An open future
Navigating the hurdles of open banking
An open future: Navigating the hurdles of open banking is part of a series of digest publications from Efma, examining topics that are having a significant impact on the financial services industry. This Efma Digest provides a collection of insights on open banking and how banks are reacting to it, with case studies that highlight related initiatives and observations from bankers and experts that work within this field.

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Foreword

Open banking promises to be the next game changer in our industry. All around the world, banks are beginning to explore its potential. Some have already been putting it into action, keen to drive innovation and ensure they remain relevant with their customers. Others are being pushed by forthcoming regulations, which ask banks to make provisions for opening up customer data to third-party software and app providers through APIs.

It’s both an exciting and daunting time for banks as they navigate the challenges associated with the impending changes that open banking brings with it. Certainly, open banking will make our industry more open, fragmented and competitive. How banks act now will almost certainly determine their future success.

While they face threats from outside competition and risk losing the long-held customer relationship that has cemented their role as financial service providers until now, we think that banks should see open banking as an opportunity. It’s a chance to be proactive, drive innovation and develop new services and customer experiences that will resonate with today’s consumer.

For those banks that move beyond compliance and act promptly, open banking presents a unique opportunity to capture additional market share, fuel sustainable growth and remain at the centre of the primary customer-bank relationship.

In this Efma Digest, we highlight some of the key areas banks need to focus on if they are to embrace open banking successfully. Split into four parts, we look at what it is and the impact it is having, how banks around the world are reacting to the changes it brings, and the opportunities and challenges banks face on their implementation journey, looking at important areas such as how to take advantage of existing assets, managing IT costs and expectations, and considerations around security and control. In part four, we then set out nine recommendations for the successful adoption of open banking, drawing insight from recent research and real-life success stories.

I hope you find this a valuable resource.

Vincent Bastid
CEO, Efma
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The rise of open banking

A game-changer for the entire financial services industry, open banking promises to make the banking experience even more personal and convenient for customers. It’s now up to banks to make it happen.

Open banking – it’s defined by the UK government as “using application programming interfaces (APIs) to share information securely, without you having to reveal your password.” Basically, it’s the same technology that tells an Uber driver who and where you are or lets you sign in to other online accounts using Facebook. And it’s putting the role of banking in the digital age under the spotlight, particularly as banks are not the only ones exploring the potential of this technology.

The Open Banking Transformation whitepaper published by Evry observes that agile fintechs, as well as powerful large technology companies, are invading markets previously dominated by banks. “These new entrants offer personalised and engaging services that traditional banks have not had the flexibility or capability to offer,” the whitepaper says. “For instance, non-banks are offering services typically associated with banks by leveraging data about users’ preferences, behaviour and history. The results are unique digital experiences that engage consumers in a completely new way.”

How, then, should banks react to these new entrants and respond to changing customer expectations? The good news is that they can use open banking to their advantage too. “With open banking, banks can not only bring new, relevant products and services to market faster, but also reduce costs and risks during the development and launch,” the Evry whitepaper says. Far from heralding their downfall, open banking could, in fact, provide the opportunity banks need to transform themselves and prove their relevance with customers today.

New competition

Open APIs enable third-parties to build financial services on top of banks’ data and infrastructure. It is giving rise to a new breed of competitor that is taking advantage of previously inaccessible customer data to provide consumers with more engaging services and digital experiences.

Evry’s whitepaper divides the new competition into different categories. Here are three of the most pertinent:
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