Global Banking & Securities

Financial services unchained: The ongoing rise of open financial data

If open finance continues to accelerate, it could reshape the global financial services ecosystem, change the very idea of banking, and increase pressure on incumbents.

by Chandana Asif, Tunde Olanrewaju, Hiro Sayama, and Ahalya Vijayasrinivasan

July 2021

Banks hold a record of much of what we spend, save, and borrow—from electricity bills and mortgage payments to our weekly spend on fuel and coffee. Now, some of that customer data is being shared with third parties in a global movement known as "open financial data" (sometimes referred to as "open banking.") Roughly half a decade in the making, it's unlocking a wave of digital financial innovation—and likely disruption.

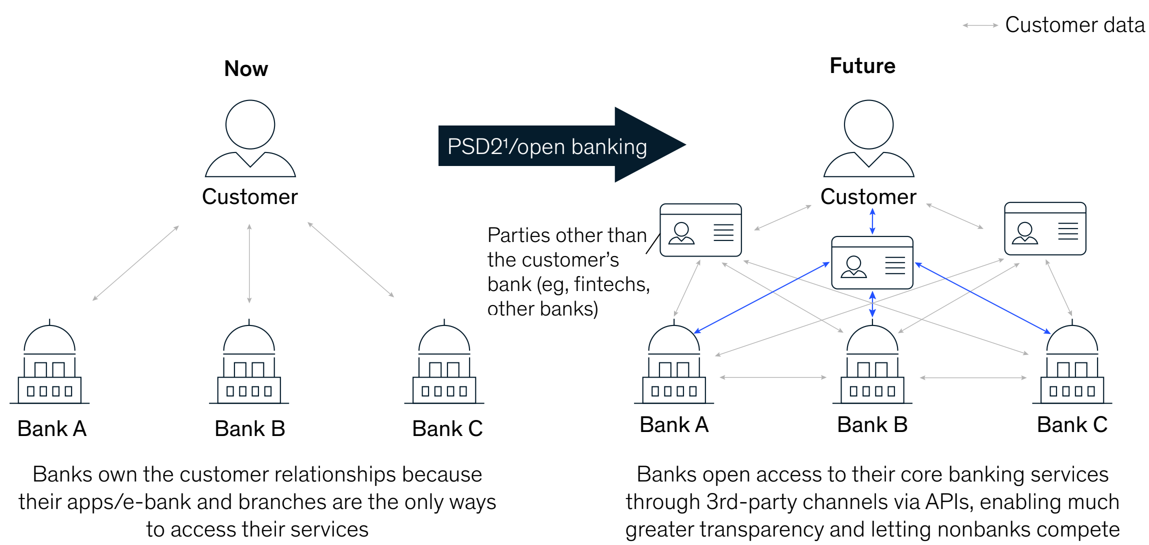
Brought on by a combination of government regulation and market forces, open financial data allows an expanding universe of players—both financial and non-financial—to access customer accounts and data in order to offer new products and services (all contingent on customer consent) (Exhibit 1). For customers, open financial data affords greater flexibility in how their money is managed, allowing, for instance, better visibility of accounts and more convenient access to payments. (This paper focuses primarily on benefits for consumers; for more detail on benefits for all participants, including financial institutions, see our recent related report, "Financial data unbound: The value of open data for individuals and institutions."[1]) Still in its infancy, the movement has the potential to reshape everything from bank accounts, credit cards, payments, mortgages, small business loans, and even insurance policies.

Around the world, this trend is evolving in different ways. In the European Union, the United Kingdom, South Korea, Australia, and India, governments have mandated large banks to open up their vast troves of customer accounts to other companies, in a bid to stimulate competition (Exhibit 2). In the United States and China, it is a market-led movement, with companies establishing open-banking relationships among themselves. Singapore is using a blend of the two models.

[1] Olivia White, Anu Madgavkar, Zac Townsend, James Manyika, Tunde Olanrewaju, Tawanda Sibanda, and Scott Kaufman, "Financial data unbound: The value of open data for individuals and institutions," McKinsey.com, June 2021.

Exhibit 1

Open banking provides flexibility to customers and creates a more complex competitive environment.



[1]The EU's second Payment Services Directive.
Source: McKinsey analysis; UK Open Banking Implementation Entity

Exhibit 2

The pace of adoption of open financial data varies by country with the EU, the UK, and a few other markets in the most advanced stage.

Level of adoption in country for regulator-led countries

Initial steps (eg, industry consultations, draft regulations)		Transpose to national law		Grant licenses[1]		
Nigeria	Indonesia	Hong Kong	Japan	UK	India	Australia
USA	Saudi Arabia	Brazil	Malaysia	Germany	Finland	Sweden
Canada		Mexico	Turkey	France	Ireland	Hungary
Colombia		Singapore[2]		Spain	Czech Republic	Denmark
				Italy	Norway	Belgium
				South Korea	Netherlands	

[1]The EU and UK adopted open banking in January 2018, South Korea launched open banking in December 2019, and Australia launched it in July 2020.
[2]Singapore launched SGFinDex in Dec 2020, a common public-private infrastructure to enable aggregated open financial data for consumers. While there is no official open banking regulation / licensing scheme in place, Singapore has published an API playbook to encourage banks to open up their data, systems, and services, and has awarded digital banking licenses to a range of third parties eg, Grab, Sea.
Source: McKinsey analysis

In 2016, European Union regulators first pushed to create open financial data, laying the foundation for market development. This sweeping piece of EU legislation (known as the second Payment Services Directive, or PSD2) also spurred the UK's Competition and Market Authority (CMA) to mandate the development of an "open-banking standard" by the country's nine biggest banks to share customer and transaction data with third parties. As of December 2020, the UK had issued some 200 third-party provider (TPP) licenses for open-banking APIs, or application programming interfaces—shortcuts that make it easier for software developers to build new applications. EU countries, which were initially less directive about API specifications for developers, have not issued licenses at the same pace (Exhibit 3). However, the Berlin Group, a consortium of 40 banks and other companies from across the EU, is creating a common API standard called NextGenPSD2.

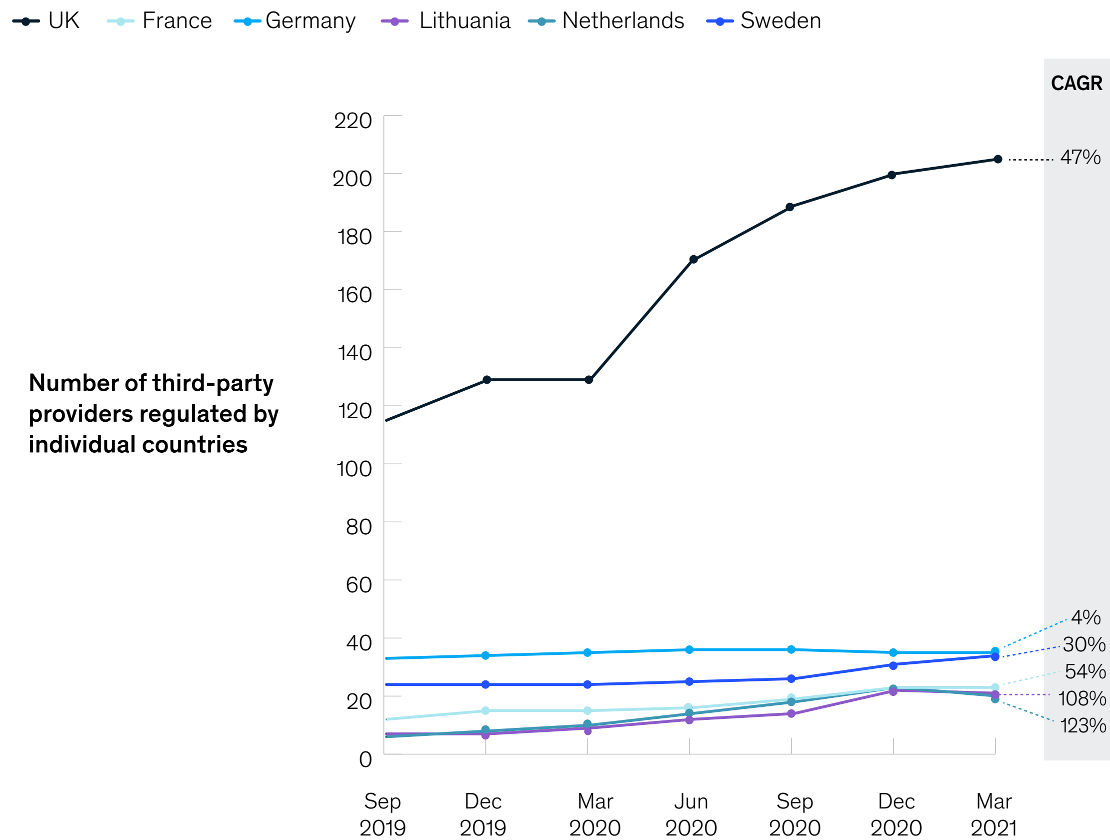
The adoption of new digital habits and a dramatic movement toward online channels during the pandemic appears to have accelerated open banking. With so much more of their lives spent online, both consumers and small and medium-sized enterprises (SMEs) became much more open to fintech apps and other non-traditional financial products and services. They also habituated to greater levels of convenience, choice, and flexibility in their financial relationships. In just the first six months of 2020, the number of users of open banking–enabled apps or products in the UK doubled from one million to two million[2] and grew to over three million as of February 2021. In the US, almost one in two consumers now use a fintech solution, primarily peer-to-peer payment solutions and non-bank money transfers.[3]

Open financial data could put powerful non-bank companies in a stronger position to become

[2] "Real demand for open banking as user numbers grow to more than two million," Open Banking, September 28, 2020, openbanking.org.uk.
[3] "Global FinTech Adoption Index," ey.com, 2018.

Exhibit 3

The UK continues to outpace EU countries in growth of the open-banking ecosystem, a trend further accelerated by COVID-19.



Source: Konsentus; Open Banking Europe; Open Banking.org.uk

financial-services players. With digital adoption leaping ahead by years in just several months,[4] many ecommerce, tech, and social-media companies have accumulated a massive lead in customer attention. This opens the possibility for them to be the first port of call for new financial products and services to their user bases, similar to what Google now enables customers to do with its "Plex" product, connected to the Google Pay app. According to the Google web site, Plex is offered in partnership with 11 banks and credit unions and includes physical and virtual debit cards, peer-to-peer payments, and an associated checking account. In Singapore, the government recently issued banking licenses to five non-banking players, including the consumer ecosystem Grab (200 million users in eight countries) and the consumer internet company Sea. The surge in online activity and digital behaviors has also opened up new avenues for companies to integrate financial

[4] Between June and September 2020, online purchases in Europe grew by 10 to 25 percent and social media usage jumped by 80 percent. See Reinhold Barchet, Marie-Claire Genin, Mianne Ortega, Axelle Raffin, Peter Saffert, and Yvonne Staack, "Survey: European consumer sentiment during the coronavirus crisis," March 31, 2021, McKinsey.com.

[5] UK Competition and Markets Authority, "Tackling the loyalty penalty," September 28, 2018, www.gov.uk.

services directly into customers' daily activities, such as online shopping and the management of payments related to cars.

We believe that if open finance continues to accelerate it could reshape the global financial services ecosystem, change the very idea of banking, and increase pressure on incumbent banks. According to the UK's Financial Conduct Authority, a significant share of customers who are dissatisfied with their current accounts, earn uncompetitive interest rates on savings accounts, or pay higher mortgage rates do not change providers due to the hassle of switching or lack of visibility into better options.[5] The ability for customers to better understand their full financial picture—one of open banking's promises—could result in margin compression, as pricing and charges become more transparent. Banks may also have to contend with margin sharing, as payouts to digital platforms could play a far greater role in customer acquisition.

At the moment, however, the open-finance landscape remains in flux, with the real winners and losers far from determined. In a number of countries, fintechs are actively pursuing this opportunity, vying for the same customers and funding.[6] Ultimately, not all of them can win. At the same time, incumbent banks are likely to continue to be a meaningful part of the ecosystem, even without the direct customer relationship. It will be imperative to understand and respond to these changes, reimagine offerings, adjust business models, and forge successful partnerships with fintechs or tech companies, to ensure continued success and relevance.

In this article, we explore the state of open banking around the world, with a particular focus on the UK, where these changes have had longer to play out. We also take a deep dive into the open-banking ecosystem, looking at the types of new products and services emerging, and share the results of McKinsey customer-sentiment surveys on attitudes toward these offerings. Finally, we lay out questions banks, fintechs, and non-finance players need to ask themselves in the changing landscape.

Emerging open-banking propositions

To understand the current state and future trajectory of open banking–enabled innovation, we looked closely at 259 open-banking licensed providers in the UK, about two-thirds of which are products or services created by fintechs or non-bank players with the remaining one-third offered by banks or building societies. Many bank-led propositions at this time focus largely on the aggregation of different accounts in one place, with non-banks often providing functional overlays on top of aggregation. Such propositions fall into two main categories—infrastructure providers and customer-facing propositions, with customer-facing propositions further split into augmentations to existing products and entirely new customer experiences (see sidebar, "Examples of open-banking propositions in the UK," page 9) (Exhibit 4).

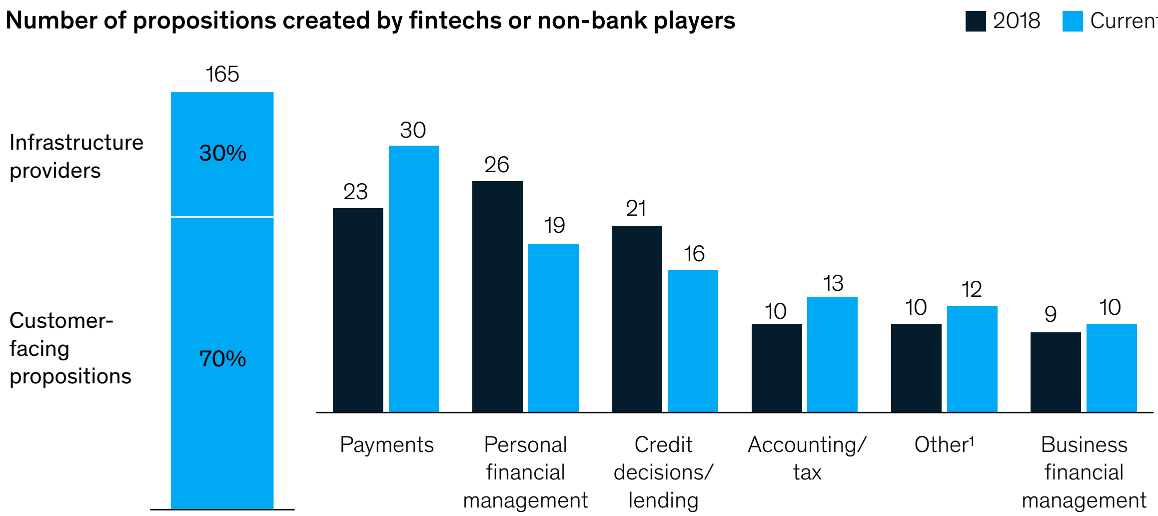
— *Infrastructure providers:* In the last two years, many players in the UK have started providing the engine by which other companies, such as fintechs and banks, can offer digital financial solutions without the need to build everything themselves. In the UK, almost 30 percent of open-banking license holders are infrastructure providers (the remaining 70 percent are customer-facing propositions). This has had a multiplying effect on market innovation since these providers make it easy for others to launch or offer new products and services more quickly. Some providers, such as Truelayer, provide data access and transfer on the back-end via APIs that power consumer-facing propositions (such as Portify and Creditladder). Others, such as the pan-European player Tink, offer a complete end-to-end solution for payments, transaction aggregation, risk analysis, and financial management that customer-facing apps and banks can white-label and use to boost their services.

— *Product augmenters:* The biggest single category of open-banking solutions in the UK comprises those that use access to banking

[6] Chandana Asif, Max Flötotto, Tunde Olanrewaju, and Giuseppe Sofo, "Detour: An altered path to profit for European fintechs," September 9, 2020, McKinsey.com.

Exhibit 4

Most customer-facing open-banking solutions in the UK center around personal or business financial management and payments.



[1]Includes propositions related to data access management, rewards, savings/investments, marketplace/comparison apps, and housing services.
Source: openbanking.org.uk; McKinsey analysis

data to improve their existing product or service, particularly those used by small and medium-sized businesses. Small-business platform Xero, for instance, offers SMEs a cloud accounting solution that connects directly to their bank accounts, in order to streamline the reconciliation of transactions and better manage cash flow.

Alphabet-backed GoCardless seeks to enhance the payment process. Its Instant Bank Pay feature, launched in April, allows merchants to take instant one-off payments directly from customers' bank accounts, thus increasing the speed of payment and lowering the transaction costs compared to a one-off card payment that would have been the typical solution.
Other companies have set their targets on improving lending. London-based iwoca uses customer income and spending history to improve credit decisioning and offer flexible and customised loan payback schedules.
Technology-focused lending aggregators like Funding Xchange reduce the loan origination timeline by automating and standardizing the way loan applications are qualified, submitted, and processed. The company uses open-banking transaction data to better evaluate an SME's eligibility and affordability against the appetite of lenders in its marketplace and is accessible by banks, lenders, lessors, and brokers.

— *Customer experience providers:* In addition to making existing banking services easier and faster (Exhibit 5), another promise of open banking is the creation of highly reliable and secure options that simply would not exist otherwise. In the UK, many of these have taken the form of personal finance solutions for consumers. For instance, account-aggregation apps, which allow customers to see all their accounts from different institutions on one screen, were among the first open-banking propositions to hit the market. ING-backed Yolt currently counts over one million customers and

Exhibit 5

Modern financial-management value propositions address many of the pain points of traditional banking apps.

Key value proposition

	All in one place	Spend smart	Budget made easy	Grow savings
Description	Track each transaction with instant notifications Remind users for upcoming payments and due dates	Move funds between connected banks Split the bill with friends securely and frictionlessly Set up fund requests and payments with ease	Break down transactions by categories to help users understand spending Set and track against budgeting goals View budgeting history to see progress	Encourage saving streak with money-pot features Prompt to stash extra cash and allow automatic, regular savings Provide cashback offers

has amassed a wealth of consumer data that it has used to diversify rapidly. The company can now show consumers their utility, insurance, investment, and pension accounts, with mortgages coming this year.

Although most new customer-experience solutions target consumers, approximately one-third are geared toward SMEs. Fintechs like FriendlyScore and BudgetBakers offer businesses the ability to monitor their financial health and plan for the future from one portal; others, like Cake, arm SMEs with consumer insights and a loyalty rewards program to power improved digital marketing.

Some of these players are diversifying their revenue streams and making money in non-traditional ways (Exhibit 6). For instance, Yolt is monetizing its customer-facing account aggregation proposition with commissions from third parties that pay to appear on its portal. It has also expanded into infrastructure with its B2B subsidiary Yolt Technology Services.

Today's open banking-enabled offerings in the UK (and elsewhere) may only be the tip of the iceberg. So far, fintechs have nibbled away at products that generate a low share of the banking industry's revenues, such as payments and current and savings accounts. Higher-margin products such as mortgages and investments have been out of current scope of open-banking regulations. Beyond product scope, an additional barrier for fintechs is the UK and EU requirement of a 90-day window for third-party access to customer data. The reauthentication of customer consent typically requires users to go through at least eight steps for each bank account, redirecting them to each bank's website or mobile app. The hassle can often lead to significant friction and drop-off in customer journeys.

However, this situation is unlikely to persist. The UK's Financial Conduct Authority is pursuing regulation that would bring higher-margin financial products such as investments and mortgages into the scope of open banking (referred to as "open finance" when more products are included). It is also

Exhibit 6

A range of new commercial models are emerging, with more established players tapping into multiple revenue streams.

Total registered UK third-party providers, %

Highest prevalence
Second highest prevalence

Commercial model		Infrastructure provider	Product augmenter	Customer-experience layer	Total
Subscription/ license fee	Steady fees charged regularly (eg, monthly) to enable access	33	34	37	34
Volume-based data-access fee (via APIs)	Variable fees charged per data API call	31	11	13	20
Implementation/ onboarding fee	Fees to deploy, customize, and integrate solution; could include outsourcing fees	24	10	6	15
Transaction fees	Variable fees charged per transaction	6	23	8	13
Referral/ commission	Fee earned for each successful 3rd-party sale made using platform	4	17	21	13
Interest income/ deposit margin	“Typical” banking revenue streams	0	4	13	5
Data/insights monetization	Fees from selling anonymized customer data to 3rd parties	2	1	2	2

Source: openbanking.org.uk; McKinsey analysis

considering removing the 90-day access limit in favor of a simpler consent reconfirmation, potentially within the third party’s interface. Such moves would unlock a much more complete financial view for each customer, open the door for additional use cases, and strengthen fintechs’ ability to both acquire and retain customers.

What customers are saying about open financial data

In our research, we found that asking customers general questions about data sharing doesn’t reveal a true account of their willingness to use open banking. Rather, to get a more complete picture, we created mock-ups of multiple open-banking propositions, asked customers to rate which ones they liked, and then asked them whether they would be willing to grant access to their data in order to use them. In this research, conducted with 3,000 UK consumers and SMEs, we found customer sentiment to be highly positive. Unsurprisingly, tech-savvy young professionals expressed the highest overall interest in open banking. A few other key findings:

— While consumers showed innate conservatism toward data sharing, their willingness to share data doubled when they found a particular feature or service appealing or when they understood the value it might bring to their lives—as compared to a general willingness to share data. This held true across all segments, even for those most conservative in their views about open banking–enabled propositions.

— Financially stressed consumers, although not a typical target for financial services, are likely to

Examples of open-banking propositions in the UK (based on the sample of companies that informed the writing of this article)[1]

Infrastructure providers

— Bud Financial works primarily with large institutions to enhance digital experiences for end customers and provides clients with real-time analytics capabilities that are used to improve credit-decisioning models, streamline collections, build a holistic picture of a customer's finances, and reduce disputed transactions.

— Plaid connects financial institutions with third-party solutions and was valued at $13 billion, as of April 7, 2021. In the UK, and soon Europe, Plaid's API also offers payments capabilities and the recently launched Plaid Exchange offers US financial institutions an API solution to support connectivity with other financial services.

— Tink works with large retail banks, payment processors and payments service providers, and other fintech developers to provide payment-initiation services, access to financial data to verify income and identify risk, and tools to build personal-finance management solutions.

— Yolt Technology Services builds, manages, and maintains an open-banking API network connecting multiple European banks with third parties and offering account services, payment initiation, and data enrichment and know-your-customer services.

Product augmenters

— Boost was recently launched in the US and UK by credit-reporting company Experian. It uses a consumer's recurring payments to inform credit scores.

— Credit Kudos is a challenger credit-reference agency building intelligent solutions using open banking and loan-outcome data to enhance affordability and risk assessments for both consumer and commercial lenders.

Customer experience providers

— Credit Data Research gives SMEs a real-time credit passport to allow them to understand their credit score and display their rating on their websites to get loan approval from lenders. The company uses real-time transaction data and analyzes credit scores integrating the methodology that its shareholder and partner Moody's Analytics employs for corporate clients.

— Money Dashboard aggregates customer accounts and runs their budgeting for free; the company makes money by providing aggregated and anonymized consumer-spending insights to third parties.

— Moneybox, an automated investment and saving platform, gives customers a comprehensive overview of their wealth and automates spare-change transactions into savings at selected partner banks.

— OpenWrks is a provider of open-banking applications. Its MyBudget solution is used by financial-services firms, government agencies, and utilities to help people understand what they can afford to borrow, repay, save, and invest by using and sharing open and first-party data. OpenWrks' consumer-facing solution Tully provides regulated debt advice and helps consumers build a budget and understand their financial situation.

— Snoop combines personalized content along with money-saving and money-management capabilities, and compiles and scans bank-account and credit-card data to spot savings opportunities across a range of spend categories, letting customers switch to a better deal within the app.

---

[1] Company descriptions based on public company website information, unless otherwise indicated.

be a key segment for open-banking solutions. Consumers with limited resources, little time to manage financial matters, or both, expressed interest in solutions that would help them save and manage their money. Additionally, nearly 40 percent of UK consumers who are worried about their job security said they found apps that help people automatically save money and do better tracking of their spending to be appealing.

— Affluent seniors are also an attractive market, with 15 percent willing to share data for concepts they like. These customers were typically tech savvy and saw how technology could simplify their financial lives, and were more confident testing new tools.

Beyond the UK, consumers express similar sentiments. A majority of Brazilian consumers (we surveyed 60 percent), for instance, found open-banking propositions appealing, and this figure increases to 80 percent when people are presented with a proposition they specifically like.

The record use of digital financial products and services during the COVID-19 pandemic has helped boost comfort levels among a broad set of customer segments.[7] For instance, many fintechs now have a greater share of customers over 30 than they did in 2019, a demographic generally less digital-first than younger consumers and more likely to have a mortgage, children, and more complex financial needs. In a recent UK survey, half of SMEs said they began using open banking–enabled products such as cloud accounting software or cashflow-forecasting tools over the last six months, mostly due to heightened concerns about their finances or increased digital-channel usage during COVID-19 lockdowns.[8]

In our research, we identified the top three ways in which consumers and SMEs think open banking will improve their banking experience:

1. *Everything in one place.* It's not uncommon for customers to have multiple types of financial accounts with multiple institutions. The ability to bring all of this together into one, easy-to-manage place is extremely appealing. In our research, people told us they wanted to be able to make better sense of their complete financial picture, for instance tallying up the money spent on expenses and seeing how much is allocated to current accounts versus savings and investments. In a survey conducted last year by Bud Financial, 81 percent of young people said they wanted more visibility into how much money they had left to spend every month.[9] Other respondents in our survey mentioned the need to check transactions across multiple accounts after spotting fraudulent activity.

   SMEs are equally enthusiastic about solutions that integrate payments and other financial services into their existing systems and processes, for instance bringing together bank accounts, accounting, tax, and reconciliation activities into one place. Despite this interest, there are fewer open-banking solutions for SMEs in the UK than for consumers. Only 35 percent of solutions cater to SMEs, with even fewer in the categories businesses identify as their biggest needs (that is, lending solutions and finance management).[10] Given that UK SMEs are just as open to new third-party solutions as consumers, if not more so, this is a clear area of opportunity.

2. *Expansion of distribution points for financial services.* Instead of going through their bank

[7] John Euart, Nuno Ferreira, Jonathan Gordon, Ajay Gupta, Atakan Hilal , and Olivia White, "Financial life during the COVID-19 pandemic—an update," July 23, 2020, McKinsey.com; Tamara Charm, Harrison Gillis, Anne Grimmelt, Grace Hua, Kelsey Robinson, Ramiro Sanchez Caballero, "Survey: US consumer sentiment during the coronavirus crisis," May 13, 2021, McKinsey.com.
[8] "Adapting to survive: UK's small businesses leverage open banking as part of their COVID-19 crisis recovery," Open Banking, December 7, 2020, openbanking.org.uk.
[9] *Beyond Open Banking: 2020 and the road to Open Finance,* Bud Financial, thisisbud.com.
[10] As of Dec 2020.

for services like payments, consumers want the convenience of financial activities embedded into their day-to-day life, such as during online shopping. Shopify, the Ottawa-based company, and Klarna, the Swedish online payments and shopping company, let shoppers buy items online by paying directly from their bank account. Both companies now process millions of purchases a day, with Klarna offering shoppers the option of delaying payment or paying in installments—functioning essentially as an interest-free credit card. Last year, monthly active users of Klarna's app increased 1.6 times and the volume of consumer loans grew by over 40 percent.[11] In 2020, Shopify grew its gross merchandise volume by 96 percent and doubled its valuation.[12] In the EU, Amazon is offering similar financing options to shoppers through partnerships with banks like Barclays and ING. Caura, another fintech, is applying the embedded finance model to cars. A platform to manage everything for your car, the company lets users pay parking tolls, congestion charges, and vehicle taxes from an app.

3. *Better value for money.* Consumers are already conditioned to shop around for financial-services products. Some 50 percent consistently use comparison websites, a share that goes up to 70 percent in certain segments, such as tech-savvy professionals. Our research shows that customers crave even more information about whether they are making the best use of their money, and they want tools to be able to act on that information. Among the six open banking–enabled propositions we tested with consumers, an app that enables the seamless switching of savings accounts scored the highest, with around 40 percent of consumers expressing their intent to download it. Consumers are also drawn to solutions that help them find the best deal among loans, credit cards, investments, and non-banking products such as insurance and utility providers. SMEs are equally eager to shop around for new offerings. Nearly a third said they found our open-banking propositions appealing and would be likely to switch their main bank in the next 12 months, the main reason being that open-banking APIs made the process easy.

Capturing the opportunity

Innovation enabled by open financial data appears to have ramped up considerably in the past year. For competitors in financial services, this raises the importance of taking stock of their position in the evolving financial ecosystem and understanding where the attractive areas are likely to be. We believe there are a few critical strategic questions every player, whether a fintech, incumbent bank, or tech giant, should ask themselves about the changing landscape.

How quickly and deeply will open financial data take hold?

We believe two factors could determine the size and depth of open financial data's impact—the types of products included in scope and whether the regulations for APIs allow customers to take action with their data as opposed to just viewing it. As noted earlier, the UK's FCA is currently considering bringing further products (such as mortgages and investments) into the scope of legislation, while many national regulators around the world are still undecided. The type of API allowed by regulators also varies around the world. UK open-banking rules include both the ability to view data (read) and the ability to interact with it (write) in ways that unlock use cases such as the seamless movement of money or switching to a different product or provider. In Australia, by contrast, third parties can only view customer data.

[11] "Klarna Business Update, January – December, 2020," Klarna.com.
[12] "Shopify Announces Fourth-Quarter and Full-Year 2020 Financial Results," February 17, 2021, news.shopify.com.

If customers can easily interact with their data across a broader range of products and seamlessly switch, it is likely to result in greater churn and margin compression—posing a threat to incumbent banks and creating an opportunity for new entrants such as fintechs and tech giants. It will be important for banks to calibrate their current actions on open banking against their views on the likelihood of this outcome materializing.

Who is going to own the infrastructure layer in your market and how much power will they wield?

Given the scale economies inherent in such businesses, it might be that a few large infrastructure providers will provide the lion's share of open-finance API access in any given market. These scale providers are likely to provide "scaffolding" for a range of players to enter financial services with lower effort or investment, driving up competitive intensity. In addition, given the large amounts of customer data they could be intermediating, they are well positioned to diversify beyond data access into end-to-end white-label solutions and/or the provision of data-backed insights to third parties and merchants for marketing purposes. As such, the scale, proposition evolution, partnering approach and customer base of these infrastructure players will send important signals about how the landscape may evolve.

How much will financial distribution move away from banks?

In our view, the question is not whether the customer interface will shift away from incumbent financial institutions, but by how much and in what areas or segments. Some markets are already seeing a marked shift toward fintechs. Some 20 percent of the UK population has an account with a digital-only neobank[13] and 55 percent of US consumers use fintech solutions, with many (44 percent) having at least two accounts.[14]

Incumbent banks have to ask themselves how they can maintain their front-end connection with the customer, and where they have a realistic shot at keeping it. This is particularly true in a context where customers increasingly want financial products and services embedded into their daily activities and to see all their data in one place—often from what they consider an "independent" party. Many fintechs and tech giants are vying to occupy this space and steadily making gains in building material customer bases for financial products and services, an area where banks have historically had a stronger position.

Some banks are adopting a partnership-led approach to reach customers in new ways and take advantage of the relative strengths of different participants. The Australian bank Westpac, for instance, is set to enable pay-later provider Afterpay to offer its customers transaction and savings account services via Westpac. Stripe has partnered with banks including Goldman Sachs, Barclays, and Citibank to launch Stripe Treasury, an API that enables Stripe customers (Shopify is one example) to offer banking as a service to their own end customers. These approaches could signal a new model for certain segments that combines tech/fintech distribution with the at-scale banking capabilities of incumbents.

How will the definition of a financial services provider evolve?

Today, credit-card companies provide customers with a physical card, an online/mobile app to monitor transactions, and often rewards like travel points or cash back (typically for a fee). Fintechs like Klarna are redefining this model, transforming it into a rich checkout experience, which includes seamless access to flexible no-fee installments, extended checkout periods, and the ability to find deals and promotions for purchases customers are planning. Instead of charging customers traditional credit-related fees and interest, Klarna

[13] McKinsey Panorama UK benchmarks.
[14] Alexis Krivkovich, Olivia White, Zac Townsend, and John Euart, "How US customers' attitudes to fintech are shifting during the pandemic," December 17, 2020, McKinsey.com.

also generates value by providing intelligent customer insights to retailers and merchants, and monetizing those insights through increased traffic or sales for merchant partners. In another example, Amazon, through its partnership with banks, is providing point-of-sale loans to eligible sellers, enabling them to increase sales and reduce buying/selling friction.

In essence, API-enabled embedded finance solutions allow fintechs, tech giants, and other non-bank players (for examples, retailers) to essentially create a "financial-services-plus model." This ongoing blurring of industry boundaries could reshape how customers think about what a bank does and when to turn to it.

Where might value in the industry shift and what impact will this have on margins?

Banks have historically controlled the end-to-end value chain (from manufacturing to distribution) and monetized their customer relationships through interest and fee charges. As we have described, financial services innovation has the potential to alter market structure: It enables new actors to participate in the value chain and "overlay products" to be built on top of the banks that broaden the customer proposition and expand monetization options. Such shifts have had material impact in other industries, such as telecommunications. We tracked the combined total market capitalization of the top 25 global telcos and top 8 listed technology companies that use telecom infrastructure to distribute services over the internet; while the overall market cap of the full set of companies increased by over 90 percent between 2013 and 2018, the 25 telecom operators captured roughly 40 percent less share of value in 2018 than they did in 2013.[15] More recently, revenue from digital content products offered by new distribution-focused players such as Netflix and Spotify were estimated to grow by over 15 percent between 2019 and 2020 versus growth of roughly 5 percent or less in typical products offered by telecom operators such as broadband, voice, and pay TV.[16]

Banking could be in the throes of such a shift. Customer engagement could move to new distribution points as non-banking, tech, and fintech players embed financial products into their propositions. For players with a franchise beyond banking, they may take a broader perspective on customer value, cross-subsidizing financial services with revenues from other parts of their business (potentially commoditizing some financial products, or at the very least compressing margins). In addition, new revenue sources could emerge, such as API-usage fees and monetization of customer and market data insights. It will be important in this context to pay attention to the shifting profit pools and to adjust pricing and monetization approaches to reflect those changes.

The answers to these questions will ultimately shape strategy and inform the role of various market participants in the changing ecosystem. If the changes to distribution fueled by open financial data are dramatic, and happen rapidly across many segments, a bank's role may transition into that of a utility, manufacturing the infrastructure upon which fintechs and tech giants run customer-facing propositions. If the changes to the landscape are more modest and less wide-ranging, banks are still likely to have to invest to improve their digital customer experiences, and consider strongly how to integrate new actors into their propositions.

What is clear is that no matter which scenario unfolds, customer expectations will be elevated. As such, there is likely to be a greater and growing performance differential between leading and laggard institutions versus the somewhat stable balance observed in many markets today.

[15] Capital IQ and McKinsey Corporate Performance Analytics.
[16] "2020 Trends to Watch: The Digital Consumer Landscape," Omdia, January 2020.

Open financial data should be watched carefully. Consumers and small businesses want more choice, ease, and flexibility in how they manage their money. Open financial data provides new and distinct solutions that people find appealing. Much in the way that Google's release of its map APIs data paved the way for ride-sharing and other location-based apps to build new propositions at pace, open finance has the potential to usher in a wave of innovative financial products and services few have yet to even consider.

Market participants, and particularly incumbent banks, need to grasp the magnitude of the change that is currently underway. It will be important to develop the agility to partner with a wide set of players and build innovative offerings that can serve customer needs in the context of their everyday lives. They must be prepared for a world in which the future of banking is truly "open."

Chandana Asif is a partner, **Tunde Olanrewaju** is a senior partner, **Hiro Sayama** is an associate partner, and **Ahalya Vijayasrinivasan** is an associate partner, all in McKinsey's London office.

The authors would like to thank Giuseppe Sofo and Himanshu Kalia for their contributions to this article.

To inform the writing this article, the authors undertook interviews with executives from a number of companies (in alphabetical order): Bud Financial, Credit Data Research, Credit Kudos, Funding Xchange, GoCardless, Money Dashboard, moneybox, OpenWrks, Plaid, Snoop, Tink, Xero, Yolt. The authors thank these firms for their insights.