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The idea of open banking and the ways it can empower banking: Theoretical perspectives

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ABSTRACT

This article discussed the possible utility of open banking. Open banking is an innovative banking model that can change the way banks and financial institutions have worked. The focus of banking would not be restricted to brick and mortar way. Banking can be done anywhere; the focus would shift from banks point of view to customers' point of view. Customers can use open banking for getting more pieces of information which can make their financial affairs, make better. Hence becoming a way of life and becoming part of internet of things. This paper looks at how Open Banking would bring back the trust that customers have lost over the years in Banks. It also focuses on how open banking can bring value to customers and Banks.

Keywords— Open banking, Banks, Open banking framework, API, Financial institutions, Banking

1. INTRODUCTION

Banking is an industry that creates credit while holding the deposits of the customers in a safe and regulated environment. Banks offer different offerings to customers as per the requirement of the client on a time to time basis in the form of savings accounts, current accounts, extending credit limits as well as accepting deposits. Banks are a key driver for every economy. They run the market as well as the economy but due to some recent events, people have lost trust in these financial institutions.

In every country, the banking industry plays a crucial role in the economic development of the nation through better banking and financial services to the people of the nation. Banking has been evolving and adapting to the new changes as per the changes which happen in the world. They were the first to adopt technology as and when some new technology is introduced. Banks are the steel industries of the nineties (Beck, H (2001). Down the line after almost 30 years of digital transformation has paved the way for a new digital economy. With the introduction of the internet into banking, it is possible to execute almost all the banking transactions sitting at home. This has paved the way to the end of the traditional banking model. Customers can make purchases or create their deposits even without visiting a branch of a bank. Even though the financial world is still dominated by the banks and they do exist, but their existence has been substantially influenced by the FinTech's. After the events of the financial crisis of 2008 people have lost their trust in the banking system, but they have gained trust in the internet and technology. (Pauline W. J. van Esterik-Plasmeijer, P. W. J., & van Raaij, W. F. (2017). There are several issues to overcome for banks to embrace this new paradigm, API technology has a wide range of applications in almost every industry. But banks have started to embrace it lately. API can give the customers the flexibility that they always wanted along with the fact that reducing cost and improving efficiency. (Macknight, J. (2016). With collaborating banking with technology banks can get back the trust that they had lost with the customers. Trust in banks and other financial institutions is crucial for the functioning of the banking system and for the economy to thrive. Restoring trust is a matter of fundamental changes in the bank-customer relationships, not only by communication but by sincere behavior (integrity) and benevolence in the customer interest. (Pauline W.J van Esterik-Plasmeijer, P. W. J., & van Raaij, W. F. (2017)).

Open Banking is a secure way to give providers access to your financial information. New advancements in technology as well as in finance have paved the path to a different kind of economy. Application program interfaces (API) hold the promise of giving banks more flexibility to improve customer experience, reducing time to market, and cutting costs. Open banking can be defined as a collaborative model in which banking data is shared through APIs between parties to enhance the capabilities of banking into a marketplace model where very aspects of personal life can be connected. Banks would be giving access to the different innovative startup players into the core banking server and using that path to find better and innovative products and services to the customers of the bank. By allowing collaborative model banks can allow third-party application programming interface (API) providers to access their data, and increase their customer servicing, resulting in higher customer satisfaction and retention rates. India and China lead the way for open banking and API adoption (Nicholls, C. C. (2019). APIs have been around for more than a decade now and

they are used primarily to manage personal financial pieces of information management software, billing details at bank websites, and to connect to payment networks like Visa and MasterCard. APIs are used for securely transferring personal data rather than using them for transferring monetary balances or for transactions. Open Banking can change this sphere and would enable the smooth and swift transfer of transactions which can reduce cost and time for both the banks and the customers.

If the banks are to get the trust factor back and make the customers believe in banks is to rely on the technology which they believe. Banks have always been pioneers in partnerships (Zineldin, M. (1996). Banks strive for partnerships and strategic tie-ups. These collaborative models only make banks differentiate among other banks Otherwise all banks would have been limited to an ATM (Courbe, J. (2018). Open banking models will facilitate consumer-oriented financial services along with providing consumer's choice of transparency into how data and credentials and banks would have an inherent trust advantage in these areas. (Andrew McFarlane, A. (2020).).These partnerships would position banks in a new ecosystem wherein they would be visible and present to sell their offers whenever and wherever there's an opportunity. If implemented correctly with process automation it will bring operational efficiency resulting in a reduction in cost and better services.

2. OPEN BANKING STRUCTURE

Open banking is based upon opening the data sharing across the channels through a secure path. Parties involved in this regard need to get these requirements as per the Open banking environment.

- (a) Consent: Customers need to provide their consent to share their financial details via APIs and banks would be required to confirm whether the user has provided consent or not. This can be done by
 - i. By allowing the customer to authorize a third party to access have to their data.
 - ii. By Authenticating that the third party is whom they claim to be.
- (b) Onboarding: Banks would be required to onboard and verify whether the third parties are to be trusted with sensitive personal account data.
- (c) Access: Third parties would be required to find a way to access user account data, and banks would be required to find a way to protect that data.

3. VALUE CREATION OF OPEN BANKING

Open Banking can help increase the scale using the third-party collaboration. If implemented correctly with process automation it will bring operational efficiency resulting in a reduction in cost. The potential benefits of open banking are substantial it can create a new and improved business model and as well as new revenue opportunities.

- Improved customer experience- By allowing data sharing through APIs banks can tell their customers that they are not stuck up with traditional banking only and are moving beyond. Customers can get the feel of a systematically simple and user-friendly financial experience which would be backed by the Bank's security. Hence, they can acquire new customers as well as retaining the existing ones.
- New revenue and improved revenue inflows for the Banks-Banks can be benefited not only by acquiring new customers but also by the licensing fees. Banks can monetize on the already build infrastructure and get revenue inflows into their system.
- Financial Inclusion of the traditionally underserved segment of population. -Through this collaboration banks can reach people who were not able to have access to the financial services previously.
- Creating innovative products through collaborating with third parties-With the collaboration banks can extend their core banking infrastructure to a new crowd that has the mindset but is limited by the resources. This can create.
- It helps in winning bank the trust that the banks have lost by automating the services.

4. CONCLUSION

Open Banking is the next banking revolution that is happening all over the world. It is redefining banking as well as IOT(Internet of Things). We are now living in an interconnected society where everything is linked to one more account. Open banking can provide that account which would help people to be financially connected all the time. Open Banking creates a space for innovation for the third parties as well as provide customer protection in the form of regulations and safety.

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