The Open Finance Paradox

A competitive gap is emerging as innovators accelerate and laggards wait for customers to adopt

cognizant

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Introduction

Introduction

The past 12 months have seen a surge in dialogue surrounding the value of open finance and whether it is being realised. While this debate has stoked critical thinking about what we should hope to achieve, significant questions persist regarding how financial institutions are incorporating open finance into their strategies and the potential benefits that remain on the table.

The anticipated explosion of uptake and innovation by incumbent banks has not materialised but the industry, powered by forward-thinking neo banks, is consistently building towards a point at which open systems are integrated into banking.

The scale of the opportunity is moving quickly: since 2019, the number of open finance users in the UK has risen fivefold, from 1 million to 5 million[1] – faster than the uptake of social media or digital banking[2]. In 2021, over 26.6 million open finance payments were made: an increase of more than 500% over 2020[3].

> If we were to plot the open finance adoption curve, at 5 million users we're in the up-ramp of the early majority. True, open finance is not fully at scale and it's not universally being applied to every use case but it's increasingly becoming the way the industry works. (see fig 11).
>
> Chris Allen,
> Director, Banking & Financial Services Consulting, Cognizant

Date	UK open finance users	
Dec. 2019	1M	
Dec. 2020	2M	
Sep. 2021	4M	
Jan. 2022	**5M**	

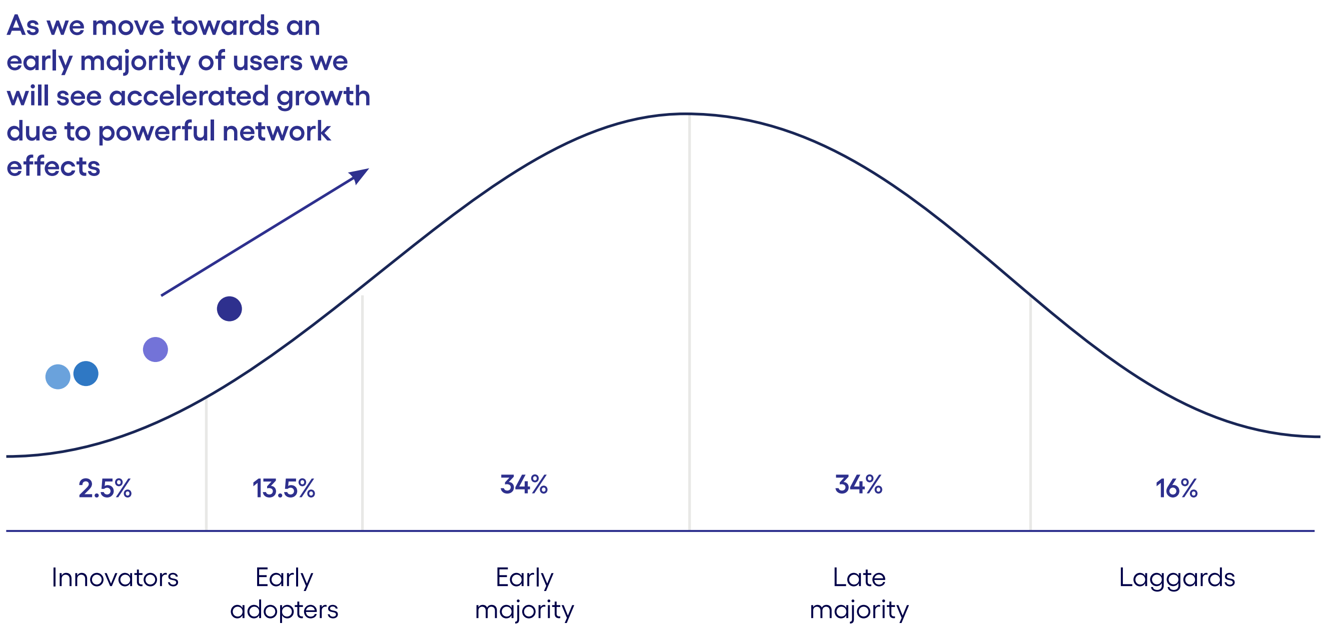
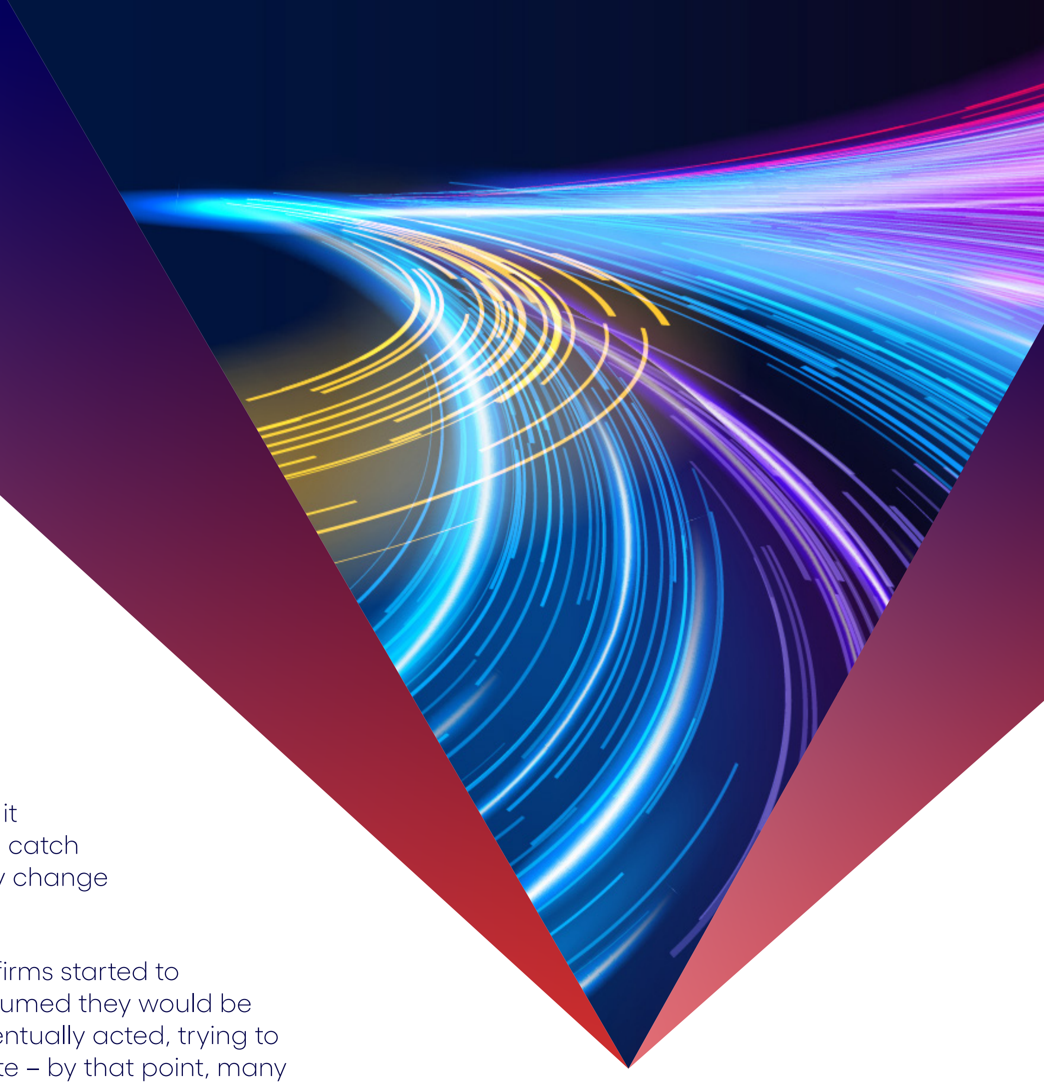


Fig 1.1: Adoption Rate & Curve (Source: https://www.openbanking.org.uk/about-us/)

[1] https://www.openbanking.org.uk/news/open-banking-passes-the-5-million-users-milestone/
[2] https://www.finder.com/uk/digital-banking-statistics
[3] https://www.openbanking.org.uk/news/5-million-users-open-banking-growth-unpacked/



This is the direction of travel and the further the nimbler competitors progress, the harder it becomes for incumbent banks to catch up due to the pace of technology change and their own lack of agility.

There's precedent: when fintech firms started to emerge, incumbents wrongly assumed they would be a flash in the pan. When they eventually acted, trying to create partnerships, it was too late – by that point, many neo banks were too established to play ball.

As much as it pays to reflect, we should also keep an eye on the longer-term future of the banking ecosystem. How players respond to open finance and their relative acceptance or rejection could prove to be a bellwether for their response to decentralised finance, crypto, the metaverse and other, more existential threats.

The race is on

What happens next is critical to success, so how can banks fully harness the opportunities of open finance? To find out, we spoke to over 200 decision makers with responsibility for open finance strategies at CMA9, incumbent, challenger and neo banks, and building societies.

Our research explored their priorities, strategies and opinions collectively to investigate the current state of play and the likely direction of travel. Even more revealing was the detail in their responses when grouped by the different subsets of financial organisations.

Who is confidently embracing open finance or simply disgruntledly meeting regulation? What can be learnt from those forging ahead about how to overcome barriers to adoption? How do these institutions' strategies and approaches differ?

What do we mean by "open finance"?

Open finance is a collection of standards, technologies and organisations that enable consumers to access reimagined credit, asset management, insurance and pension products with greater ease and transparency from a range of bank and non-bank suppliers. For small businesses, open finance offers opportunities to understand and optimise cash flow and credit profiles, as well as enable a more real-time view of business performance.

We see open finance as the natural evolution of open banking, extending the use of our financial data beyond traditional payment and account information to improve broader aspects of our financial lives. We believe open finance is a mid-point, not a destination, in our journey towards a more open, decentralised, inclusive and democratic financial system, with further extensions expected towards decentralised finance and open data movements.

Open finance industry players

Open finance industry players

Financial institutions have distinctly different approaches to, and ambitions for, open finance. We looked in-depth at five competitors in financial services.

Neo banks

Setting the pace, using open finance to successfully drive growth

Neo banks – digital-only banks focused on intuitive service and experience, using modern technology platforms – are actively looking to open finance to help develop new products and services that will attract new customers (90%). Neo banks believe open finance is pivotal to their success and future growth, so they are fully embracing it. Ninety-two percent believe open finance is important to their future success – seven times as many as incumbent banks.

They see that open finance is a revenue opportunity, a fact that incumbents seem to question. Sixty percent of neo banks use open finance to access new business channels, compared to 17% of incumbents, while 90% of neo banks are using open finance to reframe and expand their business. They understand how open finance helps achieve business priorities as it has already opened 60% of them to new opportunities.

> **Neo Bank perspective:**
>
> Our organisation is very committed to open finance and we develop innovative ways that drive our business forward and help our customers save time, money and resources. We have simplified our procedure to the extent that it can be executed with just a click-on picture of the content.
>
> Chief Risk Officer, UK-based neo bank

Neo banks' corporate priorities and strategies align with their open finance focus. Their top business priorities are increasing their average product holding (72%), closely followed by acquiring new customers (68%). They're confident in achieving their aims: 70% believe open finance will increase their average product holding and 70% that it will help acquire new customers–far higher than the average (45% and 37%).

Neo banks are using open finance data to improve customer experience and harvesting the data they capture to refine and evolve their service offering. They don't just rely on their own expertise and energy, working within an ecosystem to accelerate delivery.

Incumbent banks

In a risk/reward conundrum, putting their future in jeopardy

Incumbent banks are well-established high-street banks that are widely recognised. They provide the greatest number of financial products and services and are typically perceived by their customers as more trustworthy, secure and reliable than fintechs. Incumbents, however, are behind the curve with their open finance strategy with nearly eight in 10 rarely considering open finance solutions when developing new products or services for their customers – a trend they are acutely aware needs to change.

The majority (57%) of incumbent banks believe that open finance is over-hyped, while 50% recognise no benefit to it at all.

Why the reticence? It's too risky to act when 67% believe their customers don't want open finance and 93% think customers will remain loyal regardless. Either customers they have asked are the branch-going minority traditionalists who could become their residual, diminishing and expensive-to-serve core or the incumbent banks are missing out by not identifying true customer needs. This could lead to customer attrition towards neo banks (which neo banks have already identified as a priority acquisition focus).

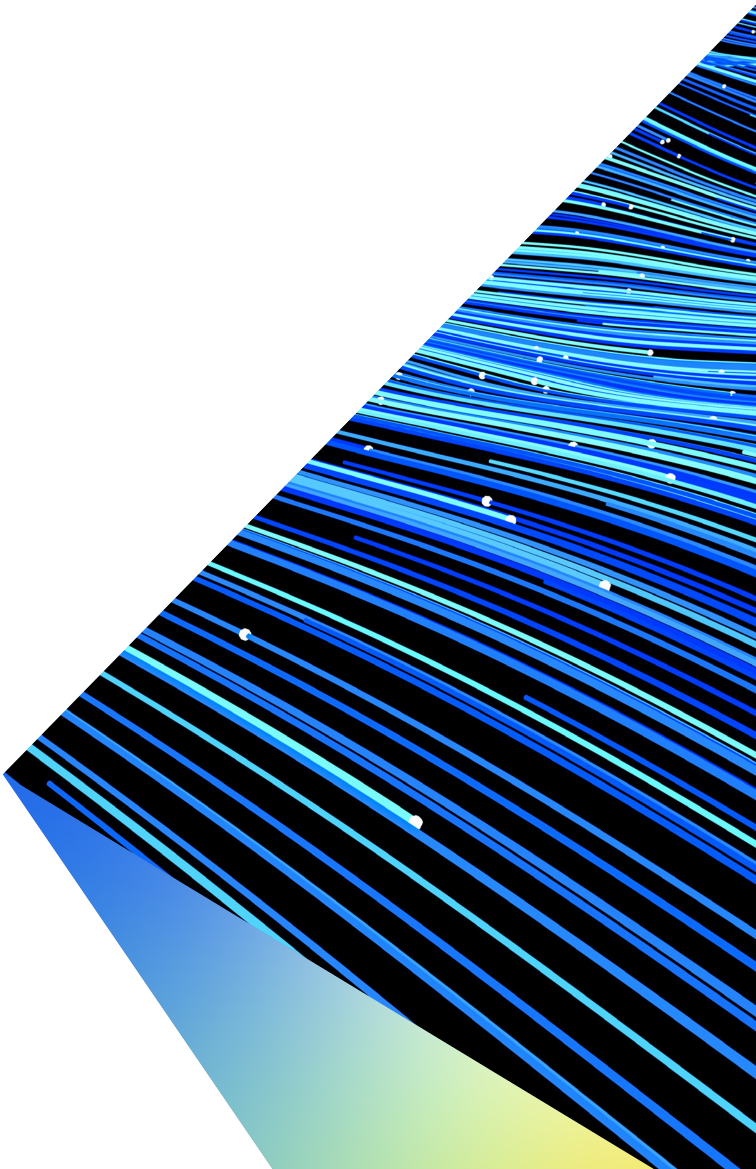
They recognise there is a knowledge gap – just 23% of incumbent leaders believe they fully understand the benefits of open finance vs 90% in neo banks.

Not required to offer open finance from a regulatory perspective, and not compelled to by a vision for open finance, incumbents are being left behind. Seventy-three percent say they are not yet capitalising on the new revenue opportunities offered by open finance.

Incumbent Bank perspective:

Open finance is an important step toward digitalisation. In contrast, some believe that it could be a threat, that we are not ready for the risk involve, and that it is important to change the risk management policies before it is implemented.

Chief Product Owner, UK incumbent bank



CMA9 banks

Understanding the benefits and threats but lacking co-ordination and investment

CMA9 banks – the nine largest banks and building societies in the UK – are part of the open finance initiative mandated by the UK government. On the surface, these banks are saying the right things but there is a misalignment between their priorities and their actions. They want to focus on the customer, with customer advocacy being ranked as a top-five business priority by 70% of CMA9 leaders, making it their overall biggest objective. But they are focusing elsewhere, with just 30% investing in their customer experience as a priority over the next few years.

There are several factors behind their lack of action to deliver beyond the minimum regulatory requirements. Cultural issues and customer reticence are the biggest sticking points, both cited by 75% of CMA9 decision makers. Is the issue that open finance is not owned by anyone and therefore lacks senior leadership to see it through?

Eighty-one percent of CMA9 leaders think open finance will improve their own organisation's reputation in the market, compared to 22% of neo banks, suggesting any action they take might not be for the right reasons and so will not achieve the maximum potential business impact.

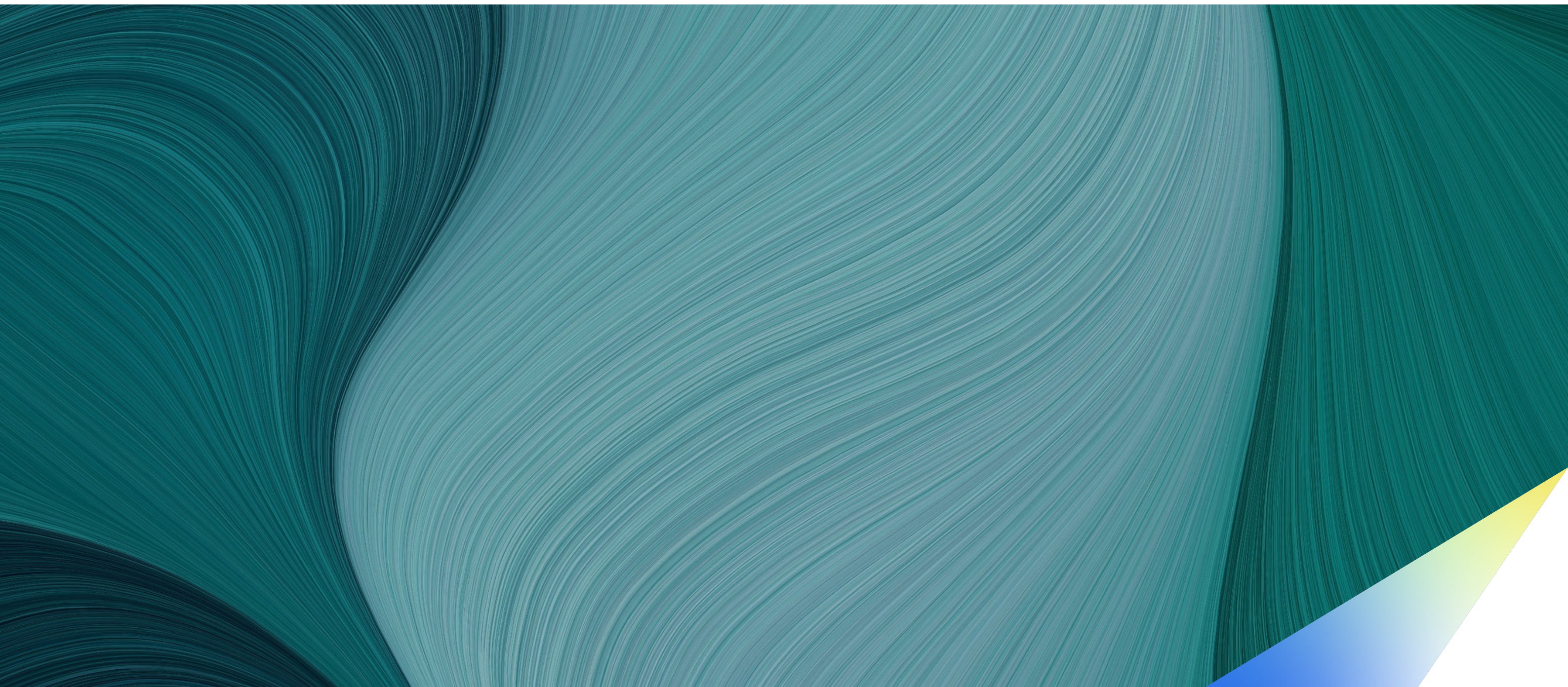
While there is tacit recognition of the link between open finance, customer experience and business impact, CMA9 banks struggle to adapt their culture and investment priorities to capitalise on it.

“

CMA9 perspective:

Since we are a customer-focused business, I believe open finance is deeply established and is here to stay in both the sector and our organisation. Our main aim is to assist clients in their operations and to make them efficient and easy, and open finance benefits consumers in that regard.... However, there are mixed opinions regarding accelerating our hold on open finance amongst the leaders. Everyone realises that it is necessary to survive, but the levels of importance vary in decision-making, like the number of investments and strategic partnerships to be made.

Director of Open Finance, UK CMA9 member



Challenger banks

Ready to push the button but lacking confidence in their ability

Challenger banks – typically small, new entrant banks that compete directly with large high-street banks, i.e., the incumbents (including CMA9s). They typically operate online but some have physical branches as well. Challenger banks are constantly innovating new ways to attract new customers and 76% are turning to open finance to develop new products and services.

Challenger banks are keeping an eye on the open finance market and monitoring what the competition – especially neo banks – is doing. They are already seeing benefits from their open finance strategy and there is a drive to do more – 76% are actively looking to open finance to enable them to identify new products to serve broader customer needs, but there is some resistance to fully committing.

The greatest hurdle to overcome is their concern towards data security (60%) and a belief that there is a lack of customer consent, authentication and authorisation for their data to be used (52%). This has resulted in a sense of stagnation in their open finance strategy and the majority are left doing the very minimum to meet regulatory requirements (60%).

That said, challenger banks are open to support and guidance to help overcome these hurdles, particularly with how to increase customer demand (50%) and accelerate new revenue streams (50%).

It seems challenger banks are ready to push the button but lack confidence in their ability.

“

Challenger Bank perspective:

Most of the members in our top management support advancing open finance, while only a few strongly favour traditional banking. They argue that because open finance is solely a digital concept, it may eventually diminish the interpersonal relationships with customers… third-party providers (TPPs) are helping us deliver many customised services in one app, providing a very good, interactive and digitalised user experience. In the future, consumer dependency on physical banks will be minimal and the complete weight of operations will be on third-party API providers. So having the right partner to handle these huge and complex amounts of online operations is very necessary now and in the future.

Director of Compliance,
UK-based challenger bank

Building societies

Not seizing the opportunity and overlooking threats

Building societies are viewed as the go-to financial institutions for mortgages and high-interest savings accounts. They are associated with having strong and personable customer service and a strong high street presence. Due to their limited number of services, their digital services are very minimal, and as a result, open finance rarely plays a role in how they develop products and services for their customers.

With simple, non-digital products and a prudent, regional focus, building societies struggle to embrace change. They are not convinced open finance will provide any real benefit to their current customer base and as a result 56% are not offering it nor have plans to do so. They are not concerned by the threat of neo banks and only 34% believe that banks who embrace open finance will flourish. It's just a fad.

Building societies' lack of concern around open finance is likely due to the nature of their business; only offering limited banking service and with constraints on their ability to invest in innovation. To maintain customers' loyalty, they prioritise improving their experience by investing in the quality of their branch services and contact centres. However, the next generation of customers will expect digital services like open finance, so to protect their future and remain relevant, building societies will need to plan strategically by ensuring their products and services evolve at the same rate as their changing customer needs.

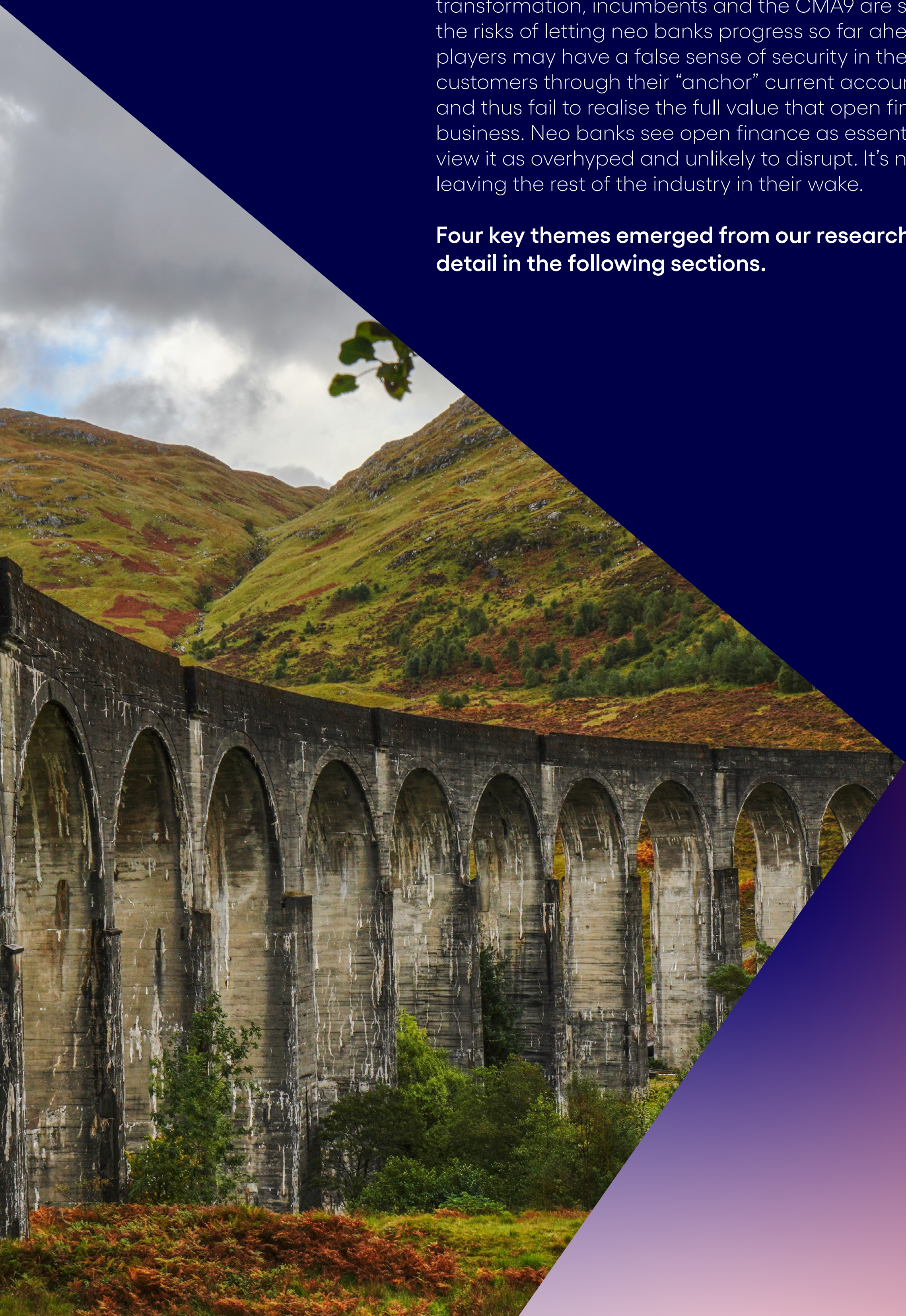
> **Building Society perspective:**
>
> Open finance sits reasonably low on our priority list because we're not a transactional bank. Our services are more around helping first-time buyers and saving. I would argue that it is less of a current need from our customers.
>
> Digital Branch Manager, UK-based building society

Research findings

We're heading for a disconnected future with key industry players approaching open finance in very different ways. Incumbent and CMA9 leaders' understanding of, and approach to, open finance is often not just different, but in polar opposition to those of neo banks and challengers.

A stark contrast between ambition and focus is emerging. While neo banks use open finance to drive customer growth and digital transformation, incumbents and the CMA9 are slow to act. Unaware of the risks of letting neo banks progress so far ahead, the more traditional players may have a false sense of security in the stickiness of their customers through their "anchor" current account and savings products and thus fail to realise the full value that open finance could bring to their business. Neo banks see open finance as essential while incumbents view it as overhyped and unlikely to disrupt. It's no wonder neo banks are leaving the rest of the industry in their wake.

Four key themes emerged from our research, which we cover in detail in the following sections.



1. Overcoming commitment issues

Financial institutions are set on becoming truly customer centric and open finance presents untold opportunities to understand and impress customers. Yet the powerful lever open finance presents is often ignored. The CMA9 and incumbent banks may be publicly pledging commitment to customers – and even to open finance – but many are focusing their elsewhere entirely.

What are financial institutions' business priorities?

Looking at the results from all the organisations we spoke to in our research, customer centric transformation is a consistent, current business focus across the industry. When asked their organisation's key business priorities, four out of the five issues they placed at the top centre on this pivot (apart from number 3):

1. Improve customer experience
2. Acquire new customers
3. Improve employee experience and culture
4. Accelerate digital transformation
5. Help customers with environment and societal concerns

This is the picture overall, but the main five priorities are very different for each subset.

Incumbents are committed to a wide variety of issues: improving the customer experience (a top-five issue for 50% of this subset's respondents), helping customers with their ESG aims (50%), expanding into new geographies, complying with regulation (50%) and reducing costs (50%) (see fig 1).

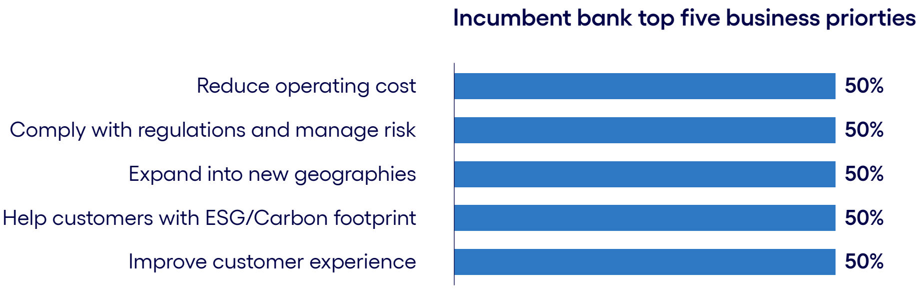


Fig 1: Q.1. What are your organisation's top five current business priorities?

The **CMA9** group are walking their own path. Improving customer advocacy was ranked in their top five priorities by 70% of respondents, making it their overall biggest concern. It's positive to see that the CMA9 have a service improvement focus, although they risk just improving a "rotten core" (see fig 2).

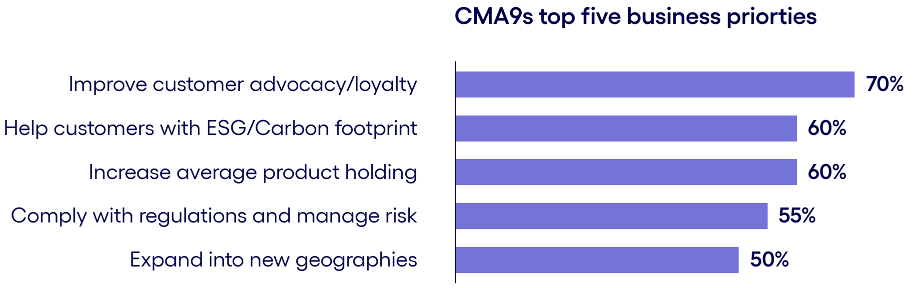


Fig 2: Q.1. What are your organisation's top five current business priorities?

Neo banks' story is not yet one of change but it does tell of growth and innovation. They want to go further, faster. Their top priority is increasing their average product holding (72%), closely followed by acquiring new customers (68%) (see fig 3).

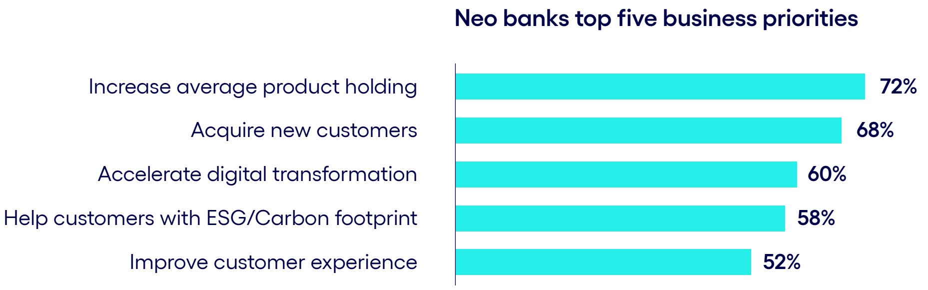


Fig 3: Q.1. What are your organisation's top five current business priorities?

Are banks investing in achieving their priorities?

So, will organisations achieve their goals? Does investment match up with their focus? If we look at the results for all our subsets together, the signs are encouraging. It looks as if leadership teams are confident in and committed to their transformation plans. Over the next two to three years, the top areas for investment largely match up with the business priorities, with the aims being to:

1. Accelerate digital transformation
2. Improve customer experience
3. Improve customer advocacy/loyalty
4. Reduce operating cost
5. Help customers with environment and societal concerns

Look more closely at the subsets individually, however, and issues begin to emerge:

- **Neo banks** have an offensive strategy, targeting growth and range extension. Their top areas for investment are increasing their average product holding, digital transformation and acquiring new customers.
- **Incumbents** too are largely investing in the areas they claim are a focus. So far, so aligned with goals.
- But the top investment area for the **CMA9** is not their stated aim of sparking customer advocacy but expanding into new geographies altogether. Sixty percent are investing in this, whereas only 40% are investing in customer advocacy programmes. When true customer centricity still hasn't been achieved in most organisations, it's significant to note that just 30% of the CMA9 are investing in improving their customer experience.

CMA9 banks and even challengers are ill-prepared to capitalise on open finance and their strategy does not fully embrace it. They are still wondering: "Was this the right bet?"

Is open finance the answer to current concerns?

Open finance could be a lever for all five of financial institutions' top current business priorities. But is it seen as the way to achieve their stated aims of customer centric transformation?

The main benefit of open finance for **neo banks** matches their priorities and investments, helping them increase their average product holding (see fig 4).

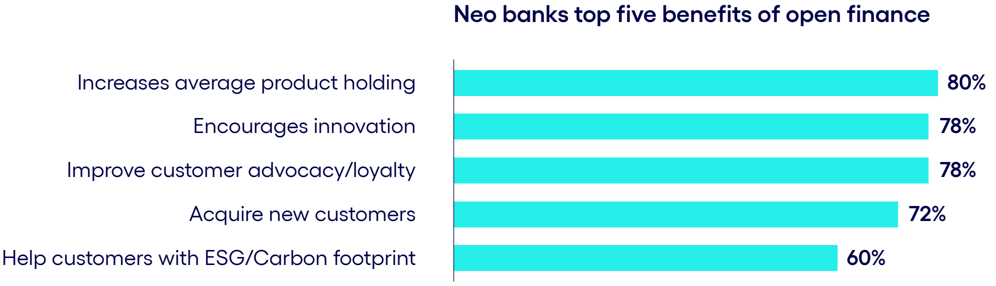


Fig 4: Q.10. What are the main benefits of open finance for your organisation?

The draw for **CMA9** leaders is that it accelerates digital transformation. It's not one of their key priorities but is still of value in achieving their other aims (see fig 5).

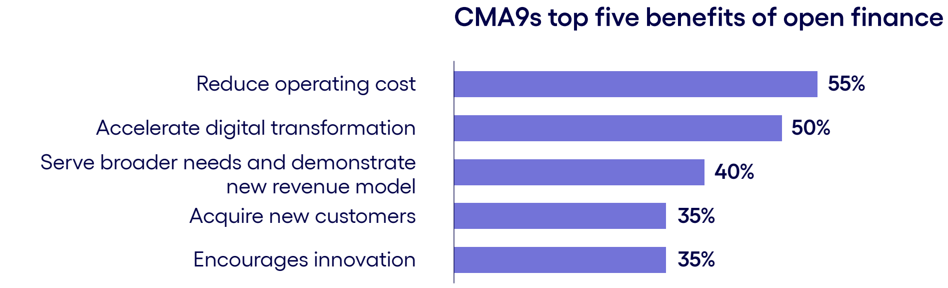


Fig 5: Q.10. What are the main benefits of open finance for your organisation?

On the other hand, the top benefit for **incumbents** says it all: open finance will help them to meet regulatory demand. This is best described as a defensive strategy. They are doing what they must and no more (see fig 6).

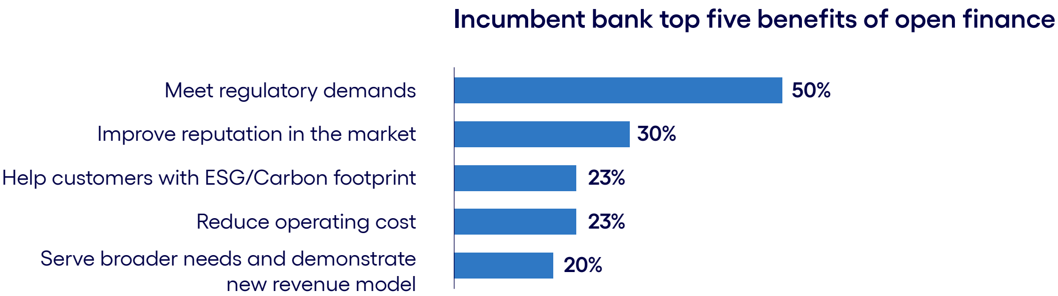


Fig 6: Q.10. What are the main benefits of open finance for your organisation?

Is open finance the answer to future concerns?

Nearly half (46%) of the market recognises not only that open finance is here to stay but also that those that do not adopt will be left behind (see fig 7). A remarkable 92% of the decision makers we spoke to in neo banks believe open finance is important to their future success (see fig 8). Yet many other leaders remain unconvinced of the power of open finance.

CMA9 perspective:

Since we are a customer-focused business, I believe open finance is now deeply established and is here to stay in both the sector and our organisation. Our main aim is to assist clients in their operations and to make them efficient and easy – and open finance benefits consumers in that regard.

Director of Open finance, UK CMA9 member

Neo Bank perspective:

Banks that are not fully using open finance will not be affected immediately today. They don't see any difference in business right now but also don't realise the long-term impact of not investing fully; 10 years down the line, the banks making use of open finance will keep strengthening their market position and those that don't will struggle to survive.

Chief Risk Officer, UK-based neo bank

Challenger Bank perspective:

With technologies evolving and getting more advanced daily, banks must change with time and adapt new techs for better performance among their competitors. The future for open finance is very bright, and banks adopting and improving open finance will see very good results in the coming future.

Director of Compliance,
UK-based challenger bank

% of **all respondents** agreeing financial institutions will be left behind if they don't follow the open finance trend

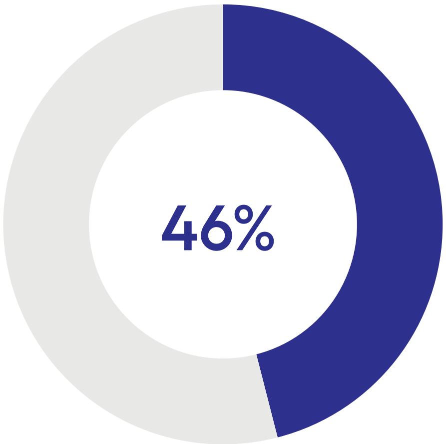


Fig 7: Q23. Looking forward to the future, to what extent do you agree or disagree with the following statements?

% of **Neo banks** reporting that open finance is very important to the future success of their organisation

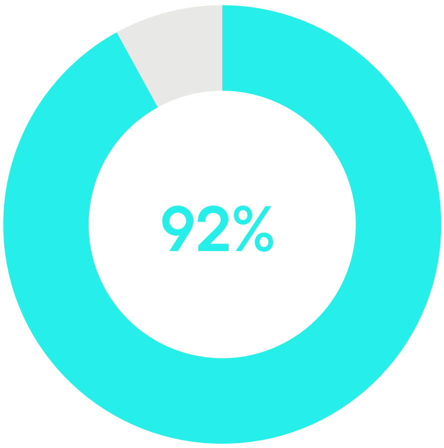


Fig 8: Q4. In your opinion, how important is open finance to the future success of your organisation?

CMA9

CMA9 leaders are more engaged than incumbents but still far less so than neo banks. Decision makers in this subset are 10 times more likely to think open finance is over-hyped than those in neo banks – 45% vs 4%.

Incumbent

Fifty-seven percent of **incumbent** leaders believe open finance has been over-hyped and is unlikely to disrupt the industry. Only 13% believe it's important to their organisation's success – seven times fewer than in neo banks. Half (50%) don't recognise any benefit at all to open finance (see fig 9).

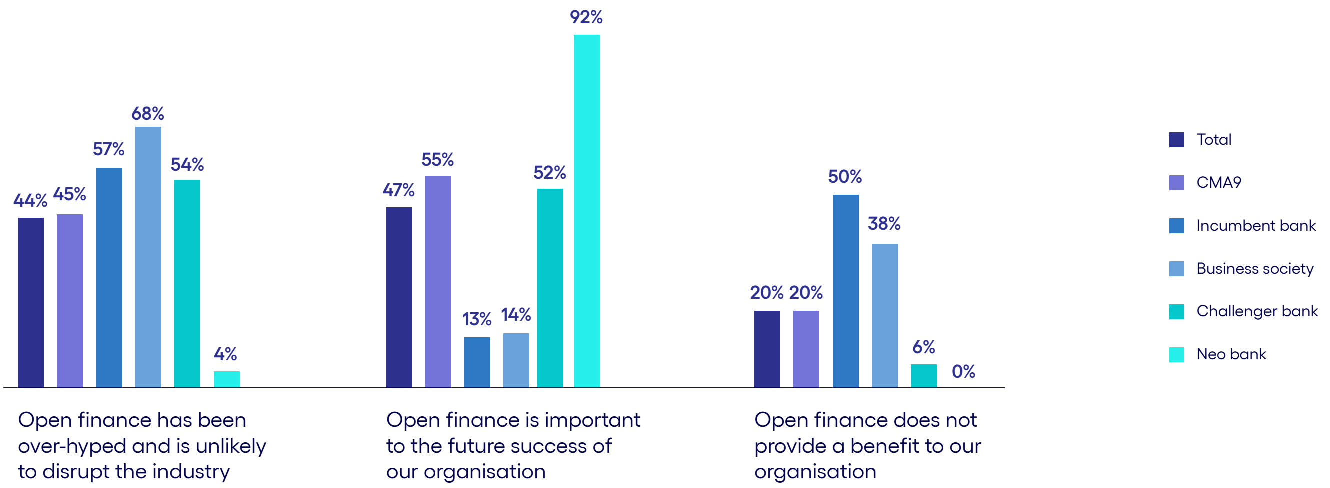


Fig 9; Q.4. How important is Open Finance to the future of your organisation?
Q.8. To what extent do you agree or disagree with the following statements?
Q.10. What are the main benefits of Open Finance to your organisation?

Why haven't incumbents bought in yet? As well as believing that open finance has been over-hyped, part of the problem is a lack of understanding. Ninety percent of decision makers in neo banks and 75% of those in the CMA9 believe they fully understand the benefits of open finance (see fig 10). Among incumbents that figure is far smaller – just 23%.

Level of understanding of the benefits of open finance

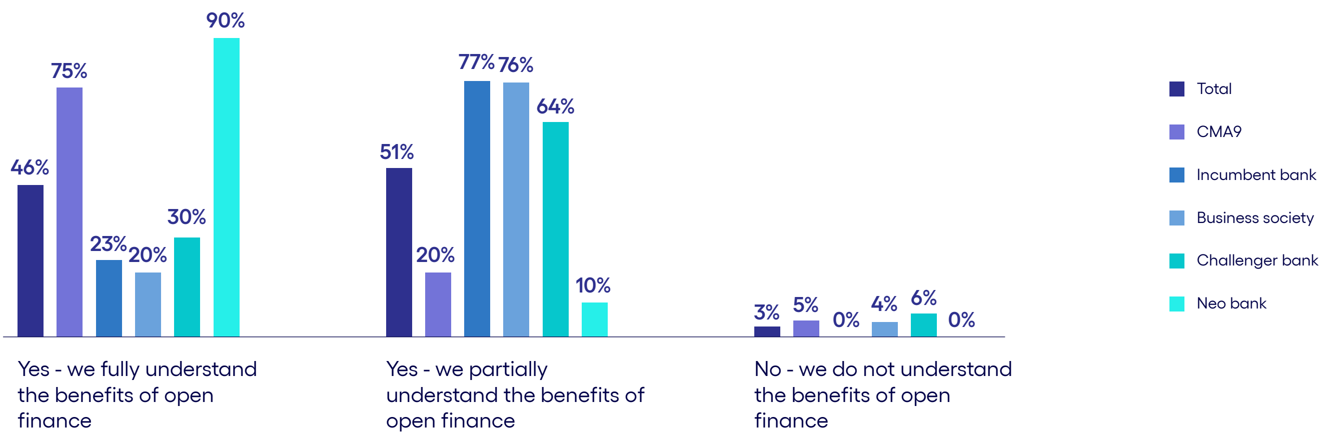


Fig 10: Q9. To what extent does your organisation understand the benefits of open finance?

Incumbent Bank perspective:

Customer data is crucial for us, so there is a fear internally when it comes to sharing our customer's data, as open finance relies on data sharing. The struggle of not knowing how much customer data we can share is a matter of concern. There is also a lack of customer awareness as they have less education regarding open finance and educating customers about the change in banking terms is a big challenge. Open finance is a proper shift of the banking legacy system, creating confusion for the customers to understand.

Chief Product Owner, UK incumbent bank

As a result of their inaction, three quarters (73%) of incumbent banks are not yet capitalising on the new revenue opportunity of open finance (see fig 11).

% of respondents who agree that incumbent banks are not yet capitalising on the new revenue opportunity of open finance

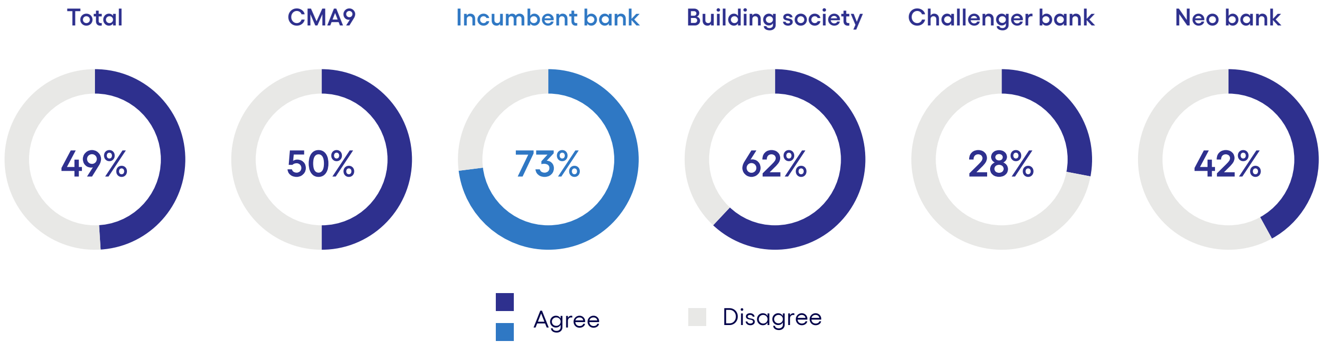


Fig 11: Q.8. To what extent do you agree or disagree with the following statements?

Only neo banks view open finance as an essential component of their transformation strategy and overall success, not only as a way to acquire new customers through marketplaces and new products but also as an important driver of improvements in existing customer journeys – accelerating onboarding and lending decisions and providing more powerful savings tools. This holistic approach is successfully driving growth, while the CMA9 and incumbents miss out.

Could the current pressure on household incomes and the opportunity open finance presents to help banks to help customers control their spending be the tipping point for the CMA9 to act to overcome their data fears and adopt a more "open" approach to data sharing?

Neo Bank perspective:

Our ambition for open finance is for at least three out of five of our customers to link themselves to it and use it. We want to create an entirely new way of banking; a system that primarily focuses on customers' needs and wants rather than just being held on balance sheets because we understand that our profit would be a result of the satisfaction of our customers. Also, we want more and more small businesses to be a part of our open finance platform. For this, we have made strategic alliances with one of the top providers that offers seamless services to small business owners, including providing loans, speedier decisions, etc.

Chief Risk Officer, UK-based neo bank

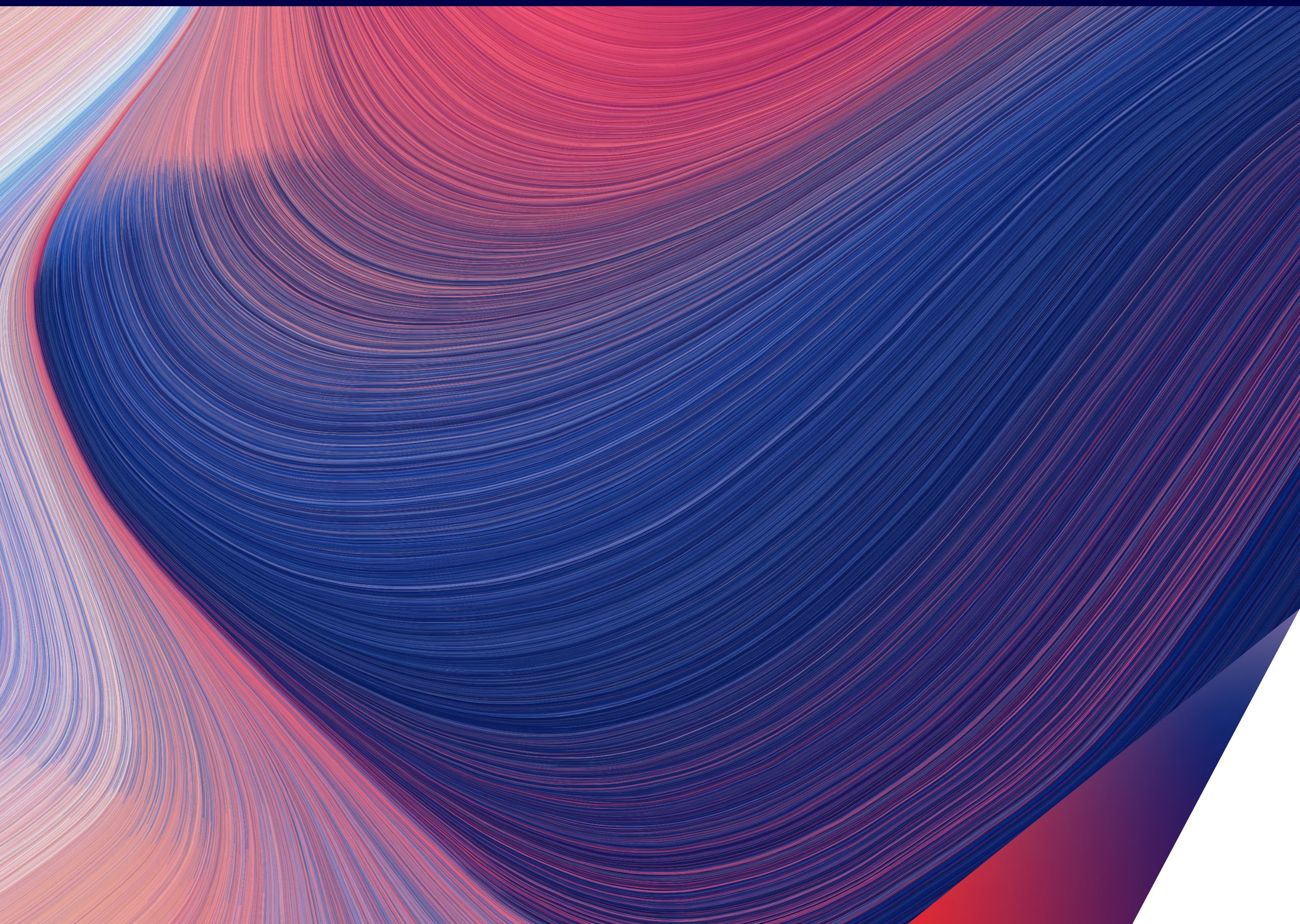
Taking action

The internal challenges – improving customer and employee experience and accelerating digital transformation – can often be solved by committedly looking beyond tactical solutions and embracing the wider change that comes with open finance. Open finance offers next-generation solutions that short circuit many of the challenges banks have with legacy processes – lengthy application forms, uploading documents and all the service associated demands quickly become a thing of the past.

Effective prioritisation and market insight are the first steps towards realising the potential of open finance. This helps ensure that any proposed changes directly address known customer issues and so are seen as tangible improvements. An in-depth understanding of the customer journey, the aspects of open finance with which customers are engaging most fully and an evolution of the role of the traditional bank will ensure financial institutions' competitiveness in an increasingly agile market while consolidating those aspects of their offerings that customers value the most.

In addition to winning over customers to adopt the changes offered by open finance solutions, most institutions will need to work hard to convince their internal sponsors of the value at stake. Aligning open finance initiatives to committed strategic imperatives and demonstrating the return on investment will be key to achieving this.

> **Cognizant's perspective:**
>
> Selling the benefits of open finance internally to stakeholders is the first priority for organisations who lack sponsorship and funding. If the bank isn't sold on the benefits, how can it expect customers to be?
>
> Chris Allen, Director, Banking & Financial Services Consulting, Cognizant



2. Getting the risk/reward trade-off right

Many decision makers don't have the evidence that their customers want open finance, so they aren't pushing to provide it because they view the risk as being too great.

What are the challenges to embracing open finance?

The top issues preventing organisations from adopting open finance aren't hard to guess. They are:

- Lack of resources
- Culture issues
- Tech and security
- Customer demand
- Increased regulations

(See fig 12)

Top five challenges in adopting open finance

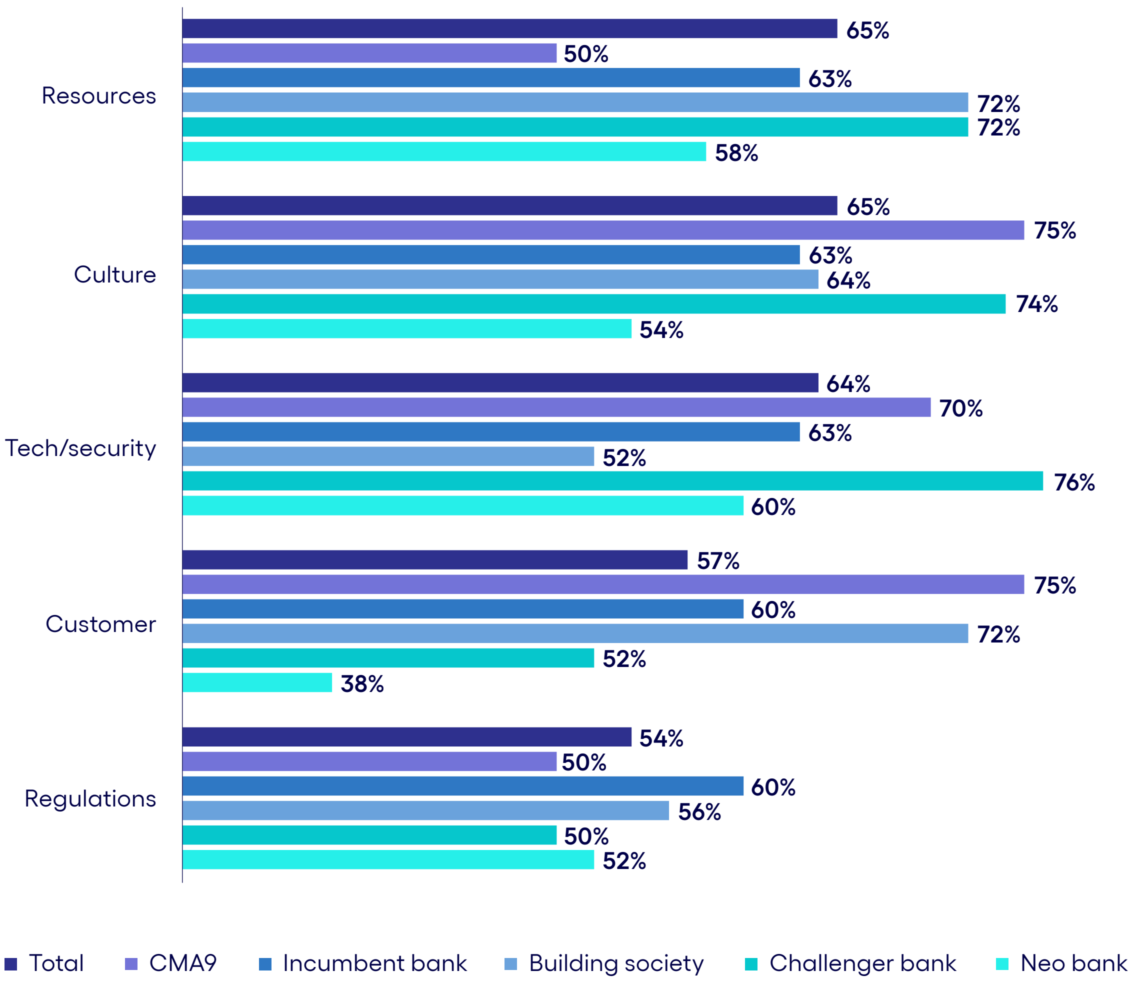


Fig 12: Q12. Please rank the top five challenges affecting your organisation's adoption of open finance

The top five challenges most often cited are largely the same for all the subsets in our research, with a few notable exceptions.

- For rapidly growing **neo banks** one of the biggest issues is, perhaps unsurprisingly, resources (58%). The quantity of resources required in growth mode is only half the issue. The other half relates to the quality and skills required. Banks are fighting the tech giants for talented engineers and developers.

- Cultural issues and customer reticence, both cited by 75% of **CMA9** decision makers, are the biggest sticking points for the subset. Why are they so uniquely concerned about these issues? As the dominant players in the industry for some time, they are often more traditional in their approach and have the most customers to lose.

- For **incumbents** the issue is a lack of strategic direction – a top issue for 67%. Incumbents, it seems, are stuck in a risk/reward conundrum. Eighty-seven percent report there is too much risk associated with open finance for them to fully commit. Sixty-seven percent don't believe their customers really demand it. Given these challenges, 63% have closed the door for now, admitting nothing would convince them to offer open finance.

(see fig 13).

Incumbent Bank perspective:

Top management's decision to promote open finance is rather uncertain, particularly because of the possible harm to customers' cyber security from sharing data with third parties. This has created a conflict of interests at the top, where most of the team believes that open finance is an important step toward digitalisation but some believe that it could be a threat, that we are not ready for the risk involve, and that it is important to change our risk management policies before it is implemented.

Chief Product Owner, UK incumbent bank

Building Society perspective:

Building societies in general struggle with the level of investment required to digitise the customer journey but also with accessing the right data and the in-house capability to actually use it and with concerns towards customer authentication and identity management. We are a non-transactional bank as well, so open finance lacks a certain amount of relevance with our current customer base, but we can't take our eye off the future customer. Larger banks have been able to overcome these challenges, but it's taken a lot of investment. It's for these reasons building societies have fallen further behind on the curve when it comes to open finance adoption.

Digital Branch Manager,
UK-based building society

Neo Bank perspective:

We have partnered with the best in every domain; the only challenge I encounter/foresee for now lies in the adoption area. Only once people start adopting it at a large scale will we encounter new difficulties to resolve. Right now, we have enough resources to cater to a small proportion of customers.

Chief Risk Officer, UK-based neo bank

CMA9 Bank Perspective:

Creating and managing complex chains of data is a liability because, at present, we cannot draw value from our current systems and inserting third-party providers increases the risk of scammers gaining access to customer information and their finances. From an API perspective, so far there haven't been many efforts to build any universal identity management for the sole use of open finance.

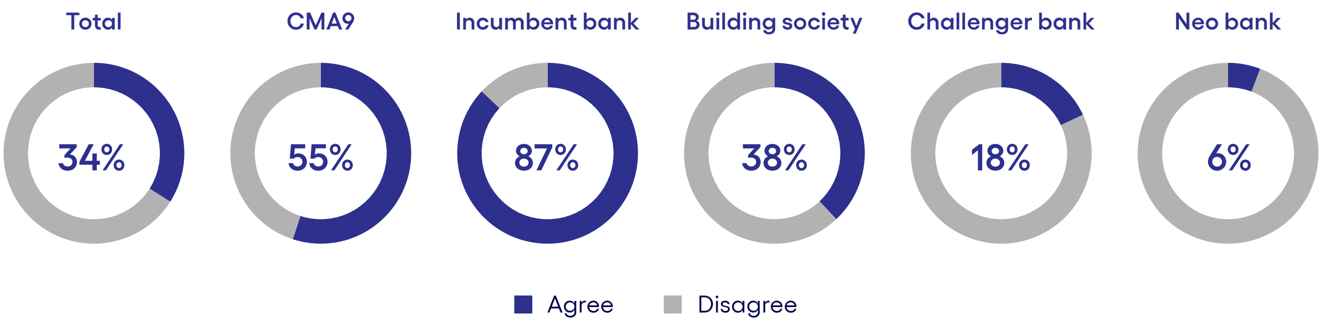
Director of Open Finance, UK CMA9 member

Challenger Bank Perspective:

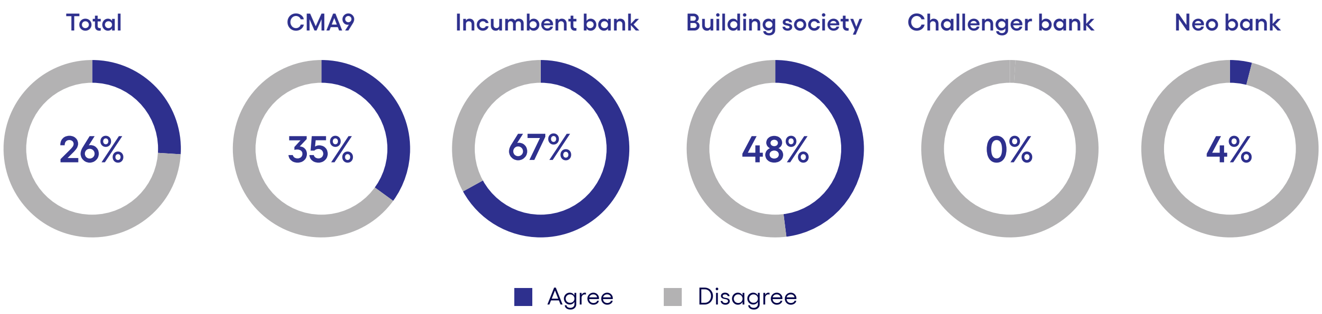
We only recently introduced open finance in our business operations, which has already made impressive strides… but in any business, once a new concept is introduced, the team members will undoubtedly have conflicts of interest – also true for open finance – and with no physical presence of our bank, it is super necessary for us to provide open finance services with minimum downtime and speed, which is always a challenge to us.

Director of Compliance, UK-based challenger bank

% of respondents reporting there is too much risk associated with open finance for them to fully commit at this stage



% of respondents agreeing only a minority of customers want open finance so is not a priority for our business



% of respondents report nothing would encourage them to offer open finance

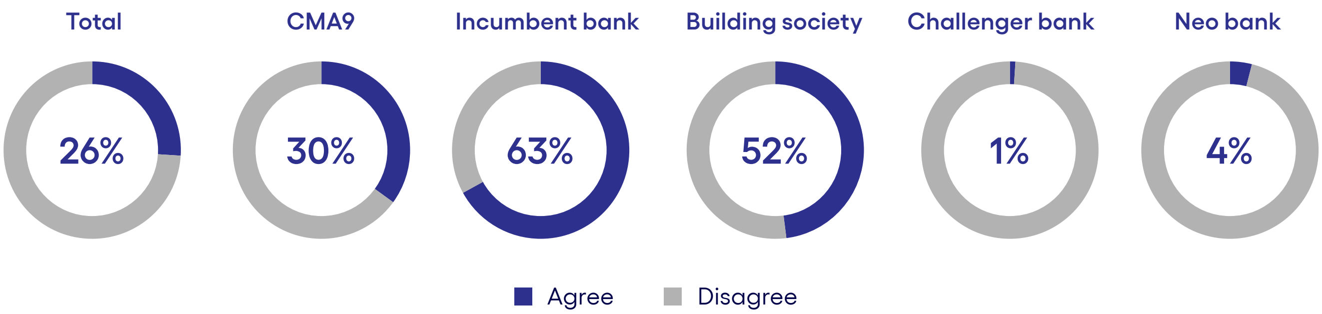


Fig 13

The evidence or information financial institutions currently lack that would encourage their organisation to invest more in open finance and overcome their challenges are:

1. How to increase customer demand
2. How to keep up with competitors' open finance innovations
3. How to attract new customers
4. How to accelerate new revenue streams for growth
5. How to improve customer experience

(See fig 14)

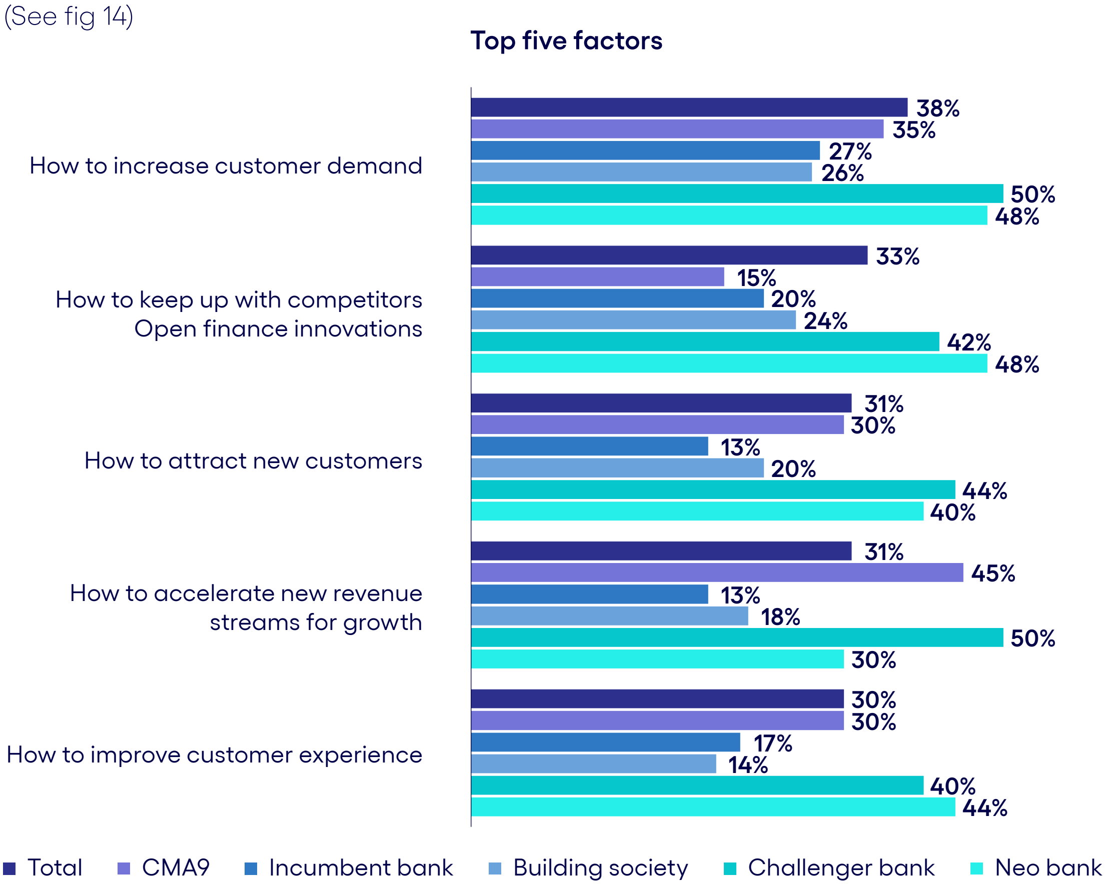


Fig 14: Q7. What evidence are you currently lacking that would encourage your organization to invest more in open finance?

These are all external-facing, customer outcome-related factors, so the relative lack of uptake it is perhaps unsurprising. Financial institutions require some investment and commitment to "prime" the demand in the market.

Building Society Perspective:

Realisation of the use cases and the propositions would really help us. We need to prove that our customers are engaging with us digitally and then start to show the value of moving forward towards open finance, e.g., how it will improve the lifetime value of a customer, etc.

Digital Branch Manager,
UK-based building society

Adopting an open finance strategy is not a straightforward task. But these results demonstrate CMA9s' and incumbents' lack of preparedness to address the challenge. Few appear see much "first mover" advantage at this stage. There is, however, a clear need and desire to focus on open finance use cases that meet two distinct criteria:

1. They respond directly to a known customer issue or opportunity.

2. There are proven solutions being adopted by other customers that reduce delivery risk.

Without evidence that their customers want or would benefit from open finance, it's no wonder they are stalling. Even once they have accepted that changes are required, they lack the agility to change. It's a double hit.

Taking action

It's very tempting to look at open finance through the lens of existing products and experiences and conclude that it isn't a "must focus" area. Those who come to conclude differently tend to spend more time thinking about their customers and those areas in which they are currently not being served. They invest in understanding the financial needs and wants of their future customers, in understanding how their brands, people and channels need support and where open finance can act as a delivery enabler.

It would be no surprise if their greatest hurdle in this race was lumbering technology or organisational complexity, but rather we've found that it's often cultural inertia. This is an internal issue that is entirely solvable with the right interventions and executive sponsorship – identifying who at the top table is best placed to lead the change and how they can be incentivised is often one of their biggest challenges.

"

Cognizant's perspective:

Our discussions with leaders in financial institutions have identified a clear trend in addressing the 'risk/reward' conundrum. The trend is towards focusing on selecting fewer, more proven open finance solutions to mitigate the risk of failed delivery. This is coupled with generating the reward through identifying which initiatives will be noticed and valued most by customers and help to keep pace with the market's expectations.

Chris Allen, Director, Banking & Financial Services Consulting, Cognizant

3. Playing catch up

Each banking group moving towards open finance has ambitious plans for the next six months and is confident of achieving them. But are they acting quickly enough to close the gap with those who are pulling ahead of the field?

What are financial institutions' ambitions for open finance?

Among the organisations we approached for our research, the top five current business open finance-related ambitions are:

1. To integrate open finance into their business model
2. To capture market share from CMA9 and incumbent banks by designing and offering open finance products for customers who have their primary banking relationships with other providers
3. To use open finance to identify new products and services to offer customers
4. To help customers better understand the benefits of open finance
5. To deliver new products and services

If we look at each of the subsets, however, their ambitions vary:

- **Challenger banks** are the most likely to want to integrate open finance into their business model (66%).
- The **CMA9** aim to design and offer open finance products for customers who have their primary banking relationship with other providers, potentially taking share from neo banks (55%).
- **Neo banks** want to help customers better understand the benefits (60%).

(See fig 18)

“

Neo Bank perspective:

We have introduced services enabling customers to securely connect personal and business accounts through open finance to share financial information from their main bank securely. The innovation lies in simplifying the process whereby we can access information with a one-off snapshot of their account. Also, we have taken the initiative and stepped up in the field of open finance and collaborated with the industry leader to excel in lending.

Chief Risk Officer, UK-based neo bank

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Incumbent Bank perspective:

Our ambition is to choose the right player for the partnership that can serve a strategically important role for us. When choosing a partner, their potential technology needs to be carefully examined to ensure that there is no possibility of a data breach. As we move towards the digital era's future, we aspire to build more and more APIs that will help build direct connections with different banks, fintech companies, payroll providers and so on. This will lead to the best data sources, availability and quality with the most secure and reliable connections that will comply with our end goal, which is always customer centric.

Chief Product Owner, UK incumbent bank

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CMA9 Bank perspective:

Our ambition for open finance is to produce comparison tools and services that will help SMEs in the future. We also want to have a bigger chunk of open finance users than any of our competitors and plan to add more and more APIs to our current list. My best guess is it would take around five years to implement. But if you talk about setting up new APIs, then I think we'll be rolling them out in intervals, which is never-ending.

Director of Open Finance, UK CMA9 member

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Challenger Bank perspective:

Open finance is pivotal to our banking operations and our overall growth strategy. We are very dedicated to our customers, and all our offerings are customer centric... Our priority is to manage finances and maintain transparency efficiently; our open finance platform provides visibility like never before.

Director of Compliance,
UK-based challenger bank

Will they meet their ambitions?

Overall, among all the organisations in the research, confidence is high.

65%
think they will likely achieve their goal to integrate open finance into their business model

71%
believe they will design and offer open finance products for customers who have their primary banking relationships with other providers

65%
will use open finance to identify new products and services to offer customers

75%
will help customers better understand the benefits of open finance

64%
will deliver new open finance products and services

But there are dips in confidence, particularly among **incumbents** who doubt their chances of using open finance to deliver new products and services (only 33% think they will) and of integrating open finance into their business model (29%) (see fig 15).

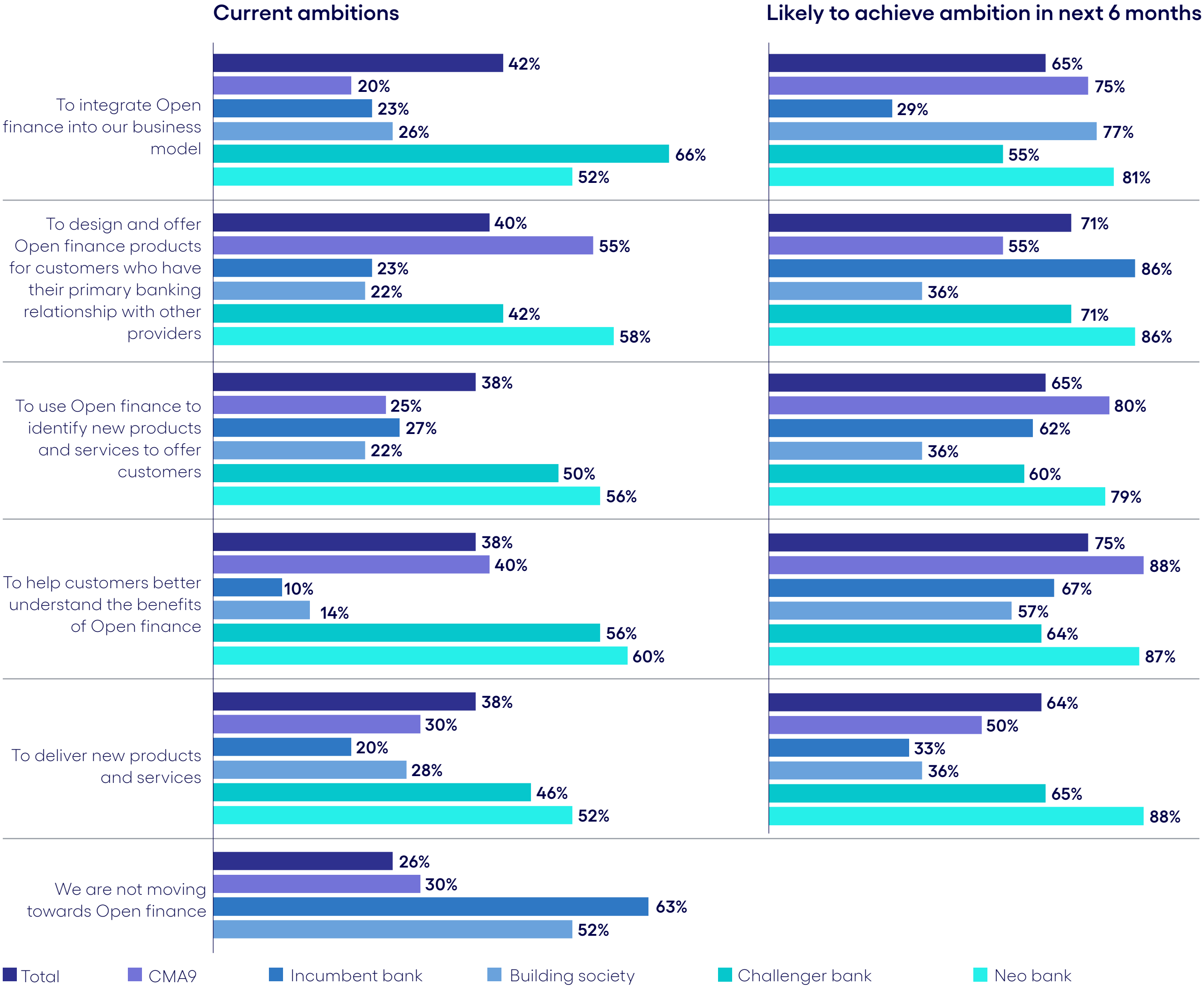

Fig 15: Q19. What are your organisation's current business ambitions for open finance vs Q20 How likely do you think your organisation is to meet these ambitions in the next six months?

When the discussion moves to execution from vision, reality becomes clear. Solutions exist for putting the strategies into action, so the conclusion must be that the remaining obstacle is mindset-based – organisations lack the belief, commitment and sponsorship at an executive level to put the plans in place and deliver the benefits.

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Incumbent Bank perspective:

We closely monitor our competitors' activities, which gives us a sense of realisation and urges us to think out of the box to innovate something new and unique to ease up the banking procedure for our customers. Many banks started using mobile applications for open finance; similarly, we have also started our mobile app for viewing all user details in one place. We are one of the three banks to enable open finance within bank apps; HSBC, Standard Chartered, and Bank of Scotland are our main competitors. We want to deliver our best and stay resilient among our competition, so we are constantly working to develop new techs.

Chief Product Owner, UK incumbent bank

What open finance products and services exist today?

For this section of the research, we focused on organisations who already offer open finance, discounting the answers of those not yet on the journey. Far and away the area most likely to apply open finance solutions is payments and access:

1. Payments and access (account information, payment authorisation) – 89%
2. Account aggregation (single view of customer accounts across multiple providers) – 67%
3. Process improvements (onboarding/switching enhancements, credit scoring, loyalty programmes) – 62%

(See fig 16)

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Incumbent Bank perspective:

Our open finance facility provides customers with a very user-friendly experience to access their account information anytime from a mobile banking application in a very safe and secure way with real-time access and without multiple logins. Customers can easily add their account on their online banking app after completing the security process and can get quick access to all linked accounts in one place.

Chief Product Owner, UK incumbent bank

“

Neo Bank perspective:

We have introduced services where you can securely connect your personal and business accounts using open finance. This sharing of information helps us to speed up services areas such as lending decisions and account reviews. We have also taken the initiative to step up in the field of open finance and collaborate with industry leaders to excel in lending services.

Chief Risk Officer, UK-based neo bank

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CMA9 Bank perspective:

We offer a variety of services like TPPs' access to confirmation of funds, transactional APIs to enable third parties to securely receive customer account information and transaction data, capturing consent intent from partners, the ability to check fund availability on card accounts, retrieve account and transactional information, submit fund transfer requests, initiate single immediate or future-dated cross-border payment with prior consent, manage authorisation given to TPPs and many more.

Director of Open Finance, UK CMA9 member

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Challenger Bank perspective:

More than 1.5 million users use our open finance services. These services include easy bank transfers, seeing all your accounts at once, a money-borrowing facility from a bank and many more. Our business customers have a mobile application through which their customers can pay them via easy bank transfers. We use APIs to help us drive innovation by implementing data-driven decision-making and predicting future trends.

Director of Compliance, UK-based challenger bank

Open finance products currently being offered

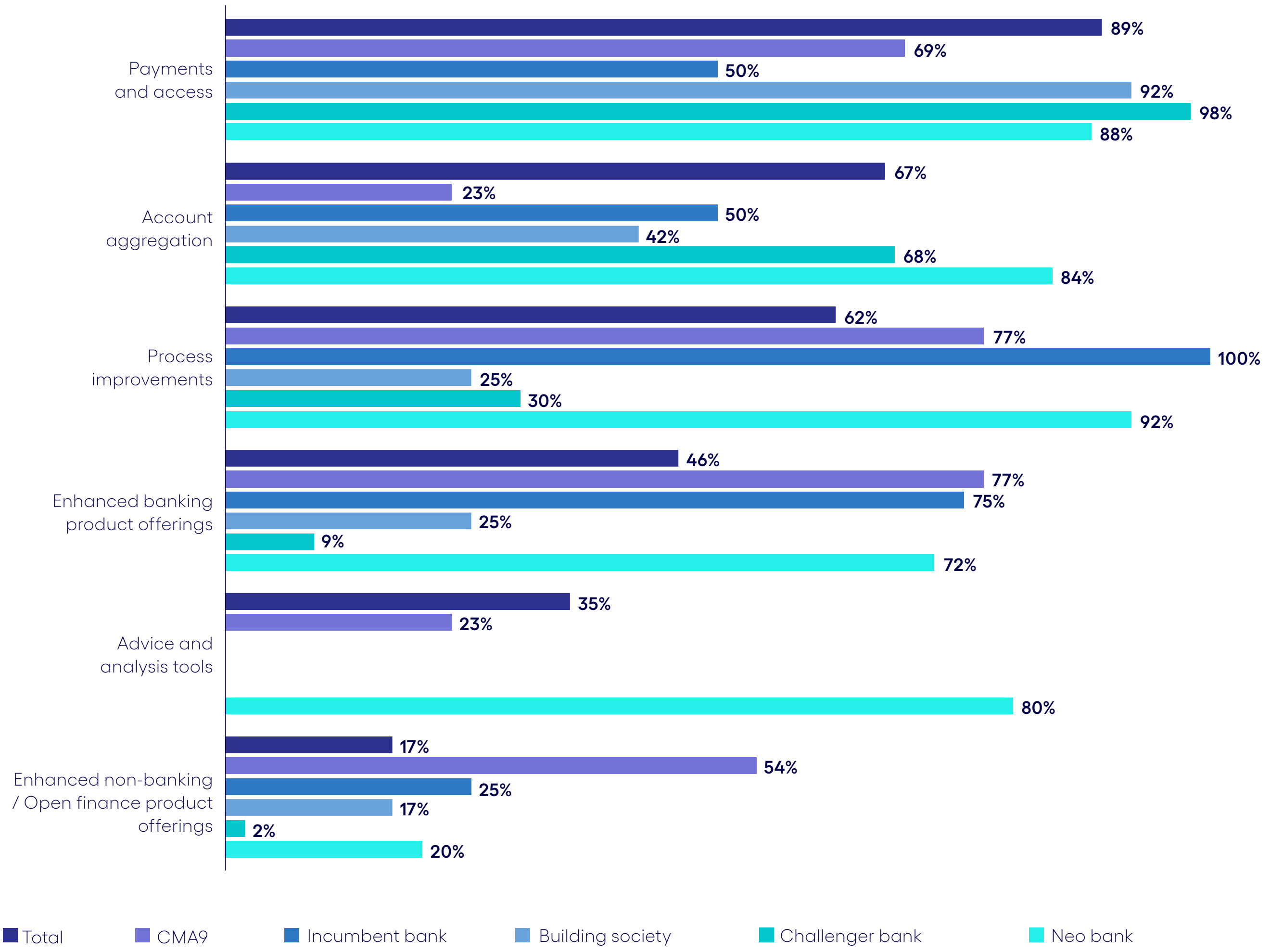

Fig 16: Q6. Which of the following open finance solutions does your organisation currently offer?

Can the competition gap be closed?

- **Neo banks** currently have an average of five open finance products in place and expect to have an extra two by 2025, making seven in total.
- **Challenger banks** and **CMA9s** start from a lower base – two and three respectively. These, too, are planning to add two more products, but that won't close the competition gap.
- **Incumbents** and **building societies** both have, on average, one product and likely will not add any more in the coming years (see fig 17).

Average number of products currently being offered now vs 3 years time (2025)

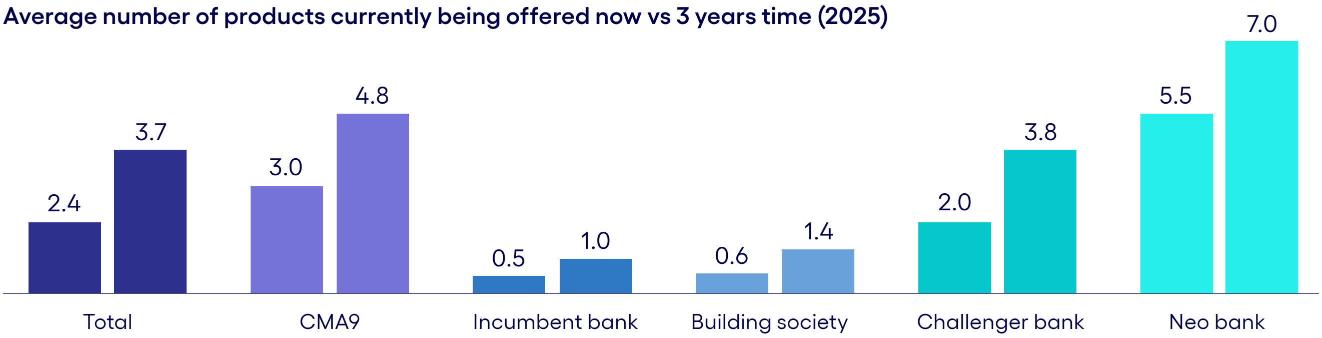

Fig 17: Q14. How many products or services does your organisation currently offer via open finance? Q15. How many products or services does your organisation plan to offer via open finance by 2025?

Incumbents and the CMA9 currently benefit from the relative lack of product range that neo banks have to offer but as this gap closes, incumbent's and CMA9's offering will likely become more compelling. Could their branch networks be the least likely reason to bank with an incumbent or CMA9, something which COVID-19 showed us we can all live without?

At this rate, neo banks are unlikely to be caught. Seventy-two percent of their leaders recognise that open finance is here to stay and that those which do not adopt will be left behind. Sixty-two percent believe financial services organisations who embrace open finance will flourish, while 64% go as far as to say that they believe incumbent banks risk being treated as a utility service if they are not forward-thinking enough to invest in new services such as open finance. Confidence may be high, but actual movement is too slow (see fig 18).

CMA9 Bank perspective:

Those who don't pursue open finance will be left far behind the competition in the future because no bank can compete with the potential of 'platformification' opportunities that open finance presents. Moreover, in some parts of the world, it's being mandated by the government or industry or fintech companies to do so; it's a now or never game.

Director of Open Finance, UK CMA9 member

Incumbent Bank perspective:

Amplified cost pressures, fierce competition and skyrocketing customer expectations define the current landscape in which banks operate. Innovation is a one-step solution for all the above challenges and open finance technology has brought much-needed innovation to the sector. As open finance becomes more and more prevalent, it will become more of a necessity. Customers will definitely switch to other banks that provide better services and – in our case – to banks that are making use of open finance technology meant to provide the ultimate user experience to customers.

Chief Product Owner, UK incumbent bank

Neo Bank perspective:

In my opinion, neo and challenger banks will be in a stronger position in the near future because the customers they cater to are tech-savvy. CMA9s have great market caps and, seeing new trends prevailing, they will either merge or acquire the competition, so they won't be affected too much because they know how to dilute their losses at the expense of their customers. The same is the case with strong incumbents but what I fear most is that building societies will be left far behind the competition and won't be in a position to cope unless they do some serious scale of M&A that completely changes their outlook and procedures.

Chief Risk Officer, UK-based neo bank

Challenger Bank perspective:

With the rising number of banks adopting open finance and providing more APIs to their customers, banks not adopting open finance will fall behind their competition, lose market value and be unable to grow and retain profitability like their competitors fully embracing open finance.

Compliance Director,
UK-based challenger bank

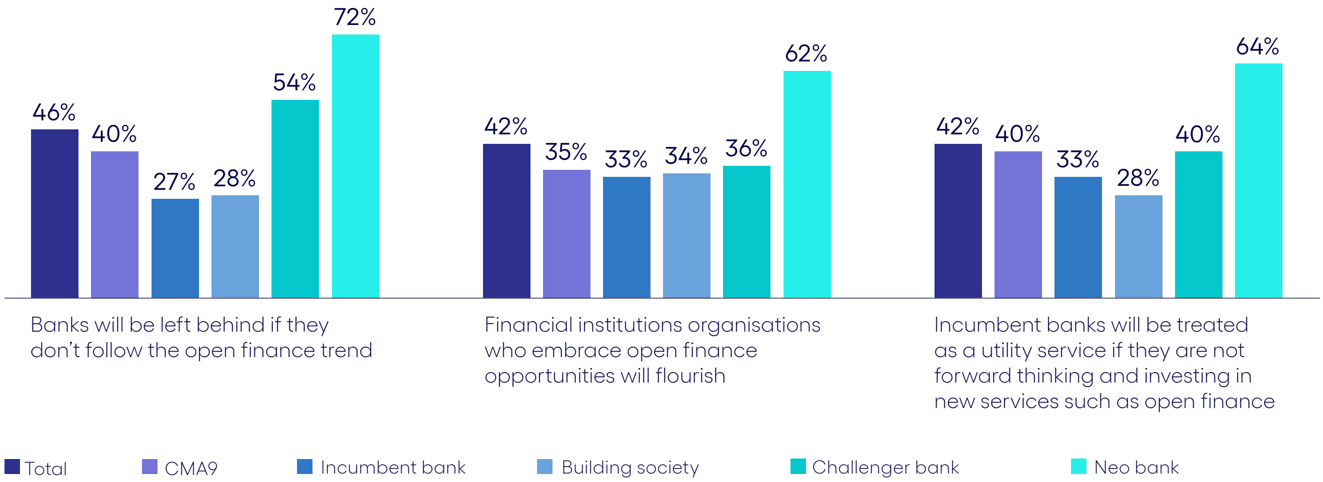

Fig 18 Q.23. Looking forward to the future, to what extent do you agree or disagree with the following statements.

Neo banks have lower product penetration, which may explain why they need to offer more products, while the CMA9, incumbents and building societies may look to consolidate and focus on fewer products. But incumbents risk being left behind with building societies if they don't pick up the pace.

Taking action

Seventy-one percent of financial institutions see open finance as important/essential to their future success and the majority understand the strategic importance of open finance – both in terms of the opportunities it offers to improve services to existing customers and increase market share by reaching new ones and the potential costs of failing to match innovation by competitors in the marketplace. However, competing with more agile competitors who are quickly plugging and playing in this new digital world is easier said than done. Often siloed by products and channels, open finance spans across, rather than fits into, existing buckets.

The sheer number of potential interventions can be overwhelming, which can impede progress – not least given the often-significant development costs associated with new products and technology, alongside managing the implications of legacy technology and the practical and reputational consequences attached to the need to protect data security.

Cognizant's four-step **"leapfrog" model** groups open finance interventions into four categories of increasing strategic and competitive benefit. These categories comprise a model that is helping financial institutions:

- **Comply** with regulatory requirements, such as by providing trusted parties with seamless access to account information and payment authorisation.
- **Catch up** with increasingly common services in the marketplace, such as simple international fund transfers.
- **Keep up** with competitors who are drawing ahead, such as by participating in third-party financial services platforms.
- **Leapfrog** competitors through the intelligent analysis of customer spending to enable flexible deployment of deposits or to achieve savings through product recommendations.

This model allows all financial institutions to combine the innovative, customer-centred logic of open finance with traditional banks' essential and abiding attributes, including global reach, physical infrastructure and the sense of responsibility that comes with the highly local, highly personal service that major financial institutions still stand for.

Cognizant's perspective:

Our leap-frog model has been well received by clients as it enables them to prioritise which open finance initiatives to focus on to balance the needs for delivery assurance, customer value and competitive advantage.

Chris Allen, Director, Banking & Financial Services Consulting, Cognizant

4. Innovating with purpose to create change momentum

While all players are now able to talk confidently about innovation, there is a clear execution gap. Those who are best-in-class innovate as a BAU activity and have a laser focus on staying true to their purpose and customer needs.

Some stark comparisons can be seen between neo banks and incumbents' approaches to innovation:

74%

of neo banks always consider open finance when innovating. Seventy-seven percent of incumbents never do (see fig 19).

12%

of neo banks think their customers will be loyal to them regardless of their open finance offering vs 93% of incumbents (see fig 20).

90%

of neo banks use open finance to identify new products to serve broader customer needs and provide new revenue opportunities vs 20% of incumbents (see fig 19).

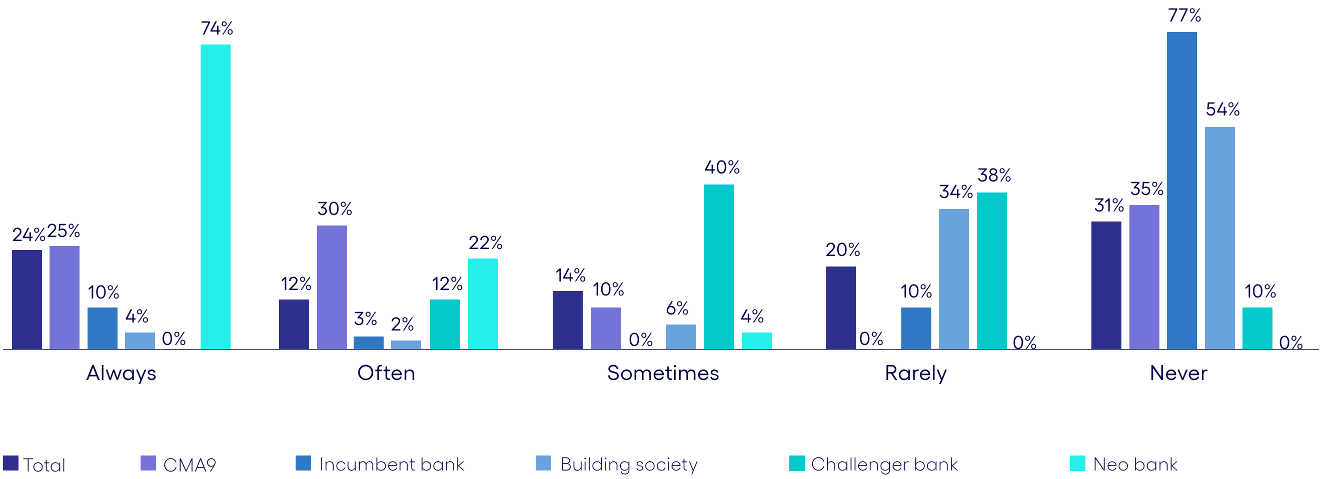

Fig 19 Q.17. To what extent does your organisation consider open finance solutions when developing new product or services for its customers?

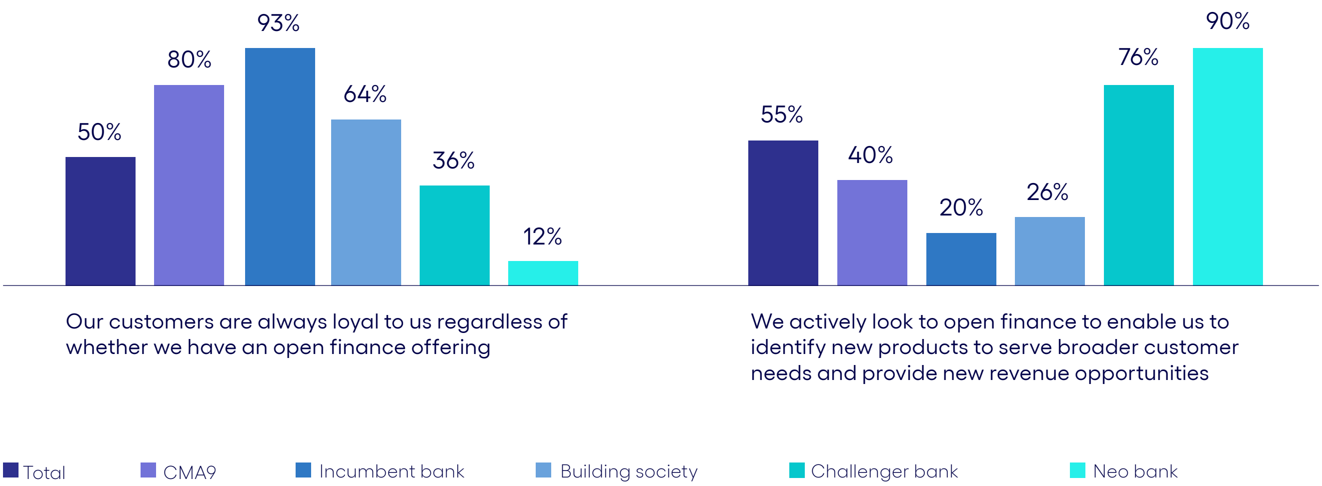

Fig 20 Q.13. To what extent do you agree or disagree with the following statements. Q.16. Please agree or disagree to the following statements.

Neo banks are using open finance to innovate, accelerate and reframe their business and take market share. Sixty percent say it has opened new business channels and 64% that it has changed the way they design and deliver services. This is putting the future of incumbent banks at risk: 68% of all decision makers say that incumbent banks will miss future opportunities by failing to properly capitalise on open finance – but only 7% of incumbents realise this. Complacency is the enemy and it is leaving incumbents vulnerable to an attack strategy from neo banks (see fig 22).

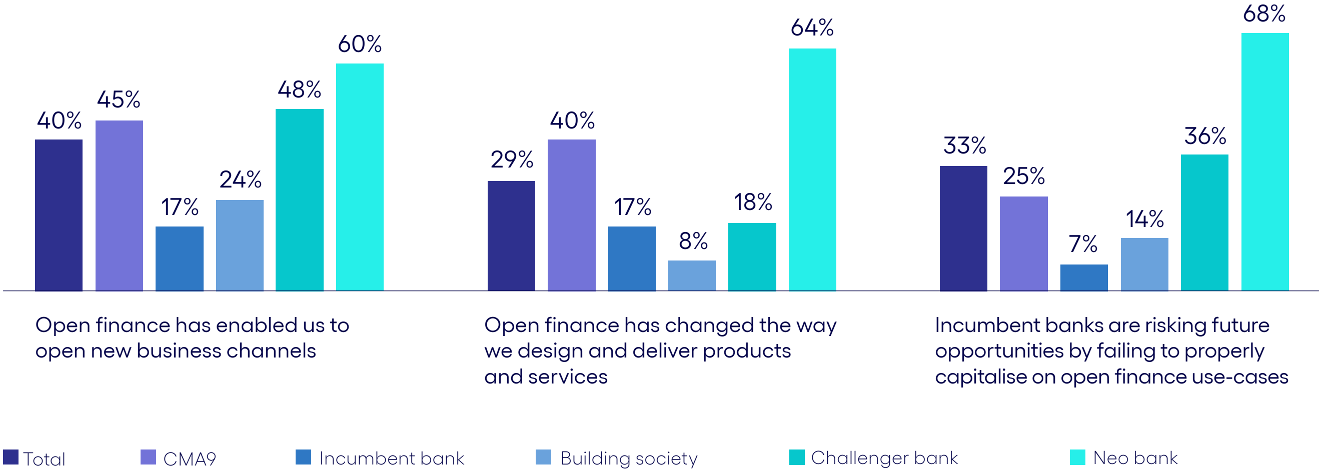

Fig 21 Q.13. To what extent do you agree or disagree with the following statements. Q.16. Please agree or disagree with the following statements.

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Neo Bank perspective:

We have a dedicated team that takes care of our open finance strategy, continuously monitors the field and captures insights that can be fruitful for our organisation. Customers' needs are considered first in our open finance strategy because… we are not a company that wants to grow radically by putting the interests of our customers at stake. We have a strategy focused on commitment and customer satisfaction which will help us gain high levels of customer confidence, trust and retention, which would profit us in the long run. Moreover, our recent partnership with one of the reputable credit agencies was aimed at providing loans to SMEs in the fastest and easiest way possible.

Chief Risk Officer, UK-based neo bank

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CMA9 Bank perspective:

There are three main drivers for our open finance strategy; first, regulatory change – a range of new regulations and support around the world makes open finance possible and secure. Second is customer demand and behaviour – expectations are evolving and the need for tailored, specific products is increasing, meaning new opportunities exist for entrants to capitalise on. And third is the threat of new entrants – open finance opens up many opportunities for new players, posing a danger that traditional banks will become utility functions.

Director of Open Finance, UK CMA9 member

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Challenger Bank perspective:

The main drivers pushing our open finance strategy ahead vary from building a more robust and larger customer base to providing services that effectively increase our customers' banking experience and provide the best services. We scored very highly on favourable rankings for the bank because of our strong engagement with customers who are more than satisfied with our services.

Director of Compliance,
UK-based challenger bank

It's clear that there is a marked difference between the offensive strategy of the neo banks – accelerated growth, range expansion and market and mindshare capture – and the defensive strategy of others for whom compliance, reactive demand satisfaction and combatting the advance of competitors are the priorities.

Collaborate to accelerate

A lever of neo banks' success is collaboration. Eighty-four percent use third-party partners to accelerate open finance delivery, compared to 7% of incumbents and 45% of the CMA9. Neo banks are tapping into a rich partner system, believing that collaboration between banks and neo banks is where the future of innovation lies in the industry. Incumbents and the CMA9 risk being left out of their own ecosystem if they do not openly collaborate (fig 20).

(See fig 22)

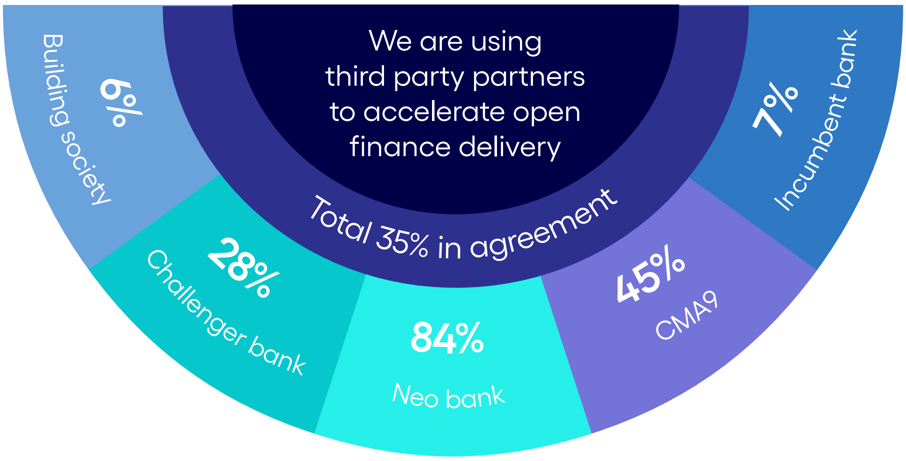


Fig 23: Q.16. Please agree or disagree with the following statements.

CMA9 Bank perspective:

We can compare open finance with a trend that all the major conglomerates around the world are using heavily – open innovation. For years, the industries did not revolutionise and used to depend on their internal measures to thrive in the market, but times have changed and they can make use of others' intellectual property to benefit rather than just keep investing in their R&D, which is limited, irrespective of the scale of the organisation. Similar is the case with open finance. An organisation (bank) cannot manage and cater to all customers' requirements. They have to partner with TPP to accelerate their growth to stay relevant in the market and not be wiped out by the competition (fintechs).

Director of Open Finance, UK CMA9 member

Incumbent Bank perspective:

Third-party providers are the driving wheel of open finance delivery. They play the most critical part, which is facilitating the role of an intermediary using APIs. Undeniably, a role must be played by consumers as well: they have to trust and put their confidence in open finance, which has been very well observed in our markets. Open finance technology is succeeding and is the future of the financial services industry because at its core lies customers' financial data, which has immense value. Efficient and robust intermediaries will revolutionise the fintech space by addressing the weak spots of the traditional banking system. Open finance can help provide credit to around four million people who do not have access to it. It can help fintech companies reduce overdraft fees for consumers as almost two million consumers get ripped off. This can be done by using consumers' transactional data and generating credit reports. Open finance technology can help steer people toward the right financial products.

Chief Product Owner, UK incumbent bank

Neo Bank perspective:

Third-party partners are the backbone of the open finance landscape, and its success depends entirely on service providers. The more they innovate, the more value will be generated because TPPs develop innovative solutions that help their customers use their financial transaction data or benefit from new offerings.

Chief Risk Officer, UK-based neo bank

Challenger Bank perspective:

Third-party partners play a huge role in open finance operations. Open finance could never be achievable without the APIs that third-party partners deliver. The landscape of banking is continuously improving and evolving. Banks are using third-party partners' services to deliver customised services by giving them access to their customers' financial data, which gives them more control over their finances.

Director of Compliance, UK-based challenger bank

Taking action

One of the key challenges that the long-established banks will have to overcome is balancing the needs of their current customers with the next generation of consumers.

Innovation frameworks that require continual or piecemeal validation of business case – or result in a glut of proof of concepts but limited delivery on primary channels – are often damaging to large organisations. They create huge expectations, deliver little and, more importantly, feed into the perception that innovation doesn't work. Financial institutions should prioritise those channels that directly impact and can be experienced by the customer.

While established players have made real strides towards an innovation culture that encourages open finance delivery, in many cases they struggle to overcome the challenges of scale, complexity and organisational inertia. The best cure? A clear understanding of how open finance aligns to the bank's strategy, long-term vision and overall purpose. Successful organisations have a clear purpose and a vision of who they want to be. Aligning open finance to achieving the strategy, vision and purpose creates the critical linkage that will galvanise sponsorship and make open finance an essential, rather than an optional, strategic lever for future success.

Conclusion

Open finance is changing the way financial institutions operate. In the not-too-distant future, it will be the norm. But it's not the destination: by then, today's pioneers will already be innovating towards achieving the next big thing.

As insurgent banks have used open finance to innovate and attract customers from the incumbents, they have created momentum that will likely be hard for others to meaningfully curtail without taking significant corrective action. This may be exacerbated as the innovation landscape moves on to decentralised, augmented reality and metaverse offerings.

The painful truth for many existing players is that open finance could just be the start of things to come. If they wait for customers to request these services before preparing to deliver them, it will be too little, too late. Adoption will be driven by the innovators and those late to respond will be left behind.

Forging ahead

Forging ahead

Here are our practical recommendations for organisations which need to accelerate quickly – and suggested further strides for those at the head of the pack.

Low maturity

Believe open finance is over-hyped, don't understand it and are not yet capitalising on the new revenue opportunity of open finance

- **Create understanding and support in your leadership** through executive education, organisation-wide open finance market insight, customer research and communications, designing and delivering open finance-targeted hackathons.
- **Build your open finance business case** by agreeing the ideal scope of open finance for your business, developing likely scenarios and identifying business owners, investment and next steps.
- **Identify and resolve operating model hurdles** by assessing which skills exist internally and what is required, connecting teams with capability and identifying a single executive owner.

Mid maturity

Believe in the growing importance of open finance but are not yet considering it at every opportunity

- **Deliver an open finance lighthouse project for an existing or new product or service** by identifying the problem to solve and how open finance can help, ideating and prioritising solutions, accelerating lean MVPs to evolve and then scaling to realise value.
- **Develop an open finance ecosystem and roadmap** by testing and refining your target capabilities, designing principles and evaluation criteria aligned to use cases and capabilities and assessing third party providers.

High maturity

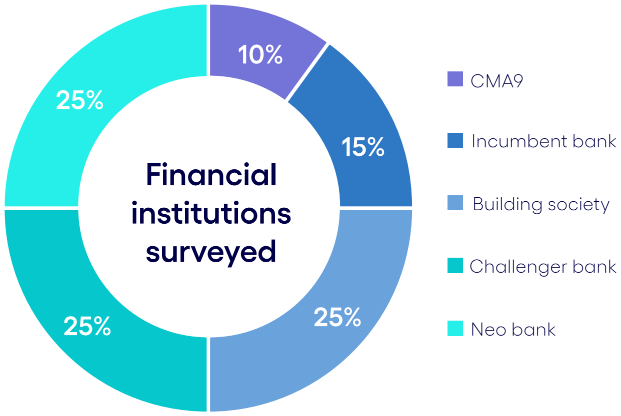
Already actively using open finance to increase average product holding

- **Evaluate commercial opportunities in white-labelling or partnering** by analysing the addressable market size and commercial opportunities, designing and trialling an approach, then scaling.
- **Evaluate and develop lighthouse projects to address the next wave of open finance or a new geography** by identifying the problem to solve and how open finance can help, ideating and prioritising solutions, accelerating lean MVPs to evolve and then scaling to realise value.

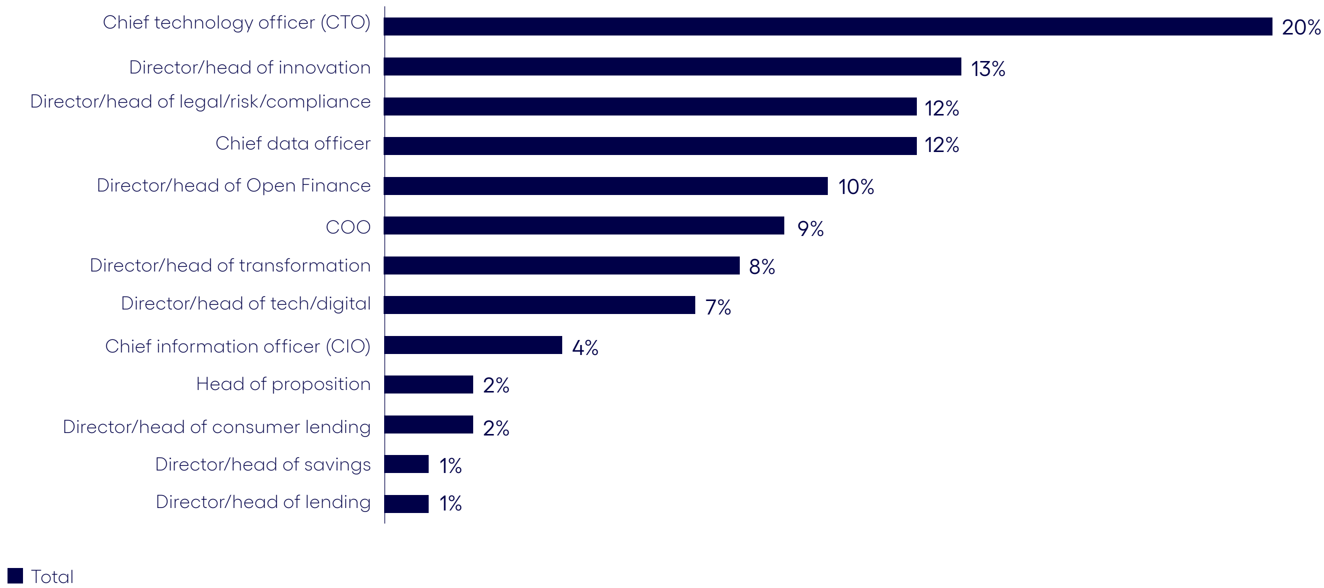
Methodology

Methodology

This report centres on the findings of an in-depth quantitative research survey and in-depth interviews developed by MRS-accredited independent business research agency, Coleman Parkes. 200 decision makers in charge of their organisation's open finance strategy answered 20 questions on their current approach and future aspirations and five took part in in-depth interviews between April and July 2022. Respondents were drawn from a representative cross-section of leaders from within the CMA9, building societies and incumbent, challenger and neo banks.



Job titles that took part



Revenue and customer base

CMA9	Incumbent bank	Building society	Challenger bank	Neo bank
Average UK revenue: £6.8bn	Average UK revenue: £3.1bn	Average UK revenue: £244m	Average UK revenue: £521m	Average UK revenue: £52m
Average UK customers: 20m	Average UK customers: 6m	Average UK customers: 2m	Average UK customers: 1m	Average UK customers: 130,500
Base: 20	Base: 30	Base: 50	Base: 50	Base: 50

About Cognizant

Cognizant (Nasdaq-100: CTSH) engineers modern businesses. We help our clients modernize technology, reimagine processes and transform experiences so they can stay ahead in our fast-changing world. Together, we're improving everyday life. See how at **www.cognizant.com** or **@Cognizant**.

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