

Open Banking: Is it actually benefiting fintechs, banks and end users?



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A reminder:

The before OpenBanking times

Screen scraping...

Screenscraping was (mostly) good for users

- Widely used for account aggregation
 - Even used for payments in some ecosystems
- One-off setup and access is granted permanently
 - Because most users never change their password...

Screenscraping was weird for banks

- Unpredictable peaks in usage of their online banking portals
- Inefficient and hence costly
- Triggers fraud systems
- Probably can't block it or won't
- Prevents rollout of multi-factor authentication
- No contract/rules in place between banks and screenscrapers
- Users aren't going to stop sharing their passwords if there's no alternative

Screenscraping was bad for security

- Third parties have your credentials
- Technically able to make payments from their users account
- Liability model is unclear if fraud occurs

Screenscraping was expensive for fintechs

Any time bank changes their user interface scraping potentially stops working until manually fixed

Banks could potentially block screen scraping

...but probably won't for business reasons until their APIs are ready

OpenBanking replaces screen scraping



**OpenBanking replaces screen scraping
... but shouldn't make anything worse**



**Some things that
didn't go as
expected...**

UK & EU OpenBanking: Sandboxes didn't work

- PSD2 regulations required to provide sandboxes for fintechs
- Sandboxes required to match production systems
- No enforcement when bank sand boxes didn't match production
- Hence no one used sandboxes
- So sandboxes got less attention as they weren't being used
... a vicious cycle

UK & EU OpenBanking: 90 day consent renewals

- PSD2 regulations require user to renew consent at the bank every 90 days
- Idea was to protect users
- Massive pain point for users - resulted in huge drop off rates at 90 days
- UK regulator (FCA) said:
“the requirement to re-apply SCA every 90 days has proven burdensome for customers, creating friction in the user experience and hindering the uptake of open banking services”
- UK has removed ‘at the bank’ part, EU has changed 90 days to 180 days

UK OpenBanking: Sweeping

- “Sweeping” (automated transfer of funds into savings account and back based on maintaining a balance in current account) was part of initial CMA order made in 2017
- Required largest 9 banks in the UK (‘CMA9’) provide APIs to support it at no cost to API users as it had:
“concerns that essential parts of the UK retail banking sector lack effective competition and do not meet the needs of personal consumers or SMEs”
- Became highly political as it could have decimated bank’s card free income
- Regulator clarified definition & rules in 2021
- Only started going live early this year

UK OpenBanking: Not good for Point-of-Sale

- PSD2 free APIs were deliberately not designed for this
- People tried anyway
- Non-free APIs can be used
- Hard to make commercials and user experience work

PSD2 OpenBanking in Europe

- Europe started its journey to Open Banking roughly same time as UK
- UK required banks to use common API and security standards
- EU left it to the market
- Ecosystem in Europe is smaller & less mature

UK OpenBanking: Not great for account aggregation

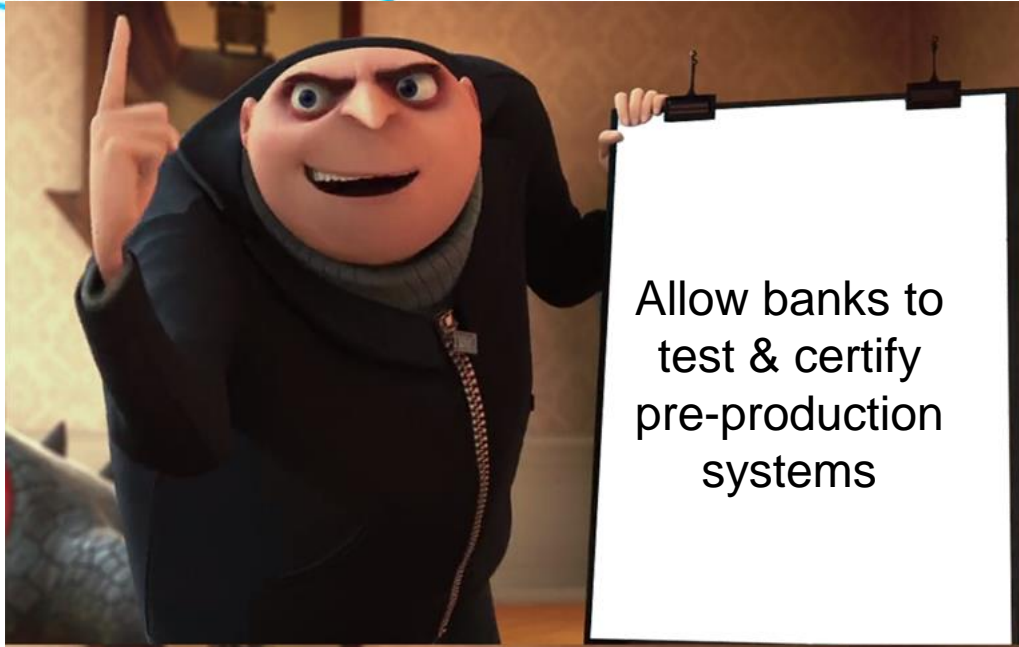
Long tail problem:

- Smaller banks don't have to prove they are standards compliant
- Most account aggregators don't support most smaller banks
- Not all savings accounts in scope
- Many account types completely out of scope

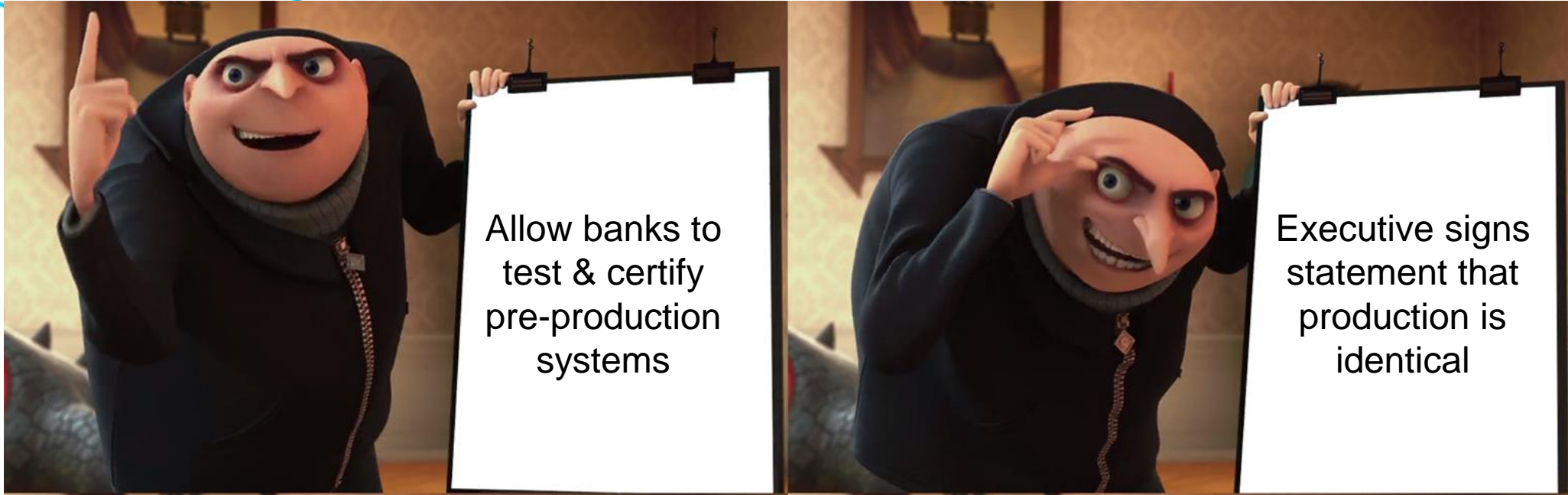
UK OpenBanking: Small business pay roll

- UK small businesses currently have to manually copy & paste salary payments from payroll data into their banking apps
- Hope was OpenBanking would allow stop the need to manually copy
- Doesn't seem to have happened yet – probably due to liability model / costs of getting access to payment APIs

Brazil OpenBanking: Testing & certification



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Australia CDR: Not great on mobile

- Consumer Data Rights (CDR) launched in July 2020.
- Mandates a specific way of authenticating at bank's website
 - No other methods allowed
- Banks must send a one-time code to user, often via SMS
- Far from ideal experience if you're on mobile device with bank's app installed (or if you use SCA / FIDO)
- Standards and rules WERE too prescriptive (flow, not allowing participants to innovate)
- Standards and rules WERE NOT too prescriptive (no uplift in authentication)

Australia CDR: Coarse consent

- Coarse grain consent only
- This creates a privacy problem
- This creates a trust problem
- Hard to extend to more advanced functionality after going live.

Australia CDR: Read-only access

- 3 years on, CDR has no write (payment) APIs
- No additional extensions to CDR have been developed by participants.
- ALL banks, energy providers and telcos are mandated to participate
 - Supply of data definitely exists.
 - Cost of compliance is too high
- Small number of fintechs, small number of use cases, complexity of development and accreditation; everything leads to extremely low adoption.



**But some things
went well...**

UK OpenBanking: Good for charities

- JustGiving had > 85% of their traffic on mobile/tablets
- Enabling “Pay By Bank Transfer” made it easier for users to donate (no need to enter card details)
- 50% saving compared to card donations
- Greatly reduced fraud
- Charities receive funds quicker, improving cashflow

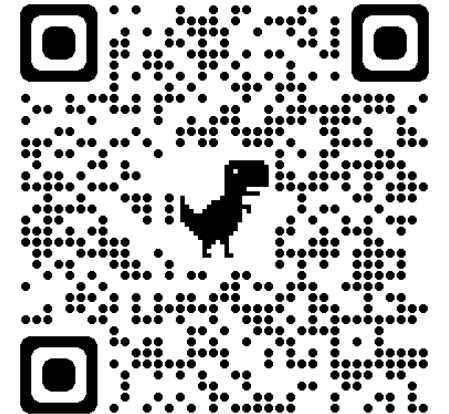
UK OpenBanking: Good for the government

- In the UK you can now pay your taxes using OpenBanking
- HMRC call this “Pay by bank account”
- £2.3bn of these payments in 2022 - that’s ~3,000,000,000 USD
- Saved £500,000 in card / bank fees in first 18 months
- Easier and quicker for taxpayers
- Also reduced misrouted payments and support overhead

UK & EU realized mobile apps are vital

- Most users interact with banks solely via mobile apps
- Use of biometrics/etc means most users have forgotten their bank username and password
- The bank's app can be used for authorising OpenBanking
- UK & EU mandated banks support this in 2019
- See Identiverse 2020 session:

“App2App - Improving the Third-Party Authorization User Experience on Mobile”



Takeaways

- Many ecosystems already live with OpenBanking and delivering benefits
- Good user experience is key to acceptance and growth
- Learn from others – many examples of what good looks like
- Regulation can be good but has to be thoughtful & responsive
- Difficult to balance feedback from users, fintechs, banks & politicians



THANK YOU!
Questions?