the speed the industry is growing.

36%

of financial institutions have significant trouble accessing talent

How financial executives rank the challenge of finding the right talent to drive innovation, on a scale of 0 to 10 – where 0 is “not a challenge” and 10 is “a major challenge”:



6.56 is the European average

In the short-term, organisations will be focussed on complying with the PSD2 requirements to provide access to current account data. Another part of the near-term strategy for many banks is to innovate so they can deliver a better customer experience. And a fintech partnership can help them fast-track this.

In the long-term, banks need to transition from a bureaucratic and siloed organisation to one that is more agile, working in smaller teams with higher mandates. One that has an open perspective on technology. And one that puts the customer at the core of its organisational strategy – from the boardroom all the way to the basement.

Partnering with a fintech can offer an opportunity for a bank to deliver on all of these needs – and achieve the cultural, technological and organisational transformation required to survive in an open banking world.

Benelux: Belgium and the Netherlands | Baltics: Estonia, Latvia and Lithuania

“The banks doing digital well are the ones that are not treating tech as a function owned by the Chief Innovation Officer. Digital is deployed throughout the business and sits in agile working groups in every business area.”

Chris Skinner, independent commentator, blogger and author

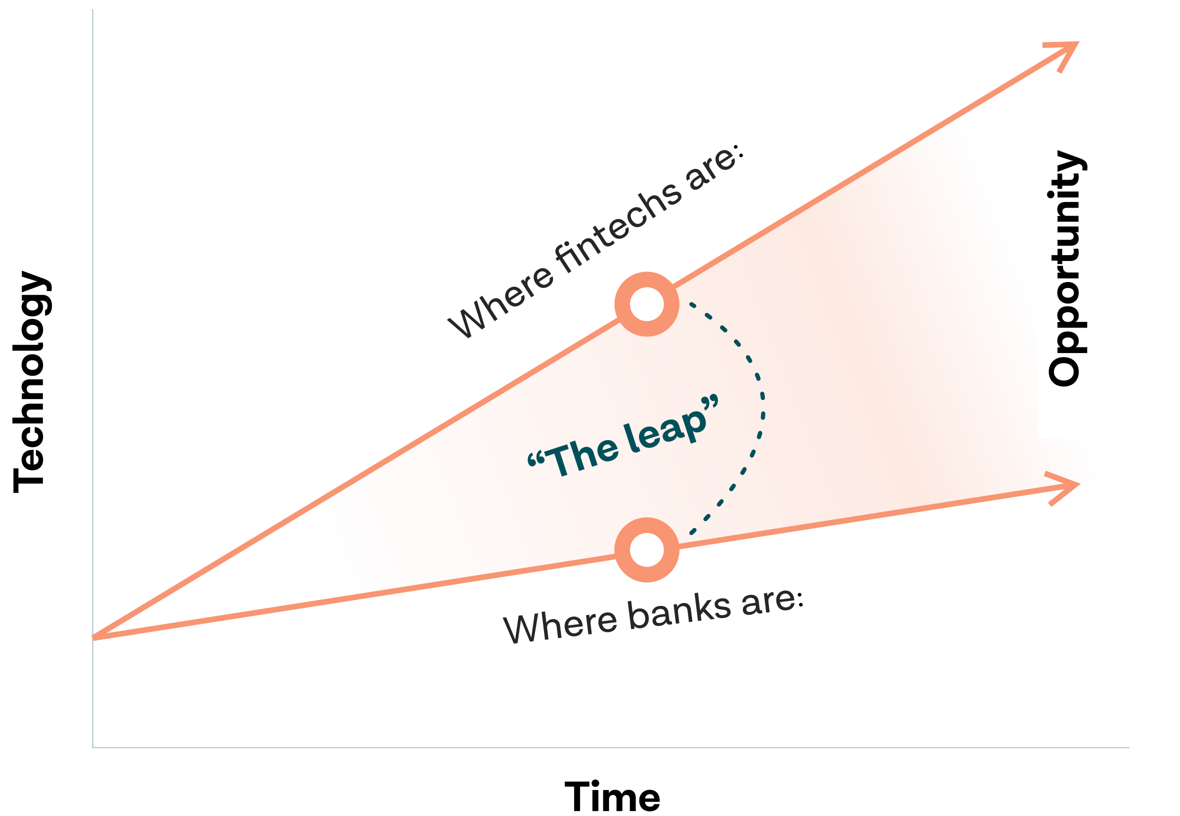
Leap-frogging with tech

A majority of the financial executives we surveyed say those who succeed will be the ones who collaborate with fintechs to get the right tech, talent – and to deliver a better customer experience.

36

Compliance alone is a losing strategy

While accessing talent is a driving force behind most bank and fintech partnerships, it's the access to open banking technology – and the almost-immediate ability to deliver a relevant and personal customer experience – that makes partnering so attractive. We call this "the leap".



While fintechs have been innovating with technologies that are adopted and expected by consumers (and even beyond it), banking technology has made far less progress. There's simply too much legacy weighing the banks down to innovate quickly.

61%

believe financial institutions that only do the minimum required by PSD2 will lose out to more innovative competitors

But engaging in a strategic partnership allows financial organisations to make "the leap" up to a new level – and start traveling on a faster, more sophisticated technological trajectory.

This trajectory – which illustrates the progression of technology over time – is related to another factor quickly trending upward: the reality that customer expectations are growing. In most cases, it's much faster than the pace at which a bank can innovate alone.

Those among the **20% of financial institutions not engaging in a fintech partnership** – and who don't plan to – risk seeing customers go elsewhere because the pace of innovation doesn't keep up with customer expectations.

Open banking technology, as a specific niche, is quite new. Many growing fintech firms like Solaris Bank, Backbase and Mulesoft are providing the interface between a bank's legacy environment and a new generation of technology.

That next-gen technology is being created by another breed of fintechs like Tink. Access to a world of open banking APIs (and the data that comes with it), personal finance management (PFM) capabilities and machine-learning algorithms are all tools that help banks make "the leap" and go beyond PSD2 compliance alone.

In short, the right partnership allows a bank to deliver digital services to customers at the same speed as the technological advances that make them possible. It also empowers banks to move beyond a tech legacy that left them siloed and isolated in their own environments – and connect to the world to achieve a scale that has been unprecedented.

65%

believe the financial institutions that succeed will be the ones who collaborate with fintechs

Partnering to boost CX

Our survey reveals the two most important reasons that financial organisations partner with fintechs. The first is that it helps them offer a better customer experience (CX).

Challenger banks and startups are already delivering services that meet the expectations consumers have for other apps they use. By partnering with fintechs, banks can match that experience – almost immediately.

49%

collaborate with fintechs to offer a better customer experience

What benefits do you see in partnering with a fintech?

The customer experience menu

A sampling of some of the services financial organisations can improve right away by partnering with a fintech.

Better onboarding
Allow customers to autofill their personal information

Simple sign in
Built-in authentication flows make signing in simple

Intuitive user experience
Quickly navigate through user interfaces and execute actions

Total banking experience
Aggregating all types of account information from all of a customer's many banks

Personalised insights
Sophisticated budgeting, left-to-spend predictions, automatic transfers when balances are low, splitting transactions – and the full financial picture

Tailored recommendations
Instantly help customers get better mortgage rates, more interest on savings accounts or buy travel insurance – all within your app

Seamless support
Allow customers to request support through chat, and get advice without changing interfaces

The second and third reasons financial organisations choose to collaborate with fintechs is to gain access to the latest technology and scalable technology

42%

collaborate with fintechs to access the latest technology

New machine-learning frameworks, putting money on autopilot, leveraging data in a way that's never been imagined before – these are just some of the things at which fintechs are experts. They're native when it comes to the technology that will drive change in financial services.

It also means that fintechs can offer continuous deployment and integration because they work in the cloud. The ability to move from a testing environment to a production environment is seamless, which means a partnering bank will never have to turn off a system to offer updates.

42%

collaborate with fintechs to access scalable technologies

Banks are also collaborating to access the scale that fintechs can offer. These companies can instantly support the billions of transactions coming from banks every single day. Cloud-based systems mean that if 10,000 people "knock on the doors", then 10,000 doors will open. If uptime drops, more processing power is activated to provide the quality of service banks expect from a fintech – and want to deliver to their customers.

Banks can leverage the applications and services that fintechs have developed and tested – without development, major internal investments or long deployment timelines.

The trouble with pairing up

Despite the consensus (65%) that partnering with fintechs is a way to overcome the challenges of open banking, our survey reveals that picking and collaborating with a partner is a challenge in and of itself.

33%

have trouble selecting and collaborating with a fintech partner

The challenge boils down to three main issues – but essentially it's about bridging an understandable gap between banks and fintechs.

1

New market, new players, no clarity
This open banking movement is still very loosely defined, with a host of new players in a marketplace that looks vastly different. It's still early in this transformation and there are few testimonials or "tried-and-tested-solutions" for the banks to go on.

2

Knowing where to start
Most financial executives know they need to innovate to improve the customer experience and offer services more in line with market expectations. But it's hard to know where to start. Do you focus on aggregation? PFM? A standalone app? Not knowing the answers to these questions can make it challenging to pick a partner.

3

Overcoming internal barriers
Banks have to deal with multi-step processes that can slow down decision-making; legacy tech systems that aren't always compatible with fintechs; and the need for strict conditions on service delivery, uptime and support. As banks embrace new ways of working and modernise their IT systems, these challenges will lessen.

"The banks who are doing digital well are all customer-obsessed. They always start with what would this mean for customers? What does the journey look like and feel like?"

Chris Skinner, independent commentator, blogger and author

The future is coming

Financial executives are starting to prioritise for the future. At the top of their list is developing better digital services, adding value to financial data – and making the customer experience king.

45

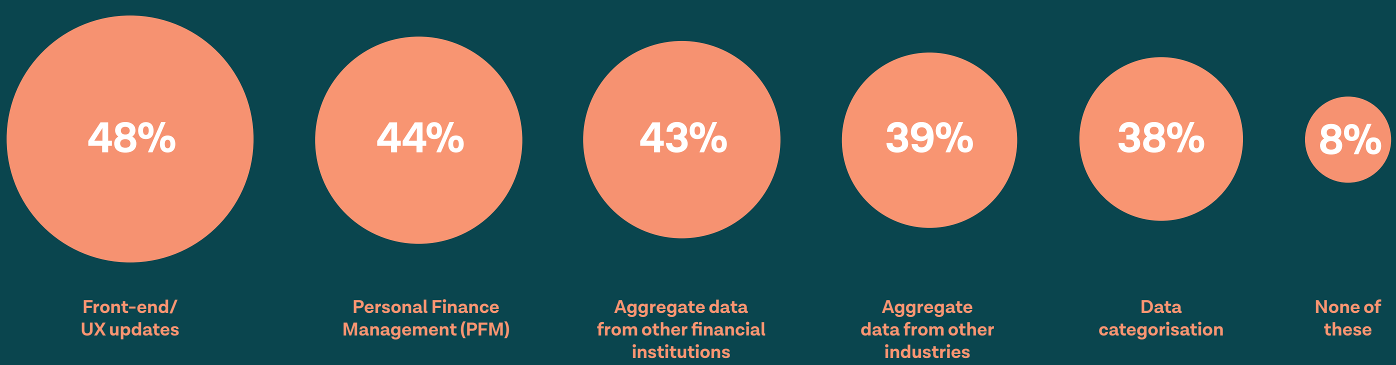
Mapping the experiences ahead

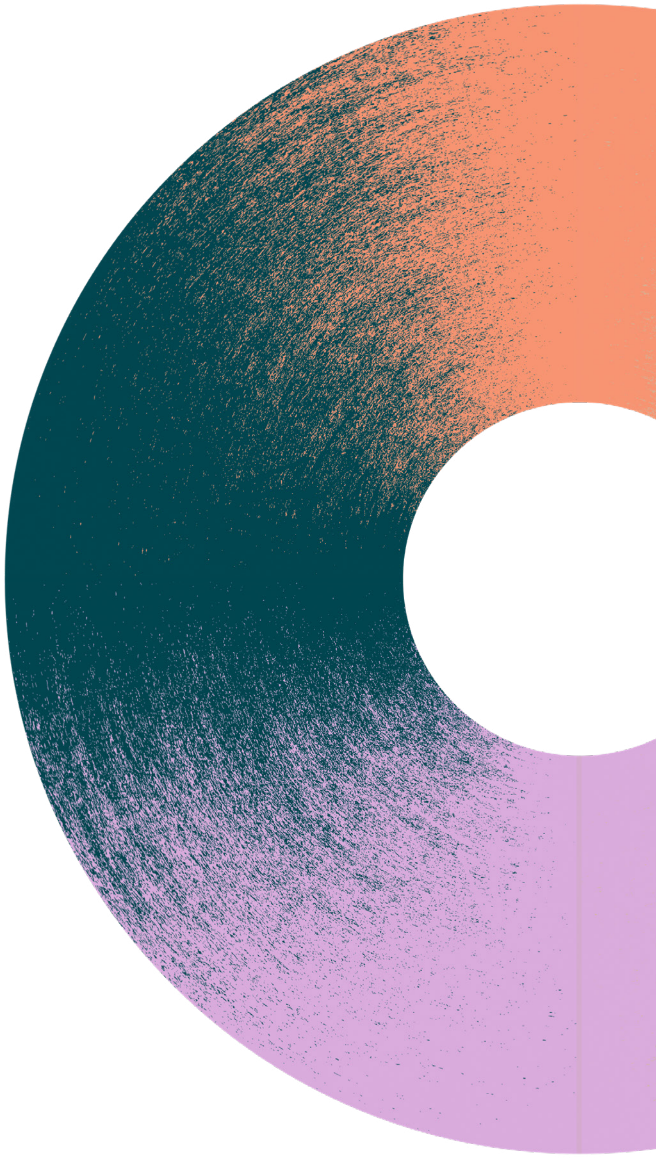
We asked financial executives to reflect on how they see the future, and what strategies they are focussing on in order to make this digital transformation a reality inside their organisations.

Our questions were about the near-term (one-to-two years) and the mid-term (next five years). It appears that the power shift happening in open banking – from banks to consumers – might have hit home. When executives look beyond the September deadline into a future that will be radically different from the present, they are seeing the opportunities.

There is a huge opportunity for banks and third parties to drive innovation together that drastically transforms banking for the better – and to give consumers services that are relevant for every stage of their life.

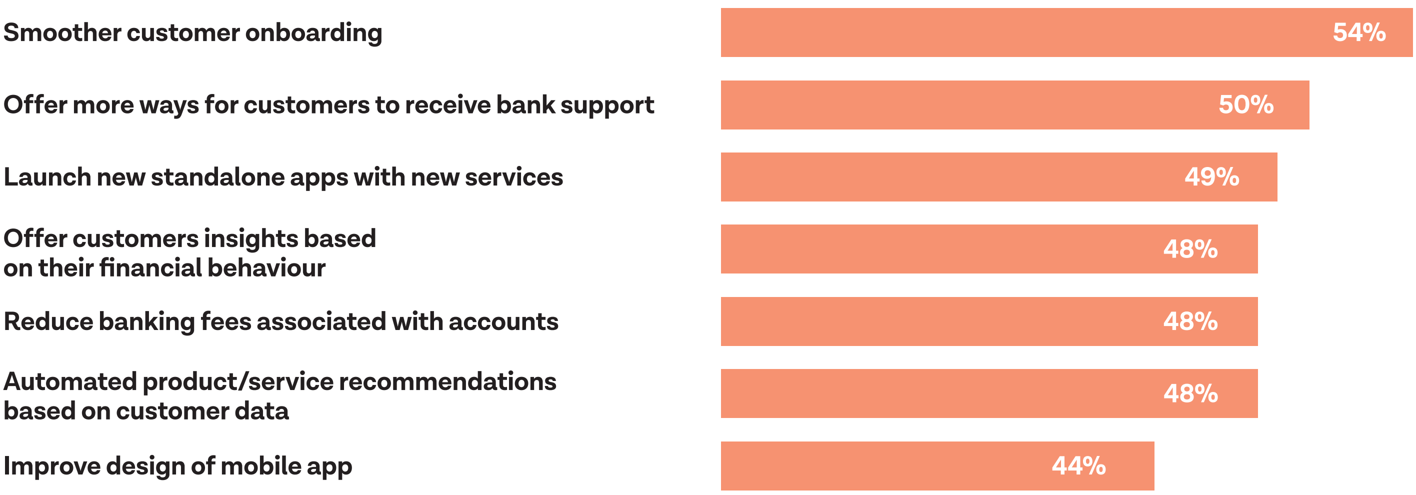
Which of these does your organisation need to improve in the next 1 to 2 years?





In the next one-to-two years, the big focus for financial organisations will be improving the customer experience. Our survey shows that 48% say they will be improving their front-end and user experience, while 44% say they will improve their personal finance management (PFM) tools. These priorities are in line with the most important bank KPI right now – staying relevant and retaining customers.

How important are these initiatives in improving the customer experience?



Diving deeper into improving the customer experience, the financial executives we surveyed say their organisations are focussed on offering smoother onboarding (54%); offering more ways for their customers to get support from their bank (50%); and launching standalone apps with new services (49%).

The results are a positive indication that financial organisations want to meet customer expectations, so they can maintain the relationship and acquire new customers.

The second short-term focus is aggregating data from sources outside their organisation.

We found that 43% will be improving their data aggregation from other financial institutions, giving banks the ability to offer their customers a holistic financial overview.

Another 39% will also aggregate data from other industries. This could include purchases from the retail industry, itineraries from the travel industry or tax data from government agencies.

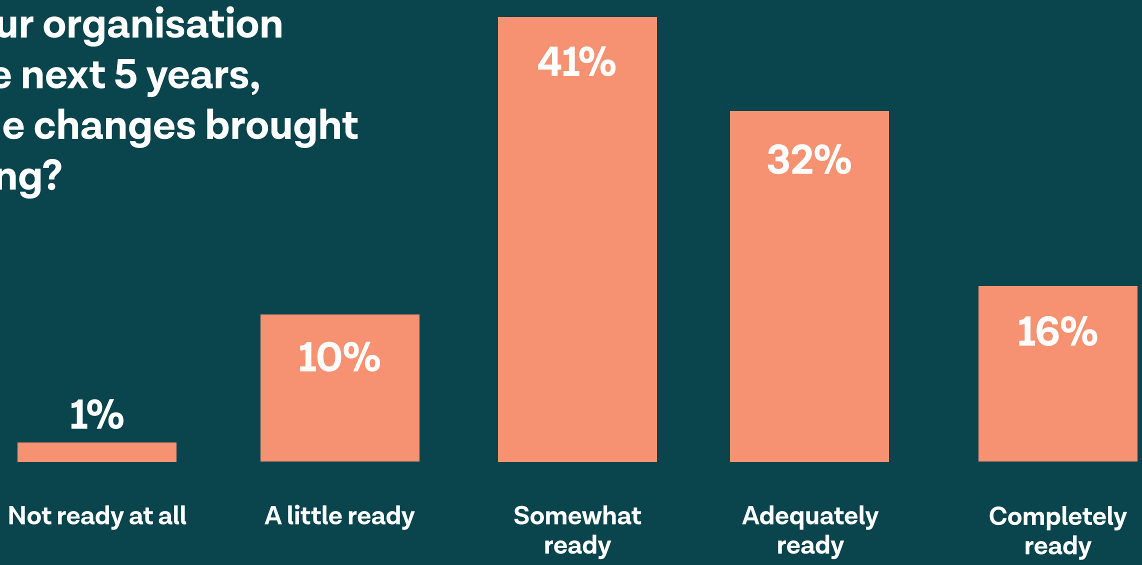
The dominant fintechs are helping banks aggregate all customer data across accounts, and initiate payments between accounts and banks – all from within their own app. It's driving them towards a future in which they have a multi-banking app, and they become a relevant and consistent financial touchpoint for customers.

But this is just the first phase of their digital transformation.

Looking at 2020 and beyond

The open banking movement – at its core – is the start of a 20-year transformation that will fundamentally remake financial services. When we asked financial executives about how ready their organisations are for the coming changes, a majority (89%) are relatively confident about the next five years.

Do you feel your organisation is ready for the next 5 years, considering the changes brought by open banking?



In the long-term, financial executives see developing better digital services as the biggest opportunity that the open banking movement presents.

The second-biggest opportunity – increasing customer personalisation – goes back to the importance of the experience that banks provide, and the effort they make to transform the relationship they've traditionally had with their customers.

46%

see developing better digital services as the biggest open banking opportunity

Those better data services and personalisation are the future that most banks are moving towards. With the full financial picture for every customer, banks will be able to offer relevant services at the right time. That can mean anything from better interest rates, lower investment risk or a pot of savings that could be put to better use.

The long-term future for banks could be offering the daily platform their customers use for both financial and non-financial services. After all, a customer's financial history is a representation of who they are – how they prioritise and spend their time. It's information that's so rich, a bank could choose to become a lifestyle partner of sorts.

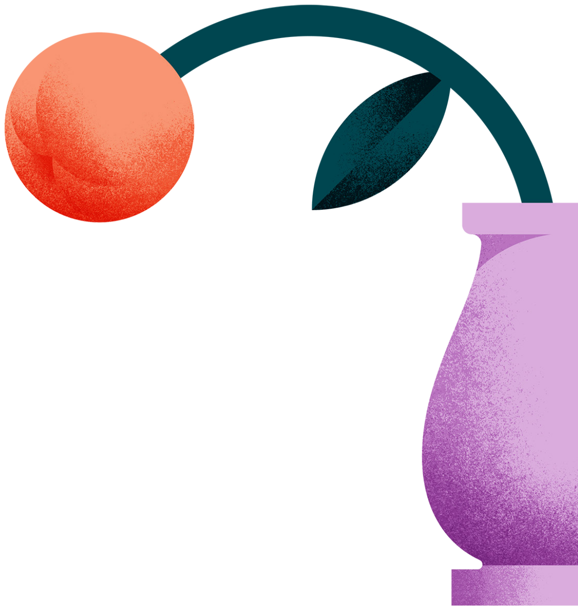
Another long-term strategy is co-innovation – diversifying the business in an effort to transform and disrupt the various value chains related to payments. It could be offering integrated experiences – much like the Uber example – where customers don't need a wallet to pay for goods or services. Or it could be banks providing a retail payment solution, and charging merchants half the fee of a card terminal.

44%

see increasing customer personalisation as an opportunity of open banking

NatWest is doing this. It's launching a payment solution using the payment initiation (PIS) capability of PSD2 that creates a smoother online shopping experience for consumers. It allows customers to select their bank account and pay directly. And it reduces charges for retailers by anywhere between 25 and 50%.

In the coming decades, the most successful and digitally savvy banks will tap into and support bigger chunks of the financial services industry. Many of these innovations are driven by consumer demands. But they're areas in which banks have the opportunity to lead the innovation.



In your opinion, what are the biggest opportunities of open banking?

Interview with Chris Skinner

An independent commentator, blogger and author

Why we spoke to him: Chris has a balanced view on the future of the financial industry, and understands the powers at play.
What he's known for: Quick-witted commentary on financial markets and the banking industry.

What's your view on the future of banking?

I have a very positive view. If banks can change their business models and embrace the opportunity of open banking, they can survive and thrive. But that's the challenge; can they change their model?

Banks need to move away from controlling everything to partnering with everyone. Then it's a strong opportunity to deliver better customer services. If they don't, then it's a big existential threat.

How can banks begin to change their business models?

There are three major changes to the mindset of a bank that they have to go through.

- **First** is understanding that the digitalisation of financial services is a fundamental change to the business model of a bank.
- **Second** is having a leadership team that can implement the change in the business model.
- **Third** is to change the culture, from being a control freak to having open partnerships.

The first one is the hardest in many ways. Most executives in the senior echelons of banking see digital as an evolution rather than a revolution from the ground up. If the banks embrace that digital is a transformation and not just a project, they can move through the three phases.

What are the characteristics of banks doing digital well?

It's important to implement cultural change so the whole organisation moves towards a digital journey. Everyone has to understand the mandate has changed.

"The banks doing digital well are moving away from focussing on shareholder returns and instead focussing on organisational transformation."

What does it really mean for a bank to be "digital"?

Everyone can claim to be doing digital, but they're all defining it differently. Everything from rolling out a mobile app to developing an open API strategy around open banking. The big question is, are they culturally and organisationally gearing up for it? Or is it just a project?

What do customers want when it comes to digital banking?

Banks have a platform, and their customers aren't desperate to find 1,000 fintech startups to do their financial services. People want their trusted financial provider to see if the fintechs are worth working with – and then deliver those services.

We're having this wonderful discussion to wake up and shake up the bankers. But customers don't give a damn. They want great services, and if they don't get it, they'll move somewhere else.

What should banks do?

54

This is just the start of a decades-long journey – one that will fundamentally reshape the financial services industry.

Regulation has rubber-stamped this new era, customers are ready for change, and open banking technology is now available off-the-shelf. Combine these factors with the incumbent banks' brands, budgets and customer bases, and they're in a great position.

A pioneering new generation of banking leaders are rising to this challenge – to create truly customer-centric services and come out as winners.

As leaders in open banking tech, we've seen our fair share of banking partners succeed. Paired with the results from this survey, this is our humble advice for the journey ahead.

1

Build your digital business by caring for the customer

The risk of disintermediation is too expensive to ignore. Becoming a technology company and building a digital business will require investments in talent, culture, operations – and most importantly – services that deliver customer value. This also means metrics like customer impact and net promoter scores (NPS) need to be at the heart of everything you do.

2

Transform your organisation by working with fintechs

Fintechs are renowned for their ability to take new services to market within a matter of days or weeks. For any bank, scaling up a standalone app or service can be expensive when you consider processes, risk and compliance. Working with fintechs gives banks low-risk access to the latest, cloud-based technology – and the chance to innovate at a much greater speed.

3

Operate as a data-driven bank

Open banking is inviting businesses and third parties to transform the data that's inside and outside a bank, and convert it into meaningful offerings. Banks now have the opportunity to access data from other players, and add value and smart services on top of it – for their own business and for their customers.

The methodology

In order to get inside the minds of Europe's financial executives, Tink enlisted the help of independent market research organisation YouGov.

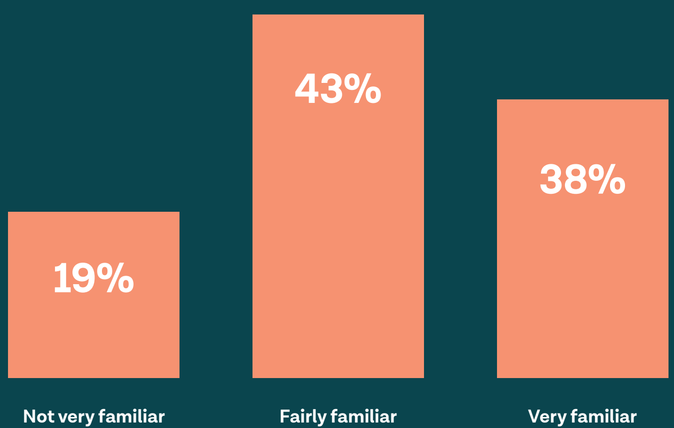
YouGov conducted its fieldwork between 8th April and 7th May 2019, interviewing 269 senior executives in organisations ranging from traditional, investment and digital banks to asset and wealth management, credit institutions and payment-service providers.

Just over 30% of the respondents are C-level executives, 36% are the head of a department or function, and a quarter are director-level respondents. The rest are either channel or product owners.

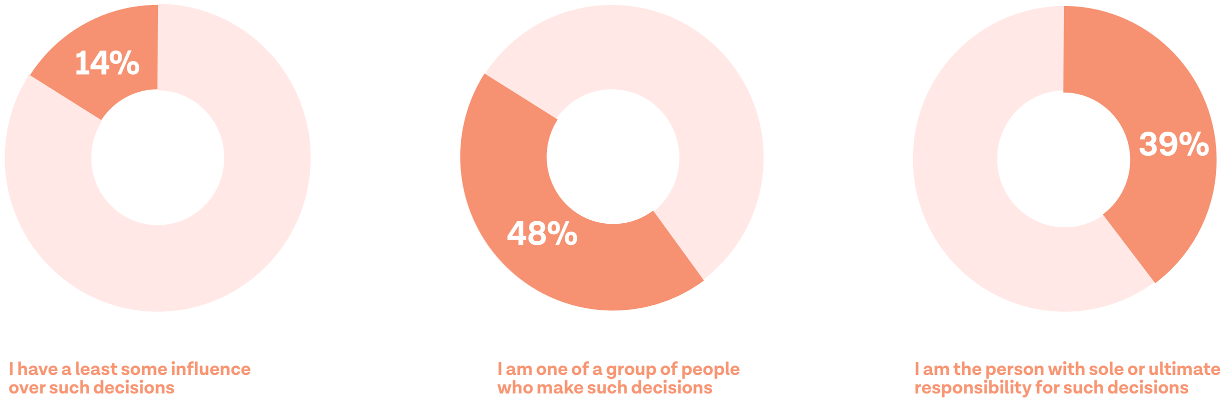
Respondents are decision makers at organisations in 17 European countries. YouGov used both telephone interviews and an online questionnaire, which was translated into local languages to improve the validity of responses.

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?

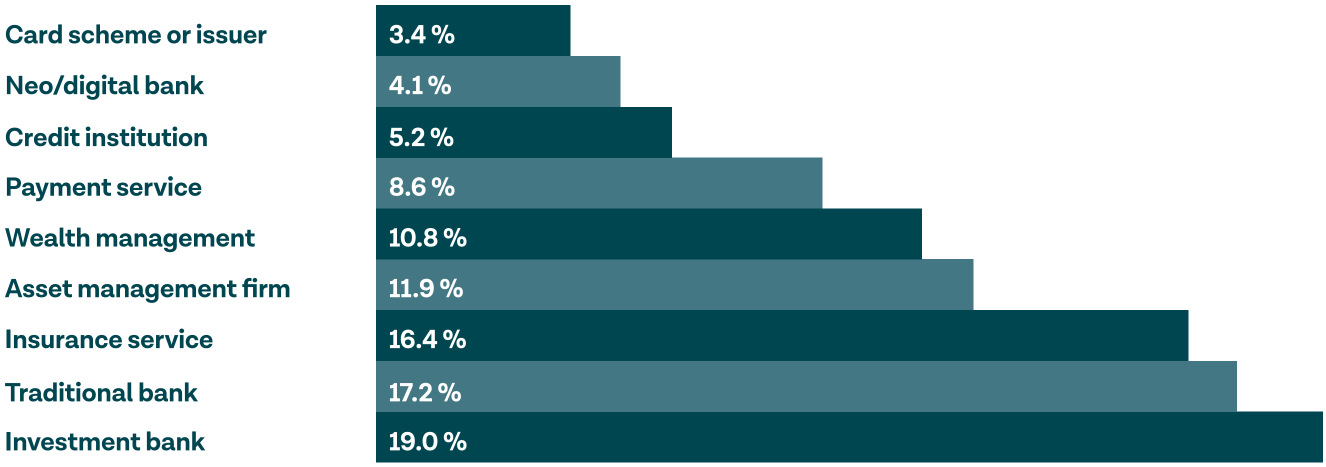


Which describes your involvement in decisions regarding digital innovation?

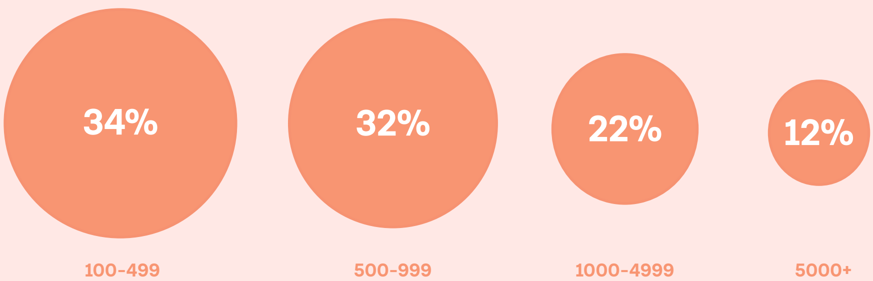


What type of financial institution do you work for?

The data has a healthy spread across different financial institutions. About 20% work at investment banks, 17% work at traditional banks, and 16% work at insurance-service providers.



How many employees work for your organisation?



About Tink

The rails and brains of open banking: data connectivity and enrichment that enables the best ideas to thrive.

Tink launched in 2012 with the aim of making banking better. Since then, we've imagined, built and iterated the open banking technology that leads to compelling customer experiences – and financial clarity. We offer a platform that allows banks, financial institutions or anyone else to build the future of financial services across Europe.

160+
employees

10
markets across Europe

2500+
banks connected

Trusted partner to:

ABN·AMRO BNP PARIBAS FORTIS SEB Klarna. SBAB! lunar way Nordea Qliro nordnet AVANZA

Account aggregation

A 360° view of a financial situation

Account aggregation is the core foundation that allows you to deliver personalised and smooth experiences for your customers and empower them with a clearer understanding of their finances.

Data enrichment

Making sense of the data

Enrichment unlocks the real value of financial data and opens up new possibilities in user experience.

Payment initiation

Moving money simply and smoothly

Allow your customers to safely make payments and transfers from anywhere, to anywhere, entirely within your app or website. customer experiences.

Personal finance management

A personal coach for the moments that matter in life

Help people understand their finances and empower them to make smarter decisions by providing personalised and delightful digital customer experiences.

Let's talk about the data-driven future of banking

We have a clear vision of where the banking industry is headed, and would love to discuss it with you. Contact us for a meeting and let's talk about a potential collaboration.
partnerships@tink.com

If you're interested in reading more about open banking and Tink technology, check these out:

Why 2019 is the year of open banking

Tight PSD2 deadlines have forced a lot of banks into regulation mode. But the huge task of being ready for the big September deadline is only half of the open banking puzzle. Banks are also working out how to get the most out of open banking, protect their existing business and generate new revenue streams.

How we built an app to revolutionise credit scoring

At a recent event, we showed how anyone can revolutionise a process and build an app in just a few hours, using our self-service platform. Our example this time was credit scoring.

What a missed PSD2 deadline says about the challenge of implementation

One of the two biggest PSD2 deadlines just whizzed by on 14th March without much fanfare – and more importantly – without the compliance of 41% of the European banks we surveyed in 10 markets.

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

YouGov conducted interviews with 269 of Europe's most prominent financial services executives between 8th April and 7th May 2019. They answered questions through both telephone interviews and an online questionnaire, which was translated into local languages to improve the validity of responses.

The participants are spread across 17 countries, and are decision makers at organisations ranging from traditional, investment and digital banks to asset and wealth management, credit institutions and payment service providers.