



## A.T. Kearney Open Banking Study 2018 – Results in Romania

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# How do customers see Open Banking? *Selected insights*

November 2018

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# We'd like to share with you our perspective on EE Open Banking based on customer research and client work

## Our Open Banking experience

### Open Banking customer study



- **Largest** Open Banking study on Eastern European countries
- Over **3000** respondents
- Topics covered: **Open banking, Payments, Transaction data**
- Conducted in **May 2018**

### Global Open Banking players study



- Over **150** respondents from **top management** of **leading global financial institutions** and **fintech start-ups**
- Topics covered: **Open banking strategy, APIs, Cooperation with third parties**
- Conducted in **Q4 2017**

### Open Banking projects for leading financial institutions

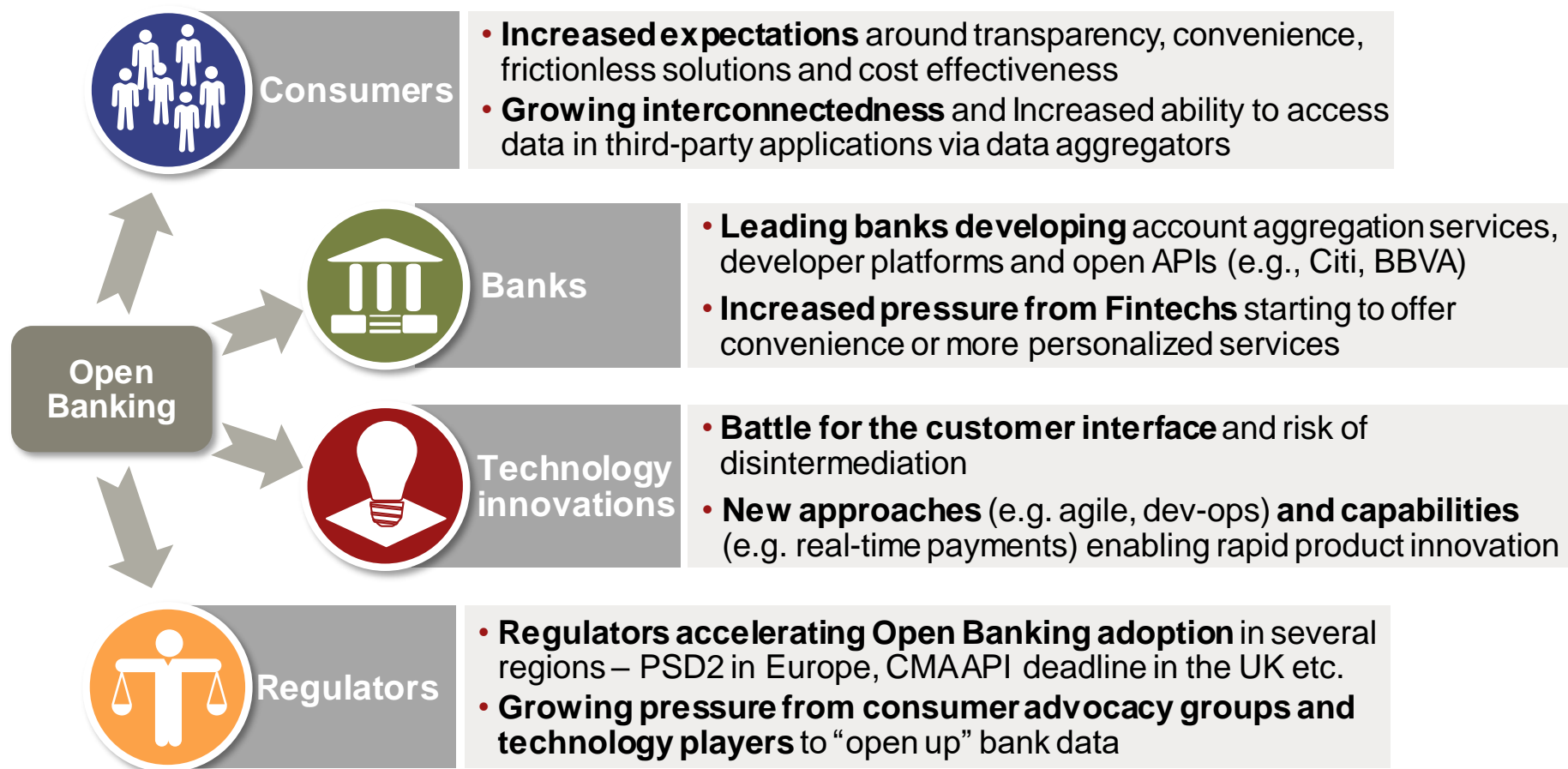


- **10+ Open Banking and PSD2 projects** for leading financial institutions in the last 12 months alone
- **60+ digital payments and digital monetization** projects in the last 3 years

**We combine unique insights gathered through a largest Open Banking study on EE market with global experience working with leading banks**

# Open Banking is the industry response to consumers changing behaviour and technology developments

## The Burning Platform



# Open Banking is changing the traditional banking landscape – both threats and opportunities arising

## Open Banking Threats and Opportunities

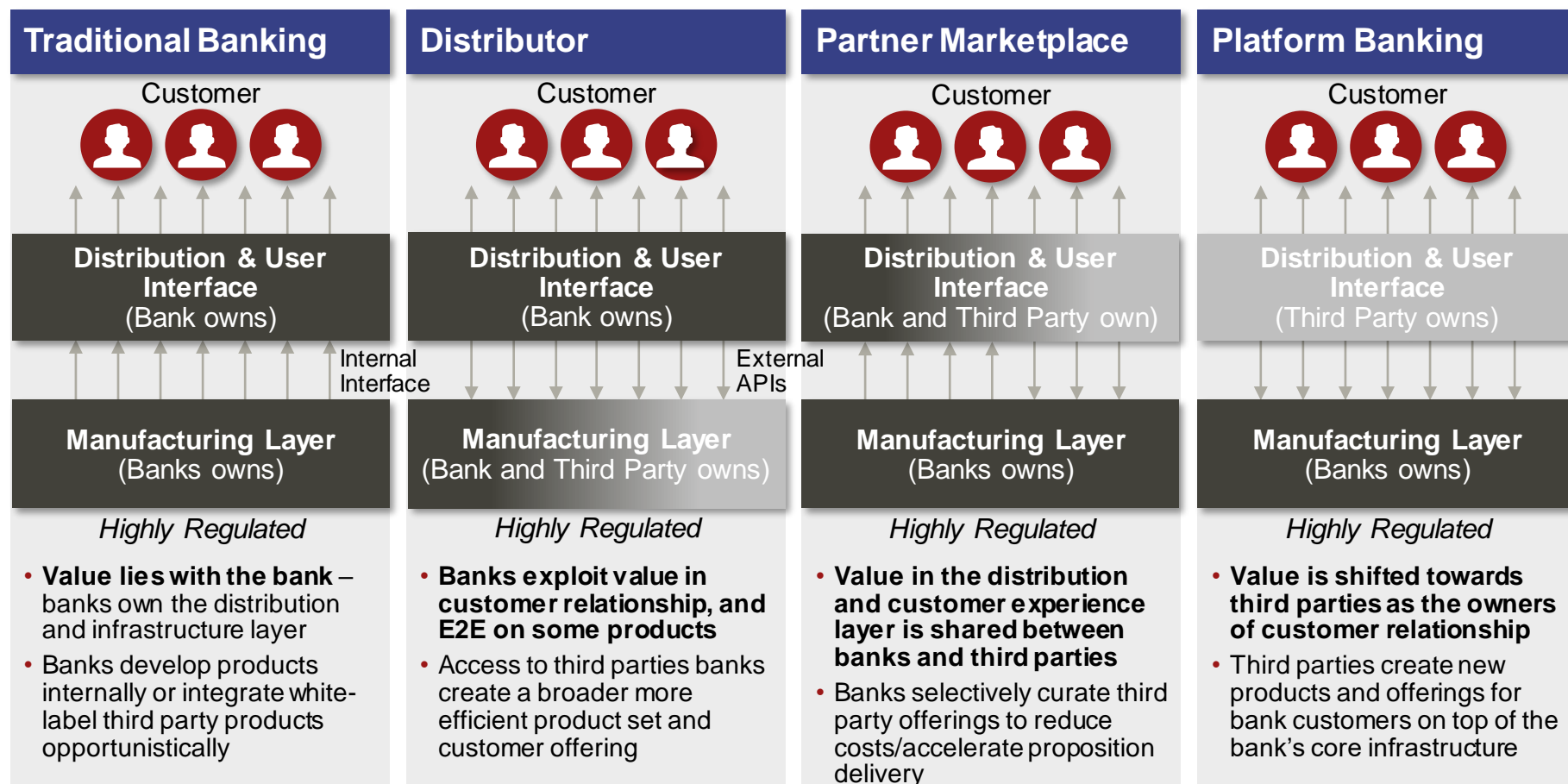
Exemplary



# Fundamentally, Open Banking is the decoupling of distribution and manufacturing within banking

## Bank model transformation

Banking Models Not Mutually Exclusive



# The Open Bank environment will be crystallised in 2019 with GDPR and PSD2 coming to full implementation

## Implementation timeline

### PSD2

- Third-party account access (PISP, AISP)
- Extension of PSD scope and definition
- Prohibition of card surcharges
- Security of online payments and account access

PSD2 regulation enters into force for AISPs and PISPs applies

January 2018

Contents of RTS transposed into regulation and is binding for all EU members

Sept. 2019

April 2014

GDPR is approved by the European Parliament and the Council of the European Union

May 2018

GDPR fully enforced, including non-compliance fines

### GDPR

- Protect data privacy
- Formalize consent process
- Transparent communication on data processing
- Right to permanently erase data

**Complementary regulation on access and data processing rights should bring clarity and increase trust in emerging banking applications**

# There are four potential scenarios indicating how the retail banking landscape could shift – no clear winner yet

## The rise of the giants

- Large tech companies use their scale and customer proximity to expand further into retail banking
- They exploit their digital expertise to make compelling experiences with a low cost base
- They take significant market share in key markets

## Status quo

- PSD2 and CMA are launched with a very limited impact amid low customer uptake
- The value propositions are not compelling enough to encourage users to adopt beyond niche levels
- The banking value chain remains unchanged with a limited impact

## Retail revolution

- Retailers use PSD2 and open banking to create value for their group
- They vertically integrate financial services into their offerings without holding the balances
- They use loyalty schemes and targeted marketing to increase sales, boost margins and improve performance

## Banking dominance

- The retail banks use PSD2 and open banking to capture value back from NIM compression and loss of interchange
- They build their own payment schemes and integrate directly with the largest merchants
- They leverage customer's trust to compete and develop 'digital ready' products and services

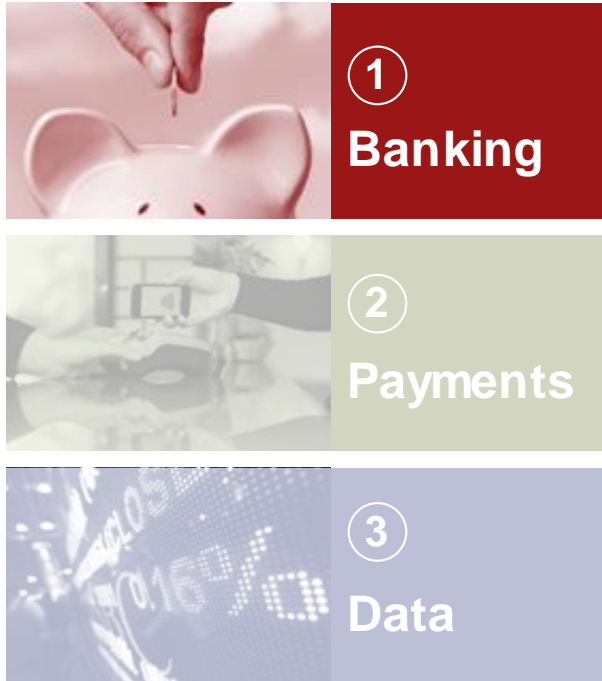


# **Open Banking Study 2018 – Results in Romania**



# The survey revealed a number of interesting findings across the three dimensions: **Banking**, Payments, Data (1/3)

## Survey structure & key results



### 1 Banking

### 2 Payments

### 3 Data

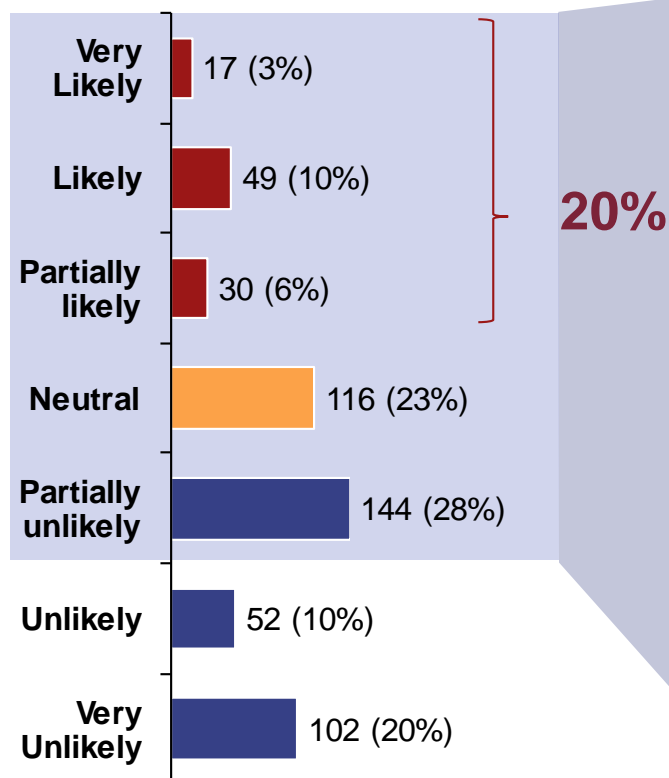
- On average, **one client** has financial products in **two banks** (decreasing in last years, shift expected to change)
- **On average, customers use 2.9 banking products**, most often current account (+debit card), credit card, a loan or insurance
- **~70% of banking interactions are online** vs 30% offline
- **Almost half use online banking weekly or daily, 40% use mobile banking weekly or daily**
- **For 58% of the consumers, switching primary bank is unlikely**
- **Higher earners tend to stay more time with their bank**
- **Reasons to potentially switch:** better service or products (~40%), pricing (~15%). **Better payment options 10% (higher for <24y but also 55-65y age groups)** - expected to increase

For ~20% of all consumers, switching the primary bank in the next 2 years is likely

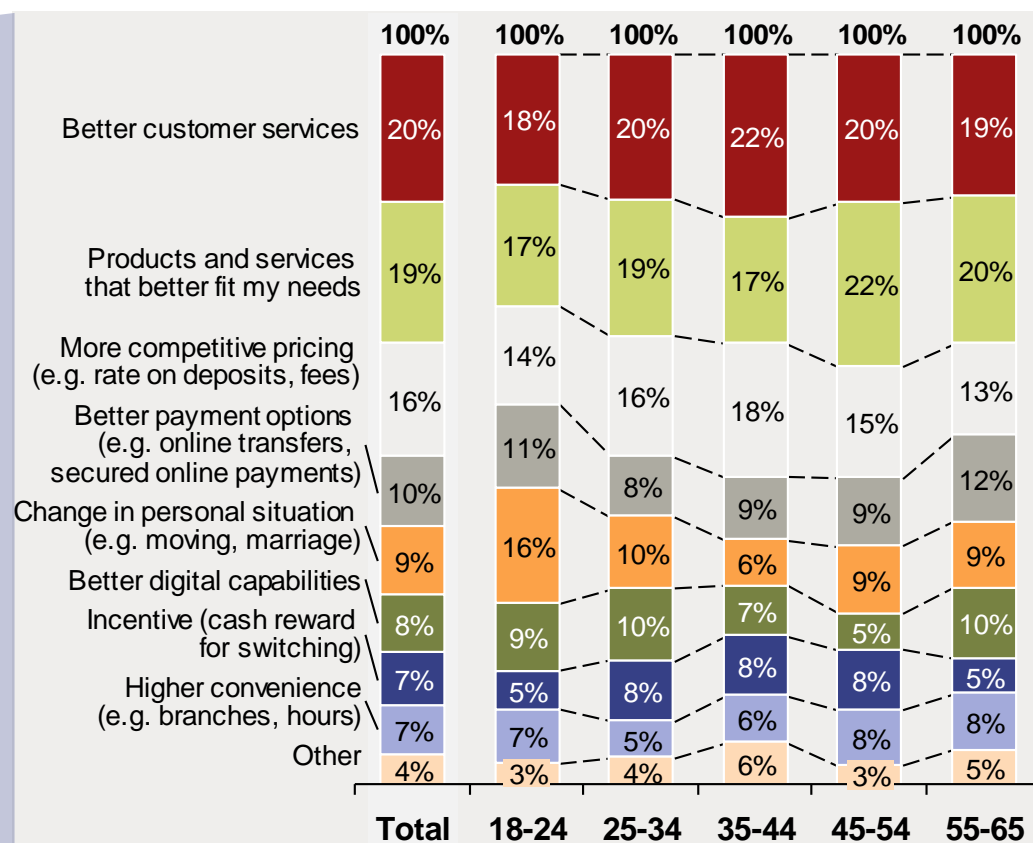
## 1 Bank switching (n=510)



### Likelihood for bank switching next 2y



### Reasons for potential bank switch

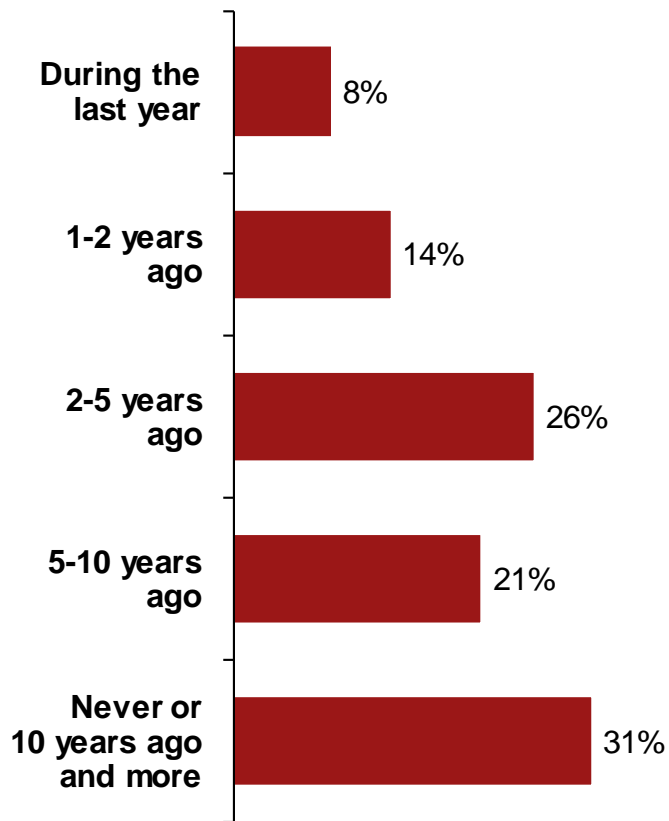


Consumers don't change their primary banks that often (i.e. vs telco), ~22% have switched in last 2 years

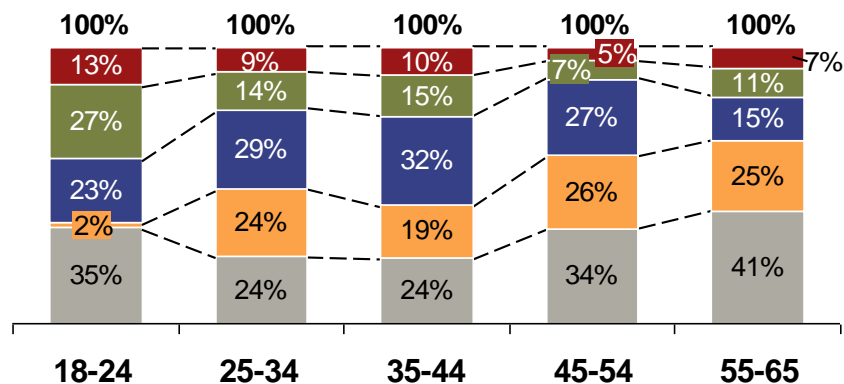
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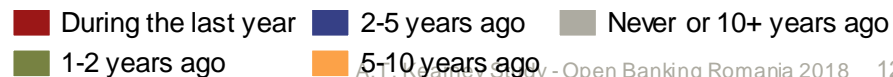
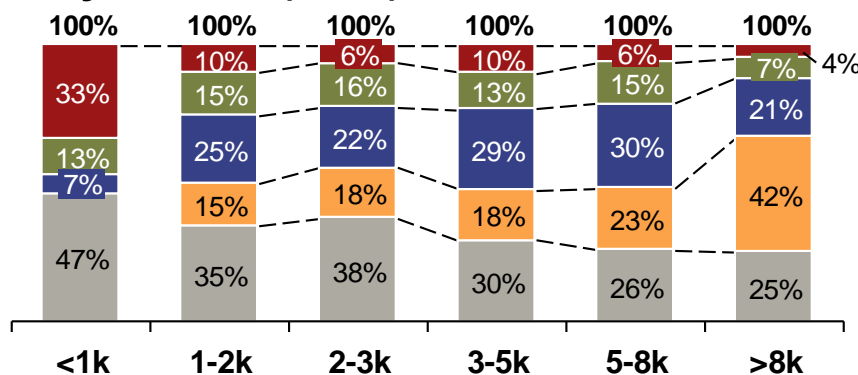
Last time customer switched primary bank



...by age

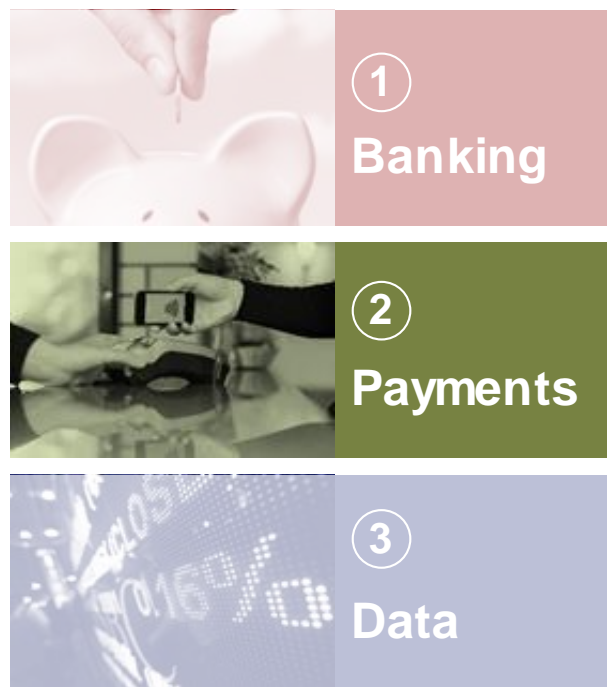


...by income (RON)



# The survey revealed a number of interesting findings across the three dimensions: Banking, **Payments**, Data (2/3)

## Survey structure & key results



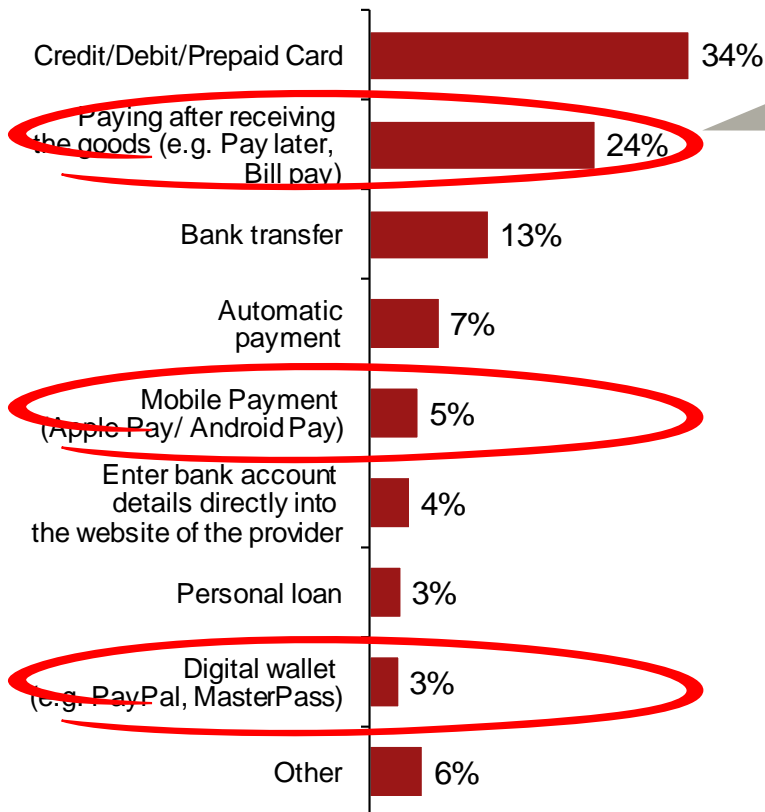
- **62%** of all consumers buy online at least once a month using their computer
- An average consumer uses the smartphone **40 times** a year for online purchases (more than twice a month)
- **Card is most used payment method (45%)**, however also **paying after receiving the goods (42%)** or bank transfers (37%) – and remain preferred (declaratively)
- **20% consumers enter bank account details on website of the provider**
- **Ease of payment is the main reason for choosing online payment**; loyalty benefits not among first reasons
- Results indicate that **digital wallets** will be very **relevant going forward for online and offline purchases** (84% would use a digital wallet for online purchases, 53% for physical store purchase)

30% of all consumers who purchase online use Card as their preferred method, but alternative methods increase in preference

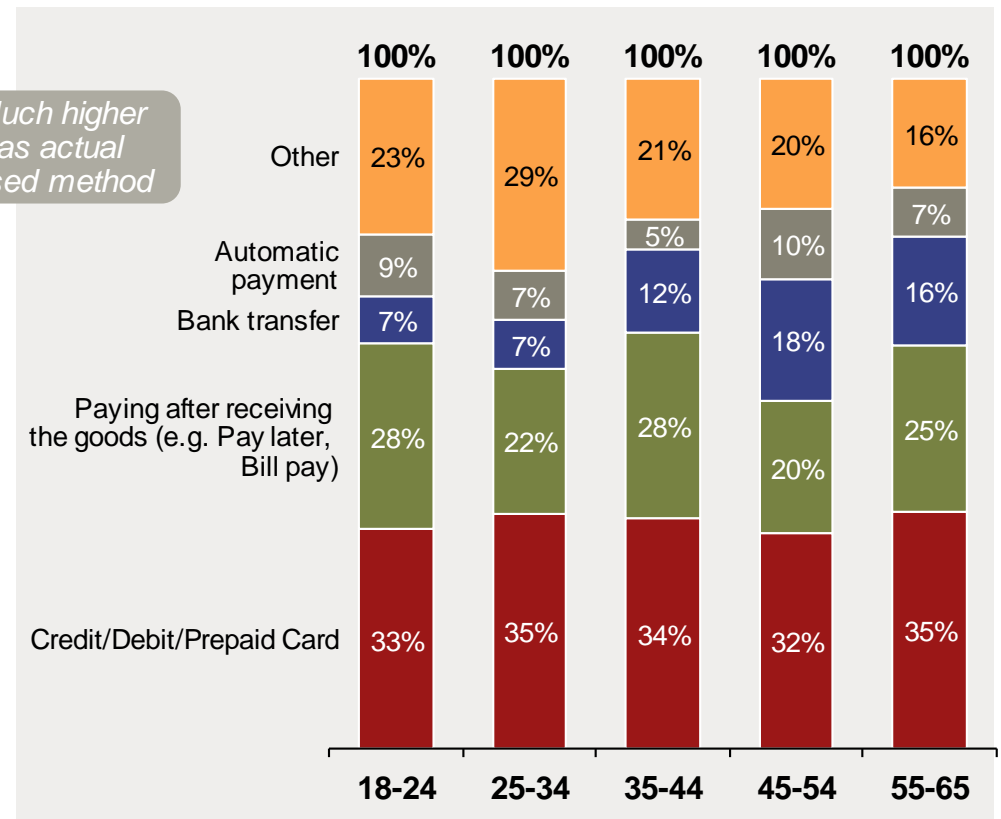
## 2 Online payment methods (n=510)



### Preferred methods<sup>1</sup>



### Preferred methods by age group

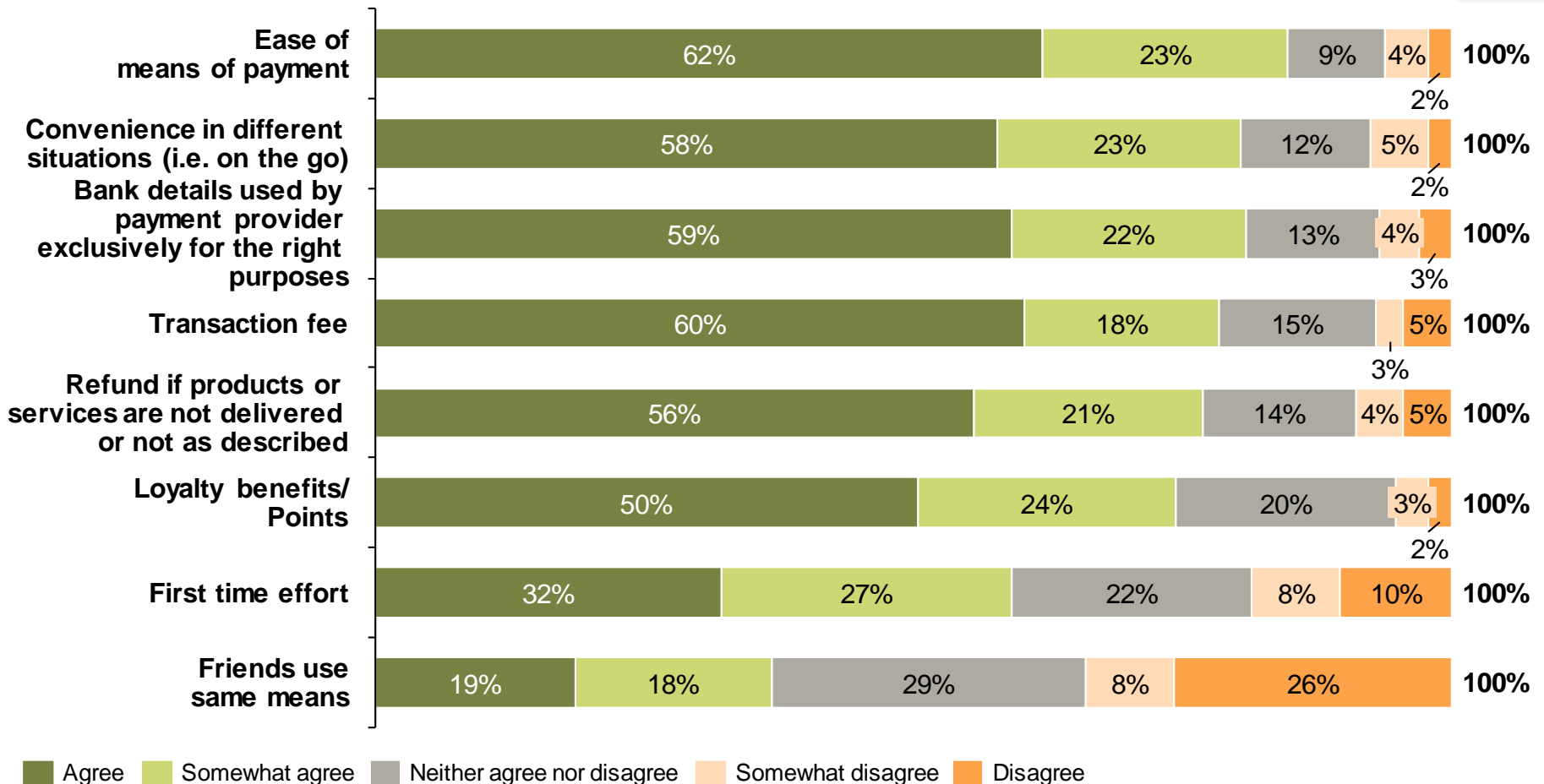


Much higher as actual used method

1. Excluding 31 consumers who do not do online purchases  
Source: A.T. Kearney Open Banking Survey 2018

# Key factor for choosing online payment is ease of use, while payment method used by friends is relatively not relevant

## 2 Main factor for choosing a means for online payments (n=510)<sup>1</sup>



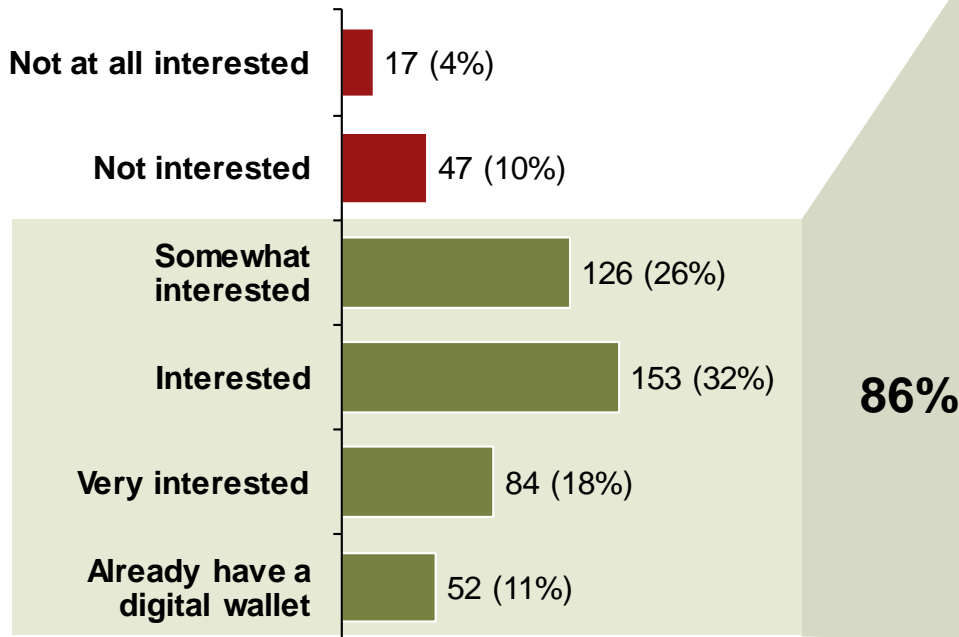
1. Excluding 31 consumers who do not do online purchases  
Source: A.T. Kearney Open Banking Survey 2018

Over 80% of consumers would use digital wallets for online purchases, 53% are interested to use it in physical stores

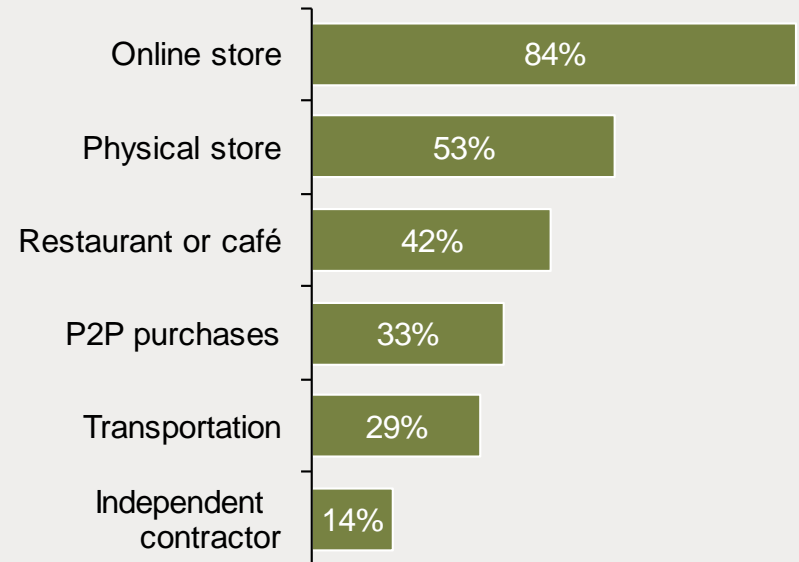
## 2 Interest in digital wallets (n=510)<sup>1</sup>



How interested are you in a digital wallet?



For which purchases would you use a digital wallet?



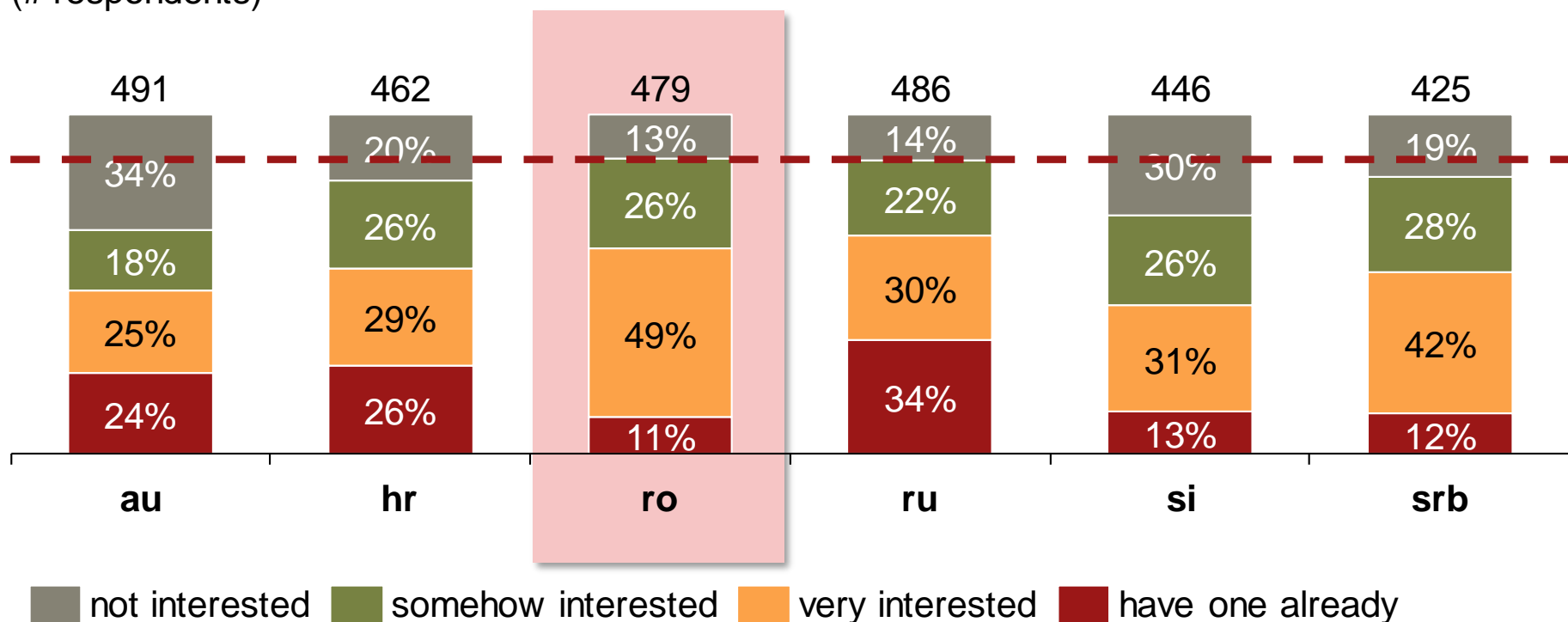
**Romanian banks need to develop payment solutions to stay at par with global solutions like PayPal and Apple Pay**



# Romanians actually display most interest in the region for using digital wallets

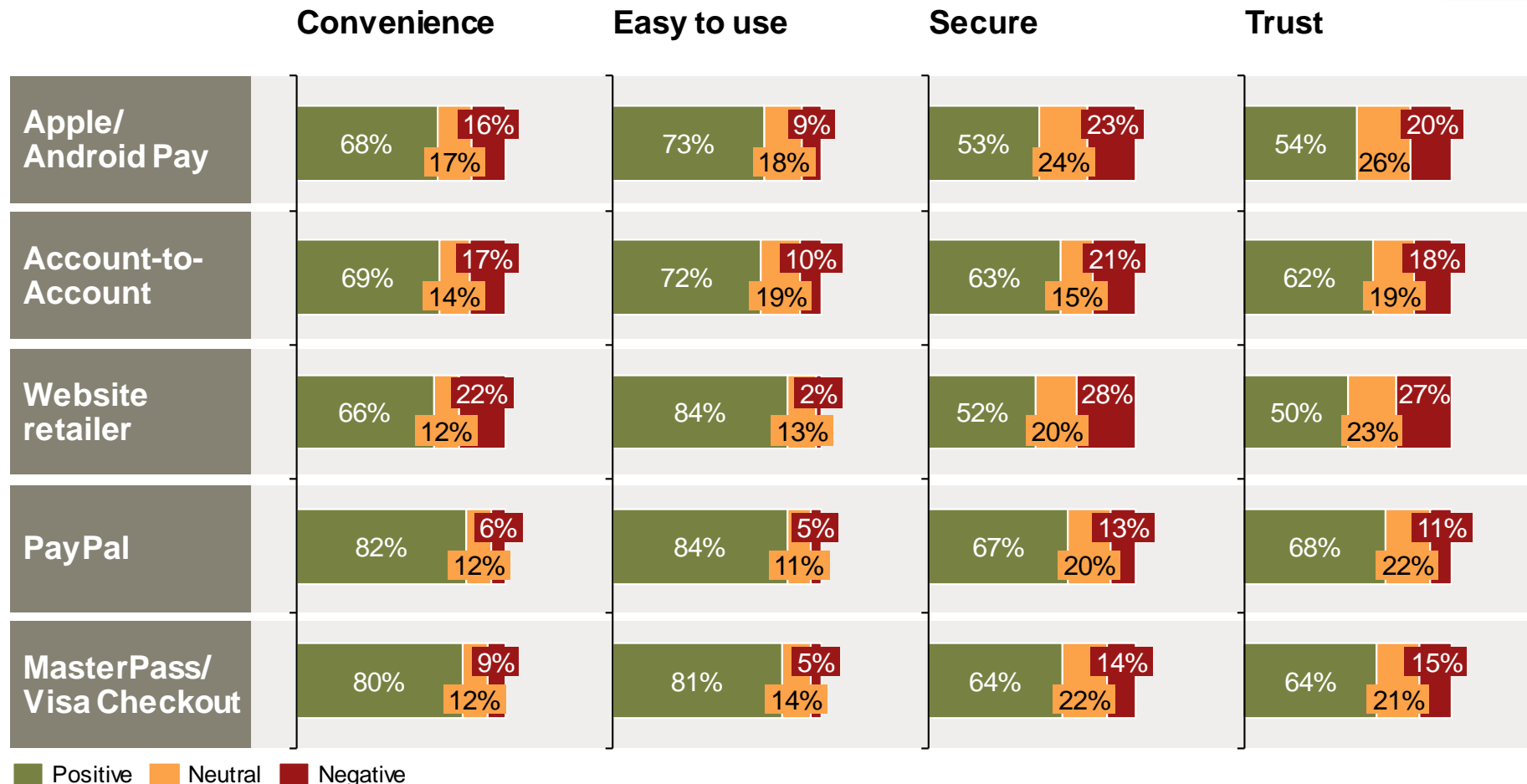
## 2 Interest in digital wallets

How interested are you in a digital wallet?  
(# respondents)



PayPal is in a position of strength compared to the other methods/ providers, while security is the main concern

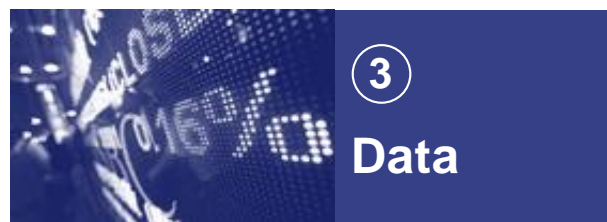
## 2 Digital wallets evaluation by provider (n=510)<sup>1</sup>



1. Excluding 31 consumers who do not do online purchases  
Source: A.T. Kearney Open Banking Survey 2018

# The survey revealed a number of interesting findings across the three dimensions: Banking, Payments, **Data** (3/3)

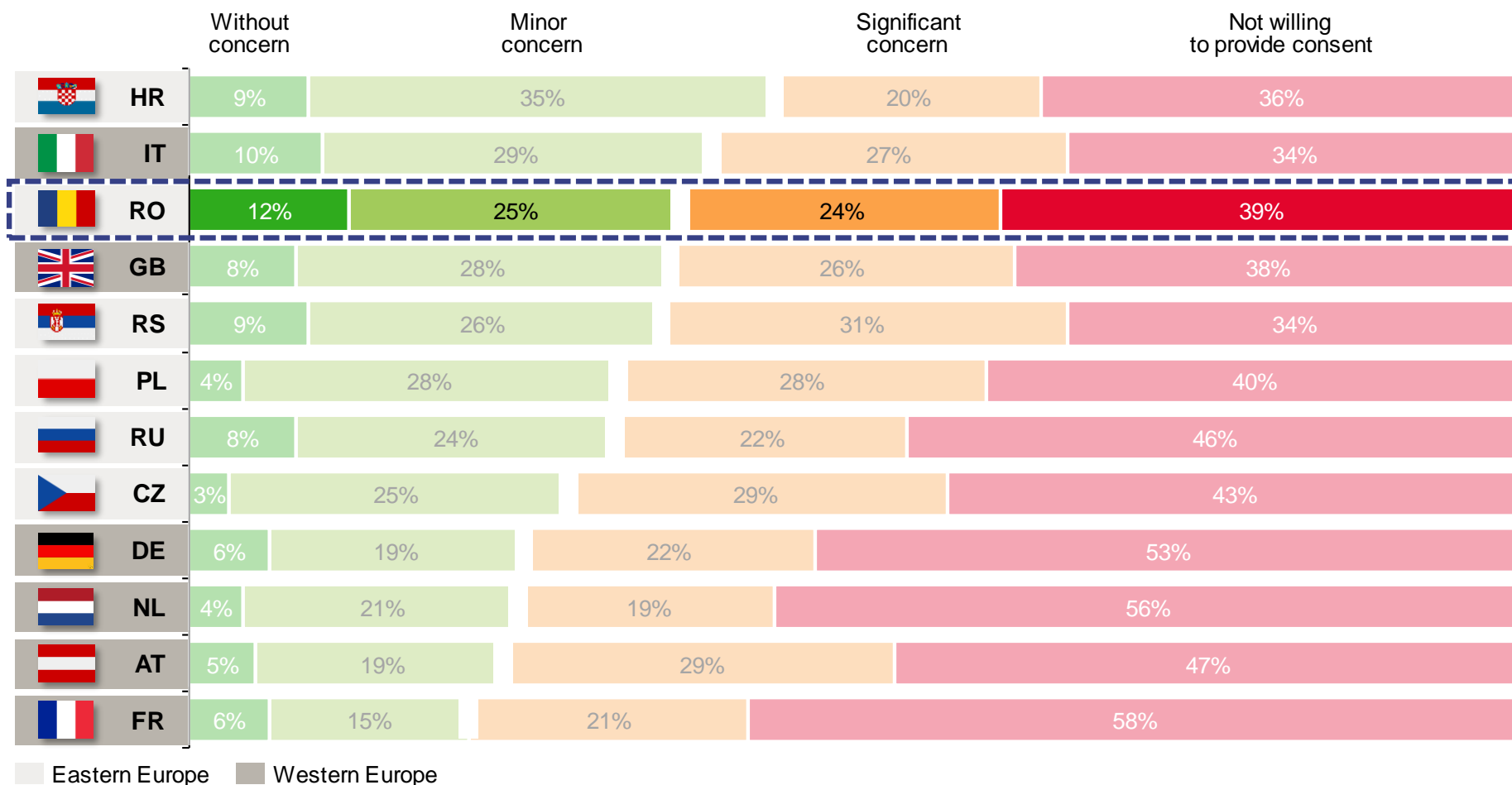
## Survey structure & key results



- **Young Romanian consumers (67%) are keen to share their transaction data** to receive better offers
- **Higher income consumers** have relatively **negative view on 3rd parties using their transaction data** to provide advice / offers (**only 40% see it beneficial**)
- Almost 100% consumers see their **Primary Bank as most trusted party to provide transaction-data based services**
  - **Tech Giants (e.g. Facebook, Google) score surprisingly low – ~20pp lower than banks**
  - **Retailers (incl. physical) come from behind – only ~11pp difference**
- Consumers show a **high level of resistance to share bank data with 3rd parties**
- Not surprisingly, **consumers are not convinced and educated who owns their data** shared during digital purchases

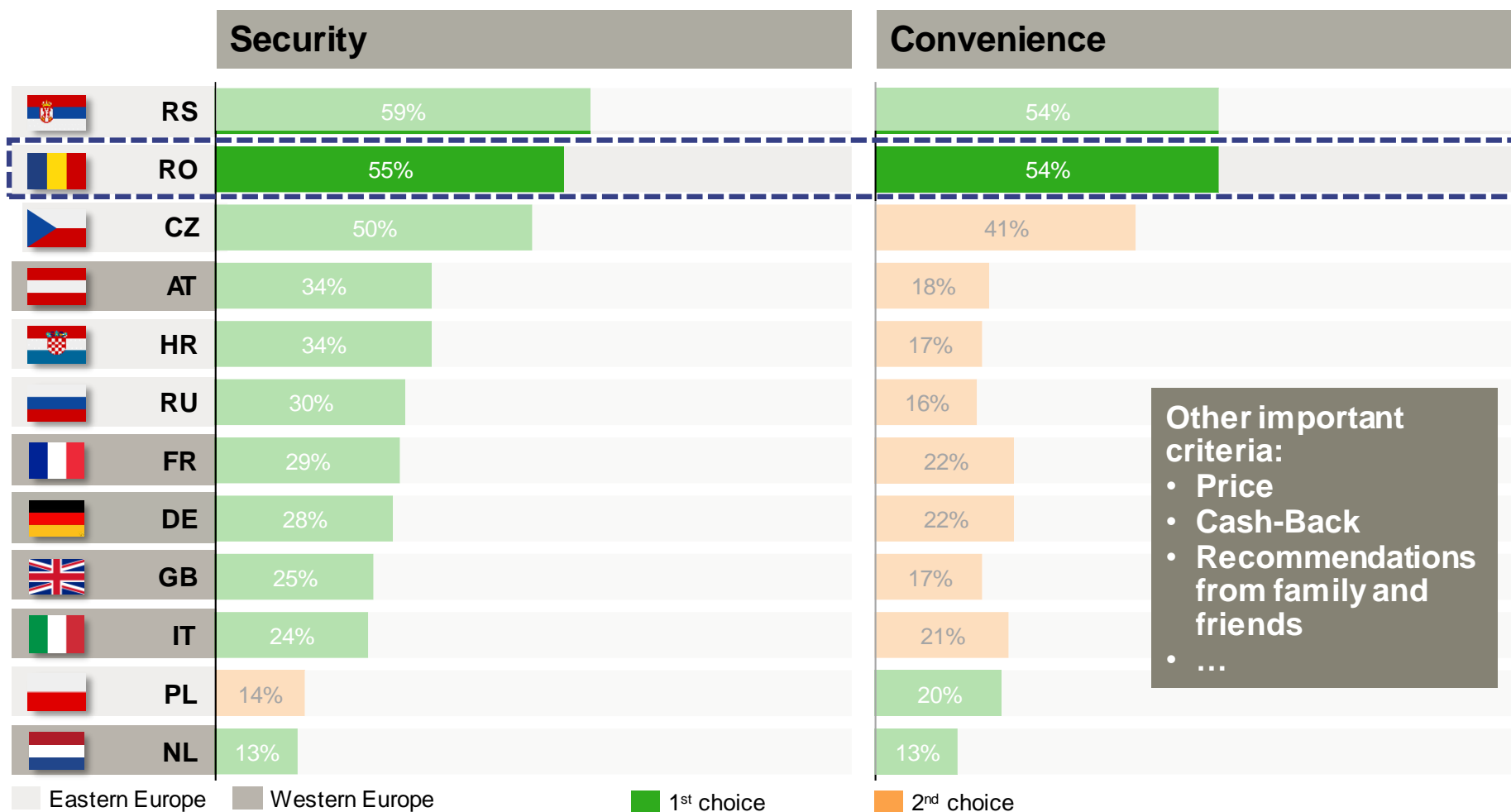
# Open Banking depends on the readiness of consumers to share personal financial data

## 3 Willingness to Allow 3<sup>rd</sup> Parties to Act on One's Behalf



Most consumers expect that their data is secure and reliably protected, but also value convenience (above other factors)

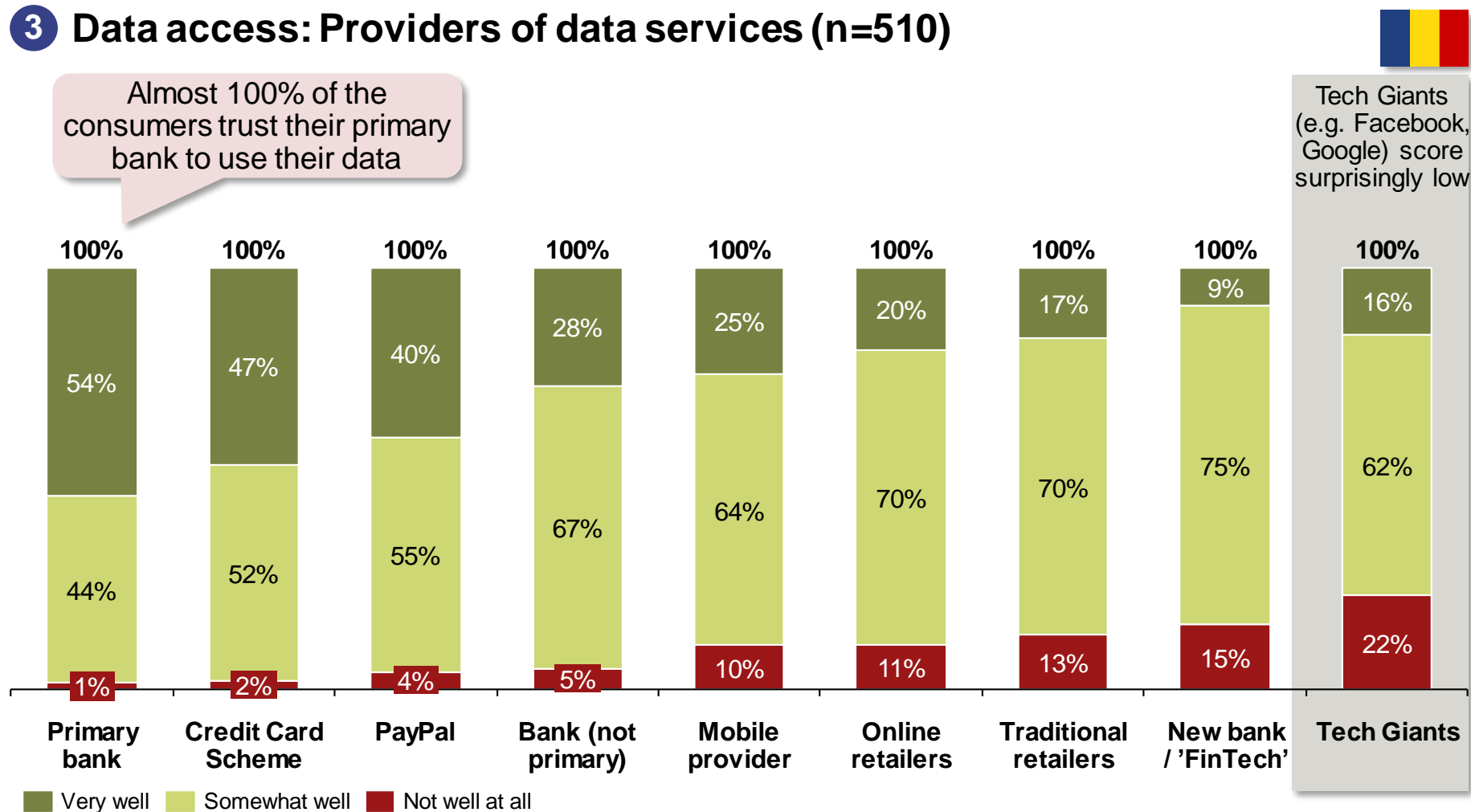
### 3 True factors of importance for Sharing Personal Data



# Consumers see their Primary Bank as most trusted party to provide security of their customers' personal information

## 3 Data access: Providers of data services (n=510)

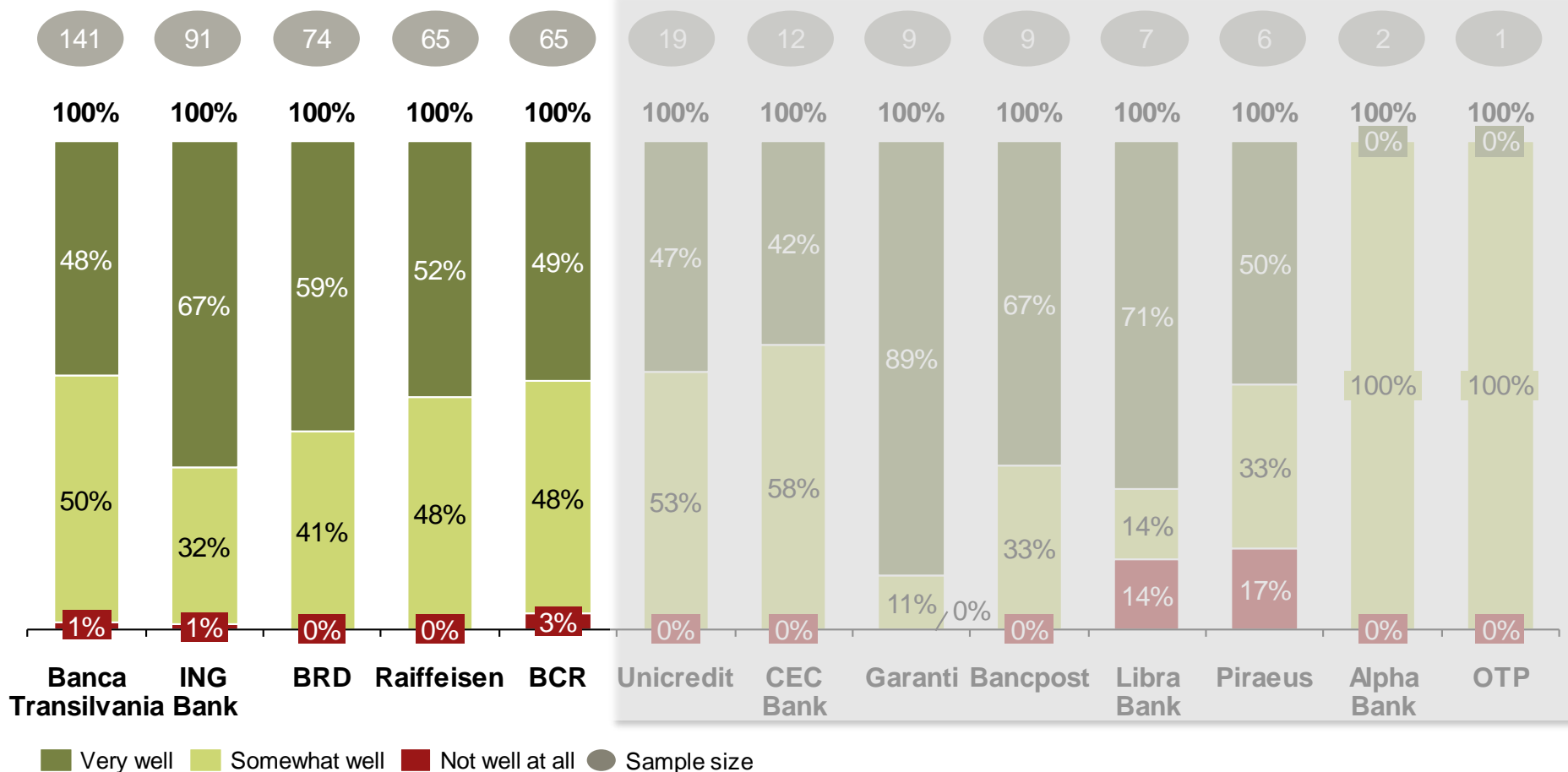
Almost 100% of the consumers trust their primary bank to use their data



There is no substantial differences in terms of the trust in the primary bank depending on the selected institution

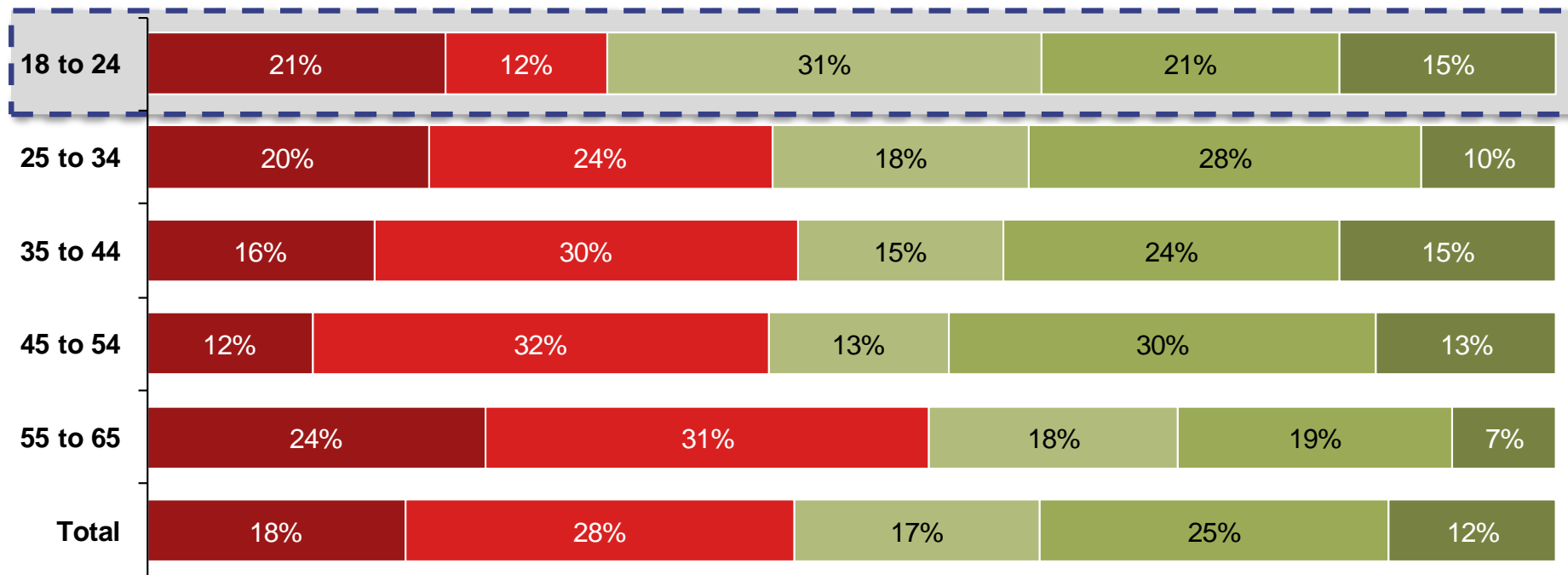
### 3 Data access: Trust for primary banks (n=510)

Selection



# Young Romanian consumers have relatively positive view on 3<sup>rd</sup> parties using their transaction data to provide advice / offers

## 3 View on sharing transaction data (n=510)

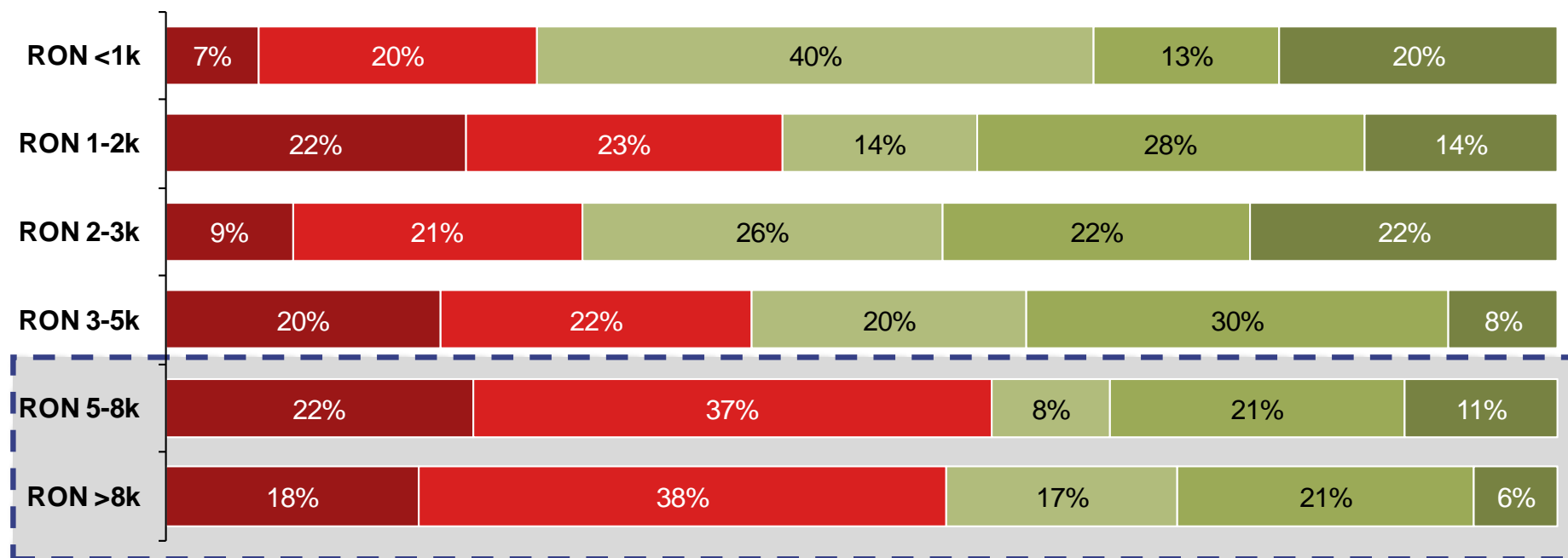


- A benefit because it improves retailers' knowledge of the customer and the context for future purchases (e.g. recommendations)
- A benefit if consumers benefit directly from the use of their information (e.g. special offers and discounts)
- A benefit, but only if consumers are directly compensated for the use of the information
- A necessary evil, with occasional benefits to consumers
- An invasion of privacy that should be prohibited



# Higher income consumers have relatively negative view on 3<sup>rd</sup> parties using their transaction data to provide advice / offers

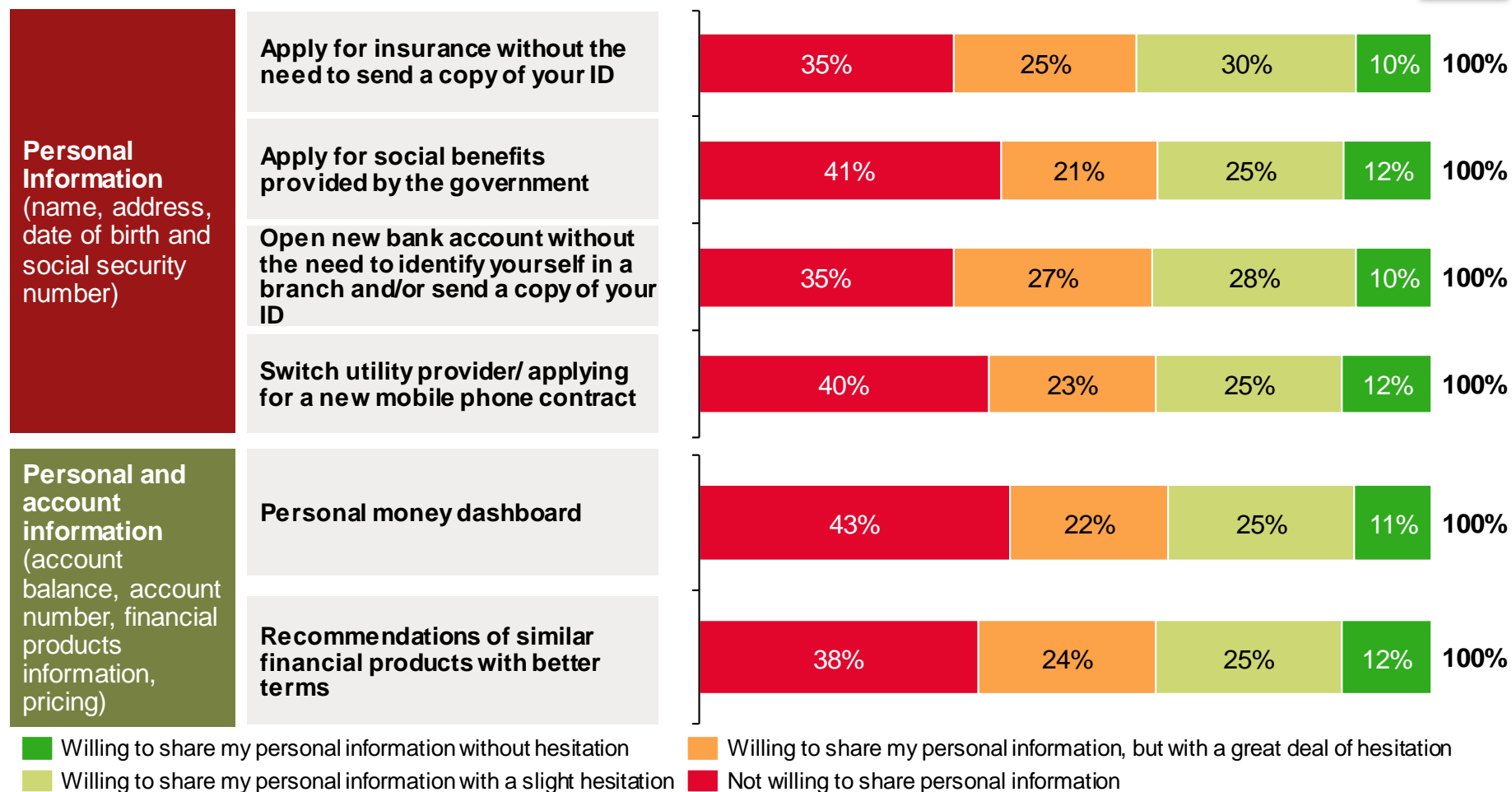
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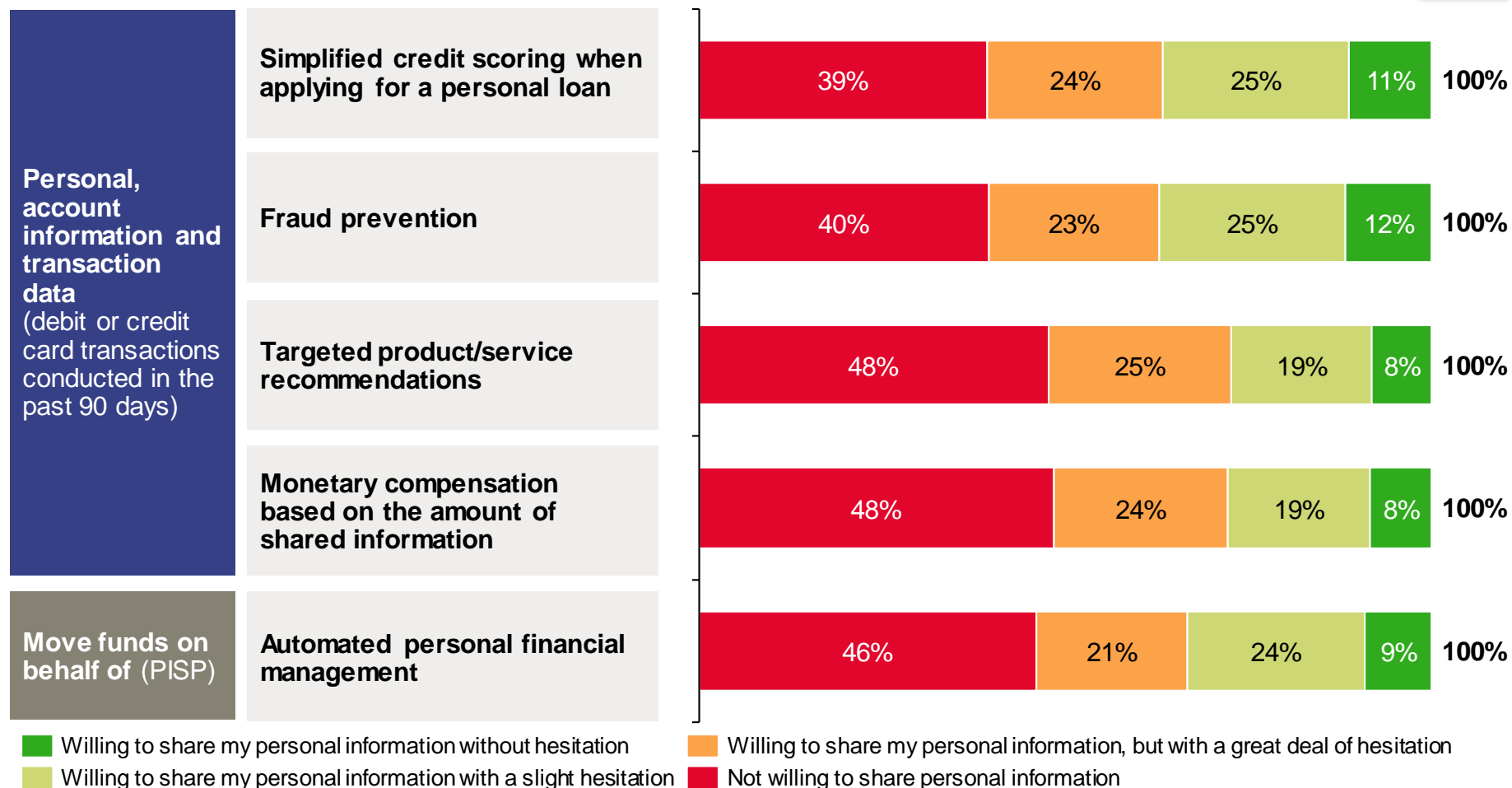
# Consumers show a high level of resistance to share bank data with 3<sup>rd</sup> parties (1/2)

## 3 Willingness to share by use-case (n=510)



# Consumers show a high level of resistance to share bank data with 3<sup>rd</sup> parties (2/2)

## 3 Willingness to share by use-case (n=510)



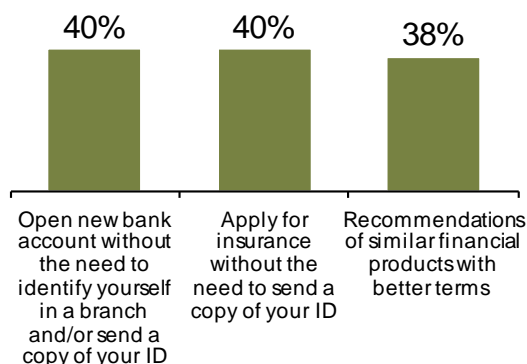
Consumers are more willing to share their data to get better offers for the financial products they use or reduce bureaucracy...

### 3 Willingness to share by use-case & age group (1/2)

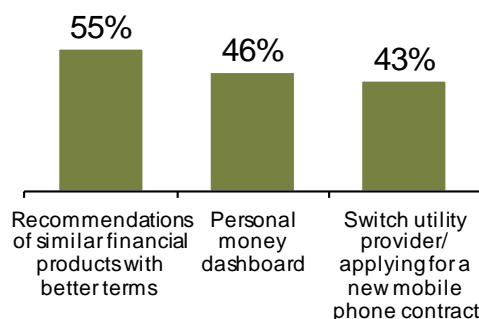


#### Age group: 18-24

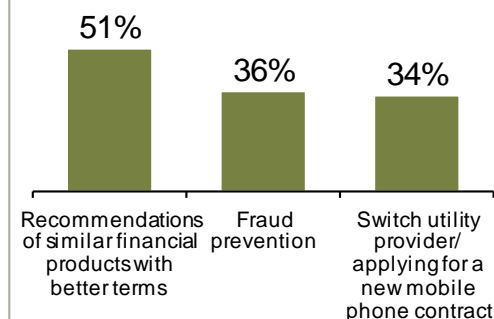
3 most willing cases<sup>1</sup>



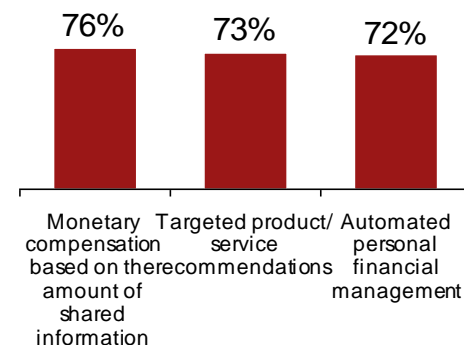
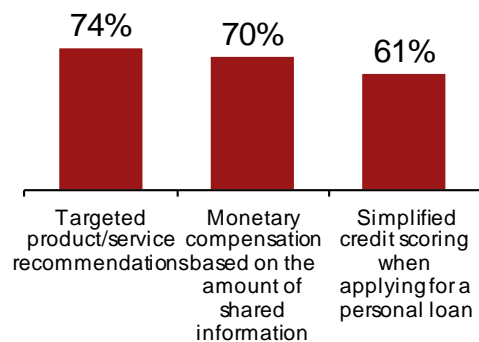
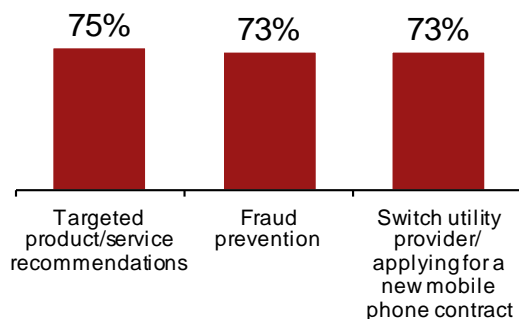
#### Age group: 25-34



#### Age group: 35-44



3 most unwilling cases<sup>1</sup>



1. # of answers as % of age group sample size  
Source: A.T. Kearney Open Banking Survey 2018

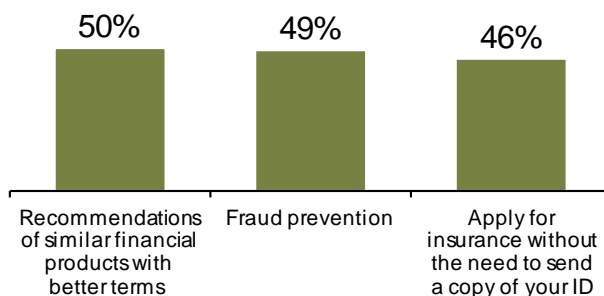
... but are more reluctant to share their data in order to be targeted with new products / services

### 3 Willingness to share by use-case & age group (2/2)

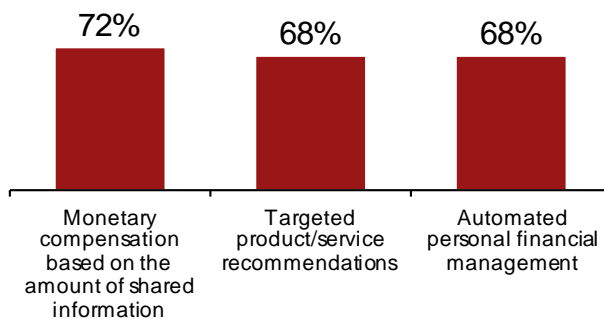


#### Age group: 45-54

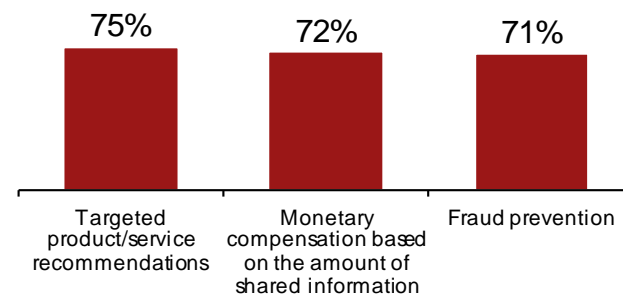
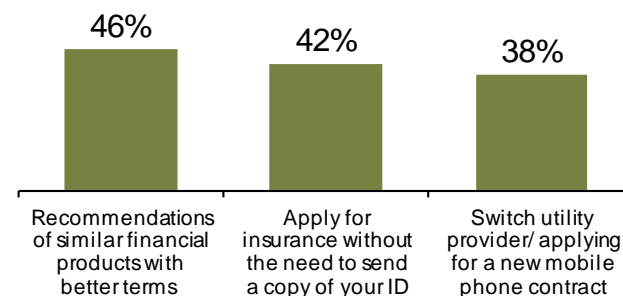
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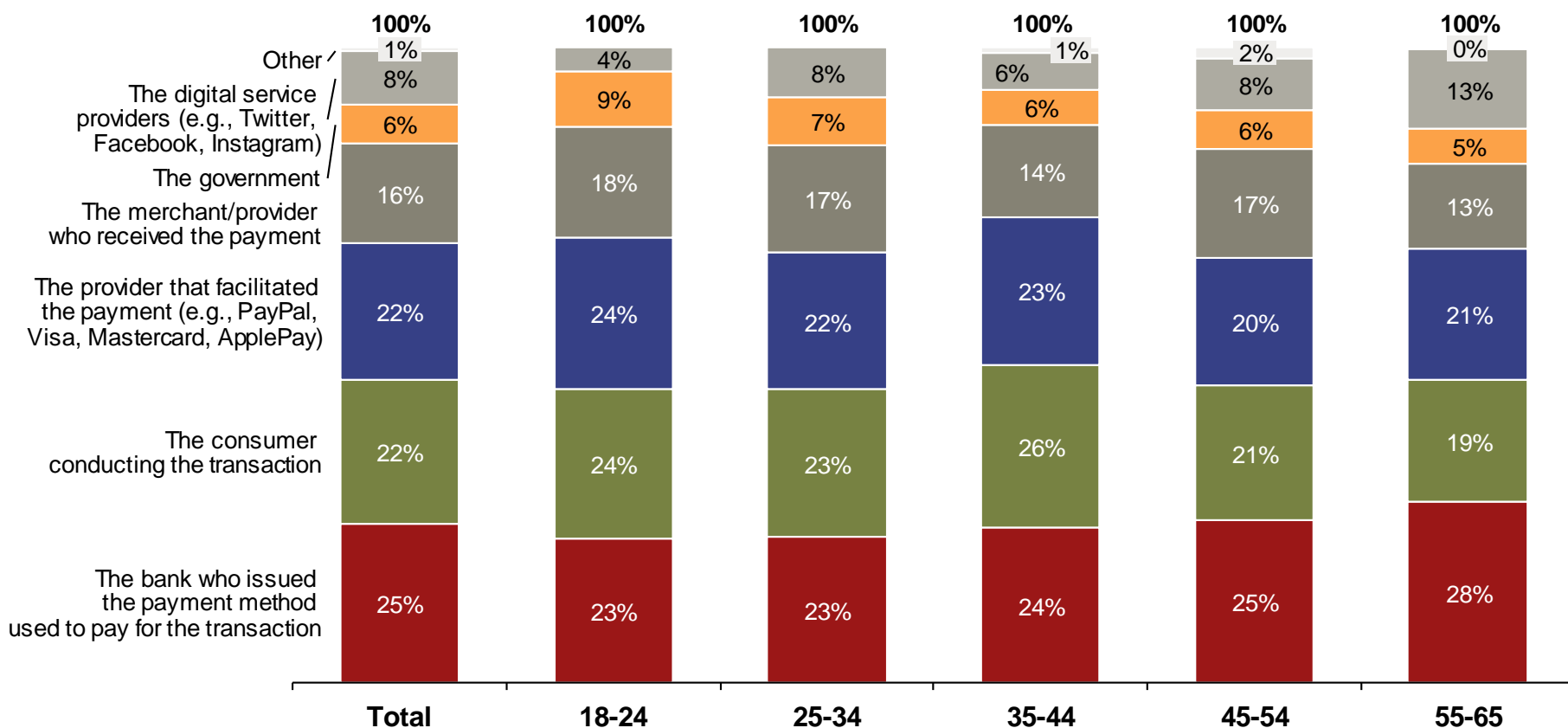
#### Age group: 55-65



1. # of answers as % of age group sample size  
Source: A.T. Kearney Open Banking Survey 2018

# Consumers are not convinced and educated who owns their data shared during digital purchases

## 3 Customers' perception – data owners & desired decision-making parties<sup>1</sup>



1. Question: In your view, who owns the information that is shared with different providers when you conduct digital purchases and who should have a say on how your data is used?

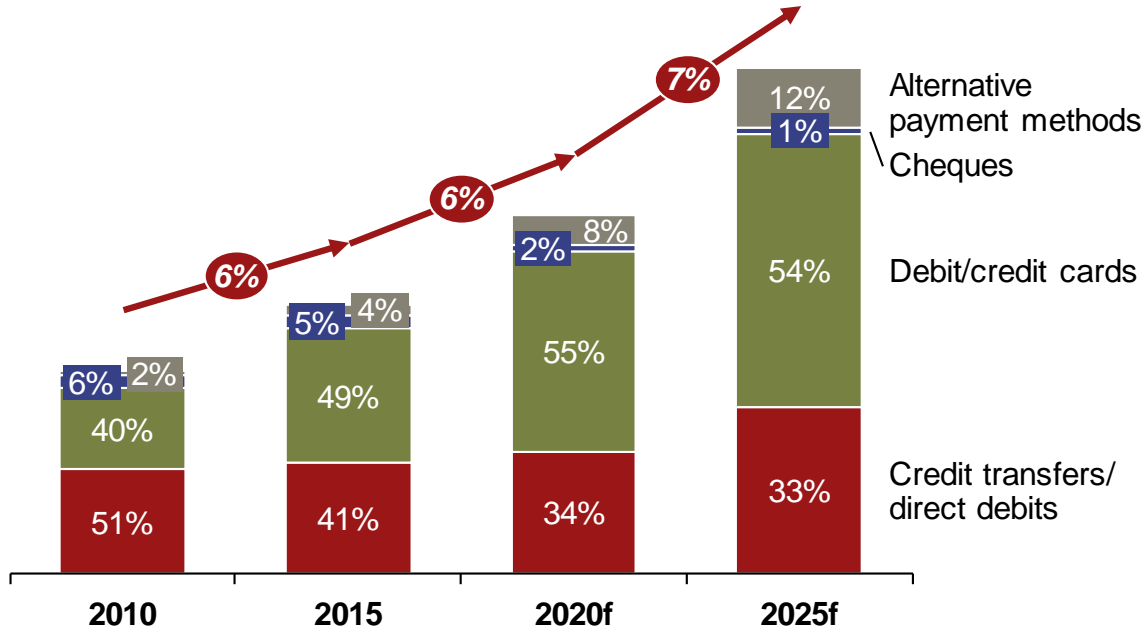
# Payments industry – a glimpse into the global trends



# Non-cash txs will dynamically grow – with increasing share of alternative payments (incl. m-payments)

## Non-cash payments in Europe

(bn transactions, CAGR in %, EU-27 2005 – 2025f)



- **Alternative payment providers gaining in importance:**
  - >10% of total non-cash payments in 2020-2025
  - 15% of payments revenue pool in 2020-2025
- **Growth in alternative payments mainly driven by eCommerce and mPayments**
- Every 3<sup>rd</sup> fintech in top 50 specializes in payments

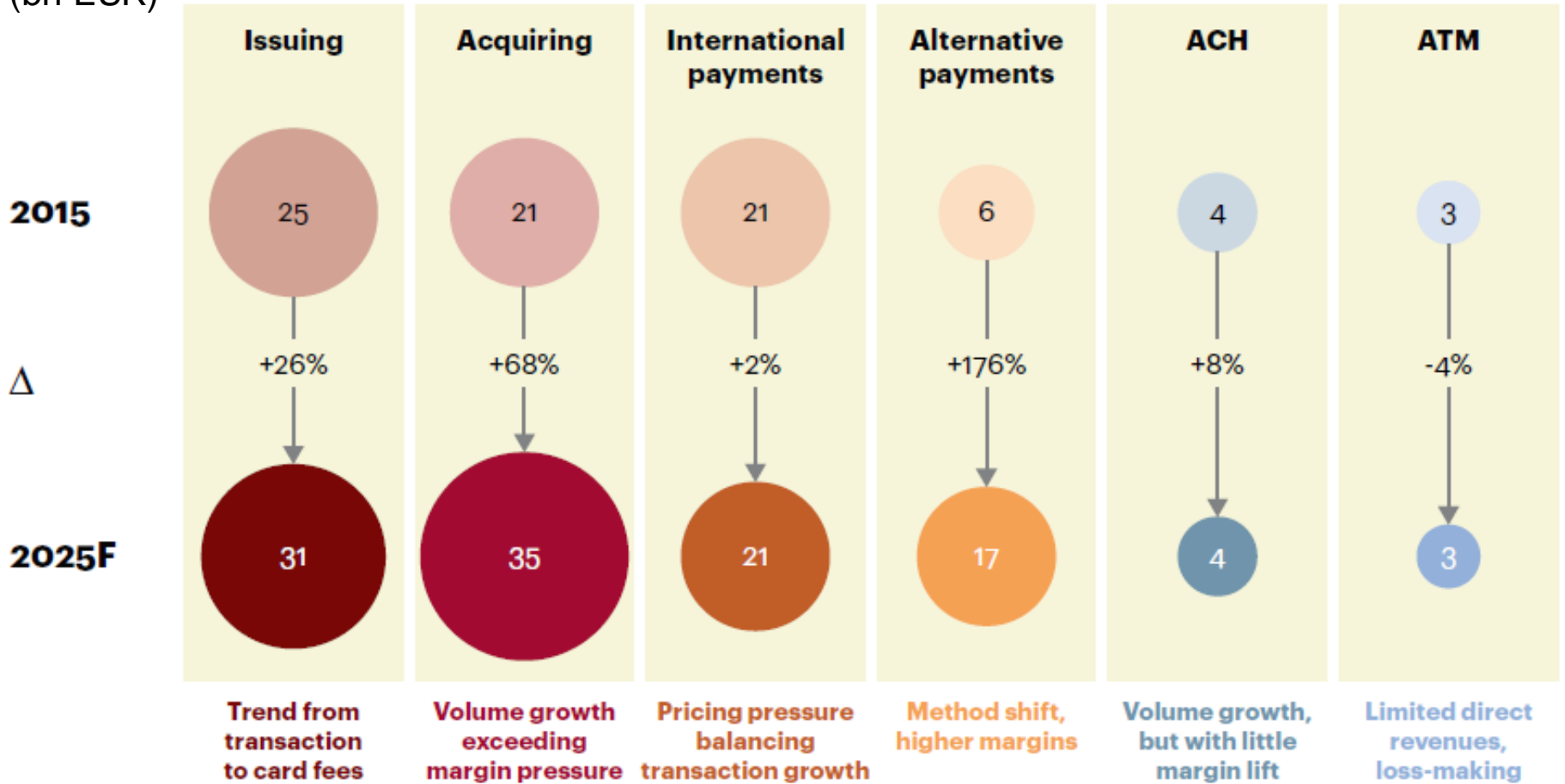
Notes: Without ATM transactions; Alternative payment methods include payments not initiated through a bank current account and conducted for instance between mobile phones, through m- or e-wallets or via remittance providers  
 Source: A.T. Kearney European Payment Market Model 2016, building on actuals from ECB, RBR, EIU and other sources



Alternative payments are expected to display highest revenue growth. Shift from issuing to acquiring revenues also substantial

### Revenues in Europe

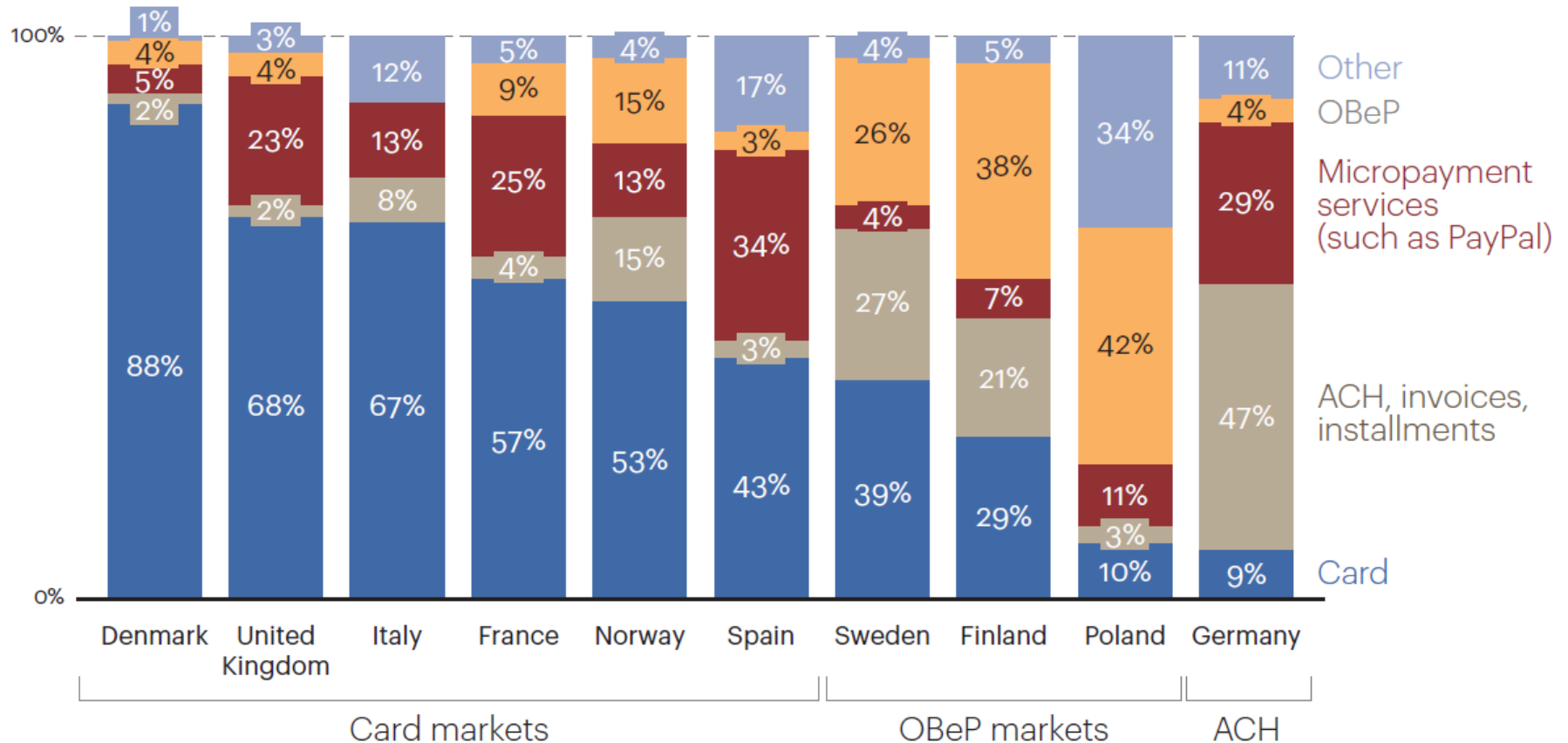
(bn EUR)



# In Europe payment preferences differ between countries

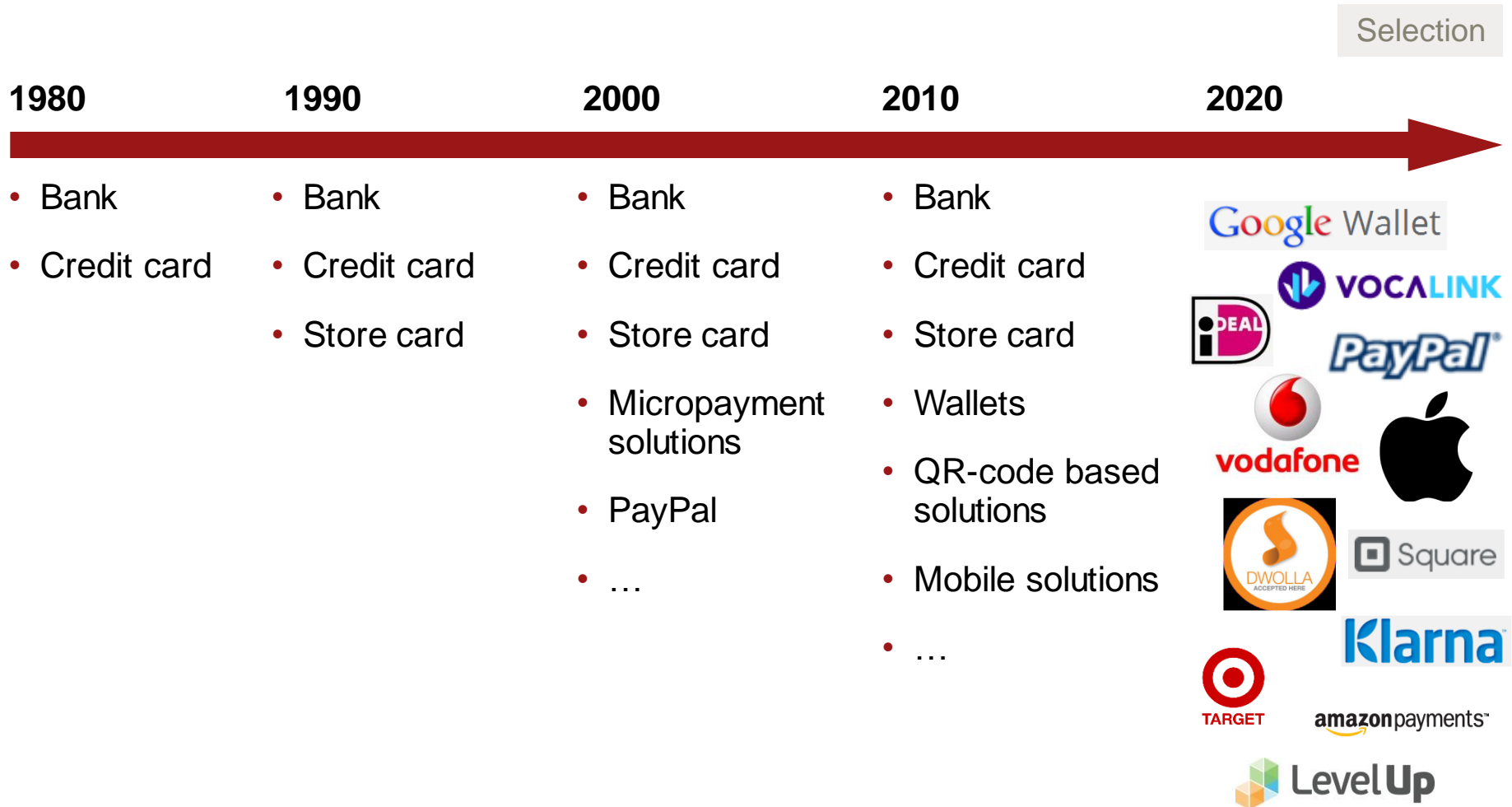
## E-commerce payment preferences by country

(% of online shoppers)



Note: Other includes cash on delivery. OBeP is online banking e-payment. ACH is Automated Clearing House  
 Source: DIBS, Il Mondo, A.T. Kearney research and various studies during engagements

Choice for consumers and ‘merchants’ is rising, which is seen as a positive thing...



...but as payments are evolving, next to choice and innovation also complexity and fragmentation are rising

<b>1 Method</b>	Cash	Credit card	Debit card	Wallets	OBeP	Pre-paid card	Voucher	Cheque	Credit transfer/ direct debit	Others/ alternative
<b>2 Customer form factor</b>	Paper	Plastic	Online (website)	Mobile phone (hardware)	Mobile app (software)	Wearable	QR code	Smart home device	Mobility and IoT	Others
<b>3 Transmission</b>	Counter	Mag-stripe	Chip (EMV)	Internet protocol	NFC	BLE	'Over the air'	SMS	Dedicated WLAN	Others
<b>4 Authentication</b>	None	Signature	PIN	Password	Fingerprint	TAN	ID card	3D Secure	Voice recognition	Other biometric methods
<b>5 Acceptance</b>	Counter	Website	Telephony	POS terminal	ECR	Mobile POS	App	Self-checkout	Frictionless (e.g. sensors)	Others
<b>6 Processing</b>	Card scheme	ACH	PSP	On-us	Direct bank link	Blockchain	Correspondent bank	Others		
<b>7 Funding</b>	Current account	Credit card	Stored value	Virtual currency	Loyalty points	Mobile invoice	Bitcoin account	Others		

Notes: ACH = Automated Clearing House; BLE = Bluetooth Low Energy; ECR = Electronic Cash Register; EMV = Chip standard of EMVCo; ID = Identity; IoT = Internet of Things; NFC = Near Field Communication; OBeP = Online banking e-payments (e.g. iDeal, giropay); POS = Point of Sale; PSP = Payment Service Provider; QR = Quick Response Code; TAN = Transaction Authentication Number; WLAN = Wireless Local Area Network; 3D Secure = 2-factor authentication (e.g. MasterCard SecureCode)

# Five Global major disruptions

## Theme

## The orthodox assumption

## The disruption



### Frictionless commerce

- Consumers have to initiate and confirm every transaction

- Payments automatically initiated by websites, machines, or IoT



### Open financial data

- Consumer & corporate financial data is private, needs to be securely protected, and cannot be shared with external partners

- Banks “opening up” their consumer data/services
- 3<sup>rd</sup> parties competition, innovation
- API vs. Platform open commerce models



### Wallets as alternative to bank accounts

- Everyone needs a bank account!
- Without it, consumer cannot pay bills, receive salaries, etc.

- Wallets will increasingly “look and feel” like bank accounts
- Already used in West to pay; in Asia also to receive salary, take loan, invest funds



### Privacy demand increase

- Convenience trumps privacy
- Millennials requiring less need for privacy, sharing everything

- It's actually the millennials that start valuing privacy more and more
- Financial services co's & fintechs looking for ways to help them control/protect



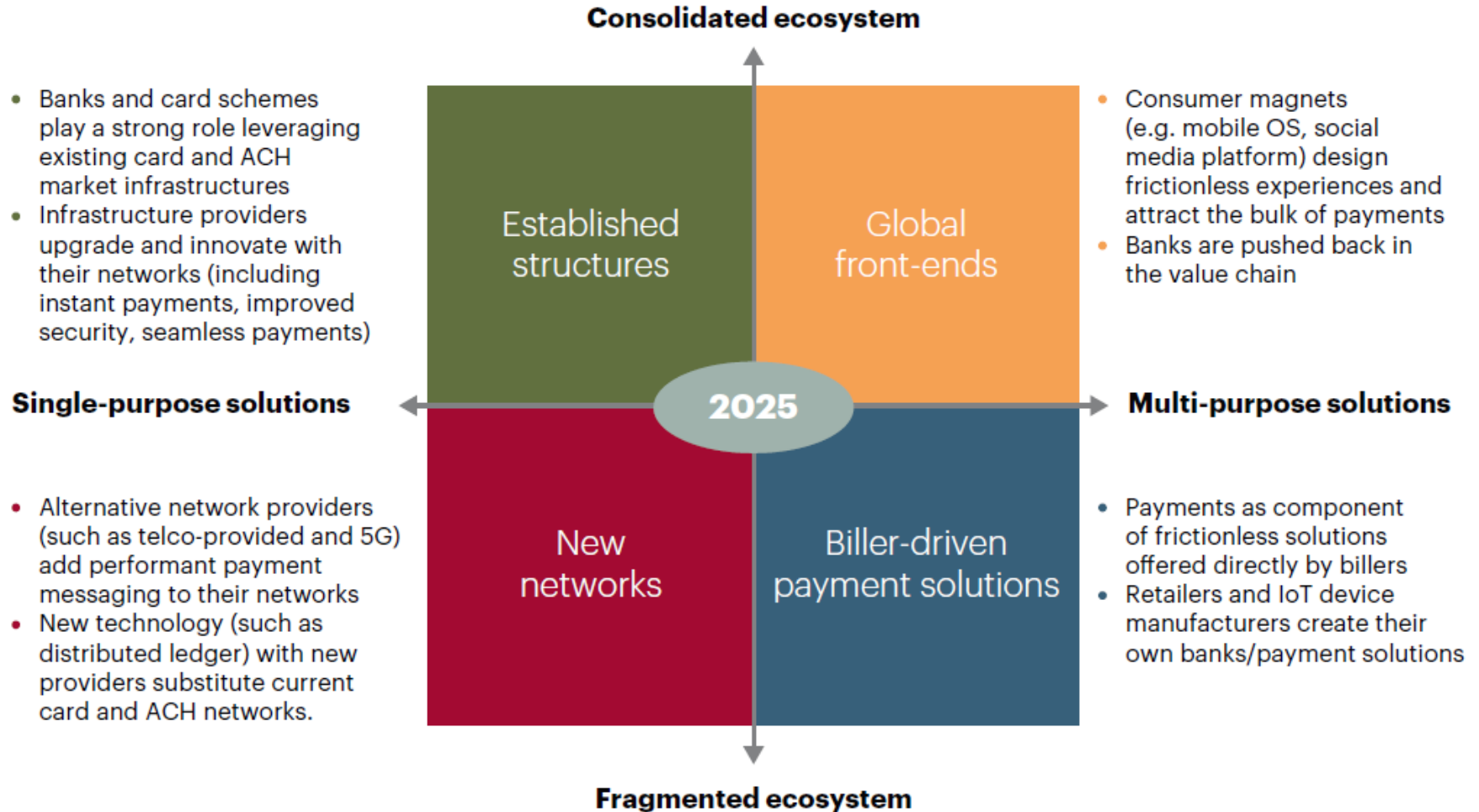
### Real-time multi-purpose payments infrastructure

- Discrete payments systems exist for specific payment types
- Uniqueness of needs make consolidation and incremental scale difficult to pursue

- Real-time and universal payments platforms will emerge
- Technology and messaging formats will support convergence and consolidation

# Future payment industry scenarios

## Payment industry scenarios



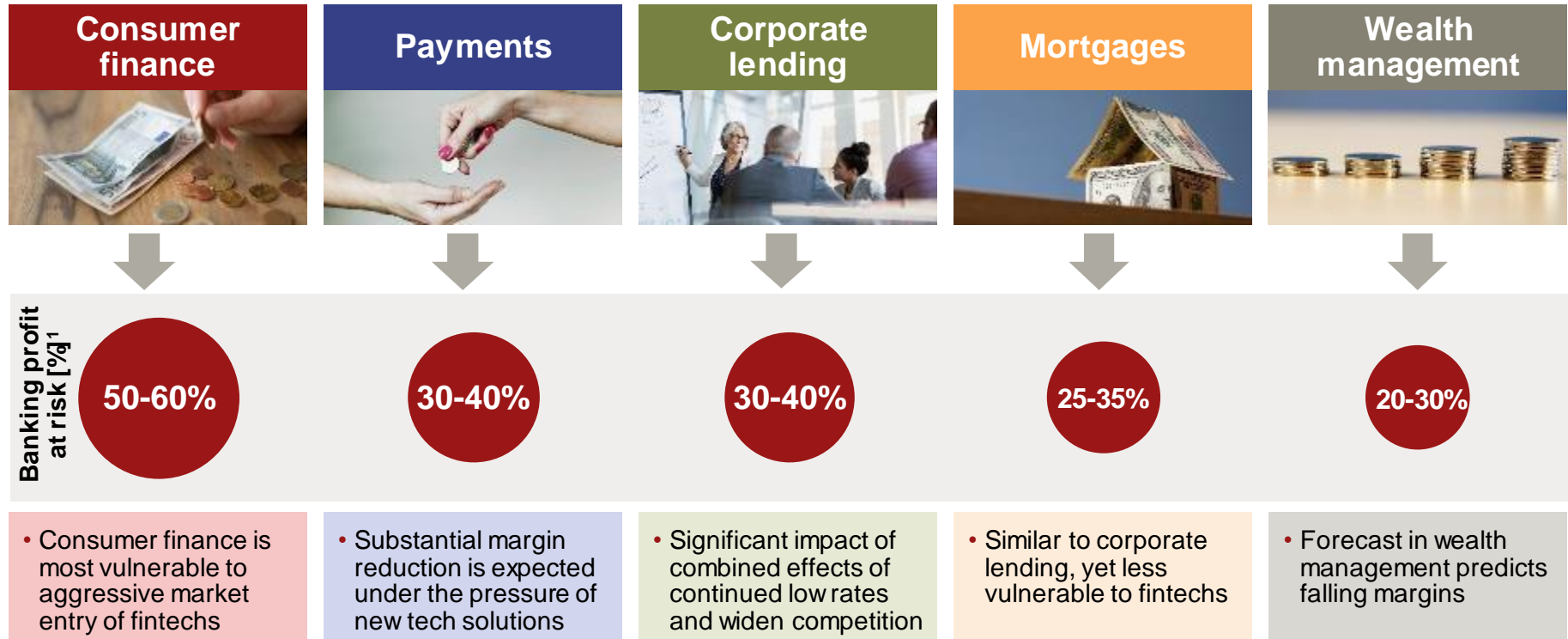
# What does this mean for banks in Romania?



# Investing in digital offerings will be key as significant part of bank profit is at risk due to new players

## Bank profit at risk from fintech players (2025)

Estimates; Selected business lines

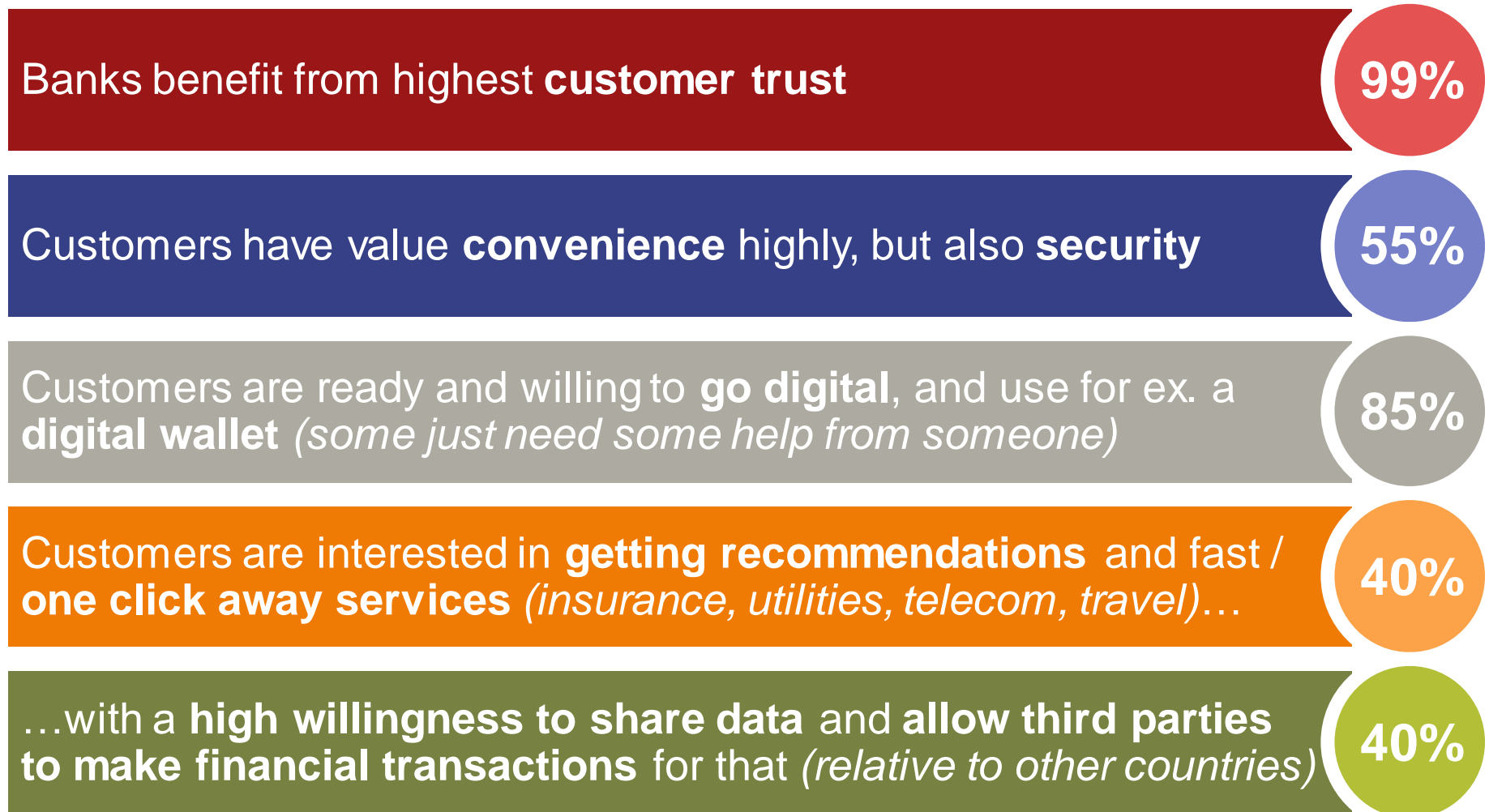


## Significant profit of Romanian banks can be lost to fintech players across business lines in both retail and corporate segments

1. % of banking profit at risk is estimated on the basis of combined effects of digital competition driven by aggressive fintech companies, forecasted development of interest rates and expected overall development of the European banking market

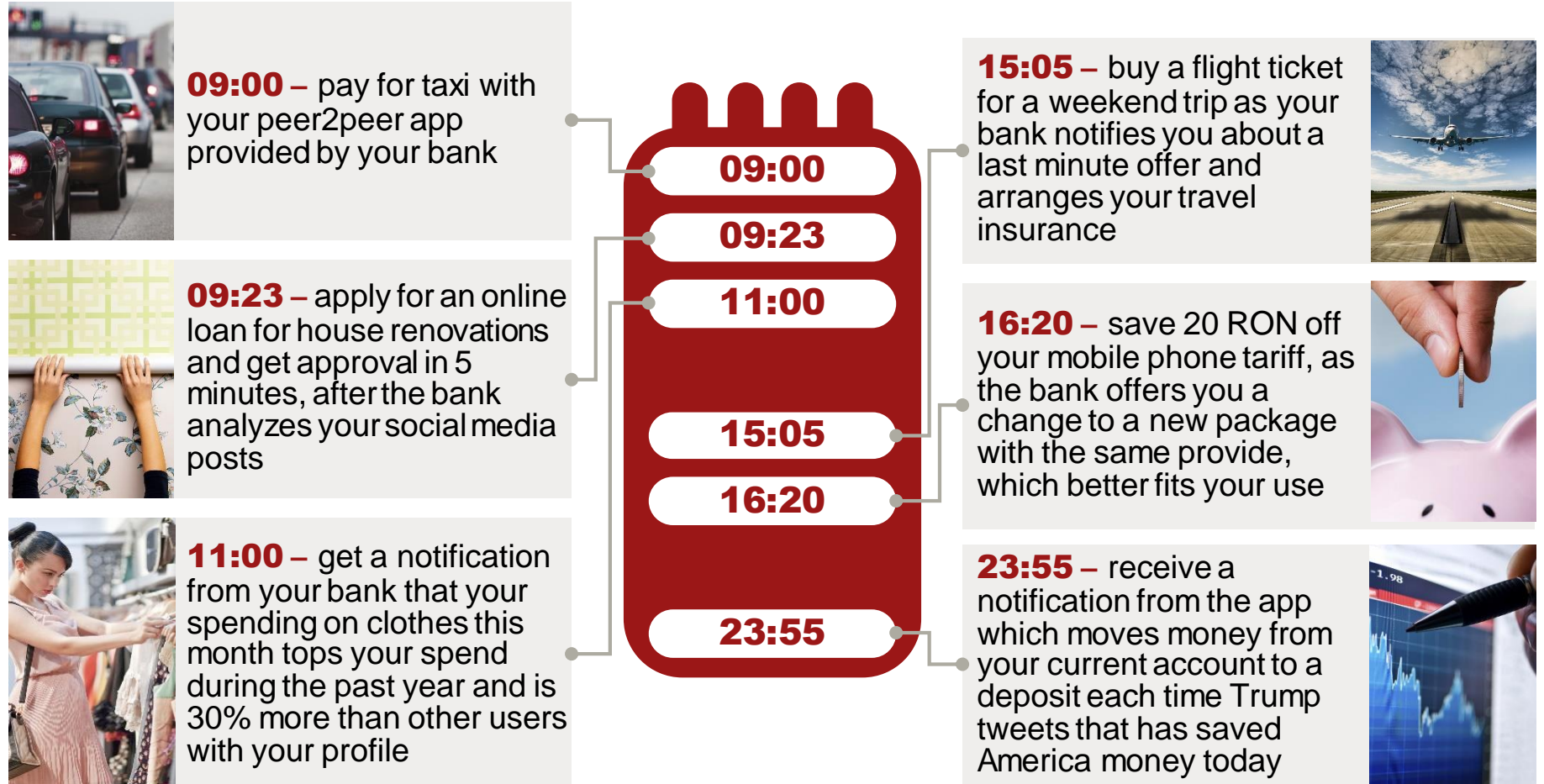


## Banks in Romania have the right momentum to build on the Open Banking opportunities



# Banks can become a **lifestyle platform**, organizing all financial (and non-financial) aspects of their clients' lives

## The Bank of Tomorrow



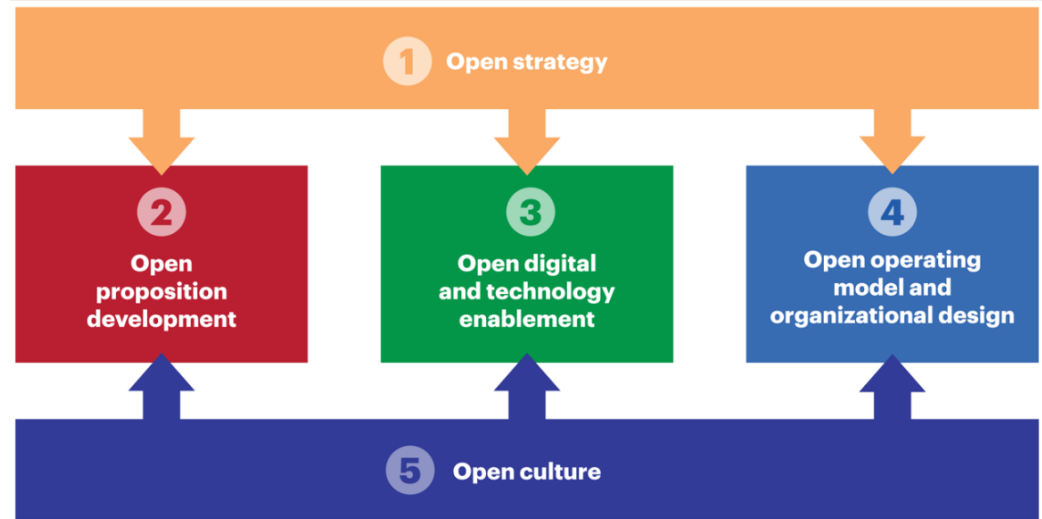
# What should Retail banks in Romania consider for an open banking future?

## Customer facing

- **Educate customers** on how to use digital banking and payments
- Mitigate their **security concerns** (both technology investment and communication wise)
- Put **focus on ease** to drive usage and on **user experience**
- Understand **customer decision journey** and anticipate/intervene when needed (*hint: not a funnel anymore*)
- Leverage **behavioral science** to change behavior

## Open Future framework

- **Think** diligently **your future bank model**: traditional bank, utility provider, distributor, partner marketplace, platform?
- Embrace **collaboration cross-industry** and look at ecosystems with different central players
- **Open innovation models**



# Appendix

We carried out a comprehensive retail survey to understand consumer attitude toward Open Banking and market dynamics

## Market study overview



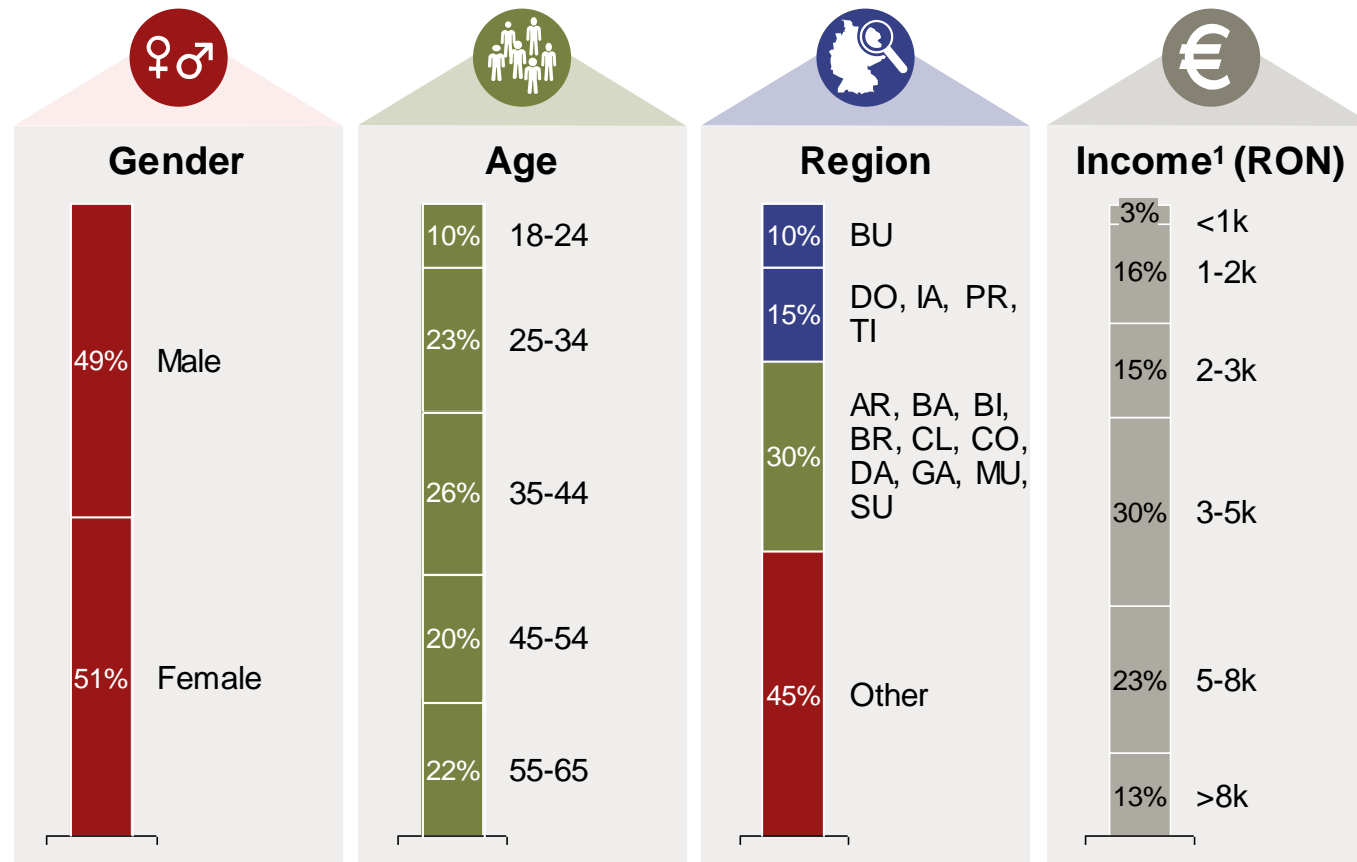
### Survey overview

- **Scope:** Austria, Poland, Czech rep, Slovakia, Croatia, Slovenia, Serbia, Romania, Russia
- **Objective:** Get a deep understanding of how Open Banking can change the attitude of modern banking customers
- **Administration:** Survey designed by A.T. Kearney Open Banking experts and conducted in collaboration with leading market research provider SSI
- **Respondents:** Representative sample of internet savvy retail bank customers
- **Data validation:** Thorough statistical tests conducted to ensure representativeness of the sample and validity and reliability of responses across questions

# Statistically representative online survey of 510 Romanian consumers completed in April 2018

## Romanian sample overview

(n=510, survey conducted in April 2018)



- Survey designed by A.T. Kearney
- Field conducted in collaboration with SSI
- Respondents checked for representativeness
- Tests ensured statistical validity and reliability

1. Gross household income; BU = Bucuresti; DO = Dolj; IA = Iasi; PR = Prahova; TI = Timis; AR = Arges; BA = Bacau; BI = Bihor; BR = Brasov; CL = Cluj; CO = Constanta; DA = Dambovita; GA = Galati; MU = Mures; SU = Suceava;  
Source: A.T. Kearney Open Banking Survey 2018

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