

Unlocking the opportunities of open banking

If you pay friends with Venmo, transfer money from your bank account to Robinhood to purchase stocks, or use any other third-party financial applications that connect to your financial accounts, you are using open banking, a system that helps enable fast, innovative and frictionless digital financial services.

Open banking creates a number of opportunities for consumers and businesses. In fact, the possible use cases for open banking continue to grow, aided by the proliferation of smart connected devices and rapid fintech innovation. As consumers have grown accustomed to the benefits of personalized digital services, demand for seamless management of financial experiences has increased. Research shows that 87 percent of U.S. consumers are using open banking to link their financial accounts to third parties, however only 43 percent of U.S. consumers are aware that they are using open banking.¹

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In this article, we break down the elements of open banking, to enable the secure, reliable, and convenient movement of money and data between consumers and businesses, as well as an opportunity for financial inclusion and equity.

What is open banking?

Let's start with a definition: **Open banking is a system through which consumers or businesses authorize third parties² to access their financial information such as bank and investment account data (e.g., transaction or payment history) or services (e.g., making a payment or requesting a loan).** Aggregators³ play the role of connecting third parties to the financial accounts of consumers and businesses. When consumers or businesses choose to share their financial data with third parties, the third parties can, in turn, provide a number of products and services, including budgeting, credit checks or help initiating payments. **Simply put, open banking enables connecting financial accounts and sharing data securely.**

¹ Source: Visa Open Banking Consumer Survey, n=1,500, representative sample of U.S. population based on Census Bureau. Administered digitally, April 2022.

² Any financial services organization - mortgage underwriter, your current bank, budgeting app, trading app, etc.

³ Third-party aggregators sit between financial institutions and consumer-facing apps. Examples of aggregators include Tink, Plaid, MX and Yodlee.



Because open banking connects networks, consumers can consent to share their financial information with specific authorized parties and, to help enable innovative and personalized financial products and services.

How does open banking work?

Open banking is increasingly enabled by application programming interfaces, or APIs. Open banking APIs are specifically designed to link software systems and apps to securely communicate with each other. Financial institutions can establish these APIs to make consumer financial data available to third-party aggregators such as Tink, MX, Plaid, and Yodlee. These aggregators serve as the bridge between account providers (e.g., banks, brokerages, credit unions) and third-party applications (e.g., fintechs, merchants, banks), who use this bank account data to provide financial services to consumers and businesses. While usage is high, challenges remain. For example, only 43 percent of consumers are aware that they are using open banking.⁴ Consumer awareness and comfort with data sharing remains low relative to adoption and usage, and connectivity methods could be improved. Additionally, uncertainty exists regarding potential rules and regulations. There are concerns that consent management, such as the terms and conditions of linking accounts, is inconsistent.

Overall, stakeholders are proactively addressing these challenges with a focus on supporting the common goals of open banking: consumer and business empowerment and choice, competition that provides innovative solutions, and financial equity and inclusion through access and control of finance data.

Open banking use cases

A common early use case has been digitizing traditional financial management in a more efficient and secure way. But there is virtually no limit to the products and services that could be enabled by open banking.

⁴ Visa Open Banking Consumer Survey, n=1,500, representative sample of U.S. population based on Census Bureau. Administered digitally, April 2022.

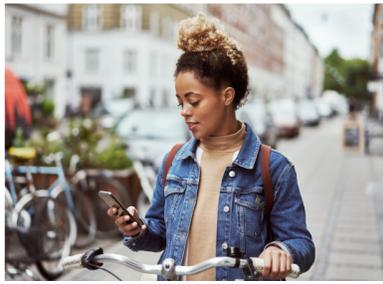
Open banking use cases are expanding

Historically, open banking has been used for basic account and transaction aggregation, and it is rapidly expanding to become the foundational layer for a broad range of consumer and business use cases

Established	Emerging	In Development
<ul style="list-style-type: none"> Personal finance management Peer-to-peer payments Account opening / onboarding Account verification Balance check 	<ul style="list-style-type: none"> Buy-now-pay-later Loyalty & cross-sell ACH payments initiation Credit decisioning Crypto on / off ramps 	<ul style="list-style-type: none"> Digital identity Omnichannel payments Real-time payments Request to pay Crypto payments

Shift from data-focused use cases to payments-focused over time →

Open banking in action



Everyday Spending

Fatima, a student, uses a budgeting app to help keep track of her spending, plan upcoming bills, and instantly pay bills through her bank account.



Businesses

Carlos, a small business owner, connects his business account to his lender, which enables him to access favorable small business loans by sharing creditworthiness data and get quickly approved for a small business credit card that enables him to access special offers, rewards and other benefits.



Professionals

Keith, a busy professional, manages his finances from his mobile device. Thanks to open banking, he can connect his accounts, analyze his data in one place and receive personalized offers. Keith also dabbles in emerging digital currencies and connects his bank account to a crypto exchange to purchase cryptocurrencies.

Open banking around the world

To date, more than 50 countries have implemented forms of open banking,⁵ but implementation varies greatly across the world.

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Europe

The revised Payment Services Directive (PSD2) mandates that banks enable access to registered third-party providers on behalf of, and with the consent of, their customers.



U.K.

The Competition and Markets Authority required the nine largest banks to implement common standards for open banking, making transaction data available through a common set of routines, protocols and tools. The Payment Services Regulations are the U.K. implementation of PSD2 and create the legal and regulatory framework for open banking in the U.K., regulated by the Financial Conduct Authority.



U.S.

The U.S. is broadly considered market driven and does not currently have a comprehensive open banking regulatory framework in place, although potential rules to improve consumer access to their financial data are under consideration by the Consumer Financial Protection Bureau.



Canada

A Canadian Advisory Committee on open banking recently published a Final Report on open banking recommending a unique “made in Canada” approach to open banking that charts a path between government led and market-driven approaches, in a hybrid public-private partnership model.

In the U.S. and Canada, an industry group called Financial Data Exchange (FDX) is promoting a common, interoperable standard for open banking APIs. FDX comprises stakeholders from the financial ecosystem who are focused on helping to transition the industry towards more standardized and secure open banking services.

Open banking is already enabling improved consumer experiences, illustrating the value of open access to financial information. Importantly, open banking could be a significant catalyst for financial inclusion and equity. The ability for all parties in the ecosystem to innovate and offer financial products to underserved communities is considerably increased in a world where access to customer-permissioned information is easily available.

⁵ Mercator Advisory Group, Open Banking Goes Worldwide: U.S. Inroads Are Keeping Pace with Global Efforts, August 2021 (41 countries noted in Mercator report, and additional 9 countries added per Visa analysis).

Who benefits from open banking?

Open banking is improving outcomes for a range of stakeholders including consumers, businesses, financial institutions and fintechs:



Provides **consumers** with faster, more transparent, and accessible ways to track, spend, borrow, and invest their money.



Allows **financial institutions** to maximize customer engagement by providing better insights and services to their clients.



Helps **businesses** analyze their finances, apply for loans, and receive payments from customers.



Enables **fintechs** to gain market share by rapidly developing novel and innovative consumer solutions.

How financial institutions can benefit from open banking

1. **Expanded customer engagement (stickiness)** – Financial institutions can use open banking to offer additional value to their customers. For example, using open banking to offer personal financial management services, enabling customers to connect multiple accounts to a bank's mobile banking app. By offering a range of valuable services conveniently integrated within a single app, customers can count on their bank for more of these convenient services.
2. **Improved operations** – Traditional financial institutions have benefitted from a shift from physical to digital documentation, which, among other things, makes data sharing and retrieval faster and more efficient. Open banking can streamline the collection and use of third-party data for financial institutions, and open banking systems enable direct sharing of and access to data, which reduces friction and improves operational efficiency. Furthermore, access to additional data sets and sources can help to ensure financial institutions are appropriately calculating risk while potentially expanding products and services to a greater number of consumers. A survey by research firm AiteNovarica⁶ found that 80 percent of financial institutions with significant credit portfolios incorporate the use of alternative data sources into at least some aspect of their lending.
3. **Increased opportunity for cross-selling and upselling** – Open banking may also provide financial institutions with opportunities to cross-sell and upsell differentiated financial products and services to existing customers. With access to more customer-permissioned information, banks can make informed business decisions that can build more profitable and long-lasting portfolios. For example, a financial institution could encourage customers to consolidate their financial

⁶ Aite: Alternative Data Across the Loan Life Cycle: How FinTech and Other Lenders Use It and Why. 2018. https://www.experian.com/assets/consumer-information/reports/Experian_Aite_AltDataReport_Final_120418.pdf?elqTrackId=7714eff9f5204e7ca8517e8966438157&elqaid=3910&elqat=2

relationship by offering incentives to apply for a mortgage or a wealth management account in addition to their existing checking and/or savings account.

As consumers, businesses, financial institutions, and governments have started to realize the value of open banking, demand for new ways to harness data has ushered in the era of "open finance" and "open data" under which broader data, such as mortgages, pensions, or insurance, could be accessible by trusted third parties, with consumer consent.

"Open finance" is an extension of open banking that utilizes consented access to connect more financial accounts (e.g., loans, cards, investment accounts, tax) and perform advanced use cases (e.g., enhanced credit decisioning, tailored insights and analytics, risk, and fraud prevention). The benefits of open finance are potentially significant and could range from a seamless account opening experience to an identity verification process that is completely digital. It also helps to support financial equity and inclusion by providing consumers with a more complete view of their financial health and access to credit products. "Open data" describes permissioned access to non-financial accounts (e.g., billers, government, education, credentials, titles/deeds) and use cases beyond financial services (e.g., digital ID).

While open banking is still in its early days, there are many potential opportunities and benefits for all. We will continue to explore these concepts in future Visa Navigate articles.