

publicis  
sapient

OPEN BANKING IN FINANCIAL SERVICES

# Adoption and Future Prospects



# Introduction: What is Open Banking & History

*Open banking is the system of allowing access and control of consumer banking and financial accounts through third-party applications.*

For centuries, banking services have been provided by banking incumbents. Now, with open banking, the financial services ecosystem has expanded with more competitors entering the market, such as fintech companies and tech giants. Open banking intensified market competitiveness, incentivizing companies to innovate and provide better banking services/products (e.g., personalized offerings) to customers.

Open banking has become a trend in today's digital economy. Some countries, such as the U.K. and Australia, impose regulations on open banking. The nine biggest banks in the U.K. and the four largest banks in Australia are all compliant with the open banking regulation.

In some countries, open banking is driven by the market instead of by regulation. China is a pioneer in the open banking space given the country's high digital literacy, the consumers' general consent on data-sharing and the government support of tech and innovation. Alipay and WeBank are two prominent examples in open banking. While Asian and European countries are frontrunners in open banking, countries such as the U.S. and Canada are at an earlier stage. The U.S. and Canada are adopting

open banking in a private form by entering partnerships with fintech companies. In the U.S., banks such as Wells Fargo, Citibank, BBVA and Capital One have created developer labs to build APIs and to facilitate a safe means of data exchange.



Open banking has disrupted financial services in a transformative way and unlocked unprecedented opportunities for market players, as well as for customers. Customer behaviors and their banking expectations have been changed forever since the introduction of open banking. While it is still relatively early days in its global development, it has been estimated that by September 2023, 60% of the U.K. population will be using open banking.

# Open Banking Around the Globe

## THE UNITED STATES

Expected next steps strengthen data portability rights in the banking sector following various ongoing consultations and the recent establishment of the Office of Competition and Innovation.

## CANADA

Expects to have an open banking framework.

## BRAZIL

Expects to fully implement open finance (BCB) and open insurance (SUSEP).

## EUROPE

Expected next steps to fully implement open finance by 2024, following series of public consultations by the EU Commission, the EBA, and EIOPA. PS02 review is ongoing.

## MEXICO

Progresses with the sharing of customer data.

## COLOMBIA

To introduce a voluntary open banking framework.

## INDIA

Advancing with the account aggregation framework looking to link its instant payment system UPI with Singapore Paynow and expects global engagement following the recent launch of Indiastack Global.

## CHILE

Expects next steps an open finance framework after fintech law review.

## AUSTRALIA & NEW ZEALAND

CDR rules are expected to roll out to other sectors in Australia and be introduced in New Zealand.

## SOUTH AFRICA

Expects next steps following the recently introduced Protection of Personal Information Act and the ongoing public consultation on open finance.

## HONG KONG

Expects to complete Open APIs framework Phase III and IV.

## MALAYSIA

The Malaysia regulator established Open API Implementation standards for both banking and insurance industries, with representation from a few fintechs.

## THAILAND

Is laying out a digital economy framework.

## INDONESIA & THE PHILIPPINES

Rolling out open banking and open finance guidelines to completion.

## SAUDI ARABIA

Expects to implement an open banking framework.

## NIGERIA

Continues to lay down specific guidelines for the actual implementation of open finance in the country.

## ISRAEL

Is progressing with legislative reforms to promote open banking.

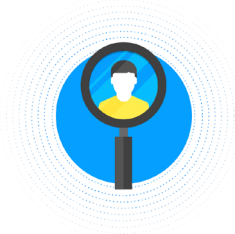


Source: platformable.com

# Open Banking Use Cases in Financial Services

Over the past five to ten years, there has been a structural & mindset shift within financial institutions to open their ecosystem to the outside world. The emergence of fintechs has disrupted the marketplace, as these companies have found ways to accelerate traditional banking processes that were seen as cumbersome and time-consuming.

**These use cases demonstrate where the adoption of open-banking standards has revolutionized the customer experience, reduced servicing time and delivered huge cost savings to banks:**



## 1. Identity Verification

Customer Identity Verification is the most crucial step in the banking process, and it is mandated by regulation to ensure that the identity of the customer is correctly established before any service is offered. Digital transformation has allowed for these checks to be performed online by connecting to central databases, like driving licenses, passport information or other forms of government-issued ID. Alternatively, there are private companies who are providing a central database to verify the identity through consent of the customers, such as verified.me. This information is then shared with other institutions like Costco, TELUS, etc., who want to verify the identity at the time of enrollment.



## 2. Bank Account Verification

In the world of financial services, account verification is required to establish the ownership of bank accounts. This is done for regulatory reasons (KYC and AML) to prevent fraud and mitigate risk.



## 3. Credit Check for Lending

This is one of the earliest use cases for open banking. For a lending company, assessing the creditworthiness of the borrower and ability to repay is the most critical information needed for application approval. Credit models with complex rules have been the traditional way of assessing creditworthiness, but this often does not consider the financial behavior or savings pattern of the applicant. By using credit modeling driven by open banking data, lenders could capture new customers that were previously locked out of the credit market. Those lenders that move quickly to embrace credit modeling driven by Open Banking data can reap fast and significant benefits.

# Open Banking Use Cases in Financial Services



## 4. Income Verification Check for Lending

Most mortgage, auto and personal loans lenders require borrowers to provide at least two years of employment and income history via tax documents, pay stubs and asset statements. The same goes for self-employed borrowers. Verifying income with transaction data permissioned by consumers allows lenders and fintech innovators to simplify the customer experience with a more flexible underwriting process. Open banking gives lenders way to verify income quickly and securely by verifying where income is deposited in bank accounts.



## 7. Banking as a Service (BaaS)

“Banking as a Service” is a model that allows non-banks or virtual banks to offer access to standard banking products or features by connecting to a bank system through APIs and webhooks. It makes it easier for a variety of companies to offer financing through licensed access rather than developing their own banking business with a complete physical infrastructure—or sending customers to a third-party financier. For example, Stripe is enabling its customers to connect with banking services like payments, cash management, virtual cards, etc.



## 5. Wealth Management

Wealth management with open banking capabilities makes serving customers more efficient. Customer permission to retrieve data from external accounts and conducting a digital KYC will smooth onboarding for both new and existing customers looking to take advantage of the bank’s financial planning services.



## 8. Buy Now Pay Later (BNPL)

Fintechs use banking systems to verify consumers’ identity, retrieve financial information, verify accounts, conduct KYC checks and make lending decisions. Consent management allows consumers to grant access to data for loan applications and credit approvals, which improves conversion rates.



## 6. Personal Financial Management

**A. Account Balance aggregation** Open banking offers secure APIs for accessing financial account data and benefits all parties: banks, account owners and fintechs. With open banking, banks have greater control and visibility into third parties that are accessing their clients’ financial data and the purpose for which the data is being used.

**B. Subscription Management** This solution allows banks to improve long-term engagement, customer satisfaction and drive loyalty with their customer base. Unfortunately, one in three customers pays for subscriptions they no longer use. Subscription management takes the hassle out of managing subscriptions and improves the customer’s financial well-being. When a subscription service uses an open banking API to manage payments, consumers may cancel recurring payments at any time and ask their bank to cancel access to their data. This allows subscription services to develop new, customizable subscription models that may permit consumers to pause memberships or select subscription periods of various lengths without fear of unwanted recurring charges.



## 9. Business Lending: Instant Invoice Financing

Credit bureau service companies are partnering with fintech lenders to leverage open banking and give instant invoice financing to the small and medium business enterprise. Customers will be able to connect their business bank accounts, allowing an instant, soft credit assessment via open banking. This approach gives a fuller, more accurate picture of a business’s finances than traditional types of credit scoring and reduces fraudulent applications by establishing a historical relationship with the invoice subject.

# Empowering Banks to Foster Collaboration and Innovation

The concept of open banking was initially envisioned with the idea of exchanging only data via APIs through connectivity. However, we are seeing that the concept is being extended to opening bank processes and other services. Embedded finance and Banking as a Service (BaaS) are the logical extensions of the technological advancement brought about by opening banking.

Embedded finance and BaaS are simply new, innovative ways of utilizing APIs. They enable customer and agent interaction with the financial application on the front end to communicate the intended messages with the banking infrastructure. The API is the reason embedded solutions from non-bank providers don't need an independent banking system. For example, companies like Stripe are partnering with banks like Wells Fargo and Goldman Sachs to embed banking services to provide payments (ACH, Fed, RTP, etc.), liquidity management, virtual accounts and bill payments.

Embedded finance is more defined by the front-end access to financial services, whereas BaaS is more defined by its back-end banking functionality. In other words, the former centers on integrated access to solutions; the latter centers on the technological foundation that digital banks and non-banks rely on to deliver financial services.



*Embedded finance and BaaS are simply new, innovative ways of utilizing APIs. They enable customer and agent interaction with the financial application on the front end to communicate the intended messages with the banking infrastructure.*

# How Publicis Sapien Can Help

At Publicis Sapien, we provide an array of services ranging from data strategy to implementation to prepare banks for the arrival of the open banking regulation and to help them get through the implementation phase to be compliance ready.

We offer services from various capabilities, including engineering, product, data analytics and agile program management. We can partner with financial institutions on building API as a Service following the open banking region-specific specifications.

We have partnerships with fraud vendors on the market (e.g., Feedzai) and can partner with banks and vendors to define fraud use cases specific to the financial institution and perform system integration and end-to-end automatic testing.

## Our proven experience: A client success story

We partnered with a large U.K. bank to deliver all scopes for the initial go-live and delivered the first open banking platform in the world.

- Build API as a Service following the open banking specifications
- Integrate a fraud platform with the bank's internal systems
- Implement an enterprise data platform for customer, account and product data
- Construct a third-party provider solution that allows the third party to test and develop solutions

We can build a scalable enterprise data platform for customer, account and product data and implement add-on analytics to provide customer data insights.



## Conclusion

Open banking has created room and opportunities for new entrants. To incumbent banks, open banking can be perceived as a threat or an opportunity. The ones who act quickly and strategically can gain a competitive advantage. There are numerous use cases where an incumbent bank can capitalize on open banking. For example, banks can gain deeper insights into customer's financial activities and gain better insight into the customer demographic. In addition, banks can partner with a broader selection of fintech players to strengthen existing service offerings or launch new products to meet customer needs.

In conclusion, open banking has made the banking industry more dynamic and innovative and has provided great benefits to customers. Open banking as a regulation is continuously evolving. In the EU, new regulations are on the horizon. We look forward to working with banking clients to go through this transformation.

## About the authors



**Pankaj Chhabra**  
Senior Director Product Management  
[email](#)



**Yun Zheng**  
Product Manager  
[email](#)

publicis  
sapient

Publicis Sapient is a digital transformation company. We partner with global organizations to help them create and sustain a competitive advantage in a world that is increasingly digital.

We operate through our expert SPEED capabilities: Strategy and Consulting, Product, Experience, Engineering and Data, which, combined with our culture of curiosity and deep industry knowledge, enables us to deliver meaningful impact to our clients' businesses through reimagining the products and experiences their customers truly value.

Our agile, data-driven approach equips our clients' businesses for change, making digital the core of how they think and what they do. Publicis Sapient is the digital business transformation hub of Publicis Groupe, with 20,000 people and over 50 offices worldwide.

For more information visit [www.publicissapient.com/fs](http://www.publicissapient.com/fs) © 2023 Publicis Sapient Corporation.