The future of open banking

The forces shifting the fintech landscape and what lies ahead for open banking

Introduction

The world of finance, particularly banking, has witnessed tremendous changes over the past decade as our tech innovations - and adoption - continue to develop at pace. One notable disruption has been through open banking, a process that involves the secure sharing - with a customer's express consent - of customer financial data between various financial institutions and application providers.

With innovation driven by the EU's PSD2 (Second Payment Services Directive), open banking makes possible a myriad of services, like money management apps, that had often been tried before but been just too difficult to make work on earlier banking infrastructures. Now we have access to fast and secure account-to-account (A2A) payments such as Yaspa's, which come hand-in-hand with improved fraud detection and simpler but accurate Know Your Customer (KYC) functionality.

Open banking enables businesses to tap into the vast array of benefits associated with accessing customer financial data through secure networks. By utilising open banking, businesses can enhance their product offerings and improve the overall customer experience.

Account aggregation is one such use being explored by consumers. By offering individuals a unified view of their accounts across multiple banks, people feel more informed and empowered to make financial decisions. Combined with data analytics and a dusting of artificial intelligence (AI), better decisions can be made by individuals and businesses alike for budgeting, saving, credit products, and more.

Open banking, and its extension, open finance, are changing consumer expectations. Seamless online payments, better fraud protections, and tailored credit offerings are becoming essentials to modern-day savvy consumers. Businesses that understand the current and future landscape for open banking will be better able to meet the needs of the over 12 million consumers worldwide using open banking today. A number that's expected to soar to 63.8 million by 2024.

63.8 million

The number of consumers expected to be using open banking by 2024

As open banking continues to evolve, its impact on businesses and payment providers will be significant. In this report we look at the future of open banking through three lenses:

- **Its increasing role in consumer safety**
- **The influence of future technologies such as AI on open banking payments**
- **The anticipated legislative changes that will shape its trajectory**

By examining these aspects, we can gain valuable insights into the future landscape of open banking and its transformative potential for both the financial industry, as well as businesses and payment providers.

James

James Neville
CEO & Co-founder, Yaspa

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Part 1

The role of open banking in customer safety and Know Your Customer (KYC)

With the digitalisation of money has come the digitalisation of fraud: card theft, identity theft, online money laundering and terrorist financing. But there are also great anti-fraud initiatives that digital finance - including open banking - facilitates, particularly around transaction monitoring and identity verification.

These are particularly important in an industry such as gambling, which has additional obligations to ensure it handles its players responsibly (see, for example, the UK Gambling Commission (UKGC) operator conditions).

In this section we'll use the iGaming sector as a prime example of how open banking can help deliver on player safety.

Gambling reforms on the horizon

In April 2023 the UK government released its policy paper on gambling reforms for the digital age, and they state their aims clearly:

> **At the heart of our Review is making sure that we have the balance right between consumer freedoms and choice on the one hand, and protection from harm on the other."**

These proposed gambling reforms aim to strike a balance between consumer freedoms and protection from harm, seeking to empower regulators and mandate operators to implement more effective measures to safeguard their customers. The UK has been at the forefront of responsible gaming legislation, and these reforms continue that trend.

£100 million

Since 2017/18, the UKGC has issued over £100 million in penalty packages, while revoking 10 operator licences

The UK expects gambling operators to do more to understand their customers and protect them from harm. The implications for alternative payment providers like Yaspa that serve the gaming sector are unambiguous. Key sources of this consumer understanding will derive from credit reference-style checks and the relatively simple facility to assess a consumer's financial circumstances that open banking provides.

What is included in the new proposals?

The proposed reforms introduce more stringent rules to address problematic gambling behaviours, such as:

- **Operators will be required to conduct detailed checks when customers incur net losses of £125 within a month or £500 within a year.**
- **Gaming operators can share data to identify customers who have been excluded from other gambling sites, and other 'at-risk' consumers.**
- **The establishment of a regulated framework similar to credit checks for the gambling sector.**

At the heart of the proposals is the concept that individual operators, and the industry as a whole, need to have more knowledge about their consumers. It is their responsibility to monitor and manage their customers' activities and reduce gambling-related harm within the context of that consumer's finances, and possibly in the future within the context of their behaviour across multiple operators.

Will more verification checks drive consumers away?

The reform guidelines state they are walking a tightrope between wanting operators to know more about consumers so that individual protections can be carried out, and introducing draconian policies that will drive consumers away. Asking consumers to produce more documents to prove who they are and demonstrate funds are likely to be counter-productive.

Industry estimates based on previous trials claim that between 70% and 90% of customers would not comply with requests for such documents (such as payslips or bank statements) to be shared.

So the government is looking into new solutions:

> **We recognise this risk, the chilling effect that asking customers for bank documents can have... However, we think the impacts are likely to be mitigated..., [and] most of the checks will be frictionless with little interruption to the customer journey (for instance with credit reference or open banking data replacing the need for documents)."**

70-90%

of customers would not comply with requests for identity verification documents to be shared

Open banking is referred to several times in the policy guidelines as a possible solution to create frictionless checks with consumers - and the good news is open banking is something that businesses can implement right now.

The basic principle of open banking is the opening-out of access to banks' data through standardised APIs, meaning that other banks, fintechs and suppliers can cost effectively create new applications and services - and, fundamentally (and subject to the end-customer's permission) access information that helps understand that customer better. In this context, knowing your customer becomes genuinely viable, instant and secure, without creating an overhead of paperwork and certified documents.

But it's not just KYC...

Apart from verification, open banking offers numerous benefits to operators, including:

- **Faster transactions than typical bank transfers (vital if you've just made a win!)**
- **Lower fees than card deposits (great for operators)**
- **Removal of the fraud risk that comes with debit cards (less hassle for everyone)**

The benefits of open banking

Open banking facilitates a quick and seamless process from verification to deposit, bridging the gap between these two stages. Payments are initiated directly from the customer's banking app, eliminating the need to share card details with the operator.

As you can see in the diagram below there are few intermediaries with open banking. These benefits are passed onto the operator in the form of lower fees - as fewer intermediaries (particularly when compared to card processors) means lower transaction costs, as well as payments that settle in seconds.

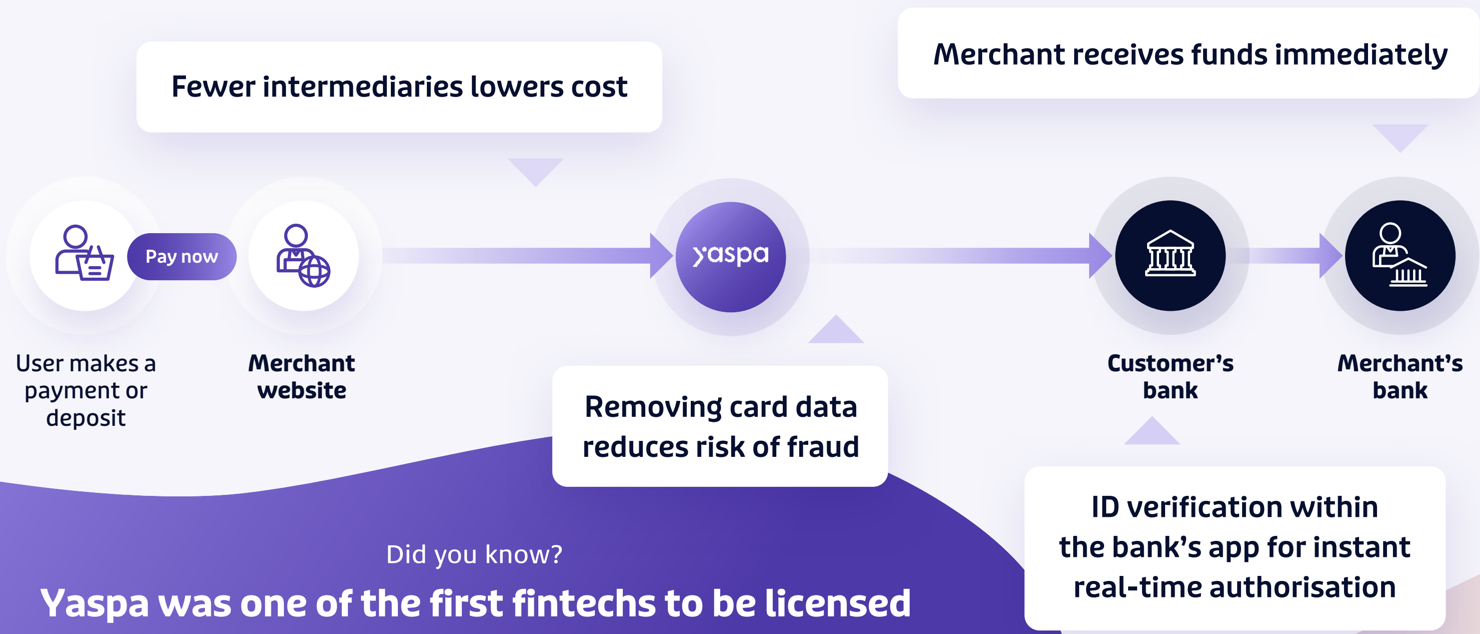
Open banking vs. card

Card payments

Take several minutes to process, and 3-5 working days to settle.

Open banking A2A payments

Seconds to pay, and seconds to settle.



Did you know?

Yaspa was one of the first fintechs to be licensed by the UK's Financial Conduct Authority to offer A2A payments based on open banking technology.

A seamless process from verification to deposit builds trust and enhances security – while also giving a merchant verification about who their customer really is, meaning that operators can understand at a glance:

- **The vulnerabilities and risk level of their players;**
- **The lifetime value of their customers (payment mechanisms are valuable indicators of customer behaviour and preferences); and**
- **Fraudulent behaviour from exploitation of multiple payment methods.**

We are still at the start of the open banking - and open finance - journey, but it is moving at speed. In the increasingly global environment in which we all operate, the benefits that come from allowing secure access to our data are manifold. With faster transactions, lower fraud, seamless processes, and valuable customer insights, open banking is poised to revolutionise payment experiences in the gambling sector and beyond.

Part 2

What will AI bring to open banking and open finance?

Thanks to the meteoric rise of ChatGPT and other generative AI models, the world's imagination has been captured by the promises of AI. Sometimes the applications of AI are clearly beneficial; sometimes they're dangerous; and in many areas, we simply don't yet know. However, in banking and finance, an industry based on the processing and analysis of vast quantities of data, **it's clear that AI will have something to bring.**

How is AI impacting open banking and open finance now?

Some finance companies have already started experimenting with the current generation of AI tools. Across many industries, AI is being used to create leaner and faster operations, taking on a lot of the time-consuming, manual work so human teams can focus on more value-added tasks. AI is also able to create more tailored products and services.

It is an invaluable tool in the credit sector, enabling lenders to more accurately assess an individual's risks and make more informed, faster decisions. AI is additionally helping with portfolio management, and can even provide a real-time analysis of verbal customer content (via speech recognition) for compliance purposes.

In open banking, AI is being used to boost the customer experience, security, and reduce fraud. Personal banking app Cleo, for example, is a money management app that uses an AI chatbot to deliver financial advice and information in a conversational and friendly tone. Depending on a customer's preference, it can even 'roast' its user, providing witty observations about their spending habits.

Morgan Stanley, meanwhile, is using ChatGPT-4 internally to help its staff find and consume information quickly instead of scouring internal repositories for the latest analyst insights.

Looking to the future of AI and open finance

Yet, this is only the tip of the iceberg when it comes to AI in open banking and open finance. The opportunities for improving the customer experience, fraud and security, and adhering to regulations are truly exciting.

Enhancing the customer experience

Open banking has been able to transform the digital experience for banks' customers, making their payments, apps and interactions much more personal and customer-centric. AI will take this a step further by creating hyper-personal experiences that adapt and learn throughout a customer's lifetime. Take, for example, the ability of open banking to categorise transactions into 'groceries', 'health and wellbeing', 'entertainment' and more. Right now, customers can use this to understand their daily and monthly spending. In the future, AI can offer personalised saving goals recommendations based on this information — for instance, cutting down on clothes shopping to save for a holiday.

AI can identify patterns and relationships in customer data to tailor services to customers. It can predict what a customer may need in the immediate future based on their current spending and financial goals. Mortgages, loans, and credit cards can all be recommended to someone, right when they are most likely to want them.

Facial recognition and ID document verification have made onboarding seamless for many banking customers. In the future, this will also go a step further, with an expansion of live video biometrics and document verification making eCommerce payments and online transactions a lot more secure and easy to complete. False declines can also be reduced as AI compares large swathes of transactional and financial data to establish a risk level for the consumer.

Ultimately, this saves time and hassle for customers, making them more likely to complete transactions and repeatedly return to an online store. With half of financial services customers stating that they walk away from a company after a single bad experience, using open banking and AI in this way can make all the difference to your revenue growth and retention.

Boosting security and fraud detection

Intelligent identity verification is making open banking safer, and advances in AI are making it possible to spot potential fraud in real-time using pattern analysis. AI can recognise patterns in transactions, flagging anything suspicious to human analysts to investigate further. Using AI to reduce fraud and money laundering has been encouraged by regulators in the Netherlands, Germany, France, the U.S. and Singapore.

Open banking enables anyone with a bank account to initiate fast and secure payments. With AI, this security gets a boost by understanding how someone historically has spent money in certain seasons and how they are likely to purchase in the future. Anything outside of this pattern can be flagged for review. Information on fraudsters can be shared widely with other banks to prevent widespread fraud. Experian recently launched Aidrian, a fraud detection tool that can classify transactions with 99.9% accuracy.

Supporting regulatory compliance

There are a number of regulations companies need to meet, from EU anti-money laundering (AML) and Combating the Financing of Terrorism (CFT) policies and the UK's Payment Services Regulations, to industry-specific regulations in iGaming and the Payments Regulations for Money Transmitters. AI can make it easier to meet these regulations by analysing more data, in greater detail, to improve due diligence, understand risk profiles, and identify any fraud and money laundering. It can also improve Strong Customer Authentication (SCA) techniques before a customer makes a payment. Detailed checks on credit history and financial circumstances can improve verification and decision-making around deposits, credit, and withdrawals.

Addressing potential challenges in using AI

AI in open banking cannot advance if we are blind to the challenges of using it. Adoption of AI relies on collaboration between organisations, industries, and eventually, across countries. This in itself creates challenges in standardising the APIs being used and managing the data quality of what's being shared.

The availability and accessibility of data, the security of data, and addressing potential bias have been identified as challenges by the Euro Banking Association's (EBA) Open Banking Working Group (OBWG).

Data quality

With more collaboration between organisations and different countries, coming to a common framework for standardising data becomes vital. Consistent standards are needed to ensure data is of good quality and usable by an AI model. Data collected needs to be cleaned and consolidated before it is analysed, and it needs to have the right metadata around it, like the times collected and consent information, to ensure it is timely, relevant, and meets regulations such as GDPR.

Data privacy

Data privacy is a huge concern for customers and organisations. Educating customers on how their data is used and shared with third parties via open banking will help the industry grow and address any concerns they may have. Since they have to provide informed consent for the collection and use of their data, helping customers understand the strong protection and regulation of their data is a critical step for any business using open banking data. It also - and very critically - maintains customer trust.

Regulating AI

Regulation of AI models is on the horizon, but nobody knows what form it'll take yet. One suggestion is to limit some powerful forms of AI to restricted uses; others recommend licensing, and increasing the transparency around an AI model's workings.

For now, adhering to best practices and regulations on data privacy and the use of personal data will help organisations stay on regulators' good sides. Looking at incoming legislation, like the EU's AI Act, will also give insights into where Governments are likely headed in terms of regulation.

Data and AI bias

There have been many high-profile examples of AI showing biases, including Amazon's hiring algorithm showing bias against female candidates and Google Photos showing discrimination against people of colour. For open banking to benefit everyone, AI models cannot spread biases across the financial system.

One way to tackle this is to make every AI's decision as explainable as possible, with clear human oversight. An AI shouldn't be the final say on a mortgage application, for instance. Training an AI on a broad, large data set can also help to reduce potential bias – and this is where open banking can support, with its huge customer data sets.

Embracing AI's transformative impact on open banking

Although there is some groundwork to be done when implementing and using AI for the first time, there are undeniable benefits that make this effort worth it. We cannot predict exactly what the future will look like, but looking at today's open banking, open finance, and AI advances, you can predict that customers will increasingly look for seamless, easy payment experiences. Cardless account-to-account payments may very well become the de facto way of shopping and paying for goods and services online. Coupled with AI, this offers a more secure and better way for consumers and businesses to enjoy eCommerce, iGaming, and more.

Account-to-account payments powered by open banking are just the start. As AI models continue to develop there's no doubt we will see new features and applications that will transform businesses and the way we all interact, as consumers, with our financial services providers. With careful consideration of data privacy and the mitigation of bias, AI can truly empower the financial ecosystem for the benefit of all stakeholders. It's an exciting time, and we're just at the beginning.

Part 3

What is PSD3 and how will it impact open banking in the UK and Europe?

Another development that businesses and payment providers need to keep abreast of is the new Payment Services Directive, which will become known as Payment Services Directive 3 (PSD3). Designed to bring regulations up to date with advances in AI alongside the rise of Buy-Now-Pay-Later (BNPL), crypto payments, digital wallets, and more. PSD3 will bring numerous benefits to businesses and consumers alike.

Achieving the key milestones to implementing PSD3 is already underway, as mapped out in the timeline below. It is expected to pass by mid to late 2023 and be implemented for eCommerce businesses, fintechs and financial institutions by 2026.

1

June 2023

European Commission proposes the next iteration of the Payment Services Directive (PSD3), Payment Services Regulation (PSR) and a Financial Data Access Framework

2

Late 2023

PSD3 and PSR proposals expected to be passed by the European Parliament and European Counsel

3

Mid 2026

Likely enforcement of PSD3 and PSR for businesses with customers in EU member states

PSD3 at a glance

Like its predecessor, PSD3 will regulate electronic payments to boost consumer protection and trust in open banking and digital payments. Primarily aimed at those doing business within the European single market area (EEA), but also simplifying cross-border transactions, those operating in Europe and the UK will be first to be impacted. However, other countries like Brazil and Canada are also implementing open banking APIs, so implementing open banking solutions to do business in Europe and the UK can also increase a merchant's opportunities to expand globally.

PSD3 will additionally regulate new financial services and products that emerged post-PSD2 such as BNPL, contactless payments, and digital wallets. It will address transparency in cross-border payments and fees, alongside addressing current concerns around Account Information Service Providers (AISPs) and Payment Initiation Service Providers (PISPs). Because these services will be more regulated, there'll be greater public trust in their security and credibility. Consumers should feel more confident exploring alternative payment and credit options that are now regulated under the Directive.

PSD3 will facilitate greater sharing of customer data among competent authorities, banks, tax authorities, and payment processors, making the industry more interconnected and customer-centric.

It's going to make it easier for customers to access and manage their data across platforms, and get more accurate credit scores — perhaps with faster approvals for credit products. We'll likely see advances in services built on consumer financial data, like financial planning and budget chatbots or consolidated savings and investment apps.

Payment Services Regulation is coming too

In addition to PSD3, the European Commission will introduce a new Payment Services Regulation (PSR) which will ensure consumers can, "continue to safely and securely make electronic payments and transactions in the EU, domestically or cross-border." In addition to this, it aims to provide a greater choice of payment service providers (PSPs) on the market.

Therein lies a significant opportunity for eCommerce businesses today. The range of payment options at consumers' fingertips is about to increase, along with increased confidence in those payment services. businesses who don't offer a range of payment options will soon be left behind.

Opportunities ahead

Indeed, if you look back at the benefits of PSD2 when it was first introduced, you can predict the scale of the changes ahead with PSD3 and the PSR. All this legislation is primarily aimed at consumers, giving them greater rights to share financial data and make digital payments with the peace of mind that their transactions and data are secure and protected against fraud. PSD2 was the catalyst for many advances in open banking that we use today including financial coaching chatbots, A2A payments, and account aggregators.

So it's an exciting time to work with digital payments, with many opportunities to deliver a more seamless and secure customer experience.

Prepare for PSD3 compliance now

Still, some legwork must be done to understand how PSD3 will impact your business. Tighter Strong Customer Authentication (SCA) measures are undoubtedly in the new Directive. Preparing for these now will give you a head start before the 2026 implementation date. (Happily, account-to-account payment methods such as Yaspa's are structured in a way that avoids all the extra authentication challenges that come with cards, while still being covered by bank-grade security, and an exceptional user experience (UX) interface.)

Ideally, you'd have one or two team members scanning the horizon for any developments with PSD3, plus new technologies that will help you meet the new requirements.

Renew your focus on payment experiences

Under the new Directive, consumers will feel more empowered to manage their financial data and 'shop around' for the most seamless payment and banking experiences. Amid this, consider how your business can differentiate itself through tailored services, innovations, and boosting customer experiences.

Because PSD3 will increase the options for consumers, their expectations are going to increase. Access to alternative payment methods like open banking will no longer be a nice-to-have for customers, but an expectation, as consumers demand interconnected services that offer a better user experience than traditional payment methods, like cards.

To remain competitive, PSPs such as payment gateways will have to stay abreast of developments (sign-up to our mailing list to receive the latest updates direct to your inbox) to better meet end-consumer expectations by offering their customers (often merchants) alternative payment methods to implement at checkout, such as A2A payments backed by open banking. To do this, partnering with a broad range of compliant and forward-looking payment operators is imperative.

Explore your new market options

PSD3 will streamline financial payments and cross-border transactions, creating new opportunities for businesses. Take time now to explore what this means for your organisation, whether that's an expanded customer base across Europe or the opportunity to partner with other vendors.

Furthermore, countries like Brazil and Canada are following Europe's and the UK's lead in developing open banking APIs and legislation, potentially opening up global market opportunities. By simply integrating with the right payments provider, your business could be poised to take - and make - payments to and from an increasingly global consumer base.

PSD3 is a step forward

PSD3 is a crucial step in digital innovation within finance. It enhances competitiveness, promotes greater consumer protections, and builds on what the industry has achieved during PSD2 to make the digital finance experience increasingly seamless and trusted.

The world of open banking is continuing to evolve rapidly, opening up new opportunities and easing financial experiences for businesses and consumers alike. It is transforming the way we make and receive payments, ensuring they're effortless, secure and cost-effective.

At Yaspa, we call these the three Fs: Fees, Fraud and Friction. A good open banking payment reduces them all.

Even as one-off transactions using open banking are still becoming mainstream, further innovations are already knocking at the door. We've seen in this report how PSD3 and AI will in their different ways stimulate new features and benefits. Other new developments include Trusted Beneficiaries and Variable Recurring Payments (VRPs), which will significantly reduce the friction over sending regular payments to recipients we trust, and will likely become the de facto alternative to direct debits.

Moreover, open finance will rise as a natural extension of open banking: empowering consumers with a holistic view of their financial profile; and facilitating better decision-making in areas such as credit checks, insurance, and information sharing.

"Yaspa is glad to see that the European Commission's PSD3 and PSR proposals continue to drive open banking forward, enabling secure and faster payments across Europe. This coupled with advancements in AI means that we will all benefit from the growth potential of our enterprises, and innovative data services."

James Neville
CEO & Co-founder, Yaspa

But for open banking and finance to be a long-term success, we need widespread education and buy-in for it, from board-level to the consumers that will use open banking every day. More must be done to spread the message that open banking and finance are seamless, safe, secure, and governed by the strictest financial standards across the EU and UK.

Looking ahead, we can anticipate a future where customers demand effortless payment experiences. Cardless account-to-account payments are poised to become the standard method for online transactions, complemented by the advancements in AI that ensure heightened security and unparalleled convenience for consumers and businesses across diverse sectors, including eCommerce and iGaming.

As open banking continues to evolve, fueled by technological advancements, it will reshape the financial industry, meeting the evolving needs of businesses and consumers in an increasingly digital world.

You can count on Yaspa

Yaspa was one of the first fintechs to be licensed by the UK's Financial Conduct Authority to offer A2A payments based on open banking technology. Whatever your industry, if you take or make payments, we'll be able to help you take advantage of open banking with our modular payments software. It's easy to integrate and a delight to use.

Join those businesses across the UK and Europe, and future-proof your payments with Yaspa. Ask us for a demo today.

Learn more

To discuss how you can integrate open banking
A2A payments into your business, contact us here:

yaspa.com

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See how simple it is to make an A2A payment with a £1 charitable donation to **Shelter**