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Introduction to Open Banking

So what is Open Banking?

Open banking has been coined in some fintech circles as the quiet revolution. It is a regulation and standard that provides third-party financial service providers with access to consumers' bank account, transaction, and other financial data from banks and non-bank financial institutions through the use of application programming interfaces (APIs). The consumer will have control over who can access their data by being requested to provide their consent.

Traditionally, the availability and analysis of financial and transactional data has been restricted to banking institutions. Open banking explicitly empowers account holders with the authority to share data, removing the financial institution's role as the sole gatekeeper. With the introduction of Open Banking regulation across Europe, in a digital economy dominated by ecosystems and platforms, every industry is moving to integrate and avail of this data where possible.

What started as a European initiative has now become a global movement. Outside of Europe, Open Banking initiatives are underway in key markets including North America, Asia, Asia-Pacific, Latin America, South-Asia (India) and Africa (Nigeria).

According to recent research conducted by Accenture, 76% of banks worldwide expect customer adoption and Open Banking API usage to increase by 50% or more in the next three to five years. From lending to payments to personal finance management, Open Banking-powered services will enable consumers and businesses alike to enjoy new and better options to decide which financial products they need.

Types of licenses.

In Europe, Companies that provide access to Open Banking are called **TPP's** or Third-Party Service Providers. TPPs are regulated and must operate with at least one of two PSD2 licenses. Most providers will have both licenses.

AIS or Account Information Service:

This license allows the TPP to facilitate 'read-only' access to a customer's account data, including historic bank transactions, BIC and IBAN and Credit card account historical transactional data.

PIS or Payment Initiation Service:

This license allows the TPP to initiate a payment to a third party from the customer's account.

What should you look for in a service provider?



Dual License Holders. Look for TPPs that provide AIS and PIS. Blending both services enables a company to deliver a more highly personalised service and enhanced capabilities to their customer base.



Market Coverage. Some providers are focused solely on their local markets while larger players seek to provide access to thousands of banks across Europe or even further afield. Domestic focused companies should consider their future expansion plans when seeking to partner with an Open Banking Provider.



Development APIs. To integrate an Open Banking Solution a company must adopt the API provided by the TPP. The quality of API provided by TPPs varies widely. Look for TPPs that provide an easy-to-use developer portal and at least some access to production bank data.



Data Refinement. While Open Banking is standards based, there can still be variation on the format of individual data that is returned by the bank. This can make analysis across banks more tedious and time-consuming. Look for TPP's that refine and normalise the data so that it is consistent across multiple banks.



Support. Support options can vary widely between TPPs from email-only non-committal responses to enterprise-level agreements covering delivery, maintenance and service. Companies looking to deliver mission-critical solutions will want to consider what the TPP offers.

Open Banking Use Cases

The potential benefits of open banking are substantial: improved customer experience, new revenue streams, and a sustainable service model for traditionally underserved markets. Here are just some of the ways companies are innovating and taking advantage of open banking services.

Payment initiation services	Asset verification	Confirmation of funds
Account verification	Risk assessment	Subscription management
Financial management	Creditworthiness assessment	Targeted advertising
Identity verification	Income verification	Competitive service discovery

What's next?

While Open Banking continues to gain traction all over the world, foundations are being laid for the next wave of financial innovation: Open Finance. Open Finance empowers consumers to access their financial data beyond current accounts (extending to mortgages, credit, student loans, automotive finance, insurance, mortgages, investments, pensions, loans etc), ultimately delivering real value for the customers.