

ATFS Bulletin March 2021 – Open Banking Update

Introduction to Open Banking

Put simply, Open Banking is the secure way to give providers access to financial information. It allows individuals and small/medium SMEs to see all their finances in one place, make payments directly from a bank or building society, help budgeting, find the best deals, and shop for the products and services that suit.

Open Banking is designed to bring more competition and innovation to financial services. It was set up by the Competition and Markets Authority on behalf of the UK Government. Every provider that uses Open Banking to offer products and services must be regulated by the FCA or European equivalent. Currently, the nine biggest banks and building societies are enrolled on the Open Banking Directory, with others in various stages of development.

Users can choose to share data with registered companies (known as third-party providers or TPPs). It means users can see account information from all banks in one place and make payments through apps and websites. The user is in control and chooses which services to use and which providers to allow access to information and even for how long this access is allowed.

Ultimately, users will be able to share data for any 'payment account' held. This includes current accounts, credit cards, prepaid cards and some savings, though the initial roll-out of Open Banking has been just for current accounts.

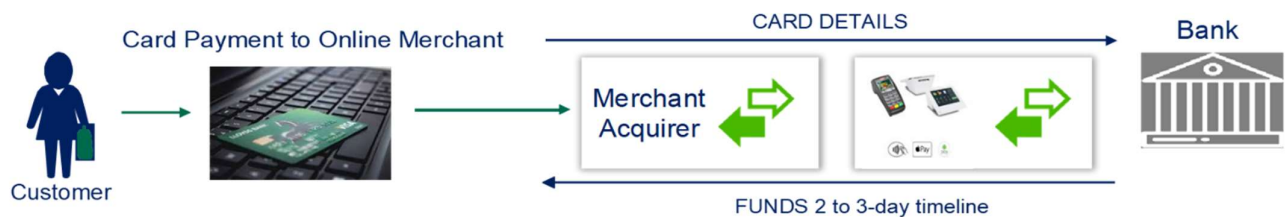
Two Types of Service

Account information services. These let you see all of your account information from different banks in one place and offer features such as budgeting help and product recommendations. This could include budgeting apps and price comparison websites.

Payment initiation services. These will let you pay companies directly from your bank account and not through a third party like Visa or Mastercard. This could include retailers and even tech companies like Amazon.

Payment Flow

Current Card Payment Model



Potential PISP Payment Model



How safe is it?

An authorised provider will only be able to access data needed for the service the user has signed up for – express permission is required. All providers must comply with data protection rules, including GDPR regulation that came in in May 2018. The provider should say exactly what data it will use, how long for and what it'll do with it before a user signs up.

Where is Open Banking now?

January of this year marked the three-year anniversary of Payment Services Directive 2 (PSD2), and while Open Banking is still arguably in its infancy, it's proving to be an attractive opportunity for fintechs and banks to work in partnership.

The benefits of Open Banking – improved customer experience, new revenue streams, and a sustainable service model – underpinned by a regulatory imperative, have ensured that banks and fintechs have kept momentum, and moved to roll it out, despite the complexity and challenges it has presented. There are now 300 fintechs and innovative providers involved, and over 2.5 million UK consumers and businesses now use open banking-enabled products to manage their finances, access credit, and make payments.

The landscape has started to move beyond compliance, into genuine competition and innovation. The ability for consumers to share product and transactional data has seen the biggest uptake in new products and services. In fact, Open Banking's figures have seen an increase in API call volume from 66.8 million in 2018 to nearly 6 billion in 2020.

However, there are some warning signs on the horizon. For UK fintechs, Brexit has had a detrimental effect on market size, shrinking it from 720 million across UK and Europe, to just the size of the UK population – 60 million. European fintechs can continue to operate in the UK thanks to passporting, but UK-based fintechs would need to set up a parallel infrastructure in Europe, creating a costly logistical burden.

University Example

Lancaster University has been using the American Express' "Paid by Amex" service since May last year. This followed several months of development work on the API, as Lancaster was the first University to use it. Payers can access the service via their laptop, tablet or phone, through the University's self-built Payments Portal, which links into Agresso. The Portal also shows WPM and a specialist payment provider as alternative payment methods. The University's initial analysis showed that payments by or on behalf of the student had previously been made by card, thus reducing cost.

New Development

WPM has recently announced their intention to provide access to real-time UK and European Open Banking payments as part of their standard service offering, likely later in 2021. WPM are intending to be directly regulated by the FCA to provide Payment Initiation Service Provider (PISP) services, which means they do not need to incur transaction costs, potentially providing WPM clients with a compelling, fully integrated, solution in the not-to-distant future. WPM are also undertaking extensive research with UK students/parents to understanding their appetite for, and any concerns relating to, Open Banking-initiated payments – with this research being shared at WPM's Annual Conference in late April and a future bulletin.

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