

ATFS Bulletin March 2022 Open Banking in 2022

Open Banking – The Future of Financial Services?

Open banking is now starting to show that it can be the future of financial services. For several years open banking has been in the market but we are only now seeing the momentum needed to finally bring this as a true competitor to the traditional banking we all know. At the end of 2021, within the open banking eco-system we had 337 regulated providers, 245 third party providers and 92 account providers. This is a substantial change to what we consider the traditional way of banking, with technology leading the change, as we all already have so much information at our fingertips. In 2022 the prediction is we will see increased acceleration with adoption. 2021 was the largest increase annually so far and users for open banking increased by around 60%.

One of the biggest rises seen in 2021 was the in the ability to make open banking payments. This allows customers/students to pay for goods and services directly from an account rather than through a credit or debit card. We now see more ecommerce payments going through open banking and you may well have a provider in place that can assist with this for the University already. There are early signs that new payment terminals coming to the market will have the ability to take account to account payments rather than using a card to perform the transaction. These terminals when available will assist cost reduction with on campus payments.

The Open Banking Ecosystem



Account Information Service Providers (AISPs) explained:

An AISP is a company authorised to access an individual or SME's account data from their financial institutions with their explicit consent. The UK's nine largest banks are required by law to comply with these requests from the AISPs. Open Banking's framework and technical specifications enables years of transaction history to be retrieved in seconds.

Payment Initiation Service Providers (PISPs) explained:

Rather than only viewing data on an account, PISPs are authorised to make payments on behalf of a customer. PISPs do this by initiating transfers directly to or from the payer's bank account using the bank's own tools. This has led industry commentators to refer to AISPs as having 'read-only' access to an individual's accounts, whereas PISPs have 'read-write' access.

Account Servicing Payment Service Provider (ASPSP) explained:

Account Servicing Payment Service Providers provide and maintain payment accounts for payment service users. Traditionally, ASPSPs are banks and similar institutions. Under Open Banking, ASPSPs publish Read/Write APIs. These enable consumers to share their account transaction data with third-party providers; in turn third party-providers can initiate payments on their behalf. Under PSD2, all ASPSPs in Europe are required to participate in open banking and provide access to the data.

Open Banking Payments

The cost of receiving payments via open banking will be more cost effective compared with credit or debit cards and available online or in-person. This means cheaper costs for the University receiving student payments.

Open Banking payments are often near-instant settlement with immediate access to any money coming in. Thanks to the UK's retail payments system, Faster Payments, transactions often completed within seconds meaning income is in the account and available typically quicker than card-based payments.

Open banking offers an opportunity for Universities, businesses and consumers to access better financial products or services with a new way to collect payments. It has been expanding rapidly as UK and EU regulations have created frameworks for its operation since 2018. This growth has been encouraged by:

- The decline of cash and growth of electronic payments
- Ecommerce taking a growing share of payments
- The high costs to Universities of accepting card payments

The technology already widely used by major banks and financial institutions, personal investment tools, and financial safeguarding apps and trusted by more than five million people today. This includes HMRC, which announced in January 2022 that it had collected almost £2.5 billion in tax using the technology.

Universities are already making use of Open Banking to receive payments while also refund students in an easier way than collecting bank details. Students are early adopters of technology and the banking services they use are digital so the shift to account-to-account payments through Open Banking should be an easy transition from card payments.

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