



# Open Banking

## Brave New World of Payments Collaboration

Sep 22nd, 2020

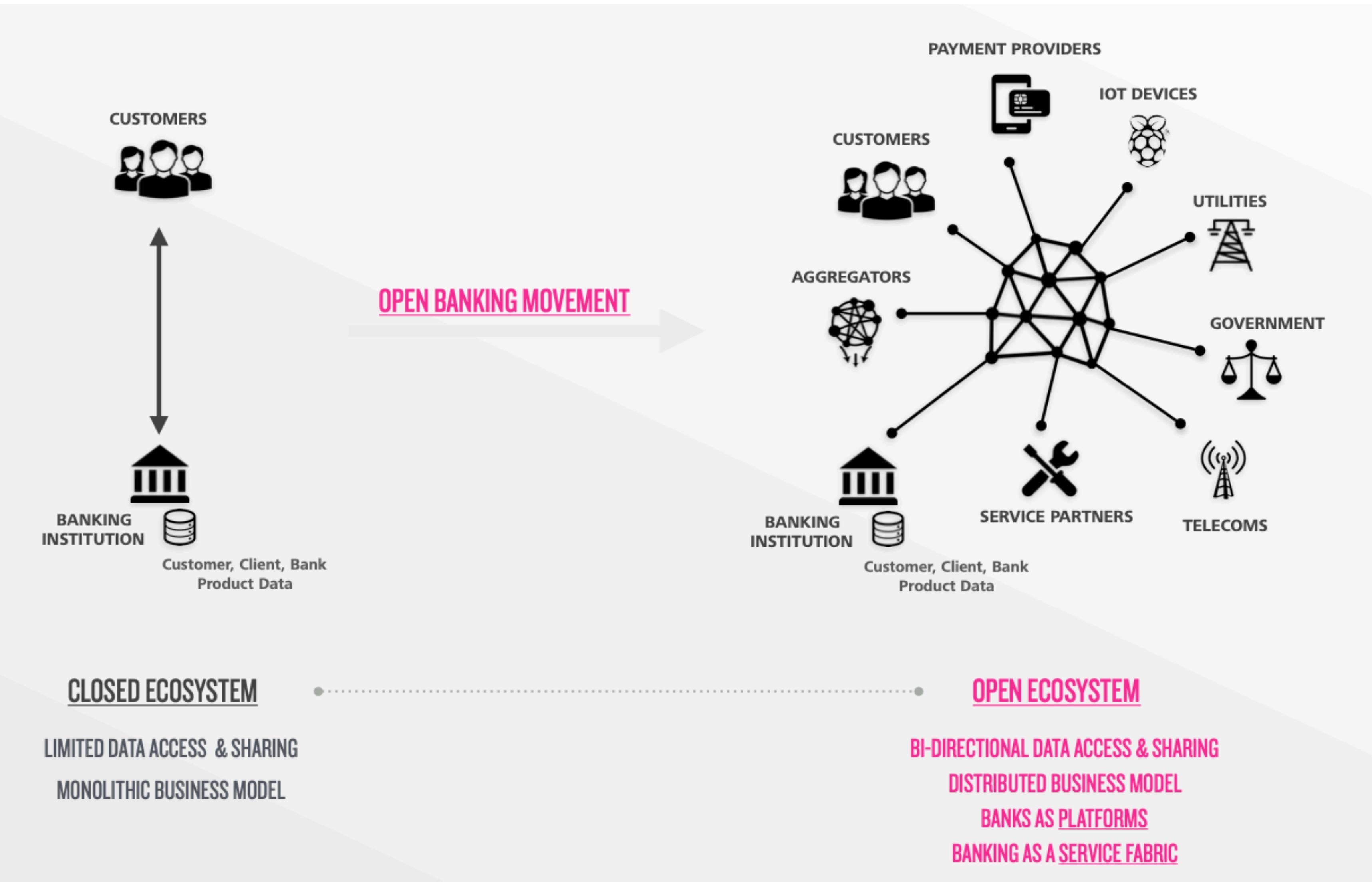
Rahul Dua, Payments Product Manager

# What is Open Banking?

Open Banking can be defined as a shift from Closed to ***Open Ecosystem*** & models.

The shift towards 'digital platforms' explains how Open Banking is transforming the business model of financial services.

Historically, Credit Card schema the the principal example of financial services using a platform business model.



# Forces Driving the Open Banking Revolution

## REGULATION

Payment Service Directive 2 (PSD2)

Competition & Markets Authority (CMA)

Pensions Dashboard (ABI)

## CUSTOMER RELATION

Heightened Expectations

Mobile Connectivity

Contextual Services

## COMPETITION

Emergence of Non-Traditional Players

Emergence of New Service Offerings

## CONNECTIVITY

Open API

Micro Services Architecture

Scalable Next-Gen Infrastructure

# Open Banking - New Entrants

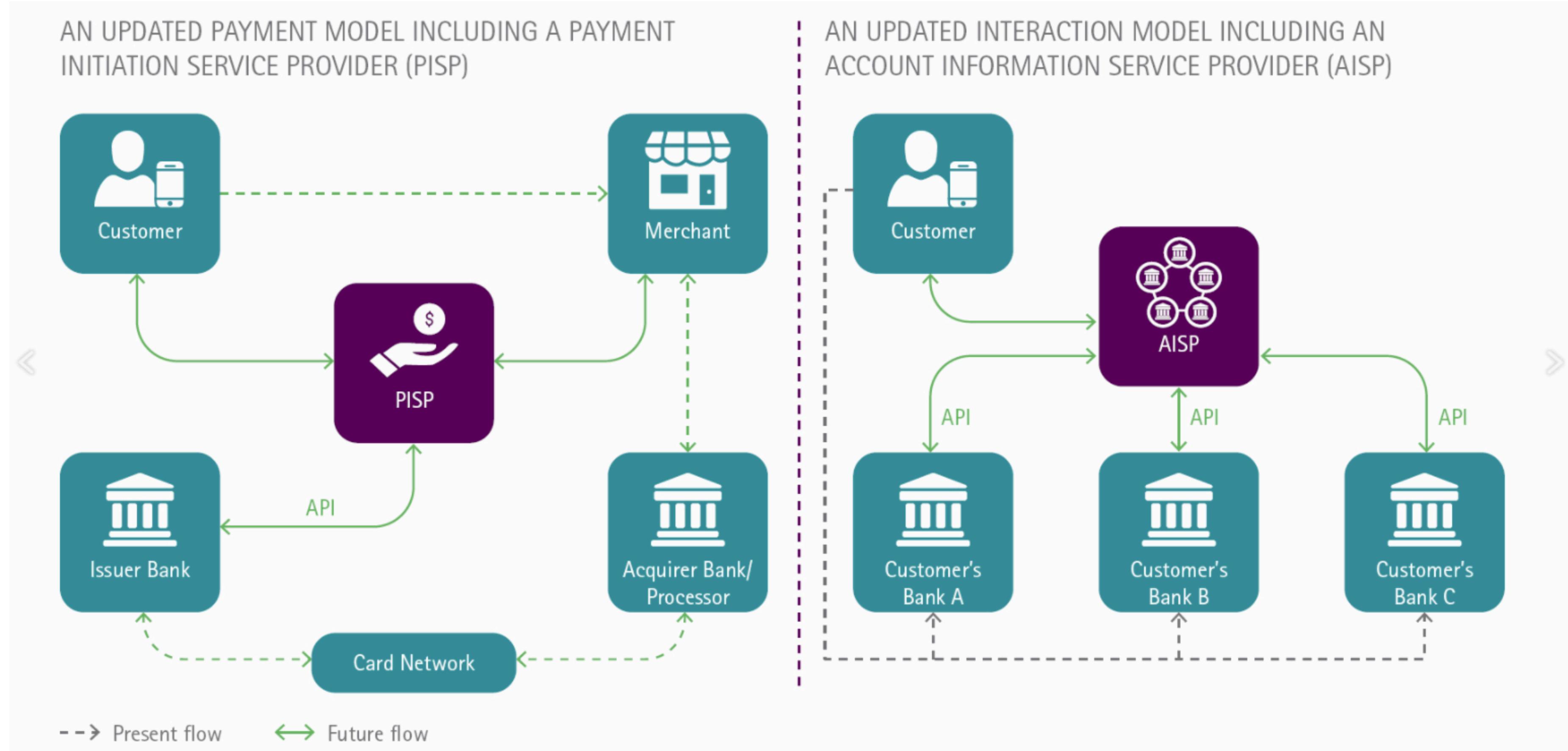
## THIRD PARTY PROVIDERS (TPPs)

### PAYMENT INFORMATION SERVICE PROVIDER(PISP)

Ex - PayPal, AliPay etc.

### ACCOUNT INFORMATION SERVICE PROVIDER (AISP)

Ex - Yodlee, MoneyBox, Spiir etc.



# Open Banking - Business Model for Incumbents

## ◆ Data Aggregation

- Allow consumers and businesses to get a 360-degree view and access to their cash position, receivables, income, and expenses.
- Incumbents can benefit from providing APIs for customer and account data, and they can create new solutions that leverage this data flow

## ◆ Payments

- Global movement towards real-time payments
- Open Banking payment APIs and ISO 20022 global payment standards will replace slower payment methods to real-time ones

## ◆ Value Added Services

- Open Banking APIs can facilitate Enterprise Resource Planning (ERP) integrations
- Incremental fee revenue from getting a larger share of the customer wallet for transaction services

# Open Banking - Business Model for New Entrants

## ◆ Account-related Services

- Account Aggregation and Payment Initiation are the most obvious and widely considered functions

## ◆ Personal Finance Management

- A popular use case demonstrated in the market, based on the account aggregation services

## ◆ Payment Initiation Services

- Account-to-account payments embrace different types of payments including peer-to-peer transactions and subscriptions

## ◆ Credit and Savings Services

- Credit-related functionalities like credit scoring, credit rating, loan comparison, third party loan providers platforms, and supporting functions

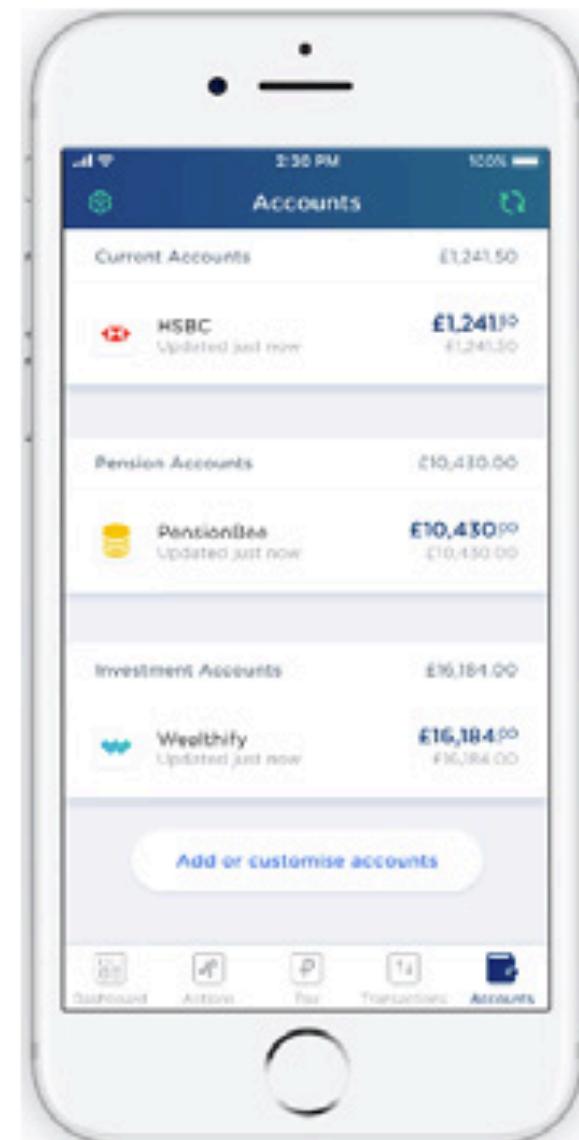
## ◆ Business Finance Management

- Since SMEs and businesses have more banking relations by nature, BFM (Business Finance Management) can be useful for them

## ◆ Building Banking Platforms

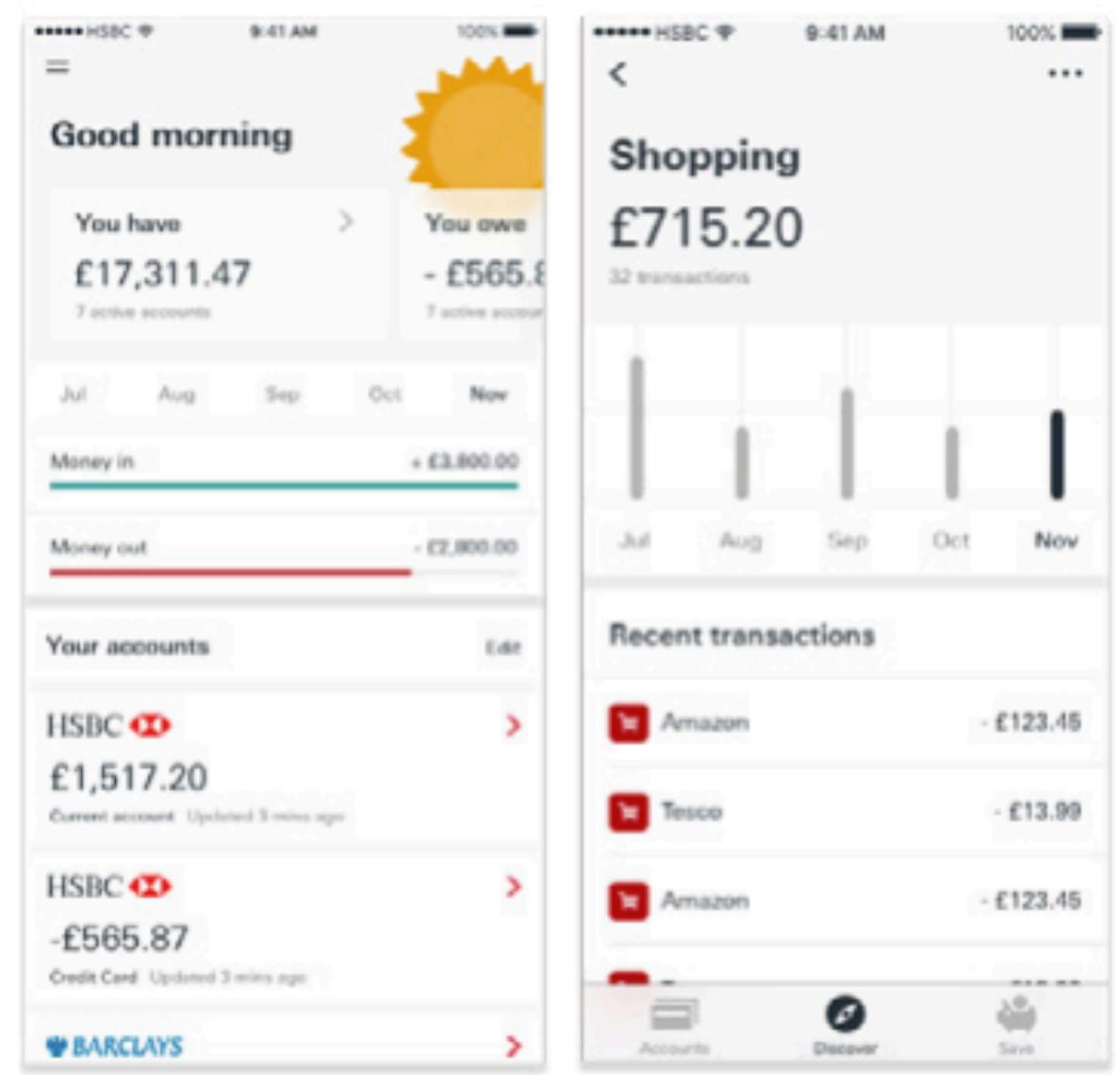
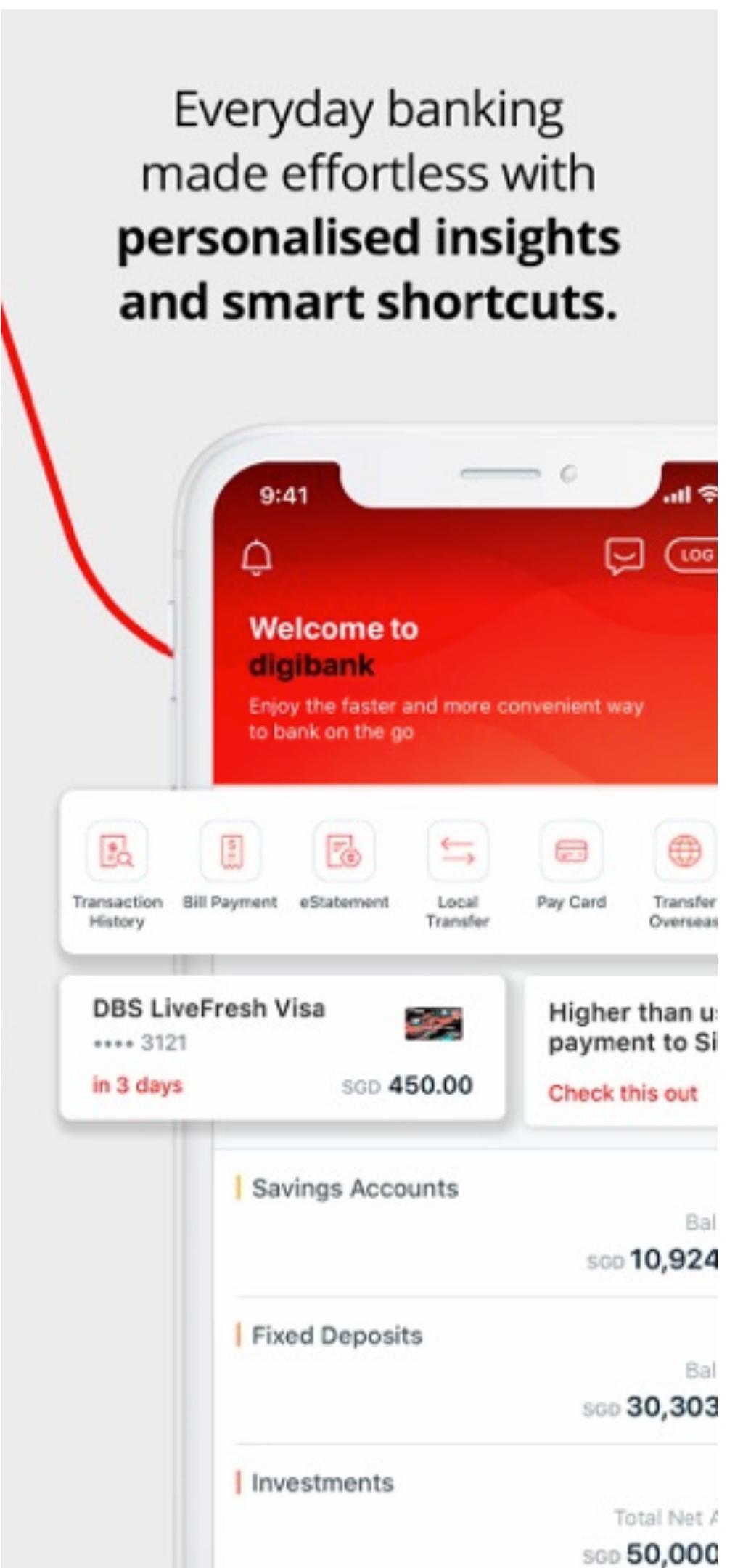
- Building banking platforms is one of the key capabilities of New Entrants

# Open Banking - Examples



Yolt is a Netherlands-based venture by ING Bank that is delivering a single aggregated view of accounts across different financial institutions in the UK, France and Italy. It provides intelligent analytics, budgeting and spend controls, savings goals, as well as the ability to transfer money between accounts and make person-to-person payments.

As of October 2018, Yolt had 500,000 registered users and so has already gained significant market penetration.



Traditional banks are also taking advantage of open banking capability with HSBC releasing its Connected Money<sup>1</sup> app to enable customers to see an aggregated view of their banking with spend analysis.

1 HSBC are now re-building this functionality into their core mobile banking app

# Risks associated with Open Banking

## Incumbents

### 1. Disintermediation, Technology & Partnerships

- Internal technology risks to sustain their involvement in ecosystems and external risks, such as the underperformance of third-parties' technologies

### 2. Economic, Legal & Security

- Legal risks include contractual issues with customers and third-parties and an increased number of suits against competitive practices.

## New Entrants

### 1. Costs of compliance

- Zero-return investments in the area of consent management, security (customer authentication), reporting, and dispute management

### 2. Reputational risk

- Difficulty to handle customer data and consents securely

### 3. Marginalization risk

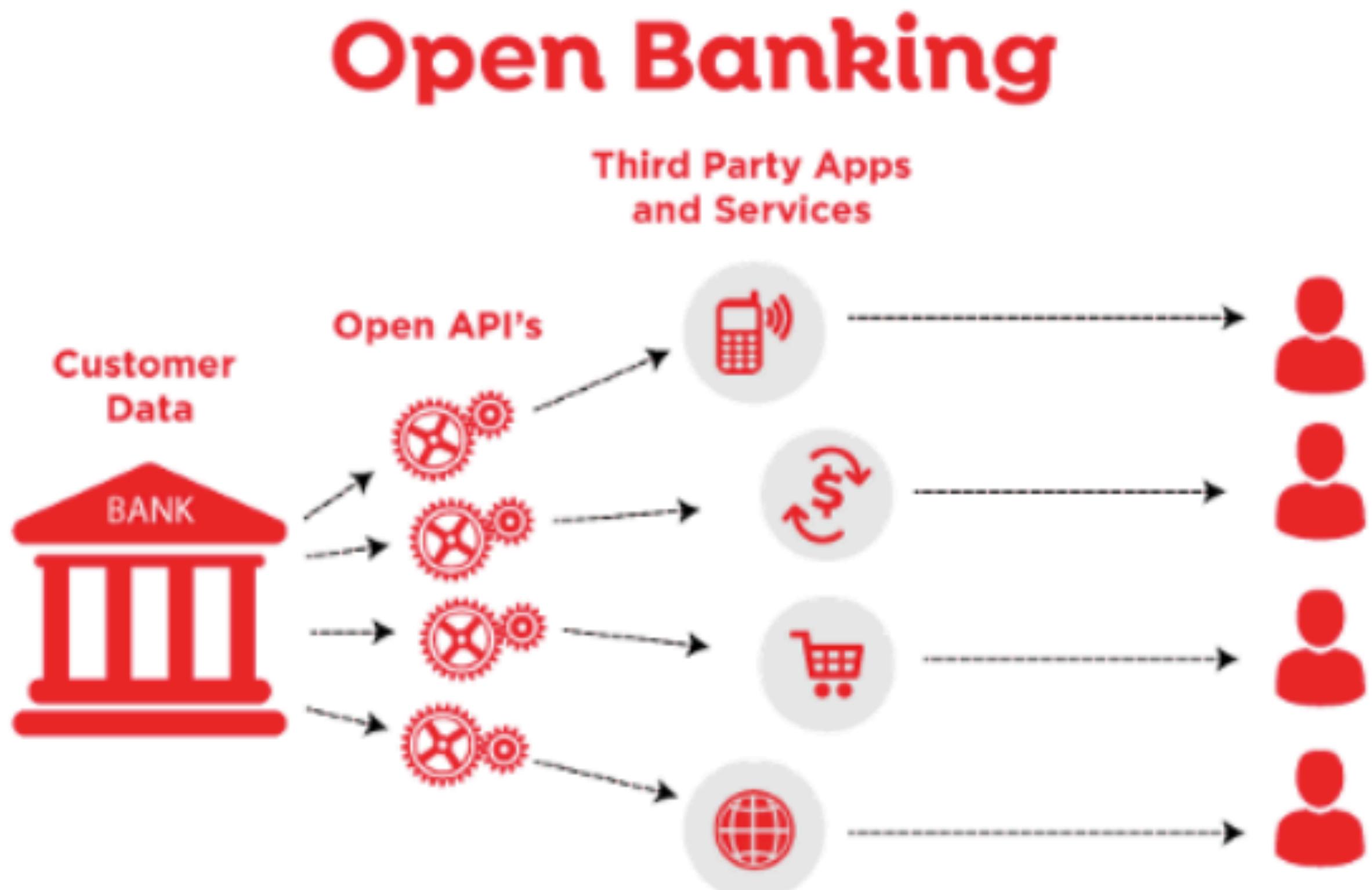
- Challenges to engage in a bank-fintech collaboration model

# Open Banking - APIs and Services

Application Programming Interface (API) is an interface through which a computer program interacts with another computer program

Ex - Bank exposes its API to the outside world with a function that accepts an account number as input and returns the balance as output

## Replacing Screen Scraping using APIs



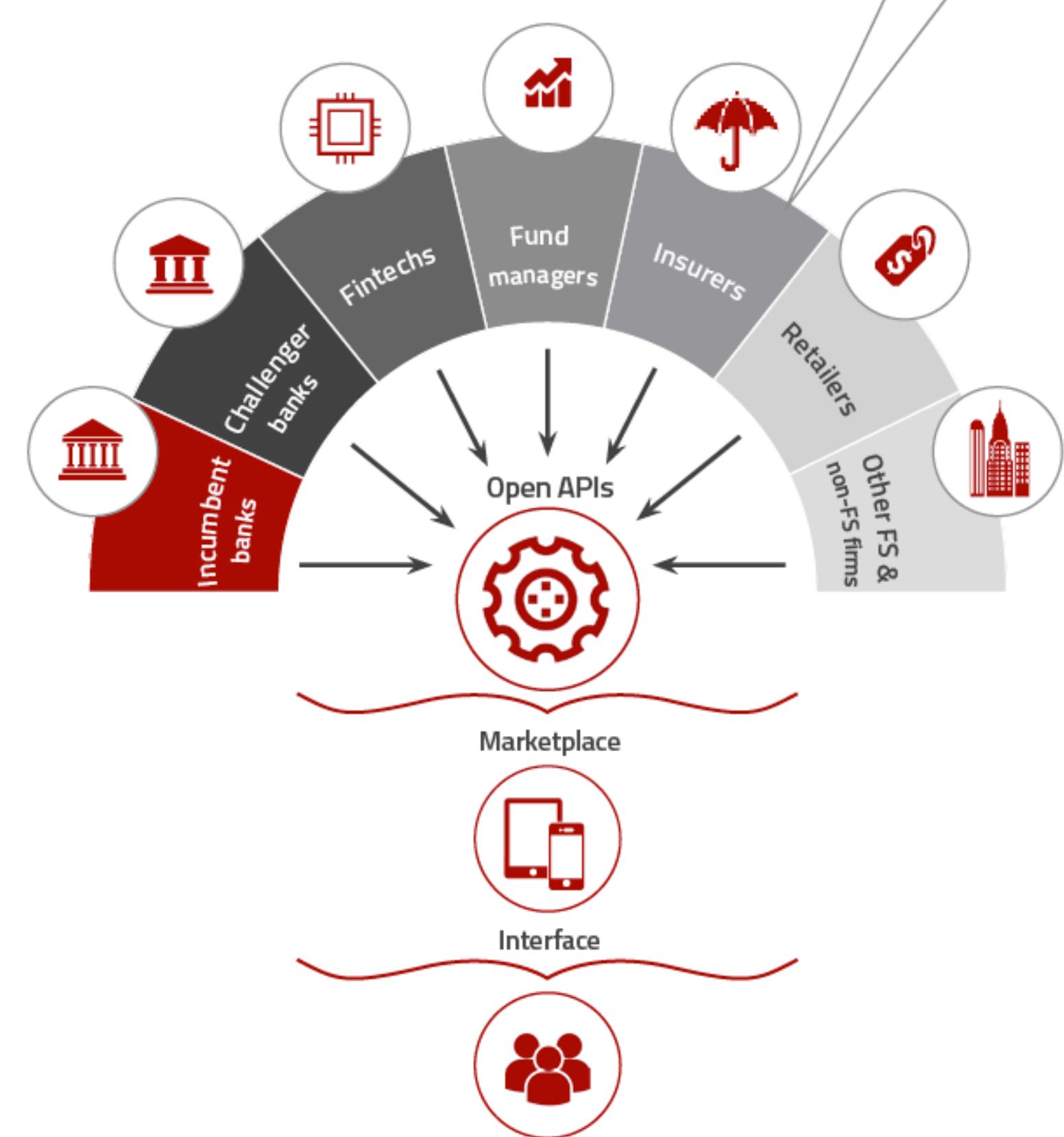
# Open Banking - Security and Identity Management

- ◆ Two key concepts involved in internet security:
  - Securing an encrypted connection
  - User authentication
- ◆ Transport Level Security (TLS) or Security Socket Layer (SSL) is used to establish a secure encrypted connection between the financial institution's server and the client's browser
- ◆ OAuth2 is a security standard that allows a user to give one application access to resources in another application
- ◆ There are four key players in the application of OAuth. In the context of Open Banking, these roles equate to the terms in brackets:
  - resource owner (client)
  - the client application (TPP)
  - the protected resource (bank)
  - the authorization server (authorization server)
- ◆ Facebook and Google are examples of organizations that utilize OAuth2 to sign users into third party web services

# Beyond Open Banking - Open Finance and Open Data Ecosystem



The future of marketplace banking



SOURCE: Deloitte © November 2017 The Financial Brand

# Open Banking - Way Forward

The diversity, experimentation and adaptation seen within the Asia-Pacific and globally, combined with the potential to bring about significant consumer benefits signifies that we are still in a very early phase for Open Banking.

- ◆ Coordination and leadership of regulators, central banks and government agencies across the region
- ◆ An inclusive consultation and implementation processes that goes beyond “big banks” to also involve smaller institutions, new entrants and Fintech's. Support initiatives like the technology sandbox initiatives.
- ◆ Development of APIs with consideration of what has been done in other jurisdictions (for example, Australia leveraged the UK standards)
- ◆ Development of rules and regulations that support APIs – recognizing that Open Banking is more than a technology solution, but also an ecosystem and infrastructure.
- ◆ Consideration of Faster Payment, Digital Identity and Consent Management initiative that will support Open Banking

THANK YOU & HAPPY LEARNING !!!