

Beyond the pandemic: *The outlook for Open Banking*

Open Banking adoption is growing, with the global market expected to be worth \$43.15 billion by 2026 and the pandemic propelling us into an even more cashless society.





To help companies keep up with this pace of change, we have summarised the current payment landscape, data on changing consumer and business payment behaviour, how Open Banking fits into it, and the key learnings for businesses.

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Methodology

This whitepaper is built on insights from two surveys: one of 1,002 UK consumers and one of 500 business leaders in the UK, conducted by ECOMMPAY in collaboration with Censuswide. The research was completed in March 2021.



Introduction

With sweeping changes across the industry, the payments landscape has gone from being a small part of the financial services ecosystem to a varied, exciting and growing industry – with the UK often leading the charge in its innovation and growth. Alongside these advancements, the pandemic’s impact on payments in 2020 was profound. According to UK Finance, while the overall volume of payments in 2020 reduced by 11%, card payments’ share of that spending increased to 52% of all payments as retailers moved to card and contactless payment options, and more people shopped online. The same UK Finance report finds that cash use has been declining 17% year-on-year since 2017, with 2020 only accelerating this further. Mobile banking use grew strongly too, as consumers sought quick, convenient access to their finances.

The decline in cash use combined with the UK's rapid fintech innovation has set the stage for some big changes over the next decade, with market developments such as Open Banking and the Payment Services Directive 2 (PSD2) having the potential to create major changes to the payment landscape. Open Banking is a key part of the European PSD2 legislation that came into effect in 2018, and while its main short-term impact has been around making it easier for consumers to view their finances, take out loans or pay for things online, it has the potential to create an entirely new relationship between consumers and banking by enabling secure and consented data sharing between banks and third parties. In tandem with these consumer benefits, businesses also benefit from faster payments, more information and understanding of their customers, greater opportunity to innovate, and a means to add more revenue streams via apps and other financial products while paying less for services, among other things.

*With Experian's Open Data Platform seeing more than **188 million data sharing requests in February 2021, up from 47 million in February 2020.***

The UK is one of the countries at the forefront of Open Banking. According to The Open Banking Implementation Entity (OBIE), which was set up by the UK Competition and Markets Authority (CMA) in 2016 to deliver Open Banking, around 294 fintech companies and payment service providers have joined the Open Banking ecosystem in the UK, of which 102 have live offerings in the market. Experian data has also found that the number of people sharing their data through Open Banking has tripled since the start of the pandemic, with Experian's Open Data Platform seeing more than 188 million data sharing requests in February 2021, up from 47 million in February 2020.

With its clear potential and the pandemic further accelerating consumers' move to digital payments, businesses have a great opportunity to seize on Open Banking's benefits and be at the forefront of this payment innovation. In this report, we summarise the current payment and Open Banking landscape, and what businesses must learn from it. There is a strong demand for payment options that are safe, secure, and convenient that Open Banking can provide. Equally though, despite this opportunity, consumer – and even business – knowledge of Open Banking is low, with businesses needing to learn quickly while also educating their consumers on Open Banking and its benefits.



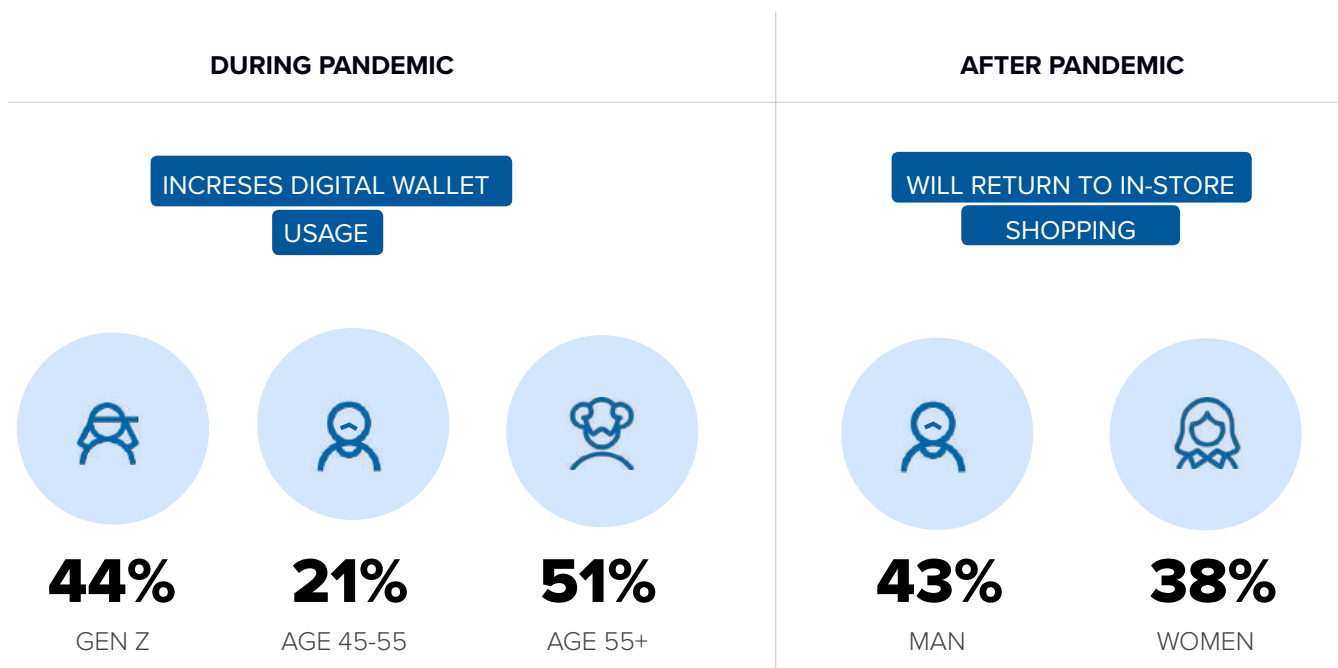
Changes in *consumer* *payment behaviour*

While there has been an ongoing move to cashless payments for many years now among consumers, with the rise of neobanks, fintech challengers, ecommerce, and other payment technologies, the Coronavirus pandemic has propelled this change massively. Most shop-based and other merchants were forced to switch to entirely cashless payments to reduce the risk of spreading Covid. While the UK government increased the contactless payment limit to £100 in March 2021, encouraging more and more people to make better use of their digital wallets while helping in the broader fight against the virus.

As a result, our ECOMMMPAY research found that one in five (20%) consumers used a digital wallet for the first time or started using one regularly in 2020. A further 38% also say they now have a digital wallet stored on their phone, increasing to almost half (46%) of those living in Greater London. The survey also showed that over two thirds (68%) of people use cash less frequently now compared to before the pandemic, indicating that there will be a definitive shift away from cash payments as lockdown restrictions continue to ease. This change is seen across age groups too. One in five (21%) 45 to 54-year-olds have increased their digital wallet usage during the pandemic, while more than half (51%) of over 55s say they have used a digital wallet. Younger people – 16% of whom said they have ditched cash entirely and only pay using digital wallets – also continued their move towards contactless payment methods, with 44% of Gen Z increasing their digital wallet usage during the pandemic. Demonstrating these new habits are set to stay, almost one-third (31%) of people said that the pandemic has changed their preferred payment method.

While payment methods are changing, so too are people’s purchasing habits. Our data also found that in spite of coronavirus restrictions being lifted, fewer than one-third (30%) of people say they will mainly shop in a store, even with a reduced Covid-19 threat. Just one in 10 (10%) said they would only shop in-store for their purchases. For women in particular, online spending is set to continue, with only 38% likely to return to predominantly shopping in-store. In comparison, this number is still low for men, with more than one in four (43%) planning to return to stores.

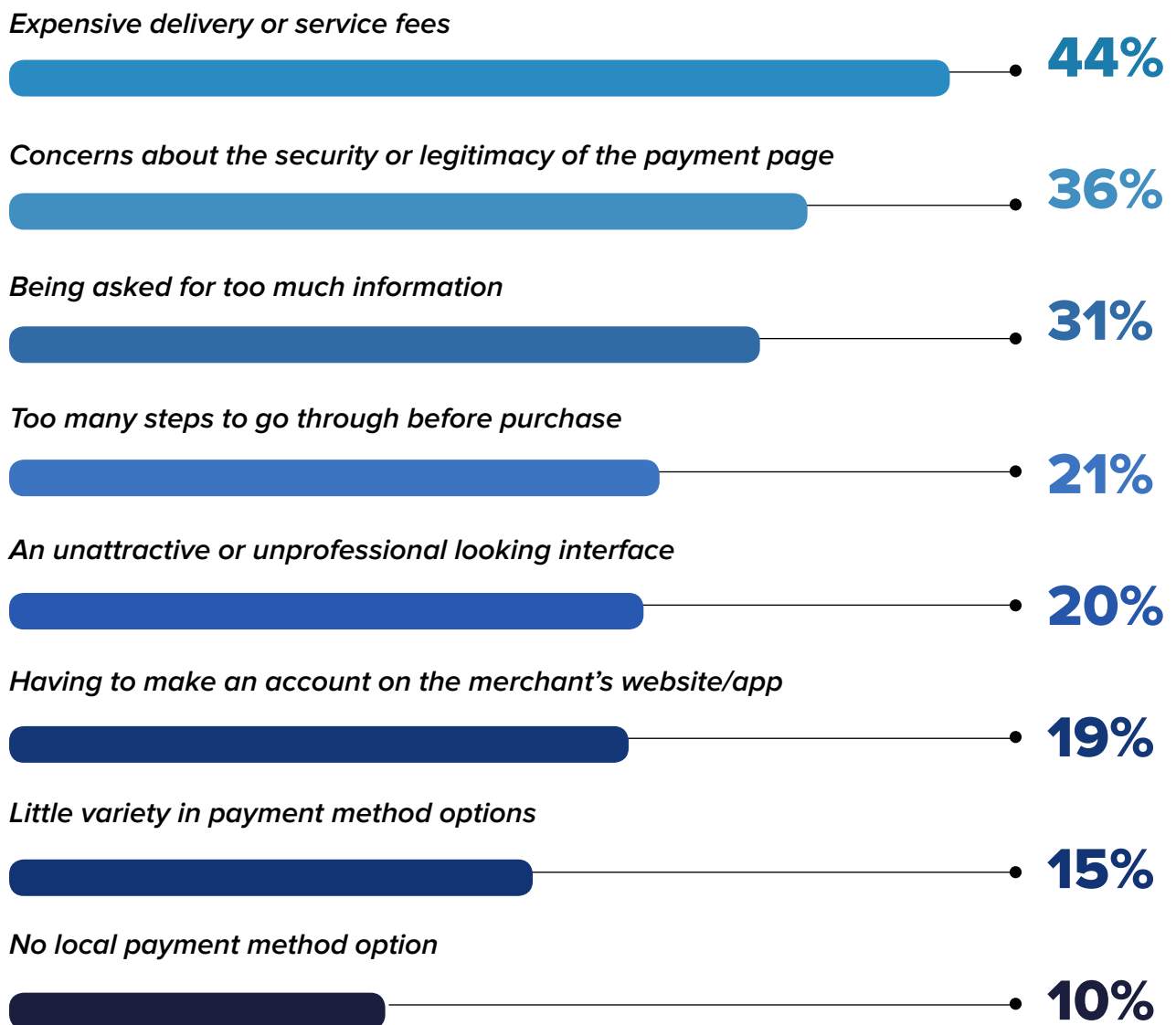
Pandemic has changed 31% population preferred payment method



The data also shows that older people who aren’t digital natives have increased their knowledge of a broad range of IT skills throughout the pandemic and are now more comfortable with accessing services online. Where previously older generations might have preferred to shop in stores, almost a third (31%) of 45 to 54-year-olds say they are planning to continue shopping online once the pandemic is over. Unsurprisingly, younger people plan to continue their online shopping habits too, with only 19% of digitally native 16 to 24-year-olds saying they will shop more in-store than online.

The desire for convenient checkout processes

This shift to digital wallets and cashless payments is in line with consumers' ongoing desire for convenient services. In a world of Netflix, Uber, Spotify, and Deliveroo, we are all used to instant access to various services through our smartphones – and payments are no different. Consumers want and need the payment options to be simple, reliable, secure, and local, as well as visually appealing to help with both speed of transaction and their perceived reliability of the professional services received. In fact, in our research, almost three quarters (71%) of consumers said they would be 'very' or 'somewhat' likely to abandon their checkout and seek a different option elsewhere if their preferred payment method wasn't available. When asked for the reasons they would abandon the checkout process, consumers cited:



These concerns varied among demographics too. Women (46%) felt more strongly about abandoning a checkout due to expensive delivery or service fees than men (41%), and were also more concerned about the security of legitimacy of the payment page (40% of women vs. 32% of men). Men (25%) on the other hand were more concerned than women (17%) about an unattractive payment interface.

Among age groups, 25 to 34-year-olds (19%) were most likely to cite concern with checkouts that had little variety in payment options compared to other age groups, while the youngest (16 to 24-year-olds) and oldest age groups (over 55-year-olds) were both concerned about having to make an account on the merchant's website to make a purchase (22% and 23% respectively). One in five consumers (21%) also say the payment process is very important in their perception of the brand experience, with a further 50% saying it is 'somewhat important'. Likewise, almost a third (31%) say the pandemic has changed their preferred payment method, with most people saying they are now using less cash.



*Via SMS, phone, online or even in person - with our data finding that **21% of Brits have experienced more fraud or attempted fraud during the pandemic.***

Alongside convenience, a safe and secure payment process is also essential. The pandemic has seen a large rise in fraudulent activity – whether that is attempted via SMS, phone, online or even in person - with our data finding that 21% of Brits have experienced more fraud or attempted fraud during the pandemic, and a further 18% saying they know someone who has been a victim of fraud or attempted fraud during the pandemic. Brexit has also created more concerns among consumers, with 14% feeling more concerned about the security of making international payments online post-Brexit too.

The need to educate consumers *on Open Banking*

With the shift to cashless unlikely to slow down and consumers increasingly wanting more convenient, safe payment options, businesses need to adapt and respond to stay relevant. Open Banking is a great option for this, helping enrich the customer experience and giving customers financial transparency, while businesses can provide a more personalised, convenient experience; reduce customer pain points; and address the consumer concerns outlined in our findings.

For shoppers, Open Banking means confidential information is accessed by third parties in a secure manner, compliant with General Data Protection Regulation (GDPR) requirements and giving the consumer more control over who is accessing their financial information to help reduce fraud risks. Once consent is given, financial data is stored in one place so that credit decisions on loans or other transactions can be made promptly. Purchases can be made easily via smart devices, and consumers simply log in to their online banking via their mobile app to approve payments.



OPEN BANKING
*brings many decisions
under a single
administration*



Merchants, meanwhile, benefit from access to new infrastructure for payments. Without the need for credit or debit cards, chargeback risks due to fraud or an inability to capture funds are eliminated, while card fees are cut too. As the process does not require intermediaries, the payment process is efficient, and can also be customised by region, currency, and other localised requirements. While banks usually have full control over the services customers need such as loans or transfers, Open Banking brings these decisions under a single administration.

KEY ECOMMPAY OPEN BANKING BENEFITS FOR BUSINESSES AND THEIR CUSTOMERS

FOR BUSINESSES



No chargebacks

Users pay directly from online banking, not with credit cards. So there is no chargeback risk for merchants.



Receive money straight from your clients

It's fast and does not require any intermediaries.



More ways to generate new revenue streams

Open Banking opens up financial markets, offering new infrastructure for payments. Start offering your customers an easier way to pay.



Meet customer requirements

Banks have full control over the various services their customers need, e.g. advice, loans, transfers, and financing. With Open Banking everything is managed under a single administration.



Customised payment systems

Taking into account different currencies, regions, and other localisation requirements.



Up-to-date with PSD2

All-access is based on PSD2 account access API issued and trusted by banks.

FOR CONSUMERS



Secure and compliant

Customers access data is secure and fully compliant with GDPR requirements.



Easy payments with Smart Devices

All customers have to do is log in to on-line banking via their mobile app, and accept the payment.



Fast decision making

All financial data is in one place, allowing a quick credit decision on loans and other transactions.



Transparent banking

It's a payment marketplace of sorts. It allows you to effectively manage your accounts and payments.

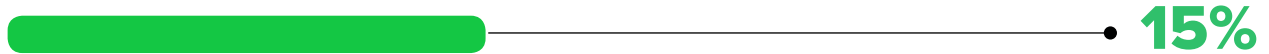
However, while the UK's Open Banking directive has been in place since 2018, consumer awareness and understanding of it, and its many benefits is still very low. Our ECOMMPAY data found that 28% of consumers have 'no idea' what Open Banking is and how it is used, with a further 20% saying they are a 'little confused' about it and its uses.

CONSUMER AWARENESS & UNDERSTANDING OF OPEN BANKING

"I have no idea what Open Banking is and how it's used"



"I completely understand what Open Banking is and how it's used"



None of the above



There are clear generational disparities in understanding too. Only 14% of consumers overall said they 'completely understand' Open Banking, but when looking at age groups, it is clear that younger people have a better grasp of the concept than older generations. Almost a quarter (24%) of 25 to 34-year-olds completely understand Open Banking, compared to just 7% of over 55-year-olds (where 40% said they had no idea what Open Banking is). For businesses to maximise their use of Open Banking technologies, they must also make a concerted effort to educate consumers on it and its benefits.



The importance of *Open* *Banking knowledge*

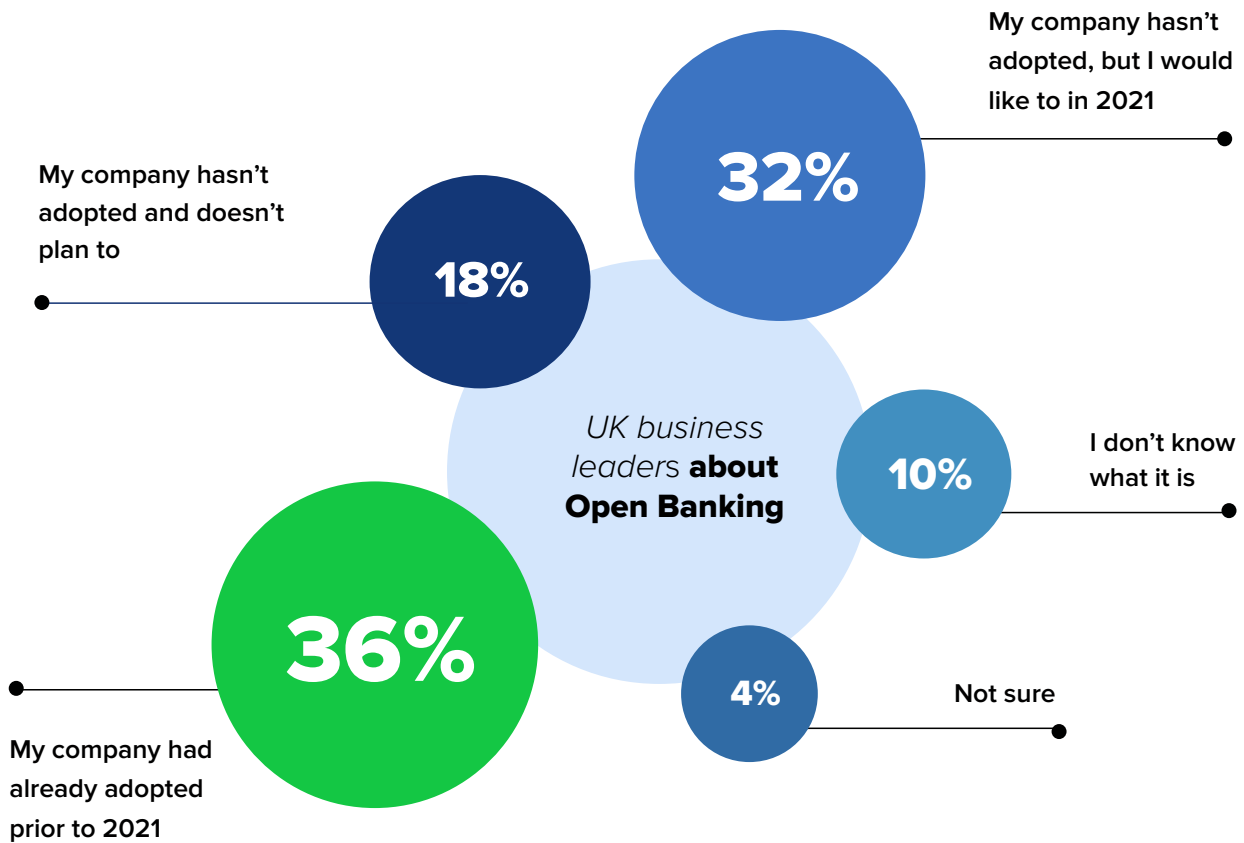
In the same way consumers have shifted in droves to cashless solutions and digital wallets, businesses have had to do the same while keeping track of the ever-growing array of fintech innovations in the market. However – this isn't always easy. Our survey of business leaders found that 21% feel it's 'difficult' or 'very difficult' to follow the rapid changes in the fintech industry, and only 31% of business leaders 'strongly agree' that their business has the adequate payment processes which will enable them to adapt around changing consumer habits.

For many businesses who've had to rapidly shift to cashless technologies and ecommerce more generally during the pandemic, the thought of implementing further varied payment technologies may be a daunting one. UK businesses have also had to grapple with the Brexit deadline during the pandemic too, creating further regulatory hurdles and cross-border payment challenges for companies to manage alongside increasing digital payments. However, now may actually be the perfect opportunity to implement these wider changes.

The shift to digital payments is on an irreversible path, and the businesses who make bigger digital transformation efforts now - while they are already having to do so - will be better prepared for longer term changes and better able to cater to the permanent evolutions in consumer payment habits. It will also provide businesses with a wealth of new data to deepen their customer engagement alongside other efficiencies, and give companies an easier means of tracking, flagging, and preventing potentially fraudulent transactions.

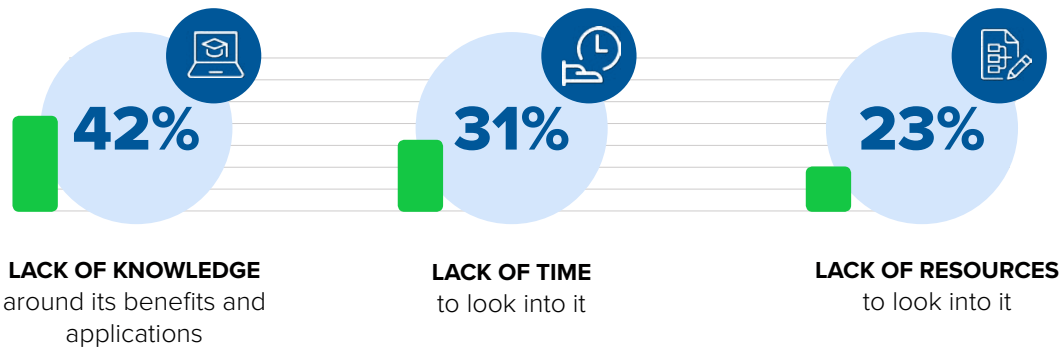
The slow adoption of Open Banking

Of course, these changes are easier said than done, and business leaders' challenges with keeping up with payment innovations extends to Open Banking too. However, there is an appetite among UK businesses to learn more.



Our research showed that only 36% of business leaders said their company had adopted Open Banking before 2021, with bigger businesses more likely to have done so. While the Open Banking adoption rate among UK businesses is fairly low, a further 32% said that while they haven't adopted Open Banking yet, they would like to this year, suggesting a need for businesses to make this implementation a priority. Alarming though, one in 10 (10%) of business leaders said they still don't know what Open Banking is or how it could help their business

Regardless, it's clear that businesses need a better grasp of Open Banking overall, and the talent to help implement it into their company. When asked why their company hasn't implement Open Banking solutions yet, the top reasons cited by UK business leaders were:



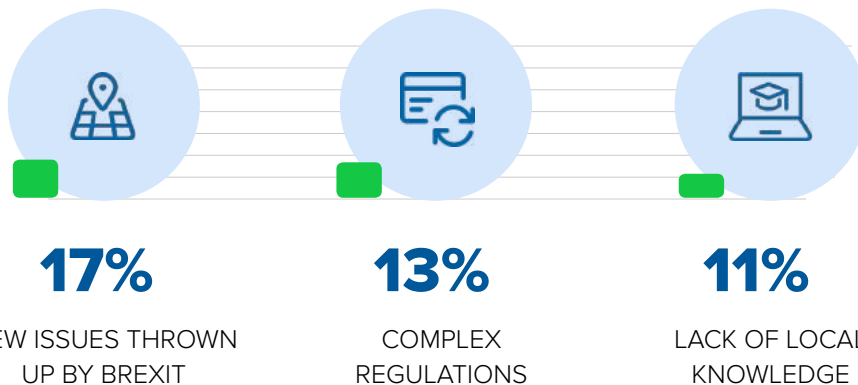
Surprisingly, a lack of knowledge on Open Banking's benefits and applications was particularly high among businesses in Greater London (51%), despite the capital's reputation as a financial services leader. In any case, the findings suggest business leaders are time-stretched and need better resources and key partners who can help educate them on how Open Banking could support their business and its customers.

Fraud and cross-border *payment problems*

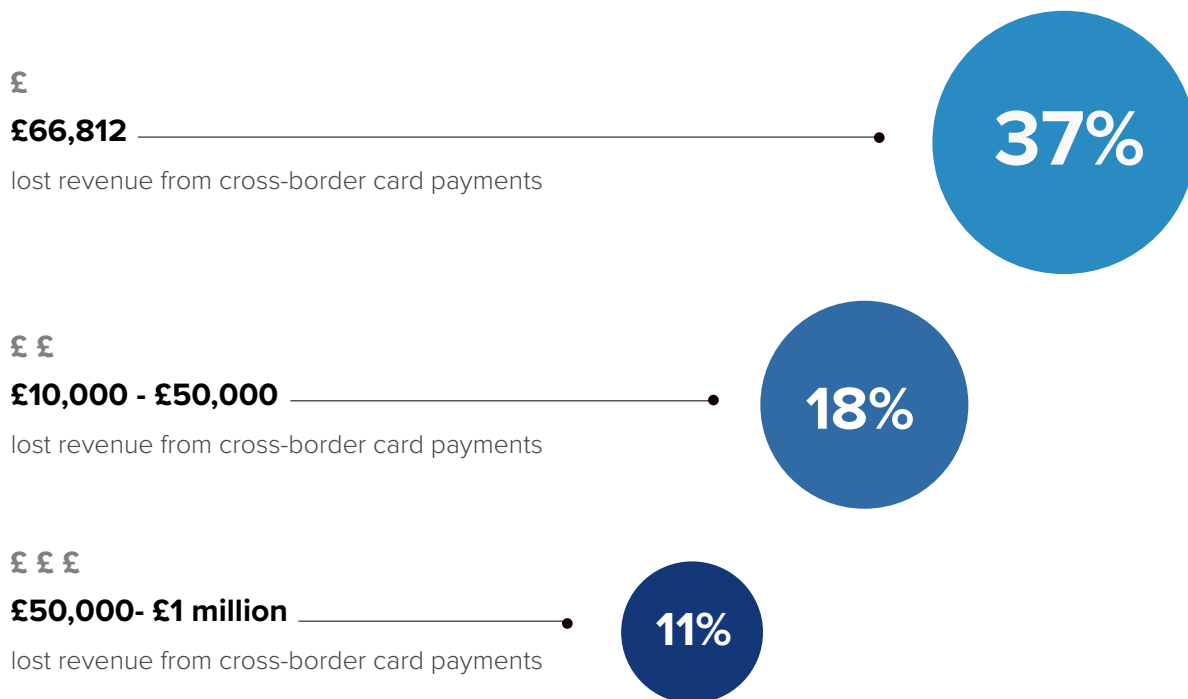


While Open Banking has untapped potential for businesses, it seems many are still struggling with wider issues around the online payments landscape such as fraudulent activity and security concerns. When it comes to fraud, more than a third (37%) of UK businesses say they have lost money due to fraud specifically on UK online payments – increasing to a concerning 49% of businesses in London. A further 31% of business leaders say they’ve seen an increase in online fraud or attempted fraud during the pandemic, and almost a quarter (23%) of businesses are ‘not sure’ or don’t know how to protect their business against online fraud.

Overseas expansions are another challenge for UK businesses, with more than a quarter (26%) of business leaders saying they are ‘uncertain’ or ‘very uncertain’ about how to best reach European customers to facilitate payments in a post-Brexit world. Their main barriers to overseas expansion are:



More than one in three UK businesses (37%) have lost revenue from cross-border card payments since Brexit too, with the average revenue lost from them being £66,812. Just under one in five (18%) of businesses lost between £10,000 and £50,000, while 11% lost between £50,000 and £1 million.



These findings around security and cross-border payments further demonstrate why the UK's lack of Open Banking understanding is a problem. Further adoption of it could help businesses mitigate these wider problems and help prevent additional financial losses, for instance by allowing UK merchants with a European bank account (and vice versa) to collect money and make payouts and refunds using local currencies.

When looking at Open Banking adoption, businesses must also think beyond the immediate benefit of payment initiation through APIs and look at the broader, long-term opportunities that Open Banking can provide. It should be seen as a long-term payment infrastructure investment, with the value of the Open Banking market set to reach \$43.15 billion globally by 2026.



Open Banking *lessons and*

recommendations

From both the consumer and the business perspective, it's clear there is a lot of learning and adoption yet to happen around Open Banking so that its full benefits can be realised on both sides. Businesses must now lead on familiarisation and education about Open Banking, and more broadly must ensure they have the right payment infrastructures in place to support it.

The importance *of trusted payment providers*

It's important that businesses look at working with payment providers that are established in the Open Banking space, and cast a critical eye on the solutions they offer. Some payment providers, for instance, have Open Banking offerings that aren't as comprehensive as others, or that imply they have full coverage in Europe when they only have limited bank coverage in a single European country or countries in Beta testing only. Businesses must research well and ensure they understand the different offerings available to them, and which will be most beneficial.

Some key questions that businesses should ask payment providers offering Open Banking ▼

1. What Open Banking functionalities do you provide?
2. How many payment methods do you offer in your portfolio?
3. Do you provide deposit confirmation?
4. How many live Open Banking clients do you have?
5. How do you guarantee a quality traffic connection?
6. What countries do you have full, live coverage in?
7. How do you provide for local markets?
8. How many data centres do you have and where are they based?
9. What anti-fraud measures do you have in place?
10. How do you make sure the approach is tailored to my company's needs?

ECOMMPAY, for instance, launched its UK Open Banking payment system in the UK in September 2020, and has since expanded it to Europe too offering true Open Banking capabilities in the UK, Austria, Belgium, Estonia, France, Germany, Hungary, Italy, Latvia, Lithuania, Luxembourg, The Netherlands, and Poland. The company plans to have full European and UK coverage by the end of 2021, and in a global push is currently building out its offering for Australia and Latin America.

ECOMMPAY offers two types of Open Banking offerings: Account-2-Account and Advanced, to suit different businesses needs. The Account-2-Account offering allows for payments between the consumer’s and merchant’s bank account, with funds sent directly. The Advanced offering allows merchants access to have a pre-funded (EU and GBP currencies) sub-account under ECOMMPAY, meaning the end-user customer can clearly identify the merchant when receiving funds from a payout or refund. The feature consolidates multiple payment methods to make reconciliation processes easier and faster for the merchant, and minimises bank charges by pooling multiple fund settlements into one daily transfer to the merchant, maximising their profits and enabling better control of their funds. The solution is fully integrated within ECOMMPAY’s portal through API calls to Nuapay, and webhook notifications allow ECOMMPAY to track end-to-end payment events, providing a fully managed reconciliation and payout service to merchants.

FEATURES	OPENBANKING ACCOUNT-2-ACCOUNT	OPENBANKING ADVANCED
Pay-in	●	●
Pay-out		●
Dedicated sub-account: EUR, GBP (PLN in process)		●
Funds aggregation		●
Deposit confirmation		●
Automatic reconciliation		●

Ensuring payment providers *can tackle cross-border issues and fraud*

Our data showed that alongside Open Banking understanding, businesses need to do more to better manage cross-border payments, and fraud and security issues. It's important to work with a payment provider that can support your Open Banking implementation, as well as these wider issues. In navigating cross-border trade, businesses must choose a payment provider with local expertise and a presence in both Europe and the UK. They should look to local banks or online payment gateway providers that work in local markets and can process such local card payments. However, be mindful that since you are not their key audience, signing a direct contract often requires additional integration or you may need to open a local representative office.



International payment companies can be another option here, as they provide a wide range of payment services with one contract and one integration. It's important to ensure with this that you hire customer support staff that speak local languages and make certain that the payment provider can translate and rebrand your payment page to suit local markets. You should also confirm that your payment provider has several data centres in the region you are operating in, since a short geographical distance between the data centre and the end user increases network speed by 15% and ensures infrastructure stability.

Businesses should also use payment providers offering an expert-to-expert approach, where there are experienced staff members dedicated to and specialists in particular target industries. Payment providers offering customer service support 24/7, dedicated and personal account managers, and fast response times to queries or issues mean you can solve problems at pace and maintain a smooth customer journey. At a busy time where businesses are juggling the pandemic, Brexit fallout, and the pace of change when it comes to consumer behaviour, a tailored approach is critical so that you can adapt at speed.

To tackle fraud, merchants need improved knowledge of fraud prevention strategies, and to make sure their customers are educated and kept up to date in the ways in which fraudulent attacks can be carried out. Merchants must ensure they are not disabling any parts of the customer verification process, and are limiting the number of payment cards that can be registered to one account.

*ECOMMPAY, for instance, is teaching its proprietary Risk Control System **with machine learning.***

Payment providers can implement risk control systems and leverage machine learning to gather and analyse historical transaction data in real-time. This technology can be used to identify fraudulent patterns, as well as to better build a picture of where fraudsters may be linked. Such technology means payment providers can identify and eradicate fraud, and also create remediation plans for each fraudulent attack. ECOMMPAY, for instance, is teaching its proprietary Risk Control System with machine learning. The system accumulates and analyses all historical data about transactions in real time, boasting a 97% fraud detection rate thanks to its use of artificial intelligence (AI) and machine learning. Based on this research and fraudulent activities the system identifies, it can determine the fraudulent patterns at play and also the fraudsters' online footprint. Manual processes accompany this, with managers analysing transactions too and looking for correlations among fraudulent transactions. The company also analyses each company's transactions separately from each other to understand the specific fraud patterns of a given business and help mitigate risks by creating remediation plans for each fraud attack. Risk Control Systems experts or antifraud specialists are critical for monitoring suspicious activity flagged by AI and deciding whether to process or block a transaction. Using technologies alongside expert support means around 97% of fraud can be effectively detected.

How to improve consumer education of Open Banking



As businesses develop their own Open Banking knowledge and implement the technology, they must also make an effort to help educate consumers about Open Banking and its benefits, in particular its security and convenience. Open Banking uptake will only work at scale if consumers are happy to use it and feel at ease about any issues relating to their personal data and how it's used once they consent. The EY Open Banking Opportunity Index shows that 48% of negative discussions worldwide around Open Banking centred on consumers' data protection and cybersecurity concerns. The Index also showed the UK as scoring high for advanced Open Banking regulation, but low on consumer trust in a post-GDPR world.

It's critical that any communications around Open Banking given to consumers are in simple, digestible language to avoid causing any further confusion to people. Money and personal finances are quite rightly a sensitive topic for people, so it's natural that consumers will be concerned about Open Banking if they don't fully understand the concept, but by empowering people with knowledge on it, businesses will ensure they can provide more products, customisation, and a better overall service to their customers.

Businesses need clear communication around any new Open Banking products they offer, how they work in terms of consent, how people's data will be used as part of that, and why it's beneficial.

These communications could cover off questions such as ▼

1. How does Open Banking work?
2. What are the benefits to me using Open Banking?
3. What are the regulations around Open Banking?
4. Will I be automatically be opted in to Open Banking?
5. What account types can be used for Open Banking?
6. Are there fees or charges associated with Open Banking?
7. How do I know it's safe?
8. Who has access to my data? How can I control who has access to my information?
9. Can third party providers see my data? Can they make payments without me authorising it?
10. Where can I find out more about Open Banking?

It's critical that any communications around Open Banking given to consumers are in simple, digestible language to avoid causing any further confusion to people. Money and personal finances are quite rightly a sensitive topic for people, so it's natural that consumers will be concerned about Open Banking if they don't fully understand the concept, but by empowering people with knowledge on it, businesses will ensure they can provide more products, customisation, and a better overall service to their customers.



Conclusion

While the UK is in the midst of sweeping changes in both its payment and wider societal landscape, the shift to cashless solutions and fintech innovations will sustain its pace, meaning businesses need to embrace digital transformation, and do what they can now to understand and implement Open Banking offerings. With the UK at the forefront of Open Banking from a regulatory standpoint and with the number of people sharing their data through Open Banking tripling since the start of the pandemic, businesses have a great opportunity to seize on Open Banking's benefits and be at the forefront of this payment innovation.

To be successful in this, they must look closely at the payment providers they are considering working with for Open Banking to ensure they understand the scope of their offering and coverage, and ensure their payment provider can also help tackle wider cross-border payment and fraud issues. Ultimately, Open Banking will only thrive if consumers understand and adopt the technology, so businesses must also be helping to improve the overall consumer understanding of the technology and its benefits, in particular helping alleviate concerns around data privacy and security.



Are you ready for Open Banking?

Connect to thousands of banks
through a single platform.

GET IN TOUCH

