

OPEN BANKING: INFLUENCING CUSTOMERS LIFE DIGITALLY

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Abstract :

This paper highlights the requirement for introducing Open Banking platform which would enhance traditional banking operations in India. The traditional banks has been facing a lot of evolutionary threats which include but not restricted to penetration of advanced technologies, digitization, high customer expectation and superior customer services provided by private and international banks during last few years. Traditionally imposed stringent regulatory norms which governs banks, has resulted in an emergence of strong and firm banking sector, but reduced the flexibility of banks. Due to such strict regulations, the traditional/existing banks are not able to satisfy their customer needs, as they have limited banking resources, thereby restricting the banking services to basic banking requirements.

To overcome this restriction, the traditional banks have implemented or partnered with technological or financial technological solutions (Fintech) to offer advanced technological solutions such as artificial intelligence (AI), robotics, open-banking and many more which would help them to ease their daily operations. This has resulted in the financial institutions including banking globally to improve customer experience by leveraging on digital technologies.

Along with leveraging on digital technologies, the banks are also adopting open banking standards (as per the report published by¹PwC in Jun 2018, 'Opening banking refers to the opening of internal banks data and processes to external parties via digital channels') which allows them to access the customer data under more stringent banking regulations. The traditional/existing banks which have embraced open-banking can create new source of revenues and develop new value proposition for satisfying their customer's evolving needs.

Keywords: Open Banking, Banking-as-a-Service, Open API, the Payment Services Directive (PSD2), Open Banking Eco-system, Open Banking Directory and Open Banking Sandbox

¹PwC: [Opening the bank for a new era of growth](#)

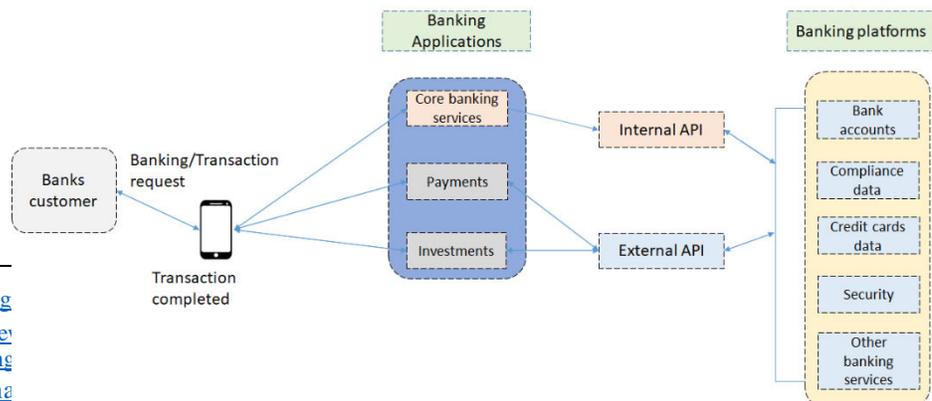
Introduction

Today's banking environment is very dynamic in nature which has resulted for the banking regulator to take precautionary measures which would create more transparency in transactions and safeguard the user's data and interest. These regulations have resulted in organization's to transform themselves to a customer centric organization from only profit-centric organization. The banking reforms have granted an access to financial technological start-ups which has reduced the monopoly of existing banks in terms of managing and handling customers.

²As per the whitepaper published by Infosys, 'the year 2018 has been marked as an important year for retail banking in European Union (EU) as the Payment Services Directives (PSD2) was implemented. It took many years for EU to formulate and implement this policy. The Payment Services Directives (PSD2) regulation policy is a set of open principle's which open the doors to any organization who needs financial assistance after following the laid down regulations. This open-door banking would help in reducing the monopoly and burden from existing banks'. Such a framework is known as 'Open Banking Framework'. This PSD2 regulatory policy framework has been implemented by RBI in India and is continuously monitoring it.³As per a report published by PwC in Jun 2018, 'Open Banking refers to the opening of internal bank data and processes to external parties via digital channels'. The report further states that, 'the open-banking framework includes a process through which sharing of customer's financial information to third-party or banking partners could be conducted in a secured manner'. The framework also encourages collaboration of the existing banks with technological start-ups which are prevailing in the banking domain to share the customer's data for addressing their banking needs. The open-banking has demanded banks to rethinking on their business model, thereby enabling them to become more customer-centric organization. This change in model will assists banks to design and develop new products and services which were not possible during previous years.

According to a ⁴whitepaper published by TCS&⁵IBM (fig 1), 'open banking would facilitate the development of innovative lending and offerings which would eventually

Figure 1: Open-Banking Operating Model, Without Internal Monitoring Team



²Infosys: [The World of Opening](#)

³PwC: [Opening the bank for a ne](#)

⁴TCS: [Open Banking: Reshaping](#)

⁵IBM: [DB2 for z/OS Data sha](#)

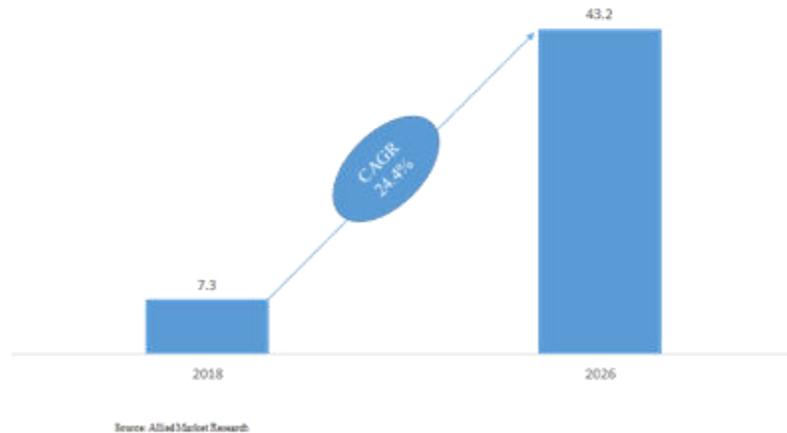
move the organization to customer-centric model’.

Global Open-Banking Market: 2018-26

According to the report published by ⁶Allied Market Research on Mar 2020, ‘The Global Open-Banking

market is pegged at US\$ 7.3Bn in 2018 and is expected to grow to US\$43.2Bn by 2026 with a compound annual growth rate (CAGR) of 24.4%.’ Growth in the open-banking market is supported by an increase in the number of people using new banking

Figure 2: Global Open-Banking Market (2018-26 in US\$ Bn)



apps and services and also, the rise in customer engagement has fostered the global open-banking market. Further, increase in partnership between traditional banks and Financial Technology (FinTech) will further boost the growth of Open Banking.

Open-Banking: Indian Scenario

As per the article published by ⁷IndiaCorp Law on Jul 21, 2019; states that, ‘India has adopted a different approach when it comes to adaptation and implementation of Open Banking law’. As PSD2 only focuses on various modes of payments, the Indian concept of open-banking is endorsed in two stages mainly:

1. In relation to payments
2. With respect to sharing of financial data

The Indian Government has implemented a unified payment interface (UPI) which address the mode of payments; while the latter half is addressed by the role of Non-Banking Financial Company (NBFC’s) under Reserve Bank of India (RBI) guidelines for sharing customer information. In April 2016, RBI along with National Payment Corporation of India (NPCI) launched a pilot project of seamlessly transferring money by using one single virtual ID which would have linked with multiple bank accounts, thus, UPI was established in India. The UPI is a mobile app which offers real-time transfer of funds from individuals to individuals and individual to corporate/organization. The UPI

⁶Allied Market Research: [Open Banking Market Outlook- 2026](#)

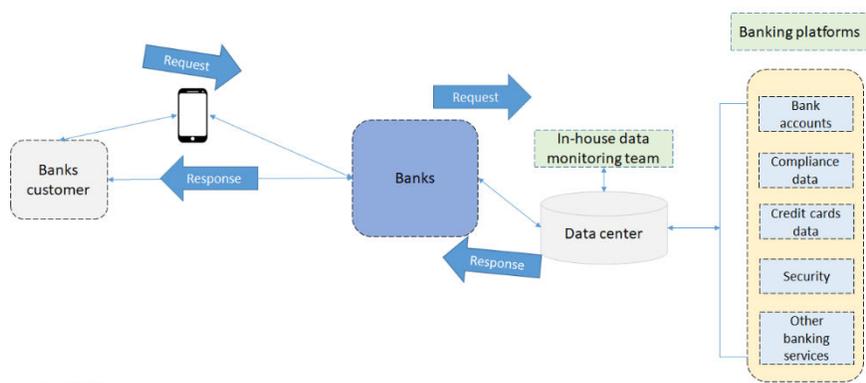
⁷India Corp Law: [Open Banking Standard in the Indian Context](#)

mobile apps include Bharat Interface for Money (BHIM), Google Pay, Phone Pe, Paytm and many more. These banking applications operate through application program interfaces (API) which was launched by around 150 banks in India. This API has changed the conventional way of retail banking in India.

⁸As per the article published in McKinsey and a ⁹report published by CGI Under the open-banking agreement, the existing banks partner with Financial Technology (FinTech) players to offer opening banking services. The customer raising a request for certain set of banking

transactions on their mobile app which is offered by the banks or Fintech's. The request hits the Fintech's server, which identifies whether it is an internal or external banking request

Figure 3: Open-Banking Operating Model With Internal Monitoring Team



routes it through the designated channel. The request is received by the bank and necessary solution is offered and sent to customer via Fintech and requests get completed. In this process, the banks allow Fintech to gain access their customer data (depending upon the data sharing agreement) and ensures the security of its database. This helps Fintech's to offer customised financial products and services, thereby improving the customer service quality. The above figure explains the data sharing model in the financial sector.

Advantages of Open Banking to Banks India

As per ¹⁰Mulesoft, 'the open banking platform can be beneficial to Indian banking sector through below points:

- **Enhancing service offerings:** The open banking platform can assist banks in enhancing banking services by developing customized API. This API would address the needs of banks and design solutions which would enhance their native banking services. The customized API can help banks to seamlessly connect with other or third party solutions which would help banks to counter Fintech. This in turn, assists banks to enhance their banking experience and customer engagement

⁸McKinsey: [Data sharing and open banking](#)

⁹CGI: [How banks can create value from the rise of the open API economy in financial services](#)

¹⁰MuleSoft: [How Financial Service Firms Can Benefit from Open Banking APIs](#)

- **Improving customer engagement:** Open banking platforms helps banks to meet the evolving needs of its customers and also assists banks to expand its customer base. By implementing such solutions, traditional banks can offer innovative banking services which can appeal to its customers to transact seamlessly, thereby further improving customer engagement and customer satisfaction
- **Improving revenue avenues from digital mode:** Along with enhancing banking services, open banking platforms can also improve banks revenue via digital mode. Under the Open Banking initiative, the digital banking mode is very crucial for banks. This initiative aims in improve health competition in banking sector by allowing customers to access their bank accounts, transact or transfer funds and also allow users to open new bank account through the same API

Advantages of Open Banking to customers India

Open banking solutions also has some advantage to customer of financial sector. This advantages are highlighted by ¹¹Chakray blog:

- **Assisting customers while conducting operations:** Open banking help banks in creating customized banking solutions which would meet the needs of their customers. These customized solutions helps customers to access their accounts seamlessly, thereby reducing the time taken by customer to visit the bank
- **Understanding of customer requirement:** Open banking allows banks to have complete understanding of their customer requirements, thereby allowing banks to cross sell different product and services

Recommendations

After going through various reports, blogs and articles on Open-banking and Indian Banking sector; I would like to recommend below pointers which would help the Indian banking sector to compete globally.

- Implementation of stricter data sharing laws and regulation for regulating Open-Banking Services by the Finance Ministry along with an RBI and SEBI
- Allowing Open-Banking firms to partner with existing large banks for up-scaling innovative banking services
- Designing Open banking and Virtual banking platforms and assessing the openness of the citizens towards it

Conclusion

Today, technology is reducing the dependency on traditional banks and giving opportunities for organization which can design better, faster and affordable services which would be an essential part of day-to-day life. With the penetration of open-banking

¹¹Chakray: [Open Banking: Pros and Cons](#)

platform in private or new banks India has transformed the financial service sector. It has created a value for the sector by encouraging innovation and new banking business models. This move has resulted in criticism from existing/traditional banks, as the open-banking model it is considered as a threat to the existing traditional banks business model. The emergence of open-banking platforms has also raised issues related to data privacy and various steps to protect individual data. To improve the traditional service portfolio and overall customer satisfaction, the traditional banks need to partner with open-banking service providers. This partnership will assist the traditional banks to develop a strong API portfolio, thereby creating an edge over its competitors and win battles for customer interface and customer relationships. The prompt implementation of advanced technologies will elevate position of India globally.

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