

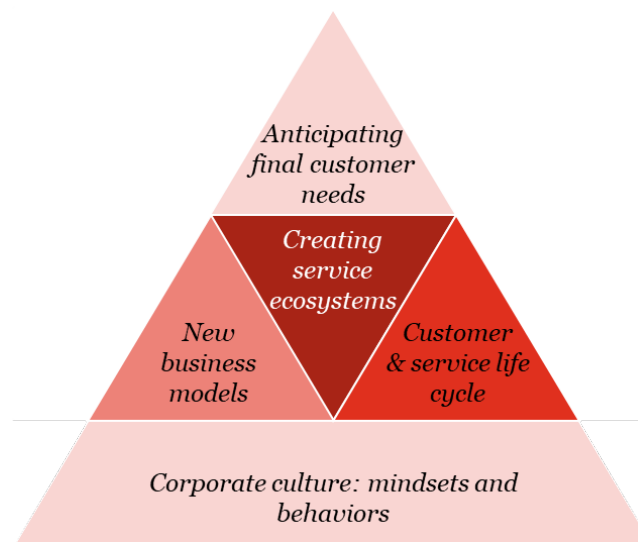


Five ingredients for Banks to catch the Open Banking opportunities

Life and habits of consumers in Europe have radically changed moving towards a constant research for digital and convenient services, looking for new ways to experience them. Seizing such opportunities, new players are entering into the Financial Services market, increasing the competition. Moreover, new technologies are spreading, enabling - for instance – not only an easy and safe dialogue outside the financial services arena (through APIs), but also the possibility to analyse data of customers in an easier way. Finally, the need to control and regulate these new players has given birth to a set of new rules disciplining all the elements of the current scenario.

The whole mix of these factors is paving the way to the **Open Banking opportunities**.

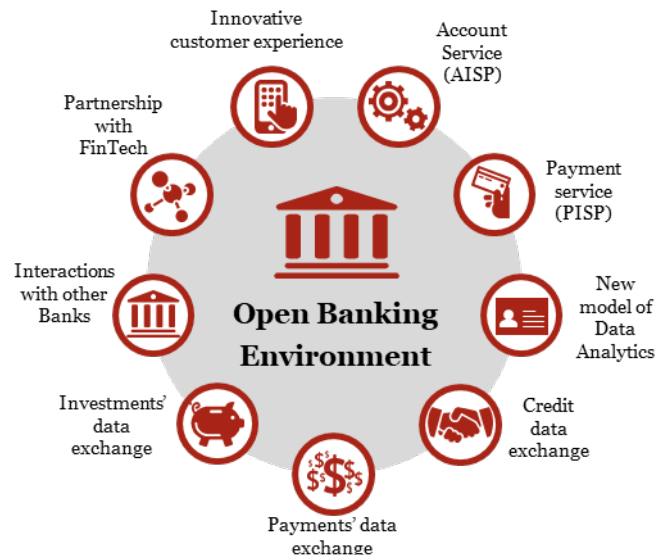
Open Banking is a collaboration model among several players – banking and non-banking – that, using open technological platforms, sharing knowledge, work environments, data and customer bases, creates services and products. This model can be already experienced nowadays: Banks willing to grab new opportunities need to consider, starting from today, five main aspects, the five PwC “ingredients”.



Source: 5 ingredients towards the Open Banking evolution – PwC analysis (2018)

- 1. Final customer needs anticipation:** Banks can understand final customer behaviour in advance thanks to the information already at their disposal. In this sense, Financial players are already running algorithms to identify customers’ financial needs starting from their behaviours and trying to create a cross selling path. Enlarging the perspective and the data sources (e.g. integrating information from other sources), Banks might reach a comprehensive view of customer needs during the entire lifecycle, enhancing the possibility to anticipate hidden needs. Some market players are already acting in this sense, despite owning less data than Banks. According to the PwC consumers survey, Financial Institutions as well have started noticing the importance of this aspect, declaring – seven out of ten of them – they consider data analytics as the most relevant technology to invest on.
- 2. Creation of service ecosystem:** the second ingredient is the development of new open business and service model, leveraging the collaboration with other players and giving birth to new digital environments. Today, Banks might exploit a wide range of partnerships: collaborations with FinTechs/startups guarantee new services, a faster go to market, and a simplified user experience. Banks might also exploit digital platforms for customer engagement which can simplify the interaction with customers as well as collaborating with

new players outside the banking ecosystem (e.g. from telco, media, entertainment, utilities), in order to enrich data information and anticipating customers' needs in a better way. Considering this, Banks and Financial Institutions do not stand still: almost half of them has already established a partnership with FinTechs and is currently engaged in it, and more than 80% of them plans a growth in their partnerships for the next years (according to the PwC Global FinTech Report). The new business model is the result of combinations of propositions to the final customer (e.g. Consumer or SME) from the participant players to the ecosystem.



Source: PwC analysis (2018)

- 3. New business models: once defined the new services to be developed and understood the digital ecosystem, the next step is evaluating which revenue models to adopt in the light of the business model definition.** *Revenue sharing* model is the most promising concept: it typically emerges in the market where Banks and *third parties* collaborate in the co-creation of a new service and share future revenues. On this path, Banks can overcome the traditional source of revenues looking at new possible incomes from new services such as API exposure, data monetization and advertising. On this topic, it is interesting to note that, a progressive increase of the impact of the commission component on total revenue has been observed in recent years, despite lower interest margins (38% in 2017 versus 26% in 2008 – according to PwC analysis on public financial statements), signal of how this new revenue stream is becoming more relevant from the Bank perspective. Furthermore, moving the perspective toward the final customer and leveraging from the web experiences, Banks can design some alternative innovative revenue models. Two relevant examples are the *freemium* (i.e. free trial service and premium functionalities under subscription) and the *pay per use* model (i.e. paying a service based on its effective usage – e.g. travel insurance, conciergerie).
- 4. Customer engagement and feedback measurement: the two pillars, which the fourth ingredient for the Open Banking is based on, are customer engagement and constant feedback measurement.** This aspect is going to increase the level of complexity for the Financial Services industry: keeping the promise made to the customers means ensuring them an experience of services, solutions, responses along the entire customer journey. This implies that Banks should have the capability to analyse information

collected from every single touch point during the customer interaction and the ability to gather feedback continuously in real time. The key success factor in order to obtain a constant customer engagement, and probably the main challenge for the Financial Services organisation, is the ability to react in time to close the gap between expectation and experience, enabling in this way the possibility to create new up- and cross-selling opportunities (e.g. new digital players capture the voice of the customer's feedback and analyse it in real-time in order to address new opportunities).

5. Cultural change: the foundation in order to realise an Open Banking model is a renewed firm culture. Financial Institutions of tomorrow have to start considering a deep change in their DNA to move out of the traditional patterns.

This implies starting to think like start-ups, shifting to a new concept of organisation where the experimental approach underpins the design of products and the delivery of services and where all business functions are involved in the customers' feedbacks monitoring process. Banks should feel the necessity to start immediately this path, since, according to PwC Global FinTech Report, more than 50% of FinTechs that worked with traditional Financial Institutions faced problems with the big difference in management and culture. To reach this cultural shift, Banks need to create new spaces and environments, sometimes outside the traditional building, where including the right mix of competencies, acquiring sensitivity towards the digital environment and increasing specific digital skills to boost this process.

Combining all the previous ingredients, Banks have the possibility to build-up a proper Open Banking strategy that paves the way for the Financial Services industry transformation and for the banking model of the future. The problem should be faced starting from the exploitation of the available data and of different sources of information to discover new needs and create new offering systems. Moreover, Banks should not forget scouting out the collaboration opportunities, integrating new non-traditional sources of revenue, analysing the customer journey, identifying the contact points, supervising and measuring the customer satisfaction via feedback.

An effective Open Banking strategy should be started also from hiring new people with innovative mentality (from various business context), training and preparation for the traditional work force to the digital environment, and adopting a "flat" decision-making model able to involve all functions in the decision process. Banks and Financial Institutions willing to catch Open Banking opportunities shall start from a renewed and improved corporate culture. The role of the Board and apical function is crucial.

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