



Part - 1

Advancing open banking

The factors driving open banking



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The factors driving open banking

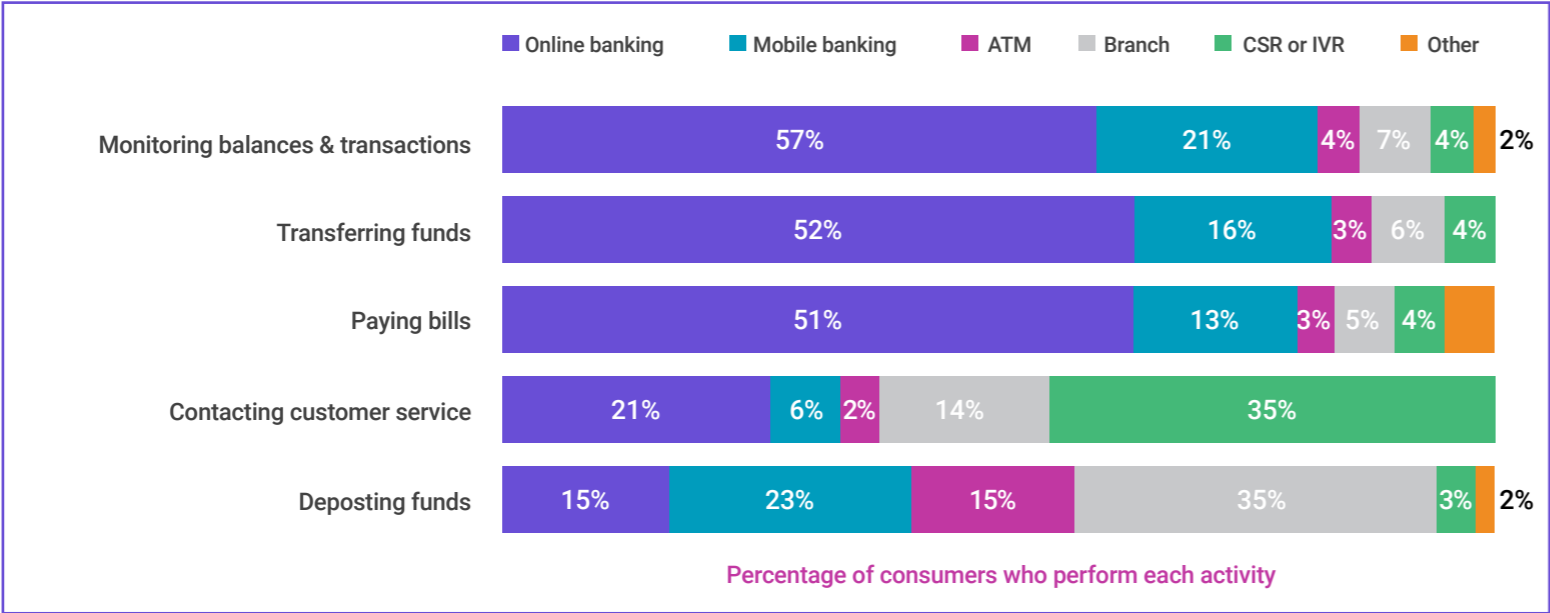
Social distancing is driving users online – but there’s further to go

A glance at the state of play with open banking in 2019 versus 2020 confirms that the rate of progress has accelerated significantly, with an intensifying to focus on the consumer experience. It isn’t difficult to work out why. Social distancing resulting from the COVID-19 pandemic has driven customers toward remote and online banking services and experiences, and away from in-person, in-branch servicing methods, including phoning the contact center.

However, bank customers’ migration to online servicing has much further to run – meaning that ample opportunity remains for banks to grow their digital market share. Research shows that almost half of bank customers continue to turn regularly to traditional channels like branch, ATMs and phones to service their needs.

This continued usage of physical channels appears to contradict the widely-held view of consumers as digitally savvy and eager to access mobile and online banking services. However, when it comes to obtaining information, getting questions answered or being able to really connect and move money, customers have all too often found that online banking channels haven’t given them the seamless experience they’re seeking.

Half of consumers continue to turn regularly to branches, ATMs or phones



The need to focus on the back-end

This sense of digital disappointment among customers may link to how development teams build solutions. A high degree of effort commonly goes into the front-end look and feel – but when it comes to the back-end, there's still often a lot of batch processing and moving information from one system to another. When a consumer wants immediate instant access and information, those batch processes that banks rely on for stability and scalability may not deliver the outcome they're looking for.

Yet there's no question that customers are actively seeking digital experiences. They just want better ones – and to retain their customers' loyalty and business, banks need to provide these. With channels such as branch ATMs, there are great opportunities for growth from making these part of the wider digital transformation – which is a pervasive change that goes far beyond putting a few applications on a mobile device or computer. Given the explosion in devices such as home assistants and connected watches, it's clear that financial institutions have fantastic scope to grow digital services. The big question is how they do that.

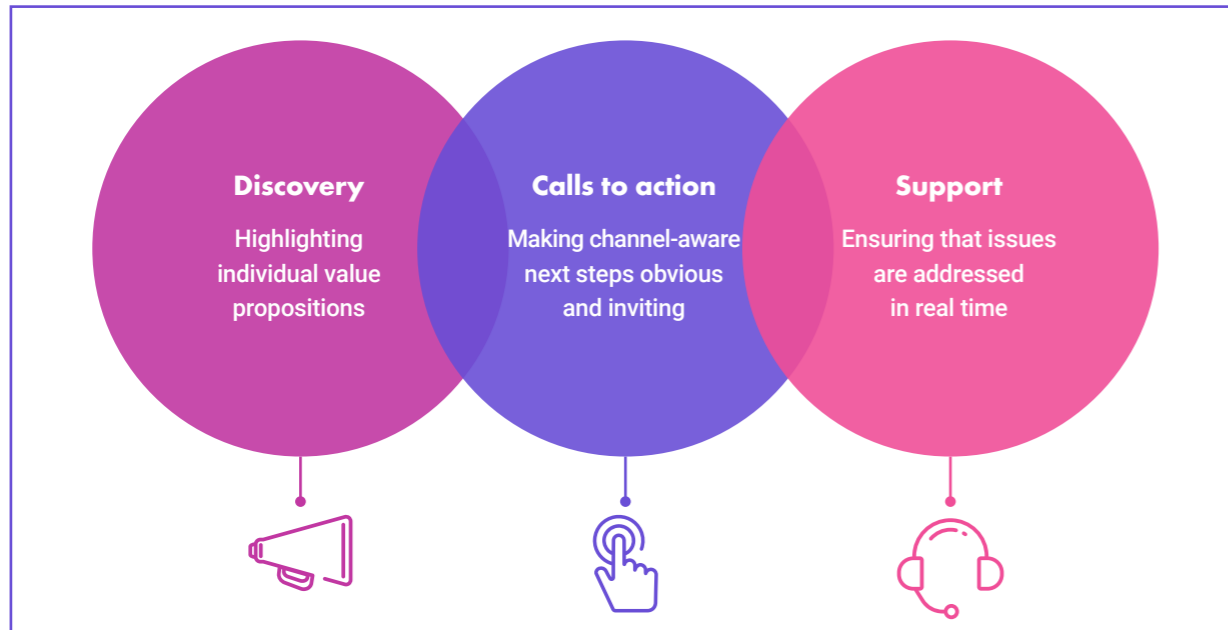


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Digital transformation in financial services is being impacted from the outside in. Banking is not really leading digital transformation for customers. Expectations are being set outside the industry: soon we're going to be able to drive to a gas station, fill the car and not even have to make a payment because it recognises the car and the whole process is automated. So we're looking at payments basically becoming invisible. That's going to have downstream impacts for the banks, requiring digital transformation to be more seamless – and putting the focus not just on solution delivery, but on anticipating customer's needs to create a value proposition. It's much bigger than coming up with a beautiful new online banking app."

Robert Mancini,
Head of Payments, Finastra

Three use cases for embedding insights, guided experiences and contextual help in banks' solutions



Three use cases for payments and lending transformation

Zeroing in on this question, there are three primary use cases emerging in digital transformation spanning payments and lending.

The first is helping consumers with **discovery** of the individual value propositions within solutions. Just because a customer is savvy in how they use their device and apps today, that doesn't mean they won't need guidance about how to do new things. They need to be shown how to find information and even entire solutions.

The key is to "Hansel & Gretel" the breadcrumbs so users can discover and have a truly immersive interactive experience. This is needed because

customer will typically be coming to the bank for one specific need, and have no idea what else it's offering. So supporting discovery is vital if customers are to get then full benefit of banks' solution innovation.

The second use case is **calls to action**. These answer questions like: What do you want your customer to do? How do you want them to behave? How are you training them? And the answers vary over time. Over the years, banks have focused on credit card rewards and recurring activity, looking at how to be top-of-wallet. But today, as customers seek more debit or lending products, and move away from the cards, how do you want to have them interact with you? Do you want them to use your mobile

payment app? Do you want them to start saving more? There are a lot of ways that banks can build up calls to action that support their strategy while also positioning them as a trusted expert.

Third, customers need the right **support**. The number one way people seek support today is still through the call center – but what many don't realize is that they would often get a much better experience by posing their question via an app. With an app it's possible to be intuitive, have a detailed view of the customer's context and problem, and take them straight to the relevant answer – as opposed to having them type something in and go to a Q&A area that they have trawl through different options.

// *COVID-19 has been an enormous accelerant. It feels like there have been two years of digital transformation in two months. But the reality is almost like being at the deep end of a swimming pool. Suddenly everybody had better get digital, because it's a permanent change in the economy in a lot of respects. If you don't, you won't be able to get groceries delivered, and so on and so forth. The banks have been moving in a forthright, straightforward direction in terms of transformation. But in some ways digital has still been at the periphery of customer experience and improvement. Now we are recognising with COVID that this is a deep fundamental change."*

Peter Hazou,
Business Development – Financial Services,
Microsoft

Use cases become seamless in experiences

As these use cases roll out, they're becoming increasingly seamless and invisible within consumers' wider experiences, driving revenue potential for banks and other providers while balancing cost. This reflects what's happening in other industries. When consumers take an Uber ride they like not having to pull out credit card, look for cash or haggle over the fare. Amazon gives a similarly seamless experience with one-click buying.

Customers are rushing to adopt and use these experiences. Banks are learning from this, and tapping into technology innovators to help create customer-centric solutions. This ensures that the customers will continue coming to the banks as a central point, and also means that the banks don't have to develop everything on their own. They are using their partners to help provide the experiences their customers want – and when customers are not happy with it, the banks can fine-tune the solution quickly with updates to make them happy again.

However, this rapid deployment demands a focus not just on the customer experience, but on the technology. Challengers are coming to the traditional financial services model with newer tech stacks, and the combination of technology and value-added services is driving new competitive structures. For example, Mastercard is the brand behind the SoFi debit card, while Citibank is partnering with Google to deliver new services within a digital wallet as well as within the Citibank ecosystem. And the challenger banks that are on newer, more agile frameworks are thinking about the core infrastructure – which, for them, is invariably cloud-based.

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Thinking about user experience, as consumers we are now so used to getting app updates. We get the download and it becomes a completely different experience. This type of speed can really change how we do business in the financial services sector – moving from the past where we had a twice-a-year complaints update, to today where we are applying agile development methodologies and are releasing new updates and new service capabilities rapidly."

Krista Tedder,

Head of Payments & Security,
Javelin Strategy & Research



Banks face pressure from the cloud natives...

As these competitive shifts underline, the rise of the cloud-native challengers is one of the biggest changes underway in banking. In the past, banking was a level playing field: all the banks had the same sort of systems and product development process, building everything in-house on their legacy infrastructure. But today, the pressure from agile non-bank competitors born in the cloud means the banks cannot continue to invent and build everything by themselves.

Back in 2008, when the FinTech movement was getting underway, the banks weren't quite ready to partner with agile, smart, well-funded external entities. But today the banks are much better positioned to do this. They have become much more agile themselves, and accept that they need to partner. Now, with the move to the open API economy, banks can restructure themselves to use partnerships to deliver what the customer wants – whether that customer is a corporate, SME, family or individual consumer.

...as product development cycles shorten.

This change means the center of decision-making and execution in banks has moved – with the key to success being how well a bank collaborates and integrates into the open API economy and open banking. Achieving the right level of integration demands big changes in how products are developed. In today's competitive landscape, speed to market with solutions is key. So banks' traditional costly, two-year product development cycle is no longer fit for purpose.

Instead, what's needed is scalability and agility to try new things very quickly through fast iterations. This requires collaboration between different stakeholders within the ecosystem to deliver solutions to market much more quickly. Such an approach is at odds with the long, structured development cycle that banks have traditionally employed. Their legacy processes and technology struggle to cope with a culture where they're expected to meet changing demands very quickly. So there has to be a rethink about the best way banks can achieve this – and partnering is a key option.

A lot of positive changes within the banks are helping to enable this change, such as the rising use of data analytics, AI and machine learning. But for a bank to integrate fully into the open banking and API economy surrounding it, the reality needs to be that people don't go to a bank to make a payment, but to enable them do something in their lives. It has to be a much more organic integration than just dealing with money. And that can only really happen through collaboration with partners.

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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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