Where are we 12+ months post the first launch of Open Banking in the UK?
Do consumers understand what Open Banking is?

DOES OPEN BANKING HAVE A BRANDING ISSUE?
SPLENDID UNLIMITED’S FINDINGS:

ALMOST 80% OF PEOPLE HAVE NEVER HEARD OF OPEN BANKING

ONLY 9% CONFIRMED THEY’VE EVER USED OPEN BANKING SERVICES
HOWEVER:

THE FINANCE MANAGEMENT APPS MARKET IS GROWING
MARKET UPDATE:
OPEN BANKING SERVICE USE IS GROWING WEEKLY

Monzo: 20,000 new customers weekly
N26: 10,000 new customers weekly
MARKET UPDATE:
API CALLS ARE INCREASING MONTHLY

26.9 M SUCCESSFUL API CALLS
FEB 2019

ACCORDING TO OPENBANKING.ORG.UK
MARKET UPDATE:

THIRD PARTY PROVIDER REGISTRATIONS INCREASE

<table>
<thead>
<tr>
<th>Category</th>
<th>Registrations</th>
</tr>
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<tbody>
<tr>
<td>CMA9</td>
<td>9</td>
</tr>
<tr>
<td>CMA9 Subsidiaries</td>
<td>5</td>
</tr>
<tr>
<td>Other UK Banks/ Building Soccs</td>
<td>4</td>
</tr>
<tr>
<td>Other EU/Global Banks</td>
<td>4</td>
</tr>
<tr>
<td>Challenger Banks</td>
<td>3</td>
</tr>
</tbody>
</table>

25 ACCOUNT PROVIDERS

76 TPPS ON THE FCS REGISTER
CUSTOMERS ARE USING OPEN BANKING

THEY JUST DON’T KNOW ABOUT IT!
While Open Banking solutions are currently heavily focused on the retail market, SME market is growing
SME market continues to grow over last 5 years

SMEs are a vital component of most major economies, contributing to > 90% of total employment across most markets

European banks have struggled to serve the needs of SME customers and in driving profitability:

1. Changing customer’s expectations
2. High cost to Serve
3. Low margins
4. New competition
5. Regulatory pressure
INCUMBENT BANKS HAVE BEEN FOCUSING THEIR INNOVATION EFFORTS ON RETAIL

Digitization efforts of incumbent banks mostly focused on reshaping the customer experience for retail customers.

The changing needs of retail customers are increasingly met by innovative services of incumbent banks and new digital players alike.

- Seamless onboarding
- Real-time & contactless payments
- Multi-banking/ PFM
- Fully digitized product opening

Despite some banks beginning to offer digitized solutions tailored to corporates, the segment remains largely underserved.

Few banks offer their corporate clients bespoke APIs that allow to integrate the bank’s services directly into their treasury and ERP systems.

- Liquidity & Cash Management via real-time account & payments initiation & status
- Multi Banking & Dashboards

Banks have yet to unlock the huge potential presented by open banking to transform the way how SMEs are serviced.

With lower process complexity than corporates, open banking is well suited to enable seamless, fully digitized services, addressing the most imminent needs of SMEs.

- Frictionless onboarding/ KYC
- Multi Banking with Liquidity & Working Capital Management
- Bookkeeping & Tax Services
- Invoicing & Matching

Needs of customer segment serviced by banks today
DESpite the challenges, SMEs demand their needs to be addressed

Needs of SMEs along their value chain…

Onboarding

Frictionless and fast onboarding
Faster and more accurate KYC processing

Procurement & Sales

Easy access to data and services
Single sign-on to account information and services spread across different banks

Solution to reduce manual work and cost to run SME business
Access to non-banking services in one banking suite by leveraging proprietary value added services and those of external partners

…though, most banks still act as utility providers and do not address those needs

Current bank propositions are not addressing all SME needs. As a result, incumbent banks struggle to maintain marketshare and achieve good profitability

Current solutions are:
- Product siloed – lack of integrated SME banking offerings
- Reliance on collateral based risk models for lending decisioning
- Difficult to customize and integrate with client systems
- Basic multi-channel integration and not full online offering
- Low cross selling abilities
- Partial digital value chain coverage
- Fragmented customer touch points

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IN LIGHT OF MANY BANKS’ INNOVATION INERTIA NEW PLAYERS EMERGE BETTER SERVING SMES

SME digital banking landscape...

...where digital champions establish ecosystems and provide new services

Digital Champions operate platforms that combine own services with API-enabled value-added services of TPPs

Solutions of digital champions for SMEs include:
- Bundled product propositions
- Paperless KYC and on-boarding
- Digital only – mobile banking
- Integrated product suite
- Complete SME value chain coverage
- Integration with non-banking value added services
- Advanced / transactional risk modelling frameworks used

Example IdeaCloud: Digital ecosystem that allows SMEs to manage accounting, invoicing, tax processes and payments

Utility Provider
1

Provide Advice & New Services
2

Expand Ecosystem & Aggregate Value
3
Key market disruptors are PSPs, accounting software firms digital credit providers and fintech's.

PSD2 and Open Banking will act as a catalyst for accelerated adoption of these new services:

- For SME banking, this would mean that third parties (e.g., PSPs, accounting package providers, digital credit providers & Fintechs) would be able to provide better services to SME customers.
- Third party providers would be able to access bank account data and complement these data sets to offer value-added services.

For incumbent banks, this means that they need to:

A. Develop partnerships with these third parties and explore new revenue opportunities.
B. Develop new capabilities themselves and offer them as new value-added services for their SME customers.
OVER 40% OF SME & LC PLAN TO PARTICIPATE IN OPEN BANKING ECOSYSTEMS NEXT YEAR (ON TOP OF THE 40% THAT BELIEVE THEY ARE ALREADY IN AN ECOSYSTEM)
Satisfaction:

Only 39% of SME are completely satisfied with their payments & banking.

27% of SME would be interested in looking at other third party solutions.
BENEFITS & REACH:

25% of SMEs believe that the biggest benefit from open banking is reaching more clients and partners.

Over 60% are willing to join the open banking ecosystem with their banks.
SME
WHAT'S NEXT

The SME market is growing but are we focusing on the right products?
KEY IMPROVEMENT AREAS:

25% OF SME WANT TO IMPROVE THEIR PAYMENTS AREA IN PARTNERSHIP WITH THEIR BANK

ADDITIONAL 21% WOULD BE INTERESTED IN IMPROVING CASH MANAGEMENT
Today SMEs often use Local Desktop Solutions

- SMEs have to follow manual and therefore time-consuming processes, which slow down the operation
- Local desktop solutions do not allow collaborative and flexible business management at any time anywhere
- SMEs need to rely on traditional interfaces such as EBICS or SWIFT which are known as expensive and/or with a cumbersome authentication process

Pain Points for SMEs

- Mostly manual process steps, e.g. upload manually account statement and extraction of payment statements
- In case of EBICS customer keys are stored at desktop in an unsecure manner

Cloud & API-empowered Solutions for SMEs

- Bookkeeping providers can connect with the SME bank accounts held in multiple banks via Open Banking APIs (e.g. PSD2 and CMA APIs)
- Convenient account onboarding, comprehensive and more secure access to valuable account information
- Account information can be aggregated in a Multi Banking functionality with analytics, invoice matching, liquidity management capabilities
- Payments can be initiated directly to clear open invoices

Benefits of Open Banking API for SMEs

- Manage basic business activities with a multichannel solution as a mini-ERP solutions
- Seamless data exchange with SME banks
- More user-friendly, simple, intuitive solutions possible via APIs
VALUE IS CREATED THROUGH ‘PLATFORM PLAYS’ ACROSS THE SME VALUE CHAIN

Example: SME ecosystem of third party providers by Xero

SME bookkeeping provider Xero relies on an API-integrated network of partners to create network effects (platform plays)

- With its ecosystem, Xero offers services of TPPs to SMEs such as frictionless payments, factoring, reconciliation of bank accounts and online invoicing of customers
- Xero first started by addressing certain areas of the SME value chain through specialized services e.g. with Shopify
- Later, Xero expanded into other value chain areas through expanded platform plays e.g. with Square
EXAMPLES FOR TREASURY-LIGHT VERSIONS USING INTERFACES

CORPORATE PORTALS

Corporate Portal of Commerzbank

- Provides modern user interface with multi-bank account view and Cash Management App
- Enables direct product openings within the App

Corporate Portal of BNP Paribas

- Provides access to +60 corporate banking services with single sign on
- Customizable widgets, alerts and notifications that help to create personalized main page
4 CORPORATE MARKET

While Open Banking solutions are currently heavily focused on the retail market, CORPORATE market is growing
APIS FACILITATE THE SHIFT FROM BATCH TO REAL-TIME PROCESSING

TRADITIONAL INTERFACES VS. API-SERVICES IN PAYMENTS & ACCOUNT INFORMATION

Traditional Interfaces

• Transmission and processing of payments and account information usually in batch files
• Payment status and account balance reports are delivered at set times or EOD
• In general not cloud-capable for innovative solutions

EBICS
• Low priced but in general EOD processing
• Not scalable due to cumbersome onboarding and authentication process

SWIFT
• Not scalable due to cumbersome onboarding and authentication process
• Suitable for Corporates with necessary resources
• Expensive: high transaction fees

APIs

• Payments can be initiated when they occur
• Updates on payment status, transaction history and account balances are available intraday and in real-time
• Payment and messaging services can be integrated in cloud-based solutions (e.g. Treasury and ERP systems)

Advantages

Enables real-time services

Highly scalable

Easy to integrate into TMS and ERP systems

APIs pushes digitization in the SME space and foster process optimization in the segment for Corporates
INNOVATIONS IN TREASURY MAINLY FOCUS ON CONSOLIDATION

Too many banking relationships for diverse treasury needs

Rationalization of banking relationships

Reduction in banking fees

Issues in reconciliation for accounts receivables

Improve STP rates in payments and collections

Reduction in FTE effort

Lack of complete overview into liquidity and payments

Multi-entity pooling, centralization of treasury

Efficiencies in DSO*

Decentralized cash management across subsidiaries

Automated and centralized payment and receivables factory

Reduction in processing cost

* DSO: Days Sales Outstanding
30% OF LC BELIEVES THAT THE BIGGEST BENEFIT FROM OPEN BANKING IS ACCESS TO CONVENIENT & INNOVATIVE BANKING SERVICES

MORE THAN 70% ARE WILLING TO JOIN THE OPEN BANKING ECOSYSTEM WITH THEIR BANK
The CORPORATE market is growing but are we focusing on the right products?
KEY IMPROVEMENT AREAS:

24% OF LC WANT TO IMPROVE THEIR FINANCE AREA IN PARTNERSHIP WITH THEIR BANK

ADDITIONAL 22% WOULD BE INTERESTED IN IMPROVING PAYMENTS SOLUTIONS
OPEN BANKING MAKES NOSTRO ACCOUNT INFORMATION INSTANTLY AVAILABLE

Intraday Nostro Account Information such as
- Account Balance and
- Transaction History

can be collected through Banking APIs

Liquidity shifts can be made from one account to another via Payment Initiation

The Nostro Account Aggregator helps to manage intraday liquidity efficiently
USING AI AND INSTANT PAYMENTS TO ENABLE INSTANT LIQUIDITY MANAGEMENT

CORPORATE USE CASE: INSTANT LIQUIDITY

• The ERP solution collects Account Information and Balances from all nostro accounts via APIs intraday
• Instant Liquidity Management analyses the data and informs the Corporate at an early stage if they risk of lacking funds in different accounts and suggests e.g. liquidity shifts between accounts
• Liquidity shifts can be initiated through the ERP system via API and Instant Payments (e.g. SCTInst) from one account to another account to ensure intraday and real-time funds transfer

Benefits of Instant Liquidity Management using APIs for Treasurers

• Manage liquidity in near-real time with total view on account activities
• Utilize Artificial Intelligence for preventive liquidity shifts
• Reduce risk of liquidity shortage in different accounts and efficiently utilize of surpluses
INSTANT PAYMENTS, OPEN BANKING, VIRTUAL ACCOUNTS...

...TO ADDRESS KEY NEEDS OF A TREASURER

**A** Instant payments will bring efficiencies in corporate payments
- 24x7 remittance
- Immediacy
- Certainty

**B** Open APIs will enable creation of data driven treasury functions
- Multi Banking services
- Payments optimization
- Analytics / AI

**C** Virtual Accounts will complement instant payments and Open Banking
- Optimized liquidity
- Treasury centralization
- Full visibility and control

**Drives a coherent client experience and enables...**

- Immediate Payments & Collections
- Efficient Reconciliation
- Advanced Reporting
- Data Insights
- Optimize Liquidity
- Self service Capabilities
A head start for financial providers

Banks and insurers should become a “living business”, creating a business model that moves beyond traditional industry boundaries and is agile, innovative and hyper-relevant.
BEST PRACTICES

Comply phase is almost done, next months will be critical to become a leader in compete space
COMPLY PHASE IS ALMOST AT ITS END WITH A FEW CHALLENGES THAT MUST BE ADDRESSED BEFORE MOVING FORWARD

Accenture’s global observations from Open Banking engagements across different geographies

Comply phase is progressing well, but significant strategic / operating changes have to be done to transfer to BAU

BAU OPERATING MODEL:

It is imperative for banks to act now to define the correct strategic approach and a BAU operating model to transition smoothly into Compete phase

OTHER GENERAL OBSERVATIONS:

There is no clear or consistent API ownership and strategy maturity is mixed

In the main, Open banking initiatives are not sufficiently supported by Digital and reside in business lines

No specific Open Banking funding - projects are sponsored from the PSD2 / CMA compliance budget, with no specific funding assigned to open banking changes
BEST PRACTICES?

1. Clearly defined ownership between business and technology
2. Accountability for long term Open Banking Strategy
3. Alignment of Open Banking into BAU Structure
4. Investment in Open Banking capabilities
5. Continuous delivery and refinement of Open Banking offerings
6. Operating model changes made to support Ecosystem development
OPEN BANKING
WHAT DO YOU NEED TO GET RIGHT?
THANK YOU
Andrew McFarlane
Accenture
Global Open Banking Lead