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GDPR, PSD2 and Open Banking are creating a New Dynamic in Personal Financial Services: A Note

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INTRODUCTION

European policy makers have introduced substantial changes on data portability and payment systems with the objective of allowing their consumers and their citizens a much better control of their personal data.

Their second objective is to change the industrial dynamic in banking and in financial services, hoping to reproduce here similar benefits of what their recent policies in the energy and telecommunication sectors have produced, that is, more competition,

more transparency and lower costs for consumers.

NEW BUSINESS MODELS

These changes are however being introduced at the same time as new technologies come to the market with great speed and with substantial disturbing impact on the financial industry.

European new regulations on data portability and on the payment system and new technologies are provoking a paradigm shift in banking and in financial services. Access to account information and payment initiation by third parties will

- Reduce online payment costs.
- Change the interaction flow between the payer and the payee.
- Disintegrate the banking value chain.
- Improve client authentication and security.
- Give rise to a large number of new business models including account aggregation, comparison tools and other value-added products which are changing the business of serving retail customers and the dynamic of market forces.

These new models relate to Personal Financial Management where clients have a choice of having access to open architectures for all dimensions of their needs from payments services to credit facilities, as well as investment and protection products. Clients could become totally autonomous in the management of their personal affairs and services providers are there to help them achieve this goal. Clients will receive personalized and customized products and services. Clients will be able to use all channels from light touch to total digital, from fixed to mobile, when they want and where they want. Clients will have increased capacity to compare fees and performance of their product and service packages and simulate what would be their experiences if these packages were delivered by other suppliers than their current

ones.

In this new context of new competitors (Fintech and others), more transparency and comparison capacity, markets are becoming much less opaque and the pressure on pricing of all financial products is intensifying.

In payment services, banks must reduce their fees not only because they face new competitors at lower fees but also because they want to maintain their customers on their own payment systems in order to directly access the “behavioural data” from their transactions. In credit services, banks are facing all kind of new competitors from the Fintechs and other players. In wealth and protection management, what used to be “institutional services” is now retail services as the value chain has moved from Alpha (mutual funds are no longer the favorite product) to Beta (asset allocation with ETF’s and managed accounts are become the investment solution replacing investment products like mutual funds) but at very low fees and finally to Gamma, that is, complete financial advice.

Not only financial advice is now the key source of value for clients but it comes with a complete offering in an open architecture of Personalized Financial Management Products and Services, like the following: Account aggregation has increasingly become the cornerstone of the relationship between the clients and his advisor but it is complemented by other analytical tools for planning and simulating as well as comparison capability on fees, rates and performance. Comparison capability is also a key consequence of open banking and data portability as it allows third party providers to get the information and make cost and performance comparisons possible and available. The competitive dynamic changes when information costs are reduced, and fees and rates comparisons become easily available and cheaper. In many markets other than financial services this new dynamic has been the case for many years. Just think of hotel shopping on the web! Price transparency is key to intense competition and it does effectively improve the level of consumer literacy.

Retail Banking and Financial services are natural application areas for artificial

intelligence, big data and data analytics for those institutions that have access to the payment systems where every day clients illustrate by their transactions their preferences and their beliefs!

Aggregating only the balance sheet once a month may not be sufficient to understand client behaviour and to be able to offer them personalized advice.

Daily tracking transactions are essential to understand saving behaviour as well as investment behaviour of clients. Preferences, attitudes toward risk, panic reactions, etc. cannot be tracked by a photo every month! One needs the film of events. Moreover, it may well be that account aggregation by screen scraping will not be legally possible for cyber-security arguments. Those who control the payment systems will have a clear competitive advantage.

The relevance of these trends is not so much about what kind of Fintech business models will be successful but it is more about how big and large banks and financial institutions are reacting to these paradigm shifts.

After having tried to oppose these new policies, large European financial institutions decided to move ahead by embracing these changes and reinventing themselves.

Most of them have benchmarked how payment technologies and financial systems are evolving in China (the QRcode is used to transfer money by mobile phone) and other areas of the world and they have decided to work together as an industry to establish standard APIs (Application Programming Interface) and to interact with their regulators to improve security and safety to their payment systems. Moreover, for many of them the real treat is not Fintech players but GAFA (Google, Amazon, Facebook and Apple) who have already built very effective platforms with great capacity to compete in Banking and Finance if they want.

To illustrate the concepts, just suppose that someone owns the rails and the train of cars (the structure) traveling on the same rails and suppose also that on one side of

the rails are the suppliers of goods (the supply side) and that on the other side are the clients for these goods (the demand side), this owner is certainly in control of a very effective and potential lucrative platform! In this conceptual illustration, the platform is totally open and one can understand that all suppliers will want to have access to the platform and that all consumers are also looking to get access to it.

Moreover, it is easy to imagine that on a given territory there would be a limited number of platforms!

In the digital world where the logic of “winners take all” prevails, the number of giants like Amazon will be limited! Could that happen in banking and financial services? Many large financial institutions look at the future of their business as a digital platform with some physical outlets. The framework of their thinking can be summarized as follows:

- The platform components: the supply side.
- The platform client segmentation: the demand side.
- The platform structure: the products and services delivery models.

The components of the supply side are of three broad categories: proprietary components, where the bank owns the product and the product is under its own brand; grey components, where the bank outsources the product but the product is under its own brand; outsourced components, where the bank outsources both the product and the brand. On the demand side, it is all about client segmentation by degree of loyalty, by degree of sophistication or any other criteria. The structure recognizes the merchant (who delivers the service or the product), the product aggregator (who assembles all the components of the personalized offering), and the single product providers as well as the data providers.

Everyone knows about the share economy models: Uber for taxi, Getaround for car-sharing in California, Airbnb for housing renting, SnapGoods, peer-to-peer lending, etc. Less known is the fact that many incumbents are investing in sharing rivals (Avis

has invested in some car-sharing business) and others are incorporating share-economy benefits in their customer offering. In the European markets, some banks are already offering their clients the benefits of share economy. For example, a bank is offering car-sharing to its clients of a fully owned subsidiary in car leasing. The bank clients are becoming members of a club. The concept is to introduce the public good benefits of share-goods or services into the private offering to the clients. Every client can potentially benefit from the sharing platform. This is a very powerful concept with the millennials who do not want to own goods but to rent them as they need them.

CONCLUSION

The near future is a very different place than the current uniform proprietary products offering from one location with very little mobile access, with poor or no analytics on personal financial management and no benefits from the collective purchasing power of the client group where a customer belongs!

In this context having access to the payment systems and account information will become a key competitive factor to be a relevant player in wealth management and more importantly so in countries where banking and payment systems are very concentrated. Without access to transactional data, it will become increasingly difficult to succeed in the personal financial business. Data is gold and the payment system is the mine!

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