

WHITEPAPER

Open Banking for UK SMEs

How to maximise opportunities
and allay fears

Headline findings

Open Banking is one of a package of reforms introduced by the CMA in order to drive more competition in the retail and business banking market. Open Banking will enable personal and small business customers to securely share their data with other banks and third parties, allowing them to compare banking products on the basis of their own requirements and to manage their accounts without having to use their bank.

In order to understand businesses' attitudes and potential barriers to Open Banking, Charterhouse Research conducted some qualitative depth interviews among SMEs in Spring 2018. This was to complement a large quantitative survey run last summer.

Research from Charterhouse has found that many businesses will be receptive to the services that Open Banking enables but it is likely to be a slow burn.

Awareness of the concept is superficial and businesses have not had sufficient exposure to tangible propositions in order for them to see the potential and advantages.

Once potential propositions are explained, there is a good degree of positive response. However, there are also some very clear barriers that will need to be addressed, most notably their security concerns. It must be made clear that the customer is in control and it is an 'opt-in' function and it will not lead to just unwanted promotions.

A number of early adopters would try the services but others will wait to have any fears allayed before taking up more tried and tested propositions.

Detailed findings of the qualitative research

There is superficial awareness of the Open Banking concept among SMEs, but limited real knowledge.

Among the businesses we spoke to who had heard of the broad concept of Open Banking, few had any real understanding of how this might translate into beneficial propositions for SMEs. Far more had heard about Open Banking through the media (mainly BBC News, Radio 4 MoneyBox and the broadsheets), than directly from their business bank.

“I’ve heard the term but I had no understanding of what it meant – and still don’t, frankly – and even less understanding of how it might be relevant to me.”

Small business

“Only what I saw on BBC News, and then I did a bit of research myself online. It’s basically shared data, so moving between banks would be a lot easier.”

Recent start-up

Greater choice and increased competition was recognised as the greatest potential benefit.

“Anything that makes banking more transparent and easier to compare must be good for the client and is a challenge for the banks as it increases competition. Banks have run on inertia but now it will be more proactive.”

Medium business

But there were barriers and fears that need to be allayed.

Questions and concerns were raised over the ‘third parties’ and potential lack of control over who has access to your data/account. Even the word ‘open’ was not right in the context of banking. By far the largest concern is cyber and data security, with data leaks and hacking being a topical and concerning issue.

“I have had a letter from my bank explaining that. Well, to be honest it concerns me, because to me it sounds like they’re giving our details away to a third party, which I wasn’t very impressed by.” *Small businesses*

“I saw something in the news recently but I don’t remember the specifics of it. I remember thinking, I don’t want that thank you very much! I don’t like the idea of third parties having access to my account.” *Start-up*

“The word ‘open’ and ‘banking’, putting them together it just sounds a little bit wrong. Most people talk about secure banking and protection of your money. I don’t like the idea of everything being ‘open’, if that makes sense.” *Medium business*

“I don’t think it’s a good idea, because once you get one leak somewhere, doesn’t matter how tight your own bank is, it’s leaked.” *Start-up*

Most concerning, based on what they had heard, was a large doubt about whether explicit permission needed to be given before the banks gave their information away. Is it an 'opt-in' model or an 'opt-out'?

"I find it scary and I'm wondering if you get the option to opt-out. I want to have a say if someone is crawling around my information. I find it quite threatening." *Medium business*

In the absence of being presented with tangible propositions, most businesses struggle to see the need or benefit at this stage, particularly as many are happy with the status quo and do not believe they have unmet needs or problems that need fixing.

"Basically it's sharing data, so moving between banks would be a lot easier. To be honest it's not a lot of aggravation to shift between bank accounts anyway... and it's not difficult to switch." *Medium business*

"I don't suppose I'll be giving anybody the chance to do it and it probably won't affect me. I only have one account. I'm not sure who I would pay directly from my bank; I tend to pay for things with the business credit card." *Small business*

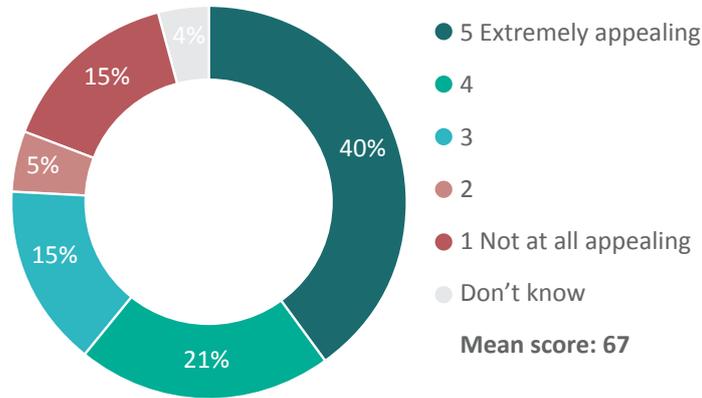
Many thought the Open Banking concept was something that would deliver clearer and greater benefits in the retail banking market to consumers:

- The risk is lower as it is only an individual involved, so there is less at stake;
- Perception of lower levels of loyalty and bank switching is being encouraged widely;
- Perception that consumers have a larger number of financial commitments / products so demand for a consolidated view is likely to be higher.

Appeal of potential services

The most appealing feature across both the quantitative and follow-up qualitative research is **FEATURE A**, the ability to move funds between different banks to help avoid overdraft charges or to benefit from higher interest payments.

Feature A: Moving funds between banks



This was immediately relevant to many businesses who had live examples of where it might have/could be useful. In particular, businesses with tight cash flow or seasonal or cyclical trading patterns would find this beneficial.

“Recently I didn’t have enough funds in my current account and so a direct debit was returned but I have this other account and my bank should have transferred money to my current account, but they didn’t. Obviously if everything is done automatically, then that would be a lot easier for me in terms of business.”
Medium business

“If you had them all linked under one umbrella, then to move funds that way would be quite seamless. If it was security monitored, then that’s fine.”
Small business

However, a loss of control or eradication of a simple enjoyable task are barriers to use.

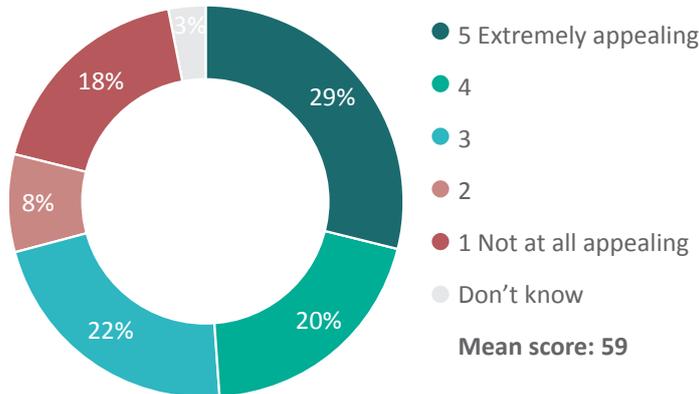
“We manage it very much ourselves; we would want to be in control. I would want to keep track of that and make sure that it was doing what I wanted it to do rather than doing it automatically.” *Medium business*

“I wouldn’t want to look at my account and find that actually they’ve moved money from here to there without asking me.”
Small business

FEATURE B, to be able to use a safe, secure comparison website using your actual banking usage patterns to make simple and reliable price and service quality comparisons.

This feature is easy to understand; people are familiar with the concept and see it as an easy, hassle-free way to get a better deal.

Feature B: Price & service comparison website



“If you were looking at changing banks, you could do an actual comparison and could say you make so many direct debits a month, and their charges are cheaper. So yeah, I guess that would be beneficial.” *Medium business*

However, there is widespread cynicism about the principle of comparison sites and the focus on cost saving, which is not always felt to be right in the business banking environment.

“I’m not looking for maximum financial benefits, I want something reliable and efficient.” *Small business*

“I never used a comparison website for anything; maybe it’s just my generation but I don’t always look at the cheapest option and think that’s the best way. I’m not saying NatWest knows who I am but the people at the branch do.” *Small business*

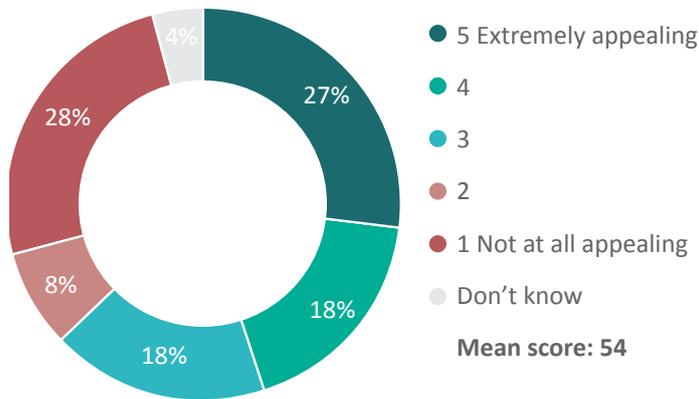
Business bank switching is most often a function of push factors other than price; for example, service dissatisfaction. However, there was recognition that a comparison site could play a role in helping companies negotiate better deals with their current bank – either financially or with service.

“I don’t condone changing accounts frequently; I believe in building relationships. If for instance, we wanted to buy another practice, it could confirm whether our bank is best or if someone else offered better rates. I could use the information as a negotiation tool when talking to our existing bank.” *Medium business*

FEATURE C, to be able to manage accounts held at several different banks through a single application (i.e. a website or online app).

Even though the incidence of multi banking is not high among SMEs, the benefits of managing these accounts centrally was still obvious to many of them.

Feature C: Manage accounts at different banks



“Obviously it’s not very relevant for us but I can imagine it would be pretty useful for someone that did have several bank accounts. Just being able to see everything all in one place would be useful, all at the same time.”
Medium business

Others, with multiple accounts/products, saw the benefit straight away.

“That would be very welcome. We would use it every day. Having it all consolidated in one application would be brilliant.” *Medium business*

“That’s quite appealing. Just because it’s all under one umbrella basically, so you could just link between the other accounts. Because it’s a new technology, the question would be how easy it would be to operate?” *Small business*

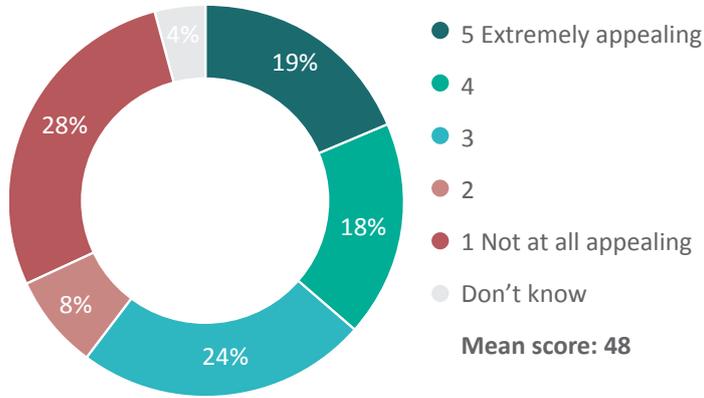
However, security again is top of the agenda in terms of being a potential inhibitor of use, with risk seen to outweigh benefits, along with a lack of understanding how it might work.

“No, that doesn’t appeal to me at all. I like my financial products separate and I don’t want them linked at all. Some of that comes down to the mistrust of the bank’s securities given the number of occasions where there’s been hacking going on, and the more integrated my accounts are the more the danger is of a hacking incidence occurring.” *Small business*

FEATURE D, using your banking transaction history to reliably assess your business’s credit worthiness and offer better lending deals.

This is only felt relevant to those who might need loans.

Feature D: Creditworthiness assessment by lenders



“That’s very useful actually. It saves me having to do it and if they can save me money then that’s a good thing.”
Small business

“This would be useful but only infrequently. If we were looking to borrow lots of money this would allow several banks to assess our creditworthiness and propose a product. We could either take one of these or again use it to negotiate with our existing bank.” *Medium business*

But many remain cynical that it either is not needed or it would lead to far too much unwanted marketing and unsolicited calls as a result.

“If you are going to borrow some money you need to supply all those details anyway before they’ll lend it to you. So it’s not really needed. But if somebody was borrowing money regularly and paying it back quickly, yeah I think it might be a reasonably good idea.” *Small business*

Technical appendix: what did we ask?

In order to understand business attitudes and potential barriers to Open Banking, Charterhouse Research conducted some qualitative depth interviews among SMEs in Spring 2018. This was to complement a survey run last summer among GB businesses, comprising telephone interviews with 3,514 businesses to understand how appealing they found four potential aspects of Open Banking.

Quantitative research

An open API, or Application Programming Interface, is being planned for banking that will enable new services to be securely delivered that are tailored to customers' specific needs. We'd like to get your views on how appealing you would find some of these example services. Please rate the appeal of each one using a scale of 1 to 5 where 5 is extremely appealing and 1 is not at all appealing. How appealing would you find it...

- A. To be able to authorise the movement of funds between different banks to help avoid overdraft charges or to benefit from higher interest payments?
- B. To be able to use a safe, secure comparison website using your actual banking usage patterns to make simple and reliable price and service quality comparisons?
- C. To be able to manage accounts held at several different banks through a single application. By single application we mean a website or online app?
- D. If potential lenders, other than your own bank, were able to use your banking transaction history to reliably assess the business's creditworthiness and offer better lending deals than they would without this information?

Qualitative research

A 20-minute telephone survey among small and medium businesses covered:

- Awareness and knowledge of Open Banking concept.
- Views on the four potential Open Banking propositions in terms of advantages and barriers or concerns.
- Appeal and likely take-up of the concept for them as a business.
- Appeal and likely take-up for them as an individual consumer.

About Charterhouse Research

Charterhouse Research is a leading specialist financial market research consultancy. Its sector knowledge and expertise, combined with a business model involving only senior level personnel, is what sets it apart from many of its competitors.

As sector specialists it possesses detailed knowledge of complex financial products, services and market sectors. It is highly skilled at recruiting, researching and engaging hard to reach audiences.

With a repeat business rate of 98%, Charterhouse has long been the secret weapon for research decision-makers looking for best-in-class intelligence.

Its clients include leading financial service organisations across the range of financial sectors spanning banks, building societies, life and general insurance companies, investment and finance houses, financial regulators and business service providers.