Commercialising Open Finance

The state of play, the direction of travel, and
best practices from around the world

2024 report, June 2024

Foreword

tink A Visa Solution

Claudio di Nella, SVP,
Visa Consulting & Analytics

Back in 2022, our teammates at Tink published a report*, '*From open banking to open data economies*'.

Within it, open banking was positioned as a means to an end. It was talked of as an enabler of open finance and, ultimately, of open data economies. The report also provided a status update from around the world.

Today, the vision remains the same, but the circumstances are already very different.

Huge momentum has gathered. The regulatory backdrop has evolved. We also see many examples of how open banking, working invisibly in the background, brings newfound levels of ease, speed and convenience to consumers and businesses alike.

This is just the start. Open banking and open data economies have become a prerequisite for just about every new consumer-facing innovation I ever hear about.

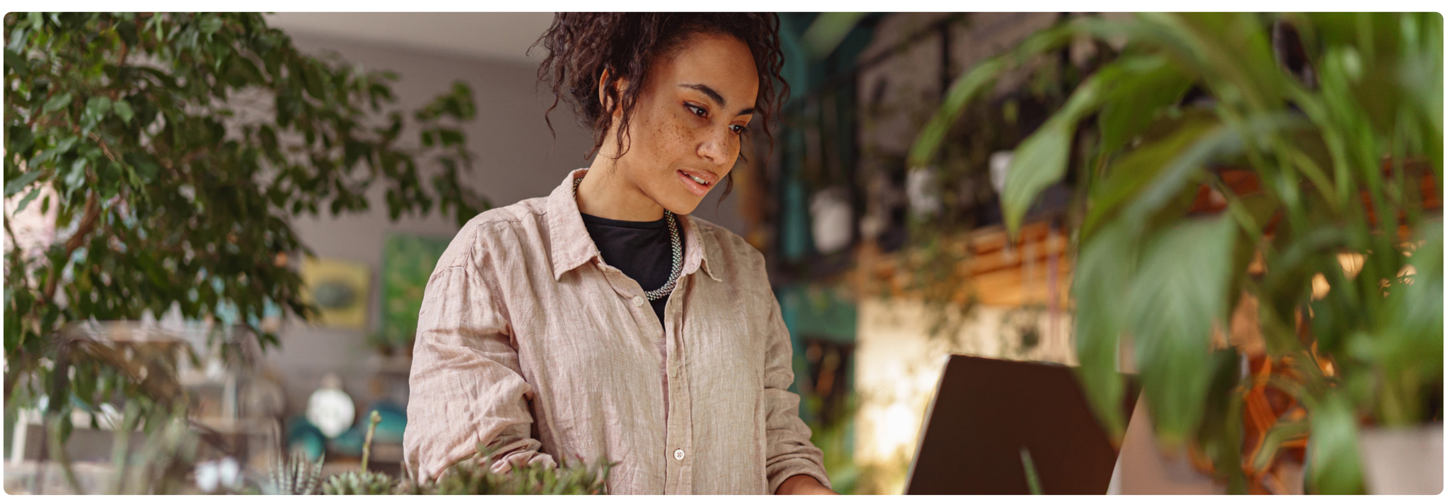
In this new report, Visa Consulting & Analytics (VCA) has partnered with Tink to provide an update.

In section one of this report, we give the background to open banking, with a focus on the use cases that have already gained traction and the value that's already being created.

In section two, we look at the emerging developments, including the prospect of open data economies, the way open banking enables banking-as-a-service and embedded finance, and how VCA can help.

The strongest, clearest message we want to convey is that the future of financial services is predicated on open banking. We therefore believe that more banks should be actively involved in its evolution, and all banks should be equipped to benefit from its rapidly increasing prevalence.

We hope the report sets out a strong rationale to do so. And we look forward to discussing the route to monetisation with more of our clients.



* May 2022. Tink Report: From Open Banking to Open Data Economies

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The state of play around the world

What is open banking?

At VCA, we define open banking as:

> **The exchange of data and services between financial institutions and third-party providers to deliver enhanced capabilities and experiences to the market.**

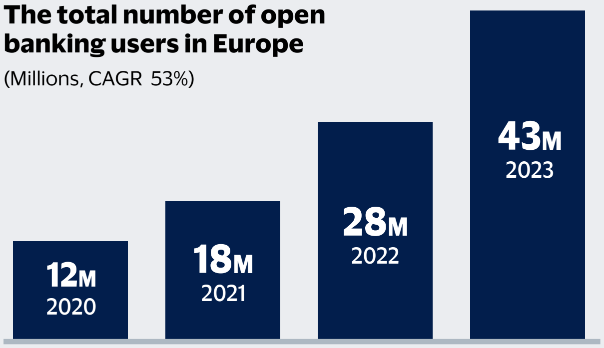
We also have a fundamental belief that individuals and businesses should have the right to access and retrieve any data that is held about them, in real-time and free of charge, either manually, automatically, or via an authorised third-party provider (TPP). Open Banking is one example of this belief in action.

How open banking is changing the way we engage with finance

43M
people reached[2]

At the last count, open banking in Europe had reached 43 million people[1] and achieved an annual compound growth rate of 53% (with the growth on the Tink platform exceeding 210%).[2]

The total number of open banking users in Europe
(Millions, CAGR 53%)



There is also an observable incremental growth in the wider open banking ecosystem. By the end of 2023, the number of approved third party providers (TPPs) across Europe had reached 572, up from 204 towards the end of 2019. Moreover, the frequency of API calls has drastically increased. In 2019, the total number of API calls for the year was approximately 1.3 billion. Fast forward to 2024, and there is an average of more than billion calls per month.[3]

Numerous use cases are already achieving significant scale, delivering substantial benefits to both providers and users alike. Several examples have been compiled and are presented in the following three pages.

(1) Juniper Research, Open Banking, Opportunities, Competitor Leaderboard & Market Forecasts 2023-2027, February 2023: https://www.juniperresearch.com/researchstore/fintech-payments/open-banking-market-research-report (2) Tink analysis, November 2023 (3) Konsentus, Q4 2023 Konsentus Third Party Provider Open Banking Tracker, January 2024: https://www.konsentus.com/tpp-trackers/q4-2023/

Tangible examples of how open banking is creating value

Our teammates at Tink provide a few indicative, examples of how their technology is enabling new services and creating new value.

Customer engagement

Delivering actionable data and insights

An Post

Challenge

An Post, Ireland's state-owned postal service, is passionate about fostering improved saving habits. It wanted to help put more financial power and control into the hands of consumers, by making it possible for them to better understand their spending behaviour, manage their savings, and set budgets to stay on track with their financial goals.

Solution

Powered by open banking, An Post's digital banking app allows users to securely link all their accounts and credit cards into one place. The benefits go beyond An Post customers, as the Money Manager smart budgeting tool is available for free, to everyone in Ireland, even those banking with other providers.

Result

An Post gives users a deeper understanding of their financial behaviour, a better digital banking experience to manage everyday banking needs, and the ability to build better financial habits. With a digital experience that is completely personalised and facilitates budgeting and savings tools, it helps users to stay on top of their spending and reach their goals, both in the short term and long term, to help stay one step ahead of their finances.

Affordability assessments

Enabling faster, safer applications and approvals

GF Money

Challenge

Relying on credit bureaus for risk assessments or affordability checks takes time, comes at a cost, and provides a limited (and sometimes outdated) picture of creditworthiness. Nordic consumer finance company GF Money was looking for a smoother way to assess applicants' incom and creditworthiness.

Solution

Enabled by open banking, loan applicants can easily connect their bank account to provide an quickly and thorough assessment of their current level of income – in just a few taps of a screen.

Result

GF Money can now make underwriting decisions in less than ten minutes, when it used to take them on average two hours.

Goodlord

Challenge

In the UK's lettings market, it has traditionally been necessary for prospective tenants to provide evidence of their salary and their spending, often by providing verified copies of bank statements.

Solution

Powered by open banking, the RentTech platform Goodlord can quickly verify a potential renter's income with secure, up-to-date data – directly from their bank account.

Result

A better, faster experience for renters and landlords – which empowers landlords and agents to verify income quickly, safely and in a completely digital way.

Embedded payments

Improved user experience with a simpler payment solution

Kivra

Challenge

Kivra is Sweden's digital mailbox. It settles millions of invoices monthly, making payments a key part of its offering. Kivra wanted to streamline operations and UX without compromising on cost or accessibility – users should be able to pay directly from their account, without needing to leave the Kivra app or incur extra fees.

Solution

Powered by open banking, and building on PSD2, Kivra was able to bring direct bank payments into existing digital journeys. In just three months, it launched a new payment flow in-app, letting users settle invoices with just a few clicks. Now, users pay directly to the merchant or service provider, without Kivra needing to touch the money in between.

Result

The new solution helped Kivra significantly reduce its compliance requirements, since the payments are initiated using Tink's payment initiation service provider (PISP) license, meaning less hassle for both Kivra and its users, with more invoices getting paid on time. Within a few months payment volumes were up and user drop-off down.

Enabling an easier, more convenient customer journey

Wealthify

Challenge

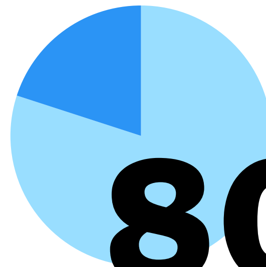
When setting up an investment account, people had to leave Wealthify's app or website and make a manual bank transfer – resulting in increased drop-offs and irritating errors.

Solution

Powered by open banking, Wealthify was able to embed a simple and seamless payment experience into its onboarding flow – enabling customers to top-up and start investing in a few clicks.

Result

Within the first few months, over 20K top-ups had been made, with an end-to-end success rate of more than 80%.



80%

end-to-end success rate within the first few months of Wealthify being powered by open banking.

02

The direction of travel

Why the future of financial services is predicated on open banking

An interesting aspect of working in today's financial services ecosystem is the extent of innovation.

Innovative strategies are consistently being developed by ambitious fintechs or visionary banks with the objective of refining and improving customer experiences. It quickly becomes evident that these innovations share a common foundation - they are largely based on open banking, open finance, and open data economies.

Consider embedded finance or banking-as-a-service (BaaS). To deliver enhanced capabilities and experiences, they rely on the exchange of data and services between financial institutions and TPPs.

To deliver future financial services, it is imperative to initially focus on establishing the foundations for open banking - and, beyond open banking such as open finance and data economies.

The route to commercialisation

There is no exact formula to monetisation.

In and of itself, open banking can seldom be thought of as a discrete revenue opportunity or a standalone future stream. Rather, it is an enabler of a new way of doing business – by delivering new value in new ways to new consumers, often in collaboration with new partners. That could be through:

New sales and service models
Enabling banks to not only sell their own products, but also to sell through others and sell other's products.

New value propositions
Enabling banks to bundle others' products with their own, embed their products into others', and re-bundle their products in new ways.

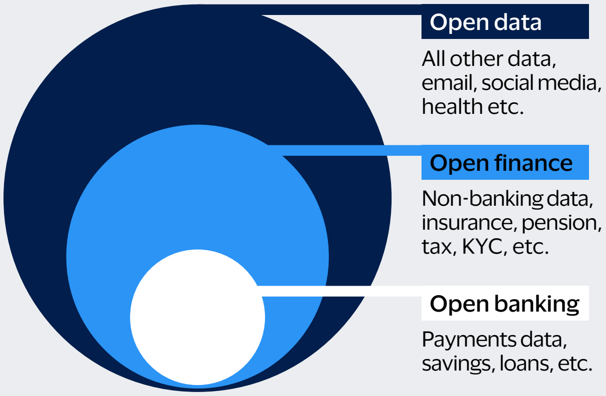
New product manufacturing options
Enabling banks to componentise and reassemble their current products, and to supply individual components to others.

The prospect of open data economies

Upon examining the global landscape, one thing becomes clear.

The less that open banking is seen by banks as a compliance obligation, and the more it is seen as a commercial opportunity, the more value is delivered.

Often, it's a matter of moving beyond a narrow definition of what, from a regulatory perspective, open banking entails. It is also about recognising the wider potential.



Progressing across the spectrum from open banking, to open finance, to open data not only amplifies the potential for innovation but also expands the scope for banks to monetise their related investments.

With open finance…

the scope extends beyond banks to involve all areas of financial services, including insurance, investments, pensions, and more. It is a more holistic approach to sharing and gaining value from financial data. By providing a complete overview of an individual's or business's financial position, it facilitates the delivery of more innovative, integrated, and competitive offerings across the entire financial sector.

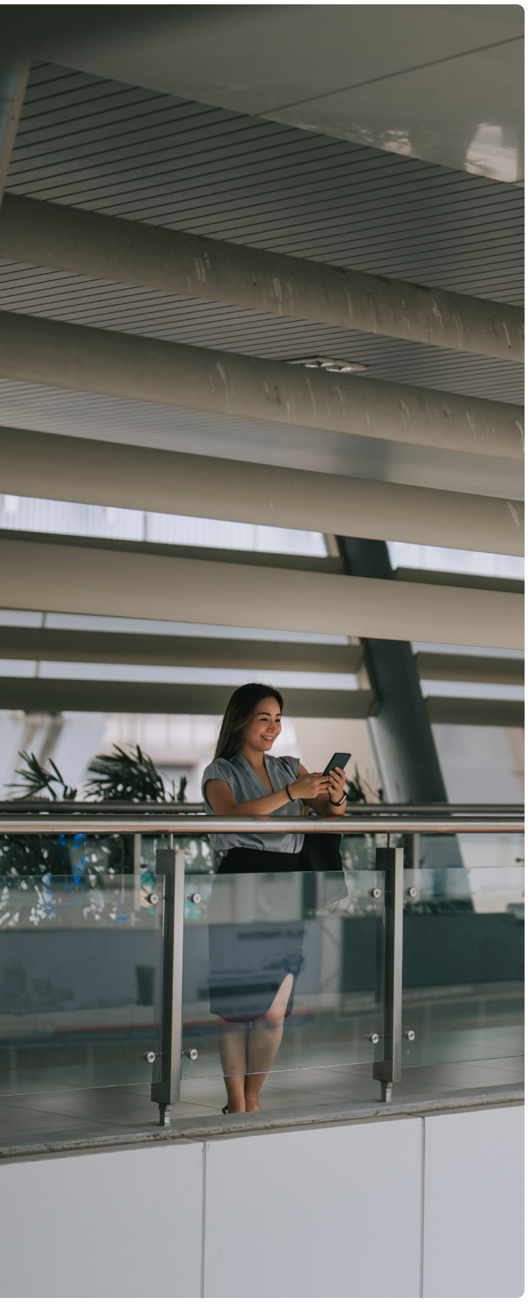
With open data economies…

the scope extends well beyond banking and financial services, enabling the automation of mundane tasks across all industries. While open banking and open finance centre around the capabilities enabled by financial institutions, similar opportunities exist in healthcare, utilities, transportation, and other industries where processes have merely moved from analogue to digital. By bridging information siloes, the capabilities that TPPs can introduce could translate into a spectacular shift in how consumers and businesses procure and enjoy everyday services.

When considering open data economies, it is crucial to view it as more than just the accessibility and democratisation of data. Instead, the term describes the state of an ecosystem where digital agents can access information and initiate services across service providers and industries on behalf of the customer.

The 21st century is already characterised as an era of exponential growth in data and digital innovation. But the additional power of open data economies combined with emerging technologies such as artificial intelligence (AI) can give customers unprecedented control over their data and the opportunity to access value added services offered by TPPs providers.

The impact of APIs – and the importance of quality



Experience suggests that the nature of APIs – and, in particular, the quality of APIs – will have a critical impact on the evolution of open banking, open finance, and open data economies.

Over the years, the advantages of high-quality APIs, including business automation, scalability, acceleration, and efficiency, have become evident. In effect, quality APIs enable the creation of innovative and customer-friendly financial services. They also permit banks to offer a seamless and personalised customer experience through different channels.

Looking specifically at open banking, high quality APIs set the benchmark for secure data access and enable more seamless interoperability between different financial systems and services. They help protect privacy and build trust by facilitating the secure, controlled transfer of financial data. They also minimise downtime and reduce errors, leading to more efficient operations and improved customer satisfaction.

Undoubtedly, it's challenging to separate the subject of APIs from the subject of regulation, which is the reason a companion section is included in this report, focusing specifically on the regulatory aspect of open banking.

However, regardless of the regulatory nuances in their region, banks should consistently focus on the revenue-generating opportunities presented by high-quality APIs.presented by quality APIs.

Putting an emphasis on premium services

There are many ways that data and services can be monetised but, from a top-line perspective, we believe banks should focus on two types of commercial API:

01 Access APIs

that substitute TPP access via the customer interface by providing chargeable access to information services (i.e. data assets, such as balance information, payment history, transaction details, etc.) and/or action services (i.e. transactional assets, such as single-immediate payment, standing order, requesting a credit card, etc.) that are already available to and paid for by the customer.

02 Premium APIs

that give TPPs a competitive advantage by providing access to premium assets, such as transactional assets and/or data assets and/or capabilities that are not already available to the user (e.g. payment guarantees, SCA exemptions, dynamic recurring payments, credit scores, etc.).

It's difficult to, disentangle the subject of APIs from the subject of regulation so, for a holistic picture, see the Companion Section of this report.

Open banking as an enabler for banking-as-a-service and, ultimately, embedded finance

A dividend of open banking is that more banking products and services can be liberated.

The delivery of financial products no longer needs to be restricted to bank-owned networks and channels. Instead, they can be contextualised, through banking-as-a-service (BaaS) and embedded finance via premium APIs.

What we mean by banking-as-a-service

BaaS is the delivery of a bank's financial services via a non-financial player. As a concept, it's nothing new (think of a car dealer offering finance, or an airline offering a credit card). What's changed is the ability to automate the delivery of those services – removing friction and overcoming fragmentation.

What we mean by embedded finance

Embedded finance is the integration of financial services directly into the delivery of a non-financial product or service. Think of the way payments are integrated into a taxi-hailing service like Uber (it happens invisibly in the background), or the way buy now pay later options are integrated into the checkout pages of an e-commerce merchant (it's just one part of the process flow).

It's one of those classic *win-win-win* scenarios…

The bank
does what banks do best (devising and configuring the financial product, complying with regulatory requirements, and operating the risk framework), while piggybacking on someone else's distribution channel.

The distributor
can create better engagement on their platform, and can broaden the appeal of their product or service, while tapping into a growing trend for convenience and simplicity.

The consumer
gets instant access to contextualised financial services – which are offered up at the precise time and in the exact place where they are most relevant.

The bank benefits from new commercialisation opportunities. By opening up its architecture, and building an API exchange model, it can serve multiple customer segments, merchant platforms, and jurisdictions. It can choose to offer products and services on a branded or white-labelled basis. And the TPPs, such as Tink, sit quietly in the background.

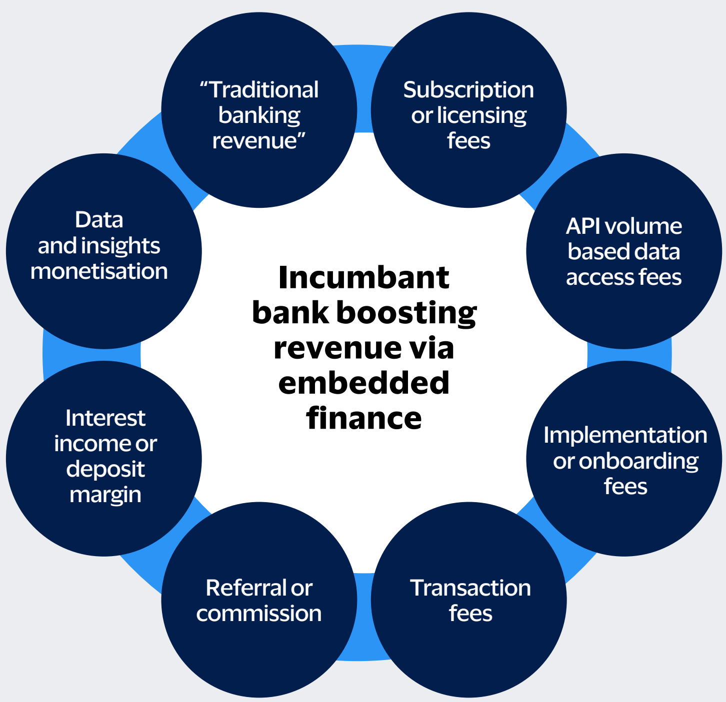
The scale of the opportunity is significant

357% **Potential markets growth for Embedded Finance 2022-2032[5]**

Indeed, the market for embedded finance applications is projected to grow fivefold, from US$54.3 billion in 2022 to US$248.4 billion, by 2032.[4]

Several commentators see the opportunity for revenue growth from embedded finance (see below). Given the speed and scale of innovation embedded finance creates, there is a near-term opportunity for banks to rethink their business models to capture new revenue opportunities.

How established players are tapping into multiple revenue streams via embedded finance.[5]



Three embedded finance examples*

A platform
Shopify

Shopify, the e-commerce platform for online stores has built a complete embedded finance ecosystem, making it quick and easy for its customers to apply, at the point of need, for services like Shopify Balance (providing a business bank account and debit card offered by Stripe Treasury) and Shopify Capital (providing access to loans offered by YouLend).

A consumer brand
Apple

Through Apple Card, Apple offers a range of banking products. It's first foray into financial services began with facilitating payments on Apple devices and launching a fully-fledged credit card in partnership with Goldman Sachs. More recently, again in partnership with Goldman Sachs it has diversified with the launch of a popular savings account.

An incumbent bank
BBVA

The Madrid-based multinational bank has an active and ambitious approach to embedded finance with premium APIs at its heart. A good example of the approach is Uber's alliance with BBVA Mexico, whereby Uber provides a fully featured, BBVA-powered digital bank account to its drivers. As well as instant deposits of their earnings, it gives them access to benefits, like cut-price fuel.

(4) Pwc, Challenging assumptions to chart new growth, 2023: https://www.pwc.com/gx/en/industries/financial-services/publications/embedded-finance-challenging-common-assumptions.html
(5) McKinsey & Company, Financial services unchained: The ongoing rise of open financial data, 2021: https://www.mckinsey.com/industries/financial-services/our-insights/financial-services-uchained-the-ongoing-rise-of-open-financial-data

*All publicly sourced information

An expert perspective

Barclays: open banking is at an inflexion point

Who is he?

Rob Levy is Director of Point-of-Sale Lending Products, Open Banking and Digital Platforms at Barclays.

Responsible for iterating and maintaining the bank's open banking infrastructure, his remit is to ensure Barclays meets its regulatory obligations while also offering customers innovative new ways to seamlessly transact, save, borrow, and invest their money.

What is he known for?

An entrepreneurial, customer-focused, and results-driven senior leader, Rob has extensive experience in both e-commerce start-ups and established multi-national businesses.

Why we spoke to him:

Rob's vision for open banking is 100 percent customer focused. He's convinced that it will open a host of new opportunities for banks, retailers, and service providers – and that the ecosystem is now at an inflexion point.

In a nutshell, what is Barclays' approach to open banking?

We are definitely excited by the potential of open banking and are continuing our proactive role in its development, both at the industry level and the customer level.

What's clear is that industry is at an inflexion point. We are moving from the bare bones of the compliance obligations to the creation of products and services that are new and innovative, meet specific consumer needs and solve pain points – so it's an incredibly exciting time.

And what, for Barclays, is the route to continued growth and success?

That's the big question in the industry. But it's probably putting things the wrong way around. The question is where does it add value? Or where does it solve a pain point? Or where does it make things quicker, easier, or safer than they were before? When you get good, solid answers to those questions, the commercialisation follows.

Do you have any views on the nature and extent of the regulation we are seeing across the globe?

The UK is often held up as a role model for open banking, and the regulators have definitely been part of the burgeoning success story. So, yes, we are appreciative of the role they play in supporting industry to innovate and set centralised standards, and we engage closely with them. Similarly, there's a role for regulators and industry to jointly ensure that the necessary protections and liability frameworks are in place. The recent publication of the Joe Garner report for example highlights the need for a commercial and industry-led approach for success, underpinned by regulatory oversight. But that is not to say the UK model can or should be replicated elsewhere. It's important to look at local ecosystems, understand local nuances, and develop regulation that is responsive to them.

Where are you seeing the most value or traction in open banking services?

There are a couple of areas where it's really taking off and creating tangible value for end-users and service providers alike.

A good example is accounting software for small businesses, which pulls the data directly from business bank accounts and avoids hours of tedium for end users. Another one is its role in credit decisioning. It makes things quicker and better for the lender and the end user alike. It also enables new approaches to responsible lending and paves the way for new types of lending products.

We have seen less traction in personal financial management (PFM) solutions. But we feel the ecosystem is on the cusp of something big in this area. Maybe when AI is integrated, it'll be possible to take things to a whole new level and provide, at scale, very personalised, valuable, and timely money management recommendations, backed by relevant products.

How important do you think the nature and quality of APIs is for the evolution of open banking?

The entirety of open banking is predicated on APIs so, yes, quality is critical. It's important from a service delivery perspective and as an enabler of innovation. The ecosystem needs a degree of standardised, high-availability APIs and, although there's more work to do, the industry-level consensus is building. But the users of these APIs do need to participate in a strong liability framework, with customer protections that are as good or better than those we have today for other comparable payment methods.

How do you expect the scene to evolve over the next three-to-five years?

I'm not sure how it will evolve, but I'm convinced it will evolve, and evolve very quickly and significantly.

The world we've come from, where people might have had one bank that they'd used for their entire life doesn't really exist anymore. With the tools we've now built we're enabling a true multi-bank, multi-service provider ecosystem to make things even better and more efficient for customers. And with wider developments like open data, the potential is vast.

It's as though we've built the foundations, not for a house, but for an entire city, and we're just starting to get above ground level. So, this is an incredibly exciting time. The next 12-to-24 months will be critical for the evolution of open banking and the democratisation of data.

What the future could look like

We believe that, with open banking and open data as enablers, the financial services ecosystem is on the cusp of transformational change, which can create value for all stakeholders.

In the spirit of optimism, we would foresee the following eventualities materialise within the next three-to-five years:

01 Looking at and learning from best practice around the world, policymakers in all key geographies will have gravitated around a similar set of principle-based regulations which enable innovation and ensure a future for consumers that is inclusive, secure, and frictionless.

02 Products, services, and experiences enabled by open banking, open finance, and open data will have achieved hyper growth – and, from a financial services perspective, financial products will typically and routinely be offered and fulfilled at the point of use.

03 Appreciating their benefits and the value they create, the market will have developed and adopted a combination of Access APIs and Premium APIs.

It is also worthwhile to consider that the shift towards and widespread acceptance of digital identity solutions could serve as an additional catalyst and accelerator.

A three-step action plan for financial institutions

We would urge all financial institutions to think hard about their role in the open finance ecosystem and to identify ways for open finance to add value and/or solve a pain point and/or make things quicker, easier or safer than they were before. Following this will enable a wealth of business opportunities, including how to design and capitalise on premium APIs, unlock referral potential for partners, and leverage upsell/cross-sell opportunities for services, all of which will have a positive commercial impact.

Clearly, the specifics will differ significantly from institution-to-institution and country-to-country. But, equally, we know that every Visa client has its sweet spot – and the better you understand your existing customers, and the more precise you can be in understanding what it is about your existing offer that appeals to them, the better able you will be to defend and extend your business – and carve out a sustainable role in the emerging open finance economy. To inform your thinking, here's a useful three-step plan:

01

Develop an open finance-focussed strategy

Key considerations

Decide which use cases you can prioritise to align with your wider strategic objectives.

Understand what your traditional and non-traditional competitors or peers are doing in the open finance space.

Quantify how much of your revenue could be at risk as open finance makes its way further into the mainstream.

Identify which services, such as lending, are best suited for premium API offerings. A prudent approach would be to prioritise protecting core, profitable services while exploring collaborative partnerships for non-core services.

02

Invest in the enabling technology and operations

Key considerations

Identify the key risk-related and compliance-related considerations across the use cases you have identified.

Design and integration of premium APIs. This raises key questions: what new data sets need to be shared and consumed, and do you have the necessary technology stack to facilitate this? Calculate the investments you need to make in technology and infrastructure.

Understanding what type and quality of experience your partners and your end customers are expecting.

Identify the capability gaps and skills gaps you need to overcome.

03

Define your go-to-market approach

Key considerations

Understand what the new economics of your business look like.

Select the other ecosystem players you should work with – and those you should avoid.

Ensure a solid operational foundation is established to enable KPI tracking for these new services and solutions. This will allow for continuous refinement and optimisation as the solution matures.[4]

Identify the type of customers who are most likely to be interested, how they can best be segmented, and the most effective ways to target and communicate with them.

How Visa Consulting & Analytics can help

At VCA, we offer a range of services to help you navigate open banking

Understanding open banking

We conduct immersive, in-depth, and introductory sessions to assist our clients in understanding the implications of open banking for their businesses. We aim to enable them to capitalise on this opportunity, regardless of their progress in the journey. Additionally, we can provide insights on the most effective propositions, global learnings, and competitor activities to aid you in planning your open banking strategy. Ultimately, we believe that open banking is a transformative development for all entities, whether they are banks, merchants, or fintechs.

Open banking data insights

Our Data Science team can help find valuable insights into customer spend data for relevant merchants and peers to inform your open banking payments strategy. We are also able to analyse different types of transaction using open banking and VisaNet data to help provide a holistic view of customer behaviour to home in on your propositions.

Proposition and product development

We can help you scope out your open banking proposition based on insights that are grounded on customer understanding and data. From customer research to wireframing and prototyping, our design thinking approach fosters creativity and innovation. Often, we incorporate our fintech partners and Visa developer platform APIs as an indication of the art of possible.

Developing your strategy

Together with our colleagues at Tink, we are well positioned to work with clients to initiate an open banking strategy engagement. Since open banking impacts the entire value chain in banking and payments, we can choose to focus on one or many of these areas and delve into strategy formulation, business case development and go-to-market.

Building the foundations

A dedicated Open Banking Advisory Services & Digital Practice can support you to develop the capabilities and operating models to help make your offering a reality. Technology is rapidly developing, and it is fundamental to have the right platform and processes to make the entire product development/ management lifecycle as efficient as possible.

Implementation support

As part of our Value Added Services (VAS), we support the execution and implementation of open banking products, for example by mobilising teams on-site and partnering with you to help scale competitive advantage.

About Tink

Tink is a market leading payment services and data enrichment platform.

Through more than 6,000 connections to banks, Tink provides payments, banking, and lending solutions that power the new world of finance.

Whether that's making account-to-account payments, onboarding new users, making better risk decisions or creating engaging money management tools. A wholly owned subsidiary of Visa, Tink was founded in Stockholm in 2012 as a pioneer of open banking.

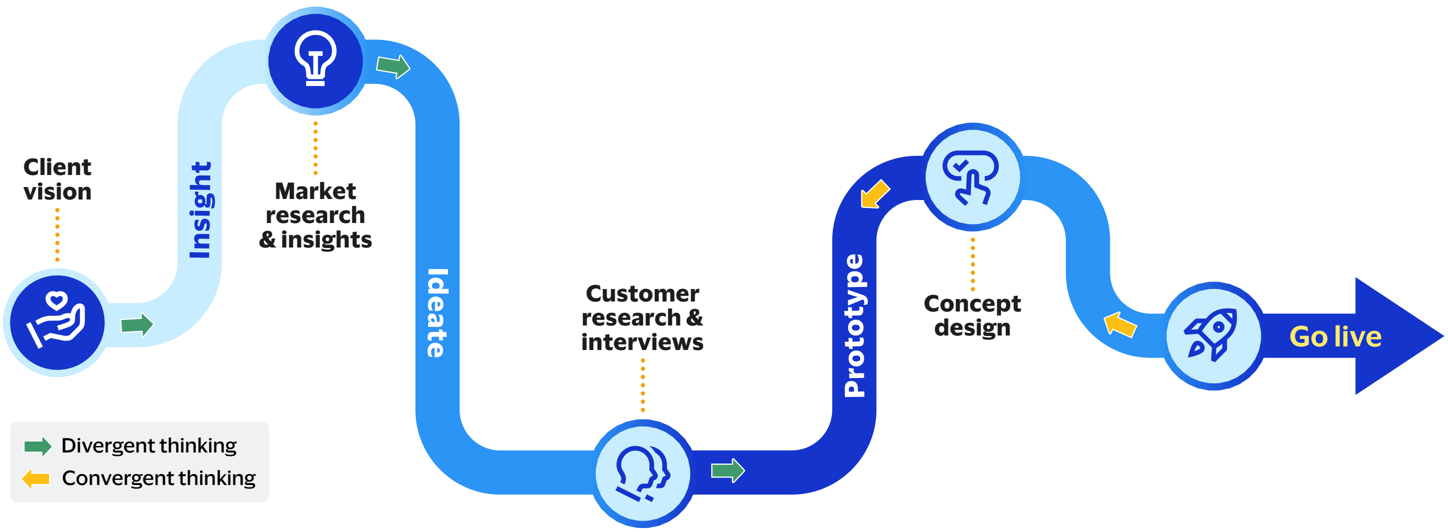
Today, Tink is present in 19 markets with an enhanced fintech platform.

Going beyond its open banking beginnings, to serve many of the world's largest financial institutions.

Tink enables its partners to take processes that are filled with friction and replace them with data-driven experiences that helps eliminate complexity for millions of consumers across the globe.

For more information visit tink.com.

VCAs innovation and design framework



*See footnote for figure description

About Visa Consulting & Analytics

We are a global team of hundreds of payments consultants, digital marketing specialists, data scientists and economists across six continents. The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that help drive business decisions.

Get in touch today!

Discover how VCA can help enhance your portfolio, email VCA@Visa.com or visit us at Visa.com/VCA

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*The flowchart represents VCA's innovation and design framework, depicting the stages from the initial client vision to the project's launch. The process begins with "Client Vision," transitioning to "Market Research & Insights" in the Insight phase, characterised by divergent thinking. The next phase is Ideate, marked by "Customer Research & Interviews." Following this is the Prototype phase, where "Concept Design" is developed. The final stage is "Go Live," signifying the project's launch. Following the "Go Live" stage, the information is fed back into "Concept Design" and "Customer Research & Interviews," using convergent thinking.

Companion

The interdependencies with regulation

The emergence and divergence of open banking regulation

To a large extent, the availability and uptake of open banking have been incubated by related regulation.

Across many jurisdictions, policymakers and regulators have reached a broad consensus that open banking can be a means to increase competition, improve experiences, and create more inclusive financial ecosystems. But they have different views of how it should be nurtured. And the nature and extent of the regulation vary by geography.

Since the last Tink report there have been interesting developments – both at the regulatory and the market level – in several geographies worldwide. The following three pages focus on four countries that have experienced some of the most significant change.

Recent open banking developments across the globe

United Kingdom

The UK is one of the global frontrunners in open banking, with a strong onus on the ownership of the data by the consumers and creation of a healthy digital ecosystem.

Of the consumers already adopting open banking within the UK, 76% acknowledged that it helped them to save more and build a financial cushion, with 75% reporting that it helped them to keep on track of expenditure, and a further 62% stating it enabled them to reduce unnecessary expenditure. The UK is currently, and is expected to remain, the largest market for open banking in Europe.[6]

In 2023, there were 14 billion successful API calls according to Open Banking Limited (OBL), and Juniper Research forecasts with will rise to 79.4 billion by 2027.[7]

Our insights

More than 8 million consumers and businesses (of which 750,000 are small to medium-sized enterprises) already use open banking-enabled products and services to manage their money and make payments.

The volume of open banking payments almost doubled in the first half of 2023 compared to 2022, with the milestone of 14 million monthly payments surpassed in January 2024.[8]

Priorities going forward include: levelling up availability and performance, mitigating the risks of financial crime, ensuring effective consumer protection if something goes wrong, improving information flows to TPPs and end users, promoting additional services, and using non-sweeping variable recurring payments (VRP) as a pilot.

+8M **are already using open banking-enabled products and services in the UK.**

European Union

At the pan-European level, by far the most significant development has been the mid-2023 publication of the European Union's draft legislation for the next phase of financial services.

The third Payment Services Directive (PSD3) will be coupled with a new Payment Services Regulation (PSR) to build on the progress made since PSD2's introduction. Following the finalisation of the legislation, PSD3 and PSR are likely to take effect around 2026.

Our insights

The renewed drive that PSD3/PSR provides is a welcome addition to the development of open banking in Europe.

From VCA and Tink perspectives, we are encouraged by many aspects of the new proposals that are set to improve open banking, such as the benefits in giving authorities the required tools to better evaluate the dedicated interfaces (APIs) provided by banks and other financial institutions.

Whatever the final content of PSD3/PSR may be, they seem set to add to the momentum around open banking, and to resolve at least some of the debilitating controversy around API quality. Ultimately, they should remove obstacles to providing open banking services and increase uptime for banking and financial services.

(6) https://www.openbanking.org.uk/news/category/consumer-insights/ (7) Juniper Research, Open Banking, Opportunities, Competitor Leaderboard & Market Forecasts 2023-2027, (8) Open Banking Impact Report October 2023

Australia

In November 2022, the Australian Government introduced a bill to allow third parties to make action initiations on behalf of consumers, meaning the potential for open banking payments (and other type of actions) in the country for the first time.

Australia's open banking journey has since made significant progress, with the rollout of data availability and improvements in accessing and delivering data.

As of November 2022, 142 data holders were actively enabling data access for over 30 different financial products, covering credit cards, transaction accounts, savings accounts, mortgages, and business accounts.[9]

This represents comprehensive coverage, with more than 99% of household deposits falling under the purview of open banking. While the initial focus was on achieving data availability, the industry has shifted its attention to ongoing compliance and optimising the nature of the data supplied. The goal is to unlock the full potential of open banking, fostering engaging use cases and empowering banks, fintechs, and lenders to deliver tailored financial services.

Our insights

Given the progress in open banking, the stage is set for further advancements in open finance. With a nearly complete network of Data Holders, the focus now extends beyond banking to leverage the Consumer Data Right (CDR) framework for rich and reliable data sharing. Open banking's success has highlighted the importance of data quality, speed, and immediate availability.

The regime has proven its ability to provide fast, reliable, and rich data, enabling businesses to offer near real-time access to financial information.

Additionally, efforts are underway to address gaps in data availability, ensuring that optional data elements, such as merchant name, Merchant Category Code (MCC), biller name, and biller code, are consistently provided.

The industry seems committed to enhancing data quality and expanding the potential for innovative use cases, ultimately delivering a superior customer experience and increased financial opportunities.

142 **data holders were actively enabling data access for over 30 different financial products.**

Brazil

In open banking terms, Brazil is experiencing strong growth. It is certainly at the forefront of open banking developments in South America and, arguably, worldwide.

The acceleration can be attributed to various factors, including the broad scope for data sharing, regulatory support from the central bank, and the standardisation of the user experience. The country benefits from the presence of several ambitious and active TPPs, such as Belvo and Quanto. Belvo, for instance, has successfully raised over $50 million in key markets across Latin America, cementing its position as a significant pan-regional player.[10]

Meanwhile, the banking and fintech community are playing an active role. There is a supervised self regulation, meaning that Central Bank is part of the self regulation, influencing the decisions of these communities.

Our insights

Brazil has celebrated the milestone of two years of open finance, marked by some achievements.

By February 2024, the Open Finance Initiative had exceeded 40 million consents for data sharing, with the total number of weekly API calls exceeding 1.5 billion.

Regulated by the Central Bank, the system operates through APIs, enabling data exchange among institutions. Brazil has surpassed the UK by connecting five million accounts five times faster.[11]

Moving forward, the Central Bank aims to expand open banking by including data from non-banking participants.

(9) https://www.fintechaustralia.org.au/newsroom/open-banking-slowing-down-to-speed-up-state-of-open-banking-2024 (10) https://consent.yahoo.com/v2/collectConsent?sessionId=3_cc-session_eb187506-6963-4a7b-8f5b-08f05d35fa9b (11) https://www.finextra.com/the-long-read/637/open-banking-2023-a-global-review

Saudi Arabia

Although a recent topic in Saudi Arabia, open banking is developing quickly with the involvement of the Saudi Central Bank (SAMA) and the Council of Ministers which approved the Fintech Strategy in May 2022.

The framework released in November 2022 included a set of legislation, regulatory guidelines and technical standards to enable the development of open banking services in the Kingdom – which commenced in 2023.

Whereas banks elsewhere have often seen open banking more as a regulatory standard to comply with than an opportunity, it seems that financial institutions in Saudi Arabia are looking forward to it. This is mainly because the framework allows banks to create premium APIs around which they will be able to create a business model by charging third parties willing to use them. This should encourage banks to share richer data and thus, put Saudi Arabia at the forefront of the open banking movement.

Our insights

Saudi Arabia has a goal of hitting 70% cashless payments by 2030. This shift looks achievable due to the size and characteristics of the youth market.

Data shows that the youth of Saudi Arabia is particularly digitally-savvy. Three-quarters of the total population are smartphone users, making it a mobile-first society.[12]

Also, almost 35% of Saudi Arabia's population is under the age of 35. A dedicated Fintech Strategy is one of the pillars of the Financial Sector Development Program (FSDP) under the government plan to reduce dependence on oil and diversify the economy (Saudi Vision 2030) and aims to transform the Kingdom into a global fintech hub to improve the financial services offered to its population. The central bank is approaching things in a thoughtful manner to avoid common mistakes made by other countries, and it is possible that the relatively small number of banks in the Kingdom will enable rapid adoption and standardisation.

(12) https://cybersecurity.asee.io/blog/digital-payments-in-saudi-arabia-the-rise-of-a-cashless/

How smart regulation influences premium services

The quality of APIs plays a critical role to play in the evolution of open banking. Indeed, the approach of regulators can serve as an enabler of quality APIs. However, an overly prescriptive approach may also act as a disincentive, often leading to API downtime, slow response times, inconsistent data, and complex integration processes. Some of the related considerations are outlined in this section.

The regulatory dimension of *Access APIs*

When it comes to Access APIs, the assumption is that the customer has already paid for the information and/or action services (available via the customer interface) through the existing contract with their bank.

Therefore, the bank should not charge the customer for the same services more than once, even if the services are accessed via a TPP. Instead, the bank should charge the TPP (not the user) for providing access to the services in a more convenient and efficient manner – i.e. via a high quality and well-documented Access API.

In markets where customers can access their own data, and where Access APIs are not regulated, TPPs will always make a cost consideration. The most viable price point for Access APIs will therefore be dependent on factors such as: the customer demand for access to information and/or action services via TPPs; the complexity for TPPs to access the customer interface versus the access APIs; and the investment requirements and running costs for banks.

However, in markets where TPP access to the customer interface is ubiquitous, an Access API would most likely be sold at low to no cost to the TPP, as banks aim to divert traffic from the customer interface to a more cost-effective infrastructure.

As a result, in markets where there is little or no access via the customer interface, banks can pursue a revenue opportunity by being the first to launch an Access API.

In some jurisdictions, in an attempt to drive competition and innovation, regulators have mandated banks to publish and maintain Access APIs, and make them available to TPPs for free. In the UK, for example, the Competition and Markets Authority (CMA) has mandated the nine largest banks to create Access APIs that comply with PSD2, and also to provide access to current account product information, branch opening hours, ATM locations, and much more. Essentially, these APIs are required to provide all the information that current account customers can find and access via the customer interface on the bank website.

Some jurisdictions with regulated Access APIs also prohibit access via the customer interface. The regulators essentially introduce compliance incentives, giving the bank control over a single interface that must be used by all TPPs. In such a scenario, the only way to ensure that regulated Access APIs do not stifle competition and innovation is by enforcing stringent and transparent performance and reporting requirements, with clear procedures and penalties when banks do not meet the prescribed benchmarks.

The regulatory dimension of *Premium APIs*

TPPs that aspire to launch truly competitive services need to gain access to the type of functionalities, data, or services that could only be obtained through contractual agreements with individual banks.

In the context of payments, the industry has discussed the potential for TPPs to benefit from Premium APIs for some time. A good example is the provision of access to the exemptions on strong customer authentication (SCA) which card-issuing banks enjoy. Premium APIs could therefore allow TPPs to: signal to an issuing bank to exempt SCA on the basis of a payment being low-value, low-risk, or contactless; and/or update the list of trusted beneficiaries; and/or perform the SCA on behalf of an issuing bank (often referred to as delegated SCA); and/or replace card-on-file with bank-on-file solutions powered by variable recurring payments (VRP) functionality.

The SEPA Payment Account Access (SPAA) scheme, launched by the European Payments Council (EPC) in November 2023, is intended to significantly reduce the overhead for retail banks to launch Premium APIs, and to simplify the contract negotiation process with TPPs that wish to gain access to these capabilities.[13]

Premium APIs could also go beyond payments to include services such as credit checks, categorisations, age checks, and more. Premium APIs could therefore enable TPPs to launch innovative solutions that streamline know-your-customer (KYC) checks, creditworthiness assessments, tax reporting, and so on.

In fact, many of the banking-as-a-service (BaaS) and embedded finance propositions that financial institutions have already taken to market are aimed at externalising services that have been built by internal departments.

(13) Tink was one of the founding members of the SPAA scheme and Arturo González Mac Dowell, founder of Eurobits (acquired by Tink in 2020), is its Co-Chair.

Some considerations for the regulatory community

In general, there are three types of incentives that would lead any service provider to publish APIs:

01 Revenue incentives
Driven by the opportunity to generate new or additional revenue streams by charging TPPs for access APIs.

02 Cost incentives
Driven by the opportunity to lower the total cost of operating the customer interface (e.g., the standard online banking website) by moving automated traffic coming from TPPs to a dedicated infrastructure.

03 Compliance incentives
Driven by the risk of non-compliance by providing a dedicated interface as mandated through regulations.

While APIs driven by revenue and cost incentives would be funded by a business budget, the likelihood is that APIs driven by compliance incentives would be funded by a compliance budget. In other words, economic incentives would encourage service providers to deliver APIs that meet a minimum set of requirements specified by TPPs – whereas compliance incentives would most likely starve the APIs of adequate funding, and prevent them from delivering anything more than what is explicitly articulated by the regulator.

There is a tangible example of this in the European Union (EU) with its revised Payment Service Directive (PSD2), in that the regulatory technical standard (RTS) on strong customer authentication (SCA) has removed all financial incentives for banks to build APIs.[14]

Ensuring that this does not occur outside of PSD2 necessitates supporting and even encouraging service providers to launch commercial APIs. Concurrently, it's important to continue promoting the right for customers to authorise TPP access-to-account via the customer interface to benefit from both information and action services.

(14) The view of Tink is that, through PSD2, there is no revenue incentive because APIs are regulated as "dedicated interfaces" to give TPPs an alternative interface to a payment account, instead of the customer interface. This means that PSD2 APIs cannot be sold and need to be available for free. Furthermore, by giving banks the ability to obtain a "fallback exemption", the regulator has also removed the opportunity for the investments into APIs to be driven by a cost incentive — as TPPs are prohibited from using the customer interface once the fallback exemption is granted. This means that most banks in most EU countries have reverted to a compliance incentive, and that they have minimal budgets to enhance the regulated PSD2 APIs, regardless of the complaints and obstacles reported by TPPs.

The value of principle-based regulation

To move forward in this direction, the ecosystem is reliant on regulators to define the rules and desired outcomes for open data economies. For example:

01
TPPs must be centrally registered (or authorised)

02
TPPs must have permission from the customer

03
TPPs must identify themselves to the service provider

04
TPPs and service providers must always communicate securely

05
Service providers should be responsible for customer authentication

06
The customer's security credentials must be handled securely

07
If security is compromised, liability is with the party where security was breached

08
Service providers may not block any TPPs unless they have evidence to suspect unauthorised access

These principles have the power to circumvent the creation of innovation obstacles, such as technical or technology dependencies.

Given that the technology is evolving so quickly, the imposition of dedicated interfaces – or application programming interfaces (APIs) – would inevitably lead to innovation constraints in the future.

Instead, service providers should be obliged to provide at least one customer interface from which information can be accessed (such as their online banking website). This would give customers the choice to access the data themselves, automate the access using their own software or AI tools, or give permission to an authorised TPP to gain access on their behalf.