TATA CONSULTANCY SERVICES

Building on belief

Launching an era of innovation with open banking

Abstract

Described as a lever with the potential to completely transform financial services, open banking is yet to introduce dramatic changes to the industry and the way customers engage with their banks. Despite the slow pace, however, we believe that open banking will deliver on the promise of contextual customer experiences, faster financial decisions, and interconnected ecosystems, but only if banks adopt the right approach. This white paper looks at how banks can embrace innovation in the financial services industry and thrive in the open banking age.

Open banking: The journey so far

Banking has changed phenomenally over the years. The bank-to-customer interface has increased straight-through processing (STP), and self-service options, and allowed a high degree of customer participation in purchase decisions through comparison with other products. Payment services have improved by becoming faster, simpler, and global. However, while banking technology has progressed immensely to make this evolution possible, products and services have largely remained the same at the core—they have just become more digital.

More recently, neo banks have challenged the status quo by leveraging disruptive digital technologies to offer value-added functions. Regulators played their part too, with the introduction of the Payment Services Directive 2 (PSD2). This directive made it obligatory for banks in the European Union (EU) and the UK to share banking customers' financial data through open application programming interfaces (APIs) when requested by authorized third parties. This was a clear signal to banks that they would no longer be the sole owners of customer data and relationships.

While initially open banking was met with resistance, there is now a better understanding among participants about the adoption, the complexities involved (see Figure 1), and the potential for value creation. While many institutions have completed the foundation stages, they still have a long way to go.

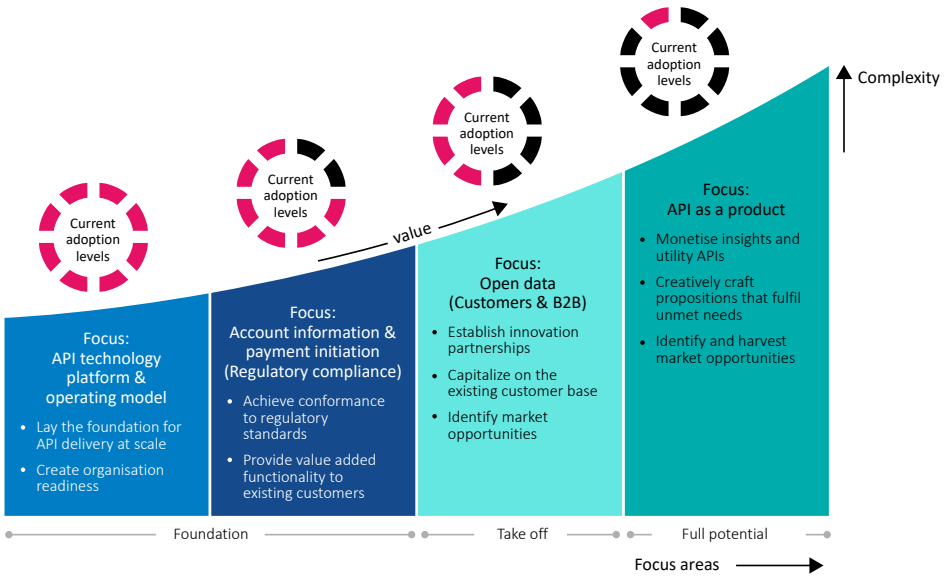

Figure 1: Stages of Open Banking adoption

Adopt open banking – create exponential value

Europe and the UK completed a year of open banking implementation in 2019[1] followed by Australia. Since then, many world economies have adopted their own version of the open banking regulation based on the European and the UK models. The key is to focus on understanding the potential, thinking ahead, and embracing open banking fully (see Figure 2).

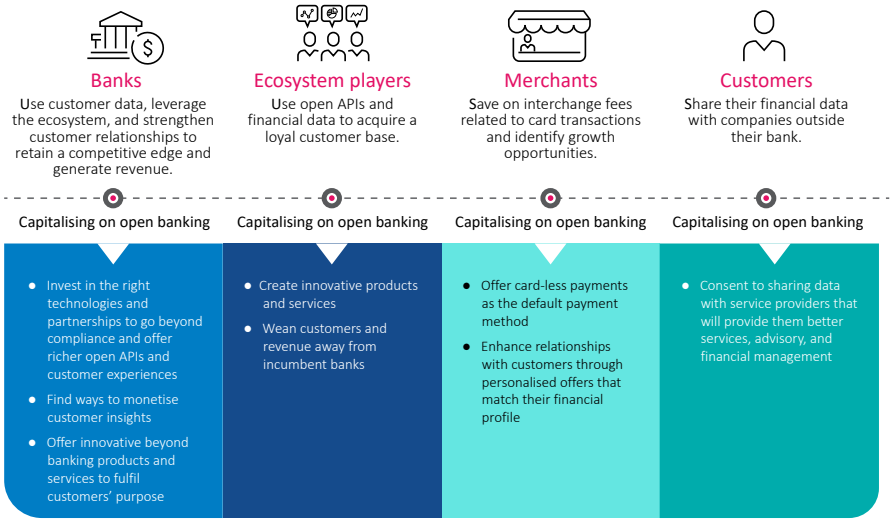

Figure 2: Impact of Open Banking on Different Stakeholders and Potential for Growth

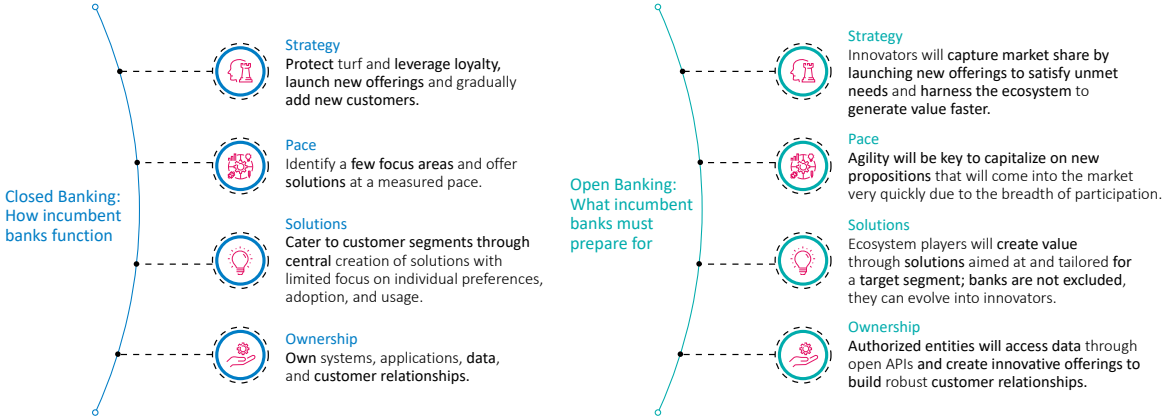

Figure 3: Shifting from Closed Banking to Open Banking

Thriving in the open banking age necessitates fundamental shifts in strategy, pace, solutions, and customer ownership (see Figure 3). Banks must invest in customer relationships by moving fast to offer value-added services before the competition. True customer centricity involves understanding the stated and unstated needs of customers. Financial institutions must derive insights from available financial data and overlay it with market insights to create innovative and hyper-personalized customer experiences. This will help create solutions that appeal even to customers who bank with other financial institutions.

[1] Open Banking, One Year of Open Banking,- Open Banking, Accessed August 2021, https://www.openbanking.org.uk/news/one-year-of-open-banking/

Orchestrating collaborative ecosystems

Collaboration within and beyond enterprise boundaries is the key to innovation. Ecosystem partnerships are immensely valuable when leveraging open banking to develop new products or services and for accessing new markets. Collaborating with ecosystem players will provide access to new talent and ideas, richer innovation experience, emerging technologies, and new business models, which in turn will improve in-house innovation capability and reduce the risks involved in designing new products and services. Collaboration approaches with start-ups, system integrators, fintechs, or interdependent industries for a desired outcome can take the following forms:

- Joint ideation: Generating implementable propositions that offer superior choices aligned with spending patterns, diversifying customer portfolio, or creating new business models
- Leveraging technology: Utilizing pre-built components and platforms, or development skills to craft new solutions
- Distribution channel: Collaborating with partners to mutually promote and distribute products on each other's platforms, selling product bundles, or hosting a partner marketplace
- Extended value chain: Engaging with interdependent industries and creating complementary services to generate value for customers
- Sourcing insights: Gathering novel ways of generating actionable insights from financial data to gain competitive advantage
- Shared data sets: Creating ecosystems with industry partners using shared data sets and offering customers right-fit products and services through their relationships, thereby opening new revenue streams for participants
- Integrated experience: Crafting personalized solutions using partners' products and delivering integrated, intuitive experiences to unlock additional value at every stage of the customer journey

Treading the innovation path

The future of banking is all about being able to bank anywhere, anytime. Open banking lays the foundation for innovation, paving the way for thriving purpose-led ecosystems. Banks on this journey must introspect about:

- Target customer segments
- Innovative offering themes
- Value proposition
- Cross-sell and upsell
- Ecosystem collaborations
- Monetization
- Competition
- Differentiation
- Positioning strategy
- Technology partnerships

Interesting solutions leveraging open banking have emerged around login-by-bank-identity, personal finance management (PFM), affordability, credit decisioning, and payment themes. More will reach the market, thanks to the limitless creativity of participants.

Open banking implementation in the UK

Open banking activity hubs exist across the world. Every region has a different implementation approach and is at a different level of maturity—from pioneers like the EU and the UK with high potential and mature fintechs, to new entrants such as Kenya and Saudi Arabia. The diversity in regional approaches is understandable, but it adds complexity for global banks.

In the UK, open banking has meant exposing a standardized set of APIs leveraging industry infrastructure provided by the Open Banking Implementation Entity (OBIE) within stringent compliance timelines. Other regions on the Open Banking path can learn from the challenges faced, high degree of formalization, established frameworks, and mature governance setups that enabled financial institutions in the UK to achieve compliance within the stipulated timelines.[2] The compliance phase was tough for all participants—third party providers (TPPs), banks and regulators—but the benefits are showing across the banking ecosystem.

Customers, TPPs and banks

Customers gained access to value-added services from banks and TPPs. TPPs moved from the costly, inefficient, screen scraping-based solutions to API-based offerings. Banks provisioned the right technologies and carried out complex core-to-microservices API-based architecture transformations creating a simpler way to bring innovations to life. They can roll out innovative, purpose-driven propositions and take advantage of their existing customer base while targeting new customers.

Banking industry and regulators

It took over four years for banks and building societies to progress from understanding the PSD2 specifications adequately to achieving compliance. The foundation laid then paid off because they rolled out Confirmation of Payee within a year and are steadily progressing towards the implementation of Request to Pay.

The Financial Conduct Authority (FCA) is looking at Open Finance[3] as a natural extension of open banking, to cover a wider range of financial products for the benefit of customers. Open finance will give the UK an opportunity to create an interconnected industry that can nimbly leverage data and collaborative platforms to provide smart and secure options to customers.

Mindset shift

Perhaps the most important achievement of open banking is the shift from bank-focused solutions to customer-focused propositions. This new perspective throws open possibilities to craft solutions that fulfil customers' purpose holistically and make a difference to their lives. The UK now has a robust open banking standard, a strong implementation entity (OBIE), sufficient technology capability, ongoing efforts across multiple lines of business, a growing volume of data from consenting customers, and cross-industry collaborations. This is the right set of ingredients needed to create new, valuable ecosystems, and generate more benefits for customers quickly.

[2] Open Banking, What is Open Banking, Accessed June 2021, https://www.openbanking.org.uk/wp-content/uploads/OB_MediaPDF_FINAL.pdf

[3] FCA, Open Finance: an opportunity for financial services, November 2019, Accessed August 2021, https://www.fca.org.uk/news/speeches/open-finance-opportunity-financial-services

Unlocking the full potential

The core principle of open banking is to put control back into the hands of customers, to choose who they trust their financial data with and what benefits they want out of it. Based on their own unique situation, customers look for convenience, better deals, up-to-date view of their financial position, spend flexibility, financial advice, effective ways of managing their money and their lives. Business or individuals, this need is universal. Banks and innovators are rising to this challenge by capitalizing on the customer consent and available open banking APIs.

The post-compliance period of open banking promises to be an era of innovation—exciting and beneficial to the banking industry, and more importantly, to customers. Banks and building societies are launching innovative propositions to target the existing customers as well as those who do not bank with them. Popular industry themes include data enrichment, transaction profiling, aggregation, credit decisions, payments, insights, and cross-industry customer journeys. The time is perfect to realize gains from effective use of open data, conceptualize interesting ways of packaging data, and unlock the full potential of open banking.

About the author

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Padmavathy Ramesh leads Research, Innovation and Open Banking for TCS' Banking, Financial Services, and Insurance (BFSI) - UK and Ireland. She works with banks and helps them define, plan, and achieve their growth and transformation objectives by providing thought leadership, developing solutions and assets, leveraging emerging technologies, along with building their innovation and Open Banking capabilities. Padma holds a Master's degree in Computer Applications from the University of Delhi, India.

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