

OPENING MINDS TO OPEN BANKING

**Building acceptance for Open Banking
among Nordic consumers**

NORDIC CONSUMER STUDY ON OPEN BANKING



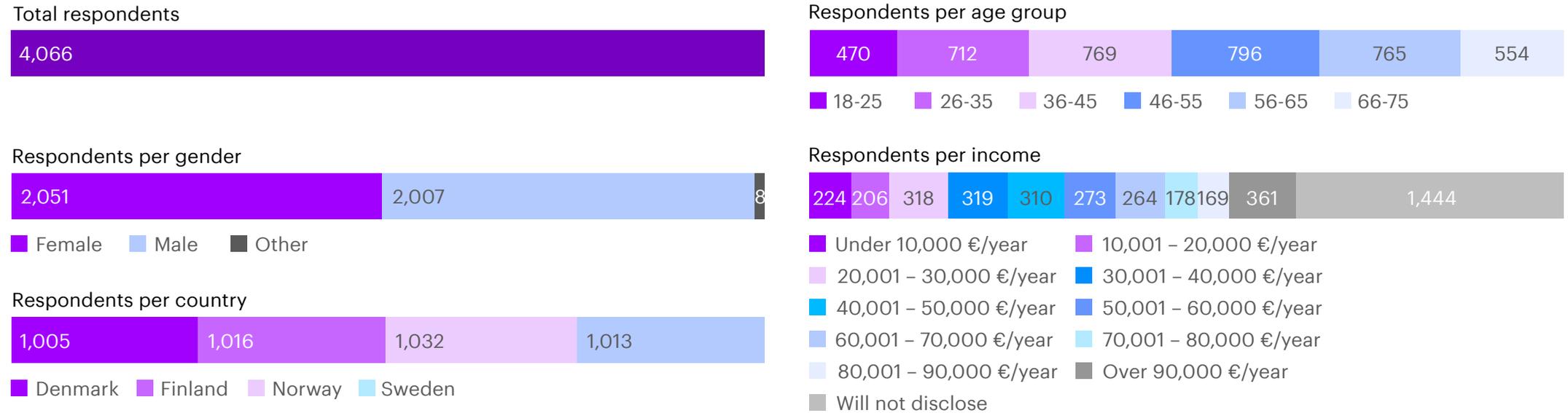
Open Banking—which has been described as a revolution transforming banking—is almost upon us. The transformation heralded by Open Banking is expected to deliver new ways of doing business, with a broad range of options and added value for consumers. However, our survey of Nordic consumers shows banks have a long way to go in explaining the benefits of Open Banking and in obtaining buy-in from current and potential consumers.

The European Union's second Payment Services Directive (PSD2) is designed to level the retail banking playing field in favor of consumers, in part by requiring banks to provide access to data on payments and information services via application programming interfaces (APIs) to other companies with whom consumers may want to do business.

With PSD2 in transition (a full-blown go-live is planned for September 2019, including open APIs with strong authentication measures) we wanted to find out how Nordic consumers see Open Banking. How much do they know about the concept, and, if they are familiar with the idea of Open Banking, if they are familiar with the idea of Open Banking, are they aware of the choices it brings? Are the banks engaging with their customers about Open Banking and are consumers getting excited about these new prospects?

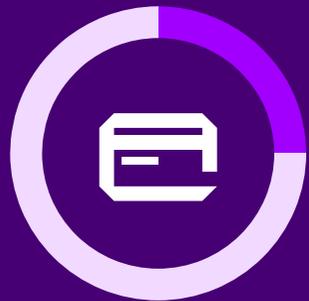
To find out what consumers know—and what they want—we asked 4,000 consumers in four Nordic countries (Norway, Sweden, Denmark and Finland) what they know about Open Banking, how they feel about the new choices that it presents and, as a result, what they want from their own banks.

Figure 1: Survey Demographics



LOW LEVELS OF UNDERSTANDING AND ENGAGEMENT

Across countries, age groups and other segments the answer was almost unanimous: consumers don't know much about Open Banking, and are unsure about what they do know. For example:



Only **one-fourth** (25 percent) of Nordic consumers are aware of PSD2 and its Account Information or Payment Initiation Services.



More than **80 percent** see at least some risks in sharing their bank account information or in giving institutions the right to initiate payments.



At most, **40 percent** believed that the specified features facilitated by Open Banking would be useful to them.

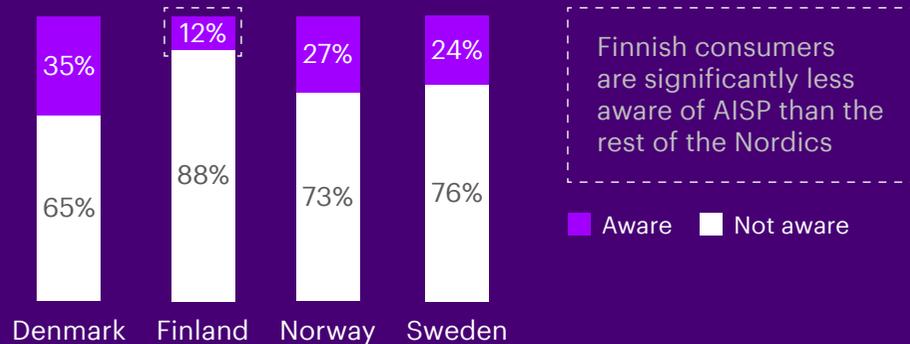
There were some country-specific differences (Danes are far more aware of the change than others; Finns are trailing) and distinctions by age group (younger consumers are more aware of and more interested in Open Banking).

However, in the big picture, consumer awareness of and enthusiasm about Open Banking is low.

Figure 2: Many of the banking services are subject to change due to new regulation. Which of the following changes are you aware of?

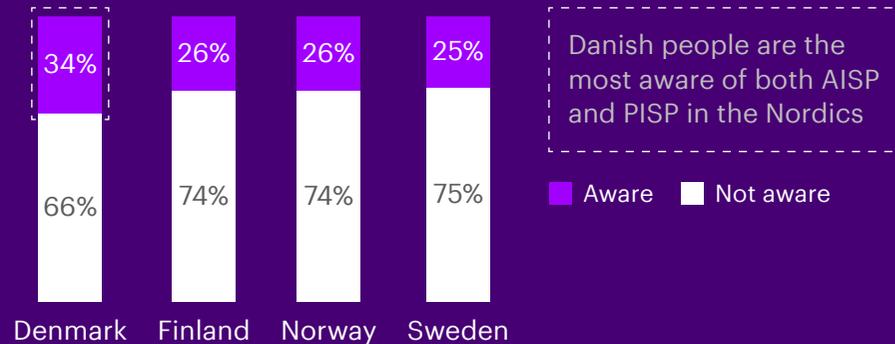
Account Information Service Provider (AISP)

Ability to grant authorized companies access to balance, account and payment information on your bank account, e.g. to provide an analysis or another service.



Payment Information Service Provider (PISP)

Ability to grant authorized companies the rights to make payments directly from your bank account while on their apps and websites to pay for goods and services without using your web banking codes after the initial registration.



CREATING A CONSUMER APPETITE

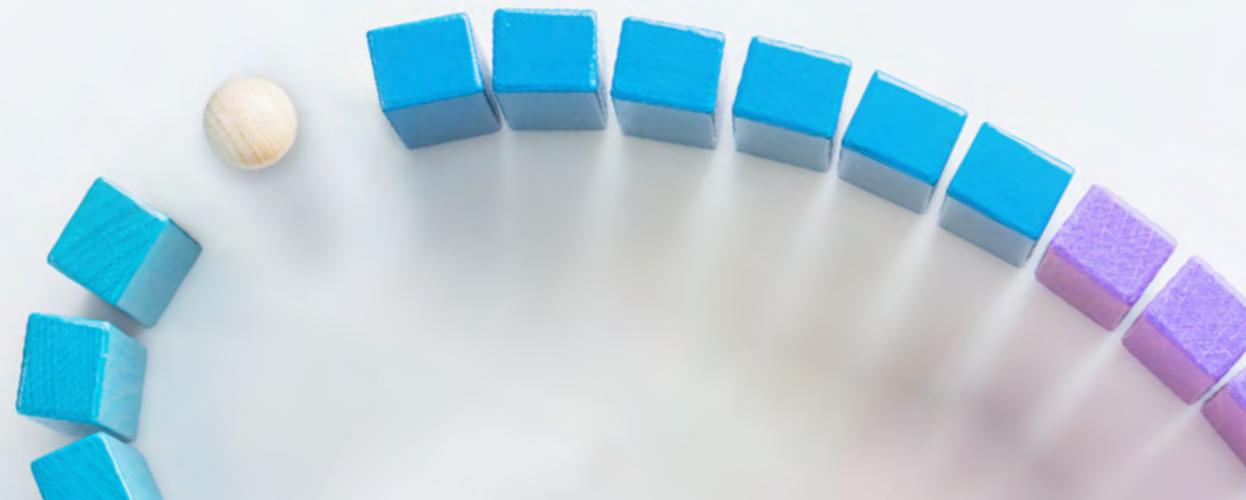
Given the lack of customers' comprehension of Open Banking, should banks continue to undertake initiatives for building consumer awareness and acceptance? We believe that despite consumers' initial reluctance, once they understand the potential benefits of Open Banking, there will be more excitement around possible new offerings. Based on the research findings:

- Any awareness of the upcoming changes in regulations roughly doubles the interest in specified new services, indicating the potential for a positive spiral once the services are out. For example, 39 percent of consumers who knew about PSD2 and payment initiation services were willing to allow domestic online stores to initiate payments, compared to only 19 percent of consumers who did not know what PSD2 and payment initiation are.
- The most positive reception is for very simple use cases that consumers can easily imagine. We conclude that more complex and more beneficial services may be well received once consumers see them in action.

- Ninety-five percent of Nordic respondents believe that some measures can be taken to address their security concerns.

In short, by taking the aforementioned steps—spreading awareness, showing tangible benefits and bolstering security—consumers will ultimately become receptive to Open Banking and hungry for more.

The study shows that, despite consumers' initial reluctance, there are multiple reasons for optimism.



GETTING STARTED— BEGIN WITH BASIC SERVICES

Even with the low level of awareness, Nordic consumers are interested in the products and services which will be made possible due to PSD2 and Open Banking and impact both retail and SME consumers.

- Overall, consumers express interest toward basic payments related services, such as paying directly from a bank account within an online store or getting instant credit approval for a purchase.
- Value is seen also in basic information services, like seeing transaction history, aggregated bank account information from several banks, or bank account balance while shopping in an online store. Interestingly, these money management features facilitated by PSD2 are more interesting to the younger population and to households with lower incomes.
- The surveyed consumers are also very positive towards simple recommendations on their finances, such as those related to foreign exchange transactions and credit rates.

Banks can create opportunities by leveraging PSD2 and Open Banking initially by offering financial management services and by increasing visibility into household finances, especially for younger population and to households with lower incomes.

BUILD ON TRUST

Brands already associated with handling payment information seem to be in a better position to attract consumers to open banking offerings.

- Consumers see payment companies (Klarna Bank AB, PayPal Holdings, Inc) and domestic brands overall as more trusted players in this field. They also trust mobile phone manufacturers' payment applications (ApplePay, SamsungPay)
- Banks are trusted, but they come in after payment companies and mobile phone manufacturers, although ahead of social media companies.
- Non-Nordic online stores and mobile apps trail banks in terms of trust among Nordic consumers.

These are good signs for Nordic banks. Their well-known local brands and experience with handling monetary transactions make it easier for them to gain consumers' trust.

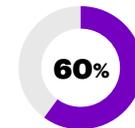
LET THEM KNOW YOU ARE COMING

Nordic banks have been slow in educating consumers about the value proposition and benefits of PSD2 and Open Banking. Currently, consumers show indifference to changes in banking regulations (at least, until those regulations affect them directly) due to a lack of educational activities. To realize a return on their investments in PSD2 and Open Banking initiatives, banks will need to focus on and direct their marketing and promotional activities to consumers who will benefit from these changes.

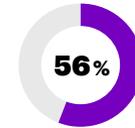
To gain market share, Nordic banks should increase consumers' awareness of the coming directive and educate consumers on the benefits of Open Banking.

CHANGE THE RISK PERCEPTION

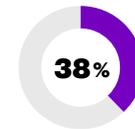
Survey respondents raised information security risks as prominent obstacles to using Open Banking services. The good news is that consumers seem to value very simple solutions to increase perceived levels of safety:



Sixty percent think that text (SMS) verification messages would help reduce their security concerns.



Fifty-six percent would like to have a web service to review and decide which services can access their bank account information or initiate payments on their behalf.



Thirty-eight percent of respondents preferred biometric identification, which has been described as a consumer friendly way to conduct two-factor authentication.

Consumers want assurance that banks take security seriously, and they want some level of control. However, they do not feel that complicated solutions are necessary to protect their accounts and data.

STEADY RISE OF OPEN BANKING

Based on the survey, we expect a slow uptake initially in late 2019 of Nordics to use PSD2-related services and then a steady increase in services which are easy to understand, provide tangible benefits and are relevant to consumers—such as paying in an online store or managing personal finances.

Trusted and well-known Nordic consumer brands have a considerable advantage in that they have established the trust required to overcome Nordic consumers' security concerns. Banks should begin developing some basic PSD2-related services that are relevant to consumers, easy to use and highly secure, and begin sending strong focused messages about their future initiatives.

As awareness grows, basic services can function as a platform for the development and launch of more sophisticated and specialized offerings.



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CONCLUSION

We believe that Open Banking will ultimately lead to big changes for Nordic consumers, but the rate of change—and the direction those changes take—is still to be seen.

According to Amara's law, we tend to overestimate the effect of a technology in the short run and underestimate the effect in the long run, and it is very plausible that this applies to Open Banking.

As with all large market changes, the initial uptake could be slow. There may only be a few services, with younger consumers and tech enthusiasts first in line to use them.

However, over time, more and more services should appear on the market, until Open Banking is suddenly part of everyday life for Nordic consumers. Banks that approach PSD2 as an opportunity for profitable growth would be able to retain and see gains in their consumer base over the long run.

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