

OPEN BANKING INDUSTRY DYNAMICS

AN (UPDATED) EUROPEAN
PERSPECTIVE

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Open Banking Industry Dynamics
An (Updated) European Perspective

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EXECUTIVE SUMMARY

This report revisits the hypotheses laid out by Arkwright's March 2020 report "Open Banking Industry Dynamics – A European Perspective", and further examines the evolution of the European banking industry from a supply perspective based on Arkwright's European Open Banking Directory. This catalogue of providers has been developed in the course of engagements supporting clients in procurement and vendor selection over the past five years.

During this time, the industry has progressed from an initial phase of new business creation, through international expansion of providers, to the entrance of established providers from other parts of the financial services industry, and finally to the current consolidation phase.

In particular, M&A activity across the Open Banking value chain appears to be increasing steadily. Looking back to the working hypotheses from the 2020 analysis, it transpires that industry consolidation (hypothesis #1) and the polarisation of the supply market (hypothesis #3) are reflected in the market development over the course of the last year-and-a-half. However, there is not yet evidence of the distinctive price compression and of the potential commoditisation that would be expected in an industry closing in on the maturity stage.

The analysis of the developments within the value chain leads to three renewed working hypotheses:

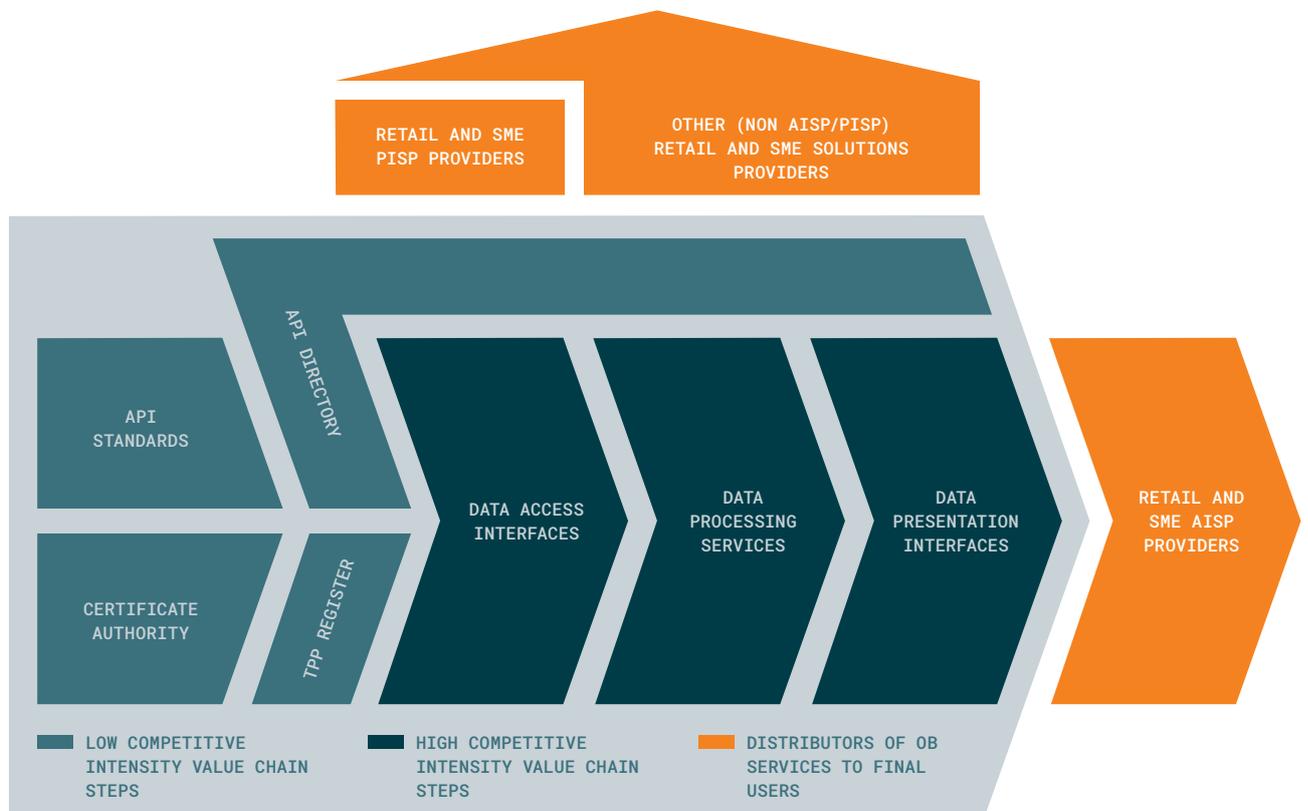
1. The Open Banking supply chain in Europe will lead to polarisation between large, universal providers whose offerings to the financial services industry include Open Banking and other solutions, and smaller players that would need to become true capability leaders in their specialised value propositions in order to remain competitive.
2. The evolution of the industry will very much depend ultimately on take-up by consumers and SMEs. Its attractiveness consists of the opportunity to evolve from niche to mainstream, notwithstanding that the speed of development and the timeframe for that to happen are not yet well defined.
3. The evolution of the supply side of the Open Banking industry will keep expanding the applicability of Data Connectivity and Data Processing well beyond the products and services within the scope of the Payments Services Directive 2. As such, those steps will remain the most active parts of the value chain in terms of investment and M&A activity.

INTRODUCTION

Following up on Arkwright’s report “Open Banking Industry Dynamics – A European Perspective” from March 2020, this report further examines the evolution of the European Banking industry from a supply perspective. The previous report portrayed an industry that started in the dotcom era and developed as a niche value proposition but was then guided towards becoming a mainstream financial service by regulation.¹ While adoption is proving slower than expected, the supply side of the industry is evolving through what appeared to be consolidation, a typical evolutionary stage for any industry that is approaching maturity.

In particular, M&A activity across the Open Banking value chain appears to be increasing steadily. For the purpose of this report, updated snapshots of the evolution of the industry on the supply side are used.

Fig. 1 – Open Banking Value Chain.



¹ Payment Services Directive 2, entered into force in January 2018.

WHILE ADOPTION IS PROVING SLOWER THAN EXPECTED, THE SUPPLY SIDE OF THE INDUSTRY IS EVOLVING THROUGH CONSOLIDATION, A TYPICAL EVOLUTIONARY STAGE FOR ANY INDUSTRY APPROACHING MATURITY

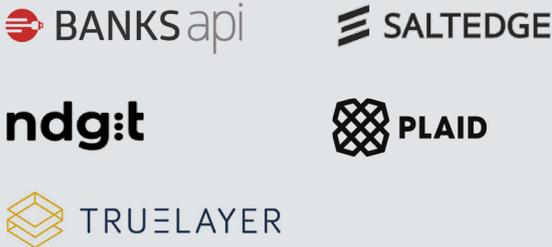
As a reference, this report looks at the Open Banking value chain through the value chain framework introduced in 2020 and with a particular focus on the three steps of Data Access, Data Processing and Data Presentation. The value chain is illustrated in [Fig. 1](#) and is based on the same definitions used on occasion of the previous report as reported in [Fig 2](#).

Based on the analysis and tracking of the players providing services in the above service areas, the current analysis challenges the three working hypotheses formulated by Arkwright in 2020 on the further development of the Open Banking industry. Specifically, these hypotheses were:

1. **Consolidation:** The European Open Banking industry is starting to show signs of consolidation that are typical of a maturing industry, with the expected increase in the development of “one stop shop” propositions. In this context, should consolidation happen, the “partnership” approach that some providers have taken over the last three years may lead to unexpected situations – e.g. the sourcing of services or technology from providers that are taken over by competitors.
2. **Increased competition,** and the entrance and establishment of larger players appear to have triggered price compression and the potential commoditisation of some components of an Open Banking proposition. Single solution suppliers may find themselves at a commercial disadvantage versus larger suppliers that are able to offer bundled solutions and to lessen their customers’ integration burden.
3. **Polarisation:** The above, together with the increasing European demand for Open Banking solutions that has not yet peaked, are likely to polarise the supply market between specialist providers focused on specific steps of the value chain and large technology providers whose reach expands well beyond the Open Banking value chain. Under these conditions, superior capabilities along with defensible proprietary functionality and technology, and rapid international expansion, may be the most viable strategy for smaller players to remain competitive.

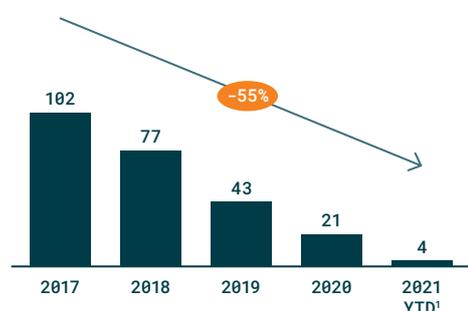
Similar to the previous analysis, this report is based on Arkwright’s ongoing monitoring of suppliers and the services they offer, across the Open Banking value chain in Europe.

Fig. 2 – Definition of steps within the Open Banking value chain.

<p>DATA ACCESS</p> <p>Suppliers of Data Access technology and related services offer the API and API-related solutions needed to interface with and connect systems. While API applications are pervasive and not limited to the financial services industry, in the context of Open Banking, APIs enable access to financial data (e.g. account balance, transaction history, account owner information).</p>	
<p>DATA PROCESSING</p> <p>Data Processing includes analytics solutions that, depending on the supplier, have different degrees of sophistication (e.g. AI) and reach. The applications include transaction categorisation, behavioural profiling of users and user-transactions, events and probability triggers, credit scoring and other insight and analytics related to the analysis of account-transactions datasets. A number of providers in this space combine transaction information with other proprietary and non-proprietary information, providing output suitable for a variety of value-added solutions.</p>	
<p>DATA PRESENTATION</p> <p>Data Presentation includes a range of applications intended for end-customer use. These range from retail (e.g. Personal Financial Management [PFM]) to small business (e.g. Business Financial Management [BFM]) or accounting solutions applications. These present data to the customer in a more user-friendly format, often enriched with added value such as budget-setting functionality, transaction alerts, spending-pattern insights, content relating to financial education, multi-account aggregated balance and transaction views.</p>	

INCREASING M&A ACTIVITY

Fig. 3 – Number of companies founded in the Open Banking space over the last five years. (Source: Crunchbase, Arkwright Analysis).²



During the past five years of observations, it has not only become clear that the number of new companies entering the Open Banking industry has been slowing over time (see Fig. 3), but also that recent new entrants are established suppliers that previously operated in other parts of the financial services industry. In parallel to this, the number of M&A deals in the Open Banking industry has been growing comparably with a compound annual growth rate (CAGR) of around 20% from 2017 to 2020, as shown in Fig. 4. The 2021 value is based on a proportional projection based on the number of deals tracked up to September.

While in the early years, mergers and acquisitions were taking place mainly across smaller companies, from 2019 the consolidation activities have been driven in particular by larger players, either large unicorns or established technical providers. The Swedish unicorn Tink took over four smaller competitors including Eurobits and FinTecSystems. Large incumbent technology providers such as Mastercard and Visa have both moved in with significant investments, taking over leading providers such as Finicity, Aiiia and Tink. So Tink started consolidating the industry, but ultimately ended up being a target itself.

Another example of a freshly funded start-up expanding through acquisitions is Finleap Connect. After Finleap bought Figo in 2019 and merged it with its subsidiary FinReach to form Finleap Connect, Finleap Connect raised €22m in funding in June 2021 and used it to acquire its Spanish competitor MyValue Solutions.

As observed by Arkwright at the beginning of 2020, the industry is heading towards consolidation, currently driven by acquisitions.

This trend becomes evident when looking at the number of providers present in each of the three steps of the value chain. As of January 2020, 77 technical providers³ were listed in Arkwright’s Open Banking directory of providers operating in the European region. Due to consolidation, as of September 2021, the number of providers decreased to 70.

² 2021 data as of September 2021.

³ Comprising commercial providers, excluding very early-stage start-ups that are not yet supplying customers, and non-European companies not, or not yet, providing Open Banking-related solutions or services to European-based customers.

Fig. 4 – Global M&A deals in the Open Banking industry.

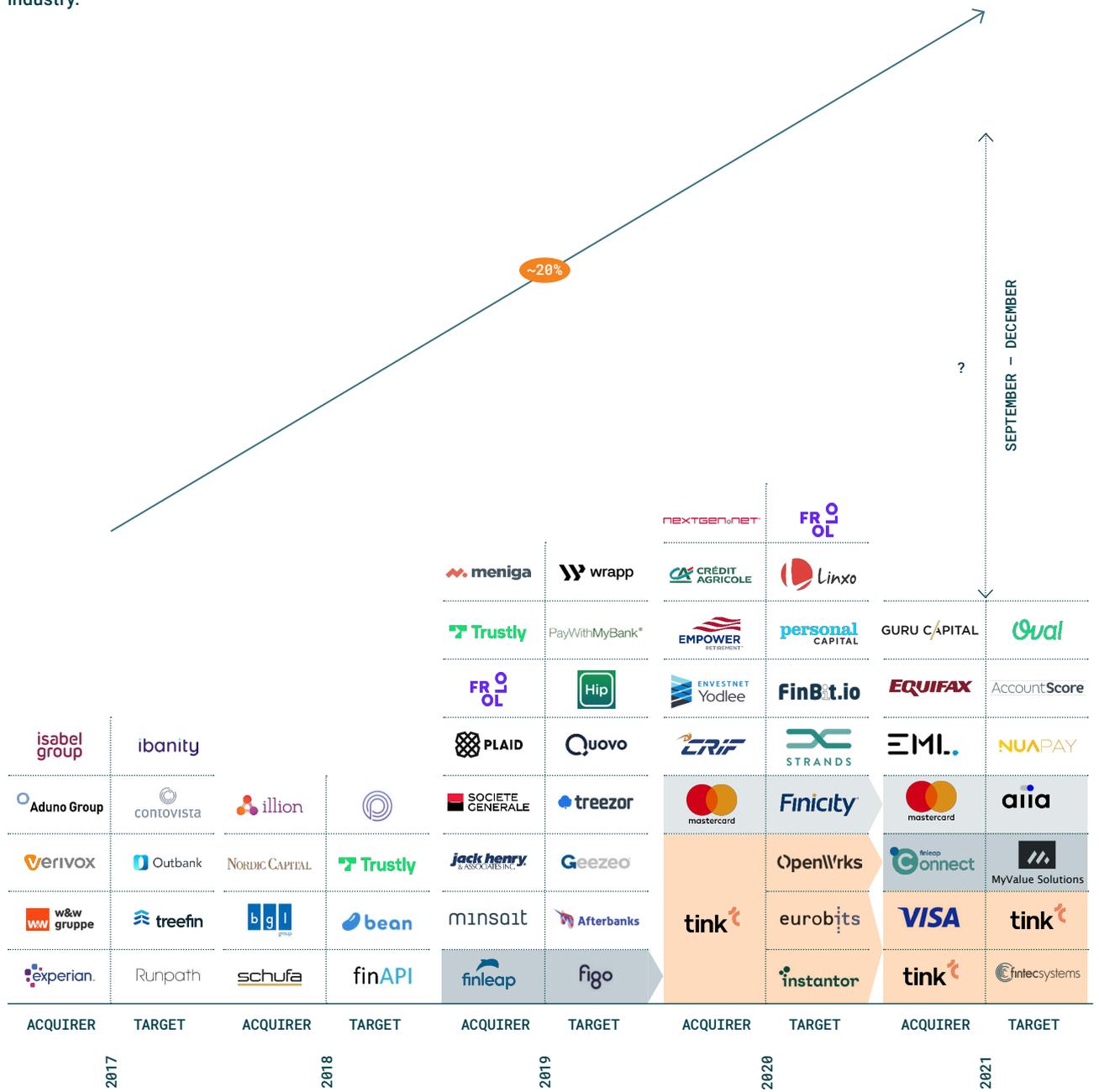


Fig. 5 – Number of technology and service providers in Europe within selected steps of the Open Banking value chain as of January 2020. (Source: Arkwright Analysis)

This number also takes into account providers, mostly established players, that have extended their reach from other parts of the industry. The numerical composition of the directory as of January 2020 and of September 2021 is illustrated in Fig. 5 and 6 below.

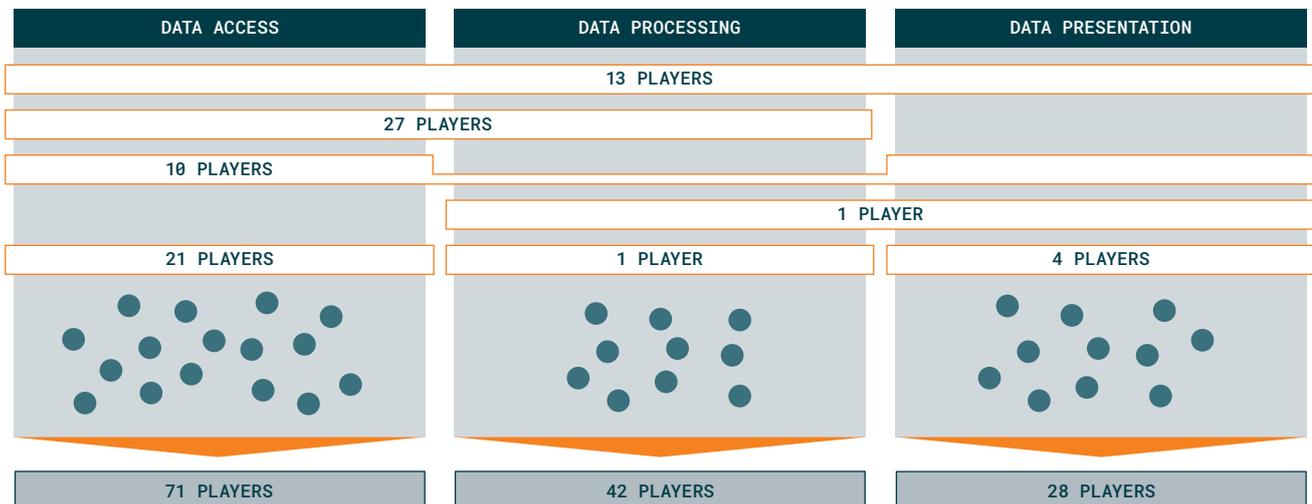
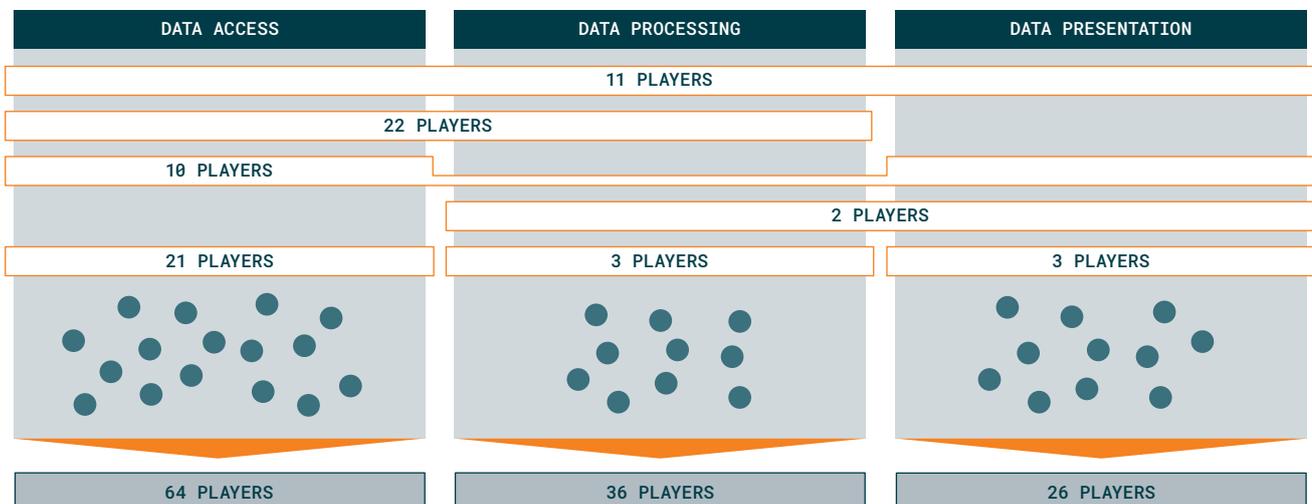


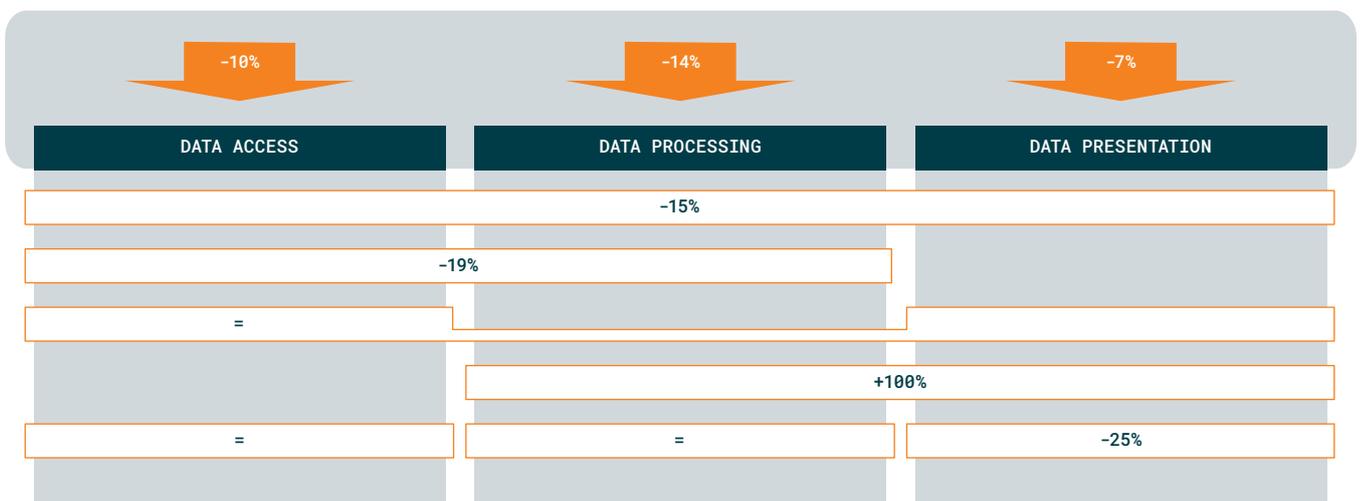
Fig. 6 – Number of technology and service providers in Europe within selected steps of the Open Banking value chain as of September 2021. (Source: Arkwright Analysis)



The first reflection that emerges from the numbers in the charts concerns the competitive intensity across the three steps. Due to the aforementioned consolidation, especially in the Data Access and Data Processing steps, the number of providers has decreased and the competitive landscape has become more concentrated, likely increasing the market power of a lower number of players.

As illustrated in Fig. 7, the number of Data Access providers has decreased by 10% while the number of Data Processing providers has even decreased by 14%. Obviously, this indicates that most of the consolidation is taking place in the Data Access and Data Processing steps of the value chain. The demand for API connectivity is increasing universally across the whole financial services industry, driving potential for providers in this space beyond Open Banking. Data Processing is the part of the value chain where significant value generation takes place, driving insights from customer data. The Data Presentation step is also undergoing consolidation, albeit at an – apparently – slower rate compared to the other two.

Fig. 7 – Change in the number of technology and service providers in Europe within selected steps of the Open Banking value chain between January 2020 and September 2021. (Source: Arkwright Analysis)



CONCLUSION

OPEN BANKING SUPPLY CHAIN HEADING FOR POLARISATION BETWEEN LARGE, UNIVERSAL PROVIDERS TO THE FINANCIAL SERVICES INDUSTRY AND SMALLER SPECIALISED PLAYERS

Looking at the evolution of Arkwright's European Open Banking Directory, it is expected that the consolidation trend will continue in the short term, driven by the extension of Open Banking potential to other products and services, a market model defined as Open Finance. The only limiting factor is the speed of adoption of Open Banking by consumers and SMEs.

In terms of the working hypotheses from the 2020 analysis, it becomes apparent that hypotheses #1 (consolidation of the industry) and #3 (polarisation of the supply market) hold, and are a reflection of the developments over the course of the last year-and-a-half. However, based on data available to Arkwright during the course of the analysis, there is not yet evidence of a distinctive price compression or of the potential commoditisation of some components of the Open Banking value chain that would be expected in any industry heading towards the maturity stage.

From Arkwright's perspective, it is to be expected that the consolidation will continue, at least in the short term, with the following working hypotheses:

1. The Open Banking supply chain in Europe will lead to polarisation between large, universal providers whose offerings to the financial services industry include Open Banking and other solutions, and smaller players that would need to become true capability leaders in their specialised value propositions in order to remain competitive.
2. The evolution of the industry will very much depend ultimately on take-up by consumers and SMEs. Its attractiveness consists of the opportunity to evolve from niche to mainstream, notwithstanding that the speed of development and the timeframe for that to happen are not yet well defined.
3. The evolution of the supply side of the Open Banking industry will keep expanding the applicability of Data Connectivity and Data Processing well beyond the products and services within the scope of the Payments Services Directive 2. As such, those steps will remain the most active parts of the value chain in terms of investment and M&A activity.

17 05.24

37

-1856.41

-37%

5623

49.37

-23%

1

APPENDIX

OPEN BANKING ACQUISITIONS BETWEEN JANUARY 2020 AND SEPTEMBER 2021

 <p>ACQUIRED MAJORITY SHARE OF</p>  <p>FOR UNDISCLOSED AMOUNT</p> <p>JAN. 2020</p> 	 <p>ACQUIRED</p>  <p>FOR UNDISCLOSED AMOUNT</p> <p>FEB. 2020</p> 	 <p>ACQUIRED</p>  <p>FOR UNDISCLOSED AMOUNT</p> <p>MAR. 2020</p> 
 <p>ACQUIRED</p>  <p>FOR UNDISCLOSED AMOUNT</p> <p>JUL. 2020</p> 	 <p>ACQUIRED AGGREGATION PLATFORM OF</p>  <p>FOR UNDISCLOSED AMOUNT</p> <p>SEP. 2020</p> 	 <p>ACQUIRED</p>  <p>FOR US\$825M</p> <p>NOV. 2020</p> 
 <p>ACQUIRED</p>  <p>FOR UNDISCLOSED AMOUNT</p> <p>APR. 2021</p> 	 <p>ACQUIRED</p>  <p>FOR UNDISCLOSED AMOUNT</p> <p>MAY 2021</p> 	 <p>ACQUIRED</p>  <p>FOR US\$2150M</p> <p>JUN. 2021</p> 

tink^{cc}

ACQUIRED

fintecsystems

FOR UNDISCLOSED AMOUNT

MAY. 2020  → 

EMPOWER
RETIREMENT™

ACQUIRED

personal
CAPITAL

FOR US\$825M

JUN. 2020  → 

tink^{cc}

ACQUIRED

instantor

FOR UNDISCLOSED AMOUNT

JUL. 2020  → 

tink^{cc}

ACQUIRED

eurobits

FOR US\$18M

NOV. 2020  → 

EQUIFAX

ACQUIRED

AccountScore

FOR UNDISCLOSED AMOUNT

FEB. 2021  → 

finleap
connect

ACQUIRED

MyValue Solutions

FOR UNDISCLOSED AMOUNT

AUG. 2021  → 

mastercard

ACQUIRED

aiia

FOR UNDISCLOSED AMOUNT

SEP. 2021  → 

ARKWRIGHT PROFILE

WE BELIEVE
IN PRAGMATISM,
METICULOUSNESS
AND IN DEEP
KNOWLEDGE OF
THE INDUSTRIES
IN WHICH WE
OPERATE

Arkwright is a management consulting firm offering strategy advisory services to private corporations, NGOs, investors and start-up companies. Amongst a number of different industry-dedicated teams, our Digital, Payments and Digital Banking practice is one of the most experienced globally, positioning Arkwright as a high-end digital financial services and payments specialist strategy boutique.

With clients that include major financial institutions, central banks, technology providers and institutional investors as well as internet market places and media organisations, Arkwright has hands-on experience in leading and supporting the development of digital strategies and digital transformation. Our knowledge of global cases and best practices, proprietary ideation methodologies and the hands-on experience of our management consultants and industry experts is able to support throughout the strategy and implementation phases.

We believe in pragmatism, meticulousness and deep knowledge of the industries in which we operate. At the heart of our mission is the development and implementation of enduring performance improvements and growth strategies, in partnership with our clients. When we founded Arkwright in 1987, we did so with a strong belief that clients' sustained success requires deeper collaboration and a different working model than what we experienced at the time. Since then, our focus on deep-rooted, long-term partnerships with selective clients has formed the basis of our approach and helped us grow to what we are today: an international consultancy with Nordic roots, operating truly globally from our offices in Hamburg, Oslo and Stockholm and with additional operational presence in the Middle East and the US.

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