



OPEN BANKING IN THE UK

FINDING THE TIPPING POINTS

An exploration into what initiatives may pave the way for widespread adoption and use of Open Banking

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ALLIED WITH TRUST

FOREWORD

BY JED MURPHY, STRATEGY AND INNOVATION DIRECTOR AT CARDLYTICS



PSD2 (the EU's second Payment Services Directive) came into effect in January this year across Europe. The regulation was designed to create greater competition in the world of financial services by making customer data more portable and more broadly accessible, leveling the playing field for players in the fintech ecosystem.

Historically, creating competition in the financial services sector has been hard. New propositions from existing banks or their challengers have mostly fought a losing battle against overwhelming customer inertia in a low-interest rate, largely undifferentiated market.

That was the context which set the backdrop for the Competition and Markets Authority (CMA) investigation into Retail Banking. Its goal was to make banks work harder for customers.

One of the Foundation measures within its recommendations, back in August 2016, was to create an Open Banking standard permitting authorised third-party companies, with their customers' permission, to access information about transactions, prices, and service quality.

KEY TO THE REGULATIONS WAS ALLOWING CUSTOMERS TO:

- Manage accounts across several financial services providers (this is the Account Information Service Provider, or AISP, component of the regulations).
- Move money between accounts (this is the Payment Initiation Service Provider, or PISP, element of the regulations).

However, as we approach the end of 2018 little appears to have changed. Relatively few compelling propositions have been launched and consumer awareness remains low.

The UK's own Open Banking initiative, which also launched in January, provided two elements that were missing from PSD2: a technical specification and a supporting regulatory framework. These two elements made the UK the most advanced market and ecosystem for Open Banking around the world. As a result, all eyes were on the UK when Open Banking came into effect alongside PSD2 this year.

Most knew that this wouldn't be a 'big bang' moment, but it feels that there is some way to go before Open Banking can move the needle.

To understand the current challenges, we commissioned a study to understand consumer awareness and attitudes to Open Banking: who they trust with their data and what kinds of value exchanges would create a tipping point that would drive widespread adoption.

WHERE ARE WE NOW? THE PROGRESS

OFFICIAL DATA FROM OPEN BANKING LIMITED JULY — OCTOBER 2018

- From January to July 2018, 57 Open Banking providers emerged (on average, 9 a month in that time period), made up of 36 third-party providers and 21 account providers.
- This increased to 67 regulated providers throughout July and August 2018, with 44 third-party providers and 23 account providers.
- Figures released in October show 84 regulated providers have emerged. This is made up of 58 third-party providers and 26 account providers. Of that, 12 providers are live with customers.
- The Open Banking technology was used 4.2 million times in September to securely share data — up from 3 million in July and 2 million in June.
- Open Banking API usage doubled from September to October.

OPEN BANKING PROGRESS ON THE HIGH STREET: HSBC CONNECTED MONEY AND BARCLAYS

- In May, HSBC rolled out its Connected Money app after a Beta programme that started at the end of 2017. Connected Money is an account aggregation service that allows HSBC customers to connect their UK current accounts, savings accounts, credit cards, mortgages and loans and see them all.
- Barclays has followed suit but has integrated its aggregated Open Banking proposition in its core mobile banking app (rather than as a standalone proposition as with HSBC).
- In both cases it's clear that Banks are looking to create a consolidated view of their customers' financial health — and to start to take first mover advantage to own that customer experience.

FOUR KEY PILLARS TO OPEN BANKING ADOPTION IN THE UK

By analysing attitudes of over 3000 UK bank customers, we have identified four key factors which must be considered for Open Banking in the UK to truly take hold:



TRUST



AWARENESS



**CUSTOMER
EXPERIENCE**



**VALUE
EXCHANGE**



TRUST

IN BANKS WE TRUST — BUT WHAT ABOUT EVERYONE ELSE?

Over the last few decades, consumers have been warned not to share their bank details with anyone. High profile coverage of data misuse and fraudulent scams have reinforced this message. Open Banking now provides a framework for consumers to safely share their financial data with regulated providers. But old habits will die hard.

The goal of Open Banking is to unlock customer data and make it available, with customer permission, to a wide range of companies to drive innovative new products and services for customers.

And it's not only banks who will be able to offer these services. New fintech companies, specialist mortgage providers, loans companies, airlines, mobile network companies, retailers and social networks are all part of the mix.

But trust will be a critical factor in consumers sharing their data. Especially against a backdrop of recent data breaches and data misuse. Therefore, it's important to look where trust lies to see where opportunity may follow. It is with little surprise that we find **consumer trust naturally lies with established financial services providers**. Financial institutions, and other providers with whom consumers already have a financial relationship, are most likely to succeed with the consumers tempted by Open Banking propositions. They came out way ahead of non-banking service providers in terms of levels of trust when it comes to accessing financial data.

When asked who else consumers would be willing to allow to access their financial data in return for some value exchange, other financial services providers came out on top, though the percent of people that would consider it still remains somewhat small. However, there is also opportunity for other third-party companies such as loyalty schemes, price comparison websites, and mobile phone networks.

MOST TRUSTED PROVIDERS IN THE UK BEYOND FINANCIAL INSTITUTIONS

TRADITIONAL FINANCIAL SERVICES



20%

Credit Card Company



20%

Another Bank



17%

Government Service



16%

Insurance Provider

MOST TRUSTED PROVIDERS BY AGE DEMOGRAPHIC

18-24



Insurance Provider

25-39



Another Bank

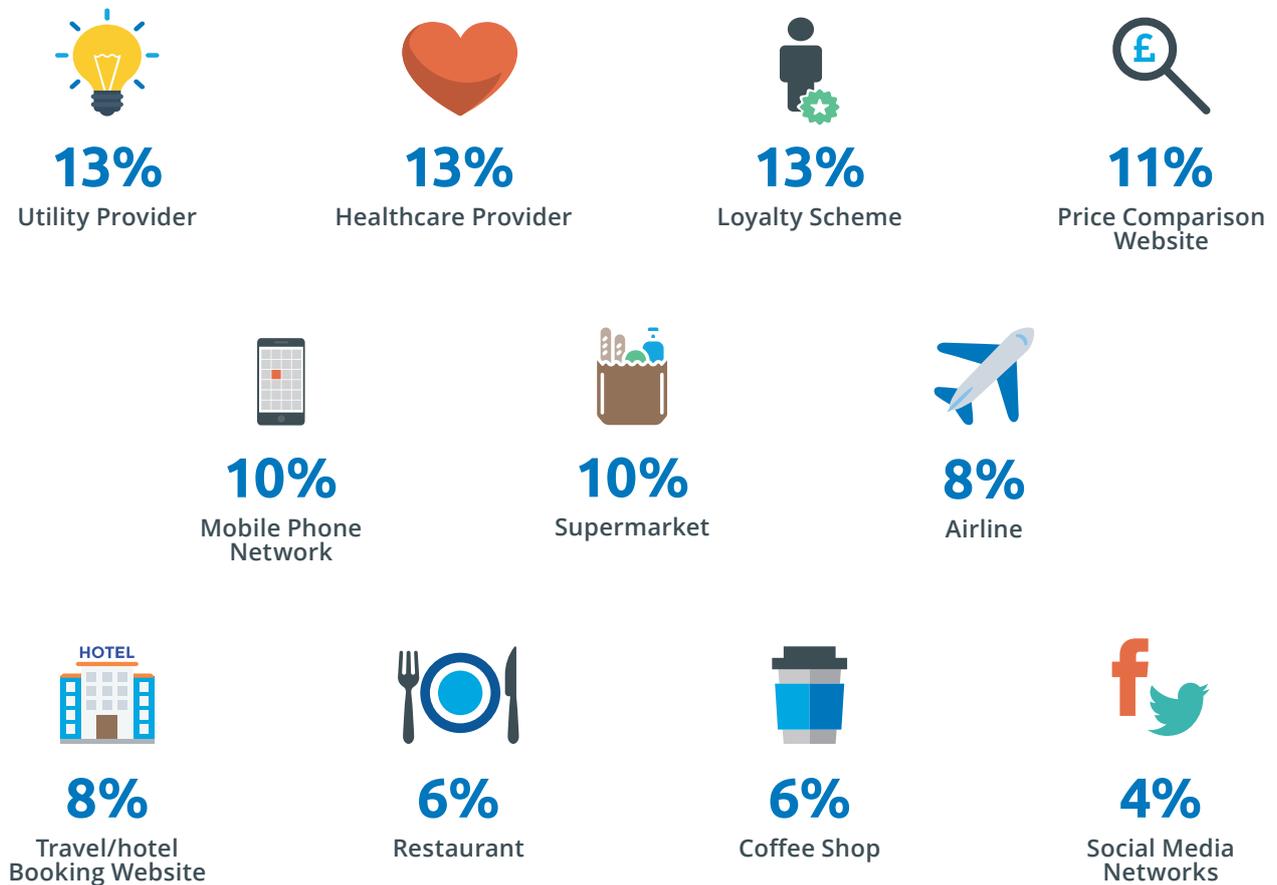
40+



Credit Card Company

The non-banking service providers with the most consumer trust have one thing in common: they have built that trust over a period of time when it comes to handling data. But clearly, they must ensure that new propositions tackle any potential trust issues head on — and deliver on the value-exchange component that will help overcome any initial customer nervousness.

MOST TRUSTED NON BANKING PROVIDERS IN THE UK



TURNING 'OPEN BANKING' INTO A TRUSTED BRAND

A core question for the Open Banking industry may be whether Open Banking needs some form of brand that underpins new propositions and acts as a 'Trust Mark'. An *Intel Inside* for the Open Banking ecosystem.

After years of warning customers to be mindful of their bank credentials, it's critical to build trust quickly and re-assure customers that there is a legitimate and secure mechanism for sharing financial data that underpins a range of new services.

Banks and regulators have a key role to play as trusted brands in driving consumer awareness and education of Open Banking.



AWARENESS

DEALING WITH THE LOW AWARENESS ISSUE

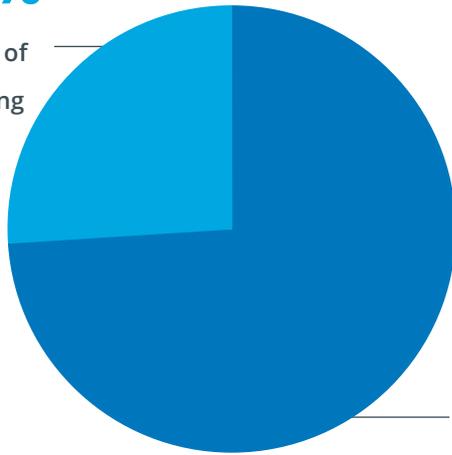
It's been well reported this year that consumer awareness of Open Banking in the UK has been low. And, on the surface, this is borne out in our research. In fact, only 8 percent report that they have used an Open Banking service, and low awareness and understanding of what it really means may be a direct cause.

However, in some ways, the fact that one in four consumers have actually heard of Open Banking is genuinely impressive, considering the relatively few high-profile propositions that are in market today.

UK OPEN BANKING AWARENESS

26%

Have heard of Open Banking



74%

Have not heard of Open Banking

The majority of respondents, including those who were familiar with the regulation, still have little knowledge about the true scope of Open Banking — a third of respondents think it's only limited to how banks interact with other banks.

UK OPEN BANKING AWARENESS IS HIGHEST AMONG



MALE

Bank Customers



LONDON & EAST

Residents



50+

Years of Age

UK OPEN BANKING AWARENESS IS LOWEST AMONG



FEMALE

Bank Customers



NORTH OF ENGLAND

Residents



16-24

Years of Age



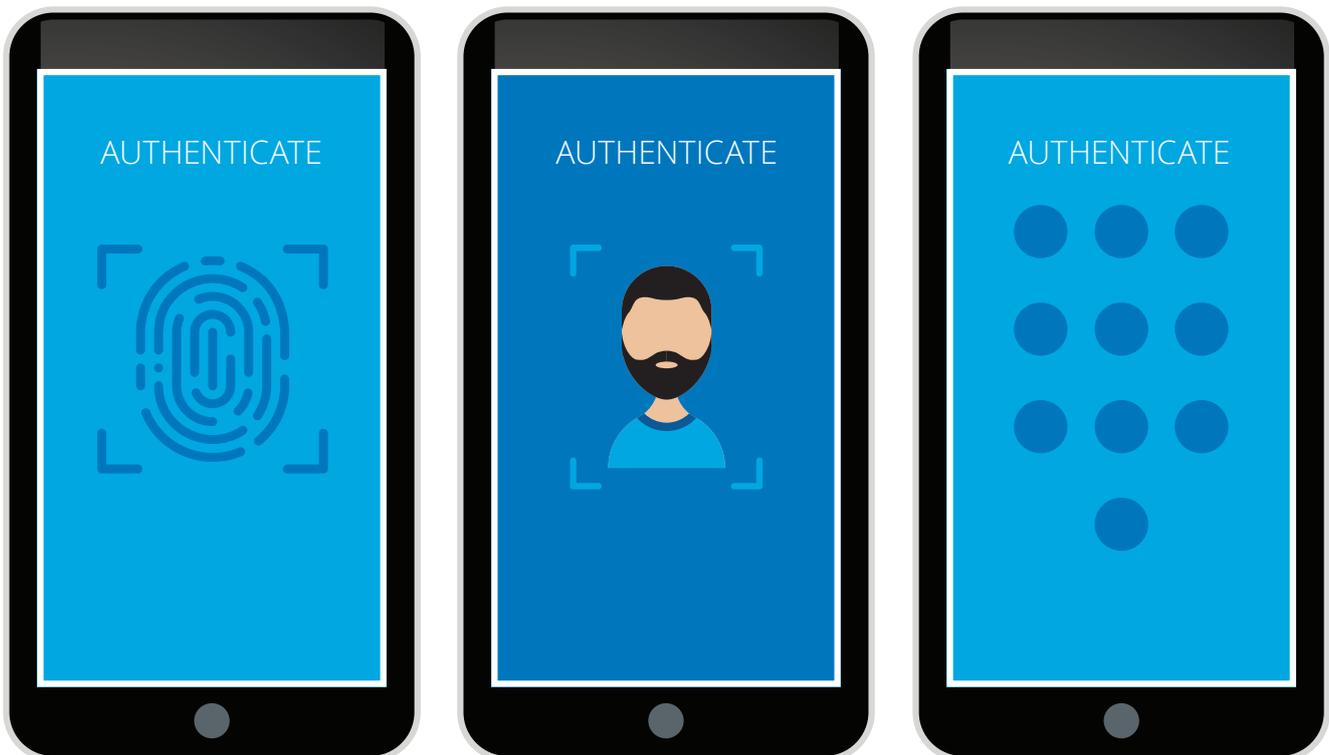
CUSTOMER EXPERIENCE

TOO MUCH FRICTION IN THE PROCESS CAN LIMIT ADOPTION

Another critical factor in the consumer-trust equation is customer experience. Making the Open Banking account linking process simple, secure, and fast is essential.

The current customer experience, in many cases, makes the account connection process quite tricky for consumers. In some cases, it's almost impossible. That means it's going to be a big friction point in the adoption of new Open Banking propositions.

Improving this will need to be an industry priority in the coming months if adoption is to grow. The advent of biometric authentication, where consumers can authenticate within their mobile bank applications using fingerprint or face ID, will create a seismic improvement in the customer experience.



But it is also worth noting that consumers will have to re-authenticate each of their linked accounts every 90 days to maintain the connection. Clearly, within the legislation, this has been done to ensure that consumers don't have accounts connected to propositions they don't use, and it falls in line with the principles of GDPR. However, for most UK Open Banking propositions, the 90-day re-authentication element will mean that businesses essentially have to re-acquire their entire customer base every three months. Establishing regulations that both ensure transparency and reduce consumer friction will be critical to the success of Open Banking.



VALUE EXCHANGE

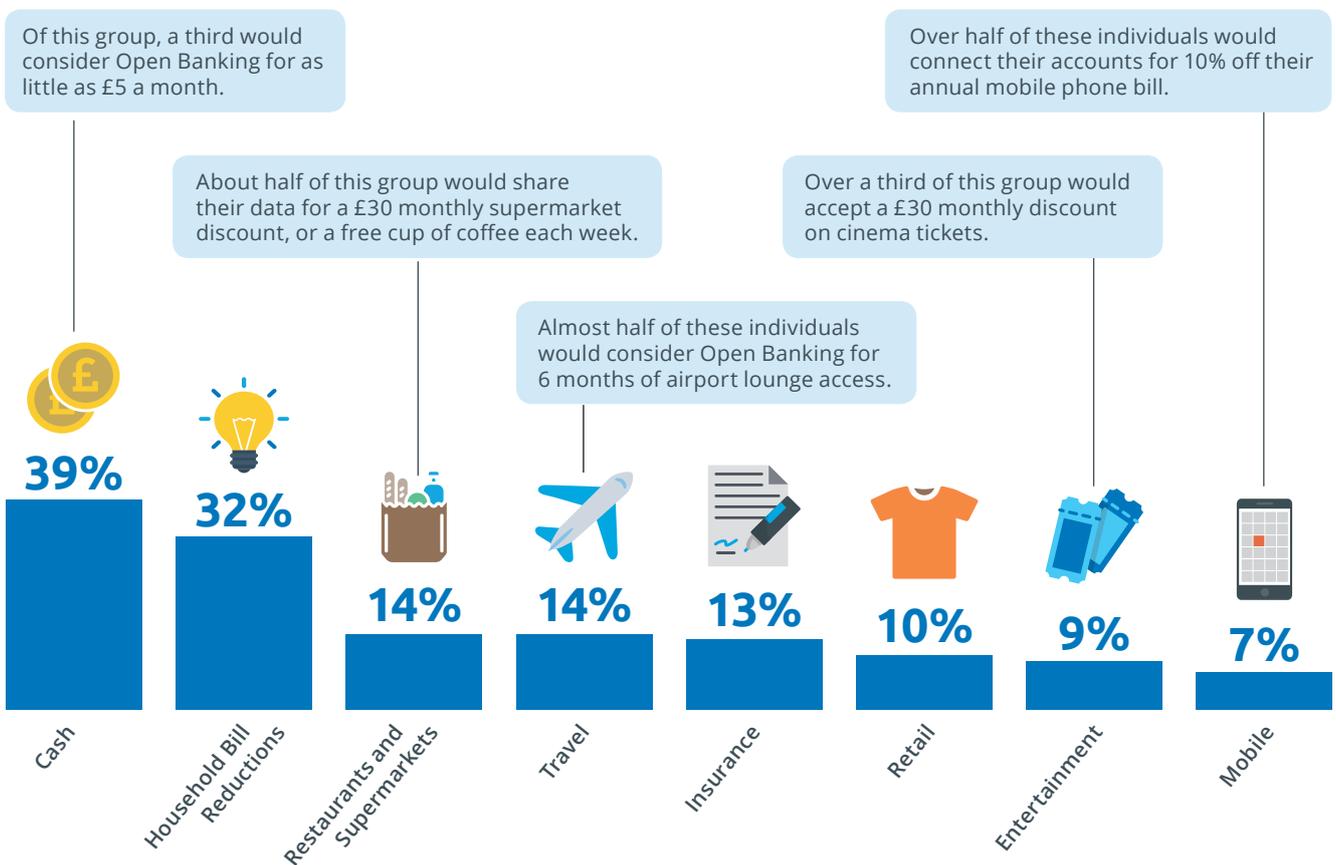
FINDING THE TIPPING POINTS

More than anything, consumers will need a compelling reason to start using Open Banking propositions. The 'what's in it for me?' factor will by far outweigh other factors in driving adoption.

To understand the concept of bank-customer value exchange, we explored the elements a proposition needs to have to capture the imagination of consumers and make the exchange worth their time. In other words, the tipping point. We found that despite nervousness around data security, UK bank customers *will* allow access to their financial data in return for tangible value.

More than half of bank customers would be motivated to allow third-party access to their bank accounts if there are practical rewards offered in return. Our research also reveals specific personal values — tipping points — for giving non-banking third-party companies access to their financial data.

TOP REWARDS THAT CONSUMERS WOULD CONSIDER FOR CONNECTING THEIR BANK ACCOUNT TO A THIRD-PARTY PROVIDER



TIPPING POINTS BY THE AGES



18-24

most likely age group to give access to their financial data in exchange for daily rewards



25-39

most open to open banking when rewards include cash and household bill reductions



40+

least likely to connect their data, but still motivated by cash, cheaper bills, and travel perks

CONCLUSION

A COMPELLING VALUE EXCHANGE ALLIED WITH TRUST IS CRITICAL TO OPEN BANKING

Although early days, there is a hot bed of activity across the fintech sector — from banks, big tech and start-ups. But there is a risk that the following four pillars identified in our research will slow customer adoption and undermine Open Banking growth unless addressed:



Trust: There is a need to re-assure customers that Open Banking is a legitimate framework that underpins new services and helps open up financial data safely. Perhaps the industry needs to consider some form of 'Trust Mark' that acts as a symbol of reassurance for customers in Open Banking's early days.



Awareness: There needs to be a greater industry push on the benefits of Open Banking — delivered both through new propositions themselves as well as wider industry communications.



Customer experience: The account-linking process itself needs to be radically evolved to reduce the complexity and friction inherent in the current regulations. Biometric authentication may certainly expedite progress here.



Value exchange: But the most critical factor is that new propositions need a compelling value exchange that drives engagement over the longer term. Getting customers over the initial hurdle of connecting their accounts is one tipping point, but ongoing engagement that drives adoption and usage (especially against the backdrop of the 90-day re-authentication requirement) relies on creating that propositional 'hook' that drives regular value or utility for the customer.

There is a famous adage, called Amara's Law, that states most significant technology changes are over-estimated in the short-term and under-estimated in the long term.

Open Banking may be one of those trends. The pre-launch hype was always going to have been difficult to live up to. But the opportunities that are now available as a result of more portable financial services data are enormous.



ABOUT CARDLYTICS

Cardlytics (NASDAQ: CDLX) uses purchase intelligence to make marketing more relevant and measurable. We partner with more than 2,000 financial institutions to run their banking rewards programs that promote customer loyalty and deepen banking relationships. In turn, we have a secure view into where and when consumers are spending their money. We use these insights to help marketers identify, reach and influence likely buyers at scale, as well as measure the true sales impact of marketing campaigns. Headquartered in Atlanta, Cardlytics has offices in London, New York, San Francisco, and Visakhapatnam. Learn more at www.cardlytics.com.

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METHODOLOGY OF THE RESEARCH

This report was commissioned in July 2018 by Cardlytics in collaboration with YouGov who surveyed 3,020 members of the UK general public who pay regularly into a bank account. Sample was weighted to national proportions on age, gender and social grade.