There'll be an app for that

HOW RETAIL BANKING IS GOING TO CHANGE

A powerful combination of technology change and regulatory action is planned to deliver "common open data standards" in banking within the next two years. For those outside of the industry this dry terminology may detract from the scale of competitive force and disruptive innovation that could result. This briefing describes the changes that are happening and explores what could follow.

The language of market-watchers and regulators of financial services has changed. Where once there were concerns about 'branch networks', 'challenger banks', 'financial illiteracy' and 'transparent APRs', now there is talk of 'data standards', 'third party access', 'user experience' and 'APIs'. New regulations at EC and UK level, plus the recent outcome of the Competition and Market Authority's (CMA) three-year investigation into retail banking, will bring changes that could dramatically change the competitive environment for retail banks in the UK and the way that everyone uses their services.

The big shift will be allowing third-party businesses to gain access to banking data and payments mechanisms. Regulators and policy-makers are hoping that this will kick-start innovation and invigorate retail competition through new digital services and new business models. But since any such access will be dependent on customers granting permission to use their data, it will be vital for new services to win customers over.

Why now?

At the end of 2015, the European Council passed the second Payment Services Directive (PSD2), giving member states two years to implement requirements for third party access to banking data and standard by which it is presented. The principles have already been embraced by HM Treasury, which started its own work on Open Data in Banking back in 2014, leading to the formation of the Open Banking Working Group. So while the imminent prospect of Brexit looms over the status of EC legislation in the UK, the reality is that a shift to open banking standards is unlikely to be derailed.

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Adding to this are the recently-published conclusions of the CMA's three-year inquiry into competition for retail and small business current accounts and overdrafts.[1] The remedies include an order to the largest banks in GB and NI to develop and adopt an open banking 'API' standard by early 2018, with first implementation required as early as March 2017.

What does it mean?

There will be a progressive opening up of banking information that was previously private or difficult to access, via open Application Programming Interfaces (APIs). APIs provide a set of protocols that allow one system to talk to another and share data. It's APIs that let you share a newspaper article on Facebook or read reviews of nearby restaurants on your phone. And when you look at the integrated

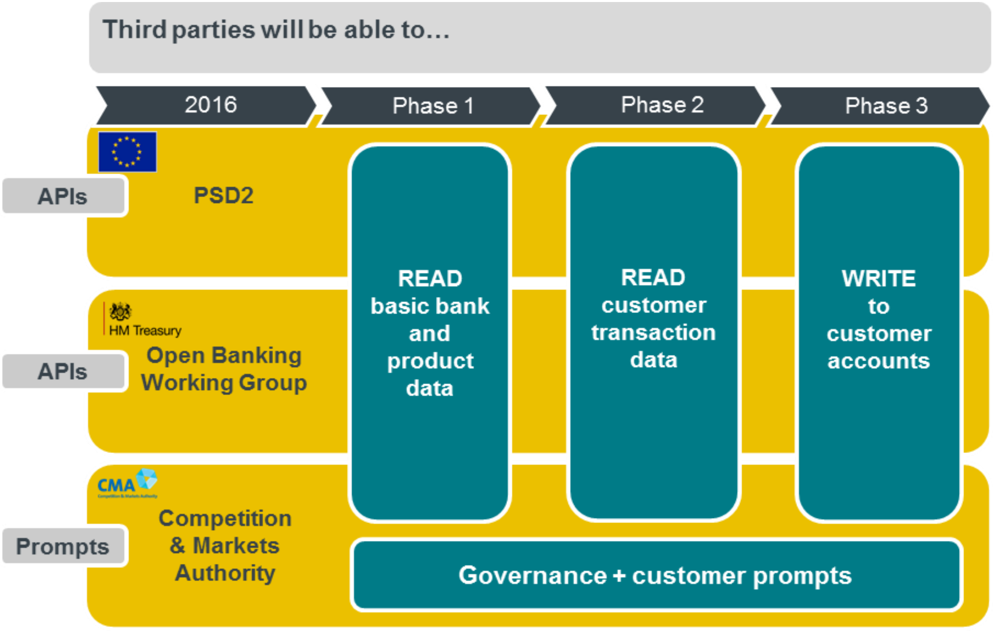
[1] Competition and Markets Authority (2016): *Retail Banking market investigation – Final Report,* 9 August 2016

functions of an app like CityMapper (which combines your location with street and transport mapping, plus real-time data on trains, traffic and car services to give you a simple menu of transport options from A to B), then the potential for using APIs to offer new services starts to become clear.

Banks will have to provide open APIs that, subject to appropriate permission from an individual customer, will enable third parties to:

- read bank-specific data such as product and pricing information; branch location and opening times, and quality measures;
- read customer-specific account information such as available balances and transaction histories; and
- write to a customer-specific payment account to enable movement of funds in and out.

Timetable for Open Banking.



The shape of things to come

Trying to predict the path of innovation is never easy. But by extrapolating from some of the services that are already in use, it's clear that the introduction of open banking standards could rapidly result in a rash of new products and services.

- **Bespoke price comparison services.** Price comparison websites are a well-established sales channel for many insurance markets and have been growing in importance for banking products. Easy, consistent and real-time access to product, price and quality information (by accessing bank APIs) will make their job a lot easier and allow them to make better comparisons of sometimes complex products, such as the current account. But the real change could come from the ability to rapidly provide bespoke comparisons based on a customer's actual banking behaviour. By granting access to their transaction history a customer could receive a set of personalised comparisons highlighting the products and features most cost-effective and relevant to them.
- **Personal aggregators.** Because many people hold banking products with multiple providers, gaining a holistic view of their financial position can be difficult and time-consuming. With a customer's permission, a Personal Aggregator app could offer a single complete and up-to-date overview without the customer having to access multiple accounts, services and logins.

- **Nudgers.** Going a step further, a personal aggregator with a modicum of intelligent programming (or AI) would be in a position to offer suggestions, reminders, and prompts that nudge people to improve their day-to-day financial management. Whilst there are some regulatory hurdles to be explored, ‘nudgers’ when done well, could be one of the new services that will add real value for some people, extending and modernising the benefits derived from the crude text alerts and letters currently used.
- **Payment initiators.** Customers’ ability to grant third parties permission to write payments to or from their accounts in real-time could have a dramatic impact on both payments services available and the economics of the transactions fees that apply to them. While in some ways the functionality is akin to a direct debit, the speed of initiation and payment could lead to very different applications. In the first instance we might expect large merchants such as Amazon or utility companies to develop their own mechanisms to circumvent traditional payments services. But these changes could also pave the way for new payments services to evolve, with a new provider debiting money from a customer’s account and crediting it to a retailer at the time of a sale.
- **Personal Financial Agents.** If you combine the overview of a Personal Aggregator with the common sense suggestions of a Nudger and the real-time ability to move funds of a Payment Initiator, then you can start to envisage how a “Personal Financial Agent” might help customers to optimise their use of different services. In the same way that some banks offer simple “sweeping” services to help customers move funds between savings and current accounts, a third party application could move funds between different providers; optimise the timing of credit card, loan and utility bill payments; and recommend entirely different products.

Innovation along these lines – and more radical ones that are hard to foresee - have the power to dramatically change customer behaviour and transform the way that people access and use financial services. And given the existence of a vibrant, creative and well-funded FinTech community in London, the pace of change could be rapid. The challenge for existing banks is whether they can ride the wave rather than be disintermediated as products are unbundled.

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