FINASTRA

Findings Summary

Open Banking and collaboration: State of the nation survey 2020

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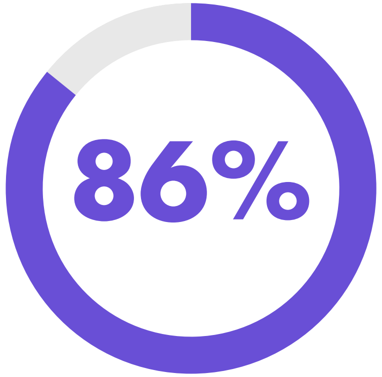
Part 1:

Creating an Open Finance ecosystem – a look at Open Banking, regulations and innovation

Executive summary

Open Banking is driving improved customer services and new financial services.



of global banks surveyed are looking to use open APIs to enable Open Banking capabilities in the next 12 months.

This is against a backdrop where regulation is perceived to be tighter than even a year ago and financial institutions and banks believe that regulators are holding back innovation.

86% of global banks surveyed are looking to use open APIs to enable Open Banking capabilities in the next 12 months. The research shows a maturing of API adoption but reveals clear potential for much more innovation.

Key findings include:

- **A growing use of open APIs.** The percentage of financial institutions globally looking to use open APIs to drive or enable Open Banking capabilities has mostly increased since 2019, rising from 69% of US respondents agreeing with that statement in 2019 to 92% in 2020. In contrast, in France and Germany there was a small reduction in this area.
- **Improvements in customer service and the delivery of new financial services accelerate API adoption.** 30% of global banks surveyed believe Open Banking is already providing a tangible impact – offering an improved overall customer experience. Markets such as Hong Kong, the US, and France are leading the way in harvesting these benefits of open APIs.
- **Barriers to change persist.** Regulation is widely seen as a barrier to Open Banking. Financial professionals also expressed frustration with management failing to move with the times and thought governments could do more to foster innovation.

Almost all respondents (98%) believe that Open Banking will have some sort of an impact on the financial services industry. The most affected sectors are expected to be corporate banks (50%), closely followed by retail banks (47%).

Our Open Banking findings reveal a global impact, and that appetite is growing – particularly in the US – but this is not homogenous. Markets are seeing different benefits and experiencing varying challenges as they develop their ecosystems.

The impact of Open Banking – the story so far

Open Banking promises a revolution in financial services.

Access to customer transaction data looks set to drive innovation in products and services and improve the customer experience beyond recognition. Fintech challengers are poised to grab their slice of the business, while traditional banks and financial institutions are looking to compete and remain relevant.

Only 14% of respondents said that Open Banking had not resulted in any significant impact or change for their organization, down from 21% in 2019 – and around a third of banking and finance professionals (30%) thought Open Banking had allowed their organization to improve customer service levels.

However, the percentage of respondents who considered that Open Banking had allowed their organization to improve customer service levels or deliver new services is very slightly lower in 2020 than in 2019. This may be because the potential for innovation was realized in 2019, or perhaps banks and financial institutions still need to maximize their opportunity for innovation. In 2019, one in five respondents across the UK, US, Singapore, France and Germany (the five markets we surveyed) thought that, because they were in the early stages of adoption, it was difficult to establish what the impact had been. This figure more than doubles a year on for the same countries. Now, 44% think it is too early to tell what the impact of Open Banking has been.

However, respondents across the seven markets surveyed in 2020 had very different views. Almost half (45%) of US respondents said Open Banking had allowed them to improve customer service, compared with only 19% of UK respondents agreeing with that statement. Over half (53%) of professionals in Hong Kong said Open Banking had allowed them to deliver new services, compared with only 16% of UK respondents, the lowest response globally, and 26% of Singaporeans.

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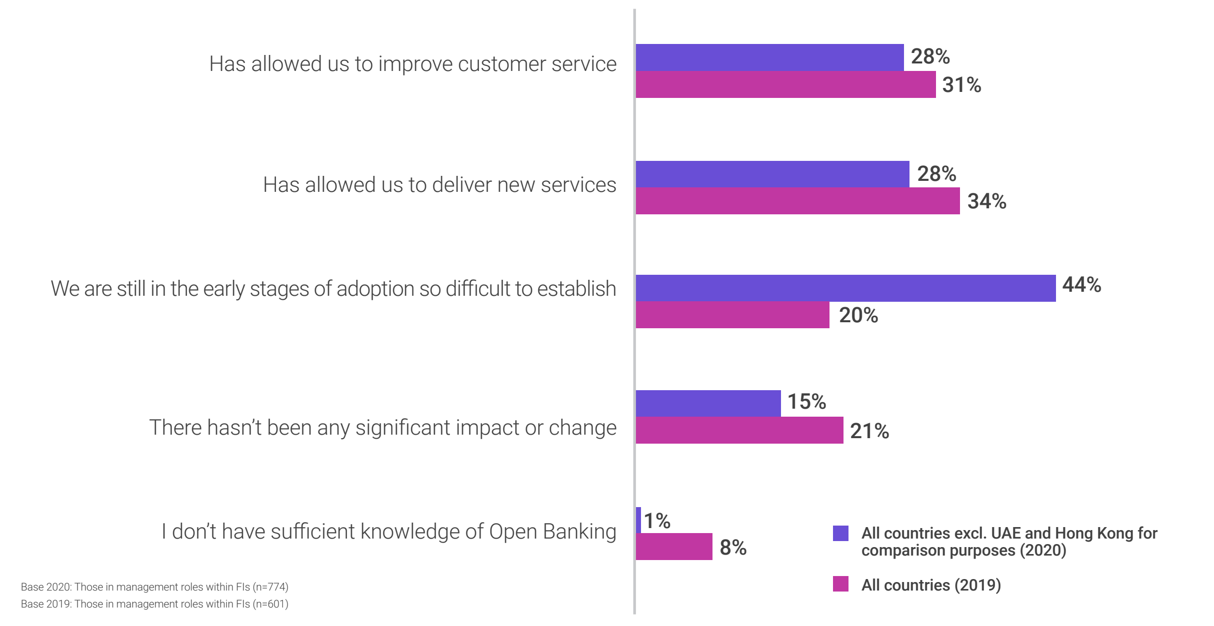
Impact of Open Banking for organizations in the past 12 months

Q: What has been the impact of Open Banking on your organization in the last 12 months?



Fintech innovation and technology adoption – where next?

Open Banking represents a step change in technology.

Access to financial and transaction data through APIs is driving new service development and ground-breaking collaborations between different sectors, from retail to fintech. In 2019, the biggest business driver for adopting new technology was to meet customer expectations. In 2020 that is no longer the case. Now, banks and financial institutions globally are most concerned with using technology to stay ahead of the competition.

There are significant differences across the seven markets surveyed. The biggest driver for adoption of technology within US financial institutions is still meeting current and future customer expectations (66%), more than any other market. This was followed by 'Staying ahead of competitors' (63%) and 'Growing the business' (61%).

US financial institutions are reaping the benefits offered by technology, citing 'Improving customer experience' (66%) as the most significant value arising from technological innovation, again more than any other region, and up from 48% in the previous year. Improving efficiency is the main value which German financial institutions see from investing in innovative technology (55%). No other European country rated efficiency improvements as highly.

In the UAE, there is recognition that technology can help support modernization. There, the main driver for adoption of technology is to help cut cost or improve efficiency (59%). Interestingly, 'Improving IT systems that are no longer fit for purpose' was selected by UAE more than any other market (38%).

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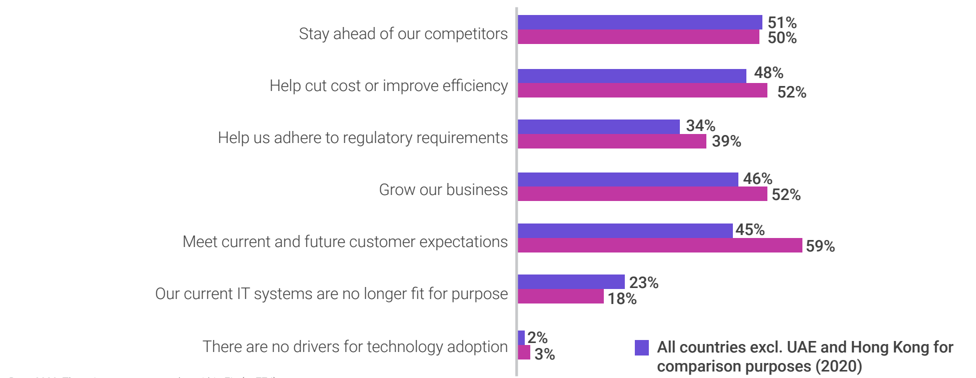
Drivers for adoption of technology within an organization

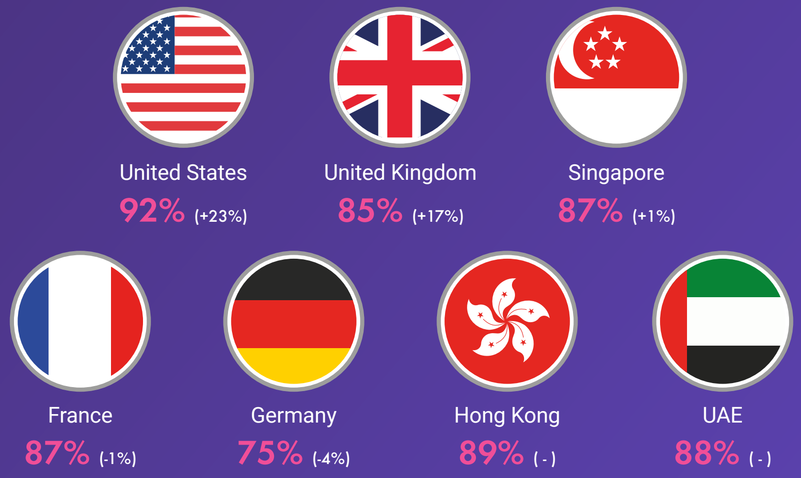
Q: What drives the adoption of technology within your organization?



Base 2020: Those in management roles within FIs (n=774)
Base 2019: Those in management roles within FIs (n=601)

"86% of global banks surveyed are looking to leverage open APIs to enable Open Banking capabilities in the next 12 months."

Some markets have recorded significant acceleration in use of APIs since 2019, including the US (+23%) and UK (+17%).



Just under nine in 10 (89%) financial institutions in Hong Kong say their business is currently adopting or looking to adopt open APIs. Of this group, approximately half (53%) say that Open Banking has allowed them to deliver new services, a good deal higher than any other market. Similarly, more than four in 10 (42%) say that it has allowed them to improve customer service.

How do banks and financial institutions plan to innovate?

Banks and financial institutions are increasingly focused on technological innovation.

Across the globe, open APIs, mobile banking and AI technology are seeing the biggest interest. Hong Kong leads the way when it comes to interest in artificial intelligence (AI), with 58% of financial institutions looking to deploy it in the next year, compared to an average of 42% across other markets.

UAE financial institutions are most focused on improving or deploying mobile banking technology in the next year (59%). In second place is 'Digital transformation across our organization' (47%), underlining the perceived need for digital modernization in the country.

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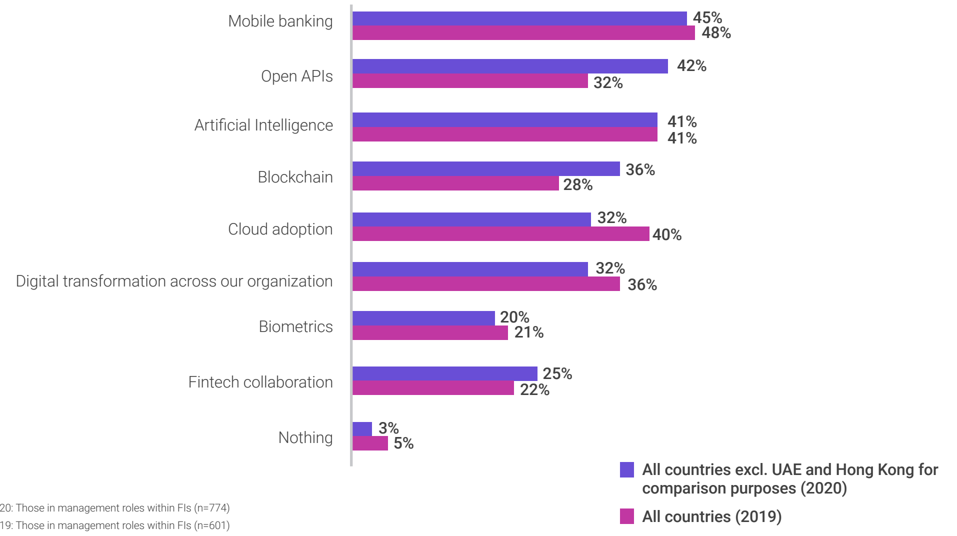
Technologies planned to be deployed or improved in the next 12 months

Q: Which of the following technologies is your organization looking to improve or deploy in the next 12 months?



Base 2020: Those in management roles within FIs (n=774)
Base 2019: Those in management roles within FIs (n=601)

Global barriers to innovation

There is widespread agreement that current global regulatory frameworks are hindering innovation.

Regulation is perceived to be tighter than a year ago. Only 4% of those audited believe there aren't barriers from existing regulation, down from 13% last year. Almost half of respondents (48%) believe that regulation is too tight, up from 38% in 2019, and 48% believe there is not enough government or industry support to foster innovation, particularly in Hong Kong (62%), France (50%) and Singapore (49%), compared to just 38% in the UK.

The cost of fintech development is of particular concern in the US (55%), UAE (46%) and APAC (55% Hong Kong & 51% Singapore) regions compared to the UK (33%). More institutions in the UAE and the US mentioned that 'Management or decision makers stuck in old ways of thinking' (62% and 61% respectively) was an issue for them than any of their global peers.

In France, the most selected barrier for innovation presented by existing regulation was the lack of government support to foster innovation (50%), the second highest of any market, up from 32% in 2019. French financial institutions want their government to do more to understand the way regulation impacts innovation in the industry. This is a view shared by almost a third of French respondents (28%), higher than any other market.

Financial institutions in Singapore find that existing regulation presents several barriers to innovation. Over half (56%) said that regulations are too tight.

Ensuring that regulation on innovation is 'Harmonized between different geographies worldwide' is key, according to 83% of respondents. Yet, there is some variation across regions. 93% of US respondents thought this was the way forward, compared with lower figures: 71% of German respondents and 70% of UK respondents.

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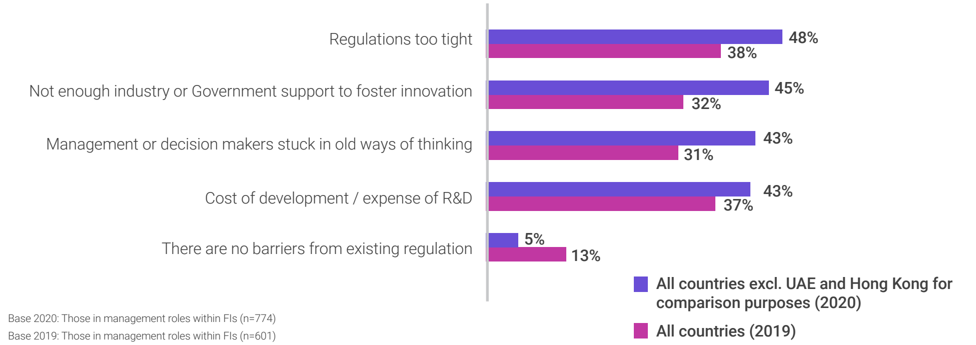
Barriers to innovation from existing regulation

Q: In your opinion, which of the following barriers to innovation are presented by existing regulation?



Base 2020: Those in management roles within FIs (n=774)
Base 2019: Those in management roles within FIs (n=601)

Concluding thoughts – towards Open Finance

Open Banking will encourage innovation in financial services, created on open platforms, using open APIs and cloud solutions. We foresee a future where fintechs, systems integrators, software vendors and academic institutions will work with banks to create new applications across all areas of financial services, incorporating the latest technologies such as machine learning and AI.

A new ecosystem is taking shape. Open Banking technology and business model innovation are evolving all the time towards Open Finance, with innovation that creates better experiences in financial services as solutions move towards championing financial transparency and inclusion.

Banks and financial institutions must be bold and imaginative – and ready to work with not only new, but also different types of partners. Collaboration across a cloud-based ecosystem will bring fresh perspectives and new opportunities to drive customer engagement and improve the overall customer experience.

Part 2:

Global fintech collaboration – delivering growth and value

Executive summary

Fintech collaboration with financial institutions and banks enables the creation of new services through shared data and technology.

Our global research shows that better customer service and experience (52%), improving service delivery (48%) and better sharing of ideas with third parties (46%) all play a pivotal role in driving collaboration.

At the same time, financial sector players are expressing frustration at the constraints of complex regulation, with 40% citing it as a main barrier.

Key findings include:

- Collaboration is a key driver for success: Across all geographies, almost nine in 10 (89%) respondents identified collaboration as a driver for success in their business.
- Despite the majority (80%) of global banks believing that the benefits of fintech collaboration outweigh the costs, barriers – from legacy IT, to culture and regulatory complexity – persist.
- The value of information assets or data has never been greater, and businesses are increasingly gaining access to rich new data streams .

The results of the survey demonstrate that fintech collaboration forms a key element of financial institutions' strategy for success. Businesses are looking for partners to collaborate with, which is creating new and innovative ideas, and will in turn produce solutions to drive growth and improve the customer experience.

There are hurdles to overcome, with complex regulation seen as an ongoing issue, but it's not the only bottleneck. Some barriers are internal, including legacy technology and cultural change. Adopting the right approach to these will drive positive change. Technology can foster collaboration, unlocking the power of data and providing fintechs with access to financial institutions. 84% of banks believe collaboration has already made their business more efficient.

Collaborating in the Open Banking era

Fintech collaboration works best when financial institutions and banks are open to working with each other, with new partners and with technology providers to spark innovation, win new business and improve the customer experience.

So, it is reassuring to see that financial institutions are overcoming concerns around losing their competitive edge and sharing critical data in the Open Banking era, and are embracing partnerships to develop innovative financial services. Half of respondents believe that technology has the potential to make it easier for start-up tech companies and innovators to access financial institutions, while 51% believe that technology has a role in improving openness and sharing data between financial institutions.

New partnerships abound. In the consumer space, challenger bank Starling has partnered with Habito and Revolut has partnered with Intuit QuickBooks. Meanwhile, Barclays Bank has partnered with both PayPal and SAP, and Skipton Building Society has partnered with Experian. In the business-to-business (B2B) segment, Mastercard is collaborating with Cardlay to use corporate card transaction data to offer value-added services such as automated expense management and VAT claims.

Collaboration is continuing to drive Open Banking, making it easier for consumers and businesses to compare prices or switch provider for financial products such as insurance, lending, savings and mortgages.

Global barriers to collaboration

Financial institutions and banks increasingly recognize there is a strong business case for fintech collaboration.

Across the seven markets surveyed, there was widespread agreement that fintech collaboration is a driver for success in their business (89%) and that collaboration made their business more efficient (84%).

Yet, despite the clear benefits of fintech collaboration, barriers persist and inhibit further collaboration:

Technology: Legacy systems/IT (44%) were cited as the biggest barrier to collaboration globally. In the UK, this was mentioned by 54% of financial sector respondents, compared with only 29% in Germany.

Regulations: Complex regulations (a concern for 40% of global banks) were the biggest barrier to collaboration in Hong Kong. This is a common problem – many respondents in that region agree that easing the burden of regulation would be a contributing factor to fostering more collaboration (57%).

Culture: Cultural factors have a major impact and are a priority for US respondents, with 42% stating that a need for a change in culture is a barrier for collaboration. Reduced control in decision making was seen as a barrier to collaboration in some markets too. This was the biggest factor for UAE respondents, with almost half (48%) citing this issue. UAE respondents also said complex regulations are a barrier to collaboration (47%), and 37 % felt the need for a change in culture is a barrier.

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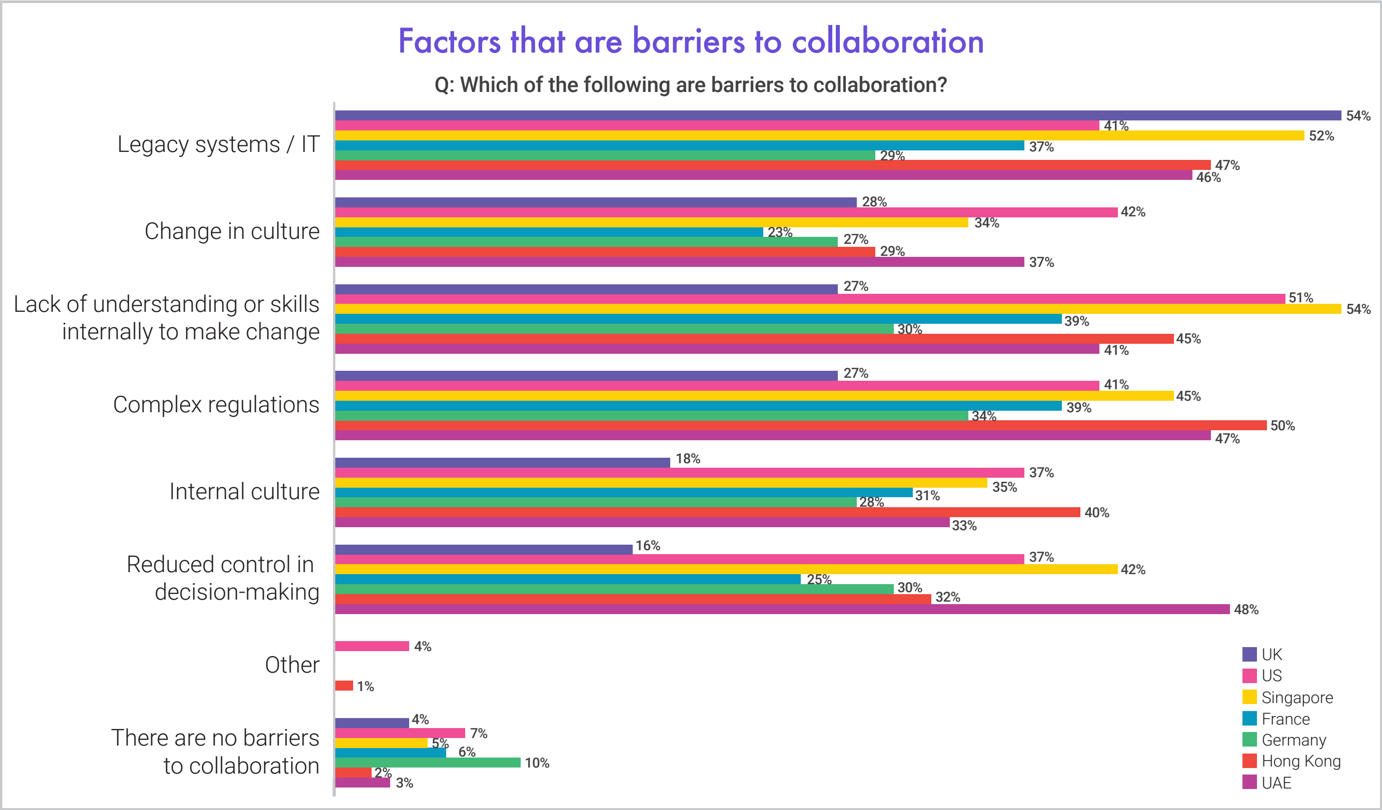

Accelerating fintech collaboration

Fintech collaboration is of course already well underway.

The US and Hong Kong lead the way here, while European countries are slightly slower to embrace its benefits. In the US, 97% of financial institutions agreed that collaboration has been a driver for success in their business, higher than any other market surveyed. Hong Kong (95%) and the UAE (94%) also widely agreed. The UK (78%), Germany (83%) and France (86%) were marginally less certain.

Collaboration can bring easy wins in the form of cost efficiencies. But financial institutions are looking beyond savings and toward opportunities to add value through innovation. When asked 'Which factors would accelerate your organization's appetite for more collaboration with other financial institutions and the developer community?', 52% of global finance leaders cited better customer service and experience, while 48% thought that creation of new services or revenue streams in support of growth would drive collaboration.

In the US, 74% of financial institutions believe better sharing of ideas and/or joint ventures with external parties would accelerate an appetite for collaboration, 32% higher than the average of other markets.

Two thirds (67%) of Hong Kong financial institutions stated that better customer service/experience is a factor that would accelerate collaboration, the highest of any market surveyed. Creation of new services or revenue streams in support of growth was the most common factor to increase appetite for collaboration in Singapore (65%), more than any other region.

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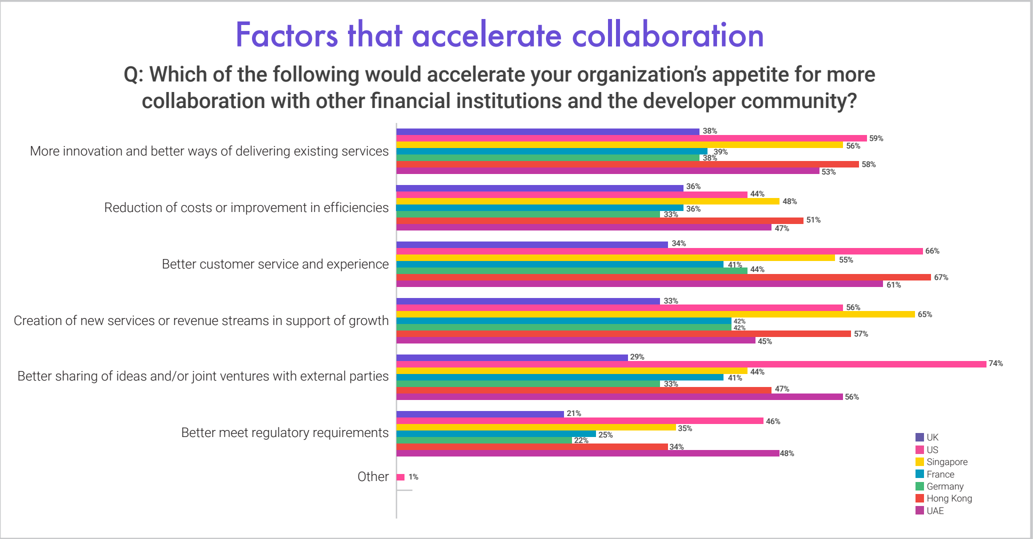


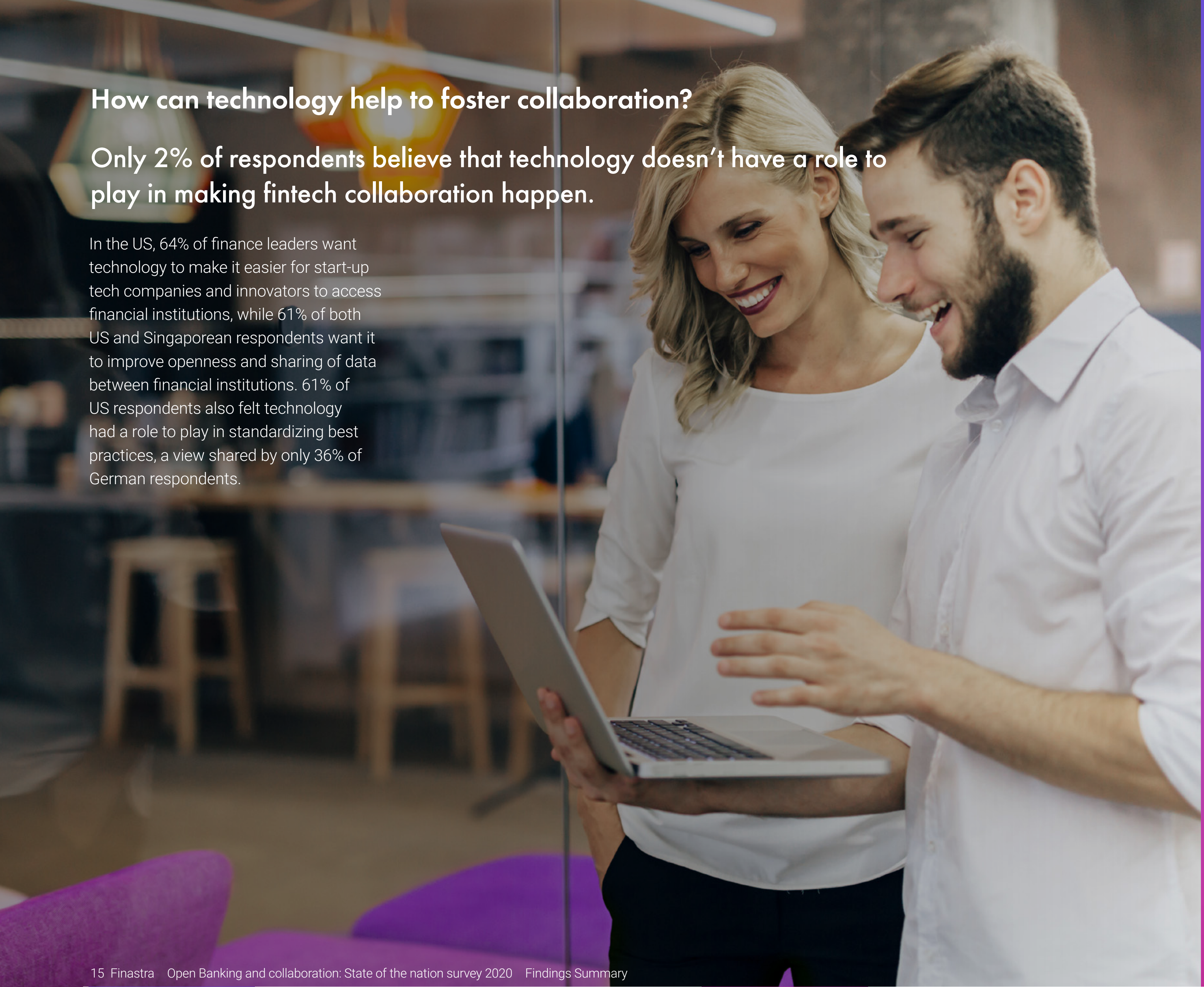
How can regulators help to foster collaboration?

Finance leaders across the globe agreed that more must be done to ease the burden of complex regulation.

When asked if regulators should provide financial incentives or grants for innovation, US respondents were very keen, with 68% (more than any other market) wanting to see this. Two thirds (66%) of US respondents (again, more than any other market) also thought regulators should ease the burden of regulation and allow experimentation with new ideas.

43% of UK respondents agreed that it is important that regulators act to create standardized best practices across the industry to improve fintech collaboration.

The most common barrier to collaboration for French financial institutions was complex regulations (39%). To overcome this challenge, approximately half of respondents in the country recommend that regulators provide financial incentives or grants for innovation (52%) and create standardized best practices across the industry to improve fintech collaboration (49%). According to just under half of banks in France (48%), easing the burden of regulation could have an added benefit of allowing experimentation of new ideas or services. 11% of German respondents do not see a role for regulators in fostering collaboration, the highest of all the markets surveyed.



How can technology help to foster collaboration?

Only 2% of respondents believe that technology doesn’t have a role to play in making fintech collaboration happen.

In the US, 64% of finance leaders want technology to make it easier for start-up tech companies and innovators to access financial institutions, while 61% of both US and Singaporean respondents want it to improve openness and sharing of data between financial institutions. 61% of US respondents also felt technology had a role to play in standardizing best practices, a view shared by only 36% of German respondents.

Concluding thoughts – catalyzing innovation and unlocking value

The value of data has never been greater. Through improved collaboration, financial institutions are gaining access to rich data and catalyzing innovation. Tangible business benefits outweigh the cost of collaboration – according to four out of five (80%) financial professionals.

Financial institutions and banks around the world are keen to innovate, boost customer experience and provide new revenue generating services. Better industry collaboration is imperative.

While easing of regulatory constraints is high on the wish list of many financial institutions and banks around the world, there are other equally critical factors for change. Cloud-based technology and platforms, combined with a cultural shift towards an openness to partnerships and new business models, is key. Fintech collaboration, in all its emerging shapes and forms, will be at the heart of future success in financial services.

Definitions used in the survey

- **Open Banking:** Open Banking is a series of reforms to make the banking sector more competitive. It brings changes to how banks handle their customers' financial information, putting control back in the hands of the customer. It means that customers can opt to share their financial information with authorized providers, to gain access to new services and innovation to help them manage their money better.
- **Open application programming interfaces (open APIs):** A computing interface to a software component or a system, that defines how other components or systems can use it. Aids open access for developers to build software.
- **Fintech collaboration:** The collaboration between financial institutions or banks and technology providers to help improve the customer experience while also reducing operational cost.

Survey methodology

1. Research was conducted online at the end of January 2020, amongst 774 financial institutions and banks across the US, UK, Singapore, France, Germany, Hong Kong and UAE. These financial institutions represent a gross total of just over USD$4.7 trillion in turnover over the last 12 months, employ approximately 4.9 million staff and have approximately 110 million client/customer/member relationships.
2. As a result of rounding up percentage results, the answers to some questions might not always add up to exactly 100%. Respondents were also able to select more than one answer for some questions.
3. Comparative analysis was made from results of a similar survey run by Finastra in 2019 which was also conducted online in the UK, US, Singapore, France and Germany amongst 601 financial institutions and banks (March - May 2019).

THE FUTURE OF FINANCE IS OPEN

Finastra is unlocking the power of finance for everyone by creating a platform for open innovation in the world of financial services.

Contact us PR@finastra.com

About Finastra

Finastra is building an open platform that accelerates collaboration and innovation in financial services, creating better experiences for people, businesses and communities. Supported by the broadest and deepest portfolio of financial services software, Finastra delivers this vitally important technology to financial institutions of all sizes across the globe, including 90 of the world's top100 banks. Our open architecture approach brings together a number of partners and innovators. Together we are leading the way in which applications are written, deployed and consumed in financial services to evolve with the changing needs of customers. Learn more at **finastra.com**

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