



NatWest

NatWest **Insights**

Open Banking Perspectives



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Introduction

Open Banking was initiated in 2017 by the Competition and Markets Authority (CMA) following its market investigation into retail banking. Specifically it was mandated for the nine largest UK banks by current account market share through the CMA Retail Market Order. The primary aim of Open Banking was to boost competition and improve choice, primarily for consumers and small businesses. Has it delivered on its promise?

For more than six years the UK's Open Banking Implementation Entity (OBIE) - the body tasked with designing Open Banking API Standards - has worked closely with the government and the regulators to design an Open Banking ecosystem to maintain the UK's position as one of the world's most innovative and competitive financial markets.

Today, around 7 million people in the UK use Open Banking to move, manage and make the most of their money and this number is growing exponentially¹. On the face of it this suggests that Open Banking has succeeded in making UK banking more customer centric.

But many of the real benefits of Open Banking remain hidden from sight.

In the interview that follows, three NatWest experts offer their practical views on the UK's Open Banking journey so far and suggest ways that UK banks can further capitalise on this unique opportunity.

Statistics from the OBIE monthly league tables show NatWest as a top performer since 2018 and consistently in the top quartile for API performance and availability.

¹ <https://www.openbanking.org.uk/news/uk-reaches-7-million-open-banking-users-milestone/>

Section one - The story so far

1. Has the UK approach focused too much on the regulatory aspects of Open Banking, rather than the business opportunity?

In the UK, Open Banking has been driven by legislation so it can rightly be perceived as a compliance obligation. UK banks are compelled to give customers access to their own payment account data to share with authorised service providers. This contrasts sharply with the entrenched 'vault' culture that has pervaded banking for centuries. Open Banking defines a new era in banking, where customers are empowered and have real choice.

Over the last six years UK banks have invested heavily and consistently in Open Banking, suggesting that it is much more than a compliance obligation. In practice, many have seized the chance to review how products are developed and delivered. But the robust regulatory framework ensures that application programming interfaces (APIs) are developed to a consistent standard.

"Regulation was essential to deliver API banking to a consistent industry standard. Banks in other jurisdictions, such as Singapore, Europe and Australia have pursued independent API strategies, which has sometimes caused fragmentation. Standards are crucial to ensure a harmonious approach and drive uptake across the industry. The UK has achieved this and has established a firm foundation on which it can build," says Andy Batty.

Claire Melling observes that Open Banking has forced banks to rethink processes from the ground up and from a customer perspective. She suggests, "All of the investment in Open Banking has strategic value that may not reflect the original objectives of simple data sharing. The threat of competition has spurred digital innovation and players of all sizes have raised their game".

Many banks have taken what started as a substantial compliance obligation as an opportunity to review business processes and adopt new digital methods. This is evident in the proliferation of new digital services everywhere.

Over 3.4 million customers have used NatWest APIs to access their account information² with an average availability of 99.6% during 2020 and 2021³.

2. Has Open Banking levelled the competition and innovation playing field?

One of the primary aims of UK Open Banking is to drive innovation and competition across financial services. By opening the banking value chain, banks can work with fintechs to develop new digital services. So, although Open Banking fosters competition, it also encourages collaboration between the banks themselves and fintechs.

In practice, Open Banking creates a new financial ecosystem where participants compete and collaborate to create value. In this new order, the real winner should be the end customer who benefits from increased convenience, better outcomes and a fintech approach to banking. But has the UK achieved this?

Stephen Wright explains, "The UK's prescriptive approach has resulted in a robust set of standards that extend beyond technology to include the customer experience, availability, and API performance. So the UK has a standardised, highly available set of open APIs. As a result of that, the UK has enjoyed better uptake of Open Banking than some other jurisdictions. There are around 7 million users in the UK."⁴

80% of API products on the NatWest Bank of APIs website are non-mandatory.

Source: <https://www.bankofapis.com/>

A major aim of Open Banking was to create and empower a dynamic fintech sector that could deliver innovation to the entire industry. The UK is now the world's second largest fintech community with over 1,600 firms, a number that is projected to double by 2030. The sector contributes an estimated \$13.4 billion (£11 billion) and over 76,000 jobs to the UK economy.⁵

One of the achievements of Open Banking is the transformation of bank culture and an eagerness to learn. "Open Banking has shown that the industry is technically able and culturally willing to share data," says Claire Melling.

² Source: NatWest data, April 2023

³ Source: NatWest data, 2020-2021

⁴ <https://www.openbanking.org.uk/news/uk-reaches-7-million-open-banking-users-milestone/>

⁵ <https://www.trade.gov/country-commercial-guides/united-kingdom-financial-technology-fintech>

2.1 million NatWest customers have used APIs to make payments, initiating transactions worth over £7.2 billion. Source: NatWest data, April 2023

3. What innovation/use cases has Open Banking delivered?

The initial aim of Open Banking was to empower bank customers to share their data with authorised service providers. While useful, account aggregation services were never going to define a new epoch in UK banking. But the move to an Open Banking environment was always going to require a major cultural shift away from a closed, vertically integrated structure.

One area that has seen a significant increase in use is Open Banking payments. These allow customers to pay for services or goods in shops or online directly from their accounts rather than using a credit or debit card, as well as creating competition and choice in ways to pay and be paid.

Stephen Wright explains, “NatWest has seen strong, sustained growth in Open Banking payments which now exceed over one million every month. But the journey has only just begun, and three use cases account for over 50% of Open Banking payments volume:

1. Paying a tax
2. Paying a credit card bill
3. Topping up a secondary account elsewhere

Other use cases are evolving, such as housing associations collecting rent, and allowing tenants to pay through an app. But there are many more opportunities on the horizon that will accelerate uptake and boost innovation.”

At the end of 2021, cumulatively over 26.6m Open Banking payments have been made, which is an increase of more than 500% in 12 months. ⁶

NatWest has experienced sustained growth in the volume of API calls and had over 140 million calls in October 2022 alone. Source: NatWest data, October 2022

4. Who are the main beneficiaries of Open Banking?

The Banking Industry

Data governance. Open Banking was initially conceived to empower consumers and SMEs with better services and more choice. Perhaps the most obvious beneficiary is the fintech community, which has grown substantially and is driving digital-first banking in the UK. In addition to innovation, Open Banking has improved data governance throughout the UK.

Claire Melling suggests, “Open Banking has improved data governance throughout the industry. Customers are now in full control of their data and can share it with whom they choose. And they can switch off at any time. Open Banking is ultimately about customer empowerment and the UK industry has taken that on board.”

Legacy enablement. Open Banking has also generated interest in open technology. This is transforming how bank systems are developed, deployed and modernised. APIs can facilitate a progressive modernisation, for example by allowing new development to be undertaken on modern technology, which can be choreographed with legacy systems.

With this approach a bank can also “fail fast” and pilot new ideas at low cost and with minimal risk.

Security. Another universal benefit of Open Banking is improved security and data integrity. Following some initial concerns, security has improved, “Customers have consent dashboards and can see who has access to their data and for what purposes. They can revoke permission at any time which was not previously possible,” says Claire Melling.

⁶ <https://www.openbanking.org.uk/news/uk-open-banking-marks-fourth-year-milestone-with-over-4-million-users/>

Consumers

The focus for consumers has been account aggregation and personal financial management (PFM) services. According to OBIE research,⁷ PFM tools are improving the financial health of the UK, with users reporting quantifiable benefits:

- 75% find apps help them to keep on top of expenditure
- 64% say apps empower them to stay within budget
- 62% use apps to reduce unnecessary expenditure
- 55% use apps to reduce fees and costs
- 64% claimed apps had increased their total level of savings

It is encouraging that consumers are interested in the future of Open Banking with 83% interested in expanding their use of Open Banking-enabled services. But the real achievement has been to set the UK on a course towards open data and an open economy that creates a world of new opportunities.

“People do benefit from smoother, slicker services that are created by Open Banking, for example account applications, paying bills and tax. Using app-to-app journeys is generally far easier than using a credit card. Anything that reduces friction is a benefit to customers. But people need interactive services rather than aggregated statements with limited value,” says Stephen Wright.

SMEs

Small businesses have embraced Open Banking and are reaping the benefits of easier administration and improved cash management. Cloud-based accounting packages enable near/real-time data while defined API interfaces have simplified integration and increased innovation.

Stephen Wright suggests, “The biggest use case has been around cloud accounting systems that ingest Open Banking data for use in Sage, Zero, or Quickbooks platforms. That in turn enables digital tax payment, which facilitates easier budgeting and better cash management.”

During 2021, NatWest had an average API response time of 311 milliseconds – significantly faster than the average response time of 511 milliseconds across all banks. Source: <https://www.yapily.com/blog/open-banking-top-priority-uk-banks>

Corporates

Although the focus of Open Banking has been on retail and SME customers, corporates can participate, and interest is growing. Many companies are exploring new ways to make and receive payments and to integrate additional banking information into accounting and ERP systems.

“Although the potential for innovation is limitless, Open Banking immediately provides treasurers with enhanced cash visibility, potentially in real time. It also promises to simplify and transform supply chain finance and working capital management,” says Andy Batty.

Over 100 Third Party Providers have used NatWest APIs to date

Source: NatWest data, April 2023

⁷ <https://www.openbanking.org.uk/news/obie-publishes-second-open-banking-impact-report/>

Section two – The road ahead

5. Is the UK on track to evolve Open Banking to Open Finance?

Open Finance is the natural evolution of Open Banking and shares its objective of customer empowerment through data. Consumers and SMEs can authorise third parties to access their data and initiate financial transactions on their behalf. However, Open Finance is broader and will apply to all - or most - financial services accounts, including savings, lending, insurances, mortgages, and investments.

Like Open Banking, Open Finance will likely be driven by a combination of legislation and commercial models and technically enabled by APIs. But Open Finance is a far bigger challenge with a broader range of products, disparate data standards and many small players.

“While banks set out from a position of standard products, pensions start from a position of highly customised products, many of which are not digitally enabled. Open Finance will require substantial investment, industry collaboration and a strong business case to succeed,” says Claire Melling.

Although there are many challenges ahead, Open Finance remains a strategic opportunity and an essential milestone on the road towards open data. Open Banking only gives people a partial view of their finances, but Open Finance has the potential to improve the nation’s financial wellbeing.

“The real game-changer is when people can obtain a holistic view of their financial position, including pension, mortgage, loans, savings and can also get advice for improvement,” concludes Stephen Wright.

NatWest had a transaction error rate of just 0.31% in 2021. Source: NatWest data, 2021

6. What are the biggest Open Banking challenges ahead?

The need for a commercial approach

Perhaps the biggest challenge for banks is to know where to invest. So far, banks have provided data at no charge because it has been driven by regulation. In the absence of further regulation it might be hard for banks to build a strong business case to invest more.

“The nine CMA banks invested a total of around £1.5 billion in Open Banking by 2019 and many can see only costs. Other companies – such as pension providers – are waiting to see what happens next. Some challenger banks are already complaining about the regulatory burden - many have yet to make a profit and eventually the money will run out,” says Stephen Wright.

The UK has made a good start, but there is a need for further collaboration to drive uptake and boost innovation. “Although there’s a host of third parties doing interesting things at present, it’s not clear how many are making money out of Open Banking. There have been many mergers and takeovers in the fintech space, and this seems likely to continue,” concludes Claire Melling.

One of the biggest Open Banking challenges facing the industry is to educate customers and release the potential of the growing real-time ecosystem. Claire Melling explains, “While innovation has increased, Open Banking has really been more of an enabler. Banks and companies can interface and integrate more easily and work more closely but there has been no wholesale change in market structure. The search is on for transformational apps and there’s a lot happening behind the scenes.”

NatWest has a team of experts running an API Service Desk – providing round-the-clock support with incidents, plus rapid responses to technical queries with over 970 tickets managed in 2022. Source: NatWest data, 2022

Can the UK learn from the experience of other countries?

While regulation has driven UK Open Banking, some countries have adopted a different approach. The Australian model, based on data exchange, is much broader in scope. For example, it requires access to be provided to 29 different bank accounts spanning savings, debit, mortgage, and business accounts.

The Australian approach has some advantages and fosters a consumer-directed data-sharing regime and tailoring of financial products to consumer preferences and needs. In practice, data sharing is driven by a policy agenda not just a regulator.

In the Australian model, although banks must support payment requests from third parties, they have more freedom to determine the rules under which they can charge, build access, and innovate. This, in turn, incentivises greater participation which is perhaps the biggest challenge facing UK Open Banking.

The UK can learn from the Australian model to improve the incentive structure that is essential to expand Open Banking further. Stephen Wright explains, “The notion of symmetric data sharing is appealing – the idea that if you consume data you must also provide it. This offers a broader footing for the next stage of Open Banking.”

Claire Melling continues, “UK regulators can also work with banks and fintechs to establish new value-added services that show the most promise then step back and let banks decide how to commercialise these services. The ultimate power of Open Banking is how it empowers banks to help their customers – it is about far more than aggregating accounts.”

Universal data sharing is central to an open economy, but this requires a broad understanding of the domestic economy and the desired direction of travel. There is a growing realisation that regulation alone will not achieve this; commercial incentives are crucial.

7. What does the journey towards an ‘API economy’ look like?

Open Banking has provided the UK industry with a new set of tools and capabilities it did not have and might not have invested in, such as real-time technology and APIs. In practice it has become a future-ready industry that can:

- Accelerate product and proposition development
- Embrace collaboration, between banks, fintechs and other third parties
- Build and evolve a secure real-time ecosystem that thrives on innovation and puts customers in control of their data.

Open Banking is already driving significant innovations, such as embedded finance, which delivers financial products exactly where and when they are needed. But Open Banking has also alerted people to the value of their data and the need to control it.

“Although GDPR provided the legal framework for data rights in the UK, Open Banking provides a mechanism for customers to control who they share their data with. Open Banking has also alerted people to the value of their data, so they are more careful about who they share it with and for what purposes,” says Andy Batty.

In practice, Open Banking has set a course towards an open API economy, based on collaboration and trust. All businesses must innovate to succeed in the digital economy. Banks are well positioned to help businesses serve their own customers better. Over time, customers will gain control over all their financial and non-financial data and will be willing to share that with trusted brands. That creates unlimited opportunity for value creation in a secure API economy.

Claire Melling concludes, “Open Banking creates a real-time financial ecosystem that will power the next phase of the open, digital economy. The foundational aspects of Open Banking have been greatly underplayed.”

8. Conclusion

The aim of Open Banking is to empower customers with more choice and better outcomes. The growth of multi-bank relationships shows how customers now choose individual banks on the strength of specific service offerings, for example free FX transactions on current accounts or attractive savings propositions. Multi-bank relationships can be aggregated and managed through a single app.

But many of the achievements of Open Banking are hidden from sight and the major benefits have still to come. “It seems likely that Open Banking under delivered on two-year expectations, but it will over deliver on ten-year expectations. Innovation rarely evolves incrementally or as people expect,” says Stephen Wright.

Finance is a good starting point for an open economy because it’s regulated. As trusted advisors, banks are well positioned to drive some ambitious, collaborative projects. Claire Melling suggests, “With its established network of trust, the financial services industry is well positioned to develop and own digital identity in the UK. The industry has developed a good muscle memory for collaboration. Now it can build on that strength.”

But there are other industries where open data can create real customer value, such as energy, utilities and e-commerce. “People can be empowered by data and can make an informed choice across a range of products and services,” concludes Claire Melling.

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