Trinetra

Think Differently!

Future Shocked: Developed world legacy systems are no match of China's innovative Fintech

Future Shocked: DM legacy systems are no match for China's innovative Fintech

Disruption is coming from East to West

Can EMs "Future Shock" DMs?

In the opening scenes of the 1972 documentary "Future Shock", based on the bestseller by Alvin Toffler, Orson Welles walks on a travellator through Heathrow airport smoking a cigar and talking to the camera:

> *"In the course of my work, which takes me to just about every corner of the globe, I see many aspects of a phenomenon which I am just beginning to understand. Our modern technologies have changed the degree of sophistication beyond our wildest dreams, but these technologies exacted a pretty heavy price. We live in an age of anxiety and time of stress. And with all our sophistication, we are in fact the victims of our own technological strengths -- we are the victims of shock… a future shock."*

Over the years we've wondered which corners of the globe "future shocked" Orson Welles in 1972. Japan couldn't have future shocked him for at least another decade. Did he mean the United States?

we never expected to be future shocked in an EM… until it happened in November 2014 in Shanghai

Throughout 20 ethnographic journeys in 15 different EMs over the past 7 years, none of our team members ever expected to be future shocked. The commonly held belief was that EMs do not set technological trends; they only copy them…. until Tassos was future shocked in November 2014 in Shanghai.

Tassos met Lilly, who was 28, single, and worked for a multinational. She described how she was using her smartphone to shop at Uniqlo. She didn't buy the clothes she chose in the store. Instead, with a couple of clicks, she bought them through Tmall, arranged next-day delivery, and paid for them through AliPay.

But AliPay didn't stop there. Its Yu'e Bao money market fund allowed Lilly to earn interest not monthly, but intraday (which she checked multiple times a day). Its peer-to-peer payment system, which looked like WhatsApp but for payments, allowed her to quickly transfer small amounts to her colleagues who brought her lunch. All this in a single platform was more than any of us had access to in the UK.

Following on from that research, FT beyondbrics published a blog by Tassos in which he concluded:

> *"China may soon be setting trends that the West will be compelled to follow. It may be time for investors searching for the next big thing to start looking east*[i]*"*

Three years later, Indian Fintech is also racing ahead, but in DMs we still await wide adoption of what China already had in 2014. This isn't because DM innovation in payments and "new wave" digital-only banking has been

In developed economies, existing banks are too entrenched to enable financial innovation to take hold

stifled owing to lack of capital. Around $9.1bn went into

venture capital funding deals in Europe and the Americas in 2016, according to a report by KPMG[ii].

DMs are behind not because of lack of innovation, but lack of incentives by retail financial institutions to implement technology that would reduce their oligopolistic profits. And this is what is creating an opportunity for players from the East to disrupt the West.

In China, by contrast, the ability of Alibaba and Tencent, to move into "future banking" from adjacent markets, with the tacit approval of the state, has meant that critical mass came early. Chinese consumers are benefitting far more, and earlier, from financial technology or "fintech" innovation than their developed economy counterparts.

Your "free" current account is expensive

We believe that traditional retail banks in developed markets have been able to maintain their market strength and profitability because of "Information Asymmetry". Your bank knows a lot about you: how much you earn; where you shop; how much you spend; and whether you live within your means. You, on the other hand, almost certainly don't know how much money the bank makes from you, or whether you'd be better off elsewhere.

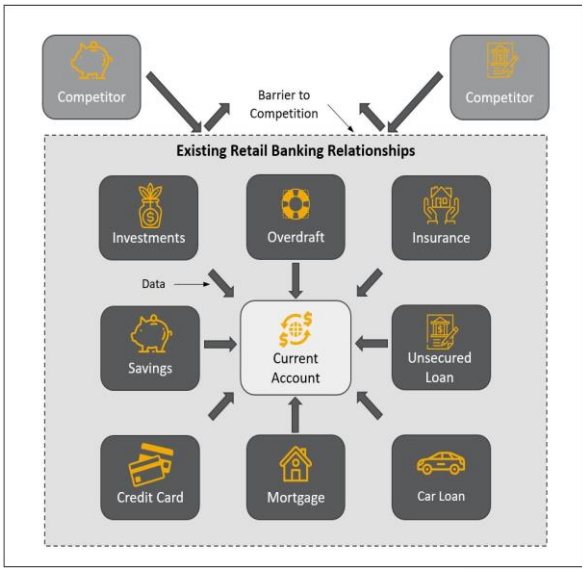
Consumers think their banking relationship is free which drives banks' abnormal profits

The lack of cost transparency is a major barrier to effective competition, because comparison by customers is next to impossible. There isn't much point in looking for a new bank account, unless service rather than cost is an issue, because accounts are more-or-less the same. Changing banks can be a lot of hassle. There's therefore a vicious cycle, with few churned customers up for grabs, and so little incentive for incumbent banks to innovate. The consequence is that consumers suffer, and so does the wider economy, with expensive and inefficient banking services.

Very few consumers or small businesses know what their banking relationships cost them. The number of transactions, the complexity of overdraft charging, forgone interest, all make it difficult for a customer to understand what a banking relationship costs.

"Free" current or transaction accounts in some countries can make consumers think that banking is free. In many DMs, there's a "free-if-in-credit" or FIIC consumer banking model. Despite being loss-making for banks, current accounts act as conduits for customers into all sorts of other products with the same provider, such as credit cards, loans, savings accounts, foreign exchange and overdrafts.

Figure 1: Existing DM banking structure demonstrating bunding and the current account as a gateway to related products



Source: Trinetra

According to the UK's CMA and FCA 2014 market study into small business banking[iii] "around 70% of small or medium-sized enterprises (SMEs) seeking loans approach only one provider, without considering alternatives; almost 90% then take out that loan with their main bank." This behaviour also is reflected by consumers.

But even if people are willing to shop around, the "Information Asymmetry" barrier to competition kicks in. My bank knows more about me than a competing loan

My bank can charge more that if competition had the same information to be able to price competitively

provider does, leading to the structural phenomenon of

retail banking illustrated in Figure 1. The information that the bank holds is critical for sound credit assessment in any underwriting process. As a result, my own bank can underwrite more effectively and more quickly. If my bank rejects me for a loan, then I am viewed as a bad risk. This effect was described by Akerlof[iv] in The Market for Lemons, a Nobel Prize-winning paper from 1970.

My bank can charge me more than they would if its competition had access to same information. They'd then be competing for my business on an equal footing and could give me competitive quotes. But because my bank holds on to the data it has about me and my financial health, my 'free" current account acts as a sort of sticky hub, coercing me into bundling my other products alongside it. Bundling products often obfuscates the relationship between cost and price by encouraging cross-subsidies, which can have a serious adverse effect on competition.

DM banking and payments are ripe for disruption

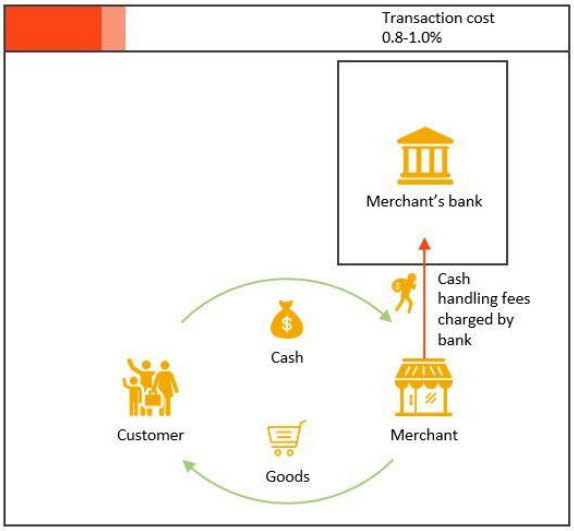
The upshot, as the CMA found in the Retail Banking Market Investigation[v] is that the market is flawed. It investigated the UK market, but many of its findings could be applied elsewhere in DMs. DM retail banking exhibits many of the characteristics of a market where competition is not operating effectively, showing limited innovation and product differentiation, low price transparency, and low levels of account switching.

Retail Banking Market Investigation found that the market is flawed

Banks hide behind another competitive barrier through their payment systems. You can take your own money out of your bank account, so long as you use a payment method that's been adopted by your bank. The banks can exploit these systems to either ensure that they take a cut of the transaction amount, or that they keep out competitors – or often, both.

In consumer payments, despite appearances, nothing is free. Typically, merchants are charged **0.8-1.0%** to deposit cash as shown in Figure 2: Cash.

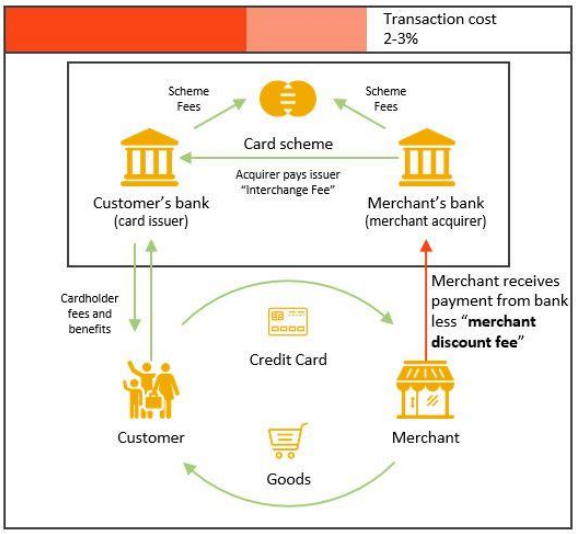
Figure 2: Cash



Source: Trinetra

Using a credit card costs more. The **2.0-3.0%** charge, optically levied to the merchant, means that merchants generally have to charge higher prices to consumers to earn enough margin to cover card fees. The "four party" card schemes, namely Visa and MasterCard, provide a cut from each transaction for the bank (Figure 3).

Figure 3: Credit Card



Source: Trinetra

ApplePay or AndroidPay, both piggy-back on the existing credit card schemes. As they currently stand, neither is disruptive in our view. They rely on the uncompetitive *status quo* and the existing schemes. They're not

disruptive because don't reduce the cost of payments to merchants.

Payments are little more than secure messages. It's hard to justify why merchants should pay 2-3% of a card transaction's value to the complex web of participants in the card schemes.

Some payment systems, including cryptocurrencies and blockchain technology are quite brave. Others merely seek to bypass the existing, expensive, "rent-seeking" systems.

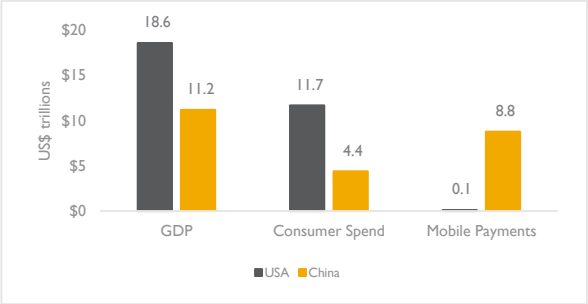
There are literally hundreds of innovative and sensible ways that new payments operators have proposed to allow payments to take place with negligible costs. Some payment systems, including cryptocurrencies and blockchain technology are quite brave. Others merely seek to bypass the existing, expensive, "rent-seeking" systems. Allowing cheaper, more efficient systems would involve the collective participation of the banks. But most of them prefer to continue to seek rent, which we see as effectively holding their customers' money to ransom.

The UK's Faster Payments (FPS) demonstrates this well. FPS is one of a handful of the world's near-instantaneous interbank payment systems. In theory, a third-party payment services provider could introduce a service that initiates a payment from a customer account. It could compete directly with credit cards, using a customer's smartphone to interact with a terminal in a store. It could bring the transaction cost of a £1,000 retail payment from £25 to around £0.01. The UK's largest retail banks collectively own FPS, but allowing 3rd party access to the system in order to reduce their fees would be a case of turkeys voting for Christmas.

Mobile payments disruption in China has a purpose: social inclusion

In 2016, 469 million Chinese mobile users spent RMB59tr (US$8.8tr) using mobile payment systems, according to iResearch. Estimates for mobile payments in the US vary, pointing to definitional issues, but 2016 figures tend to be in the region of $100bn[vi], so China's mobile payments total was nearly 90 times bigger for a population that's around 5 times bigger. The smaller US population notwithstanding, US consumer spending is 2.5 times that of China. A lot of the payments measured here include electronic "red packet" gifts of money, popular for celebrations in Chinese culture, so payments shouldn't be measured solely as a function of consumer spending.

Figure 4: Mobile payments in China dwarf US



Source: Forrester Research, iResearch

The comparison with the US may be a little unfair, since a US consumer is likely to use a contactless card (not defined as mobile, despite being even more portable) or a non-mobile-based eWallet such as PayPal, when for a similar transaction a Chinese consumer would use AliPay. Credit cards are much less common in China, with 0.29 credit cards per person, versus 2.6 in the US[vii].

But why have mobile payments taken off so quickly in China? The comparison is with the relatively anachronistic card-based solution used more widely in developed economies. Unsurprisingly it's a combination of factors.

Chinese government has encouraged products serving both financial and social inclusion objectives

- Firstly, UnionPay, China's monopoly card scheme, only launched in the early 2000s, having replicated a 40-year-old solution from DMs.
- Secondly, the would-be mobile payments giants in China had a critical mass of customers in adjacent online industries. Alibaba, a retail e-commerce platform with nearly 500 million users, spawned AliPay, China's biggest mobile payments system.

Tencent, a social media network and gaming giant with deep e-commerce functionality and more than 950 million users, hatched TenPay/WeChat Pay. AliPay and TenPay have 54% and 37% of the mobile payments market respectively.[viii]

- Thirdly, unlike DM banks, Chinese banks have a relatively insignificant payment market to protect. Fintech adoption, in short, has threatened less of the incumbent banks' existing revenue streams, so adoption has not been strangled.

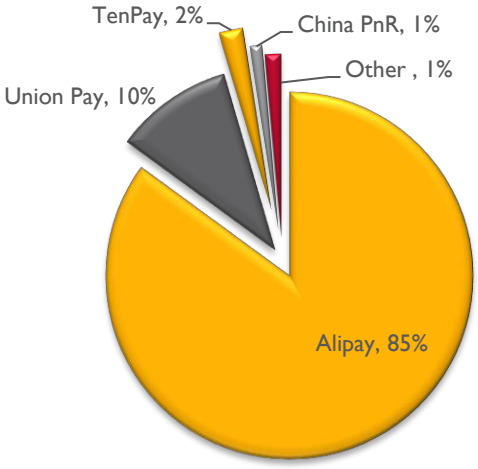
Further, it's quite feasible that the Chinese Government would have been unhappy about banks blocking innovation and hurting consumers. In fact, their industrial policy agenda has likely encouraged the development of a product that serves financial and social inclusion objectives as much as it primes a global winner that originated in China.

Consumers will only sign up *en masse* to a solution that lots of merchants will accept, and merchants will only accept a new payment method if enough consumers are using it.

Our proprietary research shows Alipay is dominating online payments

Our proprietary research suggests that AliPay is by far the preferred method of payment for online shopping (Figure 5), perhaps not surprising given Alibaba's strength in e-commerce.

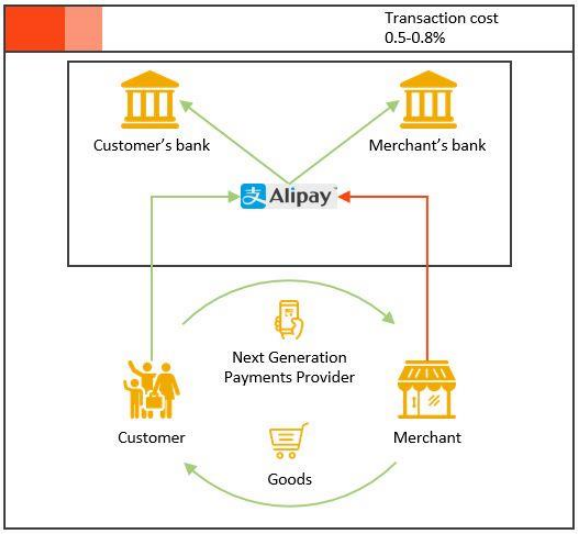
Figure 5: China Payments Survey – preferred method of payment online



Source: Trinetra and Lucid Survey

A more efficient Payment Service Provider (PSP), as is prominent in China (Figure 6), takes a fee of 0.5%-0.8% of the transaction value. This could disruptively cut costs, reduce economic friction and improve productivity.

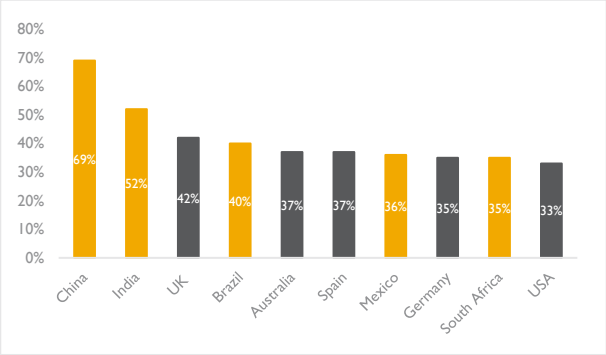
Figure 6: Payment Platform



Source:Trinetra

Given the lack of entrenchment of EM retail banks, it isn't surprising that three of the top four countries for fintech adoption are emerging markets.

Figure 7: **Fintech adoption rates in 10 markets**



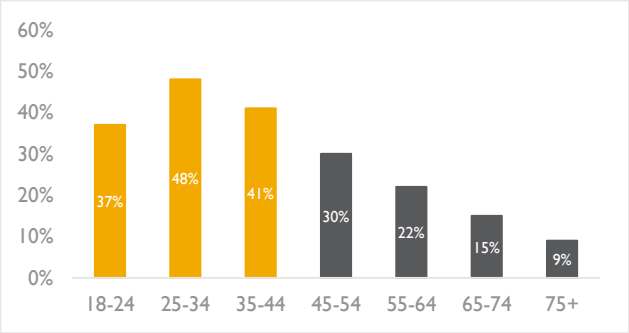
Source: EY FinTech Adoption Index 2017

Age is another factor in fintech adoption according to the EY Fintech Adoption Index. Figure 8 below demonstrates percentage adoption rates in 20 counties. Predictably,

Younger population in EM means faster fintech adoption

younger people are more likely adopters, with older people presumably having established traditional financial relationships and habits that may be ingrained. Because the demographic mix in emerging markets is skewed towards a younger population, this creates a bigger, willing cohort of people willing to accept the new technology. This forces merchants to adopt quicker.

Figure 8: Fintech adoption across age brackets



Source: EY FinTech Adoption Index 2017

But how does this affect social financial inclusion? A fascinating blog hosted by The World Bank mentioned in 2015 that 500 million adults gained bank accounts in just 3 years from 2011[ix]. By 2014, 66% of China's poorest quintile had bank accounts, an increase over the same 3 years of 28 percentage points of population.

Houlin Zhao, the head of the International Telecommunications Union (a sort of UN for telecom matters) pointed out that "An estimated two billion adults are still without access to a bank account, and yet some 1.6 billion of them have access to a mobile phone, creating the potential for e-finance access."[x] Much broader financial inclusion is therefore a considerably easier proposition than making sure that everyone lives near a bank branch.

Bringing bank accounts to those who are unbanked brings them into the formal financial system, not only enabling easier monitoring for taxation purposes, but also offering them products and services for which access to a modern, instantaneous payment system is needed. At least as importantly, it facilitates access to different forms of lending. That generates opportunities for would-be entrepreneurs to build new, small businesses, and to create wealth for them and their families.

How fintech will evolve over the next decade

Innovative technology can pierce through banks' competitive barriers. Up until 10 years ago, bank branches and plastic cards offered reasonably efficient ways to store, protect and move money in trusted transactions. Since then, the "layering" of numerous new technologies has made substitutes feasible. For starters, there's the internet, which is an extraordinarily effective

EM players using fintech technology from their home markets can steamroll into new EM markets… that game has already been lost by DM players

disintermediator, and of course most financial services are services of intermediation. Where the internet has proven to intermediate more efficiently, such as travel agency, selling used goods, and especially digital replacements like music, games or written communications (emails versus letters or faxes), there has been disruption.

Other layers include the immense processing power of cloud computing, itself made useful by near-ubiquitous broadband, both fixed and mobile. Likewise,

smartphones are crucial. They're portable processors with sophisticated interfaces that are able to show vast amounts of information, augmented by GPS and location-based services, high-speed mobile networks, and identity protection (including biometrics). Machine learning and artificial intelligence can provide valuable and actionable insights, encouraging investment in all this innovation.

EM players adapting fintech solutions from their home markets can in theory steamroll into new EM markets. We believe that the game has already been lost by DM players. In some DM markets, regulatory intervention is being employed to force the banks to dismantle the competitive barriers that were erected in the past.

Use of data is another important development. Because data is instantly replicable and transportable, it doesn't fit neatly in to legal frameworks that protect property rights. For a transaction, two or more parties, can theoretically "own" a single piece of data, such as a counterparty name or location.

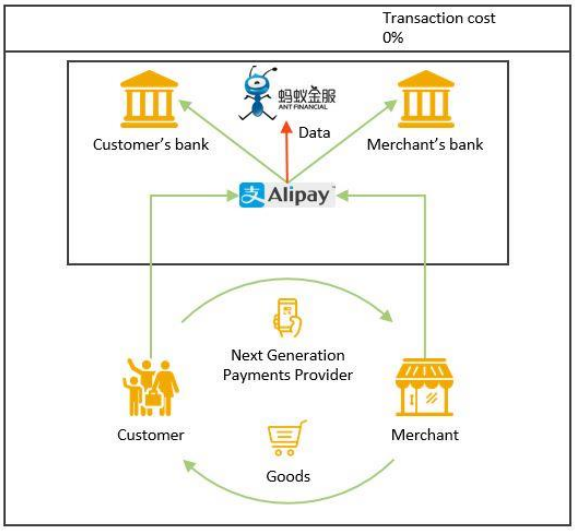
GDPR (General Data Protection Regulation[xi]), an EU regulation that was implemented earlier this year, is very significant. As well as giving rise to countless emails trying to clarify use of data, it establishes the principle of consumers' control of data that pertains to them, rather than the corporation that collects it. Companies need to gain explicit consent to do things with data that aren't directly and obviously applicable to their specific commercial relationship. The principle is known as consent-driven data governance. This principle establishes, for example, that the rich data that banks "hold" about our transactions and wealth, is ours. Moreover, only we can use it for "other purposes", and if we ask, they must give us access to it in a readily-digestible form (i.e., digitally, and not on reams of paper).

Giving consumers control of their data could well lead to a reorganisation of the value chain. Since the marginal

Giving consumers ownership of their data will allow them to sell it and reduce to platform costs to zero

cost of a payment will come close to zero, we think it quite feasible that new payment systems charge nothing, entirely disrupting the existing DM model. As many have said before, data is becoming the new currency.

Figure 9: The future of payment platforms



Source: Trinetra

PSD2 is paving the way for fintech innovation from the East to enter Europe

Holding back payments technology adoption holds back a whole raft of follow-on technologies, which could both create value and improve productivity. Recognising that innovation is being stifled, the European Commission has introduced new regulation (the Second Payments Services Directive, or PSD2) that aims to blast a massive hole in the banks' payments defences. The regulation is technically already in force, but is to be implemented in September 2019.

One key provision of PSD2 should bring about disruption for European retail banks. It says that a third-party payment services provider, with the consent of a bank account holder, can initiate a payment on the same terms as the account holder.

But what PSD2 enables could bring about the end of banking services as we know them today. Removing the monopoly that banks and their "friends" have on the

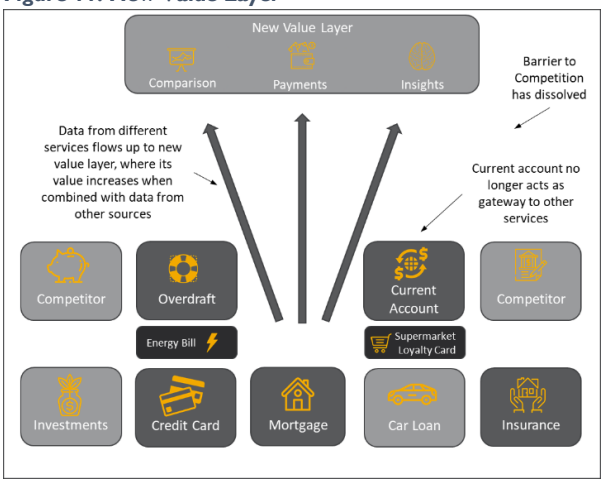
PSD2 could bring the end of banking services as we know them today

ability to remove funds from customer accounts, and

encouraging low-cost payments, should remove friction from the system. Critically, it could end the "gateway" status of current accounts, resulting in an end to cross-subsidies, an unbundling of products, greater levels of competition within each of those products, and a dislocation of the banking value chain.

Today's banks could become nothing more than "dumb pipes" operating at a wholesale level, with limited direct interaction with their customers. A third party would sit "above" the current account (see Figure 11), moving funds and opening or closing accounts, chasing the best deals for loans or savings, and crucially: acting in consumers" interests.

Figure 11: New Value Layer



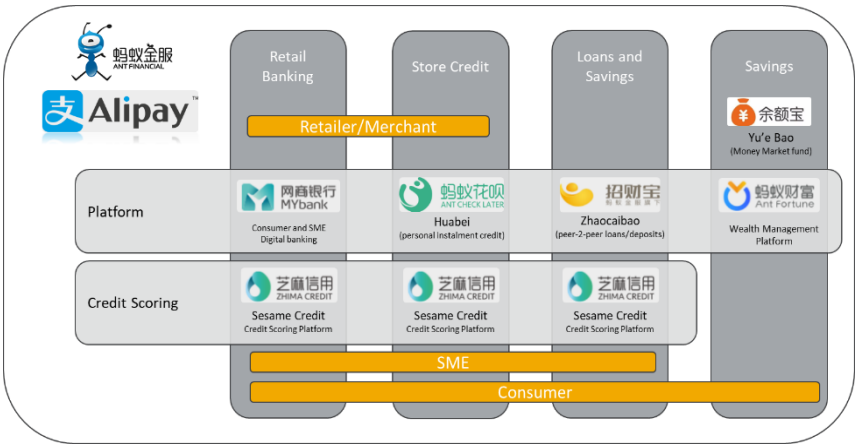
Source: Trinetra

It's the unleashing of data that will enable these very profound changes. At the level of the individual, more personalised, or at least appropriate and value-for-money products can be found, showcased, and more easily switched to. At the market level, pricing will be more transparent, excessive profits will be wiped out, and increased efficiency will be brought to bear. Banks will be forced to adapt or die.

With unleashing of data, DM banks must adapt or die

The UK has gone a little further, establishing a body called Open Banking[xii] which is instituting common data exchange standards (APIs or Application Programming Interfaces) to transmit consumer data. Open Banking was established as a result one of the key remedies of the CMA's Retail Banking Market Investigation[xiii]. A similar regime is being implemented in Australia following a deep investigation by the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry.[xiv] Also see side-box.

Figure 10: Ant Financial and AliPay are the glue in a Fintech ecosystem



Source: Trinetra

Far from creating a Big Brother world where our spending habits are closely monitored, the aim is to empower consumers to control what happens their own data, and to use it for their own benefit and make more informed decisions. Consumers will be able to dictate how they can use their data for their own benefit, and with whom it should be shared, with their consent.

Chinese consumers have been profiting from easier data portability for the past 4 years. They can upload their phone directories to Alibaba's Sesame Credit to improve their credit scores: they can be scored more highly simply by association with other people who have higher credit scores. This is of course an interesting social angle to an issue that is considered more personal in the West.

Alibaba and Tencent have developed fintech ecosystems that are years ahead of DMs

But it's the removal of friction in sharing bank account data that means a multiplication of its value to consumers, and that will increasingly be the case. This issue was discussed in the "Fingleton Report"[xv] which acted as a catalyst for the UK's open banking movement.

In China, Alibaba and Tencent are already making their marks and are getting on with innovating, capitalising on their wins. They've already reached the point of a developed ecosystem that must be years away in Europe, and is even further behind in the US, where there's been little progress. There, the CFPB (Consumer Financial Protection Bureau) has outlined principles[xvi] for what they call "Consumer-Authorized Financial Data Sharing and Aggregation."

In China, there's no need to wait for regulatory intervention, or for the entrenched interests to concede defeat. Alibaba and Tencent have already created their own ecosystems, and in an area where no players were quite so entrenched.

Ant Financial, which is Alibaba's financial services arm, is far more than just AliPay. There's a digital bank, MYBank; a money market fund, Yu'e Bao, which has over US$260bn under management[xvii]; a lending arm, Zhima Credit; and a "social" credit scoring system. The ability to share data, and to initiate payments, we argue, provides the oxygen for a functioning fintech ecosystem. Within a giant like Ant Financial, there's no need to wait – it's already happening. Ant Financial, in large part through AliPay, carries immense amounts of data, as well as the money itself, as it moves it from one product or platform to another.

Big Data in the context of China is simply "huge" data from the outset, given the hundreds of millions of consumers, providing the sorts of insights to Ant Financial, and to its customers, that companies in developed economies are years away from achieving.

Global ambitions for Chinese companies

In a letter to shareholder on Oct 18, 2017, Jack Ma, Alibaba's shareholder wrote:

> *When I started Alibaba 18 years ago, my partners and I asked ourselves not how to build a successful company, but why we want to build this company in the first place. We have conviction that the ultimate mission of a great company is to solve the problems of society.*

We believe Alibaba and Tencent will focus on solving the issue of financial inclusion in EMs; providing lower cost financial solutions to those with modest means.

We believe that the solutions for DM fintech will ultimately come from China and other EMs. Although this is not officially-stated Alibaba strategy, the company's intentions are illustrated by the agreement to buy cross-border transfer service, MoneyGram last year. MoneyGram has the plumbing required to connect to payment systems in nearly 200 countries. That deal was blocked by CFIUS (Committee on Foreign Investing in the United States). Geopolitical posturing was doubtless involved, but it would be unsurprising if entrenched interests in the US had supported the block.

In the meantime, AliPay has already moved rapidly outside China. They focus chiefly in South East Asia, and have interests in payment systems from India to South Korea to Indonesia. Further afield they have a lighter touch, tapping into merchants where Chinese travellers tend to spend money, e.g., high-end hotels in Monaco.

The trade deal struck between the US and China in May 2017 was touted as having produced big winners[xviii], including the major credit card schemes, Visa, MasterCard and American Express.

We don't expect them to gain significant traction in China. On the contrary, China could turn out to be a graveyard for the card schemes. We believe that Chinese payment systems will more likely gain a foothold in developed markets, threatening the profitability of the established payment systems.

Figure 12: AliPay poster on London Underground, September 2017

Source: Trinetra

Conclusions

The futurologist Alvin Toffler captivated millions worldwide with his predictions of the rise of AI, the internet, telecommuting, and even the demise of the nuclear family. In "Future Shock" he states:

> *"The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn and relearn."*[xix]
>
> *Alvin Toffler*

DM retail banking is demonstrating an inability or an unwillingness to innovate and learn. They've lost the race

> *…regulation will open the door for innovation from the East to the West, and it will disrupt retail banking as we know it*

to true innovators who are paving the way in Emerging Markets. DM retail banks have chosen to hide behind competitive barriers, built decades ago, and to extract supernormal profits from consumers. In contrast, China's fintech ecosystem is roaring ahead, with innovation building on yet more innovation, leaving adoption in DMs way behind.

We expect Chinese fintech companies will focus on rolling out their ecosystems first in other EMs, where they can best fulfil their corporate values of bringing social inclusion by providing low cost financial solutions to those with modest means.

But we also believe that they will not stop at just rolling out this innovation there. We believe that European financial regulation will open the door to innovation from the East to the West, and it will change retail banking as we know it.

> *Change is not merely necessary to life, it is life.*
>
> *Alvin Toffler*

Viewpoint: A look at Australian banking

The Royal Commission into banking misconduct goes beyond dealing with past cases of misconduct and include examining standards and expectations, governance, redress and the legal and regulatory frameworks. It's an opportunity, using Malcolm Turnbull's words to "make the financial system the most competitive, transparent and accountable in the world." We think that Open Banking will turn out to be the key instrument to achieve exactly that. The Commission's interim report is due by 30 September 2018, and the final report by 1 February, 2019.

Australia's banking market is concentrated, with the big 4 controlling 85% of share of the retail banking market. We say controlling, because banking has different dynamics to other sectors. In grocery, for example, 3 operators have 85% of Australian market share between them, but consumers can easily switch, every time they get into the car to go shopping. It's different in banking, not least because switching is a hassle – there's friction. Exacerbating the situation, products offered by different banks are very similar, giving customers little incentive to switch at all. And those products are bundled together with unclear pricing and a "total bill" that's impossible for most people to know.

When consumers or small businesses need cash, they often have little choice but to borrow from their existing transaction account provider. It's as if each customer is faced by their own personal monopoly, that can charge what it wants and dictate terms. This "unilateral market power", that the banks exercise over their customers, can explain poor service levels, with limited accountability, patchy governance, glacial rates of innovation, and harmful cultures.

The UK was the first major western economy to embrace Open Banking so publicly, as the key flagship remedy of the Retail Banking Market Investigation carried out by the Competition and Markets Authority. This is akin to the Royal Commission. The Royal Commission will impose Open Banking on the Australian market from July 2019.

The Commission's Open Banking decision is in line with the recommendations of the Treasury's Farrell Review, which itself followed many of the recommendations of the UK HM Treasury's Fingleton Report. It's chief recommendation was to introduce a single standard for APIs (application programming interfaces) with which financial institutions could share customer data, naturally only with their consent. The Commission has decided to not impose the ability for third party payment service providers to initiate payments on a bank customer's transaction account. That would have been akin to the main component of the European Commission's Second Payment Services Directive (PSD2).

Open Banking without PSD2 will, we think, address the "low hanging fruit" situation of lending in particular, where the lack of transparency of overall cost levels (not just interest rates), and the inability to scrutinise charges, is contentious. Borrowers will be able to shop around more profitably, while alternative lenders will have better access to those borrowers, and critically, to the information that will help them to underwrite as effectively as the borrower's own bank.

Open Banking with PSD2 has the potential to visit a much greater impact on the market. The ability to bypass the power and stickiness of transaction accounts will render them economically irrelevant. Today, they're the "gateway product," leading customers to the bank's other products and no-one else's. PSD2 should blow that market wide open, levelling the playing field for more nimble, innovative and competitive players.

We think that it's likely that Australia eventually take a PSD2-like route, but holding back is sensible for 2 reasons.

Firstly, there may well be teething problems associated with PSD2. If it isn't executed well, it could endanger the content of bank accounts, an even bigger risk to wealth than the privacy risks involved with Open Banking. Getting this wrong could kill the project outright, with perhaps little chance of saving the good bits. It will be useful to see what works in Europe first, and what may not have worked so well.

Secondly, the nail-in-the-coffin threat to bad banks comes from payment initiation and its ability to blow open the entire banking and financial services market. The big 4's resistance to a full "Open Banking with PSD2" could well have reduced the extent to which they were willing to support the changes. We believe that a piecemeal approach is less likely to meet excessive resistance from the banks. As such, introduction by stealth leaves the banks like frogs in boiling water. The heat is gradually being turned up.

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