

The Future of Open Banking & The Customer Retention Challenge

Alex Johnson, Founder
Fintech Takes

THE FINANCIAL BRAND

FORUM

The Retention Challenge

- Most consumers are trapped in loveless financial services relationships.
- Divorcing your financial institution is about to get a lot easier.
- The financial institutions that survive will be the ones that put in the work.

FINANCIAL BRAND

FORUM

A photograph of a man and a woman lying in bed, facing each other but looking away, suggesting a strained relationship. The woman is on the left, wearing a white top, and the man is on the right, wearing a light blue shirt. They are both looking towards the right side of the frame. The bed has white pillows and bedding. The text is overlaid on the image in a large, bold, yellow font with a black outline.

Most consumers are
trapped in loveless financial
services relationships.

That sounds harsh, but consider ...

- The national average yield for savings accounts was 0.58% as of May 14, 2024, despite multiple FIs offering well above 5% for new accounts.
- When interest rates went to zero during the pandemic, only 5.2% of consumers refinanced their auto loans, and only 19% of consumers refinanced their mortgages.

FINANCIAL BRAND

FORUM

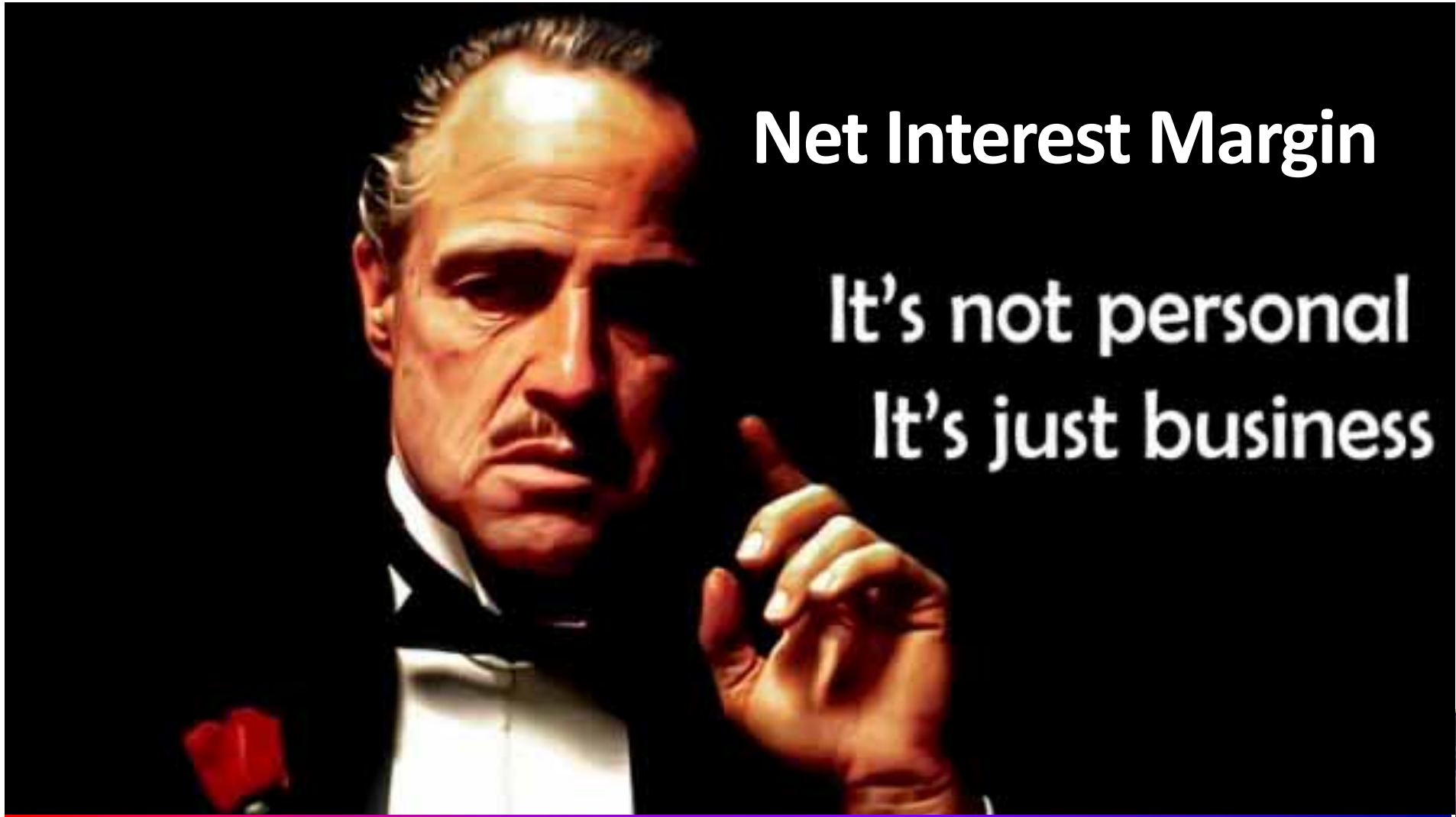
The Cost of Loyalty

From a research paper written by the University of South Carolina and the FDIC:

“We find clear evidence that an existing relationship with the issuing bank harms the depositor. Depositors with an existing transaction account with the issuing bank earn 13 bps lower interest on their insured CDs (17 bps on their uninsured CDs).”

FINANCIAL BRAND

FORUM



Net Interest Margin

It's not personal
It's just business

Net Interest Margin (NIM) depends on:

1. Inertia
2. Opacity
3. Latency

FINANCIAL BRAND

FORUM

All three of these are being
disrupted by technology!

FINANCIAL BRAND

FORUM

Divorcing your
financial
institution is
about to get a
lot easier.



“With the right consumer protections in place, a shift toward open and decentralized banking can supercharge competition, improve financial products and services, and discourage junk fees. Today, we are proposing a rule to give consumers the power to walk away from bad service and choose the financial institutions that offer the best products and prices.”

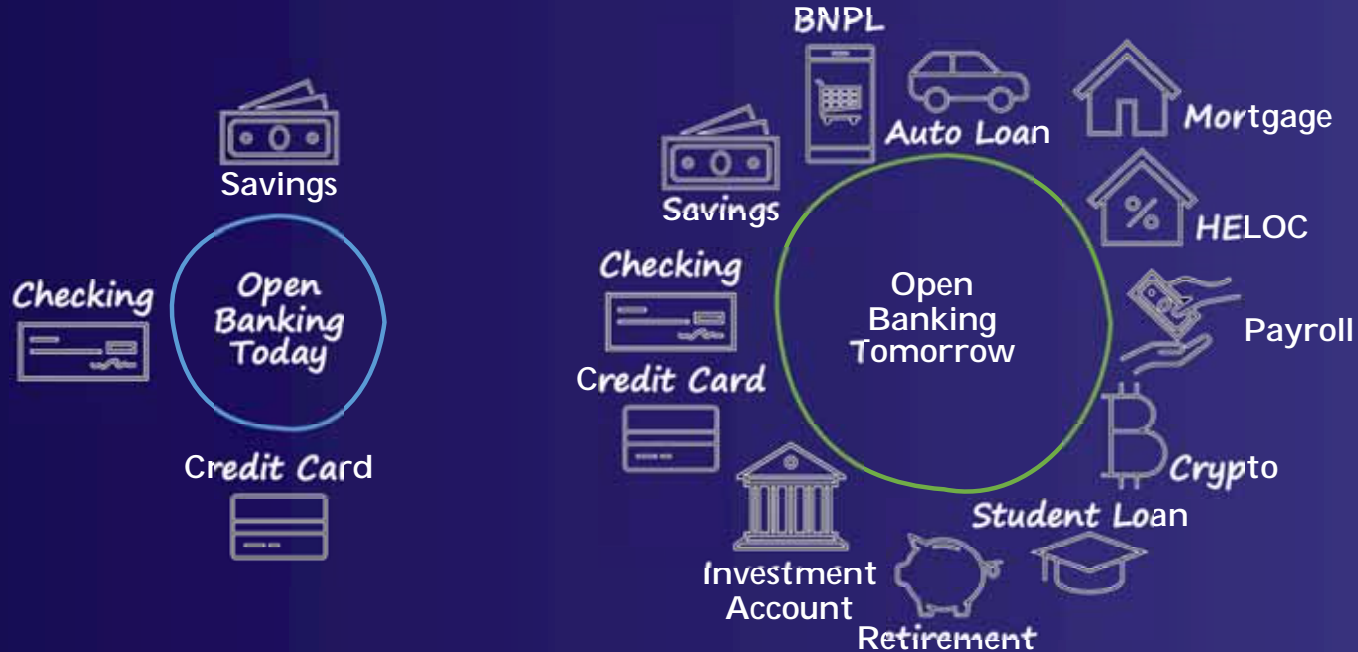
– CFPB Director Rohit Chopra



Open Banking Solves For Opacity

- The CFPB's rule on Dodd-Frank Section 1033 (open banking) is expected to be finalized this fall.
- The rule will initially cover checking and savings accounts, credit cards, digital wallets, and (likely) EBT accounts.
- Financial institutions will be required to share a great deal more data than they do today (including pricing and terms & conditions).

Open Banking Will Keep Expanding



FINANCIAL BRAND

FORUM

Faster Payments Solves For Latency

- 600 banks and credit unions are now signed with FedNow, double the number at the end of 2023.
- RTP, operated by the Clearing House, had 400 financial institutions at the end of 2023.
- Visa (Tink) and Mastercard (Finicity) are both aggressively expanding into pay-by-bank, which will likely accelerate the adoption of faster payment rails.

FINANCIAL BRAND

FORUM

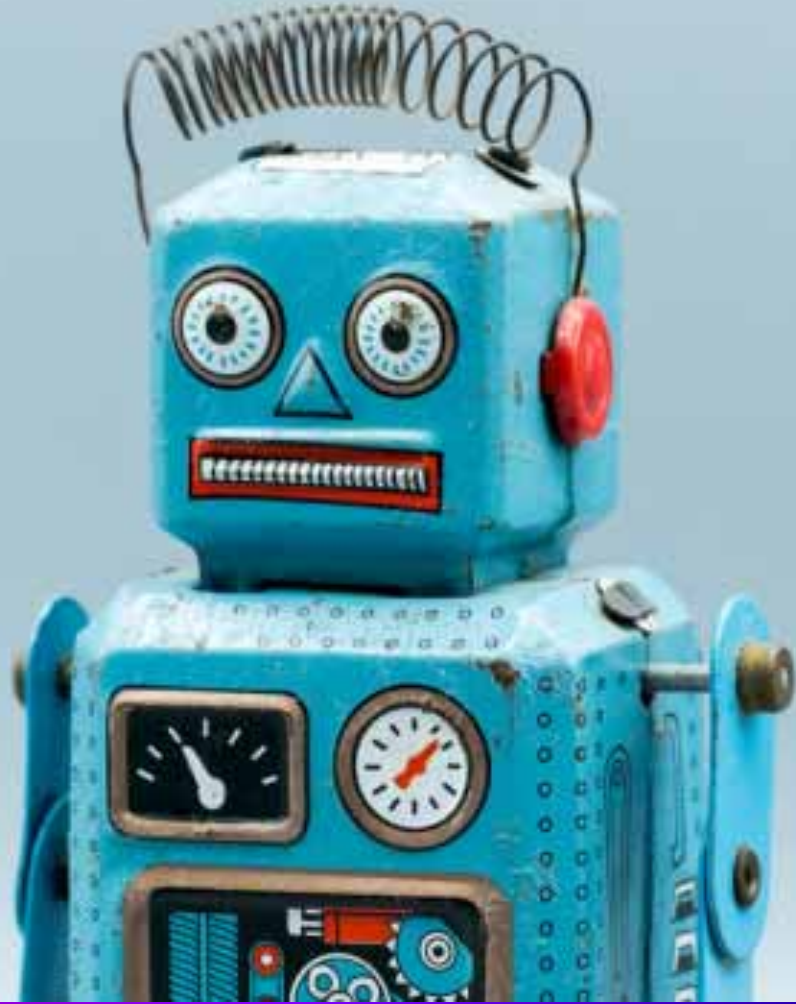
Generative AI Solves For Inertia

- Generative AI is becoming progressively better at performing generalized tasks. Soon it will be capable of acting autonomously on our behalf for a wide range of use cases (Overeager-Tireless-Intern-as-a-Service).
- Once that happens, every business model that is dependent on consumers being lazy or uninformed will be destroyed.
- Product discovery will become perfect.

FINANCIAL BRAND

FORUM

Rate optimization
robots will roam
the financial
services landscape
of the not-too-
distant future ...
looking for deals.





The financial institutions that survive will be the ones that put in the work.

Divorce Rate in the United States

(per 1,000 population)



Divorce

The Era of No-Fault Divorces

- Can you make NIM work as a business model without inertia/opacity/latency? Or do you need to develop new models?
- How will embedded finance and competition from non-FI brands in financial services shake up the competitive landscape?
- What role will brand, differentiated distribution channels (including branches), and customer-facing employees play?

FINANCIAL BRAND

FORUM

ACTION ITEM #1

Develop a narrower, deeper focus on your target customer or member.

ACTION ITEM #2

Build solutions, not bundles.

THE FINANCIAL BRAND

FORUM

ACTION ITEM #3

Aggressively experiment with new technology (open banking, faster payments, generative AI).



Questions?

#fbforum

THE FINANCIAL BRAND

FORUM

Thank you!

ALEX JOHNSON

✉ fintechtakes@workweek.com

🐦 [@AlexH_Johnson](https://twitter.com/AlexH_Johnson)

THE FINANCIAL BRAND

FORUM