

Open Banking- The New Wave

In recent times, we have witnessed the fast adoption of mobile banking and payment platforms by consumers, propelling financial institutions and 3rd party providers such as Fintechs to collaborate and build strategic partnerships culminating in shared assets and interests as exemplified in Open Banking, a system that is largely enabled by Application Programming Interfaces (API).

Open Banking is rooted in the exchange of valuable data between banks (who hold a data and regulatory monopoly) and third party providers, with the customer's consent. This ecosystem has a primary objective of providing customer centric solutions through the development, provision and adoption of standardized API access to all players in the financial service industry.

According to PYMNTS.com, "Open banking lays out a path and process for banks and other financial institutions to share their customers' data with third-parties (even competitors), where the data tie into apps and new products and services".

A number of factors are responsible for this new emergence, some include

Consumer behaviour- COVID 19 saw the increase in the adoption of digital solutions compared to the pre covid era. As a result of the realities of the pandemic, there was an upsurge in demand for products focused on budgeting, savings, financial management, credit administration, etc. Consumers are also hungry for solutions with an end-to-end model such as online shopping, payments and delivery. These trends have triggered financial service providers to jump on the new wave and leverage on the opportunities presented by open banking to retain their customers and attract new ones.

The rise of FinTechs- As Fintechs increase and continually exemplify the ease that should characterize the payments industry, non traditional players are compelled to take the cue. The increasing adoption of emerging innovative solutions and offerings among consumers, further calls for increased collaboration among all players, including banks, leading them to consider strategies such as open banking to provide additional value to customers.

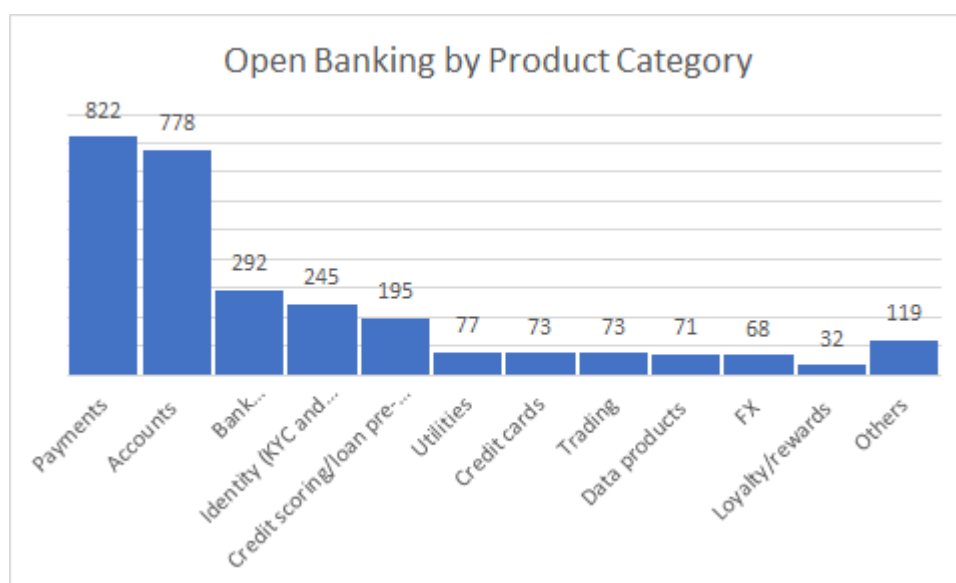
Regulation- Regulatory bodies recognize the shift in the financial ecosystem which has influenced a change in the rules and standards guiding financial transactions. The Central Bank of Nigeria, in line with its mandate to promote financial system stability issued a regulatory framework on Open banking in Feb 2021. "Having observed the growing integration of banks and other financial institutions with innovators in the financial services space and the increasing adoption of Application Programming Interface (API) based integrations in the industry, it has become expedient for the Bank to provide appropriate framework to regulate the practice"

Emerging Use Cases for Open Banking

Open Banking relies heavily on APIs, which are clearly defined methods of communication between various software components.

Most companies are beginning to see the need to collaborate, hence sharing of data and API is key to meeting the varying needs of consumers.

The use cases enable financial institutions and third party platforms to give informed decisions on new product releases and inventions.



Source: Global Open Banking APIs State of the Market Report 2020

As reflected in the chart, the majority of API products are available in payments and account categories, followed closely by bank products, ATM Locations, Identity authentication and loan approvals. Other APIs worthy to note are data products, FX, trading, loyalty/reward cards and others.

Established fintechs, such as Interswitch, provide robust and well documented APIs to simplify and push the open banking narrative in the financial space.

Open Banking and E-Commerce

Due to the upsurge of small businesses and the comfort that comes with shopping online, applications and solutions that meet the needs of consumers are springing up. Among the use cases of open banking for online stores, these stand out;

Refund- Through open banking powered applications, online stores are able to initiate refunds on unsuccessful transactions. This eliminates disgruntled customers and enables business to run smoothly.

Swift Payment- With open banking, online businesses can now accept payment across various channels with ease. These payments include but are not limited to payment with USSD, Payment with QR, Payment with Transfers, amongst others

Escrow Services- The online business community is usually filled with cases of dissatisfied customers. Open banking via escrow services ensures that customers get the value of their spend even before the merchant or business owner does.

Insuretech; Open Banking and Insurance

With Insurance gaining leverage, open banking powered solutions have been instrumental to the growth of the Insurance industry. Some of the use cases prevalent with these applications are;

Identity Validation - Verifying the identity of individuals before issuing an insurance claim is extremely important. The hurdle of doing this process manually is now being eradicated thanks to Open Banking APIs that make identity validation processes seamless.

Smart Authorization -In situations where authorizations need to be carried out on payments or transactions, Open Banking APIs aid such, thereby enabling businesses to focus on increasing revenue and driving numbers.

Account and name Validation- Where an individual's account ownership is required, open banking enables this process to be carried out seamlessly.

Open Banking and Lending Administration

Although quite rewarding, the lending ecosystem is prone to risk. A great deal of background checks are required, and thus a heavy reliance on customer data. Furthermore, the credit management business is blooming, with products and solutions being developed daily to attend to the needs of consumers. The popular use cases in the scenario are;

Credit checks/risk assessment: In situations where customers' income is needed to determine if they qualify for a service, open banking affords the opportunity for a quick credit/income check. It also facilitates the capacity to identify and determine an individual's ability to repay a given service.

Auto-filling forms – Laborious documentations contribute to a large percentage of drop-off during the onboarding process, especially with services like loan

applications. However, through Open APIs, the drop-off rate can be significantly reduced as required customer information is automatically aggregated.

Balance Validation- Leveraging data provided by open APIs, it is now possible for users to easily validate their account balance while lenders can also easily determine the balance in customer's accounts.

Onboarding

KYC process automation – With open banking, financial institutions can easily verify customer's information without going through the hurdles of manually uploading required documentation. By leveraging available data, customer credentials are speedily verified.

Key Drivers of Open Banking

There are certain players that are key in driving the open banking ecosystem. They are but not limited to;

Third-Party Providers (TPPs) – These constitute survive providers, such as Fintechs, who are authorized to integrate with bank channels and provide novel services, leveraging data enabled by APIs

Banks- One of the major drivers of the ecosystem, as they hold a large quantity of customer data.

End users- Consumers are key in the Open banking system. Their needs influence the innovations and solutions developed and they also benefit largely from the system

Regulators-The regulators play the essential role of controlling, monitoring and maintaining integrity of the financial ecosystem while promoting better financial services for end users.

Going forward; how to stay relevant

The adoption of digital financial solutions riding on a popularity derived from the COVID 19 pandemic, has seen financial institutions tweaking their strategies to fit this new development. The future of open banking might not be known, but it is important that financial institutions and other relevant players take necessary steps to stay relevant

Infuse an Open Bank Strategy in your plan - Considering the changes in customer behaviour and the rising adoption of digital solutions, it's paramount for financial

institutions to infuse the open banking system and policy into their operations. Now is not the time to fold hands and carry on in usual fashion, else you risk losing out.

Put some money behind Open Banking- It has become clear that open banking is here to stay, evidenced by regulations across several countries. According to a research by Tink, 45% of financial institutions in Europe are investing in Open Banking spending as much as €100m on the average. The commercial advantage of open banking is also not to be contested, therefore it is important for financial institutions to begin prioritizing open banking to increase revenue amongst other advantages.

Collaborate and Build Strong partnerships- Open Banking cannot be possible without strategic partnerships with Fintechs and other key players in the ecosystem. These partnerships can birth the next greatest solutions and add value to financial institutions.

The future of Open Banking is promising in the drive of financial inclusion in Nigeria and will arguably be a key player in the payment industry in Nigeria. Not sure where to start? You could book a consultation with one of our payment consultants, if you are a business, financial institution or Fintech looking to leverage this wave for your growth. If you are a developer, our Developer Console further provides a robust documentation of APIs for you to begin with.