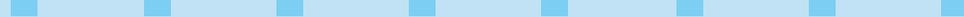




WHY OPEN BANKING IS DRIVING THE FUTURE OF FINANCIAL SERVICES



Abstract

Today's digital world lets consumers manage a variety of activities on a single device, from taxi booking to grocery shopping. But when it comes to finances, a similar experience – a portal that gives consumers a complete picture of their finances, effortlessly tracks spending, and empowers them to manage their wealth – remains elusive. However, open banking is poised to change that, paving the way for a more integrated and user-friendly financial experience. This paper explores how open banking is revolutionising financial services by empowering financial institutions to enhance customer engagement, streamline operations, and explore new revenue streams.

Introduction

The digital revolution has reshaped consumer expectations. Today, they demand a seamless and connected financial experience. Today, they crave a holistic view of their finances.

However, traditional banking models often hinder a financial institution's ability to deliver this experience. Legacy systems and siloed data restrict access and limit the innovative financial products they can

offer. Imagine, for example, empowering customers with a unified portal to manage all their accounts, or providing easy-to-compare loan rates to facilitate informed decisions.

Open banking offers a solution to this fragmented financial system. It's a mutually beneficial system that empowers consumers and benefits financial institutions. Consumers can consolidate

all their accounts for easier budgeting, tracking, and making seamless payments. Financial institutions can develop innovative products like personalised loan offers or automated investment services that help foster more meaningful relationships with consumers, all while remaining competitive in a rapidly evolving landscape.

Understanding Open Banking and its Offerings

Open banking is a financial system that allows third-party developers to access consumer banking data (of course, with consent!) through secure Application Programming Interfaces (APIs). This access shatters the walls between financial institutions, creating a connected ecosystem that reshapes banking in unimaginable ways.

How open banking empowers consumers:



Complete control

Consumers can stay in charge of their financial data, and decide who can access it and for what purpose. This transparency puts consumers in the driver's seat for smart financial choices.



Enhanced financial management

Open banking solutions allow consumers to consolidate all their financial accounts in one place. This holistic view enables better budgeting, expense tracking, and financial planning through access to a wider range of tools and services.



Greater choice

Open banking sparks a competition boom among fintech companies, unleashing a wave of innovative financial products. Consumers now benefit from a wider array of cutting-edge options to manage their finances.



Convenience and efficiency

Open banking services facilitate seamless money transfers, expedite loan approvals, and automate bill payments, thereby streamlining processes and saving both time and effort.

What financial institutions gain with open banking:



Improved customer engagement

Open banking empowers fintech companies to create innovative financial products tailored for customers – imagine budgeting apps that learn consumer spending habits or robo-advisors that personalise investment portfolios based on goals. Such products result in higher customer satisfaction and loyalty.



New revenue streams

Financial institutions can develop innovative fee-based services through [Open banking APIs](#), creating new revenue opportunities.



Enhanced efficiency

Open banking can automate manual processes and streamline back-office operations within banks, leading to cost savings and improved efficiency.



Staying competitive

By embracing open banking, traditional banks can stay competitive in a rapidly evolving financial landscape.

As Kristin Moyer, VP of Research at Gartner, aptly states, “Open banking increases digital revenue for banks that are willing to think differently about what it means to be a bank.”

Overall, open banking reduces entry barriers for new fintech players, making financial services more accessible to a wider audience. This translates to increased customer satisfaction as institutions strive to win business with [innovative solutions tailored to customers' needs](#).

Given open banking's potential to democratise finance, the question arises: why did it take so long to arrive?

Evolution of Open Banking



Open banking's journey began with baby steps in the 1980s. Early experiments with online banking and customer self-service interfaces laid the groundwork. Standards such as HBCI (Germany) were established, facilitating secure data sharing between banks and authorised third-party services. From the 2000s, for a decade, open banking got a regulatory push. The

Payment Services Directive (PSD1) in the EU aimed to increase competition in financial services. This provided a critical boost, as open banking became a way for innovative financial tools to flourish outside the traditional banking system. Since then, open banking practices and consumer data protection have been further standardised. The Payment

Services Directive 2 (PSD2) solidified these advancements, and today, we're witnessing a surge in new financial products and services powered by open banking data. Open banking solutions offer exciting possibilities, but navigating potential roadblocks will be crucial.

Potential Challenges and How to Overcome Them?

The open banking revolution is underway, but like any journey, there are challenges to surmount. Here are some:



Data security and privacy: Building trust is key for open banking to flourish. Data security and privacy are paramount concerns that need to be addressed. Robust regulations and strong cybersecurity measures are crucial to ensure consumer trust.

Consumer awareness: Many consumers may not be fully aware of open banking or its potential benefits. Educating users about the system and its advantages will be key to wider adoption.

Standardisation: While progress has been made, some inconsistencies may still exist across different regions regarding open banking regulations. Continued efforts for global standardisation will be important.

Algorithmic bias: Third-party providers may use algorithms that perpetuate biases based on factors like race, gender, or income. Ensuring fairness and transparency in these algorithms is crucial to avoid discrimination and maintain trust in the system.

Account aggregation security: Apps with which consumers share their financial data often consolidate financial information from various institutions. The security of these aggregation services is critical to ensure consumer data remains protected.

Implementing effective solutions can unlock the full potential of open banking. If you encounter obstacles in your open banking journey, consider these suggestions:

Implement regulations:

Enforcing strong regulations such as the GDPR (General Data Protection Regulation) and PSD2 (Payment Services Directive 2) ensures data protection and user control.

Deploy cybersecurity measures:

Financial institutions and third-party providers must adopt robust cybersecurity practices like encryption, multi-factor authentication, and regular security audits to protect consumer data.

Educate consumers:

Educating users about open banking benefits, how it works, what data is being shared, how to choose reputable providers, and the importance of monitoring account activity is crucial.

Insist on transparent algorithms:

Requiring third-party providers to disclose how their algorithms work and what data they use helps identify and address potential biases.

By working together to address these challenges, consumers, financial institutions, and regulators can ensure a secure and thriving open banking environment.

Conclusion

Open banking is gaining momentum, with the UK leading the charge. Since 2018, major banks have opened up to competition, fostering a vibrant ecosystem. Today, over 300 open banking companies are already active, with 450 more on the horizon. Singapore is another early adopter. Its open architecture sandbox platform, APIX, launched in 2018, boasts nearly

400 Fintech companies and 70 financial institutions as members. As adoption spreads globally, open banking has the potential to revolutionise financial services beyond traditional banking products. Imagine a future where seamless money transfers occur across borders instantly, personalised financial advice becomes readily available, and innovative investment opportunities

emerge. To unlock this potential, collaboration remains key. Financial institutions must continue embracing open banking, and regulatory frameworks must adapt to ensure security, privacy, and responsible innovation.

How can Infosys BPM help?

The future of finance is about evolution. Consumers increasingly expect a seamless and integrated financial experience. This presents a unique opportunity for traditional banks to adapt and thrive. By

reimagining how you deliver value to your customers, and focusing on their evolving needs, you can stay relevant in the changing landscape. Infosys's [BPM banking](#) services can be your partner in

this transformation, helping you optimise workflows, streamline operations, and ultimately, deliver an exceptional customer experience.

For more information, contact infosysbpm@infosys.com



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