

Change, what change?

2018 MAY BE THE YEAR THAT BANKING IS TRANSFORMED AND YET ONLY 11% OF LARGE UK BUSINESSES ARE FULLY AWARE OF THE REFORMS

Sweeping regulatory changes that take effect this week have the potential to turn the UK financial services sector on its head. Open Banking regulation (including the second payments services directive PSD2) will allow third-party businesses to gain access to banking data and payments mechanisms. Regulators and policy-makers are hoping that this will kick-start innovation and invigorate retail competition through new digital services and new business models.

Yet, shockingly, a new survey shows that barely a quarter (26%) of senior British business leaders are aware that the PSD2 and Open Banking are about to go live. Ignorance is not always blissful.

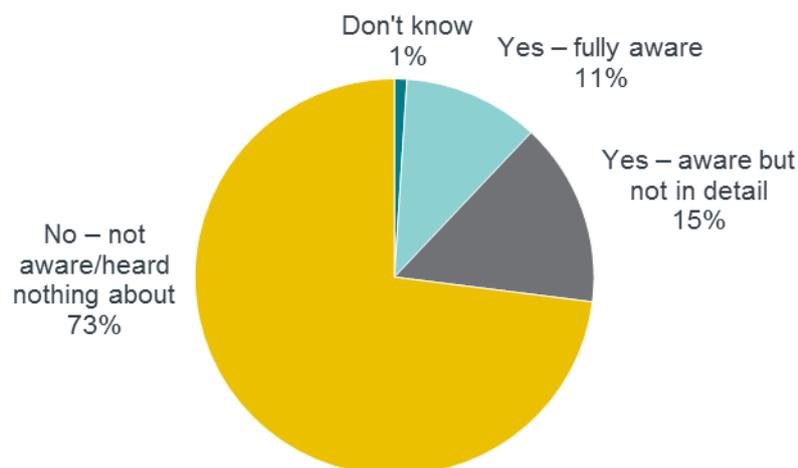
The looming changes have attracted a lot of attention from regulators and politicians. Frontier has explored [previously](#) how the UK financial services sector will be exposed to new challenges. Encouragingly, most banks and financial service providers have been thinking hard about the new landscape and have plans for their place within it.

Beyond the markets directly affected, however, we find that businesses in the wider economy are largely unaware of the forthcoming upheaval.

As part of the Ipsos MORI Captains of Industry Survey 2017, we asked leaders of the UK's top companies about their understanding of the new regulations. Ipsos MORI conducted 100 interviews with participants from the top 500 companies by turnover and the top 100 by capital employed in the UK. Participants were Chairmen, Chief Executive Officers, Managing Directors/Chief Operating Officers, Financial Directors or other executive board directors. Interviews were primarily carried out face to face (7 were carried out over the telephone) between September and December 2017.

Just 11% of businesses said they were fully aware of Open Banking and PSD2, and a further 15% described themselves as "aware but not in detail". This modest combined total of 26% includes executives in the financial services sector, so the level of understanding in the broader economy is almost certainly even lower.

Figure 1: Awareness of Open Banking/PSD2

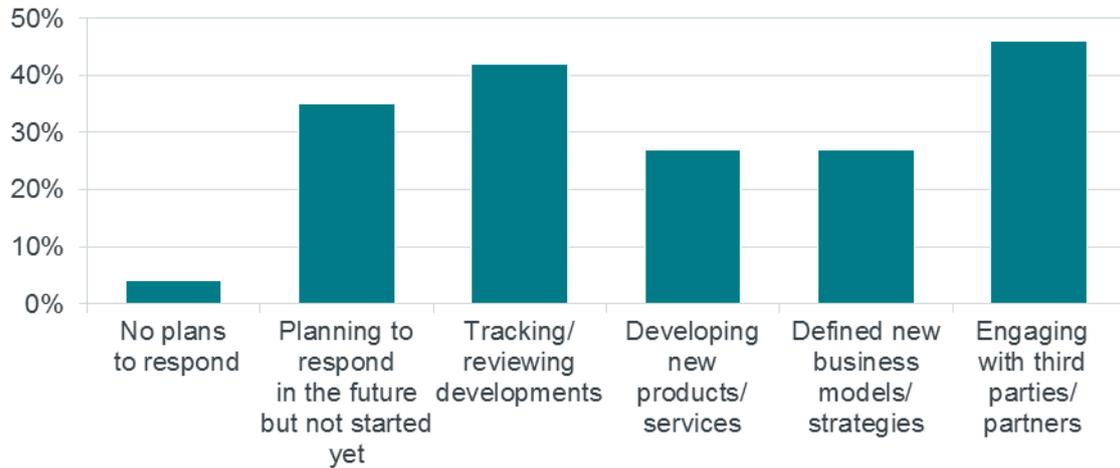


Source: Ipsos MORI Captains of Industry 2017

Note: Question asked was "Are you aware of open banking and the Second Payment Services Directive (known as PSD2)?", base: all respondents (100)

As shown in Figure 2, most businesses that are aware of the changes are already making plans, or are keeping a close eye on developments. This is because the new rules are expected to have a significant impact on all consumer-facing businesses, not just those in the financial services sector. Indeed, after they had been given a brief summary of what the reforms are likely to entail, more than half of those respondents in the survey who were initially unaware described them as “relevant for their business”.

Figure 2: Business responses to PSD2/Open Banking



Source: Ipsos MORI Captains of Industry 2017

Note: Question asked was “Which, if any, of the following apply to how your business is responding to PSD2?”, base: all aware of PSD2 (26)

Retailers ought to relish the reforms

Much has been written about the threat that new disruptors, unleashed by PSD2, will pose to banks’ traditional business. Less has been said about the opportunities – and, yes, the threats - that will arise for non-banks that execute a large number of financial transactions with their customers. Big retailers are a key group, particularly as many are already active in financial services. But PSD2 could also be highly significant for utility providers, airlines and rail companies as well as for online service platforms such as Uber and Deliveroo that take payments from customers. And, of course, the Big Four of technology (Google, Facebook, Amazon and Apple) may rapidly capitalise on the new directive to extend their reach.

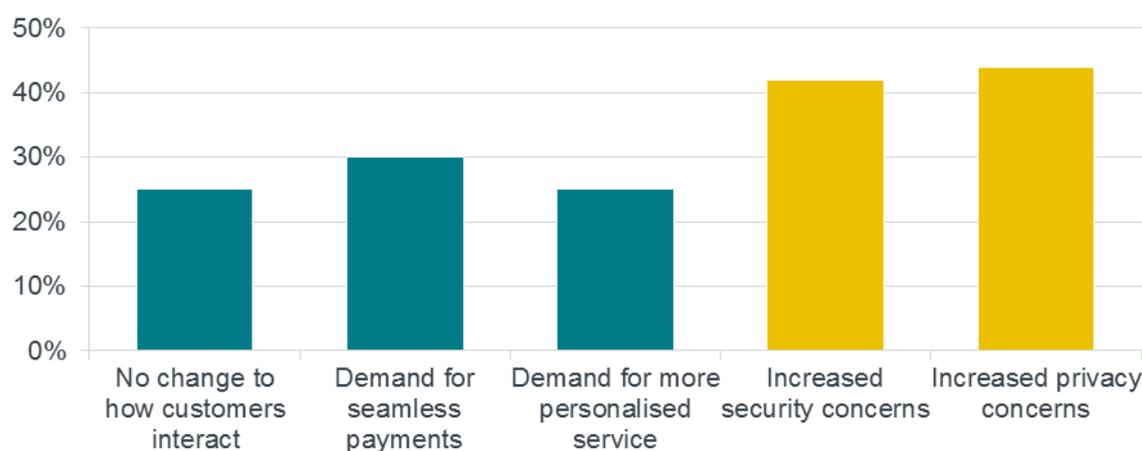
The limited awareness revealed by the survey is especially striking considering the vast array of services that will be made possible or easier as a result of PSD2. These are likely to include:

- **‘Pay by Bank’:** customers will soon be able to pay for products and services directly from their bank account, without the need for a card. Sharp retailers may find this is one way to drastically reduce interchange costs and increase click-through rates if the newer payment processes can be made smoother.
- **Smarter financing comparisons:** PSD2 will allow customers to instantly compare different credit and financing options for large purchases – such as using a new credit card in place of store credit, or vice versa.
- **Better switching tools:** granting third-party access to bank accounts will allow new tools to be developed to switch financial products. The use of these tools could be extended to other sectors including energy and telecoms.
- **Better customer insight:** the directive will release a raft of customer financial information which may be valuable to retailers. For example, the new data could help refine customer segmentation and market design techniques. They could also enable retailers to improve their credit scoring and thereby compete more effectively both in the area of store finance and against rivals in their own markets.

- **New marketing channels:** aggregation services are expected to spring up to provide customers with a single interface for all their financial services. These aggregators will open up a new channel for reaching customers. The General Data Protection Regulation (GDPR) will also enter into force this year, reducing any advantages that incumbent businesses may enjoy through mining their customers' data. This could further increase the importance of the new channel. Retailers would do well to consider partnerships with third parties, or even developing their own aggregation tools, particularly if they can leverage a trusted brand.

These rich possibilities are borne out by our survey results. As shown in Figure 3, after they had been given a brief summary only 25% of respondents considered that PSD2 would lead to no change in the way they deal with customers.

Figure 3: Anticipated impacts of PSD2



Source: Ipsos MORI Captains of Industry 2017

Note: Question asked was "Thinking now about what this means for your customers, in which of the following ways, if any, do you think PSD2 will have an impact?", base: all not aware of PSD2 (73), Captains could select more than one option

A question of trust

Figure 3 also highlights the importance of trust. There are legitimate concerns about data protection and privacy, shared by regulators, politicians, consumer groups and businesses alike. For PSD2 to be a success, these concerns will need to be allayed, and the bodies responsible for implementing the directive are striving to do just that.

For retailers, data privacy worries may in fact increase the opportunities that PSD2 and Open Banking offer. Many retailers have developed strong customer relationships and have become trusted brands, leaving them well placed to provide the reassurances that people will seek before trying the new services.

Get with it, please

Given the commercial opportunities, the low awareness of PSD2 and Open Banking that our survey highlights is unlikely to last long. All retailers with a consumer-facing business would be well advised to get up to speed as quickly as possible.

Of course, the reforms might turn out to be much ado about nothing. Getting people to change their banking habits is notoriously difficult. Equally, however, there is a chance that 2018 will go down as the year in which Britain's financial services sector changed forever. The balance of risk and reward seems clear. For the 73 per cent of Captains of industry who hadn't even heard that the date for the financial revolution had been publicised long in advance, it can never be too late to swing into action.