



# Financial aggregation and open finance: views from South Africa's financial portals

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## 1 Introduction

A recently launched South African on-line banking initiative quoted Bill Gates as saying: 'In a modern economy, the financial services provided by the banks are necessary, but not the banks themselves.' The Internet has created a paradigm shift in the business scenario, forcing traditional financial institutions to transform themselves at a pace and on a scale that has no historical precedent. International financial institutions initially viewed the Internet as another distribution channel, simply transferring their traditional business model on-line (Hewlett Packard 2000). However, as non-banks and near-banks entered the market and encroached on financial institutions' core business, the traditional product-centric orientation of financial services began to shift towards a customer-centric approach in which price, convenience and value-added services became critical. Similarly to their international counterparts, South African banks have realized the distributable value of financial services on the Internet, which has resulted in their investing heavily to develop new on-line business models.

Financial portals have emerged as a key strategic approach through which South African banks are attempting to build enduring and profitable customer relationships. Portals are Web sites designed with the specific intention of providing content, services and products to a large number of recurring users aggregated around specific types of services (Hewlett Packard 2000; Seipp 2000). These portals enable institutions to provide an all-in-one-

solution, delivering content, services and commerce that go beyond traditional financial offerings (Seidel 2001). A common thread evident in most South African financial portals is that they attempt to create a central point on the Web where consumers can handle all their financial affairs. Yet, in most cases, the financial products and services offered by the portal are exclusively restricted to the organization's own products. In addition, consumers are only able to view a consolidated financial position, which comprises no more than the accounts held within the single organization. This is in stark contrast to the emerging concepts of 'open finance' and 'account aggregation', which enable consumers to access a variety of financial products from multiple organizations on a single platform. Although international financial services organizations have rapidly embraced open finance and aggregation, there has been little adoption of these approaches by South African organizations.

The key question addressed in this article is: What are South African financial portals doing with regard to financial aggregation and open finance and do they jointly embark in this direction? In considering this question, the authors argue for more emphasis on in-depth research on financial portals within the South African context.

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## **2 Conceptualizing financial portals in South Africa**

### **2.1 Research background and rationale**

Recently, on-line commercial banking efforts have focused on providing customers with a one-stop financial management solution or financial portal. Financial portals are similar to general on-line banking sites, with the exception that they offer additional non-banking services such as brokerage, insurance, bill-payment and others, all from a central point of access on the Web (Cherry Tree and Co. 2000).

Through these portals, one-on-one relationships with customers can be established by providing value-added information and services (WorldFinance 2000). By interacting more closely with their customers via a portal, financial services organizations can gain a better understanding of customer requirements and leverage opportunities for cross-selling (Seidel 2001). In addition, there are internal cost digression benefits arising from the migration of off-line to on-line transaction processing.

Consumers benefit from financial portals by having financial services and content centralized and available through a single point of access on the Web. This circumvents the need to visit many different sites to do research or carry out simple Web-based financial transactions. Financial portals also provide consumers with a variety of other benefits, ranging from cost savings to increased convenience and better control of finances (Seipp 2000).

Internationally, non-banks and near-banks were early to develop one-stop financial portals, which caused traditional banks to 'catch-up' (Orr 2000). Non-bank portals such as Yahoo! Finance and MoneyCentral have challenged and won much of the international market from right under the noses of the banks. South African banks have taken heed of the activities in international financial portal markets and have realized that banks face the smallest entry barriers in the financial portal market. Although most South African banks have been launching financial portals as discrete entities, each portal still has the backing of the bank's powerful and established brand. This enables the portal to attain a high degree of initial credibility and safety, engendering a powerful sense of trust in the consumer (Hirshman 2000 and Newman 2001). Unlike a new independent portal trying to establish itself in the market, banks have an existing customer base at which their portal offerings can be targeted. Regulatory barriers for establishing a bank in South Africa make it difficult for non-bank financial portals to add banking transaction capabilities without partnering with an existing

bank. Banks also have established customer communication channels in the form of extensive branches and ATM networks. This is an advantage over all non-bank financial portals that lack the personal communication interface necessary to have personal contact with the customer in the real world (Seipp 2000).

Traditional South African banks have been able to leverage their existing market power and infrastructure to establish financial portals. Although these financial portals have implemented innovative products and services, they have adopted a cautious outlook towards new concepts and technologies being embraced by their international counterparts in the US and Europe. Aggregation and open finance are two such concepts that are rapidly gaining momentum in the international arena.

## **2.2 Aggregation**

While South African financial portals aim to be 'one-stop shops' for a client's financial affairs, they restrict users to viewing a consolidated financial position which comprises no more than the accounts held within their single organization (Orr 2000). International financial portals are now rapidly adopting a new technology called 'account aggregation' to provide users with a true aggregated view of their financial position. It allows consumers to view, on a single Web page, information from their on-line accounts with several organizations. This provides consumers with a holistic view of their financial position, without having to log in separately to the Web sites of all of their financial organizations (ASIC 2001).

Account aggregators gather a consumer's account and other information through screen-scraping technology or direct-feed arrangements (ASIC 2001). The most widespread method used to retrieve account information is screen scraping. This approach requires the consumer to provide the aggregation service with their login and password information to a particular account, which the aggregation site then uses to physically log in to the financial Web site and to take information directly from the Web page. The problem with traditional screen scraping is that the aggregator scrapes messages in hypertext markup language (HTML), which only describes data appearance but not meaning. This means that the aggregator has to know exactly where, for example 'Account Balance' appears on the external financial Web site (Orr 2000).

With the direct feed method, the aggregation site has an agreement with the financial organization to receive the raw financial data, rather than information displayed on a Web site. Data exchange standards such as open financial exchange (OFX) and extended markup language (XML) enable direct transfer of financial data between organizations. As these standards become more widespread among financial institutions, the sharing of consumers' account information should become more formalized, secure and transaction-enabled (Painter 2001). South African financial organizations can closely observe and learn from the US financial services industry, which is only now starting to grapple with questions concerning standards for aggregation and the development of more direct ways to share customer data rather than relying on imperfect technologies such as screen scraping (Newman 2001).

The On-line Banking Report (2000) suggests that financial services organizations that are considering adding account aggregation to their range of services need to consider to what extent it will 'drive new business, cement relationships with customers, increase profitable cross sales to existing customers, improve service quality and/or reduce service costs in their organization.' Although account aggregation will be a critical on-line banking feature in the future, banks should prioritize the functionality added to their portals (On-line Banking Report 2000). Before a relatively unknown service such as account aggregation is added, financial portals must ensure that they offer features with proven customer demand, such as

e-mail statements, e-mail alerts, interbank fund transfer and fraud protection, to mention a few.

### **2.3 Open finance**

Not only are South African financial portals limiting users to only view financial accounts held within their specific organization, they are also offering financial products and services exclusively from their own organization. In contrast, a large number of international financial services organizations are beginning to partner with product specialists to provide best-of-breed financial offerings. They see value coming from the provision of advice to customers on how to manage their financial situation. This is largely driven by a concept called 'open finance'.

The open finance model enables consumers to manage their financial portfolios as well as review diverse best-of-breed products from various product specialists - all from a one-stop financial portal site (Seasholtz 2000). This is a 'complete transformation' in the way banking products have traditionally been sold, as it now involves the selling of products and services belonging to direct competitors (Davis 2000).

Open finance is a brave new model that South African financial portals have not adopted thus far. Most South African financial portals appear to be well-differentiated, autonomous sites that believe the strength of their individual brands combined with their multi-channel strategies will see them triumph in the marketplace. The portals have thus far not collaborated to give customers direct access to services and information offered by their chief rivals. However, collaboration between the banks is not entirely impossible, as was evident by the banks cooperating with each other to establish the Saswitch ATM network.

Based on the research findings in the financial portal market space in South Africa, with emphasis on aggregation and open finance, the following additional issues have emerged:

- Financial portal functionality
- Collaboration and standards
- General market dynamics

These issues, which were considered relevant in this study, were investigated using a qualitative research approach.

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## **3 Research methodology**

### **3.1 Research design, sampling and data-gathering methods**

The nature of this research required a qualitative research approach where a questionnaire was used to gather data on financial portals. Data were obtained by means of an e-mail questionnaire sent to six distinct South African financial services organizations. These organizations, which constituted the majority of established financial portals in South Africa, had all launched their respective on-line financial portals within the last two years. Senior managers who were directly involved in their organizations' financial portal took part in the study. Participants from the organizations presented a purposive convenient sample.

The questionnaire was attached to an e-mail message and was sent to the senior managers within each organization. The questionnaire sought to elicit information related to various issues facing financial portals in South Africa, namely the adoption of account aggregation and open finance, financial portal functionality, collaboration and standards development, as well as general market dynamics. Four of the six organizations responded to the

questionnaire. Gathered data were processed and consolidated, and final conclusions were drawn in terms of the various issues facing financial portals in South Africa.

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## **4 Findings**

### **4.1 Findings on aggregation and open finance adoption**

Emerging from the questionnaire, the following findings on the adoption of aggregation and open finance by South African portals were derived:

- Account aggregation will benefit financial portals
- Most financial portals indicated that they believed account aggregation would help to build the relationship between the customer and the financial portal and lead to larger profits.
- One respondent commented:
- 'Essentially the major benefits will be the entrenchment of the brand ... and the proposition of a sustainable customer experience ... creating a closer and more intimate client relationship [with] spin-offs which will naturally [include] more cross-sell and up-sell ....'

It is therefore evident that financial portals viewed aggregation as a service that would lead to increased business benefits.

### **4.2 Findings on financial portal functionality**

The following findings on financial portal functionality emerged:

Financial portals believe that increased on-line functionality will enable customers to differentiate between the various financial portals

Financial portals were asked what main motivating factor would entice customers to sign up with their respective financial portals. The following comments reflect their views:

- 'The extensive range of on-line services'
- 'Internet banking functionality'
- 'Service. Customer experience. Aggressive offer'
- 'People change banks or financial institutions based on service experience ... we are focusing on delivering quality service, over a broad range of products.'

It is evident that financial portals believe that functionality of the portal, service delivered by the portal and the selection of products and services are the factors that entice customers to sign up with them. One respondent described customer experience as an important motivating factor that could attract customers to log in for extended periods.

Customers will continue to return to a financial portal if they have a satisfying experience and derive some form of value from it. Personalized functionality and services that satisfy the needs of consumers can positively reinforce this experience. South African financial portals have been providing this functionality through a range of tools and services such as virtual balance sheets, share trading, reward schemes, on-line shopping and more. Financial portals are constantly seeking to add new functions and services to their sites so that they can continue to add value and create a pleasing customer experience.

Financial products or services will remain within their respective groups, but alliance and partnerships may allow for product exchange

At the moment, financial portals do not allow external organizations to distribute their products. However, as financial portals progress and continuously reassess their environment, the exchange of their products might become a viable option.

Respondents commented that:

- 'We are open to alliance or partnerships and this is part of our strategy going forward...'
- 'Essentially it will be group products, however, when strategic alliances make sense these will be assessed accordingly.'

It is evident that financial portals considered forming alliances and partnerships with other institutions. The following comment indicates that the type of institution financial portals to partner with had not yet been determined:

- 'Whether our alliances will be with other financial institutions or not has not yet been decided...'

It is also unclear whether these alliances will create external revenue streams for the financial portals. One respondent doubted the viability of this approach:

- 'We question the revenue stream from access out of another financial portal.'

From the evidence collected it could be deduced that financial portals viewed aggregation as an important concern. All the financial portals stated that aggregation is a tool that can lead to an improved relationship between the financial portal and its customers. It emerged that most of the financial portals thought that aggregation would improve and 'cement' relationships with customers. Some respondents believed that the demand for aggregation was not as prevalent in the South African market as it was in the USA and UK. All of the financial portals agreed that one of the reasons for their slow entry into the aggregation market was the extremely regulated banking environment. All four banks viewed consolidation of customer accounts as one of the prominent value levers.

Financial portals viewed open finance with scepticism and were not selling products outside of their groups. Their main focus appeared to be the attraction of customers to their own portal rather than creating revenue streams via selling their products through external sites. All the financial portals hinted that they were, to a certain extent, open to alliances involving the exchange of third party products and services. However, it was not clear whether they would form partnerships with other directly competing financial service organizations.

#### **4.3 Findings on collaboration and standards**

The following findings on collaboration and standards development were derived:

Desired state of affairs would be for all the financial portals to collaborate in developing standards enabling the aggregation of customer information

Financial portals believed that collaboration in the development of aggregation and open finance standards would be the correct approach to achieve widespread adoption of these concepts in the marketplace. The following comments are indicative of this view:

- 'The desired state would be to stimulate this collaboration. This is the only sustainable model, but requires maturity'
- 'Although financial portals perceive collaboration to be the ideal approach, they are not in agreement ... over whether this collaboration will actually occur.'

These contrasting views are echoed by the following responses:

- 'This is probably the direction of the future - we can see it happening'
- 'No. Open finance is a brave model that some institutions will resist.'

It was therefore evident that it might be a very long time before we witness collaboration in the development of aggregation standards in the South African banking market. All respondents felt that the small number of financial portals in the South African marketplace had no significant bearing on the ease at which standards could be developed.

Adopting an open finance model and aggregation would require a certain amount of collaboration between the players in the market space. Especially strong views on this matter were echoed by several respondents who believed that cooperation with other financial portals to create industry acceptance on standards and concepts would always prevail. It was, however, uncertain whether this collaboration would ever take place in the South African context although the small number of big players in the market could result in less resistance. However, this has no bearing on the difficulties involved with integration.

#### **4.4 Findings on general market dynamics**

The following findings on the general market dynamics in the financial portal market space were derived:

Financial portals do not see the highly competitive local financial portal marketplace tipping in the favour of only one player

From the financial portals' responses it became apparent that there would be two or three big financial portal players able to address the entire financial services market:

- 'We think there will be two or three big players'
- 'We will probably not see [only] one player given the presence of three or four strong brands.'

From the findings it could be deduced that many of the smaller financial portals would have to find and focus on their own specific niche. While there were common trends in what the major financial portals had done, each new offering had been well differentiated. Their strong autonomous brands, coupled with the support of large, traditional financial institutions, suggested that collaboration and even consolidation at a later stage would be unlikely.

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## **5 Conclusion**

The study revealed that financial portals viewed basic functionality of the portal, services delivered by the portal and the selection of products and services via the portal to be the main customer drawing factors. The financial portals also showed that they were not interested in creating revenue streams via external portals. They indicated a preference for having their customers access only their products from only their portal. It is therefore evident that, at that point in time, consolidation of accounts from a specific organization was one of the predominant financial portal strategies - aggregation and open finance played no role.

The study revealed that many of the financial portals did consider partnering with other financial institutions as a longer-term strategy, or with partners not necessarily in a financial services organization. All the respondents agreed that collaboration in the development of standards for open finance and aggregation would be the desired way to bring about

widespread adoption of these concepts. This collaboration would be in the form of strategic alliances and not necessarily for the development of aggregation and open finance standards that benefit the financial portal market as a whole. The financial portals considered collaboration for the development of standards to be the most appropriate approach to achieve widespread adoption of open finance and aggregation in the marketplace - but there was much doubt whether this collaboration would ever occur.

This research also revealed that the small number of large competitors in the marketplace did not influence the ease of development of aggregation and open finance standards. Each financial portal had clearly recognized the advantage of aggregating the account data for its own clients, yet the majority of the financial portals did not seem to be aware of any advantage in aggregating client data across different portals. This could explain why few financial portals were considering the possibility of interorganization collaboration in client data exchange and the development of data exchange standards. However, if they should recognize such advantages, they may well decide to collaborate - with two or three banks likely to emerge as senior partners. Further research on potential advantages might encourage such collaboration.

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