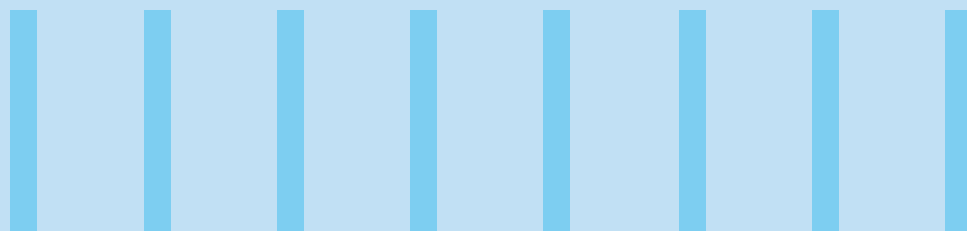




## REINVENTING CONSUMERISM WITH 'OPEN BANKING'



### Abstract

The concept of 'open banking', promising a host of benefits through the immense potential of an interconnected financial ecosystem, is all set to become a reality. This paper discusses the benefits for consumers and institutions, and elaborates how forward thinking banking organizations can reinvent themselves and reap the rewards.

*Picture this. You've booked tickets to a FIFA match, bought a flight ticket, and are looking for a hotel. The next thing you know, your inbox has offers from three different hotels offering unique FIFA-themed stay experiences, and your phone dings with a 20% discount offer on football T-shirts from the e-tailer you usually shop from. You really do need that T-shirt to cheer for your team!*

Sounds far-fetched? It may well be a reality soon with around 50 Indian banks recently deciding to ease customer-consented data sharing among various players through an account aggregation framework. Welcome to a world powered by open banking!







## Opening the doors to data sharing

Over the last decade, large traditional banks have been losing their monopoly over certain sectors, especially payments. A surge of FinTech players, neo banks, and payments banks have become preferred providers due to their agility and the sheer convenience that they provide. While banks have been adopting digital technologies to keep pace, they still jealously guard the data generated by their systems. This is an approach that is not going to serve them well in an age of hyper-personalization where customers are becoming increasingly receptive to offers specifically tailored to their needs.

According to the World Payments Report 2019, the number of digital transactions could potentially cross over 1000 billion by 2022. This is a huge amount of data that can be analyzed and converted into valuable insights, products, or services. Yet, it has traditionally been left unused

due to data protection regulations and safeguarding. However, a revolutionary concept called 'Open Banking' is all set to change this scenario. Through sharing and collaboration amongst multiple financial and non-financial services players, it will facilitate consumer-centricity through personalized offerings, and level the playing field for smaller and newer players in the banking industry.

Open banking revolves around the premise that customers own their banking and transaction data, and as such can choose to share it with whomsoever they wish, to get to better services and products. Empowered by their explicit permissions, banks can open secure data channels with third party providers (TPPs), FinTechs, other banks, and businesses through application programming interfaces (APIs). This can be a game changer for innovative FinTechs,

which will now have a wealth of data available for the creation of user-friendly app ecosystems. On the other hand, banks collaborating with FinTechs can enhance their service offerings through gaining smarter digital capabilities.

Open banking has been a highly deliberated model across the globe. The European region<sup>1</sup> and the UK<sup>2</sup> were early adopters of a regulation driven approach to open banking, followed by Australia<sup>3</sup>. Many other countries are evaluating this concept or bringing in certain elements of this model – for example, India with its Unified Payments Interface (UPI). Currently, while regulations are pushing banks to take the open banking approach, they shouldn't grudge the regulatory push, or even wait for it. Rather, embracing the change with open arms will give them an undeniable first mover advantage.

---

<sup>1</sup> Payment services directive 2 (2015)

<sup>2</sup> Competition and Market Authority (2016)

<sup>3</sup> Consumer data right (2017)

## A look under the hood

Banks have detailed data on billions of transactions taking place on a daily basis — be it purchases, loan payments, or bill

payments. With the customers' consent, all of their data relating to transactions, account types, customer details, or the

products or services purchased can be shared with other entities, to create value for the customer.

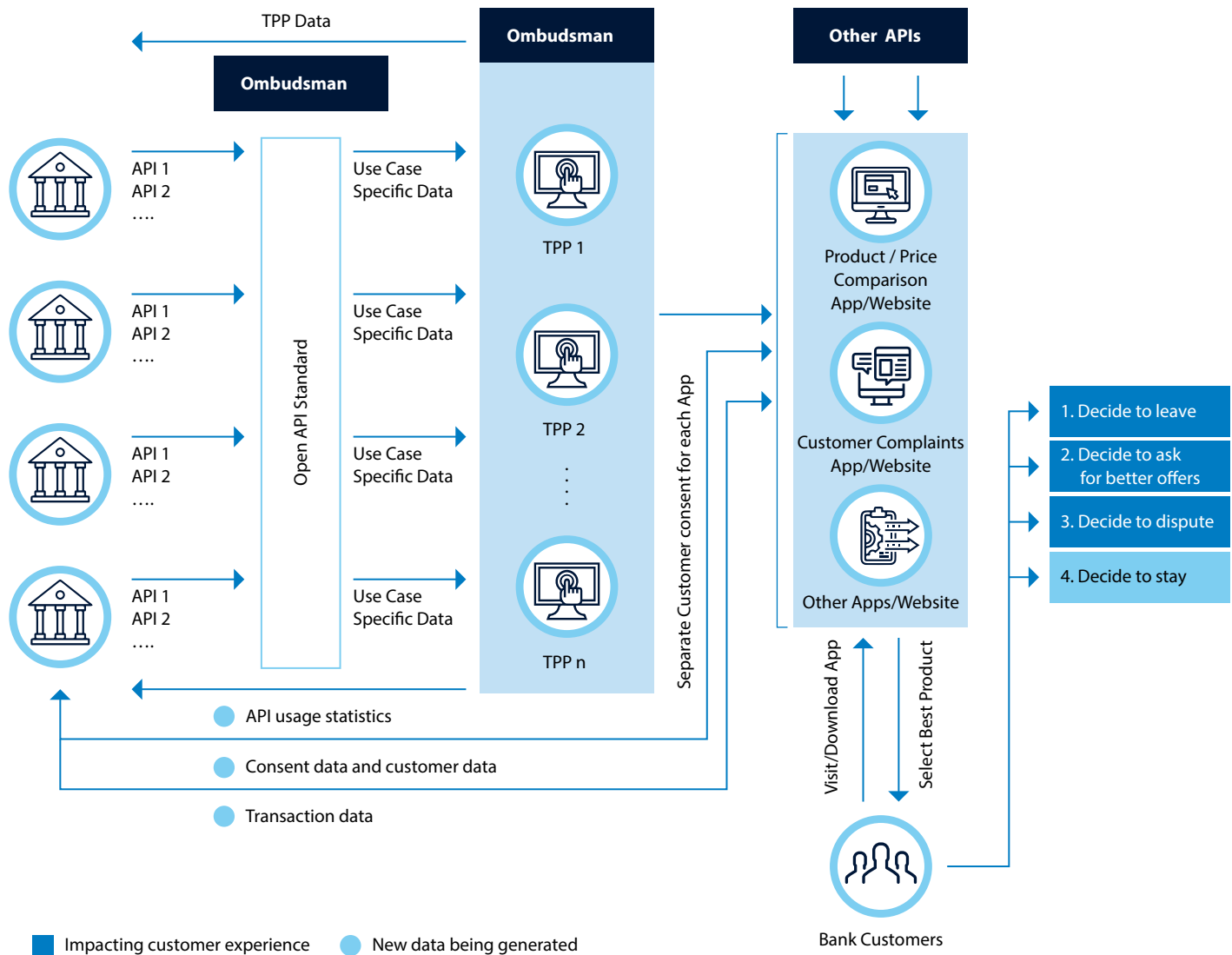


Fig: Open banking ecosystem: possible impact on customer behavior

Analyzing transactional data provides insights on the factors influencing consumer behavior, which can be used to incentivize behavior change. For example, if a customer regularly buys most groceries at a particular store, but a specific product at another store because of a price or quality difference, then this data can provide the insights required for increasing sales.

With banks mandated to share data if requested by a customer, customers benefit through cost and servicing advantages brought in by competition. For example, property loan customers asking for their data to be shared, give competing banks access to their credit histories, property value, and outstanding loan amounts. These banks using contextualized

and personalized analytics may then be able to offer a better deal. Customers can then decide to stay with their existing banks because they value their service, ask for a better offer, or decide to leave for monetary advantage.

While data sharing can be useful, it may also lead to disputes. For example, a

customer who has not given consent, or who revoked a previously given consent,

but still gets unsolicited offers can decide to lodge a complaint with the regulator.



## STANDARDS

- Transfer mechanism
- Technical specifications
- Data standards
- Security standards
- Advises on experience of customers and participants

Data standards would be set iteratively, and evolve as it gets implemented and practiced

Data standards should ensure interoperability

In each geo, a regulatory body would perform the function of Data Standard Authority



## ACCREDITATION

- A **graduated** (or tiered) **risk based accreditation** criteria is suggested (e.g.: basis risk associated with data sets)
- **Address book** with details of all accredited entities to be established
- Accreditation should not create barriers to entry to open banking
- Authorized ADIs are automatically accredited



## DISPUTE & COMPLIANCE

- Disputes may arise due to breach of **privacy, confidentiality, and competition**
- Internal and external dispute resolution mechanism (already existing) to be used
- A **single authority** to manage different type of disputes in the regime needs to be established

Fig: Three Components of an Open Banking Framework







## Capitalizing on new opportunities

Open banking offers unique opportunities for banks but require major changes in the way they function. These opportunities include:

### 1. Shift in customer experience:

Through leveraging digital technology and combining it with new insights around customer behavior, banks can take the banking experience to the next level. For example, lengthy customer acquisition timelines can be greatly shortened through easier information access, faster analysis and recommendations, easier cross-sell opportunities, and automated onboarding. Banks can spend the time gained on generating customer loyalty, as consumers will have higher negotiating power and will find it easier to switch. This shift from onboarding the customer to serving the customer creates top-notch servicing propositions.

### 2. Curated products and services:

Banks with advanced analytical capabilities will be able to use open data for customer behavior predictions, competition analytics, and customer sentiment analytics, and use the insights

gained to develop innovative service delivery models and cost-effective products.

### 3. Technology-driven business gains:

Smart technology investments to create new platforms, API marketplaces, and automated processes for complaint management and cost-benefit analysis can be used for higher customer engagement, better returns and efficient grievance management.

### 4. Operational excellence:

Designing ecosystem-based operating models catering to newer aspects such as TPP performance evaluations, regulatory reporting automation, and consent management, will lead to seamless transition and enhance servicing capabilities.

### 5. Monetization of APIs:

Banks can utilize APIs to generate revenue in many ways. For example, they could use APIs to provide validation services based on Know your Customer data to minimize documentary hassles for customers or provide credit score services basis available financial data.

However, these manifold opportunities thrown up by open banking are not

without their share of challenges for banks:

1. **Increased competition:** Sharing data comes with the inherent risk of clients moving out due to more lucrative offerings pitched by rivals. Revenue may also see a decline as market forces come into play leading to cost rationalization.
2. **Investments in technology:** Banks will need to invest time and money towards revamped digital capabilities for secure API integration, predictive analytics, data privacy, and consent management.
3. **Compliance mechanisms:** Monitoring and ensuring compliance with regulatory frameworks for data sharing may require special teams and the creation of seamless processes.
4. **Security measures:** As TPPs get involved in data handling, robust security measures will need to be in place to protect personal information from leakages, inappropriate use, and cyber-attacks.

Banks that are able to engage their customers in innovative ways, foresee novel ways of using their data, and embark on challenging digital journeys are likely to emerge ahead of the curve.

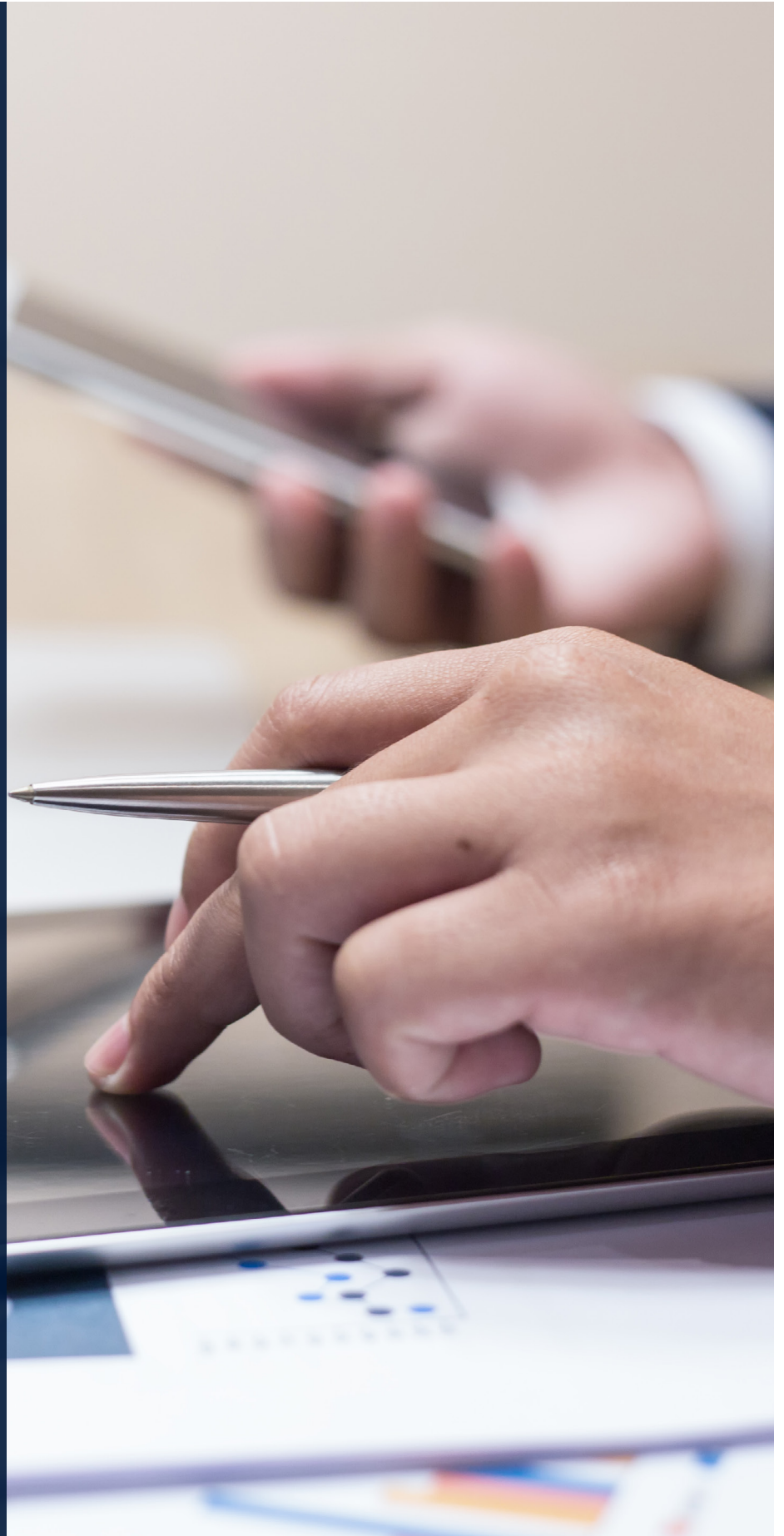
## The road ahead

Open banking will create immense value revolving around customer expectations, data security, and consent. Banking will have to bring in same seamless experience that consumers are accustomed to with digital giants and aggregators such as Amazon or Uber. As customer behavior brings various TPPs into play, banks will need to be cognizant of their data sharing requirements while designing interfaces.

Also, financial data being extremely sensitive, agile strategies will be needed around storage, transfer, and monitoring of data to keep consumer interests at the heart of operations. Even more importantly, gaining consumer trust will be essential towards acquiring and retaining consent, as perceived privacy and security vulnerabilities may be a deterrent in the early stages.

To drive capability development and market competitiveness, banks will need a strong platform that enables compliance, manages consent, and drives better outcomes for both the bank and the customer. They will also need rich analytics and AI/ML algorithms to glean insights from the new surge of data.

There are immense complexities and uncertainties involved in a transition of this scale, and organizations and regulators alike will have to research, adapt, and evolve. Many stakeholders may prefer to wait and watch before delving into the journey. Yet, early movers realizing the immense potential of an interconnected banking ecosystem, and scaling up through bringing in cost-effective, innovative solutions to millions of potential customers, will emerge stronger than ever before.



## About the Author



### **Sourav Ghosh Chowdhury**, *Industry Principal, Infosys BPM*

Sourav is a Principal with Infosys BPM's Digital Transformation Services, responsible for Financial Services & Insurance – Digital solution design and Service delivery.

An IBM-certified Design Thinking practitioner, he advises organizations on their operations strategy, assists them in improving profitability and efficiency of business processes, and helps in executing business transformation through calibration of operating model and technology.

Prior to Infosys, Sourav had been with IBM, Satyam, Tata Consultancy Services and Standard Chartered Bank across a variety of roles in India, US and UK.

## References

1. <https://www.accc.gov.au/focus-areas/consumer-data-right-cdr-0>
2. <https://www.businesswire.com/news/home/20190916005920/en/World-Payments-Report-2019-Non-Cash-Payments-Booming>
3. <https://www.bloombergquint.com/business/indian-banks-gear-up-to-launch-account-aggregators>

For more information, contact [infosysbpm@infosys.com](mailto:infosysbpm@infosys.com)



© 2020 Infosys Limited, Bengaluru, India. All Rights Reserved. Infosys believes the information in this document is accurate as of its publication date; such information is subject to change without notice. Infosys acknowledges the proprietary rights of other companies to the trademarks, product names and such other intellectual property rights mentioned in this document. Except as expressly permitted, neither this documentation nor any part of it may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, printing, photocopying, recording or otherwise, without the prior permission of Infosys Limited and/ or any named intellectual property rights holders under this document.