



PSD2: Shifting landscape of financial services

Market players and future landscape in the Netherlands

Banking evolution

Open Banking is an evolutionary journey that is driven by the ongoing digitization of financial services. In the last years, banks and financial institutions took significant steps to put customer interest first. This journey started due to changes in the financial sector, where an increasing number of start-ups and challenger banks entered the market with innovative disrupting ideas.

Regulatory authorities were forced to acknowledge the change. After a few years of waiting, the Payment Services Directive 2 (PSD2) went into effect on the 13th of January 2018. With the introduction of the new regulation, Europe is aiming to drive innovation in financial services and enhance security for customers. PSD2 will be effective as from 14th of September 2019. Below is the diagram which illustrates Sia Partners view on how the future of banking will look like (Figure 1).

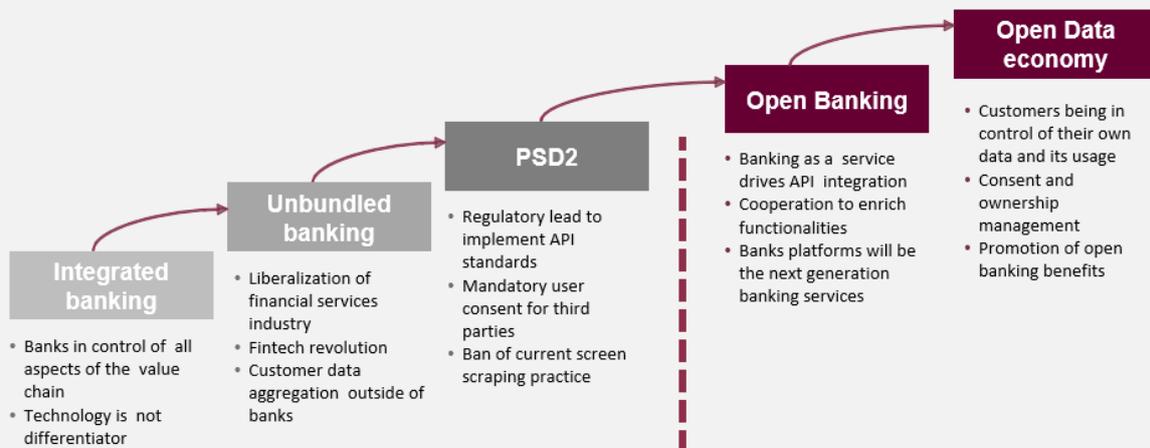


Figure 1. Future of banking
Source: INNOPAY @ Beyond Open Banking. 18 April 2019

New business opportunities

PSD2 brings together global firms and start-ups into a world where financial data is a valuable asset. It gives opportunities for clients to utilize their financial data and receive customized products and services.

We have picked and analysed four of the most significant market players linked to PSD2: traditional banks, challenger banks, giant tech and fintech start-ups.

All of them are working to incorporate PSD2 opportunities in their business propositions (Figure 2).



Figure 2. New PSD2 business opportunities

initiatives will present the backbone of traditional banks` PSD2 offerings.

Market players

Focusing on the Netherlands we have identified four of the most significant group of market players involved in PSD2. All of the below-mentioned market players are considering multiple alternative business propositions in order to stay relevant in the market (Figure 3, 4).

Traditional banks

Traditional banks are facing the challenge to cope with the new way of banking: disloyal customers, highly competitive products and lower costs. If traditional banks can move fast enough and adjust their offerings, they could leverage their existing market positions and their consumer's high level of trust.

Major Dutch banks such as ABN AMRO, ING and Rabobank have already developed products such as account aggregation and payment initiation and are moving towards personal finance or investment application enhancements while leveraging PSD2 opportunities. All of the large banks are investing in startup ideas in the form of innovation labs or ventures. These new

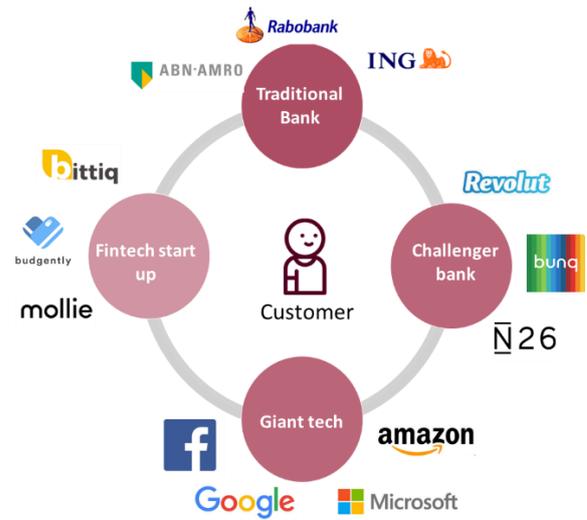


Figure 3. Market players

Challenger banks

Challenger banks are working in the same landscape as the traditional banks, but have an edge. In contrast to traditional banks, challenger banks tend to have no legacy systems to rely on. Market leader innovative challenger banks in the Dutch market are Bunq, Revolut and N26. Their costs are far more attractive, with even free services, compared to traditional banks.

	Aggregator	Initiated Payment	Categorization	Actionable Insights
Traditional Banks				
ABN AMRO / Grip	●	●	●	●
ING / Yolt	●	●	●	●
Rabobank / Peaks	●	●		
Challenger Banks				
Bunq	●	●	●	
Revolut	●	●	●	
N26	●	●	●	
Giant tech				
Amazon		●		●
Microsoft		●		●
Facebook		●		●
Google		●		●
Startups				
Bittiq	●		●	●
Budgently	●		●	
Mollie		●		

Figure 4. Functionality matrix provided by market player

Giant Tech Firms

Giant Tech companies such as Google, Amazon, Microsoft and Facebook will take an advance of their technological capabilities and newly available PSD2 data to increase their market share or please customers with tailor-made services. Accounting data and new technologies drive new customer insight, bring life to existing application investments and allow big tech companies to open new channels and new ways of meeting Dutch customers on their terms.

Start-ups

Start-ups are independent players occasionally cooperating with other market players, such as traditional banks. They are usually targeting a specific segment of customers, such as millennials. Startups can react and change fast. Hence, startups have the advantage to enter the market first with innovative ideas. They are present with functionalities such as categorization and actionable insights. Interesting and innovative examples on the Dutch market are Budgetly, Bittiq and Mollie.

Staying relevant in the Dutch market



Figure 5. How to stay relevant?

The new nature and structure of the banking world require participants to stay relevant by going ahead or reacting to different trends.

PSD2 will greatly help fintech companies to make use of the extensive set of data available in the core banking systems. They will be able to offer better and more customized products than ever before.

Below factors in our opinion contribute the most to staying relevant in the market.

Being the fastest

The first ones entering the market can take up dominant roles providing financial services and advice to retail customers and/or corporates. Increasingly competitive market with lowering margins will mean loss of business if market players cannot adapt in time.

Customer's trust

Protection of data and cybersecurity will be decisive for customers among solutions and vendors, especially if the stake is the safety of their financial data. Traditional banks have somewhat an advantage in this field if we compare them to Challenger banks, Giant Tech firms or FinTech Start-ups.

New products and customer journey

PSD2 will change some of the traditional and standardized banking products and processes. For example, by analysing the in-and outflows of payments, an algorithm can determine how much the customer can borrow and for what interest rate.

Cross-selling

Offering, customers a one-stop shop for all their banking and beyond banking needs. These can include savings, lending, investment or insurance products. Data analysis of this kind can reduce sales and marketing costs significantly as targeted offerings using non-traditional channels can have a higher success rate.

New payments solution

Customers move to innovative payment solutions, especially when it saves time and effort. With initiatives like Apple Pay, Google

Wallet, Alipay directly available on smartphones, customers don't need a physical card anymore. A simple tap of a smartphone on the payment device and authentication through fingerprint or face recognition is enough to initiate a payment from their bank account to the retailer's bank account.

Platform banking

In order to facilitate seamless customer experience, all parties must invest in their IT systems heavily. This is to make sure that instead of data silos, the provider has a more advanced way of storing handling and analysing data internally. Furthermore, market players can enrich their own platform's customer journey with alternative third-party offerings and products (such as real estate agency or mobile phone insurer) to fully serve their customers' needs.

Staying compliant in the Dutch market

Staying compliant with PSD2 and related laws such as GDPR and CAM/ AML rules is as important as staying relevant in the market. Legal clarity on data processing as PSD2 is concerned is still building up. Recently Dutch Authority of Personal Data (AP) sent a letter to the Dutch Banking Association (NVB) advising that banks should be careful with analyzing client payment data for commercial offerings. A well informed customer and transparent consent flow is no doubt a must to protect client interest.

It is a challenge for above-mentioned market players to comply with such requirements while developing client friendly propositions. We believe that it will take a significant amount of time for market practices and legal requirements to align. Maybe even PSD3.

Banking after PSD2

Thanks to PSD2 the banking sector is heading towards the Open Banking stage which will change the industry fundamentals. The whole

banking value chain greatly changes bringing a new way of banking (Figure 6).

The Dutch market is fully ready to take PSD2 functionalities into real-life use. Market participants are facing a more competitive market where innovation is the only key to stay relevant and gain or keep market shares.

Market participants need to carefully position their products and services. A customer-centric approach is the key success factor where customer trust is the most important factor of the future of banking.

Customers will experience easier, more customer-friendly banking and payments experience which is cheaper, have more options and products to choose from.

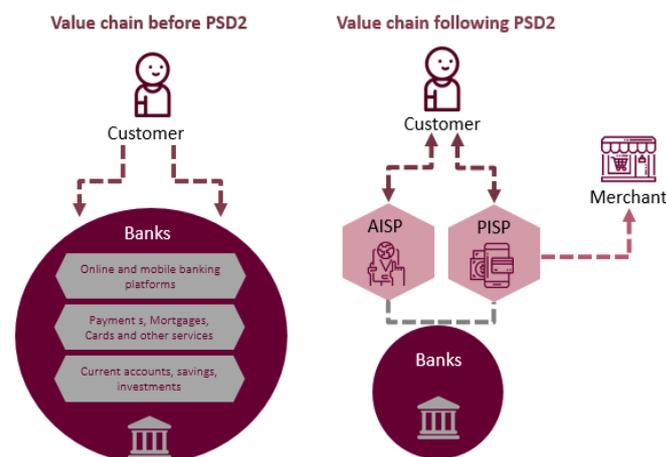


Figure 6. Value chain before and after PSD2

How a glimpse into the future of open banking industry looks like? There are a couple of possible scenarios going further (Figure 7).

These scenarios show a completely different future for banking, notwithstanding the most probable future state will be somewhere in-between. Certainly, all connected industries will want to benefit from PSD2 and there will be also a client segment staying behind with traditional banking.

Overall, PSD2 is a great step towards an Open Banking world. Open Banking is enlarging the scope of PSD2 and currently reshaping completely the old school, banking we all used

to know. We cannot wait to see what the future will bring!

Scenario 1. The dominance of the Banks Banks can leverage already existing customer relations and trust while investing in innovative offerings. Larger banks will have a significant advantage in this race as payments infrastructure will be built and maintained greatly by these institutions.	Scenario 2. Leading tech giants In this scenario, large tech companies full with capital will elaborate on their technologies expertise and customer-centricity. They will exactly know what customers want and they will offer the right product at the right time. These tech firms already have a large pool of loyal customers from their other service lines. In this scenario, retail banks would be in trouble competing with greatly personalized, high tech designed experience provided by tech firms.
Scenario 3. No impact of PSD2 The upcoming open banking revolution`s new features are just not significant enough for the majority of the customers. Value propositions and actionable insights will not be valuable enough for most of the bank customers. They will be reluctant on sharing their banking data with third parties considering recent data leaks and cybersecurity concerns.	Scenario 4. The dominance of the retail industry Merchants will take the lead and integrate financial services into their offering leaving banks as utility companies to hold the balances. Even some of the lending activities will transfer to the new retailer leaders as well, these will be typically loans without any backing.

Figure 7. Future scenarios of PSD2

YOUR CONTACTS

ARUNE ALEKSONYTE

Project Manager
+ 31 6 54 96 53 55
arune.aleksonyte@sia-partners.com

ATTILA HÓDÖR

Consultant
+ 31 6 10 54 55 86
attila.hodor@sia-partners.com

JUSS JADOENATHMISIER

Consultant
+31 6 22 15 20 78
juss.jadoenathmisier@sia-partners.com

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