The complete buyers guide to Open Banking payments

Everything that you need to know when considering an account-to-account payments solution.

vyne

ABOUT THIS GUIDE

Open Banking has been called the financial revolution of the decade.

For merchants, it's become a powerful tool to help access faster, more transparent and fairer payments. For consumers, a convenient and secure way to pay.

Our purpose with this guide is to help you understand what Open Banking is, how it can help you overcome specific payments challenges as a merchant, as well as offer tips on how to choose the right Open Banking payment solution for your business.

If you sell something online, this Open Banking payments guide is for you.

PART I

What is Open Banking?

In simple terms, Open Banking is a framework that allows banks and financial institutions to share consumer financial data securely.

What is Open Banking?

The UK Open Banking movement was initiated by PSD2 in 2016, a European directive that obliges banks to make their customers' financial data shareable through Application Programming Interfaces (APIs).

There are two core services available through Open Banking through two distinct FCA authorisations:

- **Account Information Service Provider (AISP)**
  Authorised to retrieve account data provided by banks and financial institutions

- **Payment Initiation Service Provider (PISP)**
  Authorised to initiate payments into or out of a user's account.

With these APIs, licensed third parties can gather consumer information such as spending habits, salary and account details, and then use that information to help consumers with budgeting, investing and other money management activities.

Open Banking is a revolutionary movement for payments. With the introduction of PSD2, licensed third parties can enable push payments directly from their bank account — also known as direct bank transfers, or account-to-account (A2A) payments.

What does it hope to achieve?

Open Banking has widened the gap between the service delivered by archaic banks and ever increasing customer expectations. Open Banking has created competition in the market, which has allowed fintechs to move in and revolutionise how banking products are consumed and how more value can be delivered to consumers – in this case how we pay and get paid.

What does this mean for merchants?

Open Banking helps merchants in a wide variety of activities, way more than we'd be able to fit in a paragraph. These include cheaper payments, automation, cash flow, account aggregation, finance management and more.

In the UK, Open Banking adoption is growing rapidly. In fact, at the end of 2021, cumulatively over 26.6m open banking payments had been made. An increase of more than 500% in 12 months!

What does an Open Banking payment look like?

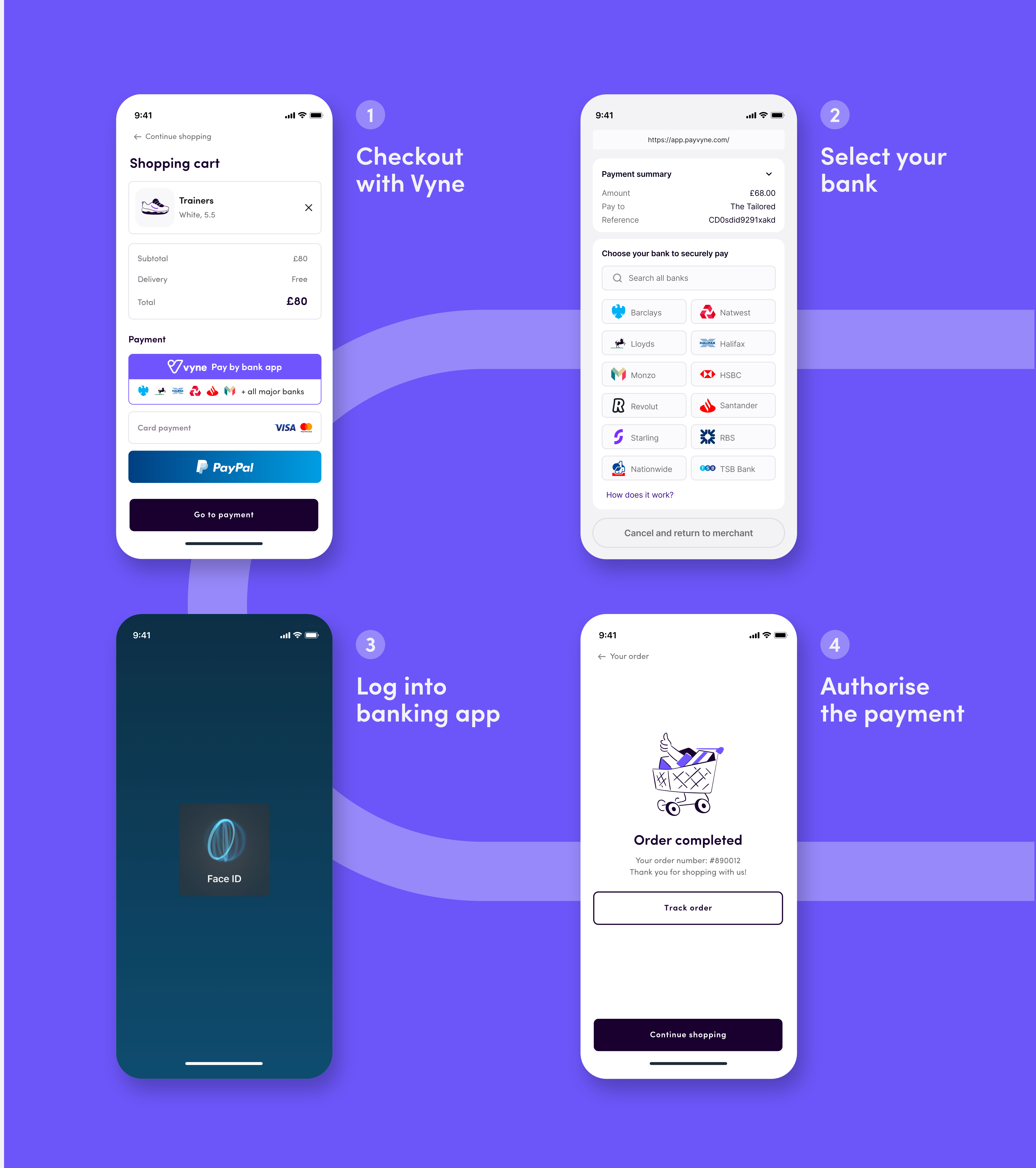
A large part of Open Banking is payments — but why is it so revolutionary? In what ways is an Open Banking payment better than a card payment or manual bank transfer?

Most e-commerce payments are done via a debit or credit card. For the shopper, cards don't offer the best shopping experience: they need to locate their card, enter card details, go through several verification checks and only then does the payment go through.

Open Banking payments are also called account-to-account (A2A) payments, and completely bypass the middlemen and simplify the process. How? Because payments are made directly from the customer's bank account to the merchant account. No card network or issuing bank needed.

But aren't direct bank transfers highly manual? Not with Open Banking. That's because you're integrated with a third party which executes bank transfers on behalf of the customer. And that's your account-to-account payment.

Insead of a manual bank transfer, your customer just needs to select their bank, log into their account and verify the payment with biometrics or a pin. It's a lot easier and more seamless than any bank card!



PART II

Why add Open Banking payments to your checkout?

What's not to like about card payments?
Well quite a lot actually. Let's go into more detail about the problems that come with card payments.

The problems that come with card payments...

Outdated technology

Credit cards were first invented in the 1960's, well before the internet existed. At the time, cards were revolutionary; whereas before you needed to carry wads of cash or a cheque book, now you just needed a piece of plastic to buy something in-store.

Although the invention was incredible at the time, cards were never designed to be used for the internet. The technology that was built for the physical world, not for online shopping and ecommerce. Nowadays, every time someone buys something online with a card they need to manually add a long string of numbers — does that sound internet savvy?

High costs

Although cards account for 61% of retail transactions, they take up a large 83% of the cost of collection!

Since cards are from another era, they are clunky and expensive to use. Every card payment needs to go through several participants: card issuers, card networks, card acquirers, fraud engines and more. Every participant takes a cut, which is why merchants are charged such high fees whenever they collect a card payment.

Fraud and chargebacks

Chargebacks have risen by 25% since Covid-19.

The pandemic has supercharged retail ecommerce across the globe, in some regions seeing 10 years growth happening in the space of 3 months. However this hasn't come without its challenges, ecommerce has also experienced higher rates or chargebacks and fraud such as 'Card not Present' fraud.

Bad customer experience

As we mentioned above, cards were built for the physical world, not the digital world. That's why when a customer wants to pay for something online, they still need to have a physical card at hand and manually type in their details.

In the ecommerce space where everything is optimised for conversions, inputting passwords, card details and going through several authorisation steps is less than ideal.

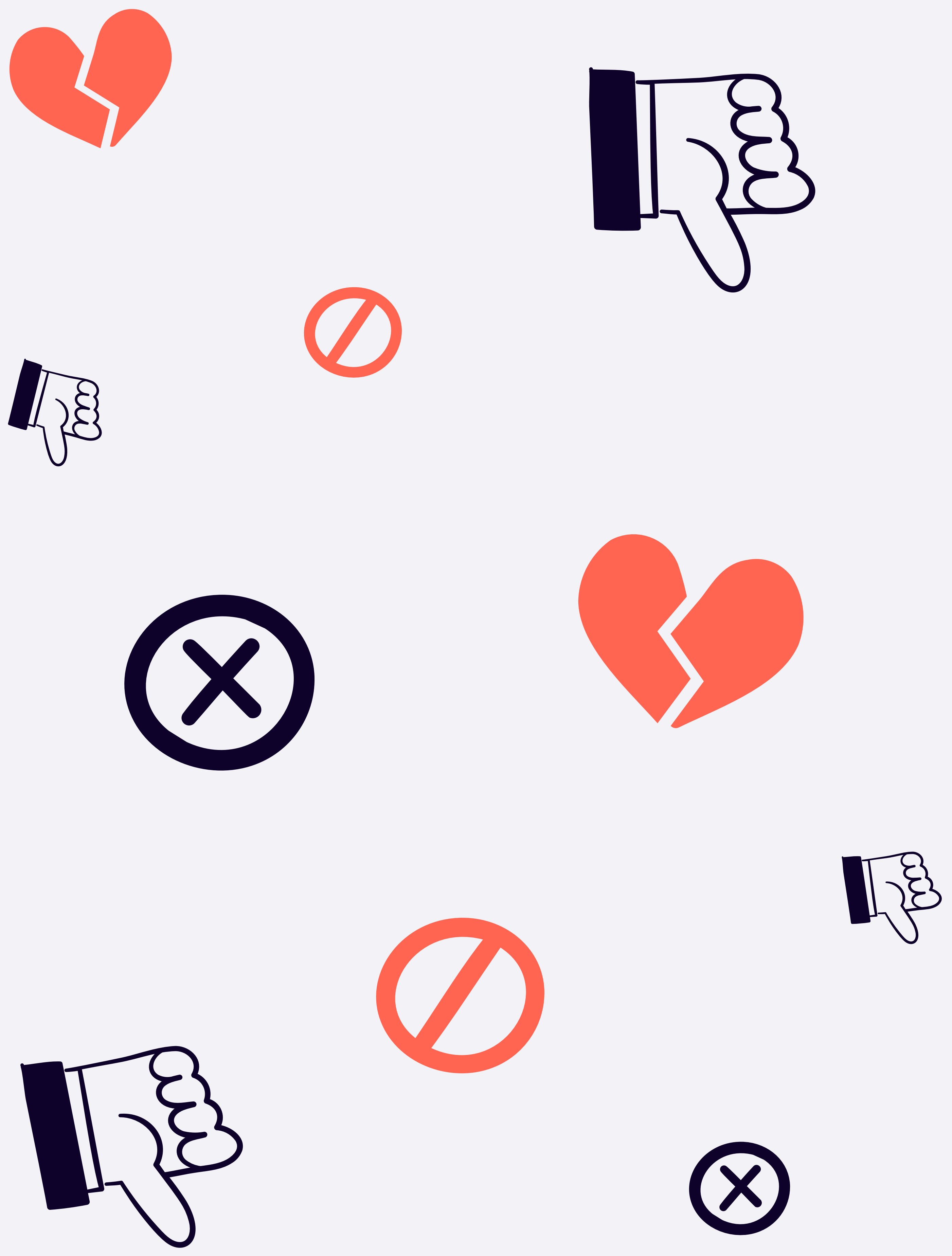
Vyne consumer research 2021 found that 66% of respondents said they either 'sometimes' of 'often' abandoned a purchase because they haven't got a card on them.

Cards don't just affect the user experience, they also negatively impact the overall customer experience. One of the other issues tied to card processing is slow refunds. Due to the numerous middlemen and processors that play a role in a card payment, processing a refund takes days or even weeks.

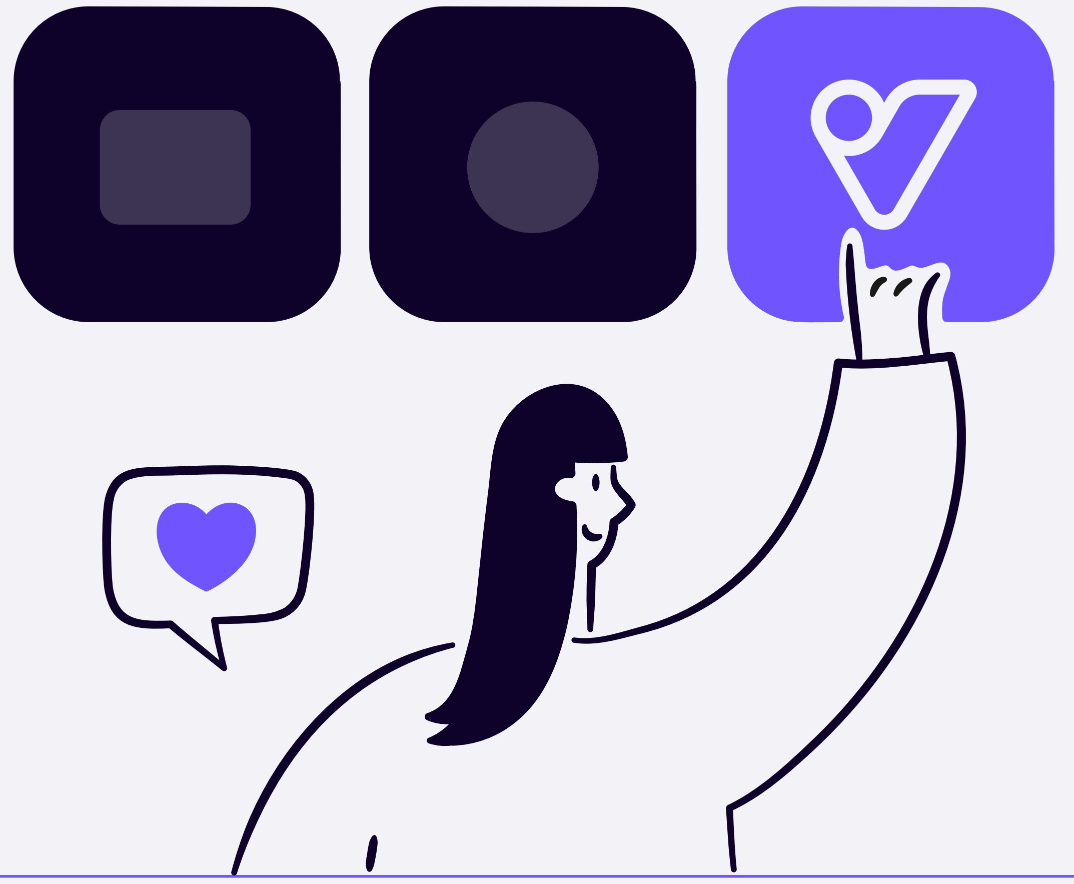
As more people shop online, dealing with refunds quickly and efficiently is a huge factor for customer retention.

95% of consumers remain loyal to brands with same-day refunds.

Cards aren't completely bad. They are still the most widely accepted online payment method and most customers know how to use them online. But the fact remains that they weren't designed for the online world, and there is a better way to make and take payments for both customers and merchants.



Why do you need an account-to-account payment solution powered by Open Banking?



How does Open Banking solve all these issues? Let's look at several of the benefits of adopting a payment solution powered by Open Banking.

Lower processing fees

As we mentioned above, a card payment requires going through several intermediaries to reach its end destination. With Open Banking, all the card gateways, acquirers, fraud engines and issuing banks are removed, and the payment goes directly from the consumer bank account to the merchant. The only intermediary is the Open Banking partner (such as Vyne).

That's why with Open Banking, merchants can save up to 80% on processing fees.

Get instant access to funds

With fewer intermediaries, what else do you get? Faster settlement. Whereas card payments can take several days to settle, Open Banking enabled payments usually take seconds. As a merchant, that makes it a lot easier to manage cash flow and reconcile transactions.

Gain fraud protection and say goodbye to chargebacks

Open Banking payments are a lot less likely to be fraudulent. That's because by definition, they need to go through multi factor authentication which includes biometric or using a pin number (rather than SMS, which is what card payments use).

The extra level of security removes Card Not Present fraud, and since there are no card networks, chargebacks cease to exist.

Offer a seamless checkout experience

Forget about inputting long strings of numbers and scanning credit cards. With Open Banking, the checkout process is very simple:

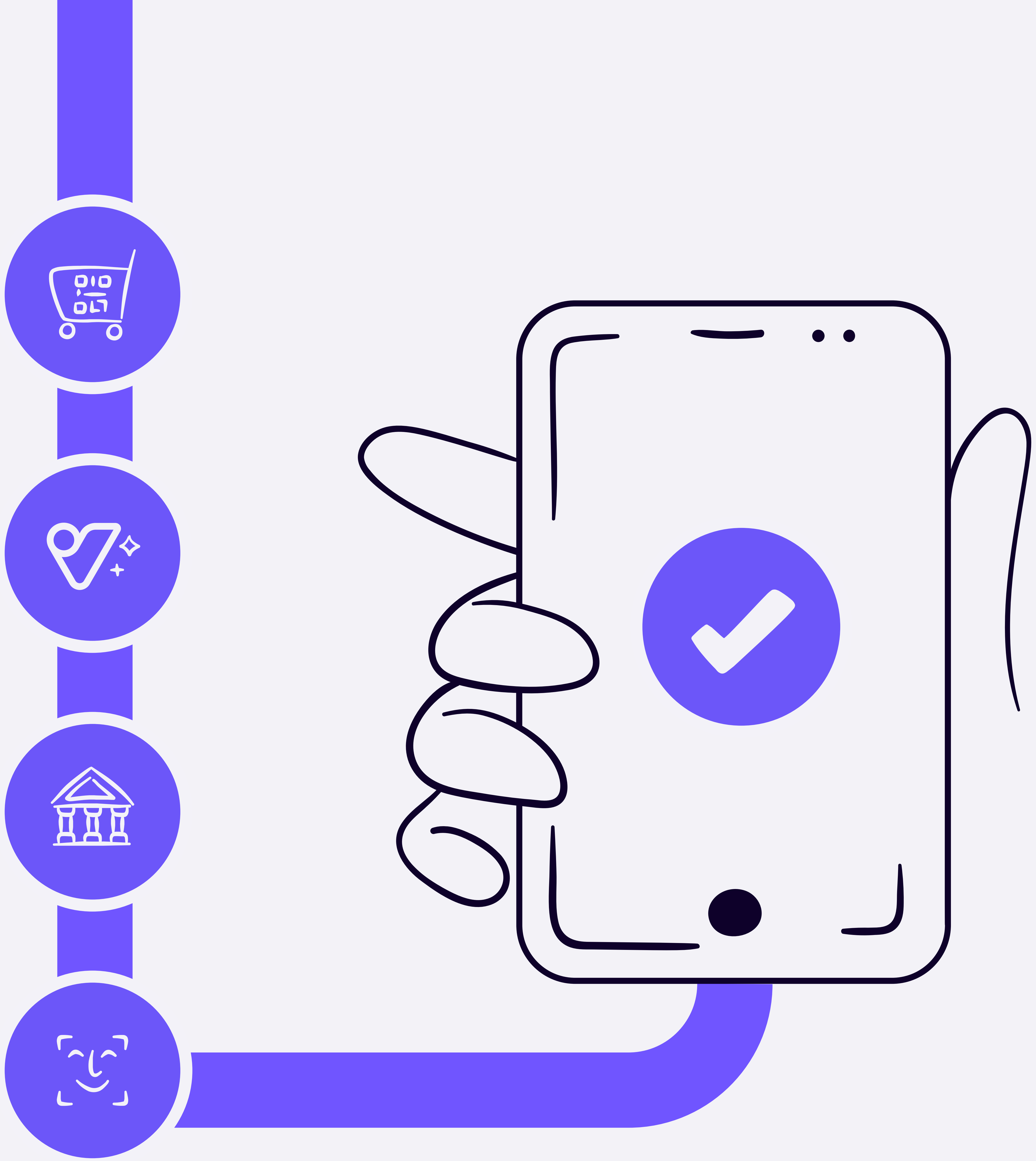
1. Select a payment option
2. Choose your bank
3. Approve the payment from your bank app

A big difference to the 24+ taps required to make a card payment. Now that's what we call a digital-first shopping experience.

Improve customer experience

Open Banking makes refunds painless. Since settlement happens in seconds, so do the refunds. As a merchant you get to offer a much better customer experience and increase retention rates by offering instant refunds to your customers.

Open Banking drastically improves the shopping experience for both the consumer and you, the merchant. For the consumer, the payment experience is seamless and easy to use, and the refunds are instant. For the merchant, transaction costs are lower, settlement happens quickly and fraud rates decrease.



PART III

How to choose the right Open Banking payment initiation solution

In order to experience all the true advantages of Open Banking, it's important to partner with the right solution. There are more Open Banking providers popping up in the market every month, which can make it hard to evaluate which are the right ones for your business.

Here are some of the factors to consider when making the choice:

It should provide you with instant payment notifications

Most banks don't offer real time push notifications of transactions. Open Banking by itself won't offer notifications either. Instead of having to poll payments continuously, you want to work with a provider that will offer you instant notifications.

It should be able to hand off to mobile from desktop

One of the big benefits of Open Banking is that the payment experience is incredibly smooth when made via mobile. However, many payments will also happen on desktop. Not only that, but customers are still new to account-to-account payments.

For this reason you want to partner with a provider that will offer seamless mobile and desktop payment preferences, and will also make sure the experience is intuitive and the flow minimises drop off rates.

It should be robust and have contingency for outages

Open Banking and its law, PSD2, are still relatively new, which means it's important to have a contingency plan in case of an outage. To minimise the impact, you want to partner with a provider that sources connections with several partners so you're ready if a specific one experiences downtime.

It should provide coverage across your key banks

Many providers will mention the large number of connections they have with banks. However, it's important to look at the connections in detail, as you'll often find differences in each coverage claim: for example, some banks will have one connection for personal banking and one for business banking.

The most important thing is to make sure your provider offers coverage to the banks that your customers use. Talk to your issuing bank to get this information and then ask your provider if they cover those banks.

It should be able to manage your industry specific needs

Depending on your industry, you might need specific functions. For example, if you're in the gaming industry, you want to have payouts enabled. If you are a retailer, you want to be able to offer full and partial refunds.

With refunds, for example, it's important to know how exactly the refund works. The provider might say they issue refunds, when actually it's a manual refund that will require you to push the payment yourself. Ideally you want a provider that will offer automatic refunds that are plugged into your operations.

It should be geared towards increasing checkout conversions

Since account-to-account payments are still very new, it's incredibly important that the payment flow is easy to understand, simple and unambiguous. With more payment options than ever before, you want to make sure the experience is comfortable and well guided.

Make sure you see the flow of the payment before partnering with a provider: how do they capture consent? How does the consumer pay if they don't have their bank app installed? What does the handoff to desktop look like? How well guided is the consumer?

Having a clear customer experience journey will increase conversions and help Open Banking do what it's meant to: make payments easy.

It should have a solution to manage reconciliation

As a merchant, you might have hundreds or even thousands of transactions per day. Checking them manually is not sustainable or efficient, which is why you need a provider that uses the right technology to enable automatic and smart reconciliations.

Finally, it should be supported by a provider with the right payments licence

Open Banking payments are regulated by the FCA, and any UK provider that you work with should be FCA-authorised. FCA regulation ensures that your Open Banking provider is held to high standards of conduct and security and takes steps to protect you and your customers from fraud and other types of financial crime.

Before you settle on an Open Banking solution you should check that the provider has the right regulatory cover.

PART IV

Conclusion

Merchants have a better payment method that is on their side: fairer, faster and simpler.

The modern day consumer is more demanding than ever, with convenience at the top of their mind. Card payments currently don't meet those needs, but the good news is that Open Banking does — which is why they are quickly replacing card payments.

With A2A payments, customers can enjoy a better customer experience, and merchants can take advantage of the growth of e-commerce without having to sacrifice costs, deal with increased fraud or face reconciliation issues.

At Vyne, we've worked hard to build the most intuitive and easy to use account-to-account payment solution. Our combined industry payment experiences means we understand the problems merchants face, as well as the importance of good user design in a payment.

Questions?
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