

BankBCLP

WHAT IS OPEN BANKING, AND WHAT ARE ITS IMPLICATIONS?

Apr 04, 2019

This post is the first in a series discussing open banking, its implementations, and its implications.

“Open banking” is a phrase that has been coined to capture a current theme in financial sector innovation – one that some say is going to revolutionize banking. For years, banks have given their customers increasing access to account information. Now, with open banking, the access is opening to the point where customers can potentially obtain financial services in entirely novel ways, and the customer’s expectations of their bank may shift.



The push to open consumers’ financial data goes back decades. In the 1990s and 2000s, financial institutions began giving customers online access to their accounts—and instantaneous access to information previously reserved for monthly statements. Card-based transactions gradually shifted away from signed papers with carbon copy receipts to electronic devices. With rapid access to

financial information, debit cards that could immediately draw on bank accounts became more feasible. Meanwhile, third-party vendors, such as Intuit, Microsoft, and Checkfree, were among the providers who encouraged institutions to go even further by making financial data available in a format that could be imported into their software; their work led to the promulgation of the Open Financial Exchange (“OFX”) data stream format, among others.

In the past 10 years, the priorities in data exchange have incorporated the agenda of government proponents. Notably, in 2016, a U.K. regulatory authority required the country’s nine largest banks to allow certain registered third-party developers to access certain customer data. In 2018, the European Economic Area began implementing the Second Payment Services Directive (“PSD2”), including its goal to provide financial data through a central register. In the United States, the Consumer Financial Protection Bureau has expressed [its view](#) that consumers should have timely, secure, and transparent access to their financial account information and to data sharing opportunities. During this same time, digitization has accelerated to unprecedented levels in all facets of life and commerce, and data privacy risk awareness and regulation has emerged.

These historical developments led to the openness of today’s open banking. At the most basic level, open banking presents banking customers with easier ways to obtain and use their financial data. For example, Mint.com, Quicken, Yodlee, and other third-party vendors provide mediums to aggregate customer information across accounts and in layouts tailored to those customers. In this way, open banking is, at least in part, an emphasis on the customer as the owner of financial data.

Open banking, however, offers more radical potential. In the payment space, open banking is reflected in the ever-increasing automation of financial transactions and the efficiencies and data mining that can be achieved. The connection between interfaces presents an opportunity to facilitate financial transactions outside the traditional credit and debit card networks. For example, Netherlands-based fintech Adyen has launched [a merchant processing platform](#) that connects U.K. consumers directly with their banks in order to initiate and authenticate payments.

As a technical matter, open banking is largely achieved through application programming interfaces (“APIs”). APIs allow one computer system to communicate with another. Various banks, including [Bank of America](#), [Citibank](#), [JPMorgan Chase](#), and [Wells Fargo](#), already use APIs to facilitate the exchange of data that creates the building blocks for open banking. In Europe, the promulgation of PSD2 is leading to a more centralized register of data. There, financial institutions first interface with the centralized register via APIs, and the register will make aggregated data available via its own API. An open banking platform is one which includes *open bank APIs*, permitting those outside the traditional banking system—including consumers—to control and leverage bank account and

transaction data. In the further installments of this series, we will explore this environment, how it is being regulated in the U.S. and abroad, and what impacts it could have on financial services.

Whether open banking revolutionizes the financial sector remains to be seen. What is certain, however, is how open banking is providing the building blocks for out-of-the-box solutions that were unthinkable in the days of mailed monthly paper statements.

Continue to Part 2, [Open Banking: What are Open APIs?](#)

RELATED PRACTICE AREAS

- Finance