



Be More **OPEN**

OPEN BANKING SURVEY 2021

The opportunities and challenges of PSD2 for businesses



A world of opportunity



Open Banking set out to increase accessibility within the financial services industry by giving consumers more control of how their data is used by organisations. Following this, PSD2 (Payment Service Directive 2) was set up to bring standardisation and put in place protocols to ensure a common and safe framework for parties. It is one of the biggest pieces of regulatory transformation that financial services organisations have faced in recent times.

This new legalisation brings challenges as businesses try to adapt and work out their own strategic response. Some are more advanced than others. However, what PSD2 does create is significant opportunities for those that operate within the broader ecosystem, with collaboration between parties driving Open Banking forward.

About the survey

Between April and May 2021, Experian conducted an Open Banking survey involving more than 100 clients from financial services, telecommunications, insurance, and ecommerce sectors, with the aim of better understanding the needs and priorities of organisations in the context of PSD2. The findings help to understand where businesses see the biggest opportunities and challenges.

Key questions answered:

- 1 | What is the current perception of PSD2 as an opportunity?
- 2 | What areas are businesses looking to invest within Open Banking?
- 3 | What specific use cases do they see as a priority?
- 4 | What risks do they see? How do they plan to access the capabilities needed?



(* Incl. Payments, Consumer Finance, Fintech, Buy Now Pay Later (BNPL), Marketplaces.

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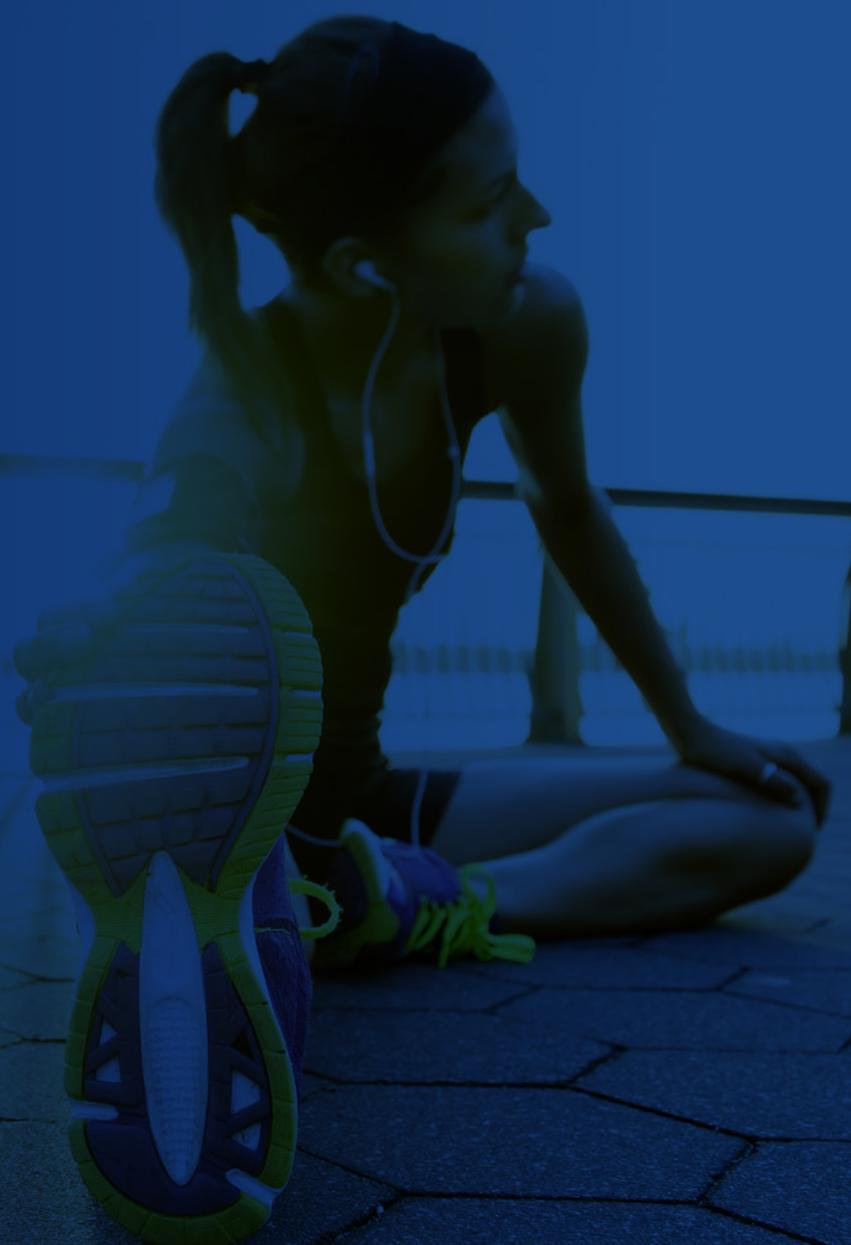
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Foreward

It's time to be more open

Transactional data held by banks for years remained closed to other parties. But of course, now they need to open up. This democratisation of data provides opportunities for businesses, and the banks themselves, to better serve customers. It offers the possibility of greater financial inclusion to parts of the population that have been excluded from

access to credit due to the lack of information on their financial track record. It is making it easier for consumers to share their information with businesses without having to provide physical documentation, which so often slows the process down. And it has created a level playing field between the banks and other parties who can now evaluate the potential and worthiness of a customer with the same data as an incumbent bank. Making instant evaluation possible and helping to fuel new business models like Buy Now Pay Later (BNPL) and instant lending.

Open Banking offers a range of commercial and operational opportunities across many different use cases. From a credit lending perspective, the access to bank

and payment card transaction data greatly increases the variety and depth of data available to organisations. However, most businesses don't suffer from a lack of data. Often it's the opposite. Too much data but not enough focus or knowledge on how to extract value from it. The true power is how this data can be used to deliver improved or enhanced **business insights**. Most businesses are excited about the potential, with 89% of our respondents stating that "Open Banking represents a big opportunity for the business". In this report we discuss the responses to our survey, explore the practical applications of transactional insight, and assess how it may help your business.

We hope you enjoy the insights.

01



Francesco Nazzarri

Managing Director, Commercial Strategy & Investments

89%

Open Banking represents a big opportunity for the business

9%

I don't think it will have significant impact

2%

It's a potential threat to our current business and we need to address that

Why is PSD2 Data Valuable?

PSD2 provides a basis for consumers and small businesses to consent to sharing their transactional data to help them access financial services and lending at an affordable level. In credit terms, transactional data is classified as 'Alternative' data, referring to information that has not historically been part of a credit report. This data provides additional insight into both thick-file and thin-file consumers, to drive greater visibility and transparency about their identity and payment behaviours. For sole traders and small businesses, where a lack of data poses a real challenge, transactional data can facilitate a multi-dimensional view. Alternative data sources are growing in importance due to the rapid and ongoing evolution in the way consumers and businesses manage their money, transactions and credit.

Open Banking can unlock insight into consumers and businesses that can be used to better understand financial health and spend behaviour.



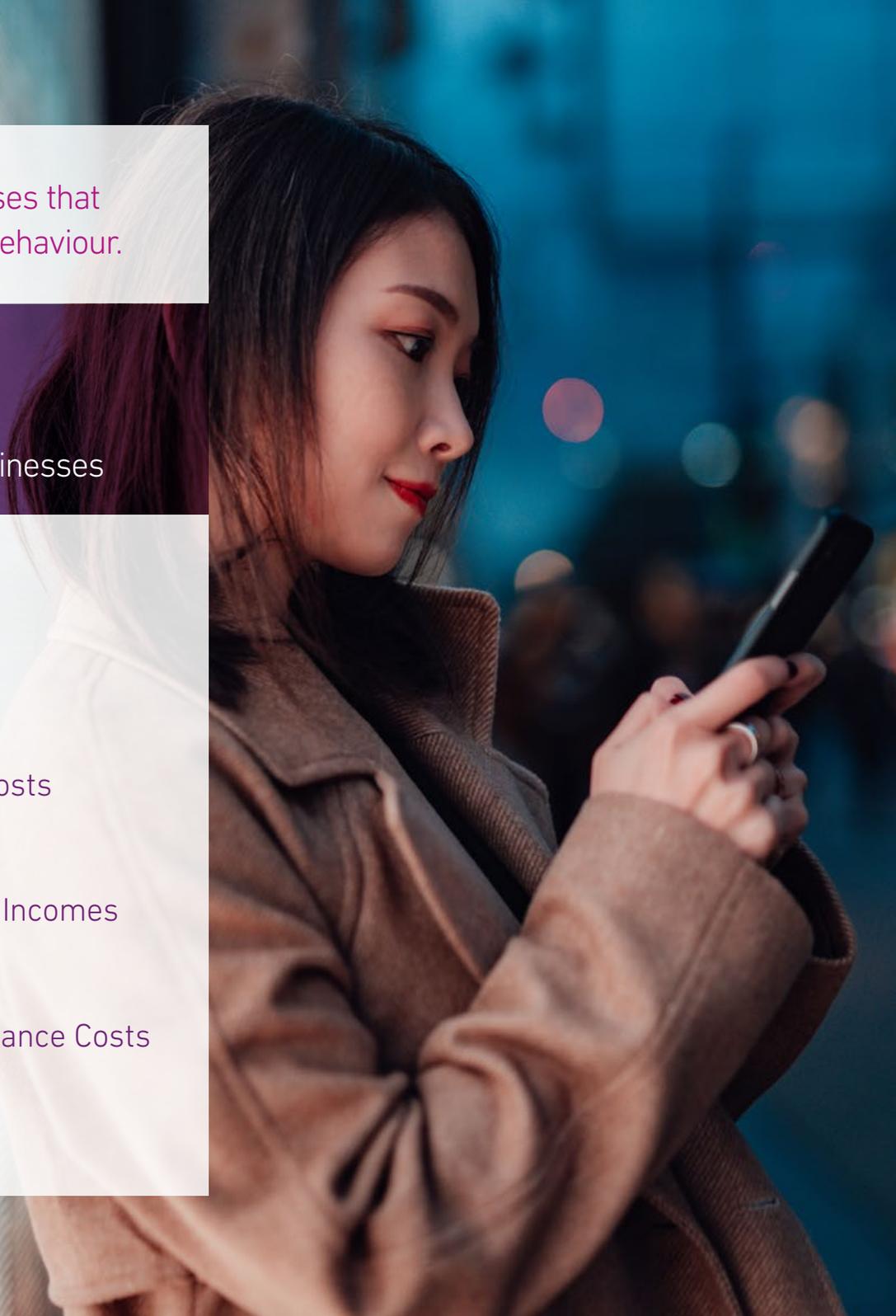
Consumers



Small/Medium Businesses

-  Income/Salary
-  Banking Related Expenses
-  Lifestyle Expenses
-  Family Spend Commitments
-  Retail Spend
-  Savings
-  Bank Transfer Receipts
-  Insurance Expenses
-  Financial/Legal Services

-  Sales
-  Cost of goods sold
-  Operational Costs
-  Wages and Staff Costs
-  Loan Receipt
-  Finance Costs and Incomes
-  Tax Expenses
-  Facilities and Insurance Costs
-  Dividends



Transactional data is particularly valuable for two main reasons

“ The ongoing assessment of creditworthiness and affordability, not just at origination but across the customer lifecycle, is quickly becoming a key requirement in regulated markets. This makes transactional data even more important as it provides greater level of insight to assess how these change over time.

Francesco Nazzarri

Managing Director, Commercial Strategy & Investments



GRANULARITY

By consenting to share their transactional information, customers can provide detailed income and expenditure information to lenders. This gives businesses access to a range of different types of data that can be interpreted for use in credit risk and affordability assessments. It includes things like salary, travel costs, loan commitments, but also 'lifestyle data' – such as discretionary spend on leisure and shopping. This information is important because it provides historical depth to more accurately assess financial health and likelihood of default. Transactional data must first be categorised into income and expenditure blocks where it can then be used by analytics teams to improve models and scores. The taxonomies can be specifically designed for data modelling and the result is better operational performance KPIs for creditworthiness and affordability/cashflow assessments.



RECENCY

Transactional data also offers the advantage of being fresher than many traditional data sources. This recency of information provides greater visibility of 'data events', such as the sudden use of overdraft or additional loan commitment, that allows

greater insight into the true affordability and credit risk of an applicant. In addition, historical transactional data can be accessed and assessed to understand the recurrency of expenses over time, providing greater depth of spending behaviour. This insight can be integrated into models to provide greater confidence in the decisioning strategy. It also allows businesses to quickly see changes in economic trends. For example, by using transactional data to inform ongoing affordability and cashflow metrics, and analysing them frequently for fluctuations, warning flags and signs of vulnerability, you can understand behavioural changes faster and take appropriate action.

To understand changes to a customer's financial capacity, it's now critically important that businesses can recognise signals from their data, quickly and effectively. Being able to determine which patterns are common for each individual, and which are indicators of impending stress, will help you manage your customers and wider portfolio far better.

By integrating high quality insights from transactional data, businesses can determine patterns and react more quickly to individual circumstances.

Market Readiness and Investment Priorities

Developing markets, developing use cases

Some markets are more mature than others when it comes to framework and regulation. For the businesses surveyed, respondents were mainly split in their perception. 48% believe that the market is still developing with gaps in the regulatory guidance, resulting in progress being driven by participants. 33% feel that the market is advanced but multiple API standards are used, which can add complexity. Only 2% believe the market is mature with unified API standards. The remaining 17% believe their market is infant and lacks market interest.

The research found a range of perspectives, with most respondents believing that PSD2 is still in the developmental phase and yet to hit

maturity, with more work needed from regulators to provide a better framework and guidance to participants. This 'developmental phase' is apparent given the lack of maturity in terms of the exploration of use cases for transactional data. Some clients are yet to explore the opportunity to use transactional data to improve analytical models and scorecards. This is reflected in the fact 49% of businesses are planning to invest in the next 12 months or further in the future. However, many are already using this data to develop business insights that help them better understand credit risk and affordability and in doing so can better tailor their service to customers whilst improving overall profitability.

What is your perception of the PSD2 (Open Banking) readiness in your market?

48%

Developing market with need for better framework: Incomplete regulatory guidance, PSD2 is driven by market participants

33%

Advanced but complex market: comprehensive regulatory guidance, but multiple API standards used

17%

Infant market: not adequately regulated; lack of market interest, which creates uncertainty

2%

Mature market: synchronised regulation with unified API standards



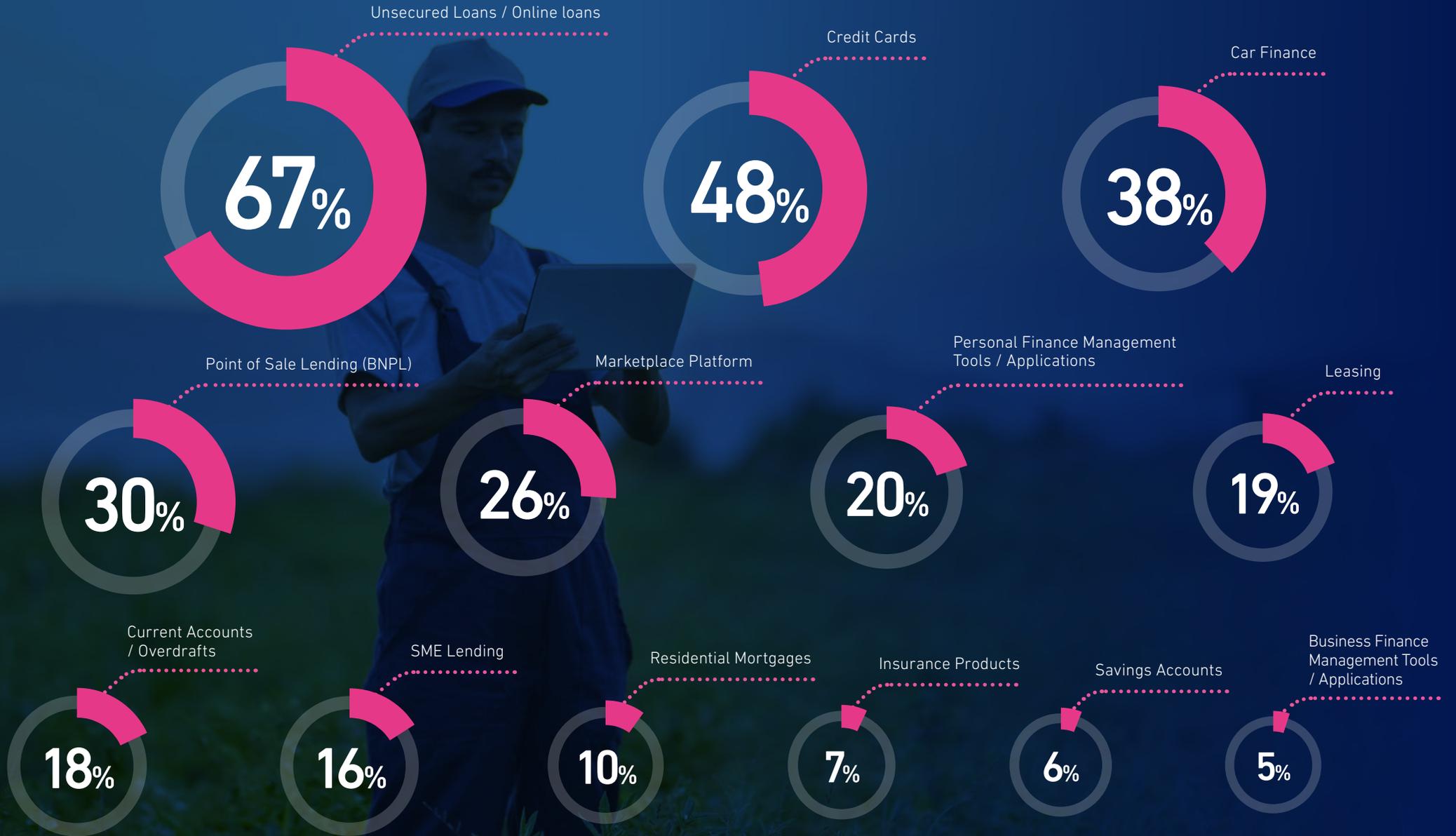


What improvements can we expect?

The PSD2 ecosystem is lacking standardization. As a result, the standards have been adopted by businesses in different ways. The data quality varies within the APIs – for example, some banks include the Account Holder name in the API which supports the identity verification use case, but many banks do not, despite the recommendation from the European Banking Authority (EBA). The level of access has also been interpreted differently, with some banks allowing 24 months of historical transaction access whereas others as little as 6 months. This has an impact on scores and models with greater historical depth used to generate more accurate scores for originations.

Some banks have implemented multiple Strong Customer Authentication (SCA) checks that impact the customer experience and slows the process down. All of this brings inconsistency, with the regulators actively looking at ways to address this. In terms of improvements, it is expected that the EBA will start to apply more pressure so that businesses will adapt and improve the quality of APIs, with potential sanctions enforced to ensure consistent application of the standards. With the number of Open Banking use cases increasing, this tighter governance is a positive step to ensure a common approach and maximum benefit for those involved.

What types of propositions do you plan to enhance/launch using PSD2 (Open Banking) Account Information Services?



Improved lending strategy

For originations, the most important thing from a lender perspective is accuracy/predictivity and speed of decision.

Transactional insight can help in both these areas, so it is no surprise that respondents have chosen this as the biggest opportunity for Open Banking. It's also not surprising that the product focus areas are those where a fast and effective onboarding process is critical – loans and credit cards. These products are available to consumers in an increasingly competitive and crowded online marketplace, so any advantage that individual businesses can unlock could have a big impact on commercial performance.



DECISION ACCURACY

Transactional data provides a deeper understanding into a customer's financial behaviour in real-time so lenders can understand how much customers can afford to borrow and what they are able to repay. With transactional data integrated into analytical models and scorecards, businesses can assess affordability and cashflow more accurately or with greater predictivity. This means greater confidence in the future prediction around affordability and probability of default.

Respondents stated that **"Increased decision accuracy from better data"** is the single biggest opportunity from PSD2/ Open Banking data, followed by **"better customer experience"**. By incorporating transactional data into models, businesses can strengthen cut-off policies for accept and reject decisions, in effect being able to widen acceptance without affecting the risk appetite. For sole traders and small businesses, transactional data can improve decision accuracy by providing more indicators for operational cashflow, gross sales margin or the debt service coverage ratio to understand if a company is expected to grow or decelerate.



Please assess the importance of PSD2 (Open Banking) data for improving or implementing each of the following processes in your business

Increased decision accuracy from better data



Better customer experience



Improved portfolio segmentation and risk analysis



Faster customer onboarding

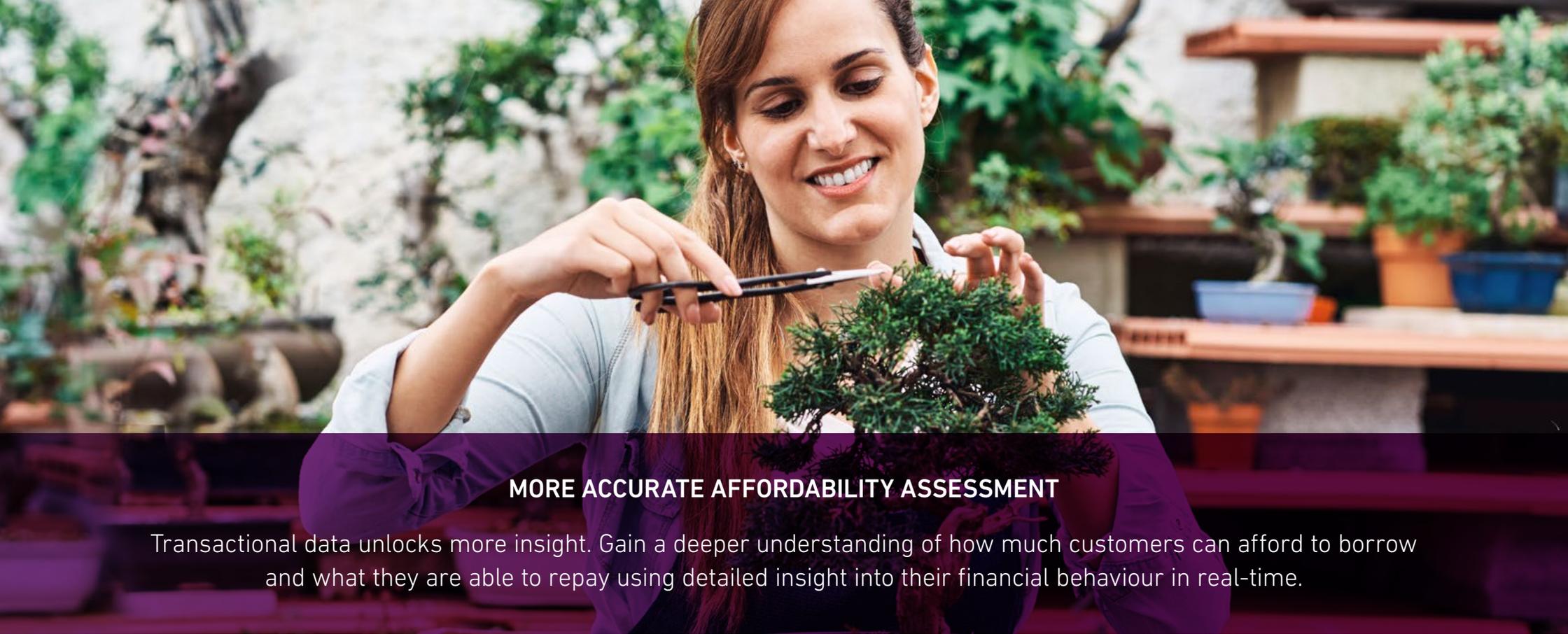


Growth from widening eligibility of prospects



Reduced operational costs





MORE ACCURATE AFFORDABILITY ASSESSMENT

Transactional data unlocks more insight. Gain a deeper understanding of how much customers can afford to borrow and what they are able to repay using detailed insight into their financial behaviour in real-time.



IMPROVED ACCURACY

More granular and comprehensive data means greater accuracy of credit decisions. Understand affordability, liquidity risk, behaviour across your portfolio, and better forecast affordability and cashflow



BOOSTED SCORES

Transactional data can be used to develop a standalone affordability assessment or it can significantly enhance the performance of models when blended with other data (e.g. GINI boost)



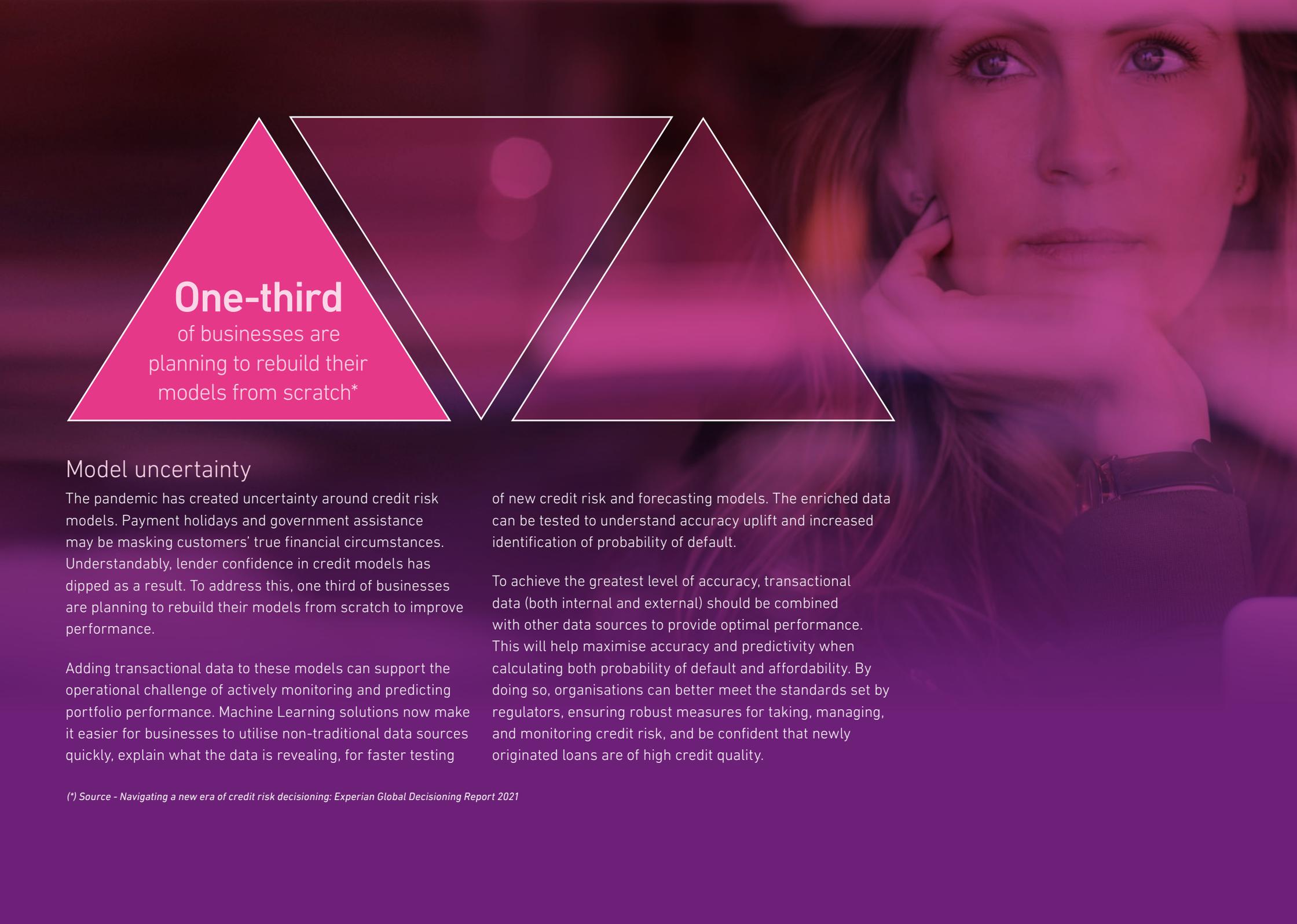
CURRENT VIEW

Near real-time profile of customers compared to traditional models often based on 2 to 3 years old data, giving a more up to date and accurate view of income/expenditure



GREATER PERSONALISATION

Enriched profiling allows you to provide customers with personalised products and services suitable to their needs and financial situation



One-third
of businesses are
planning to rebuild their
models from scratch*

Model uncertainty

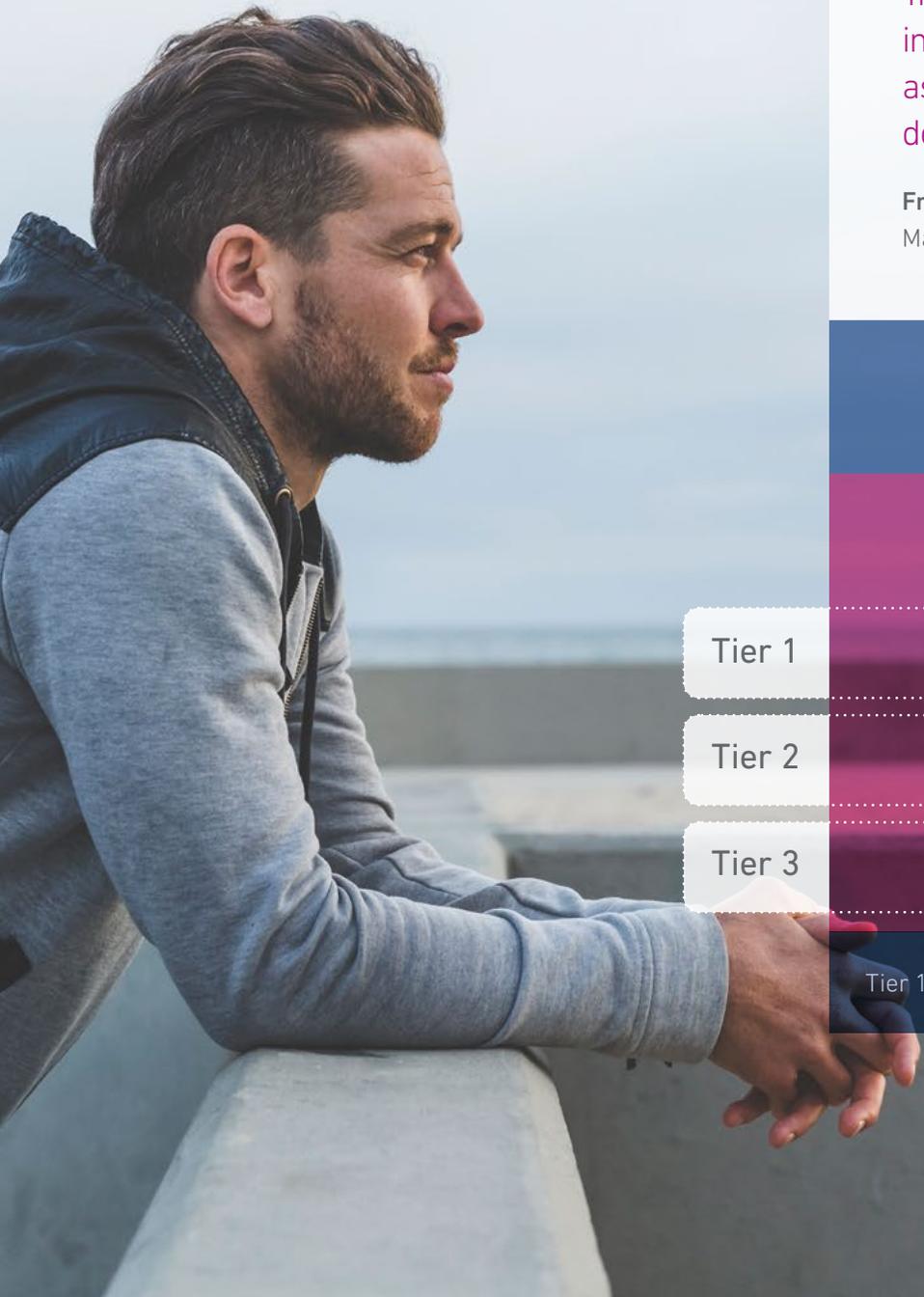
The pandemic has created uncertainty around credit risk models. Payment holidays and government assistance may be masking customers' true financial circumstances. Understandably, lender confidence in credit models has dipped as a result. To address this, one third of businesses are planning to rebuild their models from scratch to improve performance.

Adding transactional data to these models can support the operational challenge of actively monitoring and predicting portfolio performance. Machine Learning solutions now make it easier for businesses to utilise non-traditional data sources quickly, explain what the data is revealing, for faster testing

of new credit risk and forecasting models. The enriched data can be tested to understand accuracy uplift and increased identification of probability of default.

To achieve the greatest level of accuracy, transactional data (both internal and external) should be combined with other data sources to provide optimal performance. This will help maximise accuracy and predictivity when calculating both probability of default and affordability. By doing so, organisations can better meet the standards set by regulators, ensuring robust measures for taking, managing, and monitoring credit risk, and be confident that newly originated loans are of high credit quality.

(*) Source - Navigating a new era of credit risk decisioning: Experian Global Decisioning Report 2021



Transactional data provides the ability to detect a change in regularity of the income and when combined with macro-economic forecasting of events, such as a rise in inflation or change in unemployment rate, means businesses can detect vulnerability earlier and prevent delinquencies.

Francesco Nazzari

Managing Director, Commercial Strategy & Investments

Business confidence in consumer credit risk management analytics models dropped over the past year

	June 2020	January 2021	% point change from June 2020 to January 2021
Tier 1	74%	65%	-9%
Tier 2	66%	60%	-6%
Tier 3	72%	57%	-15%

Tier 1 businesses have greater than **\$1B in revenue**, Tier 2 have **\$50M to \$999M**, and Tier 3 **\$10M to \$49M**

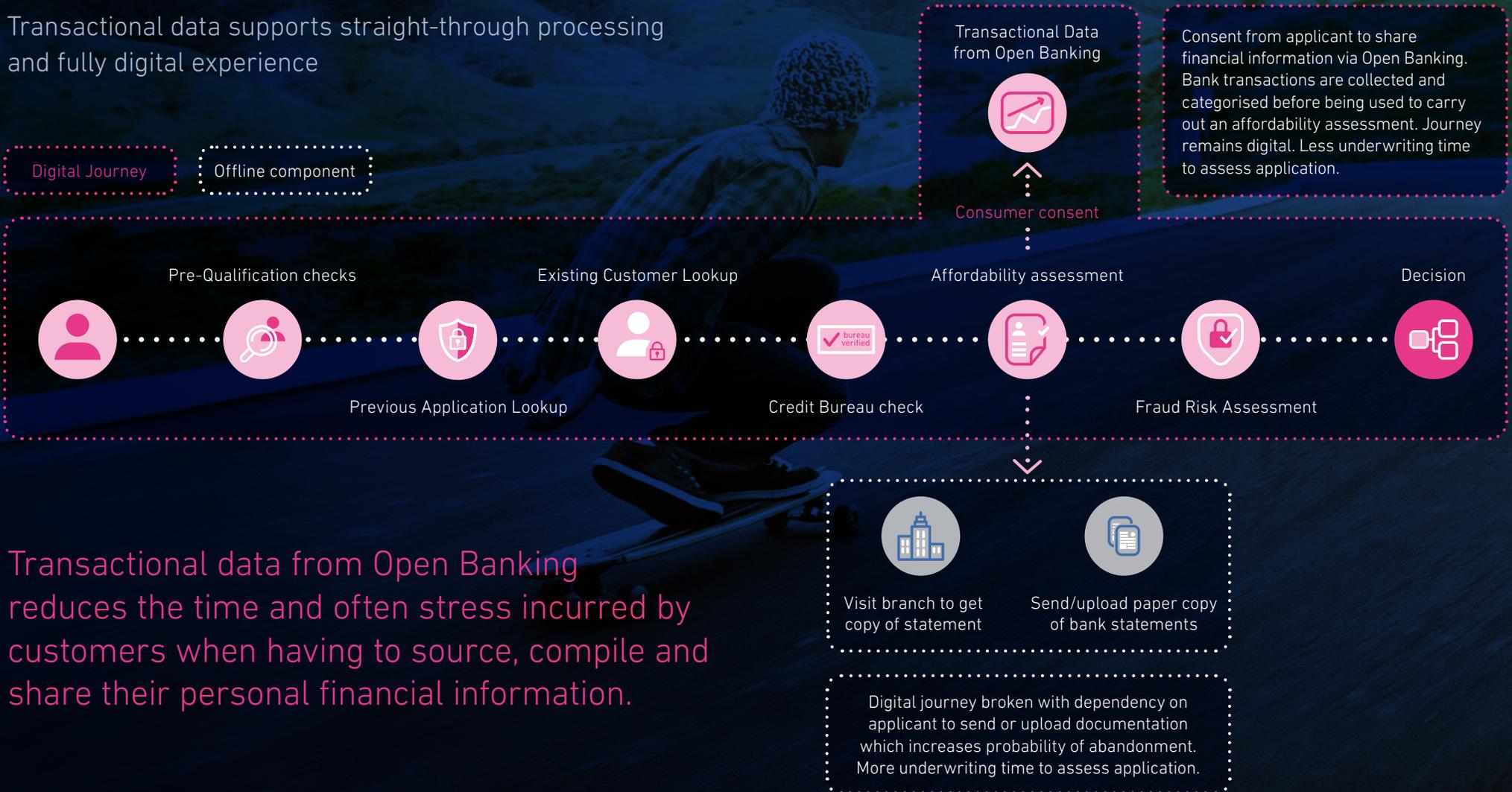
Source: Navigating a new era of credit risk decisioning: Experian Global Decisioning Report 2021

TIME TO DECISION

Respondents rated “**Faster customer onboarding**” as another important opportunity area for Open Banking. The speed of decision is becoming a battleground within an increasingly competitive digital environment. Customers expect a fast and efficient onboarding journey.

Failure here, and businesses will see customers drop off or abandon the application and go elsewhere. That’s why more and more lenders are focusing on ‘time to decision’ - which is the time it takes for an applicant to apply and receive a decision on whether or not they are going to be accepted for the product or service.

Transactional data supports straight-through processing and fully digital experience



Transactional data from Open Banking reduces the time and often stress incurred by customers when having to source, compile and share their personal financial information.

Increasing straight-through applications

If businesses can demonstrate the value exchange to consumers, they'll become more confident sharing their data. One of the big consumer benefits is the simplification of the application process. Even with an Open Banking consent journey added to the application journey, the process of collecting and submitting bank statements is a lot simpler via PSD2 – saving the customer time. The customer journey remains digital without a 'break' in connection that would occur if the applicant is required to source and compile bank statement information manually. In addition, transactional data can help bring greater trust and confidence in models and scorecards that create more opportunity to automate decisioning, without the need for manual underwriting for a certain cases. For businesses, this means a faster time to decision and less operational cost associated with underwriting activity.

The higher the volume of straight-through applications, the better the time to decision and customer conversion. To support straight through processing, identity verification is also very important. By connecting to the banking app of a customer you can also unlock the ability to verify identity, such as matching the IBAN (Bank Account Number) with the account holder, helping to prove that they are who they say they are. From a security perspective, the user must also pass the bank's own authentication process, making it harder for fraudulent access.



Digital customer experience is a focus for most organisations. Open Banking can simplify the application process for the customer, meaning they no longer have to worry about collecting proof of income or uploading a salary slip for employment verification. It can be done seamlessly. One Experian client has now automated data collection and the time taken to collect customer financial information has reduced by 80%. That time could be the difference between being able to acquire the customer or not.

Francesco Nazzarri - Managing Director, Commercial Strategy & Investments



What about potential barriers?

58% of respondents cited slow customer adoption as a major consideration that could deter investment or implementation of PSD2 (Open Banking) services. However, 91% of the businesses surveyed either have invested or plan to invest in Open Banking services, so what this question really highlights is the biggest overall area of concern for businesses. The concern around consent is understandable, especially given the fact that the market in Europe needs time to mature, with consumer confidence key to adoption. Currently, the level of maturity differs greatly between countries within the region. However, there is reason to be optimistic.

Consumer adoption is growing and the use of Open Banking has been accelerated by the pandemic, driven by the convenience of a digital experience with physical branches and stores closed. Experian has seen a significant increase in the number of data sharing requests on its Open Data Platform. In the UK alone, the number of people choosing to share their data through open banking has tripled since the start of the Covid-19 pandemic, to 188 million data sharing requests in February 2021 - up from 47 million in February 2020. The UK had a head start in Open Banking development, but other European markets are now showing an increase in adoption from consumers and businesses, and this is expected to continue to gather pace.

What are the major considerations that could deter your decision when investing in / implementing PSD2 (Open Banking) Account Information Services?



The future is fast approaching

Open Banking is growing rapidly in the UK with other European markets gathering pace expected to continue to gather pace.

Source: Experian Data – UK business



The number of people choosing to share their data through open banking has **tripled** since the start of the Covid-19 pandemic



Experian's Open Data Platform saw more than 188 million data sharing requests (up from 47 million in February 2020)



57% of lenders have adopted open banking technology in the last 12 months





BEYOND ORIGINATIONS

Using Transactional Data Across the Lifecycle

04

Respondents stated that the primary focus area for the use of Open Banking data was the originations process. That said, the findings also indicated that businesses are exploring the use of transactional data to support operations across the lifecycle into customer management and collections. With the European Banking Authority (EBA) new Loan Origination and Monitoring Guidelines requiring action to assess creditworthiness and affordability not just at loan origination but across the lifetime of a loan, some businesses are already exploring how transactional insight can be used to better assess and monitor a customer's financial circumstances on ongoing basis.

will be critical not only in identifying financial stress – and therefore pre-delinquency – but also to ensure adequate monitoring of the borrowers' ability to repay as part of regulatory guidance.

This of course translates into better operational performance. Analysis of income and expenditure from transactional data improves indicators of financial distress and enables earlier intervention and more accurate remedial action to be taken. As a result, it increases the likelihood of the customer meeting their obligations and puts the



We believe that the most effective ongoing scenario modelling will incorporate transactional data to deliver greater depth of insights to forecast more accurately, alongside analytical models that help understand and test future changes.

Francesco Nazzarri - Managing Director, Commercial Strategy & Investments

To achieve the best possible customer experience and maintain proactive regulatory compliance, businesses can't rely solely on affordability or cashflow assessment at the point of application. It is important to put in place a strategy that allows for the ability to regularly assess whether lending will be affordable for customers as their circumstances evolve over time. Continuous affordability and cashflow monitoring

organisation ahead of other potential creditors. Transactional insights can help in the development of payment plans and forbearance offers within mid and late stage collections. So, although originations is understandably a key focus, businesses are also looking to open up other opportunities and potential benefits across the customer lifecycle.

CASE EXAMPLE

How transactional insights can support earlier collections diagnostics and prevention

As the use cases develop, more businesses will start to use transactional insight to support customer management and collections, with data used to create triggers and alerts that help with proactive customer management and risk monitoring. For example, transactional data can enhance Early Warning Indicators (EWIs), helping signal customers that are at a higher risk of falling into debt and therefore allow businesses to take fast and appropriate action to minimise losses. By regularly assessing financial health and signs of vulnerability, businesses can make fairer and more informed decisions in-line with regulatory guidelines.

Transactional data makes it easier to identify signs of stress through an aggregated view, for example:

- ▶ A fall in income combined with a shift in spending to high priority items
- ▶ New or unauthorised overdraft use
- ▶ Greater reliance on savings
- ▶ An appetite for high cost loans

Income and expenditure assessments have always been a key part of the collections process. And with many lenders either seeing or anticipating increased volumes rolling into collections due to the Covid-19 pandemic, it can make it more difficult to identify certain types of vulnerability, putting pressure on debt repayment services.

By automating the capture of income and expenditure, lenders can take advantage of the insights to better support and protect customers. It can be used to personalise debt repayment plans – re-assessing an individual's situation to see how much they are left with each month to pay existing debt or existing commitments without needing to borrow further. Repayment strategies can then be designed with the best date to charge an instalment, calculating when the customer is likely to have funds to be able to pay. This gives businesses an accurate view of an individual's ability to pay therefore enabling them to treat customers fairly and responsibly.



Early collections diagnostics with personalised action



More accurate vulnerability detection



Increased collections payment plan accuracy



Enhanced forbearance management



Samile gives ongoing consent to share transactional data



Data extraction

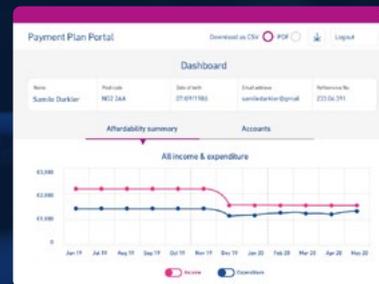


MACHINE LEARNING POWERED CATEGORISATION



Detailed picture of Samile's affordability, financial circumstances and credit commitments in reveals declining affordability which may impact her ability to keep up with existing loan repayments.

INSIGHT TO ACTION



Insight is used to create a new payment plan to help prevent default. Credit decision policy rules are used to offer Samile a new affordable payment plan (or a payment break) based on her specific financial circumstances.

PERSONALISED PLAN



Samile agrees to her new personalised repayment schedule and her plan is passed across to operations to monitor her repayments.

Seizing the opportunity

Most businesses have invested or plan to invest in Open Banking. Much of that investment will be spread across the various elements of the value chain from consent and connectivity to categorisation and analytical modelling. Respondents will focus on origination lending but will also be looking to see how transactional data can improve effectiveness across the lifecycle. In most cases, businesses plan to develop capabilities in partnership with external providers, in a hybrid model. For example, 48% will use partner expertise to support their teams in the enhancement of analytics and scoring. The support will be welcome in helping to incrementally improve existing models and scores.

Businesses that have already invested in core Open Banking technology and services will be able to benefit more easily from new use cases as they evolve, improving the overall return on investment.

What are your business investment plans for PSD2 (Open Banking)?

We have invested already



We plan to invest in the next 12 months



We have plans to invest in the future (>12 months)



We have no plans to invest



49%
of businesses plan to invest in PSD2 (Open Banking) in the future

How do you plan to leverage/develop the following capabilities to provide PSD2 (Open Banking) services?

	Develop In-House	External Provider	Hybrid Model	Not Required
API connectivity	19%	35%	36%	10%
Data consent	21%	32%	38%	9%
Data aggregation	13%	33%	43%	11%
Data categorization	11%	34%	45%	10%
Enhanced analytics and scoring	29%	19%	48%	4%
Customer management dashboard	36%	17%	27%	20%
Personal Finance Management / Business Finance Management	19%	21%	27%	33%

Summary

Covid-19 has made it much harder to understand the true picture of financial health for consumers and small to medium businesses. As trusted qualification tools become less reliable, businesses are looking to utilise Open Banking to develop far more in-depth income and expenditure checks so they can lend with greater confidence and less risk. What's needed now is the ability to assess both historical creditworthiness and ongoing affordability or cashflow monitoring – from onboarding, right throughout the customer's relationship with the lender. Having a credit scoring framework you can trust is critical. The coronavirus crisis demands we look more deeply at customers' finances to understand true affordability – not just willingness to pay, but their actual daily, weekly and monthly income, outgoings, commitments, living costs and breathing room.

Prioritising financial health as a strategy can empower both businesses and customers by giving them a better understanding of what's realistic and affordable, up front. Rather than just closing doors for people, transactional data provides more insight into what's possible and affordable for each individual customer – setting them on a sustainable, healthy path to stronger finances. Get this right and it will open the door to increased profitability and happier customers.

It's time to

Be More
OPEN



About Experian

Experian helps you grow your business by making fast, accurate lending decisions with confidence. Gain clarity through data and analytics, supporting you with expertise to optimise performance whilst ensuring fair and responsible lending.

We'll help you maximise effectiveness by enabling you to:



Access best-in-class data to gain in-depth information about customers and their risk profile



Model and scorecard development helping you make more accurate decisions



Monitor models and scenarios in real time enabling you to adapt in an instant



Ensure regulatory compliance with model monitoring and validation requirements



Turn insight into action, accelerate deployment of models into live operational environment



Experian has a range of Open Banking services.

To find out more contact your local Experian office or visit:

[experianacademy.com](https://www.experianacademy.com)

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