

also open banking fraud risks involved. Let's see how that may i operations at your organization.

# What Are the Uses of Open Banking

Open banking is designed to create a bridge between people's information and third-party services. It is a solution to the histobanks regarding customer data. The EU (and now an increasing regulatory bodies) created open banking so that more third-par companies can offer their services to banking customers.

While the UK has taken the lead in open banking initiatives, other following suit.

The Payment Services Directive (PSD2) and General Data Protection Regulation (GDPR), are driving Europe towards an open banking standard. The US, LatAm, and Asia are also toying with their own versions.

According to Payper's Open Banking Report, 87% of all analyzed countries surveyed said they had open banking initiatives in readiness.

# What Are the Benefits of Open Banking?

Open Banking is a user-centric process. It allows customers to access a wider range of financial products and services that are tailored to their needs, by breaking up the monopoly of banks. It can reduce the need for KYC checks each time you purchase a financial product (mortgage, loan, credit card, etc). You can also gain access to more products and services.

For fintech companies, open banking makes it easier to target customers who would have otherwise been tethered to a bank's financial services. Banks and traditional financial institutions can partner with agile startups that can provide more interesting features to their pre-existing customers.





Modern banks, especially challenger banks and neobanks who the on-demand generation, have built entire business models o experience. **Products** 

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Open banking enables a variety of products and services relate

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## **Digital Identity**

**Examples of Open Banking** 

Identity networks and hubs connect retail and banking by province identity. In short, they leverage Know Your Customer and Custo Diligence processes that banks already performed to demonstruser's identity is valid. Third-party services also aim to decouple financial information, so that ID data is kept secure elsewhere.

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## Finance Management

A growing number of services offer bank account aggregators, customers control all their accounts from one app dashboard or



## **Product Matching**

From mortgages to loans and even overdrafts, there is no short that take advantage of open banking APIs to offer tailored prod customers.

# What Is Open Banking Fraud?

Open banking fraud sees bad agents take advantage of open banking to exploit financial products, services, and customer information. It is growing at an alarming rate, simply by virtue of introducing new points of failure between financial organizations and users. Fraudsters are also adept at exploiting new technologies, which open banking meets the definition for.







# The Risks of Open Banking Fraud

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Sadly, open banking risk may sometimes overshadow its bene technology may also put organizations at risk. This is due to sev

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## Larger Ecosystem = More Risk

An open banking ecosystem may include various players such a providers, third-party providers, customers, regulators, and gov agencies. That's a lot of potential points of failure for data secul fraudsters are adept at targeting the weakest link in a chain.

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## **Account Takeovers Bring Higher Rewards**

As we know, accessing banking information is the holy grail for they are adept at mining every account they infiltrate for persor as well as currency, reward points, or crypto.

In the context of ATO fraud, the problem of linked accounts via evident: losing control of one account could mean losing much customers. Their ID documents or card numbers could end up c where they will fuel synthetic identity fraud transactions.

#### One Bad Apple Spoils the Lot

If all these services are connected by one technology (the API), essentially at the mercy of the initial KYC check. What happens have successfully bypassed it? You have an infiltrator who can accounts, apply for loans, take out a mortgage, and essentially scam every partner involved.

The problem is exacerbated **when it comes to AML compliance**. If one money launderer manages to enter through the front door for one fraudulent transaction, who gets blamed by the government bodies? That is to say: who will pay the massive financial crime fines that inevitably result from failing to meet AML in banking requirements?

#### **Single Point of Attack**

Even if banks' security is watertight, what happens when every interconnected service offers the same single point of attack? Security and data protection hygiene are increasingly important in the API economy. **Open banking fraud would give hackers and fraudsters a potentially higher reward.** 

#### **Information and Security Asymmetry**

Last but not least, there is something to be said for the false sense of security that open banking APIs may create. It's not unlike a digital version of the **bystander effect**, where organizations are less likely to verify data when they trust it comes from a reliable source.



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down on the verification, you are likely to open a backdoor into

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## **How to Prevent Open Banking Risks**

Open banking risk can be anticipated and prevented using the f methods:

- Secure your data at all stages: The more data gets shared, the failures are introduces. It's of the utmost importance that you follow the best data protection guidelines, going above what meet compliance requirements.
- Verify IDs in more ways than one: ID proofing, or identity ve becoming the battleground where companies win or lose the fraudsters and cybercriminals. You should implement as mar measures as you feel comfortable with, such as biometrics ic 2FA, and digital footprint analysis.

Webinar Highlights 11: 5 Reasons to Use Social KYC & D

Vet companies your customers rely on: Are customers signing BNPL services by the day? Taking out loans with fast loan proculd do worse than to perform due diligence checks on the services.

## **Takeaways**

Open banking is a response to customer demand for more choice and a better, frictionless user experience. By sharing data via APIs, fintech companies, third-party service providers, neobanks, and challenger banks can offer personalized products.

The key, however, is that customers need to have trust in these organizations and in the security of their data ecosystems. And there is no surer way to lose trust than to allow one bad agent into your ecosystem, especially if they can then exploit the whole lot with one attack only.

We believe that open banking risk and open banking fraud can only be reduced if every organization takes the financial risk management, the risk assessment and fraud detection into their own hands.

## **Open Banking Fraud FAQ**



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inionnation to be accessed by tillia-party companies.

#### What are the risks of open banking?

Open banking adds more points of failure where customer data The more data is shared between third-party companies and fir institutions, the more risk there is that the data could fall into th

## Is open banking disruptive?

Yes. Historically, financial institutions guarded their customers' closely. But thanks to open banking, these large companies are information with smaller, more agile third-party companies prov services and products.

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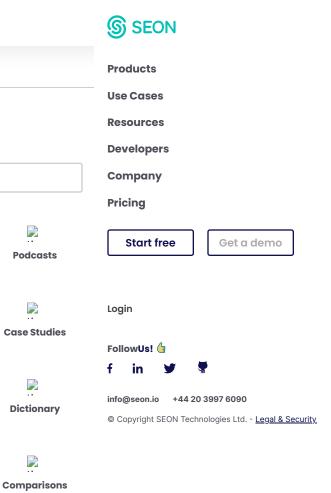
#### Bence Jendruszak

Bence Jendruszák is the Chief Operating Officer and co-founder of SEON. Thanks to his leadership, the company received the biggest Series A in Hungarian history in 2021. Bence is passionate about cybersecurity and its overlap with business success. You can find him leading webinars with industry leaders on topics such as iGaming fraud, identity proofing or machine learning (when he's not brewing questionable coffee for his colleagues).

#### Use cases



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