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Security In Open Banking: Concerns And Solutions

Alexey Shliakhouski Forbes Councils Member
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Alexey Shliakhouski, the CTO of Elinext.

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Even if you never heard of it, "open banking" is the new buzzword with 71% of small and medium businesses in the U.K. saying they will adopt open banking by 2022, according to the PwC report.

Open banking is a banking practice that allows third-party financial service providers to access consumer banking and financial data via application programming interfaces (APIs). In practice, this means that banks can show their customers the best financial products and services for each specific individual, offer a savings account that has a higher interest rate or a credit card with a lower interest rate. Lenders can get a more accurate picture of a person's financial situation and their risk level, which will help lenders offer more suitable loan terms. Customers, in turn, can better understand their own financial situation and control their finances better.

For example, financial software, such as Mint and You Need a Budget (YNAB), are budget solutions that help the users take care of their spendings. They connect to the user's financial accounts via API, track spending and categorize expenses.

Financial apps can do even more than that. Take PocketGuard. The app decides how much money you have for your everyday spendings by doing some math. It takes your estimated income and subtracts upcoming bills, pre-determined savings and pre-budgeted money. What's left is what you can spend freely. Another app, Goodbudget, allows you to portion out your monthly income toward specific spending categories.

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Open banking, when it becomes widespread, is expected to stir the existent power dynamics in the banking industry. Established banks are

likely to reduce costs and improve their services because of the newfound competition with smaller and newer banks. The latter are more likely to be used to implementing financial technology in their services. However, this might also mean that established banks will find more expensive and sophisticated ways to connect to their customers and increase customer retention.

The Risks Of Open Banking

Financial privacy and the security of consumers' finances are the main concerns for anyone involved in the open banking environment. Customers aren't unaware of this problem. Quite the opposite: Research showed that 48% of consumers had negative opinions about open banking exactly due to the data and cybersecurity concerns. Really, danger seems to be everywhere: Malicious third-party apps could access a customer's account, data breaches could happen, fraud, hacking, insider threats — all are possible.

1. Regulation And Standardization

Financial regulators, such as the United Kingdom's FCA, and government bodies create standards that all third-party providers (i.e. FinTech) and banks have to follow if they want to be a part of the open banking environment. Accessing open banking APIs is only possible for the apps if they went through an independent audit and proved that their systems and security controls are up to the FCA's standards. They have to do that

regularly after the initial audit to retain authorization. At the same time, open banking regulations, such as the European PSD2, and local and regional protection laws, such as GDPR, create equal rules for everyone and enforce a high level of security.

2. Putting The Customer In Control

Open banking security encourages putting the customer in control: They should be aware of how their data is being used, how they can control it, how it is being stored and how the company is regulated. The regulations are already in place. Lately, financial services, such as FinTech apps, are also being proactive in letting the customer know all about their data and encouraging them to engage with it. Promoting data openness and transparency gains trust among the users and ensures they are in control.

3. The Growing Power Of AI

Spotting unusual patterns in transaction monitoring that signal illegal activity or money laundering is one of the biggest challenges that open banking faces. Banks already have to employ KYC (Know Your Customer or Know Your Client). This is a mandatory process every bank has to undergo with every customer to identify and verify their identity initially and regularly over time. Rigorous customer identification is the first step to preventing financial crime and money laundering.

AI, however, can do more. With open banking, AI becomes more knowledgeable and more powerful. It learns based on more data, develops a more accurate picture of a typical customer and their transactions.

4. Evolved Authorization And Authentication

IT security has significantly evolved in the past few years. Now we have multifactor authentication (MFA) and biometrics technology, which changes a lot. Multifactor authentication requires the user not only a strong password (which is also important) but also another step to enter

into an account. These can include an additional question, a text sent to the holder's phone or a biometric scan like a fingerprint to unlock an account. Studies have shown that MFAs block 99.9% of all potential hacks.

Open banking also forced APIs to become more secure. Access to APIs must be secured using specific standards, which require technical authorization, user authentication and consent management. This, in turn, requires integration with Web Single Sign-on and Identity and Access Management (IAM). All of these provide extra layers of security.

5. Cybersecurity Becomes Proactive

Cybersecurity isn't just resilient. It constantly evolves to become better, seeks threats and weak points, looks for vulnerabilities and flags the issues before they even become the issues.

Information sharing across companies and collaborative intelligence across the banking environment enhance this process.

Final Thoughts

At its heart, open banking and financial software really is there to build safe, transparent and trustworthy relationships between banks, consumers and businesses. It's there to help everyone involved manage their money better, have less debt and stop tricking each other into giving or taking the loans that one can't afford.

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Alexey Shliakhouski

Alexey Shliakhouski is the CTO of Elinext.