

# NATWEST PAYIT™ SHOWS THE VALUE OF USING OPEN BANKING FOR INNOVATION

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# NATWEST PAYIT™ SHOWS THE VALUE OF USING OPEN BANKING FOR INNOVATION

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The industry has certainly been on a journey when it comes to open banking. Back when the initial proposals for PSD2 and the UK's open banking initiative were being shaped, many banks openly shared the view that this was just another compliance requirement for them and would be treated as such. Largely as a result, the same people were clear that they expected open banking to fizzle out quite quickly.

It's fair to say that events have taken a different turn. The industry has reached consensus about the potential for open banking to support new commercial propositions and improvements to a wide range of existing products, services, and experiences. In most cases this enthusiasm is driven by the efficiency gains and new revenue streams that have already been developed. Indeed, the willingness of some of the UK's biggest banks to openly share the progress they've made was one of the standout themes from the recent Open Banking Expo.

One of the undoubted leaders in this regard is NatWest. The bank was among the first in Europe to launch a commercial API offering (services that go beyond what is required for regulatory compliance) and remains the first, and still the only UK bank to support VRP for non-sweeping use cases (also referred to as commercial VRP). Arguably more noteworthy is the bank's Payit™ proposition. What began life almost as an internal fintech back in 2019 today uses open banking to deliver a range of payment services to small business and corporate clients. Underpinning Payit™'s services are the open banking APIs used to initiate payments over the UK's real-time payments network.

In late October, the team behind Payit™ ran an event for its customers and partners to outline both the progress made to date and the opportunities ahead. This was also an ideal opportunity for the bank's Payit™ customers to share their own experiences and discuss the ways in which open banking could be used to support a range of other needs. Celent was delighted to be invited to attend and participate in the agenda.

There were three clear takeaways from the event.

## Open banking has a bright future, but don't miss the chance to innovate today

One of the key messages was that the potential of open banking is no longer theoretical and is being used to deliver value to customers today. While the ecosystem is developing rapidly and looks set to continue to grow in the future (not least because of the regulatory momentum behind a commercial VRP rollout), the industry should not lose sight of the opportunities to address current service gaps and customer pain points.

In the case of Payit™, which is designed to meet the needs of corporates from the mid-market up, this includes payments for digital commerce (such as the pay-at-table service it delivers to pub chain Wetherspoons), other areas of inbound payment acceptance, and processing refunds or disbursements.

Further insight on some of these benefits was shared by two Payit™ customers. These cases highlight a very important point about open banking-initiated payments. While it's easy to think about the potential benefits through the lens of cost efficiency (by undercutting the cost of card acceptance), there are frequently opportunities to materially improve the customer experience. The potential to digitise manual processes can be transformational to some use cases, as can the ability to send (or receive) payments that clear in near real-time.

The first customer was NewDay, the credit card issuer behind brands such as the John Lewis Partnership Card and Aqua. It uses Payit™ to offer a 'pay by bank' option for customers making credit card repayments and has reported strong growth in customer adoption. One of the benefits NewDay offers to customers is that the card balance can be updated almost straight away, compared to the average 3-5 days it can take if the customer uses a debit card. This has led to changes in repayment behaviour, with some users choosing to make smaller and more frequent card repayments through the billing cycle.

JS Group also shared its experience. The company focuses on the higher education sector, particularly in helping universities to process outbound payments in areas such as bursaries, financial aid, and other flows to students and staff. The benefits of open banking in this context are twofold. Firstly, funds are moved across the Faster Payment network, and therefore arrive in near real-time. Secondly, Payit™ enabled a digital workflow for the recipient to nominate the destination account for the payment (removing the need for the institution to know and maintain this information). A manual workflow that used to take around a week has been largely digitised and can be completed in around 15 minutes. This brings considerable benefits to those in need of hardship payments.

## Banks have the advantage when it comes to delivering open banking services

One of the most important lessons the industry has learned over recent years is that incumbent banks are in the strongest position to take advantage of the opportunities

of open banking. They have the brand, products, and customer relationships, and these are hugely powerful assets to be exploited.

This was a theme explored by the Payit™ team, who spoke in detail about the value of a bank—rather than a fintech—delivering open banking-supported services. In the case of Payit™, this refers to the creation of the business as an ‘internal fintech’ within the bank, which enabled it to take an agile and customer-focused approach to product development while benefitting from the scale, security and resilience of a top-tier financial institution. Going back to the fundamentals of understanding customer needs and delivering services to address their challenges has been key to this approach and is starting to pay dividends for the bank. Also critically important has been the willingness of NatWest to invest in open banking as a longer-term strategic priority rather than chase rewards in the shorter term.

Being part of one of the UK’s biggest banks and participants in Faster Payments has been important to Payit™ in other ways. In cases where payments fail or have other issues for example, the bank has considerable internal experience to help resolve problems, including the ability to deal directly with counterparts at peer institutions.

Despite the success that Payit™ has had, there have been lessons learned along the way. One such learning was the reality that selling these kinds of technology-led services to customers is a very different process to selling other banking propositions. This has required a focus on the capabilities to provide technical support as well as being able to take customer feedback and other inputs into the product development roadmap.

The bank has also learned much about how to help its clients to build customer adoption. This has involved a lot of new thinking about the importance of customer (and staff) education, digital journey optimisation, and how to deal with exceptions, outages, and edge cases. Underpinning this learning has been the potential of open banking to support a step change in the customer experience or service that a client can offer its own users.

## There is much more to come from open banking

The third takeaway from the event was around what may come next. Even taking the relatively narrow set of data fields and payment services covered by the UK’s existing open banking framework, there are many other ways these can be used to deliver value to corporate customers. There are also many other insights and pieces of information that banks hold on their customers that are not covered by open banking regulation. These can also be used to support innovation, and the Payit™ team was keen to outline its future vision.

One of the examples shared was the opportunities to deliver services to corporate clients to enable ‘one click’ experiences when they onboard customers. A bank holds information such as the age, address, and contact details of a customer, which could presumably be used (with consent) to pre-populate a customer sign-up form for a subscription service, household utility or mobile contract. Other indicators such as affordability checks could also be provided to further streamline the user experience.

It feels like the industry has been talking for years about the potential of open banking and the future opportunities to use the new rails that have been created. The talk continues, but the success Payit™ has had to date demonstrates the value of seeking the opportunities in compliance, and the importance of experimenting with new ideas and concepts.

# LEVERAGING CELENT'S EXPERTISE

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