



EXECUTIVE BRIEFING

OPEN BANKING & PSD2: WHY COMPLIANCE ISN'T ENOUGH

The Business Opportunities of Open Banking

Banks must go beyond mere compliance and capitalize on the business opportunities of open banking. This executive briefing presents five specific business models for consideration, outlines some of the challenges banks may face in implementing them, and explains how Volanté can help.

“Member States shall ensure that payment institutions have access to credit institutions’ payment account services”

PSD2, Article 37

BACKGROUND: THE PSD2 STIMULUS TO OPEN BANKING

Implementation deadlines for the “Access to Account” rules in the European Payments Service Directive II (PSD2) are fast approaching, or are already in the rear-view mirror. So, it’s no surprise that many banks are heavily focused on the mechanics of complying with PSD2, as even basic compliance can be a challenge.

However, financial institutions that treat PSD2 and open banking as mere compliance exercises will soon find their traditional business models—and their very existence—under threat. That is because once compliant APIs are in place, any other bank or third-party provider can provide payment and account services through those APIs. Account servicing will become a commodity, with banks no longer a strategic part of the customer experience, or not a part of it at all.

To survive, banks need to go beyond mere compliance and tap into the business opportunities of open banking, by providing value-added services that generate revenue and strengthen customer relationships. But what are these opportunities, and how can banks capitalize on them?

This executive briefing explores some specific examples of open banking opportunities, and explains how Volante serves as a trusted partner to banks, helping them achieve their strategic business goals through open banking-driven digital transformation.

OPEN BANKING BUSINESS MODELS

There are many different approaches to success in an open banking world. In this briefing we take a look at five specific models, all of which feature an optimal balance of return on investment and technical feasibility:

1. Become an Aggregator
2. Combine Open Banking and Instant Payments
3. Become a Global Liquidity Position Provider
4. Go Across The Border
5. Become A Platform Bank

The models are not mutually exclusive; they can be combined in different ways to create increasingly distinctive open banking offerings.

66%

Of bank executives believe that open banking will help create revenue streams for their organization

Accenture Insight, Open Banking Trends

MODEL #1: BECOME AN AGGREGATOR

In this model, banks operate as third-party providers, providing payments and account access services for all accounts held by their customers, including accounts at other banks, and for non-customers. This is an increasingly common offering on the retail side, but is underserved in corporate banking. Examples of value-added services that can be provided in this model include:

- Visibility to multi-lateral transactions and balances, including multi-currency
- Cash Flow Forecasting: balance available “after paid bills,” accounting for all direct debits and standing instructions
- Real-time money movement between accounts
- Faster loan/credit authorization based on 360-degree access to data

There are certainly challenges in effectively operationalizing such a service, for example securing client authorization to access their data and consent for other accounts which may not be subject to PSD2. However, this challenge can be addressed if the data access request is positioned in terms of the benefits clients receive as a result of providing that access.

MODEL #2: COMBINE OPEN BANKING AND INSTANT PAYMENTS

It is no accident that the launch of new instant payment networks in the EU—and the US, with TCH RTP—has coincided with the maturity dates for PSD2. Open banking is focused on increasing service level and competition, and instant payments offer some of the most compelling new service proposition and differentiation opportunities, for retail and commercial banks alike.

The combination of open banking and instant payments offers a powerful means to accelerate ecommerce and expand revenue opportunities for banks. With the right channel design, instant payments promises a customer experience for pay-from-account that is superior to that of a card transaction, giving banks an opportunity to capture the fees currently being extracted by the card ecosystem.

The fact that API-based interactions are expected to occur almost instantaneously, on a 24x7 basis, further cements the case for combining instant payments and open banking: batch and message-based approaches will not deliver the needed immediacy.

“The role of an aggregator in open banking is to connect to multiple banks (through their APIs) and offer their combined services through a single API to the aggregator’s customers.”

Aite Group, from “Open Bank, APIs, and Financial Services Ecosystems: The Future of Banking”

“Open banking can help financial-risk oversight by providing real-time reporting on counterparty exposures, automatically calculating liquidity positions, forecasting scenarios, and supporting foreign exchange.”

**Global Finance Magazine,
“Business Benefits From
Open Banking”**

“Globally, banks today are concentrated on payment-centric API strategies. In the next two years, banks will move to a wider corporate transaction banking-based API plan, offering access to transaction banking processes: cash management, liquidity management, and treasury.”

Aite Group

MODEL #3: BECOME A GLOBAL LIQUIDITY POSITION PROVIDER

As instant 24x7 commerce requires instant 24x7 funds movement, corporations of all kinds need to maintain and manage global liquidity positions in real time, to avoid liquidity fragmentation and mitigate risk.

Effective liquidity management practices help make supply chains more efficient, and reduce the cost of making and receiving payments, ultimately giving corporates the flexibility to expand their business. Ineffective practices will have the opposite effect.

Open banking is an ideal opportunity for banks to step in and provide services which support best practices in this area. Combined with instant payments and an account aggregation approach, real-time multi-lateral liquidity management and position reporting services can serve as a powerful generator of reliable relationship-based revenue, by ensuring that clients maintain their primary operating accounts with the bank providing the service.

Consider the typical situation of an insurance company providing corporate insurance policies for large sums of money. Today, they need to request liquidity one or two days before it is actually needed to cover their liabilities, resulting in a situation where working capital is continually tied up non-productively.

A liquidity management service which allows insurance companies to request and receive liquidity at point of need—24x7 across their operating time zones and all their banking relationships, with full payment data so that no reconciliation is required before using the funds—would eliminate a significant challenge for corporate treasurers. Delivering the service via APIs would also allow corporates to connect their ERP and treasury systems directly into the bank, making the bank a seamless part of their extended treasury management ecosystem—an ideal definition of customer-centric value-added service.

MODEL #4: GO ACROSS THE BORDER

Cross-border payments comprise 27% of all payments revenues, to the tune of over \$200bn annually. Volumes are also growing fast, with the increasing availability of alternative mechanisms such as SWIFT gpi, Ripple, Earthport. With fees per transaction of around \$20, cross-border payments are also one of the best sources of revenue.

The challenge is that the cost of clearing and settling a cross-border transaction is high—with over 60% of these payments requiring manual intervention, and heavy compliance requirements, margins are thin.

Open banking is an ideal vehicle for delivering next-generation cross-border services. Banks can focus on providing high quality APIs for payment initiation and tracking, connected to multiple clearing and settlement options on the back end, giving end-users control over how their payments will be handled. Ensuring that full payment data travels with the payment—and providing API access to the data—will raise STP rates and reduce reconciliation.

The combination of service level with data will lower the cost of transaction processing, turning cross-border payments into a high-margin business, and expanding banks' market share.

MODEL #5: BECOME A PLATFORM BANK

The preceding opportunities have focused on using open API paradigms to extract value out of PSD2's mandated payment initiation and account access services. However, there is much more to banking than payments and account statements. Banks also provide credit facilities, trade finance, FX, custody, and many other consumer, commercial and institutional services.

One logical endpoint therefore of an open banking journey is for a bank to become a universal platform for banking services, all API-accessible by customers and third parties. Differentiation will naturally arise from the depth and breadth of the bank's APIs and the quality of service delivered through them.

Imagine a corporation being able to perform any transaction or access any service—from opening an account to securing a line of credit or purchasing an FX contract—by accessing treasury-friendly open APIs. Why would they bank anywhere else?

COMPLIANCE IS A BUSINESS ADVANTAGE

The word “compliance” has a negative connotation for bankers everywhere. In an open banking context however, it is important to keep in mind that the deep experience banks have with regulatory compliance—liquidity, capital, sanctions, KYC, AML—is actually a positive differentiating factor.

The compliance requirements of financial services are among the most complex and demanding anywhere. Non-bank providers do not have the knowledge and capability to tackle compliance, and indeed do not wish to—they are happy to leave it to the banks. A co-innovation model where banks provide essential compliance, transaction and liquidity services to third-party providers and fintechs, and those providers in turn amplify and accelerate the provision of new services far beyond what the bank could do by itself, offers a “best of both worlds” option for the open banking age.

\$34B

In additional revenues from cross-border payments over the next decade

**BCG, Global Payments
Interactive**

“There is one problem which remains the same for all the banks. Even though everyone talks about APIs, the challenge, at a conceptual level, is not about creating and exposing APIs. It is about fulfilling the functionality of the API in a simple user experience to make the user journey as smooth as possible.”

Nadish Lad, Head of Global Payments, Volante Technologies, quoted in The Paypers, Open Banking Report 2018

RECOMMENDATIONS FOR MOVING FORWARD

Clearly, there are many opportunities to explore. We recommend that banks structure their open banking journey as follows:

- **Choose a business model:** does the bank want to become a third-party provider? If so, which services are right for the bank’s customers and growth plans? Or is the bank better served by becoming a provider of high-quality account servicing and liquidity to other PSPs? What is the priority of instant payment services? These are important strategic questions.
- **The first step is compliance,** particularly in markets subject to PSD2—however, banks must ensure that their tactical compliance solution can serve as a springboard for the next phase of open banking.
- **Adopt a technology and implementation approach that favors agility:** however carefully businesses cases are constructed, the pace of change in financial services requires banks to move quickly and respond rapidly to customer and market demands. Technology that allows banks to own their own roadmap rather than be tied to a vendor, and that facilitates the creation of API ecosystems without requiring rip-and-replace of legacy systems, should be prioritized.

CHALLENGES ALONG THE WAY

Every journey comes with its challenges, and open banking is no exception.

Legacy systems: All banks face the challenge of adapting legacy systems to an open banking and API-first environment. The answer often is that they cannot be adapted. Instead, a better strategy is to ensure that the bank’s chosen open banking technology enables easy integration, and insulates legacy systems from change, allowing them to continue performing their essential functions until replaced.

Real-time Enablement: even without instant payments, open banking forces real-time enablement, because for external APIs to be useful for delivering real-time customer experiences, they must operate in real time as well. Yet the dominant model of information exchange in a bank is batch-oriented. This transition from batch to real time is a key consideration for open banking programmes.

Creating a Business Service Layer: To deliver value, external APIs need to be able to access a wide variety of business services within the bank. Today, many of those services – for example, funds availability, or customer limits – are not easily accessible, or distributed across multiple systems. To unlock the full power of open banking, banks must create a business service layer that can easily be accessed via APIs.

Organizational model: perhaps the most far-reaching challenges to any open banking programme are not technical but organizational. Is the bank ready for 24x7 customer service? Will the typical retail/commercial/institutional silo structure of banks survive open access by any customer through any channel? Is the business case and budget model flexible enough to support the agility required?

HOW VOLANTE HELPS

Volante helps banks with every step of their open banking journey, from initial compliance through to ensuring that each institution can realize its own unique vision of how it fits into an open banking world. Our approach throughout is that of a trusted strategic business partner, supporting the bank's evolving technology and organizational model.

Our solution, VolPay Open Banking, eliminates the complexity of open banking and real-time enablement for banks of all sizes, and provides a legacy-friendly fast track to regulatory compliance for PSD2 and other regional open banking regulations. It also incorporates the essential building blocks for going beyond compliance to construct open banking service models aligned with the bank's strategic goals.

Like all VolPay solutions, VolPay Open Banking is based on the VolPay Ecosystem, the most complete ecosystem of API-enabled business services for open banking and digital transformation. It is not only the ideal starting point for your open banking journey, but an essential means for reaching your destination.

“Customer-centricity and, in particular, customers being ‘in control’, therefore represents a fundamental value of Open Banking, offering banks the possibility to increase both private and business customer relevance in the digital era.”

**Euro Banking Association,
“Open Banking: Advancing
Customer Centricity”**

300+

VolPay APIs to accelerate open banking from compliance to competitive advantage



