Open Banking – Embracing the new banking paradigm
Customer-centricity is a term that has been around banking for years. However, the flood of new entrants into the banking market is a tell-tale sign of an old problem; major banks are still not addressing customers’ needs and building trusting relationships. The gap between customer expectations and banks’ responses to how banking services should be provided has continued to widen. This is exacerbated by the highly personalised experience customers are receiving from service providers in other industries. In addition, regulators have noticed that consumers are getting a bad deal and have intervened with Open Banking and PSD2; a clear indictment for all major players in the financial services market.

Introduction

To succeed in this new Open World, banks need to embrace the change, stop simply saying they are customer centric and instead focus on being customer-centric. In other industries where platform-based businesses are disrupting the status quo (e.g. retail, travel) the emphasis is on being a true customer advocate and owning the customer engagement layer. For banks, this could mean providing the financial control centre (via a mobile app) that affords customers complete control over their financial world. This should even include offering competitor products and services – the true test of customer advocacy. Without making this change, traditional banks run the risk of becoming irrelevant in the coming decades as their interaction with customers is replaced by competitors’ offerings of better user experience and services that prioritise customer needs, irrespective of the bank providing the product.

Incumbent banks do, however, have time to react as it is likely to be a generational shift from the status quo, but complacency and inertia will only lead to competitors stealing a march in acquiring customers and preparing their business models for the future of banking.
Are you truly a customer-centric bank?

It is a common perception that banks focus on pushing their own products to customers and forcing customers to engage with their bank on the bank’s terms. In fact, in our experience, some banks spend more time looking at their competitors to understand the latest trends than working with their customers to create better products and services. To be truly customer-centric, banks need to create their strategies in conjunction with their customers, and not just focus on the market and their competition.

Now and in the future, banks will have demanding customers that not only expect their specific needs to be addressed as a priority but also expect their needs to be a higher priority than those of their bank. Crucially, they will start to discriminate against banks that don’t meet these expectations – a shift from today, where apathy is writ large. Responding to this change will require Banks to be customer centric as a hygiene factor and will also require them to move a stage further, to customer advocacy. This could go as far as having a bank proactively switching customers to a product with a better rate, even if this is provided by a competitor. Not many banks today are ready for that leap.

Meeting all these needs is a tall order and will require banks to become a true financial services partner that provides an ecosystem of services that best meet their customers’ needs. Banks need to recognise that customers of the future won’t necessarily choose a bank, they’ll choose a platform and an experience. The challenge for banks is to build an ecosystem and experience that ensures they can continue to retain and acquire customers. Open Banking offers the opportunity for banks to do this today, and to begin redefining the relationship they have with their customers for the next decade.
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The beginning of Open Banking

Unlike other sectors, such as retail, the shift by customers from incumbent institutions to smaller disrupters is taking much longer in financial services. Most customers are apathetic, and view managing their money as a chore when compared to the experience they get from service providers that provide them with real value; Amazon and Netflix being great examples. Open Banking, regulators hope, will solve customer apathy by setting the foundations for innovation and therefore greater customer choice. However, unlike more punitive regulation, there is continued complacency from the incumbents who are implementing to meet the minimum standards and not seizing the full opportunity. It is easy to maintain this inertia whilst revenues and profits hold because there appears to be no imminent cost or threat. Yet, this misses the unique opportunity presented by Open Banking and if banks approach it in the following ways they can lead their competitors into the future Open World:

1. Use Open Banking to protect and improve their core business – Banks will be able to de-risk the transformation by continuing to deliver a stream of ‘quick wins’ that offer immediate value for their customers, whilst ensuring they can achieve buy-in across the organisation. Common examples include using Open Banking data to improve affordability decisions and improve customer onboarding.

2. Start building the Bank of the Future – Banks will require a complete shift from the legacy systems, business model, and culture of today. This will be an enormous challenge but will set the bank up for the next decade. For example, ‘API enabling’ their business so it is easy to a) plug in third parties to improve their offering, and b) expose their existing services across third platforms (effectively seeing Open Banking as a new distribution channel).

From what we’re seeing, banks are certainly addressing point 1, however, whilst progress is being made on point 2, it represents a big shift from the status quo and questions remain as to how much appetite there is for fundamental change.

How can banks use Open Banking to protect and improve their core business?

Whilst we’ve used the term ‘Bank’ for simplicity, in many ways, to succeed, banks need to rethink what it means to be a traditional bank, and instead focus on partnering with their customers, to provide them with the financial services that best meet their needs.

Offer third party products and services across their Banking platforms

This will allow Banks to...
- Improve their customer experience
- Expand their product and service offering
- Reduce their costs and improve efficiency
For example...
- Use Open Banking data to improve customer on-boarding and sales journeys
- Integrate lifestyle services, such as utility switching and flight and hotel recommendations, into their mobile apps

Offer products and services across third party platforms

This will allow Banks to...
- See Open Banking as a new distribution channel
- Innovate their business model
For example...
- Provide consensual access to pre-approved loans on third party platforms
- Provide identification and verification services across third party platforms

Case Study:

BCS Consulting recently partnered with one of the UK’s largest banks to help them become the first in the UK to launch a new Open Banking proposition – improving the affordability journey for new-to-bank customers applying for a loan or credit card, by using Open Banking data. The solution involved partnering with several FinTech organisations to access Open Banking data from the customers’ other bank, categorise it, and then complete an affordability assessment. The output was then provided back to the Bank, allowing them to make better credit decisions. This is the first step on the Bank’s journey towards treating new-to-bank customers like existing customers, by using Open Banking. BCS helped the Bank with all aspects of delivery, from vendor selection and onboarding, to following the necessary internal governance, ensuring the proof of concept was delivered on time and to budget. This has resulted in improved customer experience and better decision-making for the Bank, enhancing their ability to lend to new-to-bank customers.
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How can banks embrace Open Banking and build the Bank of the Future?

The pain points of the incumbent banks are well documented, however, they extend beyond the oft-cited legacy technology systems, to legacy business models and mindsets.

The cynical view of the traditional banking paradigm is:

1. Acquire customers at an early stage (leading with a current or savings account)
2. Push additional products (e.g. current account, loans, credit cards) whilst not addressing known shortcomings such as a lack of product differentiation and transparency which contribute to widespread customer apathy.

Most banks are responding to the industry change by implementing ‘Innovation’ and ‘Customer Experience’ functions to demonstrate their customer centricity. In comparison, the Neo-Banks have not built their functions in this way because innovation and customer experience is what they do, and it permeates all aspects of their organisation and culture.

The key to thriving in the future of banking will be to embrace the shift from “closed” to “open” banking. This new paradigm of increased choice, connectivity, competition, and transparency is as much about mindset and culture, as it is about APIs and data.

The Battle for the Customer Interface:

Whilst we’ve used the term ‘Bank of the Future’, the reality is – it won’t be necessary to be a bank to provide access to financial services. It was as early as 1994 when Bill Gates said, “Banking is necessary, banks are not”, and whilst controversial, this is now looking prescient. Driving this change is the divergence of companies who will choose to stay as close to the customer as possible (the “customer layer”) versus those who will own and operate the infrastructure. Playing in the customer layer space with exciting mobile apps will enable the likes of Monzo and Tide to own the customer relationship without the traditional banking infrastructure, and whilst not being regulated, or only lightly regulated. The focus for these applications is not only to dramatically improve the experience of financial services apps, but to add value to the customer with timesaving features and providing insights into customer’s spending. This aligns with other industries where Uber have become the world’s largest taxi company, but own no vehicles, and Airbnb, the world’s largest accommodation provider, but own no real estate. The success of these companies is in creating the best user experience, taking care of the administration to save customers’ time, and providing them with valuable services.

To make progress on this journey, banks need to recognise that their priorities will need to change from today, and there are several key areas they should focus on:

**Becoming a customer advocate**

- Recognise that a customer’s time is a form of wealth
- Solve end-to-end customer problems and engage with customers on their terms
- Place an emphasis on trust and transparency
- Focus on an excellent customer experience and seamless journeys – deliver services that wrap around a customer’s lifestyle
- Match customers to the best service for them, regardless of who provides it

**Owning the customer relationship**

- Remain close to the customer; build and maintain their trust
- Focus on onboarding customers to an experience, not a product
- Ensure the right services are available at the time and place when the customer needs them

**Having a smart data strategy**

- Avoid hoarding data
- Establish real-time single source of truth systems
- Actively seek data, e.g. by building complementary partnerships
- Embrace GDPR as complementary to Open Banking - both are about customers having consensual access to their data

**Building an ecosystem**

- Know when to invest, acquire, or partner
- Embrace the open paradigm; foster a culture, organisation, and architecture that maximises the power of networks
- Provide an outstanding developer experience
- Understand that in an Open World, a bank’s value comes from the amount they can connect, not the amount they can produce – focus on building an ecosystem

**Being nimble**

- Remain efficient and coherently organised so that the entire organisation can move quickly
- Take new ideas from proof of concept to mass market, quickly
- Adopt the app store mentality (little releases often) and not the core banking transformation mentality (large, complex, infrequent releases) – be willing to fail fast, learn, and redeploy quickly

Leaders who recognise the unique opportunity presented by Open Banking and embrace it as a catalyst for transformational change will be the ones who compete and lead in the new era of financial services.
Conclusion

Open Banking presents incumbent banks with a significant opportunity to revolutionise their business models and the marketplace to cement themselves as the Financial Services Partner of choice. We have described how banks can continue to improve their core business whilst simultaneously starting to build the ‘Bank of the Future’. However, the biggest challenge standing in the way is complacency.

Neo-Banks and FinTechs are already acquiring the future generation of banking customers by delivering a modern user experience and building trust through customer advocacy. But there is still time – incumbent banks have strong customer trust and significant resources to revolutionise the customer experience they provide and become the Bank of the Future. If banks miss this opportunity, they risk losing the direct relationship with their customers and eventually being confined to the background of the financial services industry as more agile and specialised companies take the market, piece-by-piece.
At BCS Consulting we only work with clients across financial services. Our portfolio includes a varied range of multinational and UK banks, smaller banks, insurance firms and payment and card companies. Across our 170+ strong team of permanent consultants, we have deep domain knowledge in Capital Markets, Retail and Corporate Banking, Risk and Finance.

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