Open Banking and the API Economy

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What is Open Banking?

In the UK, people have been used to the traditional offering of the “big four” high street banks – HSBC, Barclays, Lloyds and RBS – for many years. Between them, these four banks hold 77% of personal accounts and 85% of business accounts. Until recently their dominance has led to a certain level of apathy among many bank customers, who believed that there was no attractive alternative, or any real incentive to go through the time and effort of switching banks.

According to research the average UK customer keeps the same bank account for 17 years.

57% of consumers in the UK have been with their account provider for more than 10 years, and 37% for more than 20 years.

Without any active engagement with or call for innovation from the customer, there has been little demand for change. Without this demand, banks have been reluctant to take the risk and make the investment to make radical changes to their products or services.

How will there be a transformation, then, in the UK retail banking sector? Surprisingly, the answer is not through customer demand or banks’ evolution but through regulation. This has come first from Europe, and then from within the UK itself.

European regulators recognised that the dominance of a few large banks, and their limited technological development in the payments sector across Europe, had led to stagnation in innovation and had stifled competition amongst the few big players. It has been nearly impossible for any new financial organisation to break into this sector under the current regulations and thus change has now been initiated in a “top-down” way to give customers a more valuable banking experience and range of services.
**EU and UK Regulations**

Since 2007 the European regulators have published two Payment Services Directives to deal with these issues (PSD1 came into force in 2007 and PSD2 in October 2015). The effect of both sets of regulations has been to open up banking to new organisations by increasing competition, reducing fees on cross-border transactions and promoting an open use of customer banking data.

PSD1 established a new framework for an integrated European payments market by allowing for the creation of new non-bank payment service providers, or “payment institutions.” This new framework eased access for new market entrants and payment institutions, and enabled established companies such as PayPal, WorldPay and Western Union to expand and offer new remittance services, as they did not have to be regulated to the same standard as banks.

It also established the legal foundation for the Single Euro Payments Area (SEPA). Under SEPA, almost all cross-border euro payments in the European Free Trade Area (EFTA) are now charged at the same rate as domestic payments and are in line with the same terms and conditions.

While PSD1 led to more competition and therefore more choice for customers, PSD2 takes this a step further. By mandating banks to open up the customer’s bank account to external parties in a safe and secure way, PSD2 encourages new players to enter the payments market. A direct connection between the customer’s bank and the retailer will be enabled using Application Programming Interfaces (“APIs”) under the planned “Access to Accounts” (“XS2A”) provision.

A further key benefit for customers enabled by PSD2 is the ability to have access to their banking information from multiple providers in the same place. Aggregator websites and apps will emerge to surface this information for customers in an easy-to-use interface, giving customers a more complete view of all the accounts they hold with different banks, and helping them to understand their finances and make better financial choices.

In the UK the regulators have taken on the challenge set by the European regulators in trying to stimulate innovation and competition. In September 2015, the Open Banking Working Group was set up at the request of HM Treasury with the remit to explore how data could be used to improve the whole banking experience – helping customers transact, save, borrow, lend and invest their money.

The resulting "Open Banking Standard" aims to open up a new set of banking models to achieve these aims, recognising that incremental change through initiatives such as the 7 Day Switch (previously it had taken up to 30 days to switch bank accounts to a new provider) had not stimulated the required change.

Between 2011 and 2013 only 1 in 20 people switched their bank accounts.

However, by March 2016 almost 125,000 customers had used the 7 Day Switch service to open a new account. This means that more than 2.8 million customers have used the switching service since it launched in September 2013\(^3\) (although the expectation had been that 5 million customers would switch per year\(^4\)).

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3 [http://www.telegraph.co.uk/business/2016/04/19/record-number-of-customers-switch-their-bank-account/](http://www.telegraph.co.uk/business/2016/04/19/record-number-of-customers-switch-their-bank-account/)

The Effects of the Regulations

Established banks have traditionally been structured in “silos” – closed-off vertical systems for individual products – that will now need to be opened up to allow for the personalisation of products to customers. This will take time and be costly. Silo structures will be expensive to dismantle and to re-integrate horizontally, but doing so will allow for open access through APIs for FinTechs, developers and other third parties who will be able to provide value for the customer in accessing their banking products and services in new and convenient ways.

Each silo contains a different banking product, as recommended by McKinsey to Citibank in 1968, to ensure profitability for each individual bank department. McKinsey recommended that Citibank be reorganised along marketing lines, with different divisions for each major “product line” – before McKinsey, no-one in Citibank referred to loans or deposits as “products.”

So how will the regulations affect the different types of banks?

Challenger Banks

The new wave of UK challenger banks enabled by the new regulations (e.g. Atom, Monzo, Starling and Tandem) do not have the issue of re-integrating vertical silos – they are digitally transforming banking services from the ground up. With their focus on offering banking products and services in a solely digital manner, they have concentrated on taking full advantage of the new European and UK regulations.

However, they may not have the brand presence or budgets to attract mainstream customers, and are likely to appeal first and foremost to tech-savvy customers looking specifically for the digital option. Customers who are worried about security or who have not even used a high street bank’s digital app may prefer to keep their custom with their current provider.

It is likely that some of these new banks will try to become API platforms for banking services in their first business lifecycle. Known as “Banking as a Platform”, this works in a similar way to Amazon Marketplace but for loans, mortgages and credit cards. Some may instead opt for selling their services (or the company itself) wholesale to the established banks.

Mid-Tier Banks

Mid-tier banks (such as Metro, Virgin Money, Aldermore and Shawbrook - although this is not an exhaustive list) and building societies (e.g. Nationwide, Yorkshire, and Coventry Building Societies) should all be well-positioned to take advantage of the new regulations and the growth of FinTechs (whose skills they can leverage through collaborations and partnerships) to open up their internal systems through APIs. They do not have the same burden of legacy systems as the incumbent banks do, and many will have more agility to react to legislative changes.

They can capitalise on their established presence in the market and their reputation for providing better customer service than the incumbent banks to try to attract new customers who are keen to explore digital banking possibilities.
They should also be agile and bold enough in leadership to adjust their business plans to react to developments in legislation and technology. If they maximise these opportunities, they could increase their market share by providing cheaper and more valuable services than the incumbent big four, while working to keep ahead of the new breed of digital challenger banks.

78% of financial industry CEOs support the integration of FinTech at the top levels of management.

The main problem for this mid-tier group of banks and building societies is that their market share will be squeezed from both sides: the incumbent banks will look to develop their own digital offering to entice new customers up from the middle tier, and the challenger banks will try to attract the low-hanging fruit of digitally-minded customers from these banks and building societies.

With smaller budgets and less brand value than the big four and (in most cases) less digital innovation than the challenger banks, there may only be a limited market for the mid-tier organisations to compete in. The possible outcomes, if no suitable partnership arrangement is arrived at, could be mergers within this mid-tier, the purchase of a challenger bank, or even a sale to an incumbent bank.

**The Big Four**

Where does this then leave the big four? It will take time and great expense for them to innovate and react to the regulations. Decision-making can be a slow process for them, and the larger banks are traditionally more risk averse. They have been working to develop their digital offerings, but in many cases this is more “digitising” than “digital transformation.” Rather than spending the time and money on digital innovation, it is more probable that they will look to partner and collaborate with third parties, as we have already seen with traditional banks overseas.

J.P. Morgan is partnering with a FinTech company called OnDeck and is using OnDeck’s technology to give quick approvals and funding for SME business loans through a white-label agreement.

The loans are still J.P. Morgan branded and appear on its balance sheets, but it is using OnDeck’s technology and platform to give customers a quicker and better service. Most customers will not be aware that they are getting the loan through OnDeck’s platform, but OnDeck receives origination and serving fees on each loan made.

This model enables FinTechs to leverage the name and business of huge brands, saving them the difficult task of establishing their own brand with customers. It benefits the established banks by enabling them to offer customers a better service without investing in a whole new IT infrastructure and platform.

Santander in the UK has already partnered with a number of FinTechs, including Kabbage and Funding Circle. Kabbage provides a risk-scoring service to Santander from external sources of data including social media. Funding Circle is an online peer-to-peer (P2P) lender which has smaller overheads than the high street banks due to its online-only presence. Rather than compete, Santander has opted for a cross-referral agreement as its model of working with a digital challenger. This could provide an indication of how the big four will approach providing digital banking services.

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rather than developing them from the ground up. It would mean less of a sea change in their business model, rather
a pivot towards partnership and collaboration with other organisations – exactly what the Open Banking Standard
envisages.

Opening up their systems to offer a “Banking as a Platform” (BaaP) service will enable banks to be better informed
when considering new products and services for their customers. Previously, if a new product was deemed unviable
due to thin margins it would not be launched, and perhaps not even tested with customers for appeal. However, A
BaaP service enables the bank to beta test new products on a digital platform and gauge customer appetite before
making a decision on whether to proceed to a full (and more costly) product launch.

BaaP would further enable banks to cut costs and development times by enabling them to use APIs to surface
externally developed products and services on their own platforms. FinTechs or developers could either sell the
solutions directly to the banks in a format that enables integration via API, or run the services themselves for the
banks, on the banks’ websites and apps, via APIs. In this way, the banks would benefit from speed and efficiency in
offering new products and services, while customers would benefit from new products and services with the comfort
of the bank’s name behind them, via the online banking platform from their established provider that they are familiar
with.

Ultimately banks, using BaaP and digital technology, could begin to offer “automatic account aggregation”, where
financial and personal information from different accounts and providers is compiled into a single database. Having
access to all their accounts from different banks, building societies, mortgage providers, and loan providers in one
place is potentially ground-breaking for customer experience in banking, giving customers a consolidated view that
enables them to understand and manage their finances as a whole, and offers a value-driven banking experience.

For the banks, better informed customers should lead to less debt to write off (£285 million of credit card debt was
written off in the second quarter of 2016), a reduction in administration and legal costs, and an increase in customer
satisfaction. And working in this way increases scale and stability for the FinTechs and smaller providers who are
providing the new technology, enabling them to continue to develop new and innovative products.

The current level of personal debt in the UK has been estimated at £1.499 trillion6.

The API Economy

The “API economy” is a general term that describes the way that APIs can positively affect an organisation’s
profitability – not just in the banking sector, but in any industry. The growth of APIs has enabled nearly every type
of business to tap into a new digital value, to reach out to more customers and to disrupt established industries.
Companies can now generate additional revenue by exposing APIs as business “building blocks” for third party
applications.

The API economy is projected to be a $2.2 trillion market by 20187.

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6 http://themoneycharity.org.uk/money-statistics/
Under the Open Banking Standard, banking data can be shared through secure open APIs so that customers, whether individuals or businesses, can manage their finances more effectively. Open APIs will allow third party developers, such as FinTechs and retailers, to create helpful services and tools for customers. By having real-time access to their own banking data through APIs, customers and businesses should have better options for choosing and making the most of their financial products.

Fidor Bank in Germany is leading the way with open banking and APIs. As well as offering traditional banking services such as accounts and loans, Fidor also offers innovative services aimed squarely at its digitally-enabled customers, such as crowd-sourced funding and peer to peer lending.

Customers have a social presence (they can sign into the Fidor community through Facebook Connect) where they can give advice on household costs and investment strategies, rate financial advisors and review financial products. Fidor encourages active participation in the community through cash-based incentives. By having a fully rounded customer service Fidor engenders trust and ongoing involvement, which should lead to increased loyalty and activity. The cost to Fidor of customer acquisition is just 20 per cent of the cost of customer acquisition typically incurred by a high street bank in Germany.

The bank is also building an external community of businesses that use its core banking services. In March 2015 it launched its open API platform which lets third party developers create apps and services that interact with customers’ banking products, adding further value to Fidor’s services.

Engendering trust and adding value in this way allows the bank to collect much more personal data. The bank manages this data through its internal data management system, and also enables customers to access and manage it through a customer information system, giving them control and visibility, and further cementing trust.

As BaaP develops and automatic account aggregation services mature, transparency for customers will improve. When seeking out new products such as current or savings accounts, customers will be able to make meaningful comparisons by viewing details of different product offerings across multiple providers in one place, using their preferred website or app. And for those customers in need of a loan, APIs could lead to better loan terms. By using open data and APIs, lenders will be able to access customers’ historic transactional data and determine the appropriate risk level when offering loan terms.

Mortgage providers could also use APIs to access bank data from prospective customers’ accounts. This could potentially negate the need for customers to submit paper bank statements as part of their mortgage applications, speeding up applications and approvals.
Credit Agricole set up its own “CA Store” in January 2012, an online marketplace that crowdsources ideas for new banking applications from customers, and gives third party developers the tools they need to create new banking applications in response. So far more than 50 teams of developers have contributed to the project.

The CA Store uses an open API so that the technology is shared freely with third party developers, and can be integrated into new programs with no loss of compatibility. The developers never have access to any real customer data.

Having customers help design new apps and services has led to some practical and innovative solutions for the bank. One application was designed to notify customers of account overdrafts. Another makes a game out of saving money – customers get an award displayed on their Facebook page when they reach a savings goal.

Aggregation and BaaS are not reserved solely for third parties and new market entrants; established banks will also be able to exploit these new opportunities by integrating the APIs of their competitors into their own websites and apps. Introducing new personal financial management tools, using “Big Data” to offer the best option on particular products, and enabling the customer to compare and manage all their accounts in one place could mean the difference between a bank becoming a customer’s “go to” platform for all their financial needs, and losing meaningful communication with that customer altogether.

With the customer empowered to make an informed choice of products and services by themselves, the huge internal pressure within banks to cross-sell and up-sell should reduce, leaving time for banks to focus on quality customer service and developing the best new products.

**Fraud**

This API-first approach could also reduce levels of fraud. With new access to customer data and an open platform that monitors activity across all of a customer’s accounts at once, third party fraud detectors could offer customers better monitoring and notification services.

One of the key concerns for customers is how fraud is dealt with once detected. The increased use of APIs and partnerships to deliver and display services and information will mean that the responsibility for responding to fraud and liability for losses will depend on the type of relationship and collaboration between banks, FinTechs, and third party API providers in each case.

In the case of a white label agreement, whereby the bank’s brand is on the product and the partner is silent, the responsibility should remain with the bank as it is positioning itself as the product owner. By holding responsibility and advertising that it will protect the customer from fraud in this way, a bank could alleviate one of the main concerns of customers who are considering moving to a digital banking product. A change in leadership style and risk behaviour at the bank will need to be initiated for this type of proactive customer protection, as this is not the typical level of protection offered by banks today.

In a case where there is more of a partnership between the two parties, where the responsibility lies would depend upon the nature of the agreement between the bank and the FinTech. However, due to the relative strength and
negotiating power of the bank and the fact that it would be the FinTech who has developed the product, then the liability for fraud would probably shift to the FinTech. Although this seems the fairest solution it may worry the customer, as the FinTech may not be able to offer the same level of protection and compensation as a bank would. Nevertheless, the bank would still be involved in managing the response to fraud as, in most cases, banks partnering with FinTechs would be allowing the FinTech to operate under the bank’s licence while complying with the regulations.

**Monetising APIs**

There is a significant amount of value in providing financial institutions with the tools and resources needed for adapting to technological changes in the banking industry, and the benefits to customers will go hand-in-hand with benefits for the organisations developing and offering these new services.

There are three models that organisations may be able to use to monetise APIs:

1. **Pay per use** – a company will make its transaction data available to third party apps that, for example, compare prices or analyse customer behaviour.
2. **Subscription** – fees accrue during a defined period for an agreed price, rather than on a pay per use basis.
3. **Revenue sharing** – these models will typically generate sales of a company’s own products (e.g. an online storefront) from which the app developer gets a share.

It is likely banks will have to pay third party developers and FinTechs money under one of the three models for using their APIs on a subscription basis, but this will depend on the type of relationship agreed in each case.

Amazon.com is a veteran in handling millions of web transactions from processing payments to handling refund requests, and managing sales and cash flow data. Recently, Amazon has used its experience in online commerce to launch a FinTech product, Amazon Payments – a unique product offering in the financial API landscape.

Amazon Payments’ business customers can take payments via Amazon’s secure payment portal directly from their own website. Using Amazon’s proven security as a checkout option enables businesses to benefit from the trust customers already have in the Amazon brand.

Another option for banks is to develop their own APIs, enabling them to avoid paying third party developers and FinTechs, and potentially even to charge other organisations for using them. The downside to this for the banks is that there is considerable capital and commitment required to develop APIs from the ground up, and they would need to have the required resources and team in place. It is imperative for banks to weigh all this up in advance, and to ensure that their API strategy considers the costs and benefits of both “buy” and “build” options.

Banks are likely to monetise APIs based, initially, on payment processing and customer authentication services. These would be relatively easy to develop and implement, building on standard tasks and data already held. An example would be a service enabling customers to complete product applications via an API. This would be a straightforward way to reduce cost and time for the bank, while making applications easier for the customer.
Following the SEPA movement, Italian MyBank has developed a pan-European payment platform based on a set of authentication, payment processing and authorisation protocols. To leverage the potential for growth across Europe, MyBank’s solution is a set of integration APIs that enable banks and merchants to integrate more easily.

Due to the structure of the protocol, MyBank’s financial software already supports eMandates and eIdentity. This allows the company to capitalise on the opportunity of building a product once, and using its APIs to meet multiple business cases. The service was launched in Italy and within just under two years, all Italian banks supported MyBank.

To date, MyBank has acquired more than 12 million customers across Europe and integrated 143 Banks and Payment Service Providers.

**API Platforms**

Over time, a bank’s API estate and relationships will become complex, with many APIs in use across their systems and by their customers, including:

- APIs that the bank has developed;
- Third party APIs that the bank is utilising;
- Third parties that are using the bank’s APIs.

Banks will need to track all of these meticulously, to facilitate maintenance of services and deal with any problems with software or fraud issues.

Banks can manage private APIs internally, as these are primarily used within the organisation itself to improve internal agility, flexibility and velocity. However, managing public (or open source) APIs will be more of a demanding task. Banks will need to analyse how often the APIs will be used and to plan for growth in the service. They will also need to project and plan for the amount of data that the APIs will carry. The most successful API platforms have succeeded in this area (e.g. the Twitter APIs have ten times more traffic than the Twitter website). Banks will need to make sure that any surge in API volumes do not cause problems or downtime.

Banks also need to decide whether to keep control of the way their public APIs are run, or allow developers to use the bank’s APIs as they choose (within strict set parameters). If the bank’s requirements are too stringent, this could make an API too complex and costly to design for, and developers will not make use of it. It is possible to draw parallels with the “open” Android operating system compared to the “closed” Apple operating system, and the associated benefits and risks for developers, customers and the proprietary organisation. For banks, the answer will depend on the level of risk, control and investment they are comfortable with. Fidor has elected to open up its API system, but only to a limited extent and with no interaction with real customer data, and this seems to be an appropriate and workable model to follow.
RBS has run 8 hackathons in the last 18 months, with the aims of generating ideas and learning by experience about open innovation. RBS has its own developer sandbox called BlueBank, containing what will evolve into the full RBS API. BlueBank contains anonymous but realistic data that enables third-party developers to create financial services applications. Third party FinTechs can integrate an app with BlueBank in just a couple of hours.

Over time, a live API environment will be created to allow graduation from the sandbox to full deployment in a production environment.

Opportunities for FinTechs and Incumbent Banks

FinTechs, incumbent banks and other financial services providers can use APIs as a distribution channel to attract new business and retain increasingly technologically-minded customers. However, like Fidor and Credit Agricole, providers can look beyond just using APIs to improve existing services, by enabling third parties to create applications on top of their own platforms.

As well as improving products and services, this approach can radically enhance the customer experience. FinTechs and third party developers bring new skills, experience and methodology to generate ideas and innovation that extend beyond the banks’ more traditional approach. Third party innovation will enable banks to keep up with changing customer expectations and benefit from new channels of distribution (e.g. wearables), frictionless on-boarding, optimised front-end user interfaces and seamless omni-channel integration.

UK challenger Atom Bank is building its digital service on the Unity gaming platform, allowing customers to interact with their financial information using gamification features, personalisation within the app, 3D graphics, and voice/selfie recognition combined with biometrics for security.

The reduction in human interaction with customers can already be seen in the big four, establishing an expectation that banking can be done digitally, remotely and interactively. This should pave the way for full customer engagement with APIs and digital interfaces.

In March 2016 RBS announced that it was cutting its face-to-face advice service at the cost of 550 jobs as more customers turn to digital.

Again this innovation is regulation-led, rather than bank-led. The Retail Distribution Review, which came into force in 2013, made it uneconomical for banks to offer some advice services to consumers with smaller savings pots. The face-to-face advice would now only be available to customers with at least £250,000 to invest, whereas previously there was a £100,000 threshold.

RBS will use a robo-advice service as a low-cost way to offer investment advice on a large scale to most customers, including those with small sums to invest. Robo-advice will allow customers to go online and answer a number of questions about their financial circumstances. The bank may then suggest how much money to invest in certain funds, and could then transact on a customers’ behalf in return for a fee.
OPEN BANKING AND THE API ECONOMY

As the conditions for “utility banking” are created by these new developments, the EU and UK regulations present both a threat and an opportunity to traditional banks. Customers will be able to open accounts and manage their own financial products and services with increasingly little human interaction, should they choose to do so, and without ever going to a physical branch. The threat is one of disintermediation with customers, and losing the opportunities that face-to-face interaction brings. The opportunity for banks is increased efficiency, and the ability to provide the services that are attractive to digitally-enabled customers into the future.

Through Open Banking and collaboration, financial institutions can also begin to integrate their data with that of other financial institutions and open data sources (Facebook, Google, Companies House, data.gov.uk etc), creating entirely new business models. For example, incumbent banks could offer new products such as peer to peer lending and online trading through APIs embedded into a social media app (such as Facebook) and/or through their own proprietary apps, opening up new revenue streams.

There is little doubt that the API is set to play a major role in the digital transformation of banking, providing banks with a new route to current and new markets, a mechanism to leverage the innovation emerging from the FinTech and wider digital developer ecosystem, and a means to transform their internal technical platforms and disaggregate their historic vertical model systems.

Opportunities for Retailers

Organisations that are quick to react to PSD2 to establish themselves as “Account Information Service Providers” (“AISPs”) could gain a massive advantage over slow-moving banks. By doing so they would gain access to all of the customer’s financial information in one place, giving them a huge quantity of insightful data which will provide them with lucrative cross-selling opportunities. By providing an automatic account aggregation service, the AISP will be providing an invaluable service to customers to keep track of their finances across multiple providers.

Large and established retail organisations such as John Lewis, Debenhams, and Sainsbury’s may be well-placed to take advantage of the new regulations and new digital technology, and we may see some of these organisations breaking into digital banking and becoming AISPs. Customers are already integrating their favourite retail brands into their everyday lives through omni-channel interaction, so the integration of banking services is a logical next step. Savvy retailers will certainly be thinking about APIs as a key part of their strategy for the coming years.

It has also already been shown that there is appetite for retailer-based banking: a survey carried out in 2014 found that “61% of British customers would be interested in banking services provided by alternative suppliers such as Tesco, John Lewis, Amazon and Apple.”

Moving into the financial sector is not a new phenomenon for high street brands – we saw Sainsbury’s and Tesco launching banking arms back in 1997 to capitalise on the huge level of personal retail data they had built up as well as their high street presence as leading supermarkets.

Many of the UK’s large retail brands already have established brand value, ideal store locations, an omni-channel web and mobile presence, a diverse portfolio of products, and a huge amount of customer financial data from marketing databases and loyalty schemes.
By building on existing databases, leveraging APIs and taking advantage of the assets they have already built up, retailers may find launching as AISPs gives them a new way to deepen customer relationships and provide an even more personalised service, combining retail and financial product offerings. For example, a retailer could recognise that a customer has just taken out a mortgage to move house, and that it has been some years since their last purchase of a sofa. That information could be used to offer the customer a low-cost loan, offset by current account balances, to purchase a new sofa.

Marks and Spencer (M&S) is, traditionally, a clothes and food retailer to the UK high street, with a strong brand presence. In 2012, it launched 20 in-store bank branches across the country, with a further 40 following in 2013. The decision to open these “branches” was based on over 25 years of experience in personal finance and 2.7 million loyal customers who saw value in the brand. The retail giant also rebranded the service from “M&S Money” to “M&S Bank.”

With the overall M&S brand, transparent bank positioning and credibility that M&S Bank had to offer, it was easy for customers to make the switch to M&S Bank. The Bank was able to grow slowly but robustly over the next few years. By July 2016 it came out top for first year earnings for customers who switched accounts if they made the most of the attached incentives. Customers signing up to M&S Bank’s Current Account could make themselves £316 over the course of the first year.

The UK retailer John Lewis has always been at the forefront of customer service. It regularly receives awards and scores consistently highly in shopper surveys for customer experience and trustworthiness. It has also picked up accolades for various elements of its omni-channel development, and was crowned “Best Multichannel Retailer” at the 2014 Retail Week Awards.

In 2014, John Lewis increased its online sales to £1.1 billion – a third of its overall total sales – with online sales growth at 25.6% for the financial year.

The John Lewis business has been realigned for an omni-channel customer experience and the organisation has been trying to embed a fast-moving continuous improvement culture into the broader retail business. Innovation focuses on customers and improving their shopping experience.

Mobile, across the website and app, now accounts for 53% of John Lewis’s web traffic. The rise of mobile shopping has seen more people making purchases in the early hours, with online sales between midnight and 6am up 31% over the past year, according to the company’s “How we shop, live and look” study.

Having proven itself as a leading retailer for customer service, there is no reason John Lewis cannot apply the same principles to financial services. It has the innovative leadership, brand values and resources to create its own banking platform. It already has its own credit card (the John Lewis branded “Partnership card”, launched with HSBC) and insurance products (which were under the Greenbee brand – now John Lewis insurance), as well as providing broadband and home telephone services.

John Lewis could integrate these services, along with the huge amount of customer data it (and partner Waitrose) has, to offer a comprehensive digital banking service to compete with banks and challenger banks. It already has the advantage of a strong brand name and recognised customer service level, two of the most important requirements for customer attraction.
Price comparison websites such as moneysupermarket.com and gocompare.com are also likely to move further into the banking environment. Again, these organisations have branding and market presence, coupled with a huge amount of customer data, at their disposal. They already use technology to gather different types of banking product and service information together in one place.

These websites have made the fact that they are independent a huge selling point. By enabling customers to use their websites to access personalised financial information across different banks and building societies, they could become truly independent banking platforms, maximising value for customers without having the cost of providing any financial products themselves.

Whether it will be traditional financial services providers, challenger banks, established retailers or another type of new challenger who maximises the opportunities that the new banking regulation is bringing remains to be seen. What is certain is that the regulation will bring dramatic changes to the industry, increasing competition between providers and enabling customers to have control over their financial information like never before.

ABOUT DWC

DWC combines specialist digital consultancy services, innovative software development and brand communications to maximise growth and engagement for financial and retail organisations.

W: http://dwc.ltd/

ABOUT DARYL WILKINSON

Daryl advises and works with financial services institutions and regulators, helping them to define strategy for a digital age, bring new ideas to life with rapid prototyping and to foster a more open and innovative leadership culture.

After two decades at executive level in blue chip organisations accountable for the results of his strategies, propositions and change, Daryl offers experienced based advice. He has led strategic reviews and restructuring following the financial crisis for both the Royal Bank of Scotland and Northern Rock. Most recently Daryl was Group Head of Digital Development and Innovation at Nationwide where he established and lead their Group Innovation Lab, creating a new model of open and agile innovation whilst developing key partnerships with Silicon Valley and London fintech.

Daryl regularly speaks on the subjects of digital transformation and innovative leadership and was the first private sector speaker to be invited to address the House of Commons Parliamentary Reception in 2015 when he spoke about industry forces reshaping UK financial services. He has featured in interviews for the likes of the Sunday Times, CIO Magazine and Future Banking and is recognised in the European Digital Financial Services ‘Power 50’ as one of the most influential people in digital financial services in Europe.

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ABOUT FINTECH NETWORK

We exist to facilitate and advocate the adoption of innovative and disruptive financial technologies. We do this by uniting the most influential figures in the industry to challenge the status quo and improve traditional banking systems. This happens through our industry leading conferences and original content.

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