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What Australia can learn from open banking overseas

by Nicola Burgess

Open banking was introduced into the UK and Europe more than two years ago. To understand its impact, Data Action undertook a study of the market and CEO Nicola Burgess looks at what learnings can be applied to Australia.

Open banking came about in Australia after the Federal Government commissioned a banking review as part of the 2017 Federal Budget.

Unlike other parts of the world which went down a pure financial services route, Australia's open banking approach was based around Consumer Data Right (CDR) which allows consumers to share their data with banks and other financial institutions. The banking sector is the first to undergo this transition to be followed by the energy and telecommunications sectors.

The CDR, or open banking, came into effect in Australia on July 1 this year and there are many upcoming dates for compliance from the Big Four and then for the plethora of non-major banks and fintechs. The ACCC has made it mandatory that everyone is compliant by 1 July 2021.

The CDR is designed to give consumers greater control over their historical banking data. It will improve a consumer's ability to compare and switch between products and services and will encourage competition between service providers. This in turn should lead to better prices for customers as well as more innovative products and services being developed by financial institutions. Observing what is happening in the UK gives us insight into what could be experienced in Australia when open banking is up and running.

Open banking started in the UK in 2018 but it has been a slow burn only gaining significant traction in recent months. In January the Open Banking Implementation Entity (OBIE) said that one million Brits had used open banking since its launch. There are 243 licensed open banking service providers in the UK, which is more than in any other European region. This network includes banks, account aggregators, accountancy services and credit rating services.

Between them there was more than 400 million monthly calls for financial data and payment initiation in March, April and May 2020.

Regardless of the recent skyrocketed usage, there are still several banking executives who publicly complain that open banking has not delivered in the UK. This might be because the expectations have been high, and most effort has so far been put in getting the basics up and running. While getting the basics right is important, identifying unique use cases that will appeal to the market to create traffic and customers will be important to meeting initial expectations.

A Tink/YouGov study in April 2020 found that 61% of bank executives have a positive attitude towards open banking and the business opportunities it creates. Additionally, nearly 25% of banks have already established more than five fintech partnerships and most banks are expecting partnering to increase this year.

Consumers have started to use alternative banks, fintechs and various payment service providers to complement the services their main bank offers.

Klarna, Tink, N26 and Transferwise have gained a lot of traction cross the European markets even before open banking and are now partnering with incumbent banks. Fragmentation is well on its way but it has not reduced the need for a main bank relationship.

No ground-breaking transformation has appeared, but all the large banks are working on it. They are serious with their digital agenda and have used open banking as a part of turning their business digital. Each of the CMA9 banks (HSBC, Barclays, RBS, Santander, Bank of Ireland, Allied Irish Bank, Danske Bank, Lloyds and Nationwide which cover 80% of the UK market) have found their own, special approach. Everyone is in search of the “killer app” or use case.

Lloyds has the potentially largest investments and digital focus; HSBC and Barclays have focused on SMEs; and RBS is driving the future of payments.

There is competition within this scheme, and it is not just banks vs. other service providers. It is remarkable that the majority of API calls in the UK are made between the CMA9 banks, meaning that the large banks are truly active and maybe greater than the UK fintechs.

One of the major differences between the UK and rest of Europe is that in the UK most consumers and small businesses have several bank accounts and use several service providers. Most SMEs are estimated to have 4-5 different accounts with different service providers. Therefore, the need for simple account data aggregation services is high and all banks have built this capability to their banking solutions.

The UK’s centralised and active approach – where it dictates that third-party data is in a standard format – has made it easier and faster for banks and fintechs to start using open banking in the UK than in the rest of Europe.

The next phases of open banking that are emerging aim to open all banking services and data to fully leverage on this theme. The EU Commission recently published a new Data Strategy, which includes Open Finance among opening other industries like transportation.

And then of course there has been the impact of COVID-19. It has hit the UK hard and has led to an increase in the use of all digital services, including open banking. It has simultaneously increased financial insecurity and consumers seem to have returned to a conservative approach. COVID-19 has also increased SMEs willingness to share their data to receive COVID remedies. Industry leaders predict that only when the UK has reached full Open Data, Open Finance will also fully bloom.