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KPMG Perspectives

Seizing the open-banking advantage

A fast-changing, disrupted market

EUROPEAN banks have their hands full preparing for the European revised Payment Services Directive (PSD2) and the United Kingdom's open-banking standard. Compliance is clearly a top priority, to ensure they give third parties access to customers, while maintaining data privacy and cybersecurity and preventing fraud and financial crime.

In such circumstances, it is, perhaps, understandable that we have heard relatively little about how banks plan to defend their market positions, and even less about their strategies for launching new products and acquiring new customers.

Responding to the competitive threat

MANY types of new entrants could conceivably emerge, like peers, challenger banks, retailers, fintech start-ups and established technology companies. Banks should be aware of the key risks and carry out a robust competitive analysis, identifying the main emerging players, their likely products and tactics, and the customers they are most likely to target.

It is important to gain a clear picture

of the various segments within the bank's customer base, to understand their behavior and motivation, run scenarios based upon their anticipated responses to open banking and the bank's products, and fine-tune products and marketing.

Innovating for success

IT isn't just about being defensive: There are a host of potential new opportunities arising from open banking.

Open access to banking information lets banks find out more about their own customers' spend with other banks and credit cards. This information can be used as part of a "digital-wallet" service, where customers use a single, bank-branded smartphone app to access all their different accounts.

Rather than do it alone, banks may well choose to partner with fintech start-ups and/or invest in incubators to get services quickly into the market.

Toward a new type of customer relationship

HISTORICALLY, banks have had complete control over customers' transactions and spend information. PSD2 and open bank-

ing may take away this advantage, but also brings a unique opportunity to know even more about customers. With a renewed focus on relationships and service, banks could build on their traditional role as guardians of consumers' finances.

Three steps banks should consider

COMPLY: Create and implement a regulatory action plan

Compete: Defend your ground against new and existing challengers to avoid large-scale customer disintermediation

Innovate: Gain a competitive edge by seizing new market opportunities—aligning your operating model and technology.

*The article "Seizing the open-banking advantage" by John Hallsworth, KPMG in the United Kingdom was taken from KPMG's publication, entitled *Frontiers in Finance*.*

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