

THE EVOLUTION OF OPEN BANKING IN'S

The Evolution of Open Banking:
Adoption, Benefits and Consent

To say that banking and finance is going through a period of change would be a major understatement. Shifting public perceptions of what a bank or financial institution should be and the service it should offer have met technological disruption and change to push the finance industry into becoming a new version of itself.

Central to this is the **evolution of Open Banking**, and how consumers are regaining control of their data, with the ability to share it in the name of getting better services and products from financial services providers.

In February 2016, around two years before the Open Banking legislation came into effect, an article in The Guardian described it as potentially being the banking industry's 'Uber moment'. Often, that kind of language and comparison can engender fear and uncertainty. But that's only for those who resist and reject change. By going with the evolution of Open Banking, banks and financial institutions have an unprecedented opportunity to make better lending decisions, develop customer relationships and grow profits.

Indeed, one potential issue presented by Open Banking is that varied levels of understanding about what it is and how it works could bring about a dual-speed economy, with Open Banking haves and have-nots - those that get it and benefit from it, and those that don't.

This new study from TransUnion (formerly Callcredit), explores the opportunity and evolution of Open Banking in detail - from both a business and a consumer perspective. In three sections of primary research we'll explore the ABC of Open Banking; from the road to adoption and the benefits that Open Banking brings, to the importance of consent and collaboration within it.

FIVE KEY FINDINGS FROM THE RESEARCH:

- Eight out of 10 financial firms are adopting or planning to adopt Open Banking, or are interested in doing so
- 86% of financial firms recognise the value of the data Open Banking provides
- One in four consumers haven't heard of Open Banking, so greater awareness is needed
- Fear of data being shared or sold is restricting consumer adoption
- Consumers want a value exchange: if they get certain benefits consumers are willing to share data with banks, mortgage brokers, credit card providers and credit reference agencies - but are less trusting of newer types of finance providers such as fintechs.

Research methodology:

The Evolution of Open Banking contains data from a commissioned study conducted by Forrester Consulting on behalf of TransUnion in November 2018. It collected the opinions of 114 credit risk and affordability decision-makers from financial services firms in the UK and 1,555 UK consumers (aged 18+) who have been through a financial application process in the past six months.

Business respondents were sourced from a variety of finance companies, including banks, credit card providers and building societies, with company sizes ranging from SME to larger enterprises. Consumer respondents were sourced from a variety of age groups, with people who have been through financial application processes for insurance, mobile phone contracts, credit cards, loans and more.

All respondents were based in the UK.

Alongside this, TransUnion carried out its own research poll with 2,000 consumer respondents about their views on Open Banking. The findings from this poll provide supplementary statistics throughout the report.

Open Banking: The Road to Adoption

Adoption of Open Banking practices and processes is widespread within banks and financial institutions. Headline numbers from The Evolution of Open Banking research reveal that 79% of financial firms are either adopting Open Banking, planning to adopt, or are interested in doing so, as Fig.1 shows.

This is a relatively good start. It shows that Open Banking is recognised as being a generally positive development that's worth bringing into banking; and that no adoption whatsoever is a minority viewpoint.

However, there is cause for concern in that 15% are interested in Open Banking, but have no plans to adopt, and general sentiment gathered from

the market suggests that while businesses have invested, there are significant reservations about whether they're fully utilising the capabilities of Open Banking. Both of which will be explored later in the report.

How adoption is happening

Beyond the raw facts of adoption levels, our research also explores where the adoption is taking place. The results show us that investment in Open Banking today is in some cases quite different to where it will be in three years' time.

For instance, today Open Banking is primarily used for income verification, risk assessment and data insight: functional tasks that help lenders to vet and verify the consumers they're dealing with.

How this is changing is explored in Fig.2, which shows us that financial institutions are moving to a place where segmentation, bespoke product offerings and insurance are going to become Open Banking territory soon.

Likewise, many in the property sector intend to utilise Open Banking. As Will North, Core Credit Director at TransUnion explains: "We've been working with businesses that are keen to use Open Banking for tenant vetting - something they can do by identifying income and expenditure, employer information and rent recognition. All things that will lead to a smoother application process for prospective tenants."

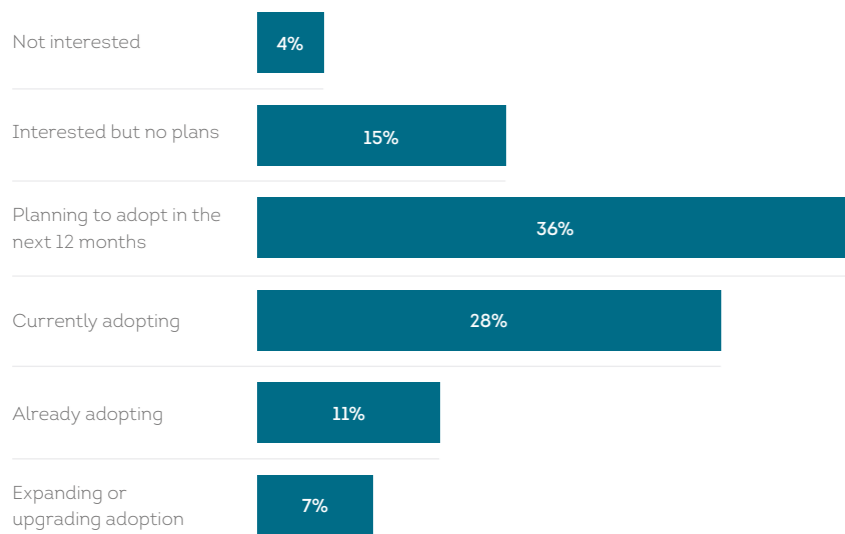
"Visibility of rental payments can also help lenders when they're assessing mortgage applications for first-time buyers who are keen to utilise their rental payment history to help demonstrate affordability."

Open Banking will benefit both tenants and landlords in the rental sector, as well as potentially opening

the door for more first-time buyers keen to get on the property ladder, by sharing their rental payment history with prospective lenders (something the government is keen to introduce).

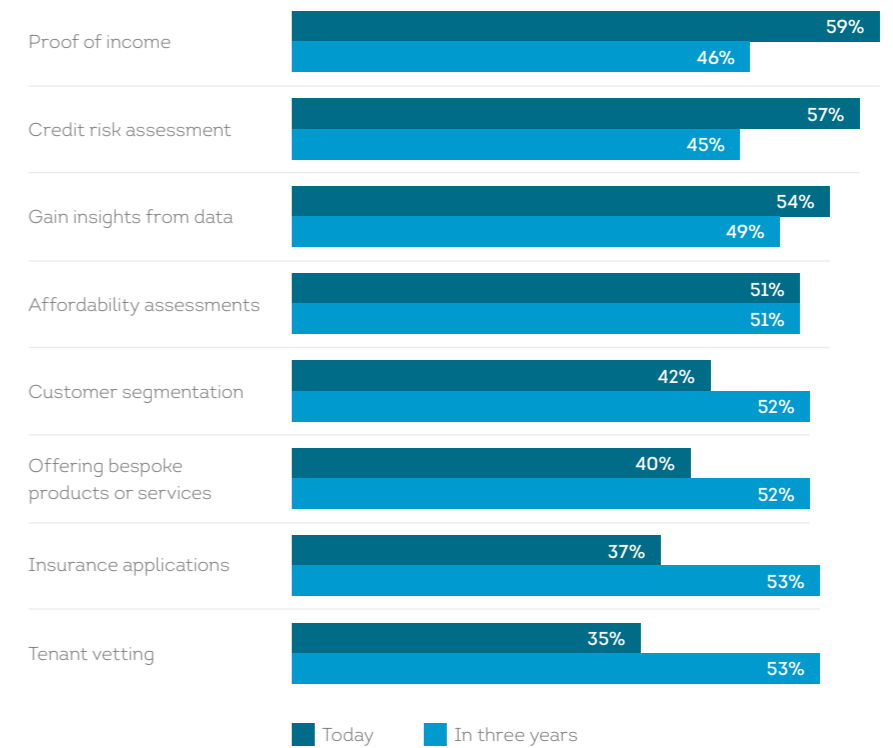
Combined, this demonstrates that institutions are looking towards a more comprehensive service - beginning with traditional, functional tasks, all the way through to more technical or complex matters, such as bespoke products.

Fig.1 What are your company's plans to adopt Open Banking?



Based on 114 decision makers at manager-level or above
A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.

Fig.2 In which ways does your company use Open Banking today or plan to use it in the future?



Based on 91 decision makers at manager-level or above
A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.



What's driving adoption?

Broadly speaking, the adoption habits we're seeing in this research are motivated by two things. The first is business objectives and targets, like getting better at understanding the financial profile of customers applying for credit or other similar products. The second is innovation – with everyone in finance keenly aware of the disruption brought about by challenger banks and alternative finance providers, the pressure is on to evolve.

With this in mind, the move to Open Banking is driven by a need to innovate products and keep up with competitors for 53% of respondents, and improving the customer experience for 56%. (Meanwhile 86% say that improving products and services is a critical or high priority; while 82% say the same for improving the customer experience.)

Essentially, the Open Banking picture makes sense. Adoption is aligned to strategic goals around innovation and customer experience, and many financial institutions are taking the right steps to harness a huge opportunity to use data in a far more intelligent, efficient and helpful way.

However, there remains a note of caution. Although the vast majority of respondents to our survey (86%) are of the opinion that Open Banking data is either valuable or very valuable – with adoption clearly well underway as we've shown – around half admit to having a limited understanding of it.

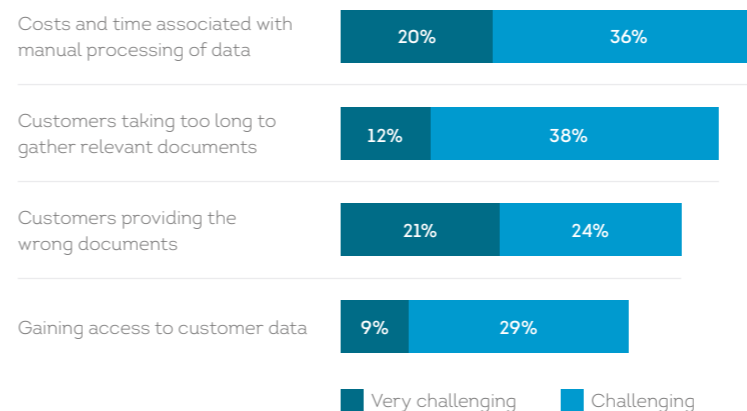
This could present something of a challenge to the kind of adoption and usage levels Open Banking needs to truly make a difference. To understand that, the next section of this report explores the key benefits of Open Banking, and why they should be the reason to overcome any challenges that may exist.

53% SAY A NEED TO INNOVATE PRODUCTS IS DRIVING THEIR DECISION TO IMPLEMENT OPEN BANKING

Problems with process

Banks and financial institutions are looking at Open Banking to respond to challenges around customer experience and innovation. The graph below shows us what they're currently struggling with: the top two most challenging concerns being customers providing the wrong documents and the cost and time that comes with processing data manually. Elsewhere in the Forrester study, it's revealed that lengthy application processes are a problem for 35% of consumers, 30% have difficulty with documentation, 21% see a lack of options between providers, and 18% suggest there are limited product choices. Our own research at TransUnion also reveals that 81% of consumers that have had to provide bank statements as part of the application process find it difficult, time-consuming or repetitive – something that Open Banking could simplify.

When performing a customer application process, how challenging are the following?



Based on 105 decision makers at manager-level and above
A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.

Close-minded about Open Banking

Our recent TransUnion poll reveals that 25% of consumers have never heard of Open Banking. Banks and financial institutions need to address this and think about Open Banking from a consumer perspective, rather than just a regulatory one. Educating consumers on the benefits is an industry-wide task and one which all finance providers need to take responsibility for. Businesses will then be incentivised to adopt Open Banking services at a higher rate than they currently are, and start using it more widely.



Exploring the Benefits of the Open Banking Model

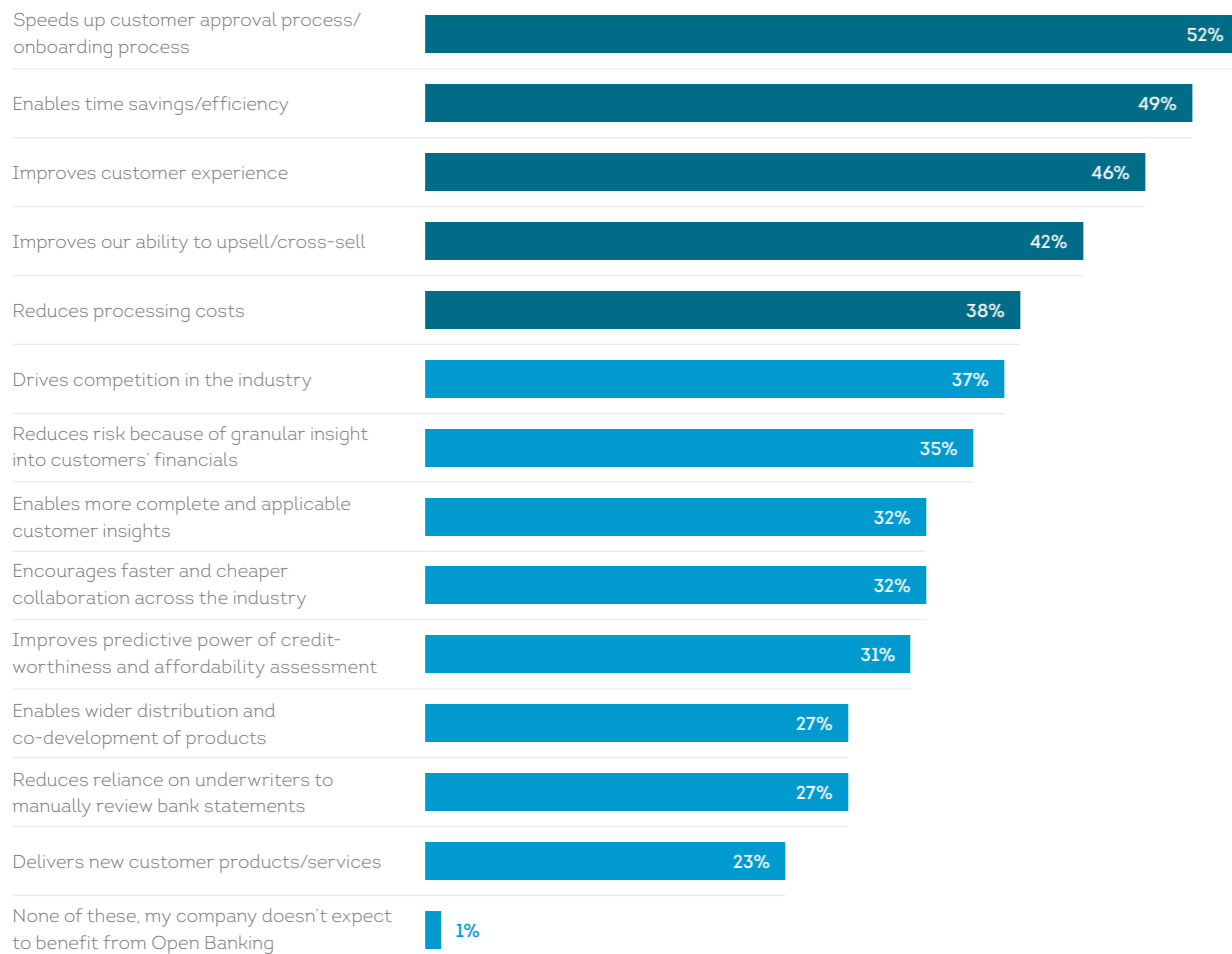
Much of the media narrative around Open Banking benefits centres on the consumer. It's about data ownership, gaining a better service from finance providers, data safety and revolutionising the way money is managed in a positive way. However, this potentially disregards the benefits to financial institutions themselves, which can likewise revolutionise things in a positive way.

Indeed, our commissioned Forrester study suggests that 99% of firms expect to benefit from Open Banking. And Fig.3 shows the expected benefits of Open Banking for the research sample who have either adopted it, or intend to.

Benefits such as better service, faster processes and reduced costs will help to usher in a new age of

banking and finance, and businesses will be better able to cross-sell and upsell. That's because they're using data in a way that enables them to know their customer holistically and so suggest products that will work for them.

Fig.3 In which ways does your company expect to benefit from Open Banking?



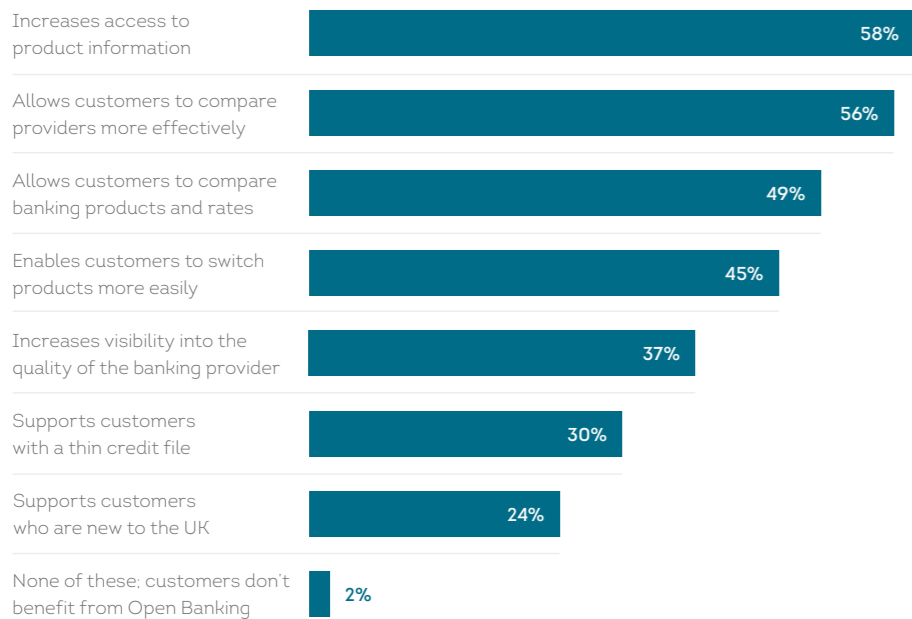
Based on 91 decision makers at manager-level or above
A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.



Customer connection

Away from the benefits they expect to experience on their own side, banks and financial institutions also have a view on the primary customer benefits. A big number see a customer gain from Open Banking (98%), and Fig.4 shows us the ways in which those who have adopted, or will adopt, are seeing their customer base benefitting now or in the future.

Fig.4 In which ways do your customers benefit from Open Banking?



Based on 91 decision makers at manager-level or above. A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.

Contextualise this data with Fig.5 – which showcases the benefits consumers expect from sharing bank statement data through an Open Banking model – and a greater picture of the benefits and impact of Open Banking begins to build.

When they share data with banks and financial institutions, consumers expect fast and easy applications, automated processes and a more agile, flexible experience that's

informed by the data they've shared. Essentially, they're looking for a modern experience of financial services that meets today's expectations. And if they get that, they're open to sharing data with banks and financial institutions.

Indeed, 88% are willing (to varying degrees) to share with banks, 80% with mortgage brokers, 80% with credit card providers, and 76% with credit reference agencies.

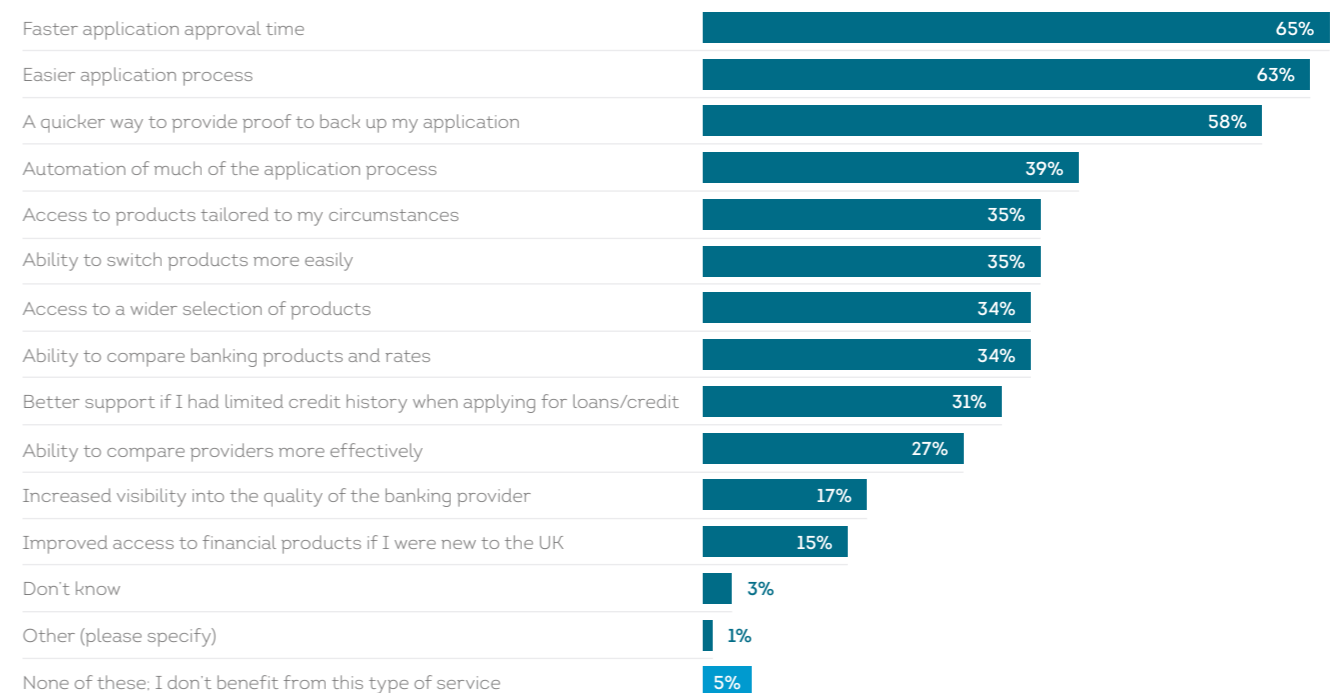
In fact, the only companies consumers demonstrate low levels of willingness to share with are payday lenders (59% are unwilling), and fintechs (46% are unwilling), suggesting that these businesses could derive some value in using a reference agency as a broker service, and drawing on their higher levels of trust with consumers.

However, there is a nuance within these statistics. Because, in reality, consumers are not sharing because they're not understanding what Open Banking can do for them and because too few businesses have adopted it.

Unless this changes, a dual-speed economy could open up, with some businesses realising the opportunity of Open Banking and some not. And the only way that will finish is with consumers migrating en masse to the providers that can deliver what they're looking for, and leaving behind those that can't.

Key to stopping this before it happens, and capitalising on Open Banking, is raising adoption rates, and getting consumer consent to use data responsibly. This would create the conditions necessary to provide future-ready financial services that satisfy future-minded financial needs.

Fig.5 If financial services firms had access to your bank statement data, what benefits would you expect?



Based on 1,314 consumers, aged 18+, who have been through a financial application process in the past six months. A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.

Putting Open Banking to the test

A case study from TransUnion

THE CHALLENGE

As part of our extensive research and development work, we wanted to examine the potential benefits that the identification of specific granular data points would bring, looking at use cases within different sectors. When it comes to Open Banking, specificity is key. Not just in sector analysis but also in the approach to categorisation, with a view to predictive analytics more generally. Income verification is a central element in all sectors, as is debt profiling and the awareness of any recent new loans, charges and payments.

THE SOLUTION

Taking the example of consumer gambling debit transactions being used to predict loan outcomes, we were able to analyse things at a much more granular level. Splitting gambling debits out into more specific sub-categories enabled us to isolate the different implications of, for example, National Lottery spend, other lottery spend, gambling in bookmakers and gambling in casinos. Although gambling on its own at a high level is indicative of a consumer's increased likelihood to miss payments on loans, gambling in casinos is an indication of poor payment patterns double that of the typical high-level classification – and six to seven times higher than the norm.

THE OUTCOME

By identifying the presence of a consumer's gambling debts and then further quantifying the type of gambling – ranging from the National Lottery to regular online casino gambling – lenders could easily identify risk and make an accurate and informed assessment.



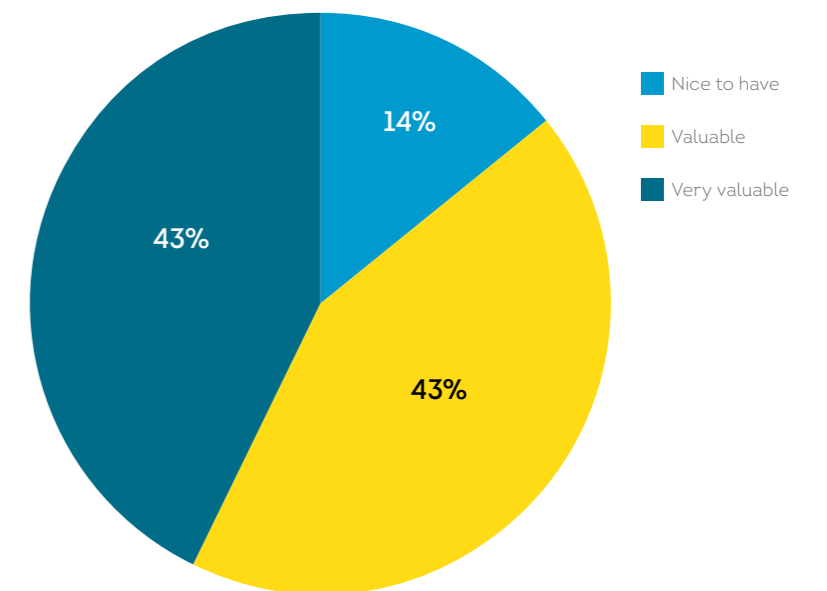
"AS THE GAMING INDUSTRY FACES UP TO THE NEED FOR MORE RESPONSIBLE GAMBLING, THIS KIND OF ADDITIONAL DATA WILL BE INVALUABLE.

"AND IT'S NOT JUST THE GAMBLING SECTOR WHERE THIS APPLIES. THE NEW FCA GUIDELINES ON AFFORDABILITY, WHICH CAME INTO EFFECT ON 1 NOVEMBER 2018, MAKE THIS MORE RELEVANT THAN EVER. WITH THE ENHANCED DATA AND INSIGHT THAT OPEN BANKING BRINGS, BUSINESSES CAN BE CONFIDENT IN THEIR RISK ASSESSMENTS AND CONSUMERS CAN BE ASSURED OF A FAIR AND INFORMED DECISION."

BEN THACKWRAY
PRINCIPAL CONSULTANT FOR
TRANSUNION OPEN BANKING

The value of data

Financial institutions love data. And that's what Open Banking can deliver. As the chart shows, the vast majority of those who have adopted (or are planning to adopt) Open Banking services see the data they've collected as a result as either valuable or very valuable.



Based on 91 decision makers at manager-level or above
A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.

Consumers, Consent and Collaboration

Let's recap on what this report has explored so far.

Open Banking presents a huge opportunity for banks and financial institutions to improve the level of service they provide to consumers, alongside their products and internal processes. Many that have adopted it are realising those benefits. Meanwhile, consumers are looking for a value exchange when allowing banks to use their data. They want improved, modern, agile services and are prepared to give access in exchange.

However, take-up of Open Banking still has some way to go. Not least because, despite the attention it gets, it's still in its early stages – adoption is underway, yet most are looking at 2019 and 2020 for it to really take flight.

Central to ensuring this happens is encouraging consumers, as David Firth, Head of Product for

TransUnion Open Banking, explains: "A smooth customer journey is essential, and this has to involve fully informing consumers of their rights and what the data will be used for. Equally, once the data has been provided it's imperative that it's used for the benefit of the customer – and that starts with accurately categorising and analysing the information received.

"Open Banking isn't just about gaining consent. It's about helping both the client and consumer benefit from more informed decisions and tailored services and products. Given the power of the data that Open Banking unlocks, there's a lot of anticipation for what it can do."

This in itself relies on finance providers adopting Open Banking, promoting the benefits of it, and

gaining the consent of consumers to share their data through APIs (application programming interfaces) – thereby removing any barriers that are in the way of Open Banking.

The barriers to consent for consumers

Stories of data breaches are commonplace today and the onus on businesses to treat consumer data responsibly has never been greater. Unsurprisingly, this is what sits behind reservations about sharing data for many consumers, as Fig.6 demonstrates.

Importantly, for banks and financial institutions, these fears are a

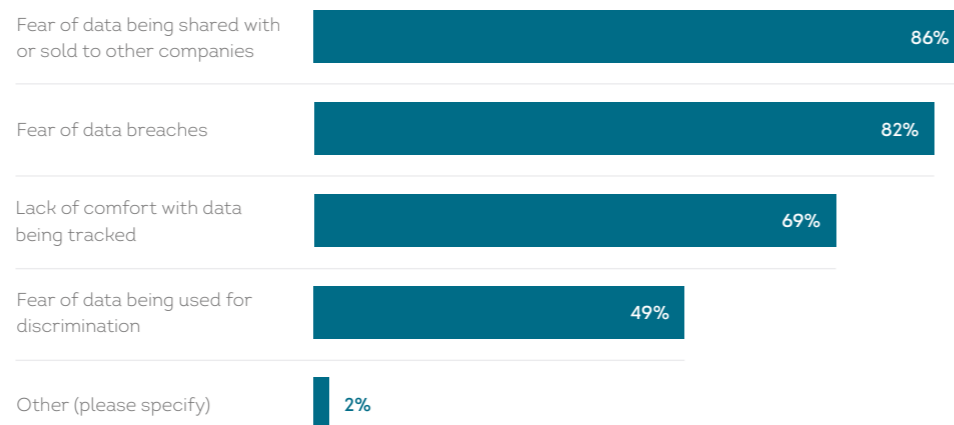
large part of the reason why many consumers might be reluctant to share their data – even if that data might be used to provide a better service. Indeed, while 80% say they'd be comfortable with sharing basic contact information (like their name and phone number), only half would say the same for bank statements (43%). And fewer still would share location data (33%), online search history (13%) and social media information (11%).

While, as the previous section explored, there is basic willingness to share information for easier applications, these statistics should alarm finance providers looking to harness the potential of Open

Banking. Because that willingness to share information for better application processes drops off heavily for other areas, as Fig.7 shows, creating what could become significant barriers to Open Banking consumer adoption.

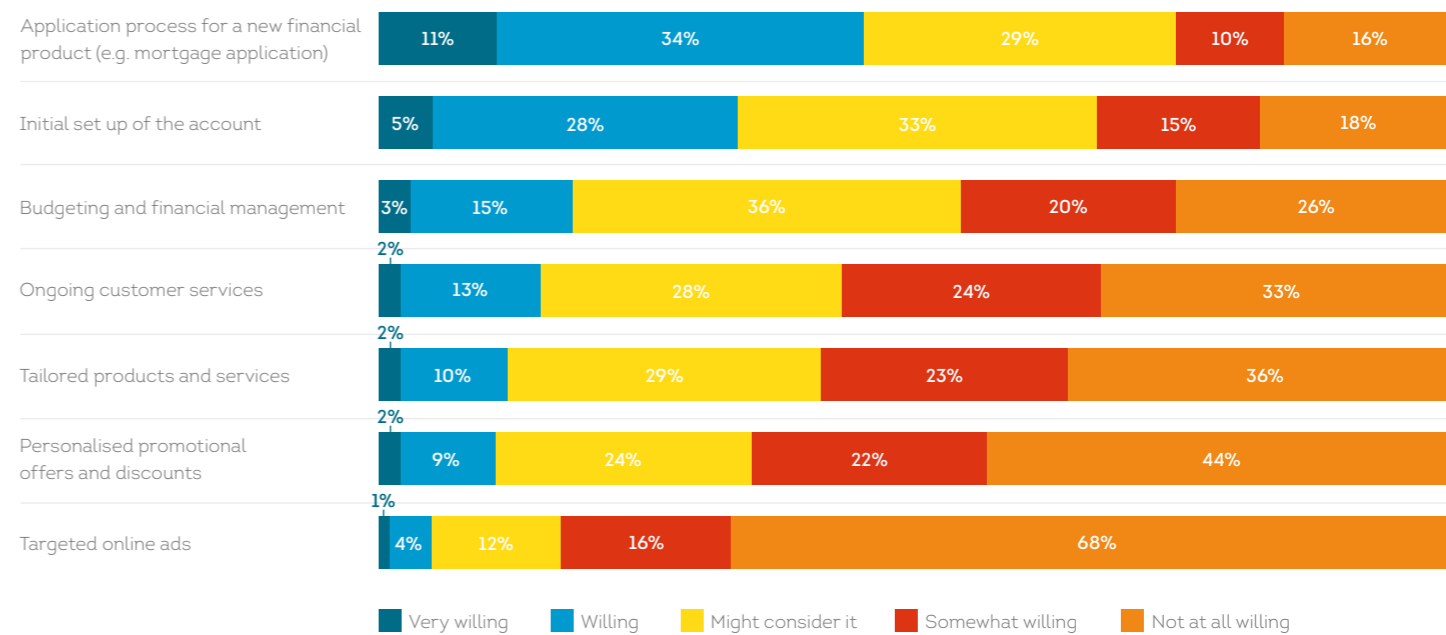
It's here that the value exchange needs to be made clearer to consumers. So they understand that by sharing data they get access to the products they want, and that those products will be suitable, with an easy application process and an assurance of a fair and fully-informed decision at the end.

Fig.6 What reservations do you have about providing regulated financial services institutions with access to your bank statement data?



Based on 1,371 consumers, aged 18+, who have been through a financial application process in the past six months. A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.

Fig.7 How willing are you to provide regulated financial services firms with direct access to use your bank statement data to improve the following experiences?



Based on 1,555 consumers, aged 18+, who have been through a financial application process in the past six months. A commissioned study conducted by Forrester Consulting on behalf of TransUnion, November 2018.

The banking answer

The question, of course, is what do banks and financial institutions do about this?

Well, firstly, they need to improve their understanding of consumer concerns. The Forrester study shows just 68% of banks and financial institutions think that fear of data breaches is a barrier, compared to 82% of consumers. Similarly, 59% see bad data protection practices as an issue, compared to 86% of consumers, revealing a divide in thinking between those experiencing the concern and those that need to address it.

Next, they have to think collaboratively about Open Banking adoption and communicating the benefits of it.

Open Banking can span a broad range of areas within financial services, offering the ability to assess income and expenditure, affordability and creditworthiness, with each complementing the other to help build up better, data-led pictures of customers. But that can't happen unless consent is gained, and businesses think of Open Banking as a comprehensive service.

It's for this reason that credit reference agencies (CRAs) will have a huge part to play in the future of Open Banking. The survey suggests that CRAs have trusted relationships with consumers, so harnessing what CRAs can offer in this area – particularly for the newer types of financial services providers that we've seen have lower levels of trust – will enable more businesses to reap the benefits of Open Banking and help drive adoption over the coming years.

Likewise, CRAs will have a big part to play on the data front. By combining the high level, broad spectrum data that credit reference agencies hold with the granularity Open Banking provides, banks and financial institutions can build a clear, holistic and coherent view of a customer. This kind of knowledge and understanding will be hugely beneficial when dealing with customers who apply for financial products with only a relatively thin credit file, because lenders will be able to see a full picture despite a comparative lack of data. But the benefits go beyond that. With more data on file, applications are quicker (alleviating a key pain point). Also, manual processing of applications will be reduced because there's simply more information to hand from the start, and a better understanding of a customer's financial position.

Open Banking can give the consumer a smoother customer journey and a more tailored product and service offering, while businesses will benefit from enhanced data and insight to ensure more informed lending decisions.

If adoption grows then banks and financial institutions can really begin to capitalise on the evolution and opportunity of Open Banking. If it doesn't, then Open Banking's moment might just fly by.



Consumer concerns

TransUnion's own consumer survey showed that seven out of 10 cited security as the reason they wouldn't want to give credit providers access to their bank account information. Businesses also placed this as a top priority in the research conducted by Forrester, with 62% of those not planning on adopting Open Banking stating that security concerns are holding them back. Together the figures make it clear that security is going to be at the heart of increasing adoption.

“GIVEN THE POWER OF THE DATA THAT OPEN BANKING UNLOCKS, THERE'S A LOT OF ANTICIPATION FOR WHAT IT CAN DO.”

DAVID FIRTH, HEAD OF PRODUCT FOR TRANSUNION OPEN BANKING



Owning Open Banking

Even if it's not quite an 'Uber moment', it's true that Open Banking is a huge shift for the financial services industry. If it's played right, it will be a hugely positive one, resulting in better customer relationships, improved use of data, more responsible and profitable lending, and easier upsell. Things that every bank or financial institution would welcome, particularly as industry disruption continues.

But none of that is guaranteed. As this research has demonstrated, while there are positive intentions and attitudes from both banks and consumers around Open Banking, there's also work to be done. In particular, banks need to get to grips with security concerns, make

sure there's a value exchange with data that encourages consumers to share, and that consent is given because consumers understand what Open Banking is and the benefits it can give them.

Open Banking can be a huge opportunity for the finance industry. In this report, we've shown where adoption is today and how it will change in the future. We've highlighted where the primary benefits of Open Banking exist, and why consent and collaboration are key to realising its potential, working with credit reference agencies. It's now up to banks and financial institutions to take the next steps as pioneers in this exciting journey and deliver for their businesses, and their customers.

If you want to know how the TransUnion Open Banking solution can benefit your business and customers, [visit our Open Banking homepage](#).

[DISCOVER MORE](#)





ABOUT TRANSUNION

At TransUnion (formerly Callcredit) we combine data with our suite of software and our analytical capabilities, and help businesses and consumers make more informed, confident decisions.

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FORRESTER®

Featuring data from a TransUnion-commissioned survey conducted by Forrester Consulting.

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