

# BBD VIEW

# OPEN BANKING



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## WHAT IS OPEN BANKING AND WHAT DOES IT MEAN FOR SA?

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### How does open banking work?

Open banking requires banks to open their data via secure application programming interfaces (APIs), giving access to outside developers, to allow them to develop other apps. This would provide customers with many resources to view and understand their finances. Well-known examples of open APIs include PayPal and Apple Wallet.

Through open banking, customers would have more control of their finances, as barriers between customers and their data would fall, ultimately ending the banks' monopoly on customer data. Authorised third parties, such as fintechs, could gain access to a customer's bank data to create an engaging banking experience to best meet each customer's needs.

In Europe, open banking has been legislated through the implementation of the Payment Services Directive (PSD2). This came into effect 13 January 2018, with most of the large banks scrambling to adhere to the directive. Regulatory authorities passed this legislation to create more competition, levelling the playing field and ensuring a dynamic banking environment, able to adapt to customers' needs.

### Risks

Open banking is not a new concept, as users have already been sharing their banking user IDs and passwords with third parties. The problem with this approach is that it is

insecure and unreliable, which invalidates your agreement with your bank.

Having the right security in place when the APIs are accessed by third parties would be an integral requirement, together with a client's express permission for them to access their data and transact on their behalf.

The biggest concern of open banking is online security, as the potential misuse or loss of customer data is a concern for many, as the market opens up to new players. With constant stories of data hacks making headlines, some customers are wary of the change.

### Benefits

Despite the security concerns, the benefits may outweigh the risks. According to Accenture's 2017 UK Open Banking Survey, more than half of United Kingdom customers would never change how they bank.

“ With this 'loyalty' comes little transparency. Open banking aims to change this, by making it easier to move banks and make smarter financial decisions. ”

Money management will also be easier for people who have multiple accounts, allowing third parties to consolidate data into one secure platform. Most fintech start-ups don't have the massive funding or client base banks have. Authorised financial service providers

(FSPs) can thus make use of this data to offer unique services to clients, but without having to build back-end systems of their own. Innovative banks are already taking advantage of these changes by partnering with fintechs and merging the functionality of traditional banking apps with personal financial management and consolidating capabilities.

### What does open banking mean for South Africa?

Even though the European Union (EU) started the trend by implementing the PSD2 legislation, the rest of the world is not far behind. South Africa is already leading in this space. At BBD we are already enabling South African banks to open APIs and interact with fintech companies offering niche services. South African banks are known for being innovative and in this instance, aren't waiting to be regulated before embracing the change.

Similar legislation to that of PSD2 will slowly be implemented across countries. South African banks that are most proactive are likely to gain market share and access new market segments, while those banks ignoring the disruption will be left behind. One of the biggest opportunities is bringing the unbanked market into the financial system, which will require innovative approaches from many of the existing market participants. Open banking could play a role in meeting this by allowing lower cost niche solutions to easily interact with existing market infrastructures.

Through open banking, the future could see banks giving you access to only one app but an ecosystem of apps, for you to choose from and download those that meet your particular needs.

#### **About Matthew Barnard**

Matthew is BBD's Executive Head of Banking and leads the fintech vertical. With a passion for both technology and financial services – his specialities include project management, fintech strategy and solutions architecture.

#### **About BBD**

A provider of custom software development and application design solutions, BBD's 34 years of technical and developer expertise spans the banking, insurance, telecommunications, education and public sectors. Employing over 700 highly skilled, motivated and experienced IT professionals - BBD is South Africa's largest independent custom software development company.

