

The Open Banking Report, a PYMNTS and TrueLayer collaboration, examines the evolution of open banking from an alternative payment system to an agile payments architecture that powers international trade. The report reveals the regulatory and logistical challenges financial institutions face as they create new products and services as well as the solutions that open banking can provide.

MARCH 2021

OPEN BANKING REPORT

The Ins And Outs Of Open Banking's Evolution

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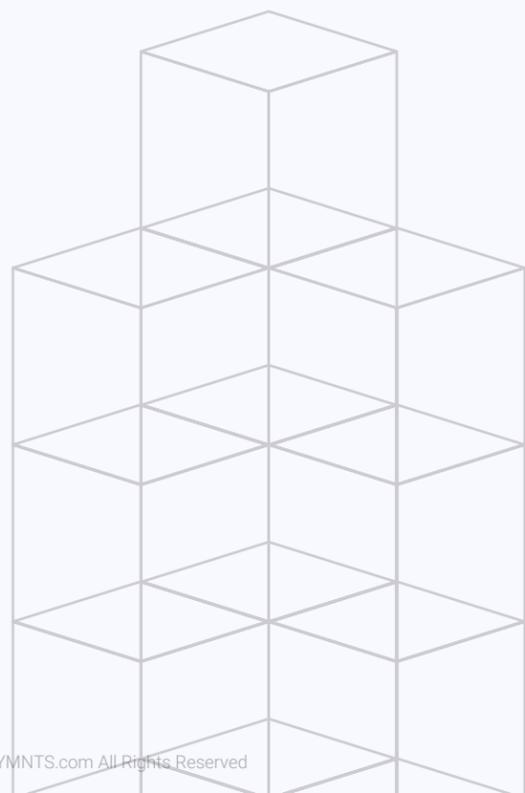
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Acknowledgment

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Introduction



Open banking is more than a set of tools or a loose affiliation between FinTechs and banks: It is a means of opening up access to financial data and infrastructure, giving consumers more control over their financial lives and granting businesses the opportunity to build better financial experiences or entirely new products and services.

At its heart, open banking is a way for businesses to connect directly to a consumer's bank account to fetch transaction data or initiate a payment with the consumer's explicit consent. It is typically done through application programming interfaces (APIs), which create a secure messaging channel between the bank and the open banking provider.

Digital banks and FinTechs were the first to take advantage of open banking to improve and personalize services, yet its potential extends to any merchant who transacts online.

It has created a new way to pay: Approved open banking providers can securely initiate direct account-to-account (A2A) payments on behalf of a customer, circumventing card networks. These payments are also seamlessly and instantly verified because open banking creates a direct connection to a user's bank.

Open banking promises much as a payment method: the security and low cost of traditional bank transfers but with a slicker user experience (UX). Transactions are verified through face or fingerprint ID on a mobile device and, where faster payment rails exist, settle instantly – whether users are online or using a contactless payment method on-site. Customers do not have to manually key in bank details, fraud is virtually eliminated and transaction success rates are high.

The UX is smooth, and open banking is already displacing cards at checkout in markets where open banking infrastructure is more mature, such as the United Kingdom and Europe. Open banking's success lies partly in the quality and consistency of the underlying APIs and user flows, yet it is clear that it has the potential to drive new value for merchants and consumers, thus challenging incumbent payment methods where conditions are right.

The Open Banking Report: The Ins And Outs Of Open Banking's Evolution, a collaboration with TrueLayer, explains the what and the how of open banking and outlines its transformational potential, offering insight into how payment service providers (PSPs) and merchants can benefit.



Open banking's potential and impact

Open banking is unlocking a host of powerful use cases, including serving as an alternative payment method, seamlessly verifying customers' digital identities and offering financial insights.

Open banking powers many of the most innovative retail and banking solutions launched in the last year, impacting apps, online merchants and even contactless payments for curbside pickups at local retailers.

Here is a selection of common use cases and how players in the U.K. and beyond are leveraging open banking technology.

ACCOUNT AND USER VERIFICATION

Merchants instantly and securely access customer bank data to approve customer credit, rental and loan applications in seconds rather than days and onboard customers faster, accelerating KYC processes.

Rent reporting service **CreditLadder** uses open banking to verify transaction data in seconds to help power its rent reporting product.

Digital bank and lender **Zopa** uses open banking to instantly review loan applications and verify bank account ownership.

A2A PAYMENTS

An open banking payment moves money directly from the payor's bank account to the seller's bank account without using a third-party payment network. It is instant and secure. This is known as "payment initiation" in the U.K. and Europe.

European gaming operator **LeoVegas** uses open banking to allow its players to top up their accounts seamlessly.

Trading and investment platforms like **Trading 212**, **Stake** and **Freetrade** use open banking to empower investors to fund their accounts instantly.

Digital bank **Revolut** uses open banking to enable customers to move funds between their Revolut accounts and other bank accounts.

ACCOUNT AGGREGATION

Consumers view their transaction and banking data from multiple bank accounts in one place, through apps and third-party financial products.

Automated savings app **Plum** uses open banking to allow users to access all their bank accounts within the app.

Accounting tool **Coconut** uses open banking so that its small-business customers can manage all their money, finances and taxes through the Coconut app, even if they have accounts with other banks.

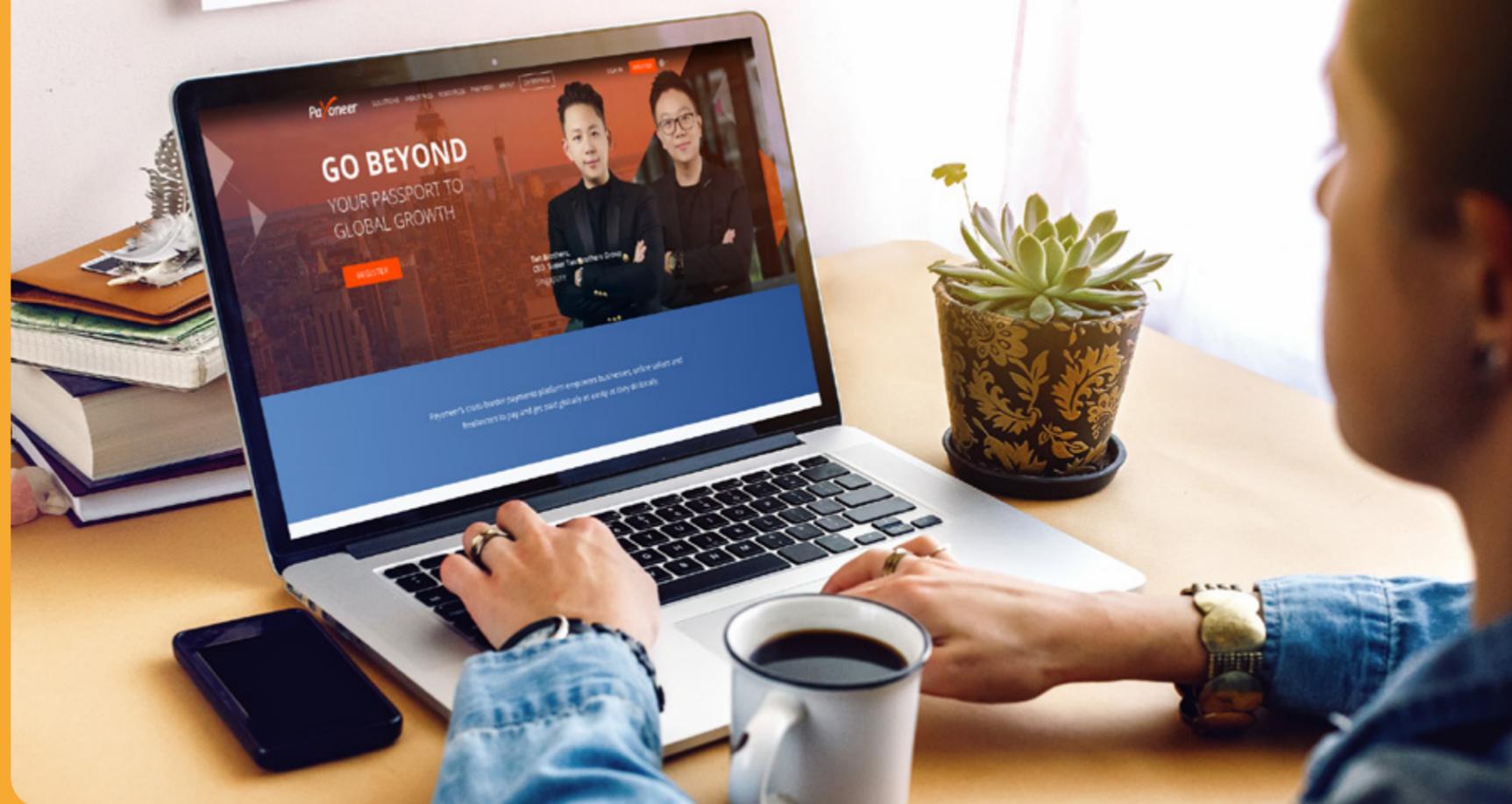
MACHINE LEARNING (ML)-POWERED PRODUCT RECOMMENDATIONS AND INSIGHTS

Merchants gain deeper insights into consumer finances and transaction histories, powering new use cases such as affordability checks, budgeting advice and recommendations for relevant new products and services.

AI-powered savings app **Olivia** uses open banking to access its customers' financial data, applying artificial intelligence to analyze spending patterns, predict purchases and recommend the best ways to save.

Case study:

How open banking made Payoneer's cross-border payments frictionless



SMBs expanding online face challenges in accepting and processing invoices for cross-border clients. Such challenges can include delays in inventory delivery and production as well as significant income losses. Payments modernization through open banking can help accelerate payments with top-tier security, allowing SMBs to reach new audiences abroad without experiencing the delays in transaction processing often associated with traditional cross-border payments.

“An international wire stops at seven different places along the way,” said Charles Rosenblatt, chief strategy officer at Payoneer. The cross-border payment solution provider seeks to address this problem through its global payments network, improving transaction processing for SMBs. By partnering with TrueLayer, Payoneer was able to access a secure, global network for fast, safe data transfers and user authentications, network to network, bank to bank.

Open banking technology offers another powerful benefit: robust transaction management that maintains high speeds at scale. Payoneer’s open banking-powered solution provides instant access to the fastest payment rails and the highest levels of transaction data security. That agility allows Payoneer to offer faster payment processing for B2B clients globally, even in regions where many consumers are unbanked and use a wide range of payment methods.

SMBs want the ability to choose how they send and receive payments, according to Rosenblatt. That can create challenges, especially in regions with poor access to banking services and a variety of payment methods in use. Open banking APIs, however, help Payoneer support sending and receiving multiple payments and invoicing options securely, no matter where SMBs operate.

New risk configurations occur as businesses expand globally. Open banking helps Payoneer protect SMBs by ensuring that user authentication and account balance management standards remain at a high level in every geographic region through every platform.

Rosenblatt believes open banking is here to stay as a key driver of payments innovation for globally minded SMBs.

“I think there is excitement ahead of us,” said Rosenblatt. “A lot of smart people will figure out great ways to make everyone’s business life better because things are more open than they used to be.”

Case study:

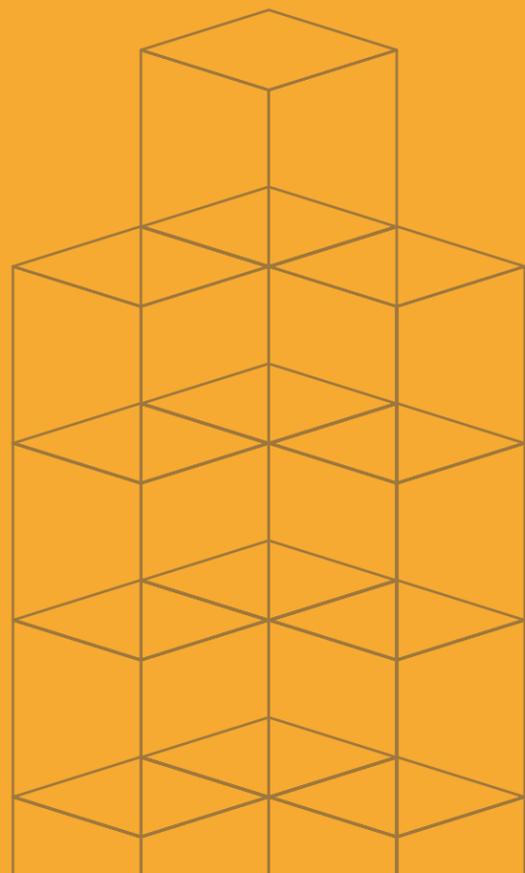
How open banking technology powers Plum's automated personal finance app

When U.K.-based Plum set out to make it easier for consumers to manage their money, it faced a classic challenge: how to implement speed, security and usability all at once. Plum needed to make its app secure but also intuitive and fast at scale. The company deployed open banking APIs powered by its partner TrueLayer, which not only made onboarding effortless on the front-end but also made transactions fast and highly secure on the back-end.

Open banking technology provides rapid, secure user authentication and data aggregation to support the app's AI-driven insights. The Plum app allows customers to automate savings and make investments based on their spending patterns and financial goals by analyzing users' financial histories across various bank accounts.

Open banking makes it possible for data to travel seamlessly between Plum and external financial accounts, allowing Plum's AI-driven analytics to calculate optimal savings and investment amounts for clients who have elected to automate their account deposits.

"Open banking is our business," stated Elise Nunn, head of product and data at Plum. "When customers link their bank accounts to Plum, this allows us to plug into their data in a safe and secure way. Without this access, we wouldn't be able to put on autopilot the parts of managing money that they find difficult and help make them better off."



The background is a complex, abstract composition of various shades of blue. It features geometric shapes like rectangles, triangles, and curved lines, creating a sense of depth and movement. In the lower right quadrant, there is a small, stylized icon of a blue ship with an orange cabin, sailing on a dark blue path. The overall aesthetic is clean, modern, and professional.

Why 2020 made open banking more relevant



Open banking found itself on center stage as industries turned to digital payments during the early days of the pandemic. A surge in open banking usage occurred in 2020 across the U.K. and Europe, for example, as many consumers tried open banking payment options for the first time and then continued to use them.

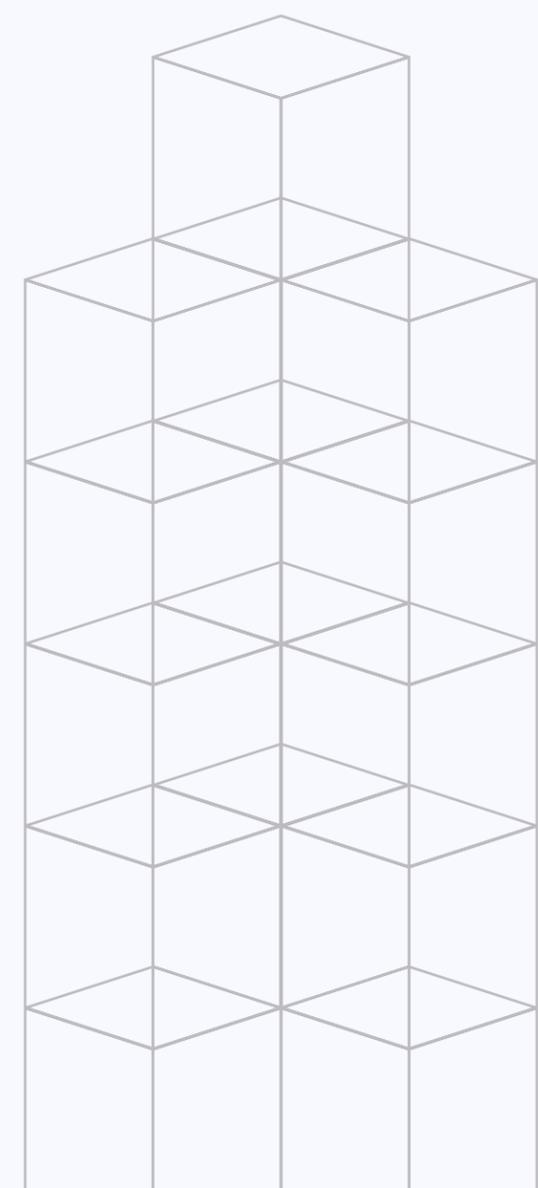
The U.K. is one of the world's most mature markets for open banking, as its regulatory framework has been in place since 2018. Open banking usage in the U.K. doubled in 2020, and open banking technology powered 6 billion calls through FinTech APIs and more than 4 million consumer transactions, according to the Open Banking Implementation Entity (OBIE), the body overseeing open banking in the country. It reported only 320,000 open banking transactions in 2018, by contrast. The top reasons consumers cite for choosing open banking include simplified financial decision-making, better access to borrowing and expanded payment choice.

Sixty percent of the U.K.'s population will be using open banking by the end of 2023, should the current growth rate hold. A recent study by PwC also suggests that more than 70 percent of U.K. SMBs will adopt open banking by 2022.

TrueLayer, an open banking provider that processes more than half the open banking volume in the U.K., Ireland and Spain, reported that it processed 250 times more value of open banking payments in 2020 than 2019 and that one in three U.K. consumers choose an open banking payment option when offered it at checkout.

The United States, meanwhile, with more than 14,000 financial institutions and an ever-growing roster of FinTech startups, is likely to become the next frontier of open banking evolution, as its consumers have a growing interest in accessing innovative payment experiences while still retaining control over their data. A recent PYMNTS study revealed that 56 percent of consumers expressed interest in banking that lessened friction at checkout, a hallmark of open banking.

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How open banking gained momentum before the pandemic began

The pandemic and a desire for greater consumer choice were not the only catalysts for increased open banking adoption. **Several key forces are at play.**

Regulatory initiatives are emerging globally.

Designed to empower consumers, these regulatory initiatives ensure the secure transfer of consumer data and drive financial services innovation. Regulation gives structure and scalability to open banking initiatives, allowing businesses to launch products that are disruptive but compliant and secure. It also accelerates change, since banks are mandated to open up financial data.

The European Union, the U.K., Hong Kong and Australia have enacted draft or current legislation to support open banking innovation. PSD2 legislation in Europe, which mandated data security and privacy standards for APIs, has helped inspire other entities to develop robust structures for open banking data sharing. The Consumer Data Right Act of 2018 in Australia helped support a direct push for new open banking initiatives by creating a proposed framework for consumers to securely share their data with any third parties of their choice. The U.S. has yet to address open banking with a comprehensive body of legislation, but open banking-enabled payments have spurred numerous instant and contactless payment innovations that have been adopted by merchants, FinTech startups and the government.

Other regions, such as the Asia-Pacific (APAC) region and Central and South America, are beginning to adopt open banking regulatory frameworks. Brazil announced a new open banking regulatory initiative to begin in October.

The eCommerce market continues to grow — and payments are shifting to mobile.

Consumers continue to demand smooth and secure digital payment experiences. The value of eCommerce in the U.K. and Europe is expected to reach 1 trillion euros by 2023. The mobile channel is growing faster than eCommerce as a whole and is expected to make up 51 percent of total eCommerce value in the U.K. and Europe by 2023. The trend toward digital wallets using bank-powered payments is also very visible in China, India and emerging markets, as well as in the Nordics with Swish, for example. The European mobile wallet market is growing 37 percent year over year and is set to climb to \$114.4 billion in value by 2023. Open banking is designed for online and mobile-first users, so it is no surprise, perhaps, that it has come into its own.

Card payments are broken online.

Credit and debit cards were not built for a digital-first experience and have been retrofitted into current online payment flows. The process costs businesses millions every year in abandoned purchases caused by poor authentication rates, poor UX and fraud losses.

The introduction of strong customer authentication (SCA) — part of the PSD2 regulations — adds another layer of friction to cards in the U.K. and Europe, with many providers implementing clunky workarounds that deliver a poorer customer experience. This negatively impacts conversion, leading some commentators to predict that European businesses stand to lose €57 billion in economic activity.



FIVE FAST FACTS

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€1.55B
Total fraud losses on card payments in the U.K. and Europe in 2020

60%
Share of the U.K. population projected to be using open banking by the end of 2023

\$43B

Value of the global open banking market in the next five years

51%

Mobile eCommerce's share of total eCommerce value in the U.K. and Europe by 2023

€940B

Value of eCommerce in the U.K. and Europe by 2023

OPEN BANKING
REPORT



How open banking drives value for merchants and PSPs

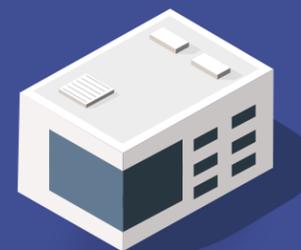
Open banking not only improves consumer experience but also drives value for merchants.

Here is how different groups of merchants are benefiting.



FINTECHS

Digital banking, lending and personal financial management services have instant, secure access to consumer financial data. This allows them to process transactions, authenticate user identities and deliver instant payments in a fraction of the time that legacy authentication and payment methods normally take. Open banking technology can permit consumers to log in once and see a complete portrait of their finances – solving the problems of multiple logins and user authentication performance issues.



MERCHANTS

Open banking benefits merchants in a broad range of industries, including app-based investment platforms, online gaming services, eCommerce sites and travel agencies – wherever card processing fees and manual processes are causing pain. Open banking gives merchants low-fraud, low-cost, high-converting payments that settle instantly where faster payment rails are available. Those in high-risk industries like financial services or online gambling can also use it to easily verify account ownership and accelerate KYC processes.



SMBs

SMBs benefit from access to real-time accounting data, which leads to more accurate business planning, analytics and financial reporting. Loan and credit applications are simplified due to instant authentication and the secure, digital sharing of financial data. SMBs are also able to easily offer their own consumers contactless payment options with open banking APIs, even if they do not have their own payments infrastructure.



PSPs

Open banking can be used to power a suite of payment services to B2B and B2C clients regardless of company size or technical resources. PSPs utilizing open banking APIs can offer their clients an innovative new payment option, solving many of the problems associated with card payments – poor conversion, high failure rates, sizable fraud risk and high transaction fees.



Consumer trust is important, but this revolution will be merchant-led

Open banking's promise is big but not without its challenges. Some are structural: Open banking APIs and the underlying bank payment rails need to mature. Individual nations must find the right balance of sticks and carrots – regulation to mandate banks to open up data and incentivization to encourage the creation of high-performing APIs and authentication flows.

Other challenges are cultural: Consumers may not need to know the ins and outs of open banking to use it, but they do need to know that it is a safe way to pay and that the value they will get at the end of the transaction, such as a loan or a purchase, is commensurate with what they are being asked to do, such as link a bank account or authenticate a payment.

Merchants have significant power in how they show and explain this payment option to customers, and they can achieve more than a 30 percent share of checkout for open banking payments within a few months of launch, according to open banking provider TrueLayer.

Four key factors ultimately affect whether first-time users choose open banking-powered payment options over other methods:

Convenience

Will this take long?

Clarity

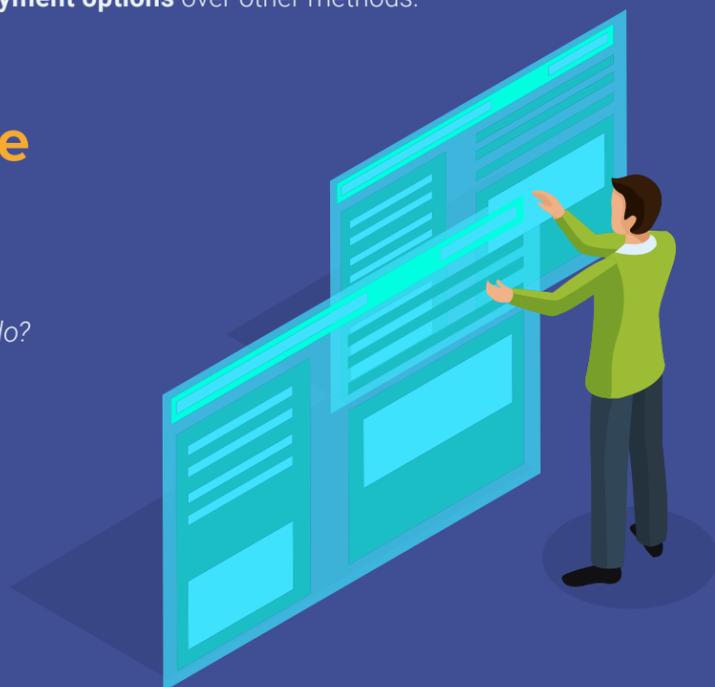
What exactly do I need to do?

Familiarity

Have I done this before?

Security

Is this safe?



How merchants specifically address these factors will differ slightly depending on their industry, user demographics and whether their apps are using open banking data or payments. Merchants that keep these questions in mind will both increase open banking adoption and deliver an all-around better experience for their users.



One in three

U.K. consumers choose an open banking payment option when offered it at checkout.



News & trends

MASTERCARD AND VISA'S INTERCHANGE HIKE COULD DRIVE MORE MERCHANTS TO OPEN BANKING

Shifts within the broader payments ecosystem may accelerate open banking payments adoption. Payment processing changes affecting payments sent to and from EU merchants — such as the interchange fees charged by card networks — may lead more merchants to seek alternatives, opening an opportunity for open banking providers to step up. Card network and financial services giant Mastercard [plans](#) to bump up its interchange fees in the EU to 1.5 percent of a transaction's amount after the current cap of 0.2 to 0.3 percent lapses, for example. Visa has [made](#) a similar move. Using open banking solutions to process payments could help merchants cut out interchange fees entirely, however.

OPEN BANKING AND CRYPTOCURRENCY: A MATCH FOR MODERN TIMES

Open banking is increasingly the payment solution of choice for cryptocurrency. Open banking provider TrueLayer announced two new partnerships last month: The first, with global cryptocurrency payment solution [MoonPay](#), will enable frictionless cryptocurrency payments for millions of users in the U.K. and Europe. The second, with [BitCoinPoint](#), will allow less tech-savvy users to buy cryptocurrency in a few clicks through an instant bank transfer, removing the need to enter card details.

50 PERCENT OF UK SMBs ARE USING OPEN BANKING SERVICES SOLUTIONS, STUDY FINDS

U.K.-based FinTechs and consumers are not the only ones exploring open banking benefits during the pandemic. SMBs in the U.K. market are also flocking to these frameworks as they search for tools that can enable faster payments and settlements. One recent [study](#) found that 50 percent of U.K. SMBs are now using open banking solutions of some kind, noting that uptake has been driven by shifts to remote daily operations since the start of the global health crisis.

BRAZIL LAUNCHES FIRST STAGE OF OPEN BANKING INITIATIVE

Other markets are following the U.K.'s lead and also moving forward with their own open banking plans. Brazil, spearheaded by its central bank, recently [rolled out](#) the first of four planned phases of its open banking initiative at the beginning of February, for example. The first phase concerns banks and the building of API frameworks that will be utilized throughout the ecosystem. Consumers' personal data will not be transferred across these channels during this initial stage without consent, according to the Central Bank of Brazil. The initiative's goal is to support greater innovation and connectivity within the financial sphere by giving FinTechs and third-party developers transparent access to data and insights. The initiative comes just a few months after the rollout of Brazil's new instant payments platform, PIX — also underpinned by its Central Bank — which officially launched in November 2020.



What's next for open banking?

Alternative payment options are on the rise around the globe, and open banking is one option to take seriously. It brings together payments, financial data and identity verification to create a single digital channel for interacting with consumers. It has created a new generation of A2A payments that are instant, secure, mobile-first and high-converting, and it carries the potential to seamlessly verify users.

Open banking frameworks and underlying rails still have some maturing to do outside markets like the U.K., Western Europe and the Nordics, but in the coming years we will likely see open banking payments brought to the masses through subscriptions, marketplaces and eCommerce platforms.

Merchants, marketplaces and platforms will want to be able to connect their apps securely to any bank account globally, and more consumers will demand the ease of one-click logins and payments on all their devices.

Companies intent on remaining competitive must develop forward-looking solutions to adapt their business models to the future demand for frictionless payments.



About

PYMNTS.com

PYMNTS.com is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way in which companies in payments share relevant information about the initiatives that shape the future of this dynamic sector and make news. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovation that is at the cutting edge of this new world.

TRUELAYER

TrueLayer is the leading technology company providing secure, global access to financial infrastructure.

Developers use our APIs to build best-in-class products that securely access data and initiate payments in real-time. Founded in 2016, TrueLayer is connected to major banks across the world, backed by leading venture capital, and trusted by some of the biggest names in fintech including Freertrade, Nutmeg, Revolut, and Trading 212.

By making the power of open banking accessible through our platform, TrueLayer enables developers across any industry – from startups to enterprises – to reinvent financial services.

TrueLayer is available in the U.K., Europe and Australia.

We are interested in your feedback on this report. If you have questions or comments, or if you would like to subscribe to this report, please email us at feedback@pymnts.com.

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