



# Open Banking

*Reshaping the future of financial services  
and banking in the post Covid-19 era*



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**Open banking** is becoming more prevalent as the **global economy** evolves, facilitating easier and safer transactions around the world, while offering customers more options to manage their finances effectively through third parties.

# Introduction

According to the official literature, open banking is a system in which banks open up their application programming interfaces (APIs), enabling third parties to access useful financial data to create new applications and services while providing account holders with more financial transparency. APIs are a series of codes and protocols that determine how different software applications interact. In other words, they enable different applications to communicate with one another. This system is going to improve consumers' financial experiences worldwide. Though open banking third parties are able to create better personal finance management (PFM) applications, putting pressure on incumbents to upgrade their services.<sup>1</sup>

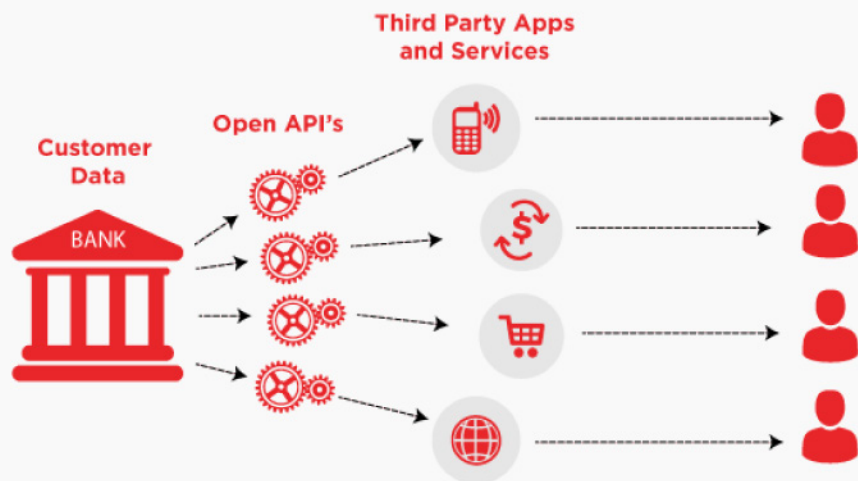


Figure 1 | How does Open Banking work? Cashdash. (2020, August). What is open banking and how it works: Benefits explained.

1. Phaneuf, A. (2021, January). How open banking and bank APIs are boosting fintech growth. Businessinsider.

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Third-party and other financial service providers can access personal and financial information from their customers' banks through open banking. The APIs perform transactions from one bank to another without the time-consuming steps that consumers used to take previously. Moreover, this technology has the ability to analyze a customer's transaction record to find specific products and services that optimize the customer experience. Each fintech company needs an innovative, effective, and scalable database but most have a data swamp.

*To address this, an effective integration strategy is essential.<sup>2</sup>*

Recently, open banking has gained increased attention, allowing financial institutions to offer streamlined access to cutting-edge services. In 2020, the banks' ultimate goal was to interact with other market players through advanced, flexible, and resilient open banking strategies.<sup>3</sup> Following the global pandemic, banks were forced to focus on health and safety issues, branch closures, remote working, and attempts to help their clients with the management of their banking accounts. In fact, Covid-19 has accelerated the digital transformation in the sector with consumers increasingly embracing digital platforms, and avoiding visiting the physical branches and using cash; hence open banking has taken advantage of this situation. According to a study conducted on a sample of 500 SMEs by the OBIE and Ipsos MORI, 50 percent have turned to open banking since the coronavirus crisis began.<sup>4</sup>

2. TIBCO Software Inc. (n.d.). What is Open Banking?

3. Johnson, W. (2021, January). The rise of Open Banking. Finance Monthly

4. OpenBanking, (2020, December). Adapting to survive: UK's small businesses leverage open banking as part of their COVID-19 crisis recovery.

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5. Industry Dive. (2020, May). Open banking use to double by 2021, claims study.

Furthermore, a Juniper Research study revealed that the number of open banking users may double by 2021, from 18 million last year to 40 million, as the pandemic raises the need for customers to combine financial accounts and achieve better insight into their financial condition. Since customers are now capable of accessing multiple bank accounts from a single platform, it would be a true motivation for financial institutions to seize the opportunity to embrace open banking as a way to expand their ongoing digital transformation journeys and implement new services, powered by APIs.<sup>5</sup>

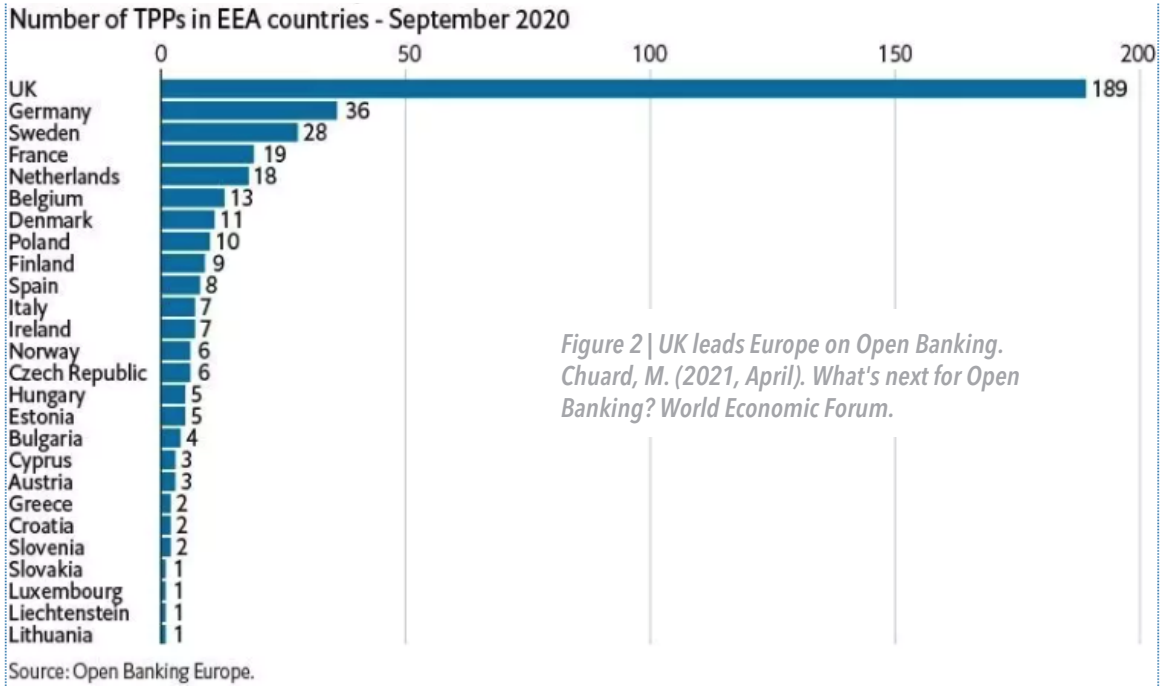


Figure 2 | UK leads Europe on Open Banking. Chuard, M. (2021, April). What's next for Open Banking? World Economic Forum.

The UK leads the way on Open Banking

Image: Economist Intelligence Unit (EIU)

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6. PwC. (2018). The future of banking is open: How to seize the Open Banking opportunity.

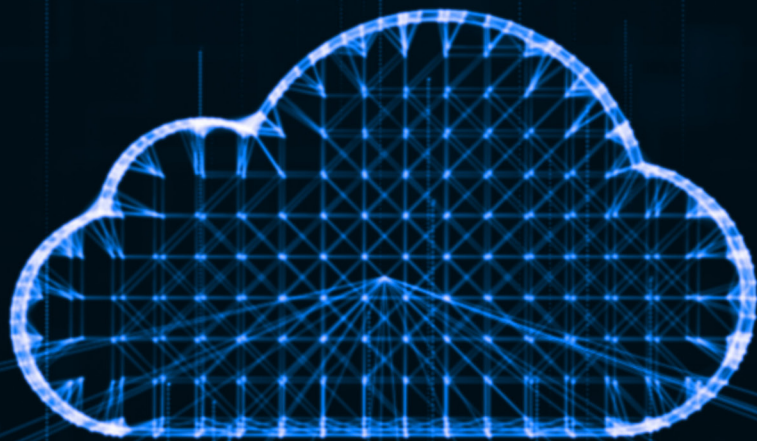
Due to the vast scope and potential impact of open banking, businesses cannot afford to neglect it. Incumbent organizations have to reassess their existing business models, whether they are under pressure and devise a strategy to protect or strengthen their market position. This means that ambitious competitors who see an opportunity to improve consumer relevance, add value, and expand their presence need to be decisive on performance metrics within an increasingly crowded market. <sup>6</sup>



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# SECTION 1





# Open Banking-A global revolution transforming financial services

## **Four ways open banking transform financial services**

Open banking aims to increase competition by allowing banks to exchange privately owned customer details with third-party providers (TPPs) under certain conditions. Licensed TPPs are able to access customer information kept by banks using traditional, public, and transparent methods after customers' consent. Gaining access to all of this data, improves TPPs capability to provide services to existing bank customers and other clients. In addition, they can benefit from additional insights regarding bank services, costs, and service quality.

However, open banking is still in its early development stages, with its long-term implications unknown, and there will undoubtedly be concerns about data privacy and security. The way in which open banking is expected to disrupt financial services is illustrated below:



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## 1. Customer value through improved user experience

Consumers can benefit from a wider range of products and services, as well as from more competitive prices. In the past, traditional banks used to be the top competitor players in the consumer market, chasing customers, encrypting their data, and offering them exclusive, customized services. Because of their increased visibility on massive customer data, while they could take advantage of having access to personal financial information, like expenditure records, revenues, spending patterns and repayment history.

Nowadays, banks and other TPPs will be part of a modern financial services ecosystem that will use open data to deliver value to customers with even less friction. Fintechs are less likely to offer products and services directly, but, instead, tend to be acting as a layer on top of the actual provider. Traditional bank services, such as deposits, lending, investing, and savings, as well as more innovative offerings, are likely to be available via fintech TPPs with better options, more affordable price, and outstanding user experience due to the aggregation and the analysis of customer data.



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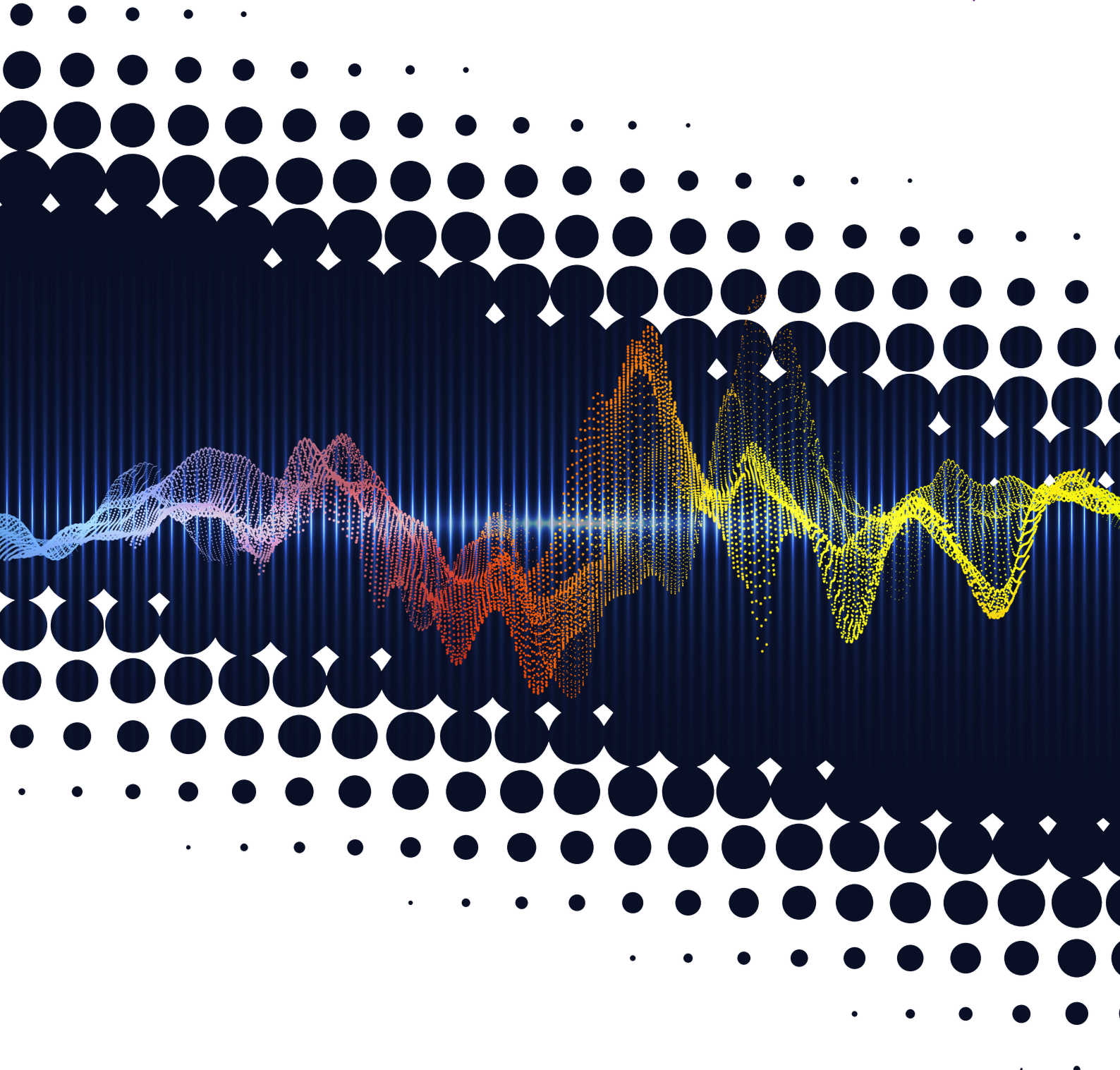
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