

# Open banking picks up the pace

In January, our Visa Consulting & Analytics (VCA) global advisors used VisaNet data, expert interviews, and in-house research to identify [ten trends that are set to shape the payments landscape over 2023](#).

Each month, the team delves into and expands upon each of the ten trends. This month, VCA deep-dives into open banking picking up the pace – by defining open banking, discussing how it'll impact different stakeholders such as financial institutions (FIs) and merchants, and outlining a framework these stakeholders can use to develop their open banking strategy.

## Overview of open banking and its use cases

### Overview of Open Banking

Open banking is a network in which a user – typically a consumer – gives a third-party app or website permission to connect their financial account to receive a service. Open banking is a modern service that can help power advanced analytics, create personalized consumer offers, and utilize technologies that improve the financial lives of people across the globe. The advent and rapid adoption of open banking are a result of the expectations of the modern, digitally savvy consumer who expects their banking and payments products and services to be instantly accessible, digital-first, and seamless to interact with.



Open banking is a truly global phenomenon, and while it takes different forms across the world, there are three common themes across the markets it serves:



#### Innovation

By allowing consumers and businesses to securely share data with third parties, open banking powers more personalized experiences and best-in-class use cases leveraging financial data.



#### Competition

The innovation and technology developed by open banking lower barriers of entry for new firms and unlock opportunities for incumbents to deliver better services to their customers.

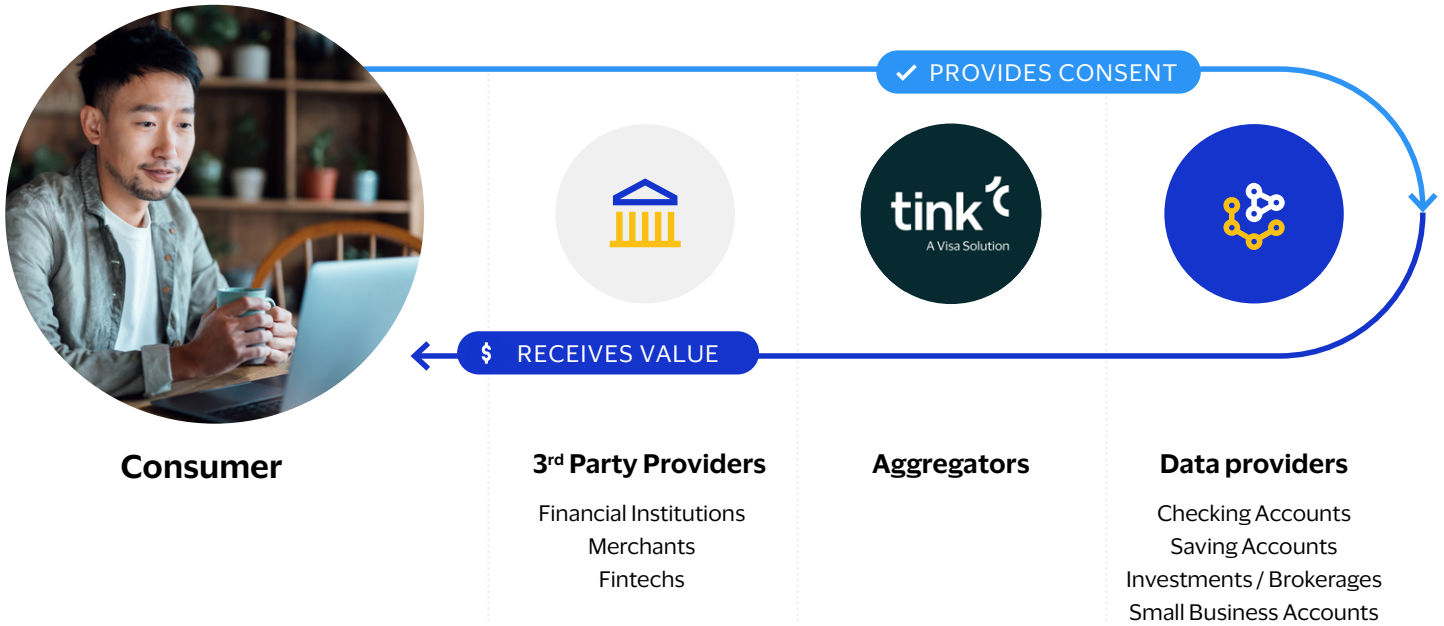


#### Consumer Benefit

Ultimately, open banking delivers consumer-centric innovation and competition that advances financial inclusion, drives greater choice of financial services, alleviates switching costs, helps expand responsible access to credit, and provides access to financial literacy and management tools.



## How does open banking work and what can it do?



Open banking starts with a consumer who wants to connect a financial account to an app or website – for this example, consider a customer who has their primary bank account, but wants to fund a wallet on a Peer-to-Peer (P2P) payments app. The P2P payments app will work with an open banking network, commonly known as an aggregator, to power secure data sharing and services. Within the P2P payments app, the consumer will consent to share specific data for a service and select their primary bank from a list of financial institutions. The aggregator will then communicate with their primary bank, typically through a machine-to-machine connection known as an Application Programming Interface, or API. The primary bank account will authenticate their customer, either through biometric ID or by login credentials, and share the requested data back to the aggregator, who then packages it in a standard format and returns it to the P2P payments app. With the permissioned data in hand, the P2P payments app is then able to allow their customer to begin sending P2P payments to their friends.



**This is one example of how open banking works, but the value of customer-permissioned data sharing can come in many forms, and can be described in four key categories:**



### Onboarding & Account Information

Open banking allows a consumer to open and fund new financial accounts simply and securely. During an onboarding flow, a P2P payments app, although the same principle applies to any financial services app such as a wallet or bank account, could prompt a consumer to connect their primary bank checking account and ask for the consumer’s permission to share their account information back to the P2P payments app. Rather than requiring a consumer to manually enter account and routing numbers and wait for validation through microdeposits, which sometimes requires a reversal afterward, open banking allows fast digital communication of basic identity and account information that reduces friction in the account opening experience. In addition, real-time balance data can help to ensure that the consumer has sufficient funds before making a payment or funding an account.



### Underwriting

Open banking technology can be leveraged by lenders and card issuers to make better-informed underwriting decisions across a variety of credit products. Alongside traditional credit information, open banking technology gives lenders a direct line of sight into their potential customers’ real-time financial health, allowing them to consider information not traditionally available to lenders. Open banking can even allow data typically found in account statements to be shared, reducing friction in mortgage applications that have previously required manual document downloads and uploads. This process of allowing a lender to view account information becomes especially helpful for consumers with thin files or lower credit scores. A consumer may connect their primary bank and share information about their income and spending that a lender can utilize to extend them credit when just a FICO score may not be enough to decide.



### Consumer Engagement

Financial institutions and fintech apps are continually striving to be the primary financial hub for their customers, and open banking allows them to build the best experiences to attract and retain them. By allowing customers to connect financial accounts across several institutions for a full picture of spending habits, subscription management, and other benefits, the provider creates stickiness that will keep their customers engaged and active while also giving the provider opportunities to suggest products tailored to fit the customer’s demonstrated needs.



### Payment Services

Beyond simply providing account information, open banking can also directly facilitate money movement. In certain markets, licensed open banking aggregators send digital messages that instruct banks to move money on behalf of a customer – often referred to as payment initiation. In other markets like the US, commercial partnerships between open banking aggregators, banks, and payment processors power full-service payment facilitation to move money across ACH and faster payment rails.





## Implications for FIs

Financial institutions have been instrumental in the development of open banking globally. In some markets, financial institutions are required to develop open banking APIs and offer access to licensed participants in an open banking scheme. In other markets, financial institutions aren't required to participate but do so to support their customers' data-sharing requests and their desire to deliver innovative financial products and services.

**To keep up with consumer demand for open banking-powered experiences, there are two core pillars of open banking strategy that financial institutions should consider:**

### Linking Data (Data Out)

Enable customers to link their primary bank account to external third parties through modern APIs.

- Consumers demand the ability to share their bank account data with third-party apps and websites and already do for a variety of use cases. To meet demand, financial institutions should design their API strategies to empower consumers to share their bank data with third parties. FIs should evaluate and choose APIs that align with regulatory requirements or industry standards. In North America, Financial Data Exchange (FDX), a standards body comprised of diverse industry participants, provides technical standards for secure and reliable consumer permissioned data access. FDX is working to align the industry around one common, interoperable open banking API. By leveraging industry-standard APIs, banks can map their core data with the data required to support customer-permissioned use cases. Thereafter, FIs can leverage technical and operational resources to deploy the API, expose it to developers, and leverage partnerships with aggregators to introduce appropriate gatekeeping and data access measures.
- In many global jurisdictions, regulations require financial institutions to participate in open banking. For instance, in the EU, a regulation called PSD2 grants customers the right to share certain banking data with third parties and initiate payments. In some markets where policymakers don't currently mandate bank participation, other incentive structures or rulemaking are designed to encourage financial institutions to participate in consumer permissioned data sharing and payments.

### Utilizing Data (Data In)

Create new experiences for customers, keep them engaged with the financial institution's digital offerings, and tailor personalized offers to cross-sell new services.

- Increased access and visibility into customer data allow FIs to offer their customers a more accurate and holistic view of their financial picture. For instance, consider a customer who has a primary bank account and has a high-yield savings account at another bank. When the customer shares their high-yield savings account data with their primary bank, both the primary bank and the customer benefit from a comprehensive view of the customer's financial situation. The customer can make better use of their primary bank's online banking features (e.g., budgeting tool), encouraging them to use the bank's app and website, rather than seeking alternative providers for personal financial management services. Furthermore, the primary bank can use the additional data to offer tailored products and services that the customer will benefit from. In the longer term, primary banks' additional insight into their customers' personal financial positions will enable them to tailor financial solutions by developing or offering products and services that more closely fit customers' needs.
- FIs may use open banking data, such as verification of assets and income, to help assess creditworthiness more effectively, allowing them to make informed decisions about extending credit.
- Open banking allows customers to more seamlessly open and fund a new account, providing a better customer experience and higher conversion and deposits for new customer acquisitions.



FIs can use open banking products to allow their customers to connect all their financial accounts, creating a personal finance management hub and allowing FIs to personalize offers, maximizing their up-sell and cross-sell potential.



## Implications for merchants

In recent years, merchants and billers around the globe have adopted open banking to help reduce friction for consumers who prefer account-based payments, like ACH or RTP. Across most global markets, three use cases have shown the most promise:

### Key merchant use cases



#### Account Funding

Customers can load funds into a wallet or balance to pre-pay for services, receive loyalty benefits, or simplify future payments. For example, a customer could load funds directly from their primary bank account into the in-app wallet provided by a quick-serve restaurant merchant or coffee shop. Those funds could then be used by the customer to pay for their orders either in-store or within the app itself. This model benefits merchants in two ways: A) Primarily, it increases stickiness and loyalty with their customer base, and B) it comes with the secondary benefit of enabling merchants to generate interest income on the customer funds held in their in-app wallets.



#### Bill Pay

Billers that require recurring payments have adopted open banking technology to allow their customers to seamlessly connect their bank accounts to accept recurring payments. This connection makes what's previously been a frustrating and labor-intensive task for consumers – setting up utility payments – into one that's quick and easy.



#### Fund Disbursements

Merchants spanning the full breadth of industry verticals – from healthcare to auto insurance to online gambling – have used open banking technology to help rapidly disburse funds to their customers. These open banking-powered fund disbursements can take the shape of your auto insurance provider pushing funds directly to your account to cover the cost of a car repair, or it can be in the form of an online gambling provider quickly sending a player their winnings upon withdrawal.



Merchants can use open banking products that allow customers to seamlessly connect their financial accounts and share the requisite payment information to make an account-based payment. Open banking helps to put customer choice and convenience at the forefront of every payment experience, making it easier for customers to pay quickly and securely regardless of their preferred method of payment.



## Frameworks to develop an open banking strategy



### Develop your open banking business cases and product roadmap

**For FIs:** Dedicate cross-functional expertise to design, implement, and manage the data-in and data-out strategy. The team will articulate the end-state vision, immediate plans & longer-term goals for open banking-powered solutions.

**For Merchants:** Evaluate product-market fit of an open banking solution in your checkout flow. Merchants who are particularly well suited for exploring this are those with high ticket sizes or those who have a significant portion of their payment volume already flowing through non-card methods (e.g., checks, ACH).



### Establish and maintain open banking partnerships

**For FIs:** Relationships with multiple aggregators unlock the ability for your customers to take advantage of a variety of third-party applications and services. Collaborate across business units to develop firmwide business cases that power new experiences for customers (e.g., account aggregation unlocks new revenue, encourages top-of-wallet behavior). Such partnerships can go beyond facilitating data-out and can unlock upsell and cross-sell opportunities.

**For Merchants:** Conduct a landscape assessment to identify and shortlist vendors and partners who can help further your open banking ambitions. These partners should be vetted based on their ability to improve conversion and deliver a better ACH experience for customers.



### Keep the customer at the forefront of any open banking strategy

**For FIs and Merchants:** As open banking powered services strive to meet a customer's financial needs in a personalized and tailored manner, customer centricity is critical to building trust in institutions, fostering long-term relationships, providing a lasting competitive advantage, as well as a direct feedback loop for FIs and merchants to continuously improve and innovate offerings.



As open banking momentum continues to gain steam, it should continue to become an increasingly important piece of an FI or merchant's overall payments strategy. FIs and merchants should develop or polish their open banking strategy, explore working with open banking providers, and test use cases to see what resonates with their client base.



## About Visa Consulting & Analytics (VCA)

We are a global team of 1000+ of payments consultants, digital marketing specialists, data scientists, and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital, and more with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics, and machine learning, with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

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 drive better business decisions.

## About Visa Open Banking

Visa is a trusted network and world leader in digital payments, with a mission to remove barriers and connect more people to the global economy. Visa offers clients a suite of solutions that cover everything from open banking, fraud management, and security to data products, consulting, and analytics. Visa believes that economies that include everyone everywhere, uplift everyone everywhere, and see access as foundational to the future of digital financial services. Visa's Open Banking services support the openness and innovation that drive the growth of digital financial services.



If you'd like an in-depth conversation on open banking and the opportunities for your business, please contact your Visa Account Executive, or email [VCA@visa.com](mailto:VCA@visa.com).

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