

ZOPA

Open Banking to Open Finance:

Bringing consumers along on
banking's next innovation



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Foreword

Open Banking is at a pivotal moment in its short history. Introduced just three years ago, the legislation behind Open Banking, the Payment Services Directive 2 (PSD2) allows consumers to easily share their financial information between banks and other financial organisations.

This means they can transact across different products and providers in a more integrated way and apply for a range of products by leveraging data on their financial history and current situation. In the past, the information would have only been available to their main bank. However, now Open Banking is being incorporated into new financial products on an almost daily basis, aiming to make financial management more efficient and improve access to financial products for millions of UK consumers.



Consumers stand to gain a great deal from Open Banking and Open Finance, which is why Zopa is calling on the banking and Fintech industries to put consumers at the heart of the Open Banking conversation moving forward."

Tim Waterman, Chief Commercial Officer at Zopa

Progress is happening at pace. With Open Banking, consumers are able to share payment account data with trusted providers. The next stage, Open Finance, could allow a much broader range of data to be shared, including mortgages, savings and pensions, granting customers easy access to even more products and services, and allowing providers to deliver a much more tailored banking experience. The importance of bringing consumers along on this evolution is crucial to the benefits and financial opportunities of Open Finance being realised.

At this pivotal moment in time, we at Zopa have identified three key factors which are currently hampering uptake. Firstly, a lack of consumer awareness and understanding when it comes to Open Banking and, subsequently, Open Finance. Our research reveals that 63% of people have never even heard of Open Banking.¹ This is closely linked to the fact that discussions around Open Banking are dominated by business-to-business topics, such as integrations and APIs, rather than the benefits which Open Banking can bring to the consumer.

Privacy concerns have also played their part, with consumers wary of sharing data with third parties, which is what makes Open Banking possible. This can be somewhat attributed to the changes brought about by GDPR, which came into force shortly after the Open Banking regulation.

Finally, Open Banking took longer than expected to operationalise due to delays in Bank implementation and initial issues with the performance and availability of Open Banking APIs. This meant that early services were generally limited and of reasonably low value to consumers – for example, account aggregation, - with

more innovative and meaningful implementations taking longer to come to market. It is also the case that most major Banks are still not applying Open Banking to a significant degree – meaning that communication of its benefits has tended to come from smaller players, who by default reach less customers with their communications.

These three factors combined have so far led to low levels of uptake. Our research suggests that only 15% of the UK adult population have so far made use of Open Banking.² However, momentum has accelerated over the last year. TrueLayer, the infrastructure provider that routes more than half of UK Open Banking traffic, expects that based on current growth rates, 60% of the UK population will have tried Open Banking-based services by September 2023.

Consumers stand to gain a great deal from Open Banking and Open Finance, which is why Zopa is calling on the banking and Fintech industries to put consumers at the heart of the Open Banking conversation moving forward. Firstly, through continuing to create innovative new products which make use of Open Banking. And secondly, by better highlighting to customers what Open Banking is and what it can offer in easy to understand terms.

This commitment is needed now, as the industry transitions to Open Finance, to ensure that the consumer is not left behind. Improving consumer knowledge will allow the use of Open Banking to

grow and, as usage increases, so will the number of benefits which consumers will see. The opportunity to transform the way we conduct our finances digitally, with rapid, intuitive access to products and services from multiple providers in exchange for our financial data, must not be missed.

Tim Waterman
Chief Commercial Officer at Zopa



¹ Zopa research, carried out online by Censuswide of 2,000 general consumers, between 13.05.2021 - 17.05.2021

² Zopa research, carried out online by Censuswide of 2,000 general consumers, between 13.05.2021 - 17.05.2021

Open Banking: The Story So Far

Background

Open Banking, as we know it today, began with the introduction of the Payment and Services Directive 1 (PSD1) which came into force at the end of 2009.³ This regulatory initiative, devised by the European Union, was designed to stimulate competition in the Financial Services Industry throughout Europe, improve the quality of services and protect consumers.⁴

PSD1 paved the way for Open Banking, introducing a new industry concept, Payment Services Providers, as well as a regulatory framework that allows new non-bank companies to carry out financial transactions.⁵

A second iteration of the legislation, introduced in January 2018, went one step further, and brought Open Banking into being. Mark two of the legislation, PSD2, created new service types:

Account Information Service Provider (AISP)

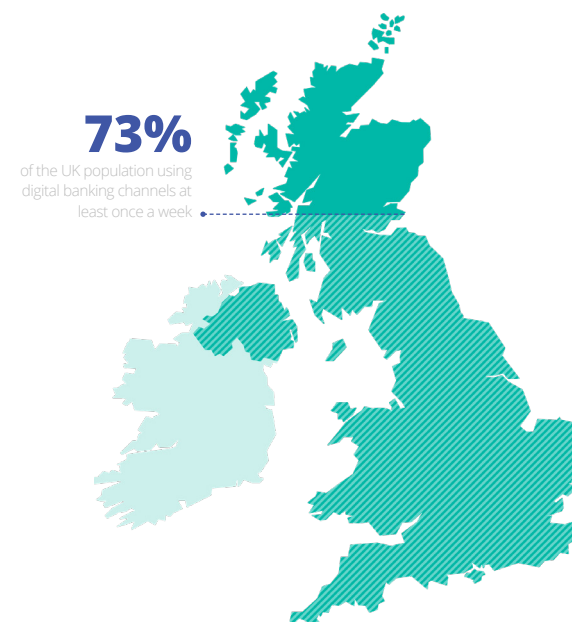
Enables new players to access account information, including balances and transactions, for one or more accounts and one or more banks.⁶

Payment Initiation Service Provider (PISP)

Gives new players the possibility of initiating payments on behalf of the payer. Instead of initiating payment through their bank, the user can initiate payment via a PISP, which in turn transmits the instruction to the bank, the latter acting as an intermediary in this instance.⁷

Where are we now?

Consumer use of Open Banking quickly accelerated in 2020. In January 2020, there were one million monthly active users. By September, this had reached two million and levels hit three million at the beginning of 2021.⁸ With 73% of the UK population using digital banking channels at least once a week during the first half of the year, there is great potential to increase these levels, and no shortage of Open Banking based offerings. 113 regulated entities, including banks, e-money providers, payment services providers and other third party providers, now have at least one Open Banking proposition live with customers.⁹



What is Open Finance?

Open Finance is an evolution of Open Banking, and could increase the amount of information people are able to share as part of their financial footprint, including information about mortgages and pensions. Consequently, this will mean they can apply for a wider range of financial products and services.

The next stage of Open Banking, Open Finance, is in its infancy, with the Financial Conduct Authority publishing the results of its call for input to explore the opportunities and risks it presents. Once again, the conversation is being focussed on the industry and regulatory issues. Although these are important points to consider, the industry also needs to focus on the benefits for consumers, and how these will be articulated, to encourage consumers to make use of what Open Finance will be able to offer.

³ BanFirst blog, What do PSD1 and PSD2 mean and why are they important?
<https://blog.ibanfirst.com/en/what-are-psd1-and-4-psd2-and-why-are-they-important> (Accessed 12/07/201)

⁴ iBanFirst blog

⁵ iBanFirst blog

⁶ iBanFirst blog

⁷ iBanFirst blog

⁸ OBIE Annual Report <https://insights.openbanking.org.uk/annual-report-2020/home/>

⁹ The OBIE Highlights – May 2021 <https://www.openbanking.org.uk/news/the-obie-highlights-may-2021/>

Perceptions of Open Banking – A vicious cycle

One of the major hurdles which Open Banking, and subsequently Open Finance, must overcome in order to become mainstream, is consumer awareness. 63% of consumers say they have never heard of Open Banking.¹⁰

Unsurprisingly, given its focus on increasing competition in the industry, high street banks are not taking proactive steps to inform customers about what Open Banking means for them and how to access it. Our research found that only 13% of people say they have heard from their own bank about Open Banking.¹¹

Tim Waterman, Chief Commercial Officer at Zopa, outlines why this may be the case:

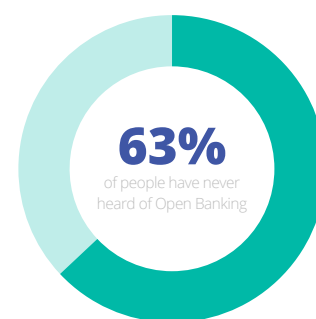
“There is a significant lack of desire among incumbent banks to drive uptake of Open Banking. Given its potential to help their customers switch providers more easily, and banks’ perception of their data as a competitive advantage, banks often view it as a threat rather than an opportunity. Banks therefore fail to promote the benefits, safety and accessibility of Open Banking technology. This approach and subsequent inactivity by the traditional banks go some way to explaining the low levels of uptake.”

If customers don’t get the information from their banks, and are not sure where to find it, the next logical place to search is the internet. Information and definitions of Open Banking in general are predominantly focused on the legislation which permitted and now regulates it. They are also laden with jargon and terms of use for banks, rather than for consumers trying to understand what Open Banking means for them.

Some of the difficulty of finding a consumer-friendly explanation for what Open Banking is and what it can do, is that it doesn’t easily relate to particular products or services. As Tim Waterman explains: “Open Banking

is like the plumbing, rather than the products and services, that consumers experience. Therefore, initial communication needs to help consumers know what to expect from Open Banking services and how to interact with them – with more detailed explanation of benefits coming at the point where consumers are interacting with a specific product”.

Neobanks and fintechs are at the forefront of Open Banking service provision, as it enables them to integrate smoothly with other providers, provide tangible benefits to customers and allow access to new products and services which would normally take years to build. Accounting and tax platform Ember, for example, uses Open Banking to help its users understand their real-time tax position. Using Open Banking account aggregation, Ember enables contractors to maintain one central feed for all business transactions.¹²



Francesco Simoneschi, Co-Founder and CEO at TrueLayer said: “The success of Open Banking can be measured in the number of people using it. Consumers are not required to know or understand what Open Banking is or how it works – technology is frictionless, streamlined and adds the most value when no user manual is required. Consumers want to use financial apps that solve a problem or need, or to purchase something quickly and securely.”

Although consumers are not required to know about Open Banking in order to make use of it, the requirement to use specific financial apps means that those who use Open Banking services are predominantly consumers who are forward-thinking, early adopters, and therefore more receptive to developments like Open Banking. While the reach will grow as new entrants scale, this will take time and so broader support will be needed from the industry and media to drive adoption amongst mainstream consumers.

Janine Hirt, CEO at Innovate Finance comments: “Many FinTech companies are using Open Banking to create innovative products and services. Some of the very best examples are those focused on improving consumer financial wellness and inclusion, two huge issues that need to be tackled. Open Banking is starting to make a difference in people’s financial lives. We must not lose the momentum it has created.

Communicating its positive impact is a great place to start a campaign to show the value of Open Banking. To build trust and drive greater adoption, we must educate more consumers on how to access and make the best use of this new wave of financial products.”



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¹² TrueLayer, The ultimate guide to Open Banking use cases <https://truelayer.com/blog/open-banking-use-cases-guide>

¹³ Zopa research, carried out online by Censuswide of 2,000 general consumers, between 13.05.2021 - 17.05.2021

Data concerns harm consumer uptake

One of the critical challenges facing the uptake of Open Banking is consumer attitudes towards data sharing and data protection.

In 2018, PSD2, the piece of legislation which meant that banks are legally obliged to make certain data available to third-party providers, was introduced. This is the legislation that makes Open Banking possible. However, in the same year, the General Data Protection Regulation (GDPR), which marked the most significant change to data protection rules since the Data Protection Act (1998), also came into force.

GDPR was accompanied by a thorough explanation of what it meant for consumers, and, through cookie notifications, customers are reminded on a daily basis of the control GDPR has given them over their data. Discussions around PSD2 and Open Banking, however, were largely confined to the banks and institutions which would need to implement it. There are no regular reminders to consumers of the benefits it can bring.

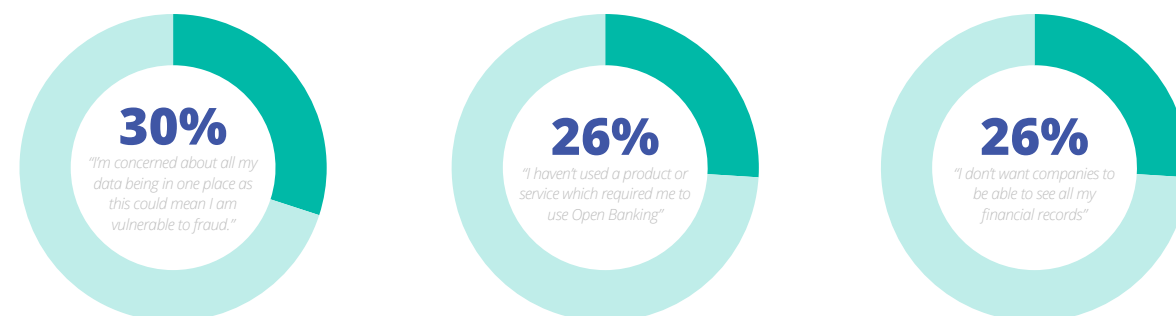
As a result, many consumers are concerned with the risk of sharing their data with third-party organisations, rather than the potential benefits of Open Banking technology. The timing of the Open Banking proposals, combined with the lack of consumer-facing information, created a perfect storm of misinformation and concern - resulting in trust needing to be earned from the bottom up.

Tim Waterman, Zopa, comments: "Although, technically, the payment services directive and GDPR were complimentary, in reality, GDPR created an impression for the public that data sharing was dangerous, and something which GDPR was designed to protect them from. While it is certainly the case that data sharing should be well considered based on the reputation of the provider and the context of the request - that perspective and the potential benefits of Open Banking to consumers was lost."

Zopa's research suggests that this data privacy concern continues to shape consumer attitudes towards Open Banking to this day. Data concerns are the number one reason why consumers who have a financial provider and are aware of Open Banking, don't make use of it.

The concerns, if unaddressed, may impact on the next stage of Open Banking, Open Finance. This next stage could give consumers access to even more financial products and services, but only if they share more data. There will, understandably, be concerns about this and so providers will need to clearly articulate what data legitimate providers will ask for in order to access Open Finance services, what red flags consumers should look out for, and, importantly, what benefits they will gain from sharing their data.

Top three reasons why those who have a financial provider and have heard of Open Banking don't make use of it¹⁴



¹⁴ Zopa research, carried out online by Censurwide of 2,000 general consumers, between 13.05.2021 - 17.05.2021



Data concerns harm consumer uptake

CreditLadder, for instance, allows people to report their rent payments into Equifax and the Experian Rental Exchange to help build their credit scores over time. This is an important step forward as previously on time rental payments, which are often substantial, did not contribute to a person's credit file in the way that mortgage payments do. Creditladder uses Open Banking account verification to check the payments come from a current account belonging to the user that signed up, which prevents fraud.¹⁵

Zopa's Tim Waterman comments: "What GDPR has highlighted is that consumers like feeling they are in control of their data. Open Banking, when used by legitimate providers, is a really secure way of sharing data. Consumers do need to be better informed about what is and isn't needed for Open Banking, and eventually Open Finance, to work for them. Articulating these points to consumers is key to Open Banking progressing and there is work that needs to be done throughout the industry to get these important messages across."

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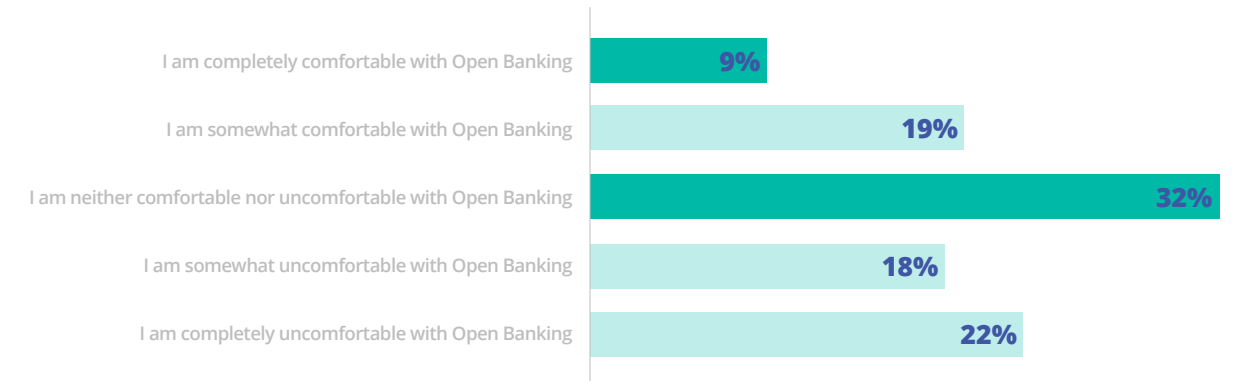
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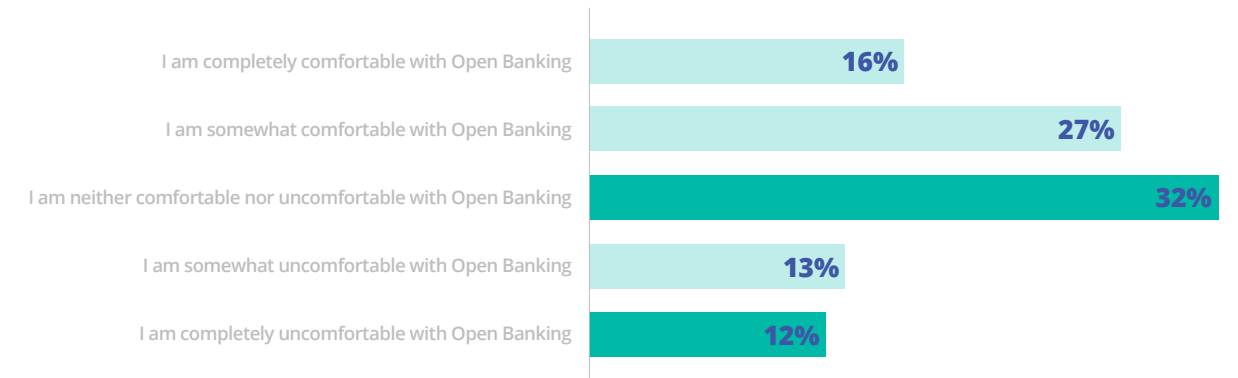
Encouragingly, younger people are more comfortable with Open Banking and are likely to have a good level of comfort in the transition towards Open Finance. They have a good level of understanding of the data economy, and are used to apps and websites asking them for data in exchange for services or products. As the younger generations' need for more financial products increases – via mortgages, loans, car finance or credit cards - they will be key accelerators of Open Banking, and Open Finance, take up.

This is good news as the younger generation that are currently starting their financial journeys with thin credit files stand to gain the most from some of the more innovative uses of Open Banking.

Levels of comfort with the concept of Open Banking (Overall figures)¹⁶



Levels of comfort with the concept of Open Banking (25-34)¹⁷



¹⁵ TrueLayer, The ultimate guide to Open Banking use cases <https://truelayer.com/blog/open-banking-use-cases-guide>

¹⁶ Zopa research, carried out online by Censuswide of 2,000 general consumers, between 13.05.2021 - 17.05.2021

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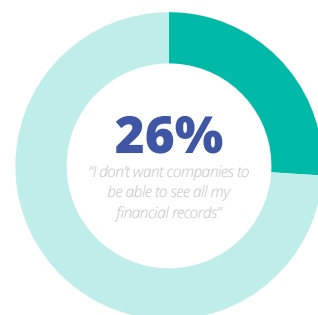
Real-world applications will drive understanding and uptake

When consumers are comfortable enough to use Open Banking, the most popular use is to view all their accounts in one place, followed by 'to keep an eye on all my savings and investments'. This is to be expected, as these were the first and easiest applications for Open Banking.

Most popular uses of Open Banking:

1. **To view all my bank accounts in one place – 34%**
2. **Keep an eye on all my savings and investments – 28%**
3. **To move money between bank accounts and my savings – 27%**

More substantial benefits have been slower to manifest but are now making a significant impact. For example, those most concerned about sharing their financial history (table above) may be amongst the biggest beneficiaries of measures to use Open Banking improve eligibility for products, particularly in the lending space.



Two key examples of this are improving credit health and eligibility and open banking based credit card approvals. Zopa's Borrowing Power score, for instance, uses Open Banking to understand a customer's financial position and create customised

recommendations on how to improve their score. A customer's score is linked to their loan eligibility and rate – meaning that as their score improves, they can access more lending options and improved pricing. This has been especially valuable to customers who have seen their credit score impacted during the pandemic – Zopa have seen an 80% uplift in people using the tool since the start of 2020.

Currently, there are relatively few providers offering such services, which means that many consumers aren't aware of the potential benefits to their financial health and eligibility which Open Banking can bring.

Least popular uses of Open Banking

1. **Prove my income to potential landlords / lettings agents - 14%**
2. **Help improve my credit score – 18%**
3. **Help me access new financial products with the best rates – 20%**

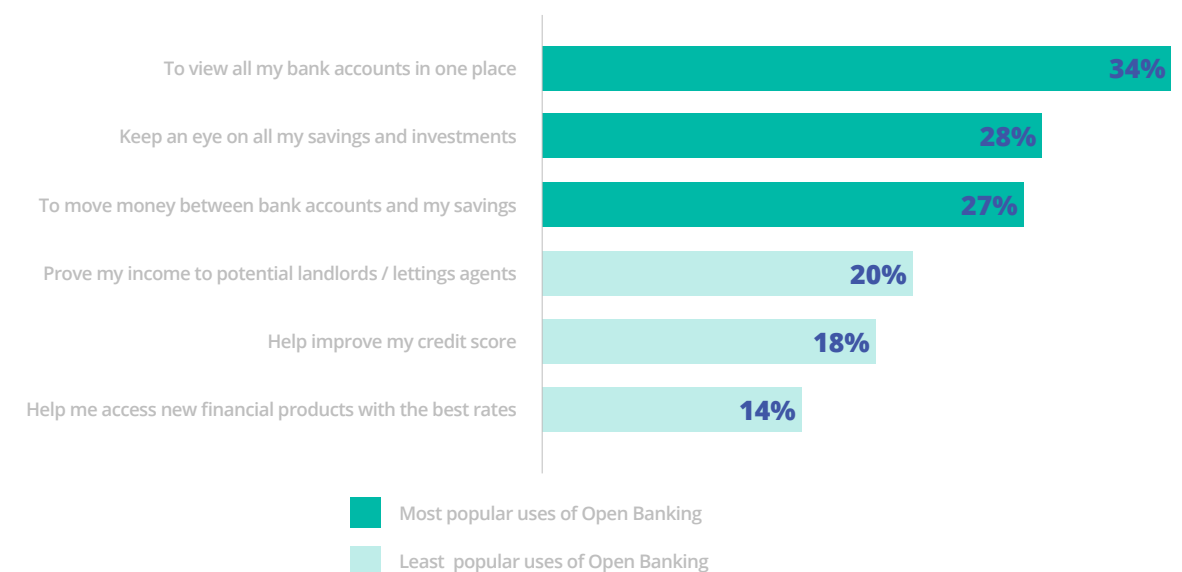
It is also the case that, while customers worry about the risks of data sharing, they are often not aware that Open Banking can in fact make users safer, both in terms of helping them to avoid making decisions which may be harmful for their financial profile, but also in helping to prevent financial fraud. Monzo, for instance, put in place a gambling block for its customers' accounts. Using Open Banking, it was able to block transactions made through other accounts held by its customers.¹⁸ Similarly, using Open Banking to verify income or identity can prevent fraud as well as saving the customer from time-consuming verification processes.

As more products begin to integrate Open Banking, consumers will hopefully get to a point where approving Open Banking is just as easy as approving 'cookies' and a natural part of their product journey.

Janine Hirt, CEO at Innovate Finance comments: "The vision of Open Banking as a tool to give consumers more power and access to smarter, more tailored financial products is a very positive one. If we are to achieve that vision, and to truly move the needle on wellness and inclusion, the accessibility and adoption of services underpinned by Open Banking must be more widespread. There needs to be a concerted effort by industry and regulators to show consumers what benefits this new technology can bring them.

"Open Banking exists to improve outcomes for consumers, so we must focus on this. Explaining in simple terms how Open Banking can help is key. One basic example that could be highlighted is how financial aggregation can give a clear, accurate and up-to-date picture of your financial life, and from there begin to help you manage your money more effectively. Another is speeding up and simplifying mortgage application processes or verifying income for rental purposes."

Most and least popular uses of Open Banking¹⁹



¹⁸ Finextra, Monzo extends gambling block to payments made via Open Banking, 18th February 2021, <https://www.finextra.com/newsarticle/37505/monzo-extends-gambling-block-to-payments-made-via-open-banking>

¹⁹ Zopa research, carried out online by Censuswide of 2,000 general consumers, between 13.05.2021 - 17.05.2021

Case study:

Working with ClearScore to preapprove customers for credit cards

In April 2021, Zopa partnered with credit score provider and marketplace ClearScore to utilise Open Banking capabilities - the first in-market Open Banking integration between a credit marketplace and credit partner.

Open Banking data enables Zopa to see a wider view of potential customers' finances and credit-worthiness, beyond just the credit bureau information on which lending decisions are usually made. This meant that borrowers who may previously have been declined for a credit card based purely on their credit report, were now more likely to gain access to a Zopa pre-approved credit card. This is more important than ever given the potential impact of the COVID-19 pandemic on people's credit scores.

In addition, by combining data held by ClearScore and Zopa's real-time Open Banking capabilities, users can find out immediately if they will be pre-approved for a Zopa credit card with a personalised APR, without marking their credit file.

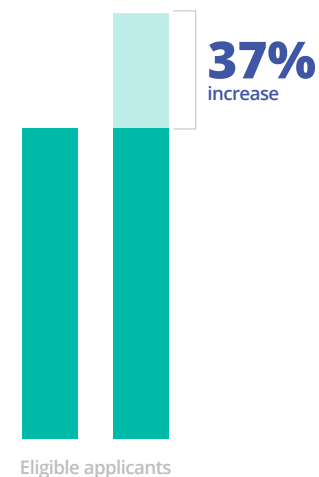
This is a clear example of the power Open Banking has to unlock financial opportunities for consumers, particularly those who may have previously felt disenfranchised or locked out of products that they need.

Andy Sleigh, Chief Operating Officer at ClearScore comments: "We are passionate about creating innovative data solutions with our partners to offer a greater range of users the right credit options for their needs. Working with Zopa, we used Open Banking data to provide a more holistic view of a user's credit and spending history. By communicating the benefits of linking accounts to the user, Zopa saw a 37% increase in the number of users eligible to apply for a Zopa credit card, representing a potential pool of 43,000 new

applicants per month. These are people who otherwise wouldn't have been able to access a Zopa credit card through their credit report data alone.

"This is just one of the ways that Open Banking could provide benefit to millions of people who otherwise wouldn't be able to access credit. We believe that there's huge potential for Open Banking to transform the credit landscape as we know it; we're only just scratching the surface."

Increase in applicants eligible to apply for a Zopa credit card



Case study:

Zopa and CreditLadder team up to help renters improve their credit score

For those that rent, getting access to finance and loans at competitive rates can be made harder as monthly rental payments are not recorded on their credit file. In June 2021, Zopa partnered with financial inclusion service CreditLadder to ensure that rental payments could be recorded on a customer's credit file.

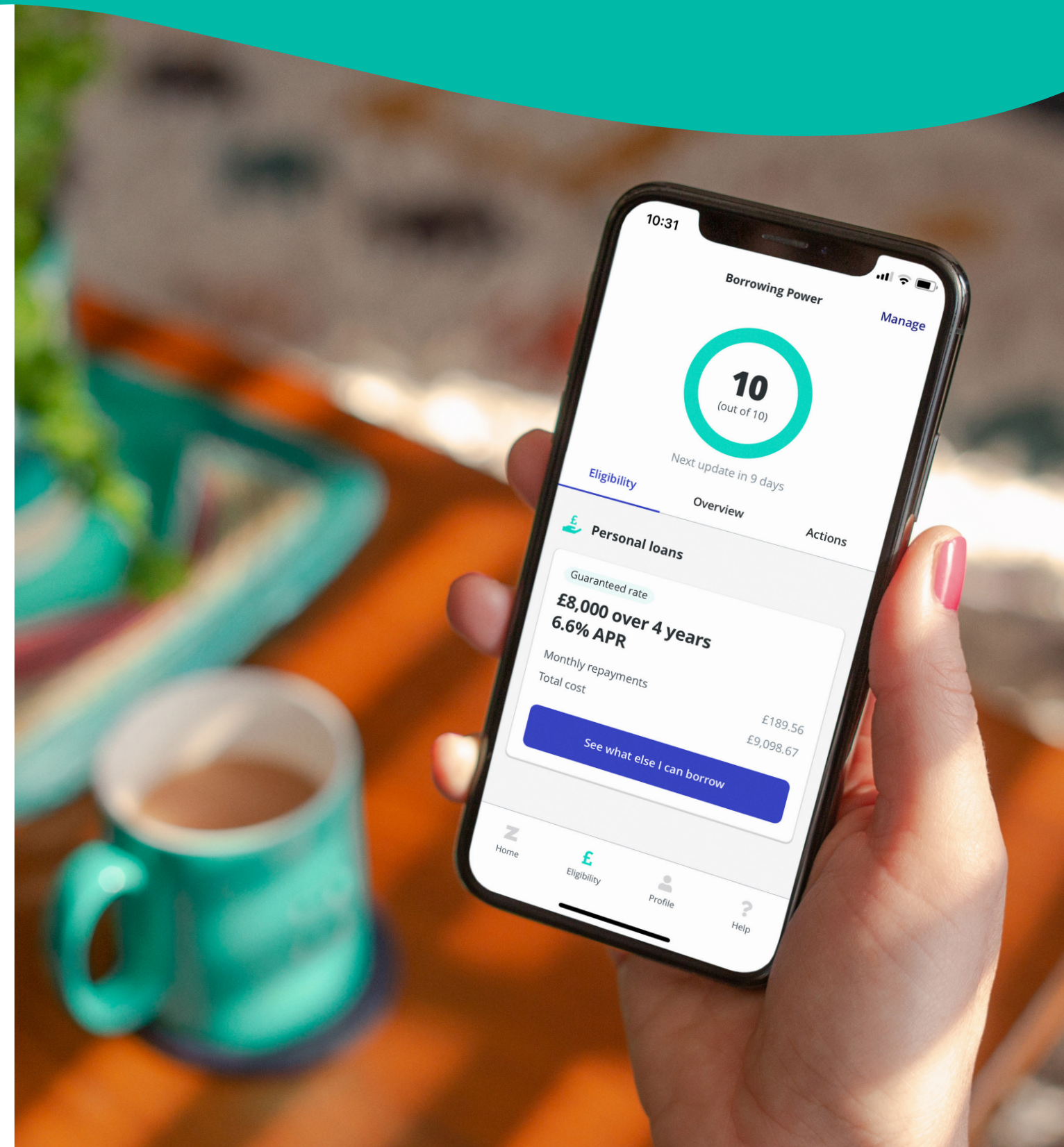
The rental payments are taken into consideration in Zopa's unique credit score tool and loan eligibility checker, Borrowing Power, which calculates a customer's financial health score. As a result of the CreditLadder partnership, Zopa app users that rent now have the opportunity to improve their Borrowing Power score and gain better access to competitively priced Zopa loans.

Rent payments are recognised through the Open Banking technology CreditLadder employs, and this in turn is reported to the UK's leading credit reference agencies each month.

Data from Equifax shows that just under 70% of users with a 'thin credit file' - this is where users have two or fewer credit accounts - saw an increase in their credit score when 12 months of rental payments were added.²⁰

Another example of how the holistic view afforded by Open Banking can be used to help even more people gain access to fair and transparent credit options.

²⁰ Based on Equifax analysis in 2018 of people in social or affordable housing and assessing the difference 12 months of recorded rental payments would have on their credit scores, and also analysing a subset of renters with thin credit files (two or fewer credit accounts)



Conclusion

The research shows there is a clear opportunity for Open Banking to become mainstream, and for widespread adoption of its more innovative next phase: Open Finance.

What needs to happen:

We believe that by 2025, based on current levels of adoption, 40 million consumers could have at least tried a product which is underpinned by Open Banking. One in four will be regular users.

This will, however, only be achieved if we work hard as an industry to get there, and ensure that the innovative, more beneficial uses of Open Banking are easily accessible throughout a number of new verticals.

It is an ambitious but achievable target.

According to our research, nearly 8 million consumers have already used Open Banking at least once since the initiative was launched in 2018.²¹

So far adoption has mainly been driven by use of account aggregation services – by far the simplest and most popular use of Open Banking today. Aggregation has a positive impact on customers, with 50% stating that viewing all their banking products in one place makes them feel more secure.

However, Zopa's latest research finds that the introduction of Open Banking to previously untapped customer needs, like access to credit, could rapidly accelerate this adoption.

Zopa's report on Open Banking suggests that these benefits are often best delivered when fintechs work together to deliver customer value in a simple, easy to use way.

As previously highlighted in the report, a good example is Zopa's partnership with ClearScore, which used Open Banking to assess eligibility for Zopa's credit card. This resulted in a 37% increase in the number of users eligible to apply for a Zopa credit card, improving financial inclusion for thousands of new customers who may have previously been declined due to thin files. Within one week of roll out, more than 43,000 ClearScore users saw a Zopa offer which would not have been available to them based on credit report data alone.

To reach our ambitious target of 40 million consumers in the UK having used Open Banking by 2025, fintechs, high street banks and industry bodies need to work together to increase adoption of the more innovative, and beneficial uses of Open Banking.

These uses include:

- Using Open Banking to prove income to potential landlords/lettings agents
- Making use of Open Banking to help customers improve their credit score
- Enabling customers to access credit, like new financial products and other consumer services, with the best rates

We also expect that a number of regulatory developments will be implemented, paving the way for these innovative uses. The FCA hosted a consultation earlier this year on the next phase for Open Banking, Open Finance. It identified a number of next steps which we expect will play out, between now and 2025, which will increase consumer uptake:

- Sharing the FCA's lessons from the implementation and supervision of Open Banking and the development of Pensions Dashboards
- Working with the Government and industry stakeholders to identify what industry roadmaps are needed to support legislation
- Helping convene industry-led efforts to develop common standards to support Open Finance
- Assessing the regulatory framework that would be needed to support Open Finance
- Supporting discussions on the future operating model for the Open Banking Implementation Entity (OBIE)

The combination of these two factors, increasing innovative uses of Open Banking and regulatory developments, will lead to widespread adoption of Open Banking services.

We would like to thank our partners, Innovate Finance, TrueLayer, ClearScore and CreditLadder for their support with this report, and for working with us to help our customers access the services and products they need, using Open Banking.



²¹ Zopa research, carried out online by Censuswide of 2,000 general consumers, between 13.05.2021 - 17.05.2021 showed 15% of consumers have used a product which makes use of Open Banking. According to ONS data set: Persons by single year of age and sex for local authorities in the UK, mid-2020, there are currently 52,890,044 adults in the UK