

WHITE PAPER

# The Power of Open Banking: Exploring the Next Wave of Use Cases

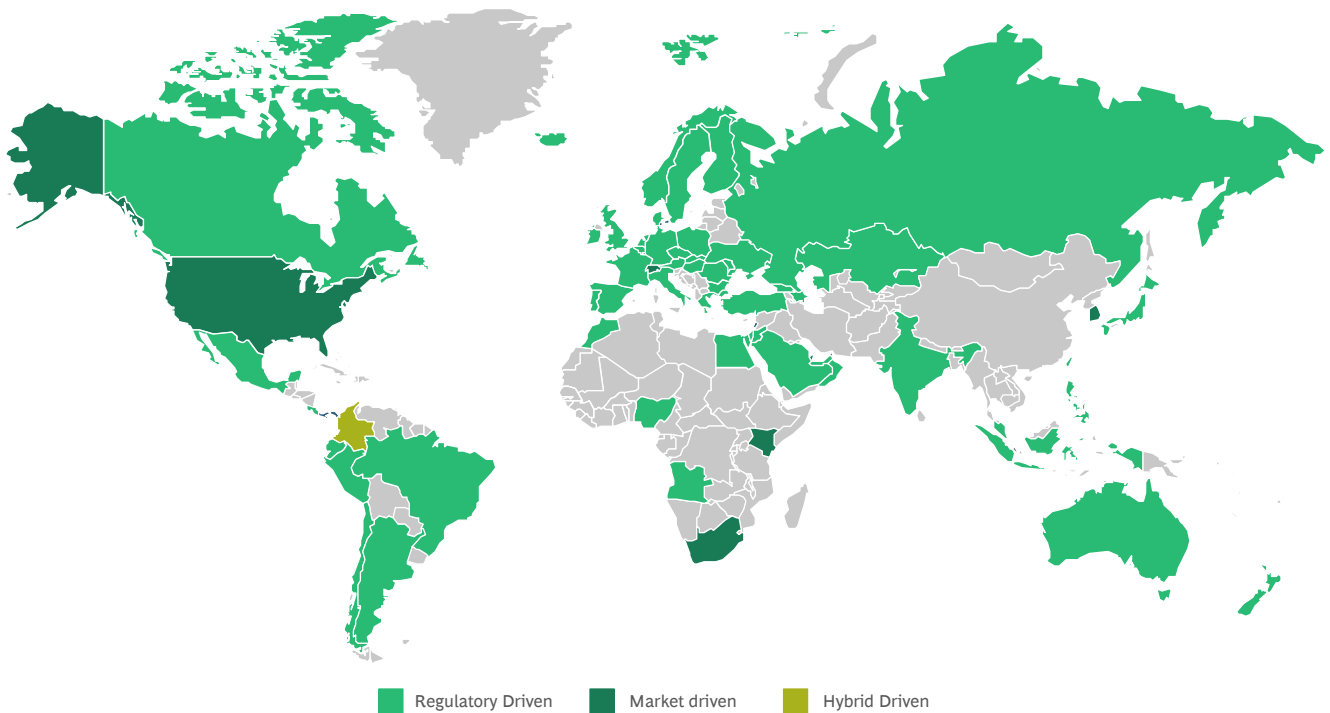
September 2023

By George Davie, Wilko Klaassen, Signe Leiker, Conor Tiernan, Markus Ampenberger, Carlos Bravo, Dirk Cohausz, Max Nitsche, Ella Rabener, Sergey Sushentsev, Jose Velasco, Anne-Sophie Vogt

In the context of an interconnected, digital, and increasingly accessible financial system, open banking offers consumers the chance to simplify and enrich their financial activities. Businesses, meanwhile, have an opportunity to improve customer journeys by integrating payment capabilities and expanding ecosystems, each of which has the potential to broaden horizons and deepen customer engagement. Yet, despite these positives, many business leaders sense that open banking has not reached its potential—that there should be more to gain from a shared and data-driven economy. Despite progress, open banking is a concept whose time is yet to come.

Open banking was originally conceived as an antidote to a perceived lack of competition and innovation in the banking market (OBIE in the UK and PSD2 for EU are two of the most recognizable initiatives globally). With banks required (regulation driven) or invited (market driven) to share transaction data or allow third parties to initiate payment transactions via bank accounts, subject to customers' consent, competition was enabled in services including account aggregation, onboarding (account verification), and payments. Open banking plays a key role across the globe where the majority of countries are following a regulatory driven approach and only some a market driven (e.g., US). Pls see exhibition 1 for details on initiatives across the globe.

## Exhibit 1: The World of Open Banking



Source: Konsentus

Most open banking use cases to date are extensions or derivatives of traditional banking services. Initiating payments is the number one application, alongside know-your-customer, financial risk management (including credit scoring), and financial advisory, for example enabling customers to manage financial activities across their different accounts.

However, open banking's potential extends far beyond financial services. In this article, we explore how three industries—retail, travel & hospitality, and automotive—could leverage open banking data sharing to create a better customer experience, reduce costs, and build competitive advantages.

## Slow Adoption

Open Banking is still in its infancy, with adoption among consumers and businesses growing only slowly. This is probably due to widespread misconceptions around the objectives of data sharing, as well as poor API quality and functionality or at least fragmentation of API standards<sup>1</sup>. Indeed, open banking's expansion is predicated on the availability of excellent bank APIs, both in terms of connectivity and access to data. The maturity of Fintech and third-party provider ecosystems is also a factor.

We see open banking's short history as having evolved in three waves:

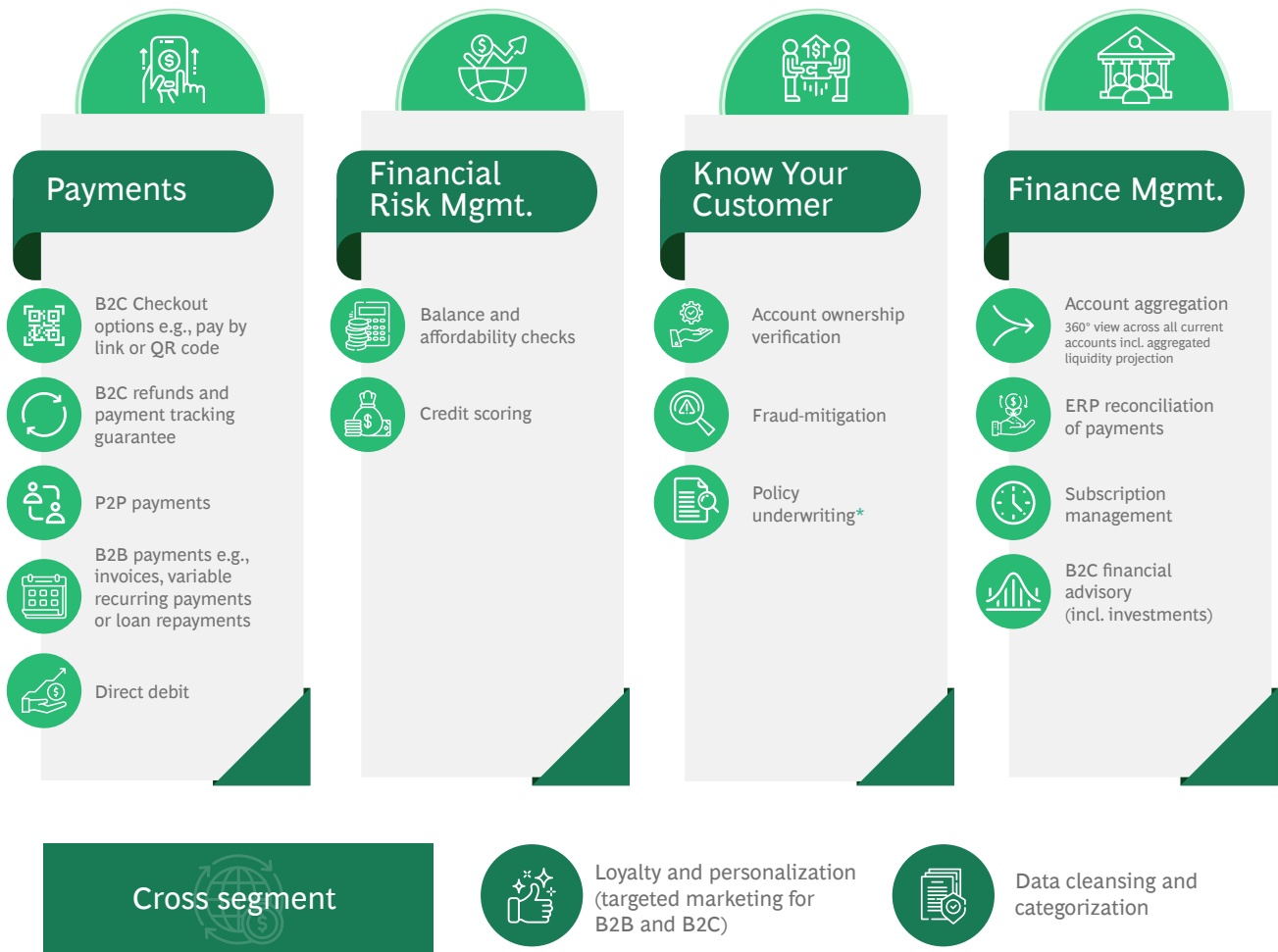
- 1 First wave.** Shaped by technological limitations, limited bank connectivity, and scant intermediary participation, with use cases restricted to aggregation of payment information across multiple bank relationships and payment initiation services with minor innovations.
- 2 Second wave.** In some cases, encouraged by regulation, the number of participating large banks and intermediaries expanded. New use cases emerged, but solutions were limited to financial services.
- 3 Third wave.** The emergence of open finance, extending the principles of open banking to investment-based products, including savings accounts, mortgages, and insurance. Participation by non-financial industries and consideration of regulatory enhancement to cater to new use cases, for example relating to crypto currencies or the buy-now-pay-later phenomenon.

In some regions, open banking is starting to gain significant ground. In the UK, there were around 7 million users of open-banking powered apps, products, and services in early 2023, or around 10% of the population, according to [Openbanking.org.uk](https://openbanking.org.uk)<sup>2</sup>. According to the same study, consumers see open banking for its benefits and associate 60% of use cases with a better customer experience (in terms of speed and easiness), suggesting an improving understanding of the potential benefits. Another factor that is helping boost take up is that the number of open banking applications is rising. Today the list of use cases has evolved to include recurring account-to-account payments (e.g., variable recurring payments), financing risk analysis (including affordability checks and credit scoring based on transaction history from the consumers' current accounts), tenant vetting, and insurance underwriting.

Most open banking use cases fall into one of two buckets: Basic or mandatory APIs, enabling access to payment accounts for distinct services, or premium APIs to unlock financial products beyond payment accounts, for example in investments or savings. (See Exhibit 2).

1. Currently discussions around better standardization of APIs are ongoing, for example in the Berlin Group, the European Payments Council and potentially also via the forthcoming PSD 3 regulation
2. UK reaches 7 million Open Banking users milestone, [Openbanking.org.uk](https://openbanking.org.uk).

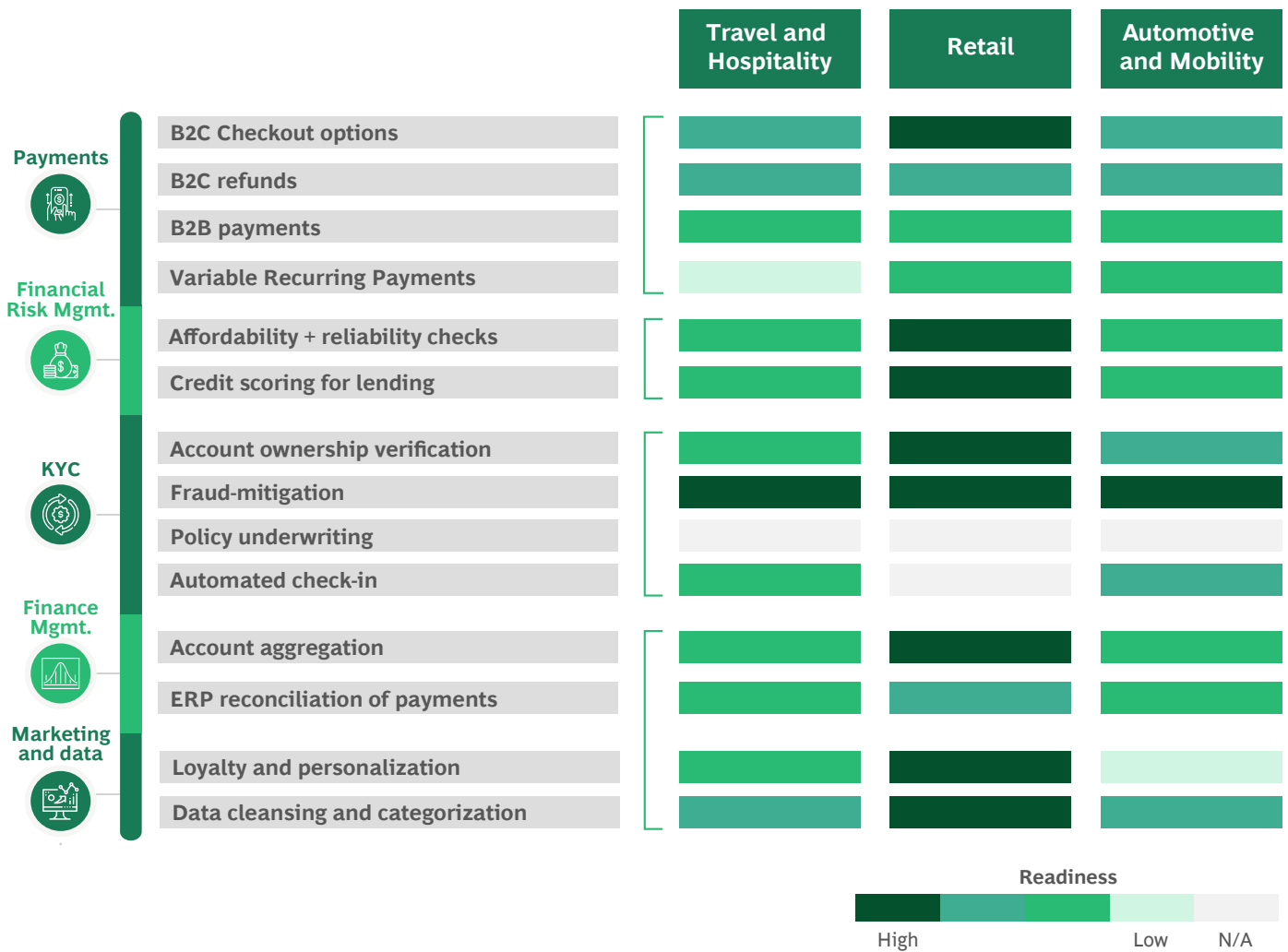
## Exhibit 2: Open banking use cases | Additionally to Payments, Open Banking is widely used for Financial Risk Management., Know-Your-Customer and Financial Management purposes



\* Specific to insurance industry

Looking ahead, there are numerous potential applications that have yet to be fully explored. In the three industries discussed here—retail, travel & hospitality, and automotive—there are opportunities to both reduce pain points in customer journeys, for example in customer identification and financing risk analysis, as well as augment customer experiences, in areas such as account-to-account payments or onboarding. Ideally, the solution needs to be frictionless and invisible to the consumer. Across the three industries, potential uses cases are at various stages of development and piloting. (See Exhibit 3)

# Exhibit 3: Financial Risk Management



The most common and universal use case (applicable to all industries) is initiation of account-based payments, where there is transformational potential to reduce processing costs, improve cash flow lifecycles, and provide a better experience (embedded payments within the customer journey). Beyond payments, promising applications can broadly be divided into three categories, each of which represents a distinct business opportunity:

- Financial Risk Management:** Companies in travel & hospitality, retail, and automotive can use transaction and account data to support more accurate credit risk assessment than is sometimes available through credit bureaus at specific points in time. Retail is the most advanced industry in terms of readiness.
- Account ownership verification:** Open banking can help companies verify client account ownership, complementing existing ID/KYC verification process. One potential use case is digital IDs, already used in some countries to enable access to a range of government services.
- Loyalty and personalization:** Open banking can provide unique information based on consumer buying behaviors. This can help merchants across industries create tailored marketing campaigns and personalized offers.

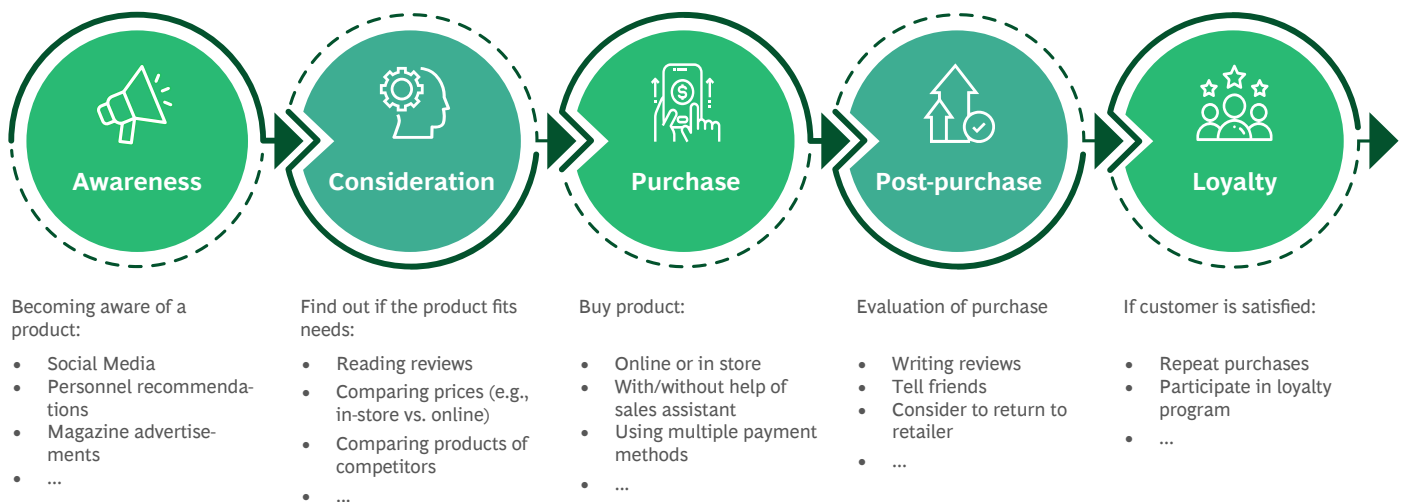
In the following chapters, we discuss how these use cases can be shaped to fit the needs of the retail, travel & hospitality, and automotive industries, enabling more efficient operations and a best-in-class customer experience.

It is important to note that the consumers require education around the use of their data, without which companies using or selling the data may encounter reputational pitfalls on data protection and usage. This challenge can be overcome by transparent terms and conditions, but the topic should nonetheless sit high on decision makers' agendas. On the payment side, open banking needs to prove that it can provide strong consumer benefit and thereby compete against other methods with consumer protection programs such as Credit Cards or wallet providers while having the cost benefits in place.

## Open Banking in Retail

The customer journey in online retail consists of five distinct steps: awareness, consideration, purchase, post-purchase, and loyalty services. In the course of a typical journey, consumers can encounter a number of pain points. These include the need to manage multiple accounts, logins, and loyalty programs, an overwhelming choice of products, the need to manage returns, a paucity of payment and financing options, and the absence of potential benefits such as loyalty programs.

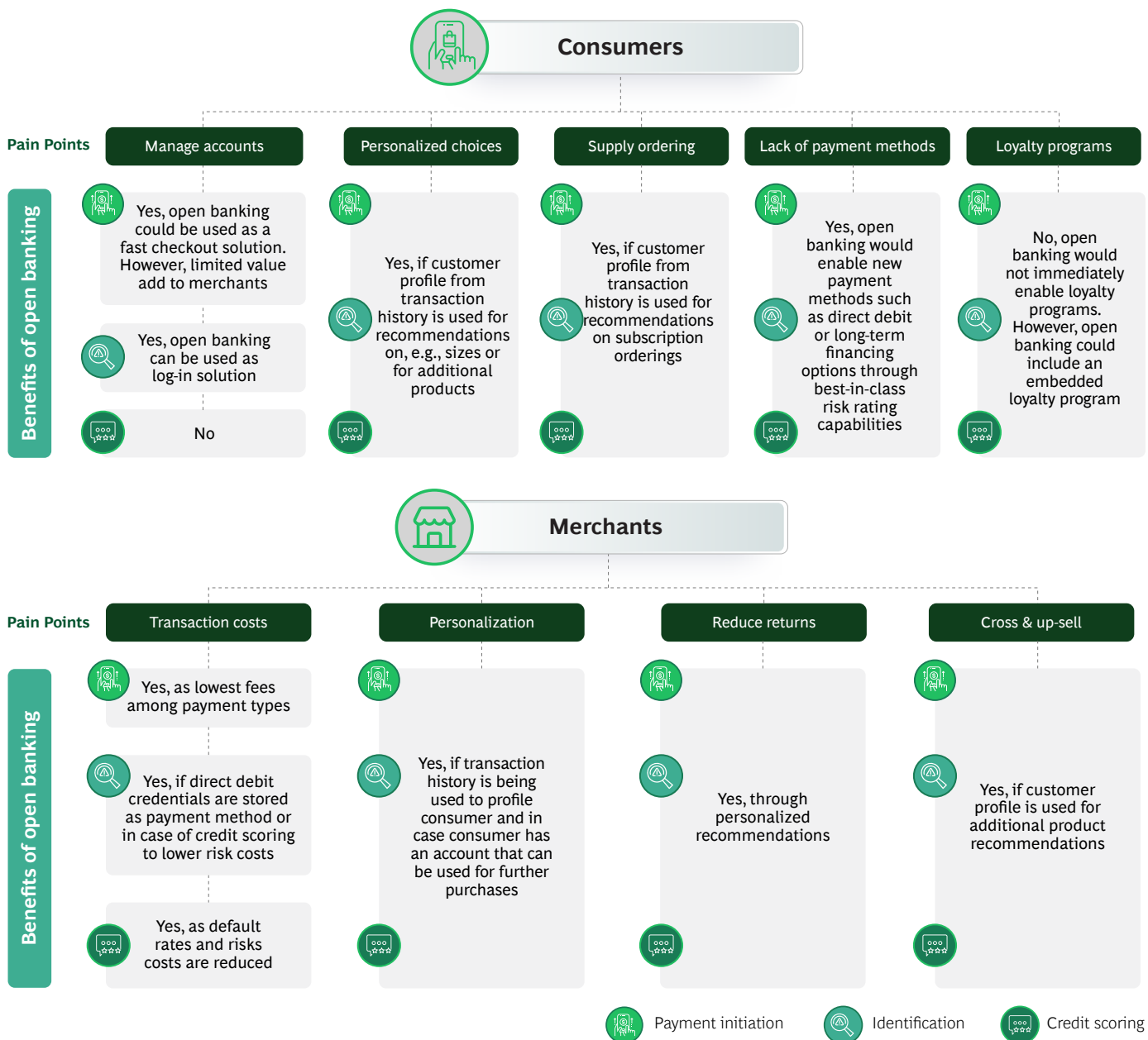
Merchants, meanwhile, face their own challenges. The cost of transactions is often high, whether through payment fees for payment service providers or BNPL charges, and the incidence of consumer fraud is rising. Refund processes are complex, and it is no easy task to match consumers to purchases. Up-selling and cross-selling is a perennial headache, subscriptions are hard to come, and managing inventories and supplies is never simple.



Open banking offers a range of solutions that may make the retail journey easier for both consumers and merchants. For example, payment initiation through open banking reduces the cost to merchants and guarantees payments. Open banking also supports account verification and helping merchants to combat fraud. Credit scoring becomes much simpler and can be carried out at the point of sale. Meanwhile, transaction data can support personalized offers and campaigns.



## Open banking can create benefits for retail consumers and merchants



Despite the manifest advantages offered by open banking in the retail context, adoption remains the exception rather than the rule. Indeed, consumers are largely unaware of the potential benefits, suggesting merchants need to find new ways to foster interest. One potential route to adoption could be through the creation of tiered customer segments (Gold status or certified shopper) facilitated through open banking account certification.

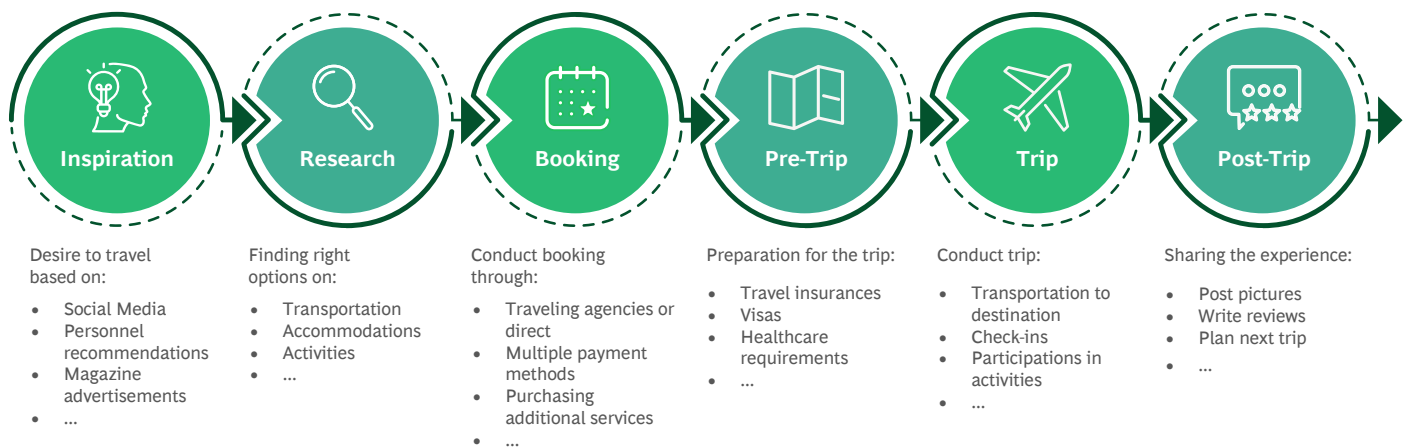
Once customers are onboarded, even further value can be added through the expansion of data sets beyond simple payments transactions. In Europe, this would require customer consent, which may be provided in exchange for benefits such as cashback rewards, loyalty program points, access to longer-term financing, faster delivery, or longer return cycles<sup>3</sup>.

3. In some regulations (e.g., PSD2), the consumer consent needs to be directly related to the services that the third-party provider can offer and needs to be renewed after a period (e.g., in PSD2 every 90 days)

The bottom line? Retailers stand to accrue significant upsides through open banking in the online environment, contingent on being able to overcome hurdles to customer adoption and usage. Value add features will be a key enabler. Moreover, given relatively sparse take-up across the industry, early adopters are likely to create a telling competitive advantage.

## Open Banking in Travel & Hospitality

As in retail, travel and hospitality is characterized by distinct categories of customer needs through the buying journey, from researching options online to preparing for the trip and sharing the experience. While some needs will differ, depending on the nature of the trip, others will be nearly universal across use cases. For example, personalization tends to be lacking in almost all travel and hospitality booking environments, particularly online, and the booking landscape is highly fragmented, with little overlap or coordination between platforms. Thus, travelers often need to interact with multiple providers to arrange various stages of their journeys, inputting the same details over and over again.

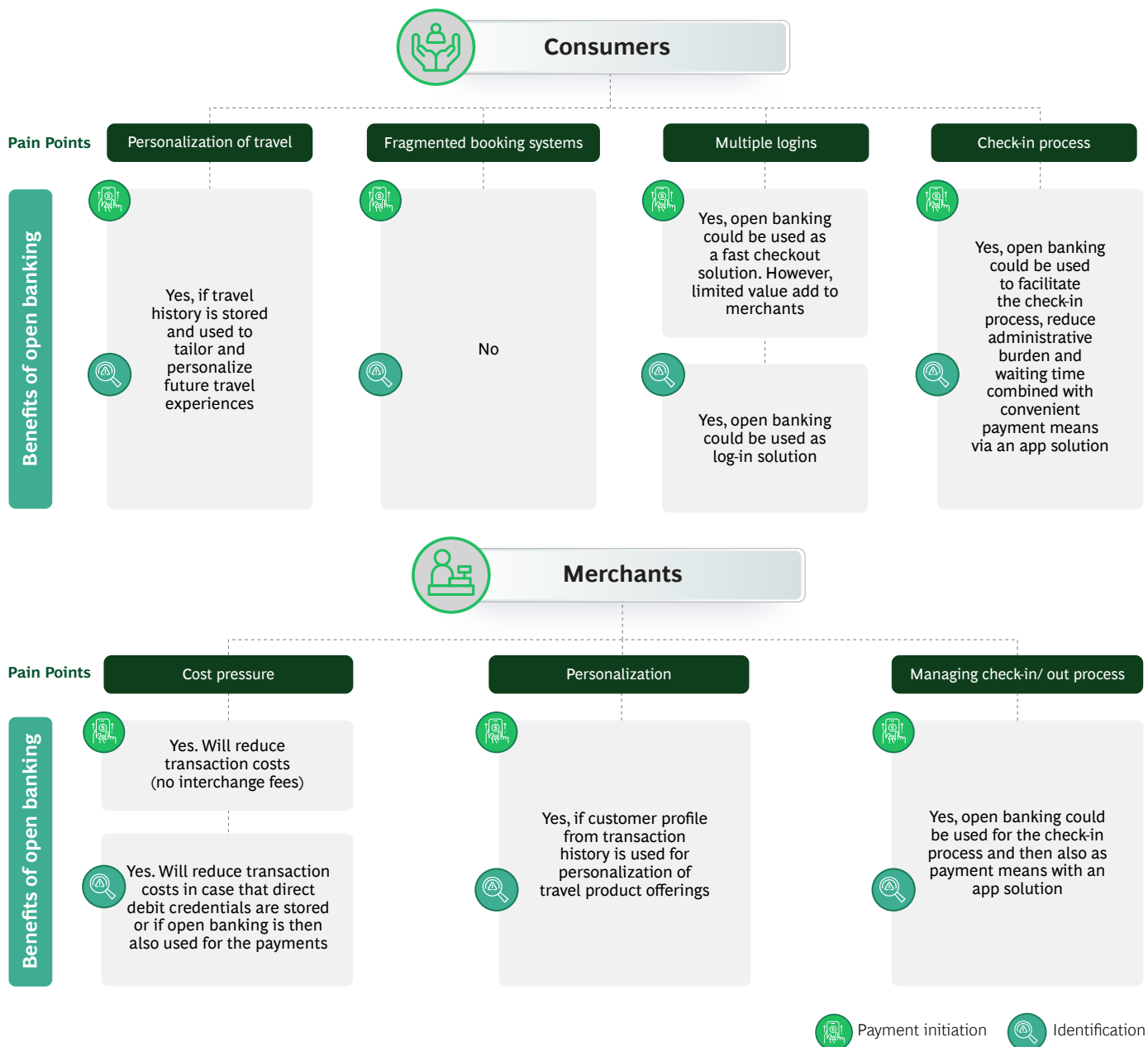


Another key area of inconvenience is hotel check-ins. Travelers must often wait in line and then provide numerous details, all after a long trip. Equally, checkout can be cumbersome and time consuming, amid long waits for invoices and receipts. These processes are equally demanding for hotels, which need to individually manage customer administration needs. They also perennially incur high card fees and are called upon to provide recommendations and information to each customer according to their needs.

Open banking can resolve many of these challenges. For example, payment initiatives through API-based services will lower merchant payments costs and reduce the risk of fraud. Identification checks can be made through bank account ownership, while customer transaction data can inform recommendations and personalized experiences—creating a benefit for both the business and the customer. Customers can also benefit from faster check-in and checkout, and more streamlined identification.



## Open banking produces benefits through the travel and hospitality value chain

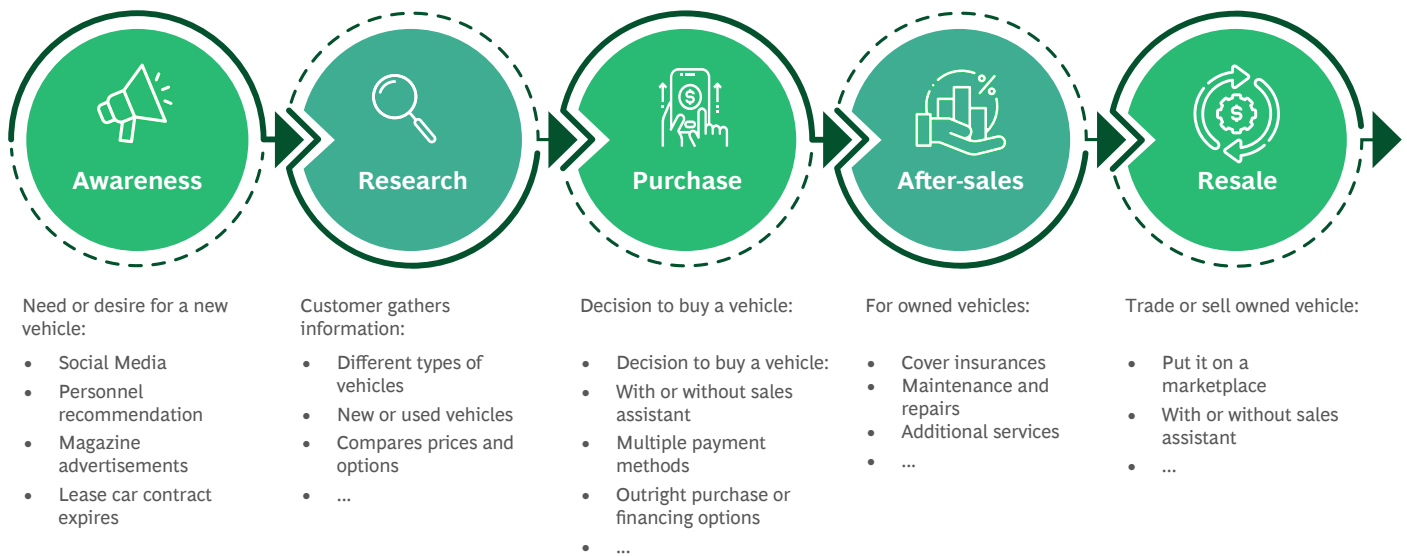


In many cases, it will make sense for hotels and other travel services providers to build a dedicated app with embedded open banking functionality. Customers could then download the app and provide account access, facilitate ID, and check in before arriving at the destination. On arrival, there would be no need to leave security in the form of a card or passport. Room keys could be issued through the app, meaning there would be no need to wait at reception on arrival. Many hotels already provide apps to their customers, but adding open banking functionality would likely make them even more engaging. The app would also generate large volumes of data, enabling more personalization and supporting cross-sell. An integrated data strategy would help companies optimize their engagement, while QR codes could be made available to facilitate sign up and support.

Hotels are just one possible use case. Similar benefits could accrue to car rental companies and other travel service providers.

## Open Banking in Automotive

The automotive industry is defined by a similar set of processes as retail and travel & hospitality. That is, the customer builds awareness before embarking on research, and then journeying through a purchasing and aftersales workflow. However, automotive is set apart by its unique financing model, in which financing and leasing contracts play a major role, alongside insurance and maintenance contracts, often provided by OEM financial services units. Key pain points in provision of these value-adds include limited dealership knowledge of customers and their purchase intent before the customer comes to dealership, challenges in personalizing offers for vehicles, financial services and insurance, and limited opportunity for cross-sell and upsell. In addition, dealers must ask customers to engage in lengthy paper-based processes. Meanwhile, vehicle returns tend to be highly bureaucratic and time-consuming.

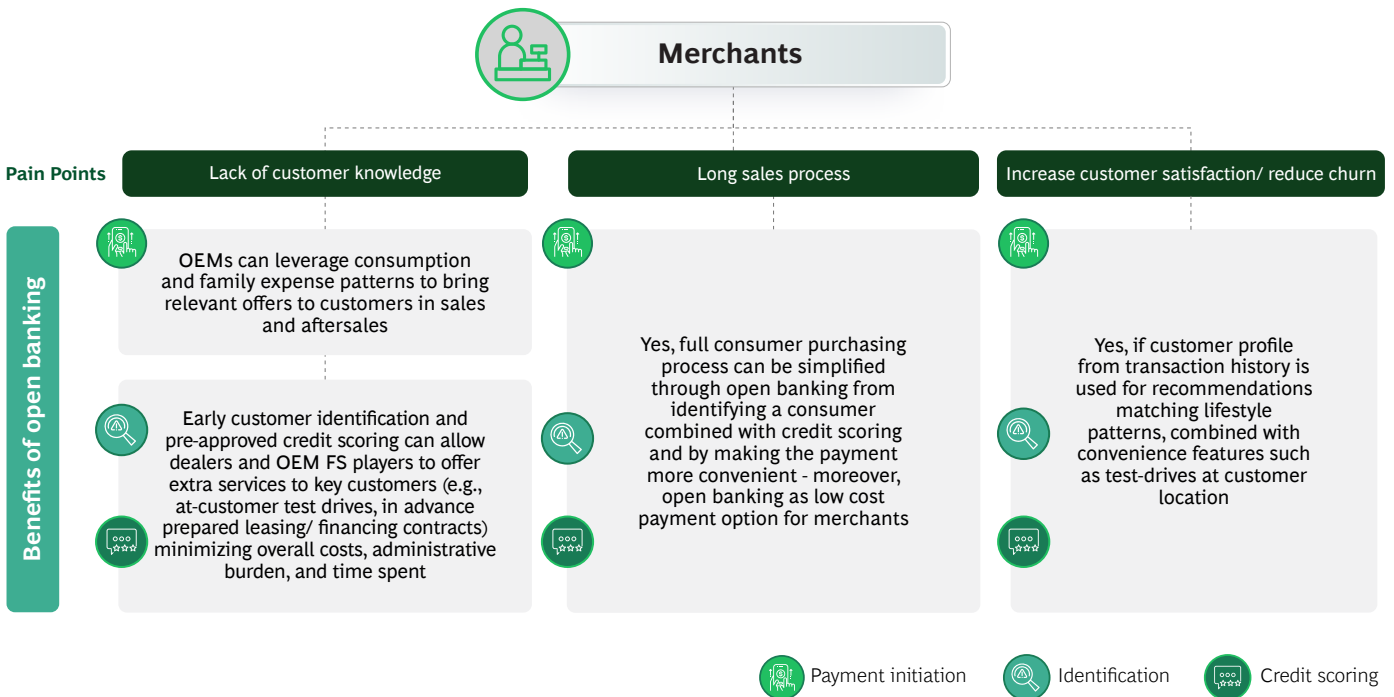
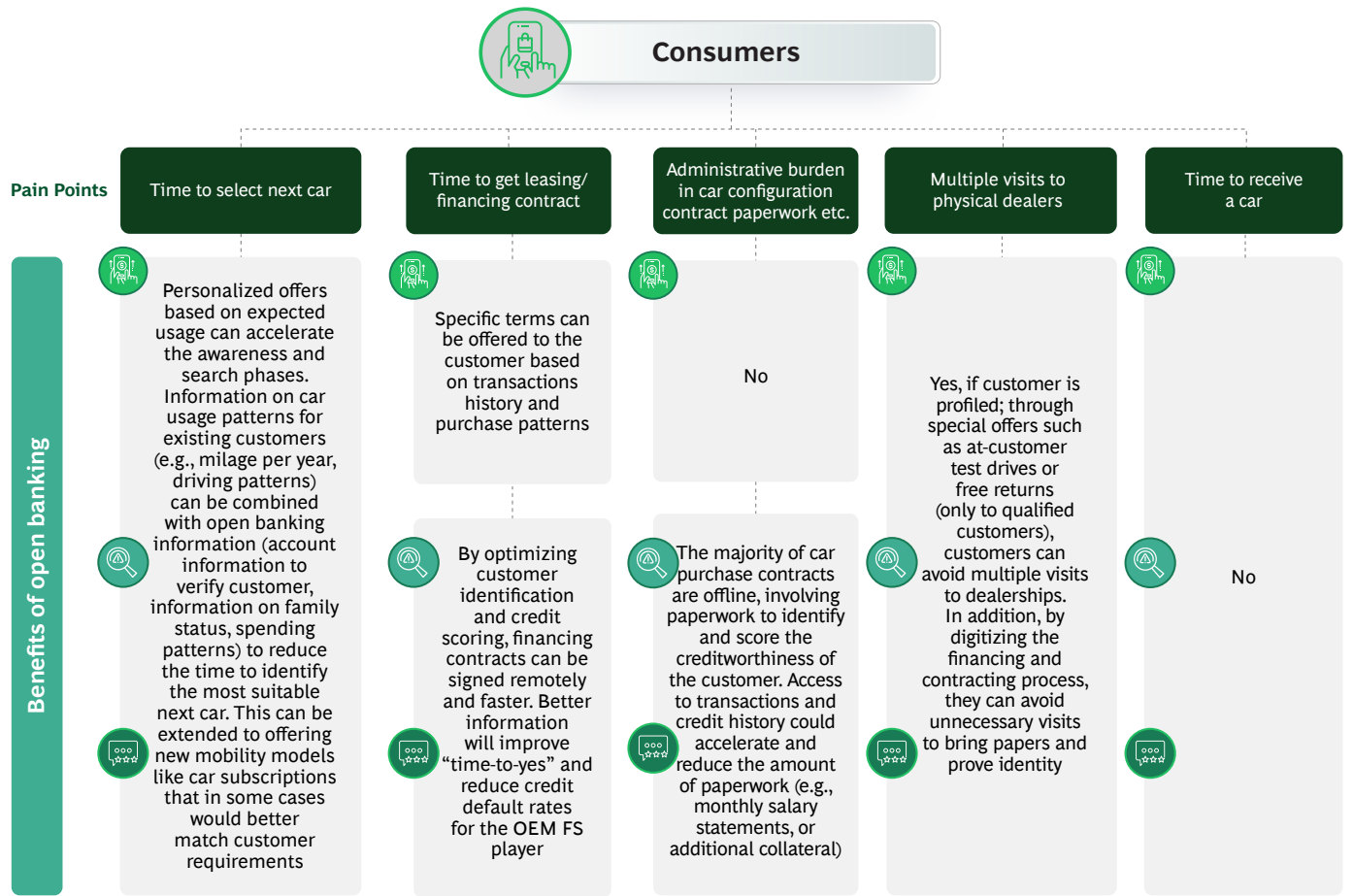


Consumer pain points are analogous to those at dealerships. A significant time commitment is required to make a purchasing choice, often involving multiple physical visits to view the car and test drive. Configuration often is time-consuming and complex using online configurator and/or sales information from the dealership, and the financing, leasing, insurance contracting process is cumbersome. The experience feels heavily bureaucratic.

Open banking can help companies address many of these challenges, for example enabling dealerships to make much more personalized offers, even before customers start to look for a new car. This can be a powerful route to conversion. There are also opportunities to tailor the post-sales offering to individual customers, including relating to maintenance, consumables, and upgrades. As in other sectors, the task of identifying customers is much easier through access to banking data, while automated credit scoring – well-established in the automotive industries based on paper information provided by the customer and use of credit bureau services – becomes simpler, less bureaucratic, and sometimes more informative. Consequently, “time-to-yes” for the customer and default/fraud rates for the OEM financial service player may be reduced. Indeed, sharper credit assessments can enable dealers, OEMs and in particular OEM financial services players, to offer pre-approved offers with attractive financing conditions for the next car or value-added services, even before an application has been made. These would ideally be matched to the customers’ financing appetite and financial position and would maximize options for customers to purchase and interact online.

Effectively implemented, the impact should include a faster sales cycle and fewer customer dropouts once the process is under way, as well as lower costs.

# Automotive open banking opens the door to service and financing benefits



One challenge facing automotive industry participants will be to get customers – in particular new customers – to permit them to access banking data. It is likely market participants will need to offer specific benefits, potentially including at-home test drives, special financing and leasing conditions (related to better credit scoring), or after-sales upgrades. Companies that gain most from these innovations are likely to be early adopters that seamlessly integrate open banking functionality into the wider purchasing experience.

Open banking has the potential to be a gamechanger in retail, travel & hospitality, and the automotive industry, helping companies offer more services to make customers' lives easier. However, amid tepid demand in some regions, a key challenge is to convince customers to share data. The onus is on companies to work with customers, explain the benefits, and ensure that the API technology and data resources facilitate excellent, yet from a data protection perspective secure, outcomes. The good news is that successful implementation will bring benefits beyond an improved customer experience—significantly reducing risks and costs, for example in relation to payments, as well as boosting engagement and creating efficiencies. For businesses that are lagging on performance, open banking will not be a panacea. However, where companies are already pushing the envelope, it presents an opportunity to take operations and customer services to the next level. On the pitfall side, the consumer needs to be educated on data usage to avoid reputational challenges – moreover, the received data should be always tied to the provided use case in line with minimal data usage and full data protection against any misuse (to ensure consumer protection and data security). As stated before, this challenge can be overcome by transparent terms and conditions, general consumer education and adequate measures to ensure data and cyber security.

**You may contact the authors by e-mail at:**

[Conor.Tiernan@klarna.com](mailto:Conor.Tiernan@klarna.com)  
[George.Davie@klarna.com](mailto:George.Davie@klarna.com)  
[Wilko.Klaassen@klarna.com](mailto:Wilko.Klaassen@klarna.com)  
[Signe.Leiker@klarna.com](mailto:Signe.Leiker@klarna.com)  
[Ampenberger.Markus@bcg.com](mailto:Ampenberger.Markus@bcg.com)  
[Bravo.Carlos@bcg.com](mailto:Bravo.Carlos@bcg.com)  
[Dirk.Cohausz@bcgdv.com](mailto:Dirk.Cohausz@bcgdv.com)  
[Nitsche.Max@bcg.com](mailto:Nitsche.Max@bcg.com)  
[Ella.Rabener@bcgdv.com](mailto:Ella.Rabener@bcgdv.com)  
[Sergey.Sushentsev@bcgdv.com](mailto:Sergey.Sushentsev@bcgdv.com)  
[Jose.Velasco@bcgdv.com](mailto:Jose.Velasco@bcgdv.com)  
[Vogt.AnneSophie@bcg.com](mailto:Vogt.AnneSophie@bcg.com)

## Boston Consulting Group

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

## Klarna Kosma

Klarna Kosma makes game-changing ideas powerfully real.

Klarna Kosma is Klarna's dedicated open banking platform for banks, fintechs, and innovative merchants. Klarna Kosma's goal is simple: To make finance more accessible, fair, and simple for everyone, and to improve connectivity between consumers and exciting, innovative service providers who are building the next generation of disruptive financial services products.

Klarna Kosma achieves this by making it possible for companies to leverage our connectivity to build new products that benefit the end user. Our mature open banking platform is offering essential connectivity to more than 15,000 banking partners across the globe through a cutting-edge open banking API.

© Boston Consulting Group 2023. All rights reserved.

For information or permission to reprint, please contact BCG at [permissions@bcg.com](mailto:permissions@bcg.com). To find the latest BCG content and register to receive e-alerts on this topic or others, please visit [bcg.com](http://bcg.com). Follow Boston Consulting Group on [Facebook](#) and [Twitter](#).





**BCG** + **Klarna**  
**Kosma.**