



# The future of financial services: open banking

An introduction to the  
next big thing in banking

# Introduction

The days of needing to go to a brick-and-mortar bank for financial services are long gone. Now that online banking is the norm, what's next on the horizon for banking? An increasingly digital world means that data is everywhere – creating a unique opportunity to utilize consumer and commercial data to increase revenue and improve service. Welcome to the age of open banking: a new frontier in finance that gives consumers greater control of their data and your company the ability to meet their needs faster than ever.

As we enter this new era of banking, you may be wondering how this will impact your best practices. We predict that open banking will influence the future of financial services across four dimensions:

- 1. Technical innovations**
- 2. Regulatory changes**
- 3. Consumer control**
- 4. Revenue and efficiency opportunities**

Your organization stands to win big in the market and stay at the forefront of the competition – as long as you have enough flexibility to embrace the changes of open banking.



# 1

## Technical innovations

How does open banking work anyway? The move toward open banking plants financial organizations firmly in the tech space. It's important to understand what companies will need to do to adapt – especially those that don't have a strong foundation of using technology for their services. Introducing open APIs into the FinTech ecosystem allows customer data to be shared across companies and services. It also means that customers can see all of their data in one centralized location, rather than needing to look at multiple platforms or apps. This has substantial implications for customer interactions with banks going forward.

A consumer that currently has a relationship with any financial provider could have their data put on the market – accessible to banks that they don't even have accounts with yet. This means information about balances in customer accounts, as well as loan statuses, credit information, and other relevant financial information could be shared.

Data availability is not a sweeping yes or no question. Customers will be able to control which information they make available, when, and to whom. For example, a customer may only want their checking account balance to be shared across accounts so they can manage multiple channels at once. Or they may want to share their full financial profile to be able to compare offers from different providers. It's their choice.

The core of open banking comes down to what the consumer wants. Open banking allows a more personalized, streamlined process for receiving the best financial services on the market. But how do you convince your customers to take the leap?



## 2

# Regulatory changes

Critical to open banking is the issue of data privacy. Customers want to know how their data's being used and that it's secure – especially when it's being transmitted across channels and between organizations. Many may already be aware of the protections offered to them by law, though existing regulations vary by region. Some areas have introduced wide-reaching data protections acts, whereas others allow individual states or countries to create their own laws. Knowing about these broad legal protections is only half of the issue. Taking responsibility at an organizational level regarding what protections you will offer may play an even more significant role in building confidence in your services.

**When easing customers into the future, focus on increasing trust that their data is in good hands.** The idea of financial data being more accessible may sound like a security nightmare to some. However, there's a common precedent for how transparency can benefit everyone: open data.

You and your customers have likely interacted with open data without even knowing it. Public government data like the U.S. Census falls into this category. By making this data widely available, services become more effective and more efficient, as the data can be used on command to identify what areas are most in need.<sup>1</sup>

Open data echoes many of the benefits of open banking: anticipating what customers need and delivering on demand. Introducing third-party providers into the financial ecosystem allows results that might be out of reach for a single financial institution to become a reality.

It's up to your organization to ease customers into the future by making unfamiliar territory familiar. Put their concerns to rest by empowering customers with knowledge and open communication.

<sup>1</sup> Open Data Handbook.



3

## Customer control

Open banking's benefits to the consumer stretch even further than greater customer control. Customers will also have more control over what financial opportunities they accept. For example, open banking eliminates consumer barriers to receiving the most up-to-date information about what loan rate is available to them or how much money they have across accounts. This creates greater competition between banks and allows customers to make the most informed choice possible. Open banking allows customers to take their financial destinies into their own hands, removing roadblocks like paperwork and phone calls so they can collect the information they need.

Importantly, this shift also means that unbanked and underbanked populations become easier to reach. These populations find accessing financial services difficult for a wide variety of reasons. Some may feel as though they don't have enough money to keep in the bank, while others may worry that they'll be surprised with fees – a financial burden they aren't prepared to handle.<sup>2</sup>

Open banking offers a solution to getting historically underserved populations into the market. It makes banking more accessible with fewer applications and gives firms a more complete picture of a consumer, allowing them to make a better risk assessment. And greater efficiency decreases the costs associated with banking – meaning that the market is no longer pay-to-play.<sup>3</sup> Across the board, open banking is the path to a more equitable and opportunity-rich financial world.

<sup>2</sup> Emily Guy Birken, "The Cost Of Being Unbanked Or Underbanked," Forbes Advisor, July 28, 2020.  
<sup>3</sup> "World Retail Banking Report 2021," CapGemini and Efma, 2021.



# 4

## Revenue and efficiency opportunities

There's so much potential to tap into new customers by amplifying customized offers and reaching new communities. So what does open banking mean for your bottom line? Open banking not only makes immediate revenue opportunities available, but it's also an important way to keep up with your competitors in the future.

In 2018 alone, open banking generated \$7.2 billion globally – and that's only the beginning. By 2026, the projected earnings from the move to open banking is valued at more than \$43 billion.<sup>4</sup> This monetary gain comes from the ability to deliver the best service to customers, reach more customers than ever before, and create new partnerships within the industry that will benefit everyone. To shy away from this change is to leave billions of dollars of potential revenue unearned.

Some banks are already making offers to customers powered by open banking. Banco Sabadell in Spain now allows payments to be triggered from an account with a different provider in your home bank's app. In Australia, the bank 86 400 allows you to switch to better deals with just one click, thanks to shared information.

The leading banks in open banking are no longer just focused on having broad access to their API portals – they're also providing clearer explanations of potential use cases alongside examples. Blogs and events are also increasingly promoting these capabilities in order to reach a broader community development base.

With the profit potential that's wrapped up in open banking, it's no surprise that the tide of banking has already turned to favor it. Open banking is changing the landscape from being hyperfocused on payments to looking at a broader picture of information across customer accounts. It's linking customers to partner product offerings like insurance or investment products. And it's bringing opportunity to use data outside your customer base to drive sales or service offerings. Now's the time to get ahead of the curve and future-proof your business before you fall behind the competition.

<sup>4</sup> "Open Banking Market Size to Reach \$43.15 Billion by 2026, at 24.4% CAGR," Allied Market Research, April 13, 2020.

# Conclusion

The question is not if your organization will make the switch – it's when and how. With benefits that provide more efficiency for customers and more revenue for providers, everyone wins with open banking.

Not sure where to start making changes? **Get in touch with Pega.** We'll help you create a solution that eases you into open banking so you can start seeing those benefits pile up.



## About Pegasystems

Pega delivers innovative software that crushes business complexity. From maximizing customer lifetime value to streamlining service to boosting efficiency, we help the world's leading brands solve problems fast and transform for tomorrow. Pega clients make better decisions and get work done with real-time AI and intelligent automation. And, since 1983, we've built our scalable architecture and low-code platform to stay ahead of rapid change. Our solutions save people time, so our clients' employees and customers can get back to what matters most.

For more information, please visit us at [pega.com](https://www.pega.com)