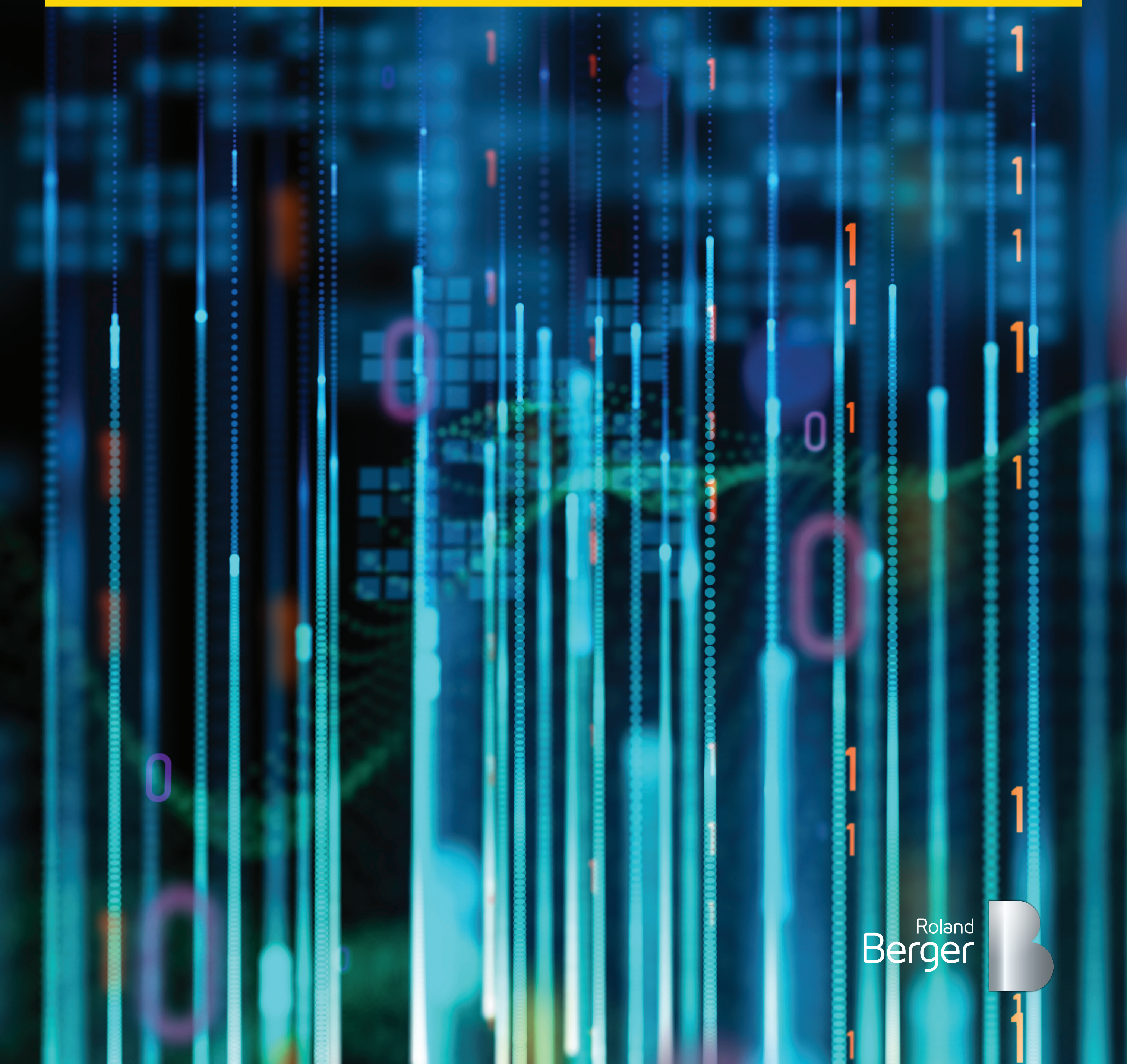
11.2019

Focus

Roland Berger

Adapt or die? Why PSD2 has so far failed to unlock the potential of Open Banking



Not just another regulation / *PSD2 is an important step on the way to Open Banking*

On September 14, 2019, the Payment Service Directive 2 (PSD2) went live in the EU, marking a fundamental change in the European banking sector. The regulation aims to increase the level of security for customers and allow standardized access to certain customer data. PSD2 levels the playing field between banks and third party providers (TPPs) and benefits consumers by providing new services, increasing choice and enhancing security. It also severely disrupts the business model of traditional banks, while enhancing those of TPPs.

For this report, we used the current heightened awareness of PSD2 to conduct in-depth interviews with more than 40 leading banks and TPPs in 12 key European markets. Our objective was to assess their approach to PSD2 implementation and understand how PSD2 will contribute to an Open Banking scenario. We found distinct discrepancies between the theoretical potential of PSD2 and its actual implementation by the majority of market participants. As chapter 1 shows, strategic ambitions simply did not hold up to reality, with most banks merely complying with the regulatory requirements rather than grasping new opportunities.

Despite this, we found that a huge majority of banks (81%) still view PSD2 as more of an opportunity than a threat. Few have so far demonstrated concrete use cases, but in chapter 2 we explore the opportunities banks told us they are working towards. Conversely, we also look at the threats and challengers banks said they face, with bigtech firms such as Google and Amazon among them.

Many banks aim to use PSD2 as a stepping stone to an Open Banking scenario. In chapter 3, we examine their ambitions and strategic approaches towards both, and compare these with the opportunities emerging for different types of players. This analysis suggests that the financial services value chain is set to significantly change, with a stronger distinction between different roles and thus different recommendations for positioning by types of player. We also find that while more than 80% of banks say they prioritize Open Banking, they have some ideas and concepts on the shelf but few concrete actions so far. With our interview results pointing at the growing importance of bigtechs in an Open Banking world, that's a risky strategy.

In our final chapter, we draw on our interviews and survey results to formulate straightforward recommendations for banks on how to succeed in the post-PSD2 world. The guidance includes advice on leveraging assets and expanding Open Banking ecosystems. Ultimately, we are convinced Open Banking is the future. But players must proactively shape this future to succeed.

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Introducing PSD2 / *What is the new regulation and what are its impact and effects?*

The EU's second Payment Services Directive (PSD2) aims to revolutionize payment services in Europe. The game-changing regulation opens up consumer bank accounts to third party providers (TPPs), unlocking banks' troves of data and providing a level playing field with other financial services providers, such as fintechs, neobanks and bigtechs. As such, it represents a fundamental change in the European banking sector, and a significant step towards Open Banking.

PSD2 went live on September 14, 2019. Despite four years of preparations, the launch was beset by various postponements and exemptions in different countries and only part of the regulation came into force. As a result, its two main areas, namely stronger security measures (strong customer authentication, or SCA) and the opening of account interfaces via standardized application programming interfaces (APIs) were not implemented in full. It will likely take until the end of 2020 before full regulatory compliance is reached. → A

The purpose of this report is to analyze the PSD2 regulation and examine its effects, challenges and opportunities. To gauge these and measure the levels of preparedness in the banking world, we undertook a survey of representatives from more than 40 leading banks and TPPs in 12 EU markets (Germany, Austria, Sweden, Denmark, Finland, Norway, Portugal, Italy, Spain, France, Netherlands and Belgium). We have used the results to inform this report. In this first chapter we look at what was actually implemented, and how banks approached the new regulation.

A: **PSD2's key aspects**
Strong customer authentication and APIs explained

SCA

Strong customer authentication (SCA)

SCA increases payment transaction security. It requires a two-stage authentication for online and card payments using any two of three authentication factors:

- Knowledge (e.g. PIN, password)
- Possession (e.g. mobile phone, TAN generator)
- Inherence (e.g. fingerprint, retina)

API

Opening up of account interfaces

The opening of account interfaces via APIs requires banks to make customer data available to TPPs provided they have client consent. TPPs can act as a Payment Initiation Service Provider (PISP) or an Account Information Service Provider (AISP), or both.

- PISPs are authorized to initiate electronic payment transactions on behalf of the customer.
- AISPs are authorized to access the customer's payment and settlement accounts and to provide the customer with consolidated account information.

1.1 / Launch problems

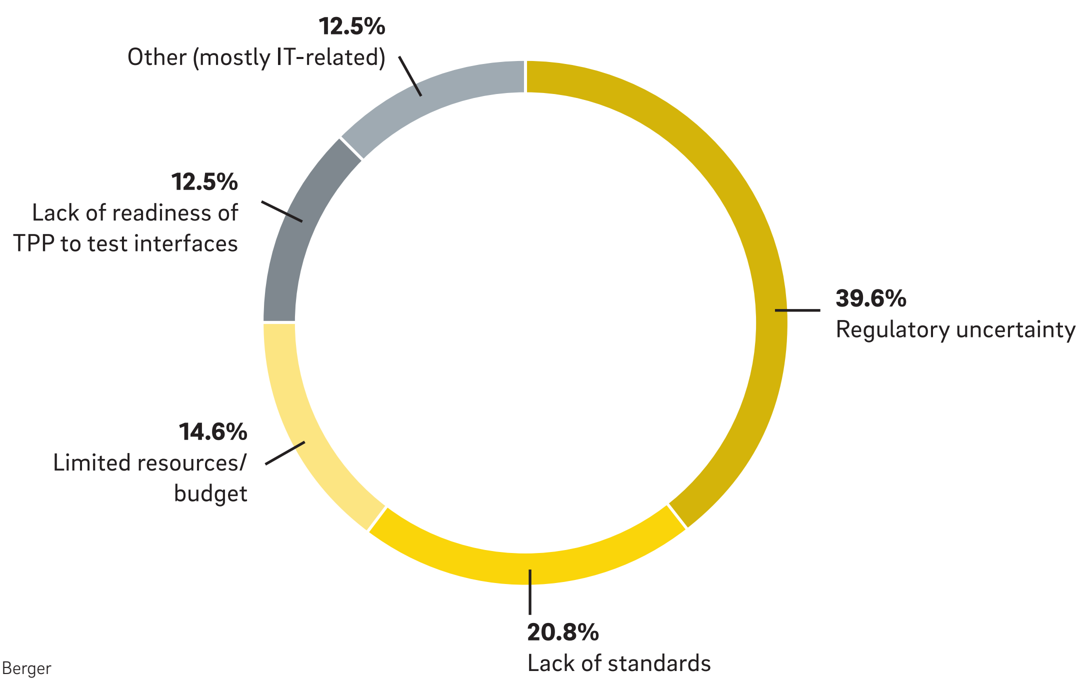
WHAT ACTUALLY HAPPENED ON SEPTEMBER 14?

There were several challenges around the "go live" date, mainly regarding the implementation of SCA. Banks generally managed to comply with the regulatory requirements in time (although some players' IT systems caused trouble), and their transition occurred with no major blackouts or public outcry. However, the majority of online merchants were not ready to become SCA compliant. As these difficulties with merchants were spread across most European markets and industries, the European Banking Authority announced on October 16, 2019 that the new SCA requirements would only be fully enforced from December 31, 2020.

Public outcry over the difficulties experienced by merchants was probably averted because regulators in many markets, such as Italy and Germany, had already extended the deadline for compliance shortly before it was due to go live. There were several reasons behind the decision, as reflected in our survey results. Most prominently, banks felt a prolonged period of uncertainty on the regulation hindered their implementation process. → B

TPPs also openly called for the postponements as they felt the banks' APIs were not yet ready and thus put their current services at risk. One of the key

B: The challenges
What was the biggest obstacle during PSD2 implementation?



Source: Roland Berger

points of criticism was that broadly defined regulatory requirements were used by some banks to limit or at least complicate access to their data. Some 77% of our interviewed banks said that the overall TPP criticism was justified. As a temporary fix, regulators told banks not to cut off existing, now non-compliant APIs (e.g. FinTS/ HBCI in Germany) until a stable solution is in place. The fact that 43% of banks stated that they provide only the minimum amount of required data while just 17% said they provided more than required highlights the hesitation in the banking community over sharing data – at least for free – with TPPs. → C

Another limiting factor for TPPs was the time it took to receive an official license, which was required to start the testing phase. While the process was often described as cumbersome by TPPs, some might also have underestimated the requirements, as market participants told us in the interviews.

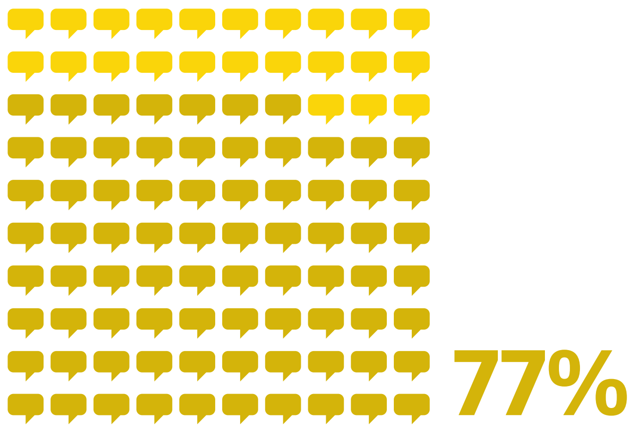
In addition, TPPs also criticized the lack of standardized interfaces. As the regulatory technical standards (RTS) of PSD2 do not detail a specific standard, different initiatives emerged in the vacuum. The United Kingdom set up the Open Banking Implementation Entity (OBIE), while the Berlin Group launched its NextGenPSD2 standard and France developed STET. Other European countries then adopted one of these. While most European banks now adhere to the NextGenPSD2 standard, there is room for individualization. For example, the NextGenPSD2 standard alone has six possible variants of an authentication procedure. This greatly increases complexity for TPPs. And while 56% of banks stated that they feel the lack of clear standardization under PSD2 is a "missed chance", 80% were confident that standards in Europe will converge over time.

The launch of PSD2 also gave rise to many positives, however. For example, Portugal took a major step towards Open Banking after SIBS, the local payment processor, launched an API platform that brings together 24 financial institutions, giving TPPs access to 95% of bank accounts in Portugal. The initiative covers account information, payment initiation and availability of funds. In Belgium, the four largest banks (BNPPF, ING, KBC and Belfius) backed the platform Ibanity, which helps to connect to a large range of banking services. And in Italy, some 70% of the country's banks joined the PSD2 platform CBI Globe, developed by the CBI Consortium with Nexi as a technological partner.

Also, despite the delays in key European markets, industry players now seem to be willing to fix existing problems. In Germany, for example, both banks and TPPs declared in a joint statement in October that they see PSD2 not only as a regulatory obligation, but also as an opportunity to establish a European payment scheme.

C: Fair enough

The number of interviewed banks that thought the criticism by TPPs was justified



Source: Roland Berger

1.2 / A missed chance

WHY BANKS FAILED TO MEET THEIR STRATEGIC AMBITIONS FOR PSD2

Open Banking is not a completely new concept to the banking industry. Digitization over the past decade led to the introduction of several initiatives and TPPs well before PSD2, and access to clients' data was previously possible through techniques such as screen-scraping (where data is copied from the on-screen display of one application to another). Moreover, standards like FinTS or EBICS also belong to an "Open Banking" world. APIs are also nothing new for the industry: for example, France's Credit Agricole launched an API store in 2012, Spain's BBVA – in a step towards Open Banking – made APIs available for TPPs in 2017 and the Dutch ING launched its API developer portal in 2018.

"Financial data has become a commodity, and clients are free to choose which provider can use it. With banks therefore losing a competitive advantage, the big challenge for them was how to reshape their business model to benefit from the new rules."

Sebastian Maus
Partner

The big shift under PSD2, however, is the setting of a regulatory framework to transfer ownership of client data from banks to clients, requiring all banks to implement APIs. Financial data has become a commodity, and clients are free to choose which provider can use it. With banks therefore losing a competitive advantage, the big challenge for them was how to reshape their business model to benefit from the new rules.

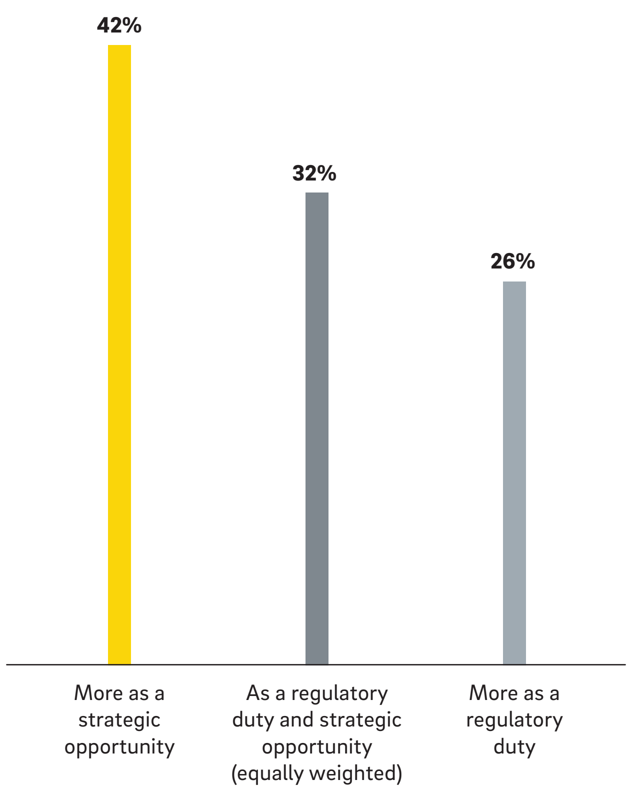
When details of PSD2 were first published in 2015, almost all banks – after some criticism over opening up the customer interface – stressed the strategic benefits of giving and having access to client data. Many were convinced it was an opportunity and not a threat – a chance to increase revenues. Asked how they approached PSD2, 42% of the banks answered "strategically" and 32% said "as a strategic opportunity and regulatory duty". Yet by fall 2019, most banks in most markets had achieved few of these strategic ambitions. In fact, we believe banks were not ready to strategically exploit PSD2, despite what they said before. → D

Our results underline the fact that banks failed to rise to the challenge. For example, only a few positioned themselves as a TPP as of September 14, aggregating account information using the new PSD2 interfaces or initiating payments on other accounts. Only 35% said they were now ready to act as a TPP – either as an Account Information Service Provider (AISP) or a Payment Initiation Service Provider (PISP). Spain and Portugal, however, bucked the trend, with most of their banks performing highly on AISP and PISP readiness. Some 62% of our interviewed banks said they at least plan to eventually act as a TPP, with the majority aiming to become both an AISP and a PISP.

But overall, this does not reflect a strategic approach to the current European banking landscape. Banks sit on an invaluable treasure trove of personal data, and a strategic approach would enhance this by leveraging PSD2 to access external data. This would open the door to better value-added services and, in turn, new clients.

In summary, we found a large gap between initial strategic ambitions and the actual approach most banks took on PSD2. This is not to say banks were not willing. Rather that the strong headwinds currently facing the industry – low interest rates, tighter regulation or a challenging IT infrastructure – meant some topics, such as a proactive PSD2 strategy, got sidelined. TPPs are moving fast to fill this gap. Bigtechs and fintechs seem to more clearly grasp the value of data and access to it. And the larger the gap between what is possible under PSD2 and what banks actually deliver, the more likely it is that TPPs will step in to fill it. We discuss these opportunities and threats in the next chapter.

D: Plan of attack
How would you say your bank approached PSD2?



Source: Roland Berger

2

Threat or opportunity? */ A look at the implications of PSD2 for banks*

2.1 / The threats

PSD2 POSES SEVERAL CHALLENGES FOR BANKS

The positioning of traditional banking models along the value chain is at higher risk now than ever before. PSD2 is disrupting banks' previously strong and integrated business, right down to the ownership of the client relationship and interface. Thus, we believe that the financial services value chain will significantly change, with a stronger distinction between different roles.

But the banks we interviewed are still confident they have the assets to defend their market position. For example, 54% believe that their high level of customer trust offers strong protection against other players. But with competition so fierce, we are less certain that client loyalty can be considered a defensive lever or a barrier to new entrants. → E

To better understand the disruption in the industry, in this chapter we consider the main threats and opportunities presented by PSD2, as well as the rivals banks face in this brave new world. According to our survey, banks see increased competition and the loss of control of the client relationship to other players (likely not financial services actors) as the greatest threats. Competition will put pressure on margins and the loss of the client interface could further result in banks becoming mere financial product "factories" or pure infrastructure providers, with a limited connection to their customers – they would become "commoditized". → F

This highlights a fact that is crucial in the digital world: financial services are typically secondary products that serve an underlying primary product or client demand (e.g. a mortgage helps to buy a house and a payment transaction helps to buy a coffee). It matters because customers spend a lot of time surfing on commercial platforms such as Amazon or Facebook, but very little on their online bank. Such bigtech players have huge customer bases, to whom they could offer financial services via APIs – without even having a banking license.

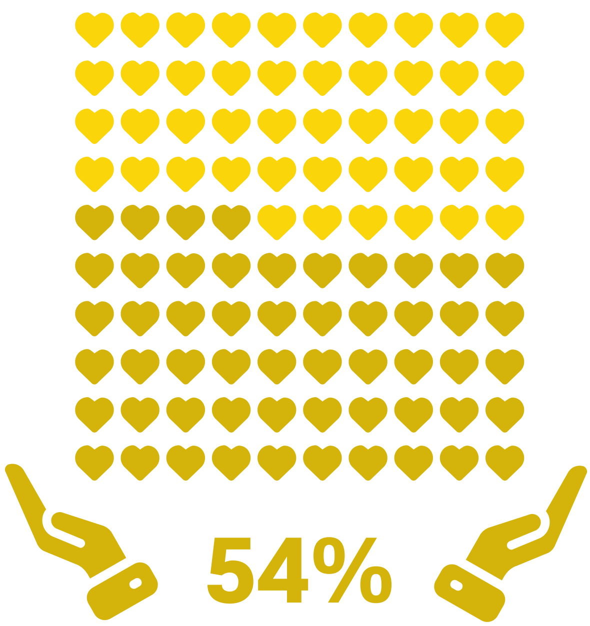
"Traditional banks will need to make extensive investments, innovate and build targeted value propositions. They'll also need to foster a client-centric culture as well as reducing the time-to-market – all areas that bigtechs are strong in and where many banks have so far underperformed."

Pontus Mannberg
Partner

To successfully compete, traditional banks will need to make large and well-targeted investments, constantly innovate and adapt their value proposition. They'll also need a strong culture of client-centricity and reduced time-to-market – all areas that bigtechs are strong in and where many banks have so far underdelivered. That said, while bigtechs are immediately threatening other areas of the industry, such as payments, they are not yet in the PSD2 arena. Another major threat mentioned by banks is that they will not be paid for sharing data through APIs. Instead, they see PSD2 as forcing them to give a valuable competitive advantage – data – away for free. While TPPs only require a license and the consent of the client to access data, banks have to shoulder the development and maintenance costs of the PSD2 API infrastructure – not to mention the huge obligations of a banking license. To partially compensate for this, banks are, for example, working on "Premium PSD2" services, where TPPs are given more data than required in exchange for remuneration.

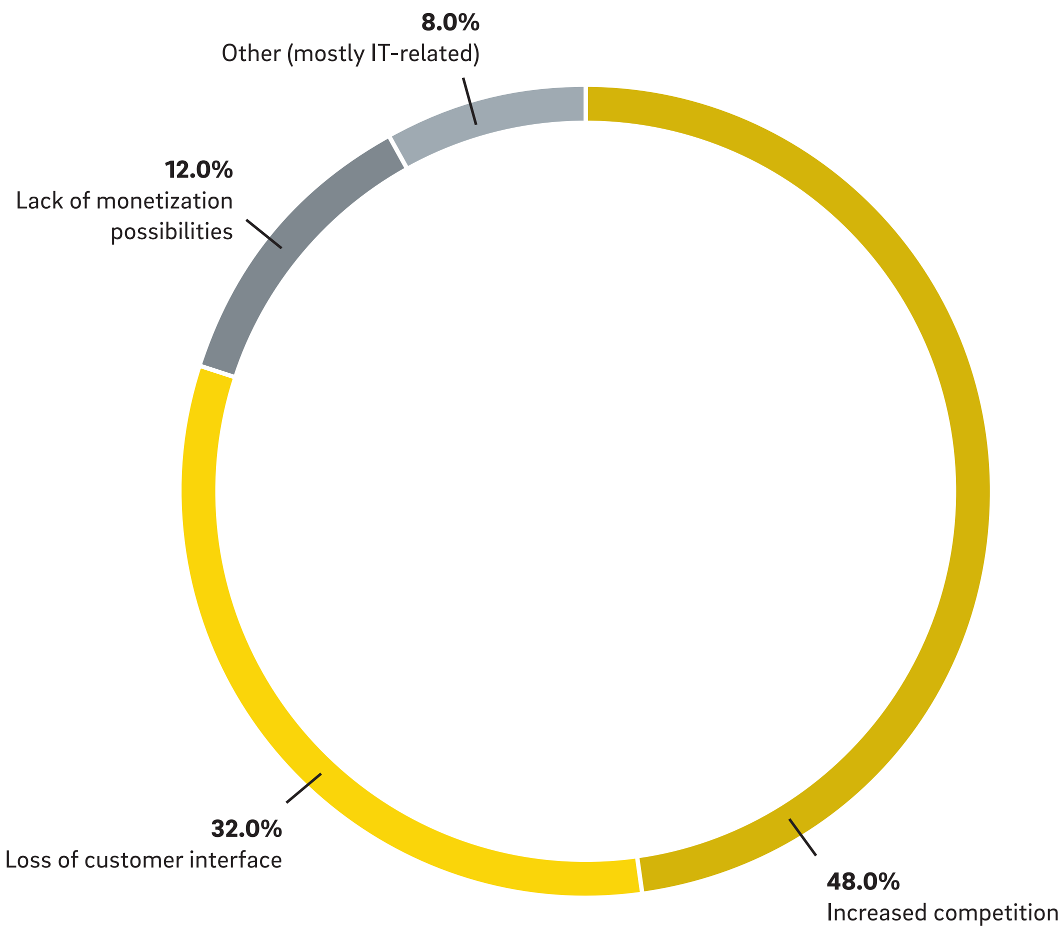
E: Keeping faith

The proportion of banks that said a high level of customer trust is their main protection against other market players



Source: Roland Berger

F: Fear factors
What are the key threats emerging from PSD2?



Source: Roland Berger

2.2 / The opportunities

PSD2 ALSO OFFERS PLENTY OF POTENTIAL REWARDS

Banks believe that PSD2 presents five clear opportunities. The first is the provision of new value-added services for existing clients, to help maintain loyalty and increase revenues. APIs will be key here, enabling new personal finance management (PFM) tools, account-based payments via PISP and the opening up of their data so clients can take advantage of tailor-made TPP services. Premium PSD2 services are another option: 72% of our interviewed banks plan to offer such services, most with the intention of better serving clients (either through the bank or external providers). Away from core products, banks also see the potential of, for example, aggregating transaction data to provide greatly improved credit scoring services. → G

Second, banks envisage access to a more comprehensive data set on existing clients. In effect, this means becoming a TPP by leveraging other banks' data. It would facilitate increased cross-selling, targeted advertising, improved scoring models and simpler background checks. Also, smaller banks and neobanks will not have to worry about (or invest in) becoming a client's primary banking relationship as they will still have access to, and an overview of, their data.

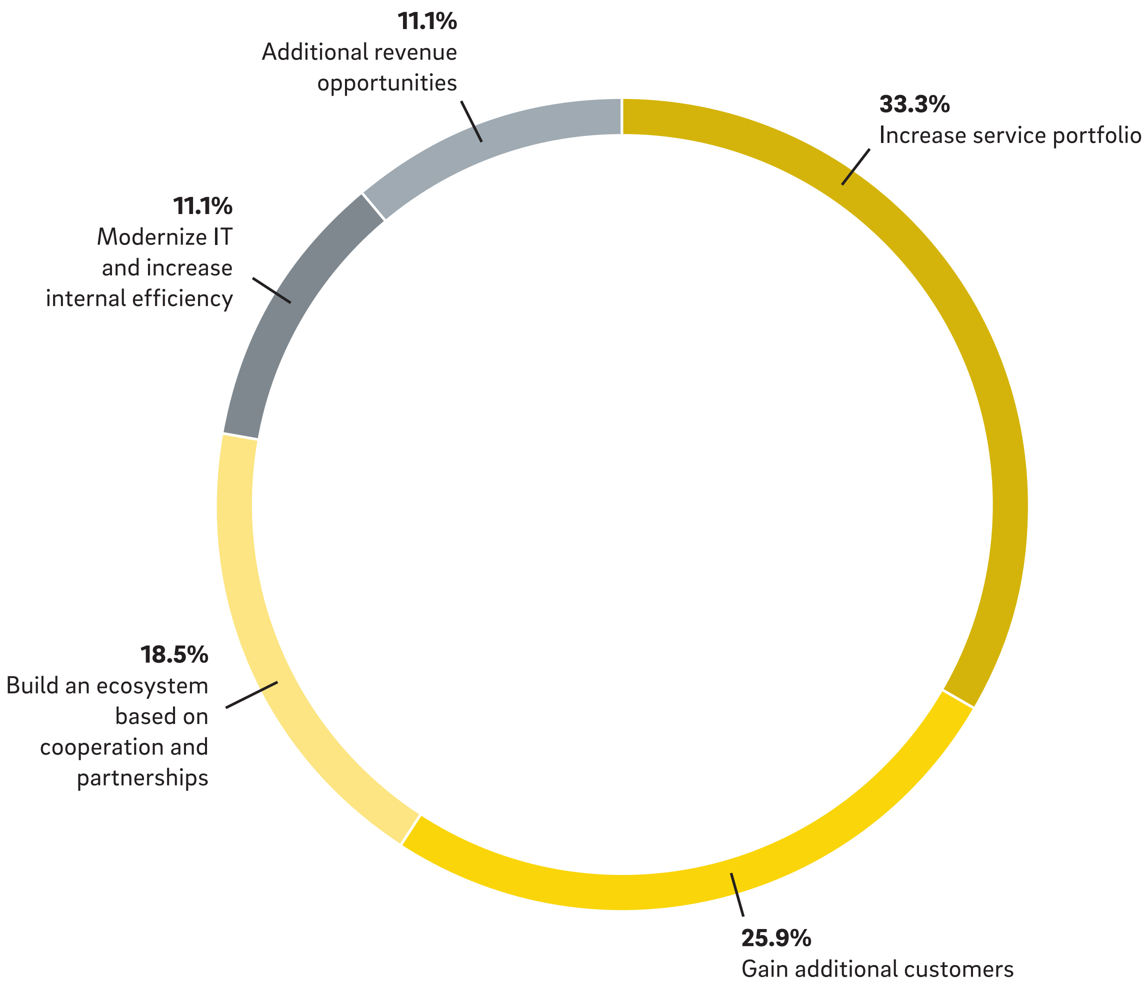
Next, by acting as a TPP, banks could attract new customers. For example, PFMs could be used to tempt non-bank users to join the bank, or with the opening up of data access, prospects could be targeted. Are they making above market rate loan repayments? Why not offer debt restructuring at better rates?

Fourth, the new regulation and the resulting increased use of APIs, could add to the modernization of IT architecture and internal processes. With many banks struggling with outdated IT systems, APIs provide a standardized way to exchange information on clearly defined data points – even for unharmonized systems.

Finally, PSD2 offers the chance to move towards Open Banking, particularly via a platform model. For small players, this may mean focusing on developing best-in-class products and marketing them to customers through others' platforms. Or, for larger banks, it may mean building a platform themselves and allowing other providers, including those offering non-banking products, to offer their services on it. Some banks are already moving in this direction. For example, BancoPosta (part of Poste Italiane) uses APIs to give clients access to a range of other banks' products, while at the same time offering its own services to other institutions.

To summarize, after initial concerns, 81% of European banks now think PSD2 presents more opportunities than threats. Many also believe that the opportunities noted above outweigh any threats, even though the pace of disruption is not yet clear. Perhaps most notably, a majority of banks believe Open Banking is inevitable, underlining the importance of embracing PSD2.

G: Taking chances
What are the key opportunities emerging from PSD2?



Source: Roland Berger

2.3 / The challengers

BANKS FACE COMPETITION FROM ACROSS THE FINANCIAL SERVICES INDUSTRY

Who will be the key rivals of banks in the post-PSD2 world? In the short term, the barbarians at the gate are likely to be other major banks or neobanks.

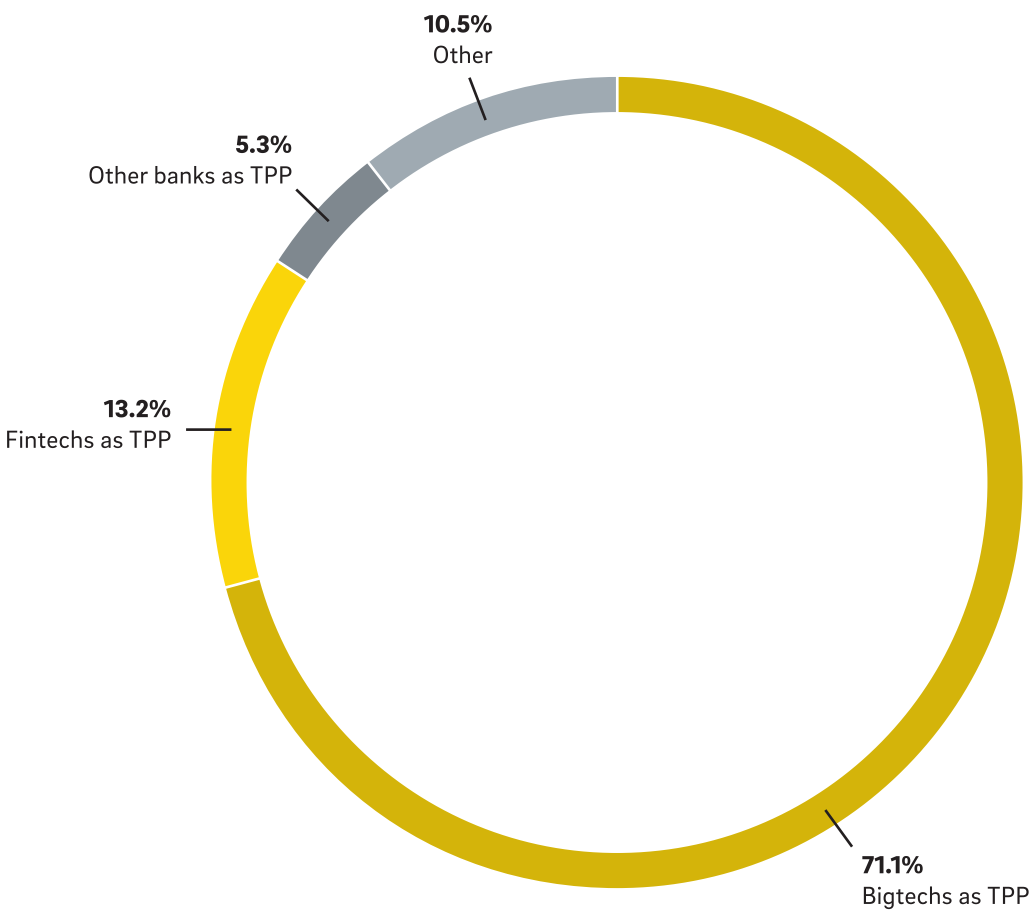
Incumbent banks already have a broad range of financial services and products, and PSD2 now allows them – via the Account Information Service – to gather a complete picture of their clients, for example if they have accounts elsewhere. This enables them to improve their offering (right products and services, right pricing, right advertising, etc). Neobanks, meanwhile, have the advantage of a modern IT infrastructure, which often is already API based, as well as superior data analytics capabilities that support the timely development of use cases and monetization opportunities. However, they often lack the broad product range to turn the data into new product sales.

Time-to-market of new services is a key aspect here. When it comes to account aggregation tools, for example, clients are unlikely to consolidate their finances in different tools several times. Thus, the first provider to offer compelling services is likely to win out.

In the longer term, however, 71% of banks think the main threat will come from bigtechs, such as Amazon (most cited), Google or Facebook. All of these have relevant and large customer bases and a strong willingness to expand their services to new profitable areas. In addition, standardization makes it easier for them to attack the European market, and they have huge innovation budgets and tech resources to do so. → H

Banks are also concerned that the tech giants are unpredictable, and that there is a competitive imbalance because they are not required to open up their huge data troves to TPPs. Such fears are well founded. Although bigtechs showed only modest ambitions to leverage APIs in our interviews, their expansion into the financial services value chain is already well underway, as evidenced by the growth of Apple and Google in payments and PayPal in financing. Notably, few respondents perceive fintechs as a threat, citing their limited scale and customer reach. This is especially true for markets such as Spain, where the major banks – following a wave of consolidation – already have a very advanced digital offering. Instead, banks see fintechs as potential partners who can help them to innovate and achieve faster time-to-market. Such partnerships will be crucial to the success of banks in the strategic leverage of PSD2 and beyond.

H: Dangerous opponents
Which market players pose the biggest threat under PSD2?



Source: Roland Berger

3

From PSD2 to Open Banking /

The outlook for different players in the financial services value chain

3.1 / PSD2 scenario

HOW DO THE DIFFERENT PLAYERS STAND TO BENEFIT?

PSD2 will likely hasten the development and introduction of Open Banking. Its main objective is to create an ecosystem offering customized services, delivered by multiple providers and sources via APIs. These act as a technological backbone linking financial institutions and TPPs, allowing both to create new services.

But as we have seen, many banks missed the opportunity to launch PSD2 services when the regulation first went live. So what can banks do, and how do these scenarios and strategic approaches compare with fintechs and bigtechs?

In this chapter we draw on our survey results to examine possible scenarios of different market players in both the PSD2 and Open Banking worlds. We differentiate between five types of players:

1) Large traditional universal banks

2) Smaller niche/regional banks

3) Monoliners specializing in a specific product category

4) Neobanks following a digital first approach

5) Bigtech firms

At the end of the chapter, we also make some predictions about the future of Open Banking.

The introduction of PSD2 offers significant opportunities for the different types of players in the financial services industry.

For **large traditional banks** and **smaller regional banks**, the main opportunities of PSD2 lie in the better understanding of clients. Clients in Europe typically have more than one bank account at different institutes, so getting information on these offers an attractive opportunity. The additional data will contribute to a much more comprehensive view on clients – and therefore a better understanding of their needs and circumstances. This, in turn, can be used to increase sales or improve risk management capabilities. It also offers banks the chance to provide better services such as comparisons ("how other people are spending/saving") or advice ("based on your account balance, this product may interest you").

For mainly large traditional banks, another anchor could be the development of new offerings around the payment initiation service. Instead of relying on e-commerce payment methods or the large card networks at the point of sale (POS), who take a cut, banks could offer account-based e-commerce and POS payment solutions via PSD2 APIs. Doing so could enable these players to strengthen their position as the relationship expert at the client interface.

Monoliners tend to have a very limited view of their clients (for a credit provider, typically the credit worthiness at any given time). But PDS2 is an important stepping stone for them to generate a much broader and better understanding. Instead of a one-time assessment of credit worthiness, a credit provider can keep track of an account balance and get a better assessment of the default risk during the credit term. Monoliners can also use PSD2 to improve their efficiency and pricing or even extend their competitive advantage in their niche area compared to universal banks, strengthening their positioning as product experts.

The new kids on the block – **neobanks** – are positioned to take a slightly different approach to PSD2. Their focus is on quickly growing their client base. While becoming the primary banking relationship of a client can sometimes be an uphill battle, under PSD2 they can acquire data to better assess clients and their needs without holding the primary account. It also allows them to use account information services to offer value-added services at the client interface, including, for example, analytics about transaction data, budgeting or forecasting tools, and optimization of existing subscriptions. But while neobanks clearly want to become the new "relationship experts", they are limited by their inability to offer the full product range. As an example, a client's data may show that they could make significant savings by buying an apartment instead of renting, but the neobank does not offer mortgages.

Bigtechs are also in an excellent position to exploit PSD2, as they already have an established brand and significant customer base. Integrating account information within their platform or initiating payments will heighten the seamless user experience they are aiming for. They can also enhance their already huge data troves to develop next-level financial products and services. In addition, existing products can be strengthened with even more data, enabling, for example, an improved next best offer.

While it seems that all players are set to benefit from PSD2, one should not forget that the described scenarios are competing ones. For example, once a neobank has positioned itself as a client's go-to account aggregator, that client is very unlikely to grant other institutions access to his accounts. In this case, the traditional bank – formerly the relationship expert – risks becoming a pure infrastructure provider. Conversely, if a large traditional bank develops a great account aggregator, clients may not see the need to open a neobank account.

"PSD2 will likely hasten the development and introduction of Open Banking. In an Open Banking scenario we will see an ecosystem offering customized services, delivered by multiple providers and sources, notably via APIs."

Thierry Quesnel
Partner

3.2 / Open Banking scenario

HOW DO THE DIFFERENT PLAYERS STAND TO BENEFIT?

In the world of Open Banking, we envisage that the positioning of market players described above will be even more strongly differentiated. The topic of identifying the right positioning and defining a strategy on how to get there is well understood: 80% of our interviewed banks believe Open Banking will remain a priority for top management. Yet only a few have set up dedicated departments to work on it. Even where this has been done, the greatest challenge is execution – something banks currently struggle with as they have too many other priorities.

By using their market power and customer reach, **large traditional banks** may successfully build up their own Open Banking ecosystems around existing services. Providing clients with a one-stop shop for financial services products, coupled with the possibility of personal advice, means they can become true relationship experts – and even product experts in certain categories due to their scale and skills. However, they would also need to be willing to offer products and services from competitors, ensuring the best recommendations for their clients.

Compared to large banks, **smaller regional banks** will focus more on their unique strengths, such as a close client relationship, and build compelling products around these strengths. Other products outside their areas of competitive advantage can be seamlessly integrated through APIs in Open Banking. Smaller banks could also share their client data with TPPs to develop superior offerings based on the APIs. This relieves smaller players of the need to develop all services themselves – something they often do not have the scale to achieve.

Monoliners can strongly leverage open infrastructure to become one of the winners in an Open Banking scenario. Here they can readily offer their products to a large client base over different platforms. Increased sales volume will amplify economies of scale even further, allowing them to truly stand out in terms of capabilities and pricing. With access to banks' client data, they can further enrich their products. They may also incorporate their specialization (for example, extensive risk assessment capability for a niche type of client) in the customer journeys of full-service banks for a fee.

While traditional banks in particular often face challenges due to legacy infrastructure, **neobanks** usually do not face these problems and have open platforms with APIs at their core. Open Banking allows them to leverage their superior user interface even further, for example by increasingly integrating even non-financial services products and offerings. The more platform models become established in the banking world, the more important it is to have captured the client interface – and neobanks are on a promising path in this regard. While a PSD2 world only offers account information and payment initiation services, an Open Banking world allows the exchange of all kinds of data. It also makes

"It may well be that players with no banking products of their own will become the client relationship experts in the Open Banking era."

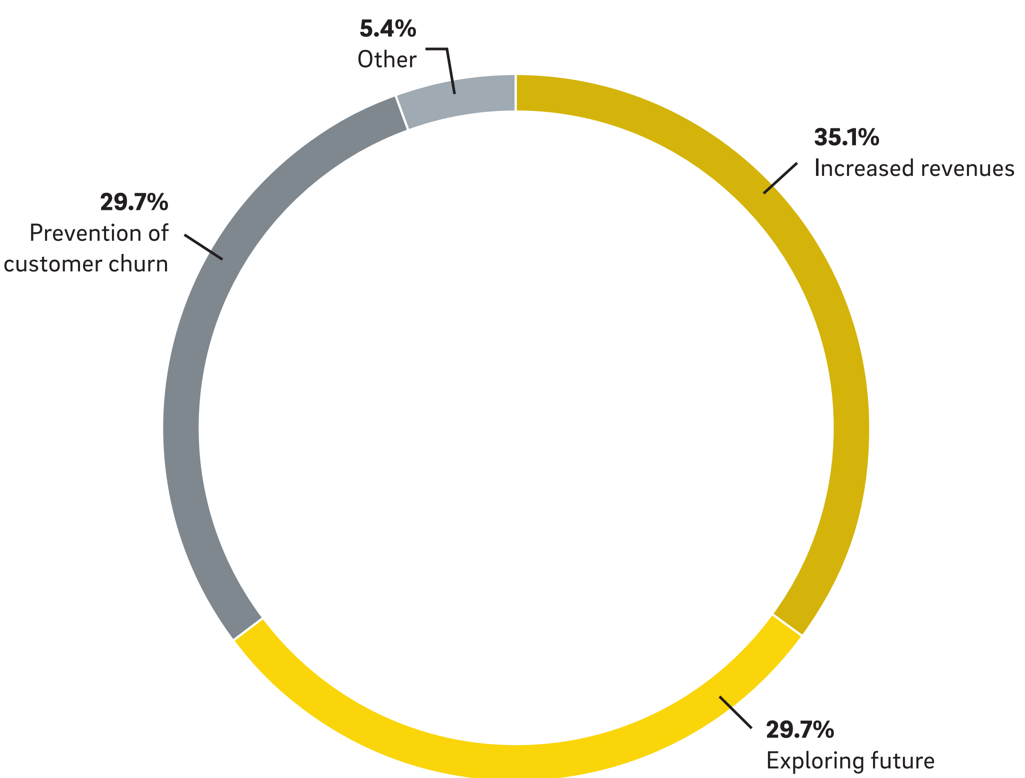
Frank Schrijver
Principal

it possible to contract several products directly via the interface of a neobank, for example those of monoliners, with highly competitive prices. → I

With their broad client bases, daily touch points, large datasets and deep pockets, **bigtechs** already dominate the platform model promoted by Open Banking – albeit currently with a limited offering of financial services products. But with APIs, banking products can easily be added to the service portfolio of bigtechs. Bigtechs will use their superior user interface to integrate financial services seamlessly into their customer journey and thus occupy the client interface. Indeed, it may well be that the players with the least financial market knowledge become the banking relationship experts in the Open Banking future.

I: Motivating factors

What is the key driver for you to develop Open Banking use cases?



Source: Roland Berger

3.3 / **Key predictions**

WHAT WILL HAPPEN IN THE OPEN BANKING FUTURE

An Open Banking scenario will supply the fundament for the development of platform models in the financial services sector. Bigtechs, which have already successfully established platform models in other segments, may play a significant role

These platforms will aggregate financial services, particularly daily banking products, delivering bank-without-a-bank models by connecting (via APIs) with the factories that offer the best client experience/cost effectiveness

Payment flows will shift from mobile banking apps to integrated client journeys (for example, directly splitting a bill in a taxi app), reducing clients' direct interaction with banks

There is a risk that banks will become providers of white label solutions for others to distribute

There will be changes to the value chain, which will become more fragmented, with niche players offering services only, delivering products or acting only at the client interface

4

Our recommendations /

A guide to succeeding in the new PSD2 and Open Banking world

Our study covered a broad range of financial institutions of different sizes, from different markets and with different customer focuses. Naturally, they all had different approaches to PSD2 strategy and implementation. But despite these differences, we believe that each can benefit from some common recommendations. In this chapter we outline five actions that any decision maker should be taking in relation to the threats and opportunities presented by PSD2 and Open Banking, as the two are now closely entwined.

Ensure PSD2 regulatory compliance

For obvious reasons, we first strongly recommend ensuring regulatory compliance before developing an Open Banking strategy. We found that in the race to meet the September 14 deadline, some banks built stopgaps rather than well-designed solutions. We advise fixing these before regulators become more critical in their assessments, and laying the foundations for the inevitable Open Banking scenario.

Identify strategic assets and their opportunities

Determining what value-creating opportunities the bank's strategic assets offer can be a tricky task. To fulfill it, we recommend setting up a dedicated cross-organization team. Its first job should be to identify specific data assets where the bank or an external provider can add value. Next, it should seek out particular processes or value chain components that can be streamlined or improved, for example fraud prevention, pricing, coverage, marketing or next-best product recommendations. The bank may also be able to leverage its position in the value chain to offer additional opportunities – the key is to play to current or targeted strengths in the value chain.

Invest to mitigate at-risk profit pools

To address the risk of short-term losses resulting from PSD2, review and quantify the various profits pools that are at risk over time (in the short, medium and long term) from a strategic and financial perspective. In key risk areas, define mitigating activities and investments (defensive and offensive) and put in place an action plan. Sample remedies might be using analytics to anticipate churn as customers give their data away, drawing up customer win-back strategies by segment, making bolt-on acquisitions and reviewing pricing strategies.

Use market analysis to grow the bank's ecosystem

It's important to review parts of the business/value chain to determine which could be enhanced by partnerships. These might include the product portfolio, customer interface or data sources. Identify areas where there is a strategic rationale to expand, and pinpoint potential affinity partners that could enhance the bank's ecosystem, for example other banks, insurers, telcos, tech companies, retailers, etc. Are there any other platforms where the bank could push its products? The line between friend and foe isn't always clear here, so it's worth conducting scenario analyses.

Develop an overall Open Banking strategy

A strong, clear strategy is key to achieving Open Banking success. It should include a concrete roadmap and prioritized actions that cover the short, medium and long term. Such an action plan also gives stakeholders a feeling that Open Banking is taken seriously. Who wants to work for a bank if it has no clear vision for the future?

Conclusion

Adapt or die! Now's the time for banks to proactively shape their Open Banking future

We believe that PSD2 and Open Banking will significantly change the financial services value chain, with a stronger distinction between the different market players and much more data-oriented views on banking services.

According to our interviews, there is a near unanimous view that traditional banks are under pressure at the client interface, a process that PSD2 will accelerate. Banks have not yet found a solution to these threats. Our survey shows that they have taken little proactive or strategic action towards Open Banking, preferring instead to adopt a wait-and-see approach. However, we expect these efforts to accelerate in the near term, with banks moving from a strategic planning phase to a (disruptive) adjustment of their business models. If you as a bank have not yet done so, we highly recommend taking a step back and thoroughly planning your strategic positioning in an Open Banking world.

Beyond the strategy, banks will need to start executing their plans: bringing first use cases to the market, testing client feedback and acting on it. It's time to bring ideas from the flipchart to the clients.

But don't get too carried away. As the value chain becomes increasingly fragmented and is increasingly enriched by non-financial services products, it's clear that no bank can deliver all use cases. Hence, the focus of every bank should be primarily on the identification of deliverable customer journeys and the selection of partners that will enable delivery excellence.

Ultimately, we are convinced that the future is one of an Open Banking world. But we are equally convinced that only those players that proactively shape their own future will succeed in it. PSD2 laid the regulatory foundations of such a new world – now it is up to banks to realize it. Those who do not risk falling by the wayside.

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