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PYMNTS



The Guide to Open Banking: What Enterprise Customers Need to Know Now, a PYMNTS and The Bank of London collaboration, examines the challenges corporate treasurers face in developing secure, scalable global payments strategies and explores the role of a modern clearing bank in supporting long-term growth.

The **Guide to Open Banking**

**What Enterprise Customers
Need to Know Now**

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The Guide to Open Banking: What Enterprise Customers Need to Know Now was produced in collaboration with The Bank of London, and PYMNTS is grateful for the company's support and insight. PYMNTS retains full editorial control over the following findings, methodology and data analysis.

INTRODUCTION

Until fairly recently, consumers' financial data has primarily been something to be hoarded and protected. Banks and businesses would gather this information, potentially use it to adjust their products and services, and then act to ensure that it did not see the light of day in a dreaded breach.

Not anymore. Rather than siloing and closing off this data, a new generation of solutions powered by connectivity are poised to define banking's next decades worldwide. After years and years of closed banking, technology is finally allowing things to open up.

Open banking frees data, with the consent of the consumer or business, to be shared and leveraged in advanced ways, offering the promise of flexibility, customization, improved transparency and heightened security. Entities utilizing open banking can access entire libraries of data rather than individual points, drawing connections and seeing patterns that would otherwise be impossible. The resulting insights and algorithms will likely power banking innovations for years to come.

Along with these opportunities are sure to come massive, wide-ranging changes that will touch all aspects of banking. Businesses — especially enterprises, which

by nature of their size can lack the agility of smaller upstarts — will have to adapt. What we now call open banking will soon simply be called banking, and these entities must position themselves for success in this environment. For example, entities like modern clearing banks may well have a special role to play, ensuring enterprise clients have access to open banking application programming interfaces (APIs) and offering support services as consumers and organizations begin to use these technologies to gain insights, complete tasks more quickly and offer more customized products.

Enterprise-sized businesses must understand what open banking is and what it is not to succeed. They need to identify the steps they must take to offer new products and services to their customers safely, and they will need to know what to expect when considering open banking norms in foreign markets.

The Guide to Open Banking: What Enterprise Customers Need to Know Now examines how open banking is poised to impact large enterprises and reveals the ways a modern clearing bank and other entities can help organizations get ready for this new era.

OPEN BANKING 101

WHAT IS OPEN BANKING?

Open banking describes technologies and standards that allow consumers to share their financial data and account information safely and securely through apps, websites and other means. For example, consumers can grant secure access to account information, such as banking data, to a regulated company. The company can then utilize that information, perhaps to power a budgeting feature that can automatically update itself as the banking account information changes.

Banks share this information securely via APIs, which give providers easy, established ways to communicate with each other and pass along the information customers have permitted them to share, such as bank balances or payment history. APIs already power much of the connective fabric of the internet and are widely used by and in conjunction with leading technology-oriented firms such as Facebook, Google Maps, Intuit and Uber. For example, companies might use an API from Google Maps to find the location of a rider or driver, or firms might use an API from a large bank to see account balances and offer a discount at optimal times.



¹ Shepherd, G. Open Banking explained. MoneySavingExpert. 2023. <https://www.moneysavingexpert.com/banking/open-banking/>. Accessed April 2023.

WHAT ENTERPRISE ORGANIZATIONS NEED TO KNOW ABOUT OPEN BANKING



Open banking is forcing banking and other industries to innovate quickly, as the ability to share data securely can drastically change the speed and accuracy of routine financial services. For example, firms can facilitate processes via an API, including preapprovals for mortgages or loans. Rather than a lengthy review process characterized by gathering pay stubs and analyzing individual assets, open banking APIs can collect all relevant information and, aided by algorithmic or human review, make a decision nearly instantly. Historical transaction data gathered via an API could similarly empower businesses to identify the products or services that best fit a new customer as if they had been a regular for years. These technologies enable enterprise businesses to provide consumers with better services, make decisions faster and operate more efficiently. By utilizing open banking technologies, enterprises can execute more functions with fewer employees and possibly even branch out into new business areas. Additionally, a modern clearing bank can help enterprises identify areas where they would benefit from using such technologies.

Networked accounts can give lenders and other businesses a more accurate picture of a consumer's financial situation and risk level to offer more profitable loan terms. Another common use of open banking is consumer education. An app or website that uses open banking geared toward consumers interested in homebuying, for example, could automatically calculate what customers can afford based on the information and funds in their accounts and educate them about their options. As the term "open" implies, the integrations are limitless.



FIVE ADVANTAGES OF ACTIVELY PREPARING FOR OPEN BANKING

1 An opportunity to create services tailored to the needs of the organization's customers

By integrating the freshest data, open banking allows firms to create highly personalized customer experiences. Six in 10 customers still use traditional banks as their primary financial services providers. Still, a new breed of providers, such as FinTechs, modern clearing banks and even nonbank alternatives like Amazon or Google, are attracting customers with access to more innovative, personalized services.

2 The ability to use customer transactional data the right way — to improve the experience

Open banking can offer a complete view into customers' financial lives — credit information, transactional data, savings and pension data — and firms can and should use that data to benefit themselves and their customers. For example, suppose a consumer has been making purchases consistent with recently having had their first child. It makes sense for a firm to offer the consumer financial planning services such as college savings accounts, estate planning and life insurance. The enterprise can target consumers likely interested in specific services, and the consumer can more easily access those services.

3 The capacity to build your own open banking infrastructure

Organizations must consider the technology necessary to support the data-sharing activities that power open banking. Not all legacy systems are up to the task. Systems in place now should be able to handle current technologies and, ideally, be upgradeable.

4 The ability to manage governance effectively

Consumers need to know they can trust the institutions they share their data with and who to call when things go wrong. For these reasons, all enterprises in the open banking ecosystem need to have clear and fast processes for resolving customer complaints — and this kind of optimization often takes time and effort. Early preparation can be the difference between an organization winning over or losing out on a stressed customer.

5 The opportunity to educate customers

Change can incite fear. Scams are rampant and many customers do not know much about open banking and its implications, making conversations around data sharing challenging. Explaining the benefits of these services and new amenities they can use will likely encourage them to try open banking, however. One important detail to bring up is the opt-in nature of open banking. In some regions, consumers must agree to all data sharing and they can revoke consent at any time and for any reason.²



² Wall, S. How do you prepare for Open Banking? Here are 6 steps to get you started. Experian. 2017. <https://www.experian.co.uk/blogs/latest-thinking/automated-credit-decisions/how-do-you-prepare-for-open-banking-6-steps/>. Accessed April 2023.

THE BENEFITS OF OPEN BANKING



HOW OPEN BANKING CAN BENEFIT ENTERPRISES

Businesses stand to gain quite a bit from the use of open banking. Some of the main advantages include the following:



1 LOWER FEES FOR BUSINESSES

Open banking enables businesses to pay less for transactions. For example, account-to-account payments can reduce transaction costs by eliminating card schemes. Card providers charge various fees for accepting card payments, which inflates transaction costs. Removing these fees removes an expense — and the savings can be massive for enterprises.

2 HIGHER CONVERSION RATES

An improved customer experience boosts conversion rates, and open banking enables benefits that clearly help. Increasing the speed of loan decisions, empowering budget applications and allowing for the creation of bespoke deals and promotions are all benefits, satisfying customers and increasing sales.

3

INSTANT SETTLEMENT

With the ability for different services to communicate with one another, open banking enables greater opportunities for third-party service providers to expand payment methods, including instant payments. This opportunity is especially helpful in facilitating the cross-border payments many enterprises deal with regularly.

4

EASIER PERSONALIZATION

Businesses learn more about their consumers through data, including details about their finances and habits. This information allows firms to offer customers more personalized services and tailor their experiences, enabling enterprises to connect with consumers to a similar degree as a local mom and pop shop.



HOW OPEN BANKING CAN BENEFIT CONSUMERS

As previously mentioned, banking improves financial services for consumers, not just firms. Even for business-to-business enterprises, these considerations are useful, as those client businesses may be working with consumers directly. Some of these advantages include the following:

1 IMPROVED CUSTOMER EXPERIENCE

Open banking has moved financial services from in-person transactions to digital ones, resulting in quicker and easier financial management. Open banking has made it easier for consumers to manage their accounts, view balances, check credit scores and perform other tasks. Open banking regulations have encouraged legacy banks to improve online services, resulting in an improved customer experience.



ENHANCED SECURITY

Open banking has increased transparency in the banking industry, since more firms are sharing data. Third-party payment service providers are also now required to meet high security standards to operate in the market.



REDUCED SERVICE COSTS

As competition increases, banks and other financial service providers will likely reduce service costs to become more appealing to consumers. If consumers do not like the service provider's pricing, they can more easily look for an alternative service with a price point they prefer — and their data will move with them.

4

OPEN DATA SHARING

Open banking enables the sharing of information that was previously only kept by banks or other individual entities. This data can now be transferred to licensed service providers, making banking operations quicker and more convenient because the data is free for partner organizations to access. Thanks to data being unfettered, consumers have easier access to a greater number of services. Financial services can meet more customers' needs by providing advice, loan information and managing bank transfers with increased transparency.

5

INNOVATIONS

Information sharing has encouraged companies to create more innovative solutions to consumers' banking needs. FinTech firms are developing new technologies and platforms, such as allowing consumers to convert currencies instantly or enabling instant verifications.

OPEN BANKING WORLDWIDE



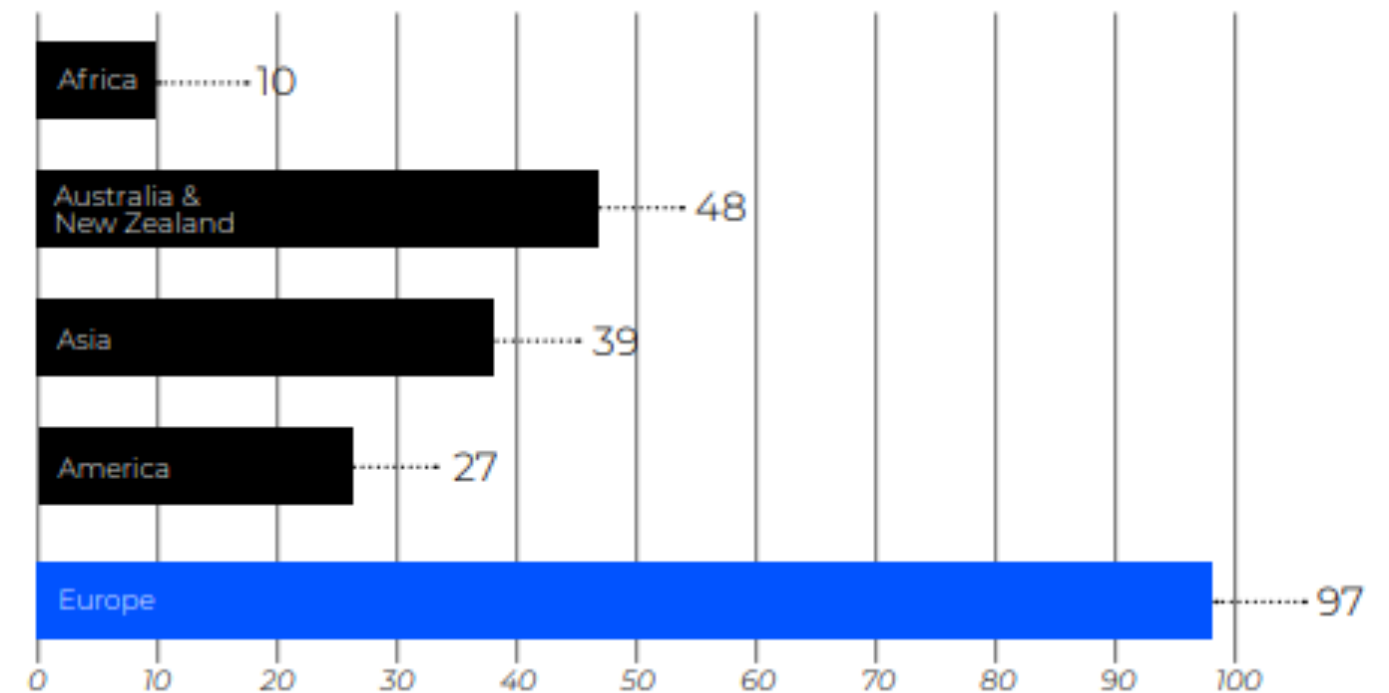
Open banking adoption has not happened simultaneously throughout the world. Some countries, especially in the European Union, have been much quicker to adopt open banking, while others — New Zealand, for example — are only starting to catch up in this area.

The opening up of banking by both regulators and market standards is advancing worldwide and already extends to more than 50 countries. Outside the EU, there are currently six more markets developing open banking APIs and more than 10 others where market standards for open banking are emerging.

The EU has been responsible for most current regulatory requirements, but United Kingdom and Australian regulations are the most developed in terms of content. The U.K. Open Banking Standard, which enables customers and enterprises to share their current account information securely with third-party providers, went live in 2018 and inspired regulators and others worldwide.³ In Australia and Mexico, the most widely used standard is now the

NextGenPSD2 from the Berlin Group, a payments interoperability standards initiative used by most banks in the 28 EU countries.⁴ The group based NextGenPSD2 on experience with the FinTS standard for account access and payment initiation services established 20 years ago and still used by most German banks.

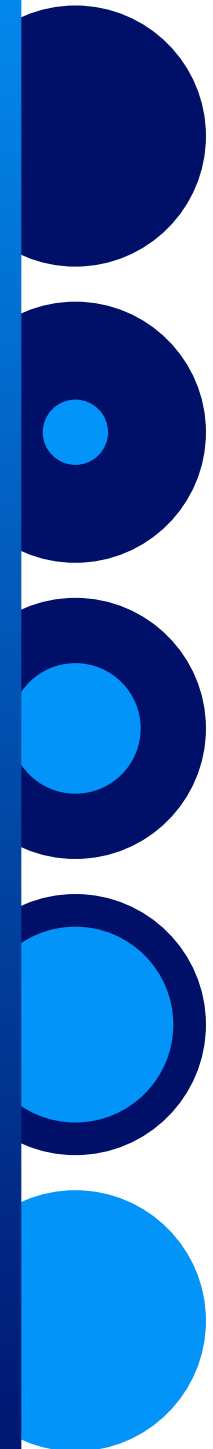
Open Banking Status ⁵



³ Author unknown. The Open Banking Standard. Open Banking Limited. 2022. <https://standards.openbanking.org.uk>. Accessed April 2023.

⁴ Author unknown. About. The Berlin Group. 2020. <https://www.berlin-group.org/>. Accessed April 2023.

⁵ Prahmann, A; Zangl, F; Dlugosch, O; Milcke, S. Open Banking APIs Worldwide. ndgit. 2020. <https://ndgit.com/en/open-banking-api-status-whitepaper/>. Accessed April 2023.



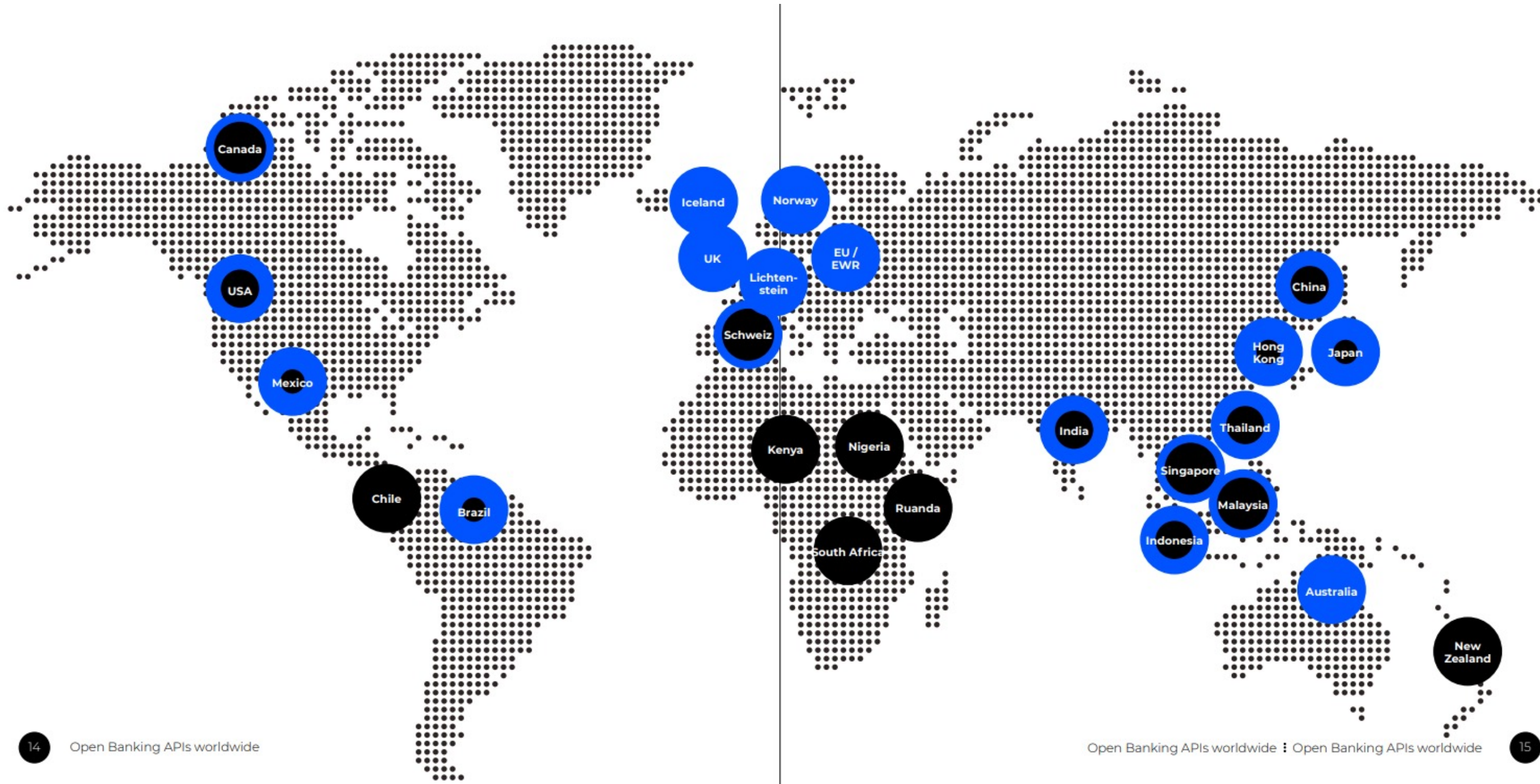
Pioneer

Follower

Converter

Riser

Beginner



THE FUTURE OF OPEN BANKING



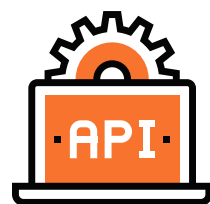
THE COMING CHALLENGES TO OPEN BANKING

Open banking has already delivered innovation, transparency and personalized products and services. As with most developing protocols, there are still hurdles to overcome. These include:



A lack of sufficient compliance standards and international cooperation:

While Europe and the U.K. have introduced clear open banking compliance standards, other countries, including the United States, have not regulated or standardized open banking.



Lack of API interoperability:

The APIs banks created are not perfect, and some have failed to work with third-party financial apps, undercutting the benefits of access to bank data.⁶



Lack of identity management framework:

There is no universal framework for know your consumer, identity management and identity verification. This shortfall can make it difficult for developers to track consumers and their account data and, in turn, present a fraud or financial crime risk. Standardizing these transactions would mean that financial institutions would all have similar APIs and processes, enabling FinTechs and banks to enforce stricter rules around transactions, making it easier for them to spot fraud.



Data security holes:

Data security remains a crucial challenge for open banking integration. Open banking can only win over consumers if they continue to trust the stewards of their data, and banks and FinTech developers must continue to ensure financial apps are secure while minimizing the risk of any vulnerabilities.⁷

⁶ Author unknown. The Future of Open Banking: API Standards, Interoperability, and Competition. Finance Magnates. 2023. <https://www.financemagnates.com/fintech/education-centre/the-future-of-open-banking-api-standards-interoperability-and-competition/>. Accessed April 2023.

⁷ Author unknown. What does the future of open banking hold? FinTech Global. 2022. <https://fintech.global/2022/10/27/what-does-the-future-of-open-banking-hold/>. Accessed April 2023.

THE TECHNOLOGIES ENABLING OPEN BANKING

For open banking to succeed, banks must embrace an end-to-end digital architecture.

This architecture requires modern banking platforms that are:

Based on open APIs.

Supplying these tools enable banks and businesses to collaborate with third-party providers, offering consumers myriad services.

Driven by artificial intelligence analytics.

These enable banks and FinTechs to help their enterprise clients use the data internally and gain high-quality insights for better service personalization, which is a top priority for 32% of consumers.

Elastically scalable.

Advanced technologies, such as cloud-based ones, can handle rapidly rising and highly variable use, which is particularly important at the scale of an enterprise.

Secure.

Banking platforms must have the highest standards of security, including in areas such as authentication, authorization and access control.⁸

⁸ Chuard, M. What's next for Open Banking? World Economic Forum. 2021. <https://www.weforum.org/agenda/2021/04/open-banking-future-of-finance/>. Accessed April 2023.

CHECKLIST

IS YOUR ORGANIZATION READY FOR OPEN BANKING?

To provide customers with the best open banking experience possible, enterprise organizations must evaluate their core competencies and ensure that the proper foundation is in place before implementing open banking.

Areas to assess include:

Data custodianship

- Ensure data is trustworthy and properly collected
- Guarantee the safe storage of customer data within the organization's infrastructure
- Establish proficiency in algorithms that manage data handling, data stores, data identification and categorization

Data management and analytics

- Implement a common framework for collecting, sorting, integrating and maintaining data
- Integrate data stores, data identification and categorization algorithms, machine learning capabilities and data audit mechanisms
- Create data catalogs across cross-industry data sets that bridge silos and make actionable insights possible

Readiness for agile partnerships

- Develop and implement an accelerated onboarding process that will allow partners to deliver value rapidly
- Measure the success of partnerships through key performance indicators such as revenue per partner and customer engagement per partner

Establishing heightened security

- Implement appropriate authentication and authorization protocols
- Secure and encrypt API traffic
- Employ behavioral biometrics and have general preparedness against new threat vectors
- Use mitigating bots to protect open APIs from data loss, fraud and distorted analytics⁹

The right partnerships

- Establish relationships with the right organizations to support the integration of open banking — developers who understand the APIs behind these tools, consultants who understand banking regulations or modern clearing banks that have the expertise to collaborate with anyone involved in this new frontier¹⁰

⁹ Mallick, A. Four actions for banks to prepare for the Open Banking wave. Accenture. 2021. <https://bankingblog.accenture.com/four-actions-for-banks-to-prepare-for-the-open-banking-wave>. Accessed April 2023.

¹⁰ Mallick, A. Open Banking—where partnerships are required. Accenture. 2020. <https://bankingblog.accenture.com/open-banking-where-partnerships-are-required>. Accessed April 2023.

CONCLUSION

For large-scale organizations that want to stay ahead of the curve, the time to start making changes to reap the benefits of open banking is right now. By allowing and enabling third-party access to financial data, enterprises leveraging open banking can conduct business more quickly and delight customers with up-to-date data, flexible applications and faster decisions. Enterprises can and should prepare for the bright future by planning new services for their customers, creating new procedures for themselves and partnering with a modern clearing bank or other entity that can help them make the leap and become an organization that is ready to reap all the benefits that open banking can offer.

PYMNTS

PYMNTS is where the best minds and the best content meet on the web to learn about “What’s Next” in payments and commerce. Our interactive platform is reinventing the way companies in payments share relevant information about the initiatives that make news and shape the future of this dynamic sector. Our data and analytics team includes economists, data scientists and industry analysts who work with companies to measure and quantify the innovations at the cutting edge of this new world.



The Bank of London is a leading-edge technology company and the world’s first purpose-built global clearing agency and transaction bank. We leverage our patented technology innovations and differentiated bank capabilities to lift economies and communities by powering the borderless economic infrastructure of the future.

Our clients are banks, clearing houses, digital and traditional asset firms, governments, financial services companies from local FinTechs to global institutions, payment networks and non-financial brands seeking to launch fully compliant financial products and services in-country and cross-border.

We’re headquartered in London, with offices in New York; Belfast; Charlotte, NC; and Luxembourg

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