Open Banking: Everything you need to know

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Significant period of change in the next 9 months...

Between PSD2, OBWG and CMA alone, there is significant, directionally aligned, activity aimed at transforming the landscape. The timing and degree of prescription varies.

- Contribute to a more integrated and efficient European payments market
- Improve the level playing field for payment service providers (including new entrants)
- Make payments safer and more secure
- Protect consumers
- Encourage lower prices for payments
- Find best deals
- Facilitate Switching
- Alerts for overdrafts
Key points

PSD2 and open banking will need to be implemented regardless of Brexit.

Implementing must be done by early 2018.

Do you know which LoB and products you offer are in scope?

Do you know what you have to do to demonstrate compliance?


http://www.bbc.co.uk/news/business-37020089
Today

Josh

Bank A

Bank B

Credit Card Provider

PSD2

Josh

Aggregator (AISP)

Bank A

Bank B

Credit Card Provider
Key points

Josh can access all of his ‘payment’ accounts via the aggregator.

The aggregator will most likely access and cache data even when Josh is not using the app.

Account providers cannot charge for access.
What are financial institutions exploring?

With this disintermediation, who owns the relationship with the customer?

How does this affect functional capabilities of front-office systems? And, future investments in further developments?

Why should we make it easy for the aggregator?

PSD2

Josh

Aggregator (AISP)

Bank A

Bank B

Credit Card Provider
Key points

Josh needs to enter/ save his card details with the merchant

The merchant needs to demonstrate PCI-DSS compliance

All parties involved in the payment processing chain charge a fee
Key points

Improved buying experience for Josh; reduced buying friction

Improved security, exploiting multi-factor authentication

Overall cost of processing the payment is reduced

‘Faster payments’ even if account providers do not have access to faster payments infrastructure

1. Purchase

2. Payment request

3. Payment instruction

4. Payment instruction

5. Confirmation
**What are PSPs thinking?**

What proportion of payments will flow through the new PSD2 route?

How do we continue to generate payment services revenue?

Why would Josh use a payment initiator vs. existing services?

Who does Josh trust...for payments?

What are the value-added payment services?

What partnerships do we need to form?
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What are the unknowns?

- API and Data Specifications: REST/JSON, SOAP, EBICS(XML)
- Security: 3rd parties and customer strong authentication
- Risk and Liability: Capital requirements, environment accreditation
How does it affect your business?

Culture  Ecosystem  Open Banking  Security  Infrastructure
Options to leverage PSD2 in a path towards “open banking” and “open ecosystem”

- **Open Banking**
  - Driving growth thanks to a network of partners
  - Financial services embedded in consumer life & corporate processes
  - Easier, simpler, personalized banking services – Fee based
  - Real time capabilities
  - Facilitate payments in EU in a secured manner

- **Open Ecosystem**
  - Bank financial services as direct drivers for society growth
  - Offensive Strategy

- **Defensive Strategy**
  - Strict minimum openness for PSD2 compliance
  - Expose or consume bank services
  - White labelling “PaaS” services
  - Time

- **Bank Value**
  - Financial services embedded in consumer life & corporate processes
  - Easier, simpler, personalized banking services – Fee based
  - Real time capabilities

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**API Scope**
- PSD2 only
- Extended
- Role
  - TPP
  - Base TPP
  - Value adding TPP
- ASP
  - Base ASP
  - Value adding ASP

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- **Open Payments**
Monetising Open Banking and Ecosystem Services

Open Ecosystem
- Open Banking
  - Digital vault
  - Cyber security
  - Personal Loan
  - Remittance
  - Payment initiation
  - Self service onboarding
- Open Payments
  - Digital vault
  - e invoicing
  - Supply Chain Finance
  - Aggregator
  - Customer Care

Profit
- Fee based services
- e invoicing
- Payment initiation
- Self service onboarding
- Remittance
- Personal Loan
- Supply Chain Finance
- Customer Care
- Cyber security
- Cash management

Strict minimum openness for PSD2 compliance
Key principles of the new operating model...

1. **Changing Customer Behaviour**
   - User-defined experiences
   - Increases relevance

2. **Business Scalability**
   - Provides limitless, cost-effective computing capacity to support growth

3. **Market Adaptability**
   - Faster time to market
   - Quickly adapt to regulatory-driven changes
   - Seasonal & special projects
   - Rapid product, pricing and services innovation

4. **Simple Self Service**
   - Mobility of employees
   - Self service of clients

5. **Context-driven Variability**
   - User-defined experiences
   - Increases relevance

6. **Eco-system Connectivity**
   - New value nets
   - Potential new businesses
   - Enables rapid simulation and development

7. **Cost Flexibility**
   - Shifts fixed to variable cost
   - Pay as and when needed

8. **Technology Innovation**
   - New value nets
   - Potential new businesses
   - Enables rapid simulation and development
PSD2 and Open Banking

- Transparency and Trust
- Digital and Cognitive Bank
- Digital Financial Advise
- Partnerships and Monetisation
- Compelling for {non} Customers
- Banking as a Platform
Useful links

- PSD2 Directive
- UK’s Open Banking Standard
- CMA’s Implementation Entity Steering Group
Thank You