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TECHNOLOGY

How to thrive in a post-Open Banking Australia

Open Banking is coming to Australia from 1 July 2019. Within two years, every banking customer in Australia will be able to move any of their accounts with ease. This regulatory change is going to make competition between banks fierce as the barriers to moving providers are eliminated.

Sweeping regulatory changes like this have happened before in numerous other industries and we can learn from the after-effects of these events. By being proactive and understanding where you need to focus your bank's time and energy ahead of the changes, you'll be able to thrive, rather than just survive.

A great way to predict the potential effects of Open Banking on banks, and learn from them, is to look at other examples of where regulatory changes have reduced the barriers to competition in a market with a low number of big, established providers.

For example, the European Stock Markets regulatory reforms (MiFID in 2007 and now MiFID II in 2018) opened competition in a market with several large incumbent trading businesses. The reforms effectively ended the monopoly that established trading businesses, primarily national Stock Exchanges, had on the market. As the changes have come into effect, many have struggled to find their point of difference and have been cornered into a pricing war – a race to the bottom – which is still significantly impacting long-running businesses.

> *The impact of Open Banking is going to be widespread and disruptive for the banking industry.*

In Australia, mobile phone number portability came into effect in 2001. From September that year, customers could request to port their number from carrier to carrier, meaning they were no longer locked in to one network. Competition suddenly flared and, as with the trading businesses, the established infrastructure providers were stuck in a race to the bottom on price against each other and hundreds of younger, more agile start-ups.

The impact of Open Banking is going to be just as widespread and disruptive for the banking industry. Determining your point of difference and investing in the future of your communication channels with customers is key to surviving into the future.

What is Open Banking?

Open Banking is the common name given to a set of regulatory changes passed into law by the Australian Government and affecting all Australian banks and financial institutions.

These changes mean banks and financial institutions will now have to provide access to customers' data, when requested, using secure APIs.

For customers, Open Banking will mean they can easily request their banking and transactional information be shared with another bank or financial institution.

What are the key dates for Open Banking?

Open Banking officially starts from **1 July 2019.** From this date, the four major banks – CBA, ANZ, Westpac and NAB – must make data available for all Credit Card, Debit Card, Deposit and Transaction accounts under the Open Banking framework. They will be in test mode for six months before the technology is planned to go live for customers.

From **1 February 2020**, the four major banks must make all mortgage/home loan data available, and from **1 July 2020,** they'll need to make all other nominated deposit and lending product data available. This includes pensioner deeming accounts, trust accounts, foreign currency accounts, business finance, consumer leases and asset finance.

All other banks and financial institutions, except foreign banking branches, must follow suit with a deadline of 12 months after each of the deadlines above.

This means by **1 July 2021** all banks and financial institutions in Australia, except foreign banking branches must have made provision for all their customers' data to be accessible

The move from a closed model, where financial institutions own their customer information, to open banking, is going to significantly disrupt the industry. Thankfully the Australian banking industry can learn a lot from other sweeping regulatory reforms around the world, and in our own backyard.

The European Stock Markets and our Telecommunication Industry have both been affected by similarly industry-disrupting changes, as have numerous other industries and incumbents throughout history.

In this article, we'll step through what happened and what lessons our Australian banks and financial institutions can take to weather the approaching storm.

European Stock Market Reforms: What were the regulatory changes in MiFID and MiFID II?

The Markets in Financial Instruments Directive **(MiFID - 2007)** and **MiFID II - 2018** were waves of sweeping regulations that affected financial markets – and anyone who works, trades or invests in them – across the EU. They were designed to increase transparency and standardise regulatory disclosures – making the markets a fairer place to trade and offering greater protections to investors.

The reforms made a traditionally closed, secretive industry into an open, highly transparent one, and the repercussions have been immense.

As just one example, trading desks within banks have had to completely rethink the way they do business. They've had to update years-old legacy systems and educate their employees to ensure they are compliant.

Under the latest rules of MiFID II, trading platforms operated by financial institutions have had to become so transparent they must now make it clear for investors to see whether they're getting the fairest deal at any given time.

MiFID II also ensures that regulators have a greater insight into the day-to-day operations on trading floors and sales desks right across the region. This improves their ability to spot any irregularities and identify any market abuses early.

Within months of the implementation of MiFID, multiple start-up trading venues had begun to chip away at market share for trading of FTSE 100 shares, followed by FTSE 250 shares. As an example, the London Stock Exchange saw its FTSE 100 trading drop from 100% to 40% in under two years. Market data feeds were then hit and, with less success, derivatives trading. This spike in competition surprised many of the incumbent traders and left them scrambling to retain their customers.

How has MiFID II affected Australian trading businesses?

From 3 January 2018, as the MiFID II regulation came into force in the European Union, the impact was felt around the globe, including on our shores. Suddenly there were new rules around Australian corporates meeting with investors in the UK, Australian fund managers meeting with European clients and how Australian traders packaged research.

The changes effectively put a price on analysis – triggering a race to the bottom on price and the unexpected rise of a new industry. We've seen many well-regarded analysts join independent research start-ups as this whole new industry within an industry sprouts up into the mix.

Thriving in the post-MiFID world

Many traders struggled for years to get back on top after MiFID first came into effect. As MiFID II came into view, they were more prepared. Many in the marketplace have not only adopted the changes to ensure compliance, but thrived in this new, transparent world.

Successful market participants are embracing electronic trading and new trading technologies. Greater access to data and analytics and the increase in efficiency in trading market processing has meant growth in market volumes.

There have also been opportunities for new companies in the market. Companies who are agile enough to design a new business and its supporting infrastructure without the costly expense of upgrading a legacy system and supporting a huge legacy client base. As an example, the rise in the number of trading venues saw an explosion in so-called High Frequency Trading firms (HFTs). These firms connect in to multiple venues and export pricing differences between then. In their bid to gain an edge, they began employing more and more sophisticated algorithms to perform trades in a matter of nano-seconds. Many readers will be familiar with the new types of challenges this creates for regulators.

A further example would be the many fund management companies that have launched their own direct to consumer web-based distribution operations.

The lesson here? Those companies who embraced the change, rose above the base compliance requirements and have harnessed this new world of information sharing are those who've come out on top.

Australian Telecommunications Industry: What were the regulatory changes involving mobile number portability?

Mobile number portability was introduced by Government legislation in Australia on 25 September 2001. The regulatory reforms allowed users to keep their existing mobile number when changing from one telco service provider to another. This process is referred to as 'porting'.

The legislation was intended to make the telco industry more transparent and competitive, removing the barrier for customers to move between providers. Customers were the clear winner, with providers having to ensure compliance in less than 18 months.

To be compliant, the losing provider was obliged to port a number at the request of a customer. They weren't even allowed to delay the request if the customer had an outstanding debt with them. The gaining provider was obliged to advise the customer of any costs associated with their change of provider and give them information about contract terms and conditions.

This opened up instant competition. Providers had traditionally relied on the difficulty of moving to a new provider; the problem of needing to get a new number and letting friends, family and work connections know.

The regulatory mandate was to carry-out portability in a short space of time – 90% of ports were to be completed within three hours and 99% of ports were to be completed within two business days. Providers had to be compliant by 25 September 2001, or risk fines. They scrambled to be compliant but most didn't look to the future in a post-porting world.

Once porting came into effect and customers started switching providers in droves, providers did everything they could to lure in new customers and keep old ones. This is when pricing became the focus – for both retail and wholesale. The lower the offer, the better the chances of keeping and gaining customers. The first telco off the block to drop prices was 3 Mobile with its $99 Cap Plan. The industry had no other choice than to fall into line as the competitive pricing went lower, and lower. Eventually hitting rock bottom with $29 Cap Plans.

This race to the bottom on pricing ripped into the industry's profitability and it has taken years to rectify. As time has gone on, the providers have realised pricing is not where they need to compete. Rather, their service, infrastructure and technology is where they can truly find a point of difference between one another.

> *"Those who've invested in technology and digital channels have also succeeded as they've realised content is king."*

Thriving in a post-porting world

The providers who've been successful in the post-porting world are those who went beyond their core product and facilitated better experiences for their customers thanks to technology.

Those who invested in their infrastructure and service, delivering reliable, quality network coverage, have had an easier time of retaining customers. Those who didn't – think Vodafone network outages – are still struggling.

Those who've invested in technology and digital channels have also succeeded as they've realised content is king.

Learn from their experiences: How to prepare your bank for OpenBanking

Australian banks and financial institutions can learn so much from the Australian telco and MiFID regulatory reform experiences.

1. Don't just ensure compliance: Think ahead to how your bank can be agile in this new world. Investing in technology and developing strategic partnerships now will help you navigate the choppy waters, allowing you to take advantage of all this information sharing to retain and bring in new customers.

2. Be proactive. Acknowledge that you need to do something now. Do it now! Don't wait until it's too late. Open banking will be here within months.

3. Find your true point of difference to avoid getting locked into a pricing war. Where can your bank truly differentiate itself? What can you do to make the most positive impact. The answer is not price. It's not marketing either. That leaves you with how you communicate with your customers and how agile you can be in taking information and customer feedback and pushing it straight into product and service development. You want your customers to have an emotional connection to your bank – to develop brand loyalty. If you're not aware that most of your customers are increasingly using digital technology and only interact with your bank's brand when they use internet banking, then it may be time for a change. You need to invest in a new, responsive and engaging digital strategy that offers more to your customers than other banks' digital platforms.

Many banks are not ready. They're heavy – with old technological processes and their traditional resistance to making large-scale change, and assume change takes time and a lot of money.

Compliance with Open Banking is estimated to cost the industry upwards of $1 billion. However, investing in your digital banking platform to secure your bank's future in the Open Banking world, doesn't have to cost the earth or take years to change.

Sandstone Technology's Digital Banking platform can be up and ready for your customers within months.

Sandstone Technology - Your Open Banking Partner

Open Banking is coming, and you must be prepared. This is a huge step forward in the banking industry.

It's time to take on board the learnings from other regulatory reforms and the big impacts they've had.

Now is the time to invest in your bank's future by partnering with Sandstone Technology and our Digital Banking platform.

Our Digital Banking platform is:

- **Open Banking ready – an out of the box Open Banking compliant solution, or able to link in with an Open Banking provider of your choice.**
- **Quick to market – 90% pre-built, only 10% requiring customisation to your exact needs.**
- **Growth ready - it grows as you do – an open, self-configurable and extensible platform – allowing you to be agile and responsive to disrupt the post-Open Banking market on your own terms.**
- **Experienced – the platform is successfully used by banks and regulators in other PSD2 and Open Banking markets.**

We've partnered with, and innovated the Digital Banking platforms of many banks – from Tier 1 to Tier 4 – both here in Australia and overseas.

For further information or to discuss your digital banking needs, contact us today.

Want to increase your bank's conversion rates?

Connect with Sandstone Technology today.

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