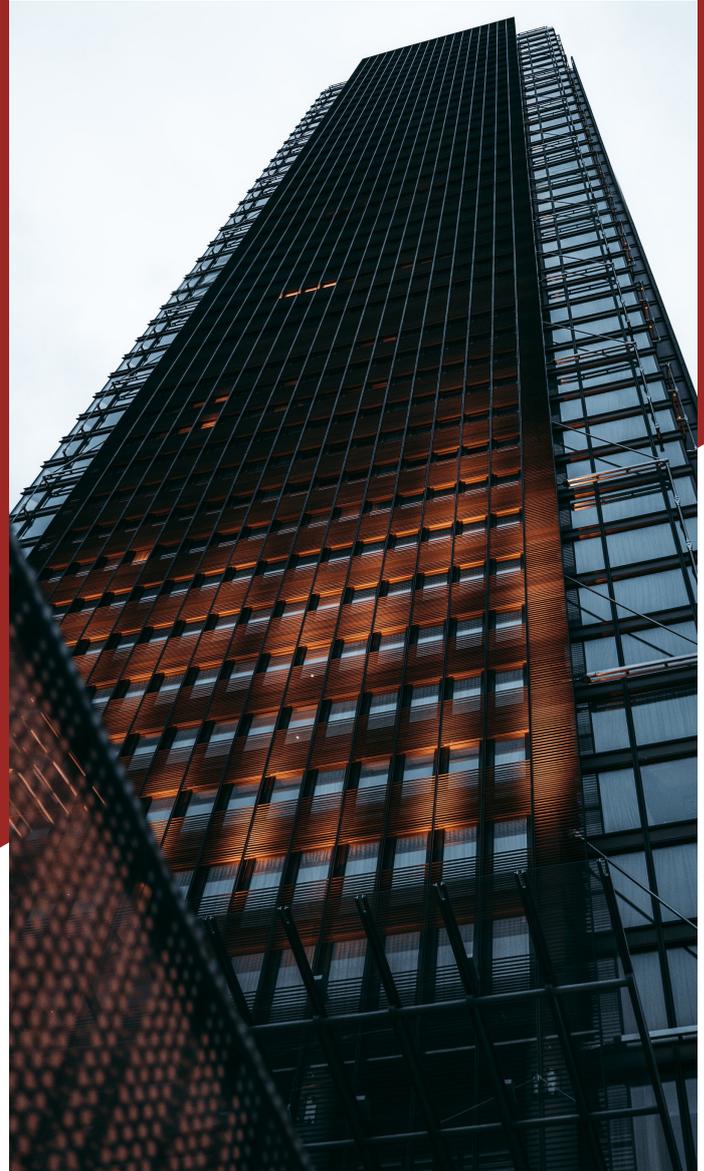


Agpaytech's Research
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Open Banking In UK's Financial Ecosystem

Executive summary



Open Banking is a crucial tool to help policymakers and others in our ecosystem to understand how open banking is developing and whether it is helping consumers and small businesses in the United Kingdom. This report is based on how open banking is changing the transactions system by connecting stakeholders via APIs. Payment Services Directive (PSD) 2 And the Competition

and Markets Authority (CMA) Order came into force across the EU in January 2016, demanding banks open access to customers' account data and giving third-party providers (TPPs) the ability to initiate payments, thus opening the banking system towards transparency for all customers. This directive is the foundation of the open banking system

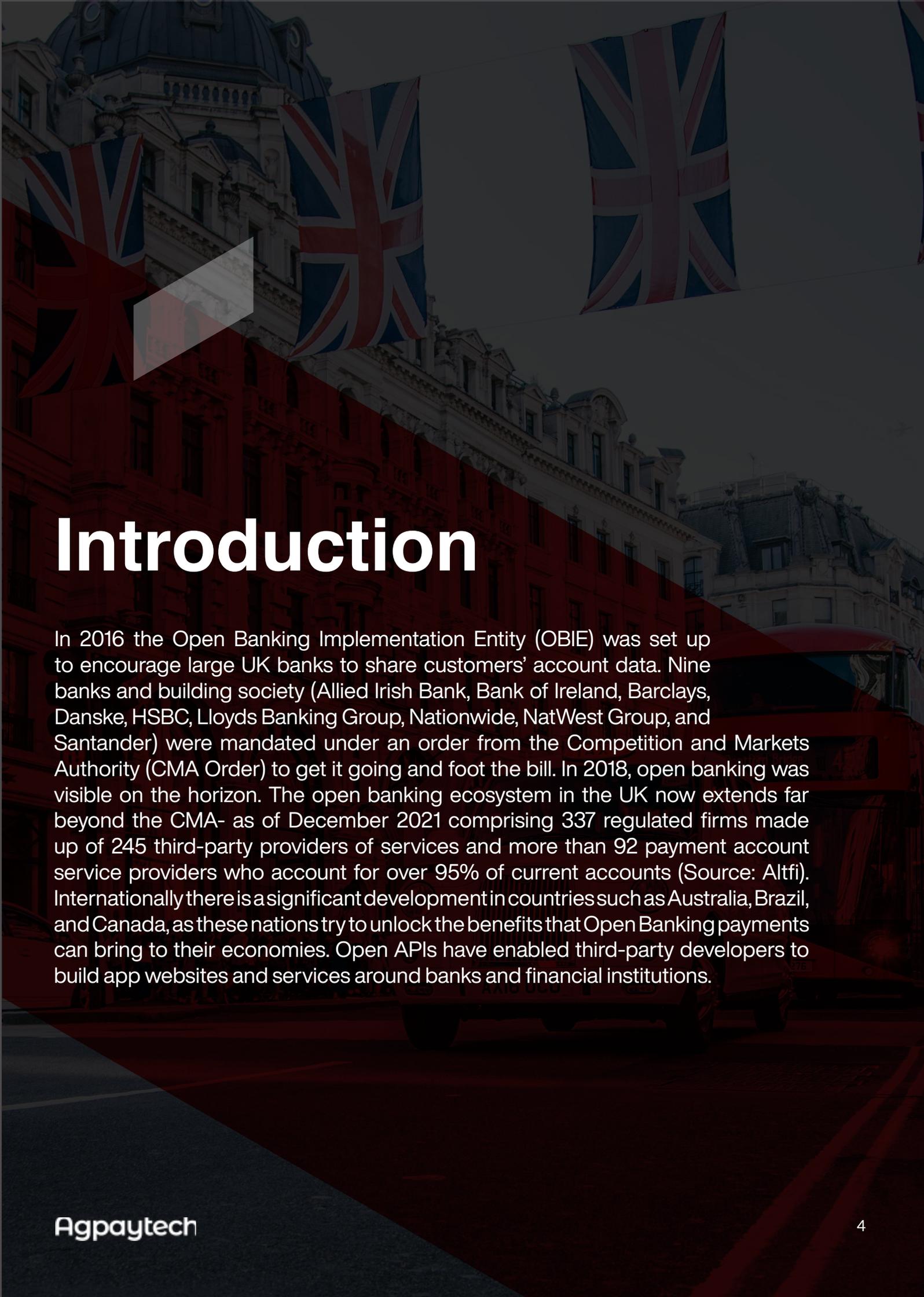


and was created for this technology to go live. Open Banking has started to facilitate the development of innovative payment services that have the potential to compete with cards as a payment method and act as a substitute for direct debits. The payments industry is closely Open banking is the latest technology concept in the Fintech Industry, it remains to be seen if it is a success or a failure.

Keywords: Open banking, third-party providers, FinTech's, Payment Services Directive (PSD), APIs

Contents

Introduction	4
The Open Banking Ecosystem	5
The Challenges of Open Banking	7
Open Banking vis a vis the RTGS	8
Open Banking in the UK	8
Customer Aptitude Service	9
Future Governance of Open Banking	12
Conclusion	14



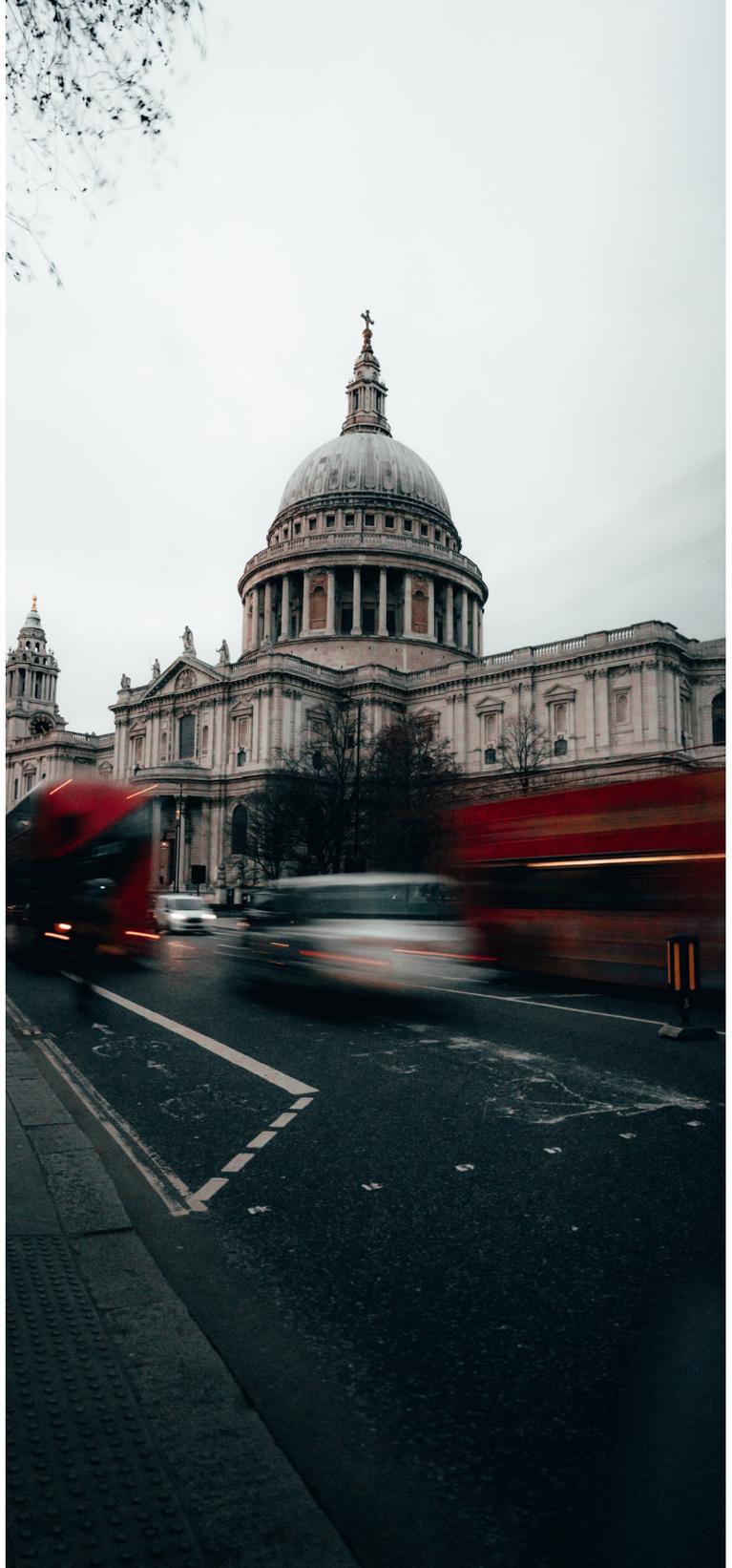
Introduction

In 2016 the Open Banking Implementation Entity (OBIE) was set up to encourage large UK banks to share customers' account data. Nine banks and building society (Allied Irish Bank, Bank of Ireland, Barclays, Danske, HSBC, Lloyds Banking Group, Nationwide, NatWest Group, and Santander) were mandated under an order from the Competition and Markets Authority (CMA Order) to get it going and foot the bill. In 2018, open banking was visible on the horizon. The open banking ecosystem in the UK now extends far beyond the CMA- as of December 2021 comprising 337 regulated firms made up of 245 third-party providers of services and more than 92 payment account service providers who account for over 95% of current accounts (Source: Altfi). Internationally there is a significant development in countries such as Australia, Brazil, and Canada, as these nations try to unlock the benefits that Open Banking payments can bring to their economies. Open APIs have enabled third-party developers to build app websites and services around banks and financial institutions.

The Open Banking Ecosystem

The open banking concept has its fair share of followers, some rooting for its success and some considering it to be a potential failure. Anne Boden, the CEO of Starling Bank, in October 2021 claimed to a Treasury Select Committee of UK politicians that “open banking is a lesson of us trying to make something work when halfway through the project, we realized it wasn’t going to work”. However, this statement was rebuffed by a large number of Fintech leaders who stated that her viewpoint takes an oversimplified approach to the propositions presented by the open banking system.

The popularity of open banking in the UK has increased in style with the latest stats revealing there are now more than five million active users. The figures are based on data provided during January 2022 by the CMA. On this news, Charlotte Crosswell, Trustee of the Open Banking Implementation Entity (OBIE), commented “Open banking was predicated on delivering increased competition and providing consumers and small businesses with new and innovative solutions. It is therefore extremely encouraging to see that more than five million active users are now leveraging the benefits of open banking.”



■ Use a TPP provider

To continue to develop and expand the ecosystem, the OBL model must work for TPPs. In the open banking model, there is a need TPPs to be utilized in case of any API downtime or other service-impacting issues via a continuation of the helpdesk function. TPP (Third-party provider) is the earliest way to start since it just needs signing up to get access to a sandbox environment that simulates the access to the bank's data. On the other hand, TPPs have been utilized in case of API downtime or other service-impacting issues via the help desk function. Therefore, a future governance structure has established a transparent accountability model for non-performing bank APIs. Non-performance has been a matter for the CMA and FCA. The customer groups with support from OBL must ensure that functional consistency cross-APIs, while non-functional performance MI have been recorded and made available to the ecosystem. TPPs can join working group forums to have a say in the provision of future API standards. However, TPPs must be published for consideration by the monitoring trustee, customer groups and OBIE.

■ End-users

The CMA (credit monitoring arrangement) order has been implemented to increase competition in providing a personal and business current accounts in UK. It helps to improve the overall financial well-being of UK end-user representation on the board of the future OBL to ensure that strategy and policy are made in the interest of consumers and businesses. OBL should support harmonization with open finance/smart data (as applicable). Furthermore, there is a proposal for end-user representation on the board of the future OBL to ensure that strategy and policy-level decisions are made in the interest of consumers/businesses. On the other hand, there is an option for the end user representation at the working group level also to ensure that standards are being defined with end-users in mind. In addition, OBL should support harmonization with open finance/mart data (as applicable).



The challenges of Open Banking

The open banking ecosystem has included various players such as data providers, third-party providers, customers, regulators, and government agencies. It will increase the potential points of failure of data security, and fraudsters are adept at targeting the weakest link in a chain. Therefore, one of the main challenges to facing the problem of open banking is security. Moreover, the companies championing open banking are the small fintech companies, not tech giants like Apple and Google and start-ups may not have the expertise to create robust cyber-defense mechanisms that are prohibitively expensive. Open banking has a liability concern as inserting third-party providers into the banking process increases the risk of scammers gaining access to customer information and their finances. In the event of consumers facing any losses, they will be replenished by their bank unless there is reason to suspect fraud or negligence.

Open banking has not come without conduct risks. The recent reports of cross-selling controversies in the US and misselling of payment protection insurances (PPIs) recently in the UK. However, it has complex for banks to gain attention towards customer confidence and comply with regulations such as GDPR and PSD2. Therefore, identity verification and fraud prevention are essential opportunities for banks to open API initiatives. These risks are associated with data loss, identity theft, data protection violations, money laundering and financing terrorism.

In addition, banks aim to go fully digital, and their operations have been wholly managed over the web, which creates an environment for higher chances of fraudulent activities. The aggregated customer data, such as transactions and balances held in the third-party provider's infrastructure and servers (Open APIs), pose a significant risk to cyber security. On the hand, government agencies and financial regulatory bodies proposing independent authority to oversee open banking standards, and government compliance requirements, banks will have to comply with GDPR and PSD2 immediately. The failure to accommodate the regulations of GDPR and PSD2, which is part of the open banking framework, may expose banks to the risk of financial or reputational loss.

Open Banking vis a vis the RTGS

It took ten months to grow the number of users from one million to two million in 2020. In contrast, it took only four months to grow from four million users to more than five million. The OBIE points to this number as well as the speed of growth as evidence of open banking's success.

However, when compared to RTGS, open banking has a significant distance to cover. According to Juniper Research, Bank of England, the anticipated annual global payments volume of open banking will be \$116 Bn. Which is a small drop in the ocean when compared to the daily payments volume of RTGS amounts to £ 741 Bn.

Open Banking in the UK

On 1 October 2021, the OBIE became an independent organization following an order by the competition and markets authority (CMA) set up in 2017 by the nine largest retail banks in Britain and Northern Ireland to implement Open Banking. There are over 5 million users of services powered by Open Banking technology. Furthermore, it is estimated that by September 2023, 60% of the UK population will be using Open Banking payments. Open Banking is a pioneering intervention helping millions of people and small businesses save money and time.

A joint statement of the regulatory oversight committee will draw up proposals for the design of the future entity by the end of 2022.

Andrea Coscelli, Chief Executive of the CMA, has recently stated that :

- Open Banking has been a significant success in the UK, bringing innovative new services to retail banking and benefiting consumers, businesses and the UK economy.
- The CMA has carefully considered the appropriate future arrangements to boost Open Banking so that its significant benefits can be widely realized.

Open banking has enabled consumers and businesses to securely share their bank and credit card transaction data with trusted third parties. Open Banking encourages account switching and drives down costs for small and medium businesses, boosting competition and innovation.

Customer Aptitude Service

There is another component of the unique research into the attitudes of open banking users towards the services they are using and how those services impact their financial health.

- Improved financial decision-making; and
- Increased saving and investing.

Table 1: Evolution of the open Banking Impact Report

Framework Area	First Report (March 2021)	Second Report (October 2021)
Availability	Established Ecosystem Audit to analyze Third party Propositions (TPP) by outcome Area	Updated with Current data
Awareness	Not Included	Not included
Adoption	Analysis from OBIE management information (MI), but with some caveats. Initial data of adoption by outcome area.	The same methodology was employed, but with improved data.
Experience	Analysis of Online review sites and ratings	Replaced with findings from new consumer experience research for a subset of outcome areas.
Outcomes	Not included	Included for the first time, using new consumer experience research for a subset of outcome areas.

Source: Open Banking Report, 2021



Thirteen open banking-enabled products and services have come to market in the six months ending August 2021. This number only includes regulated providers and does not take account of models where the service provider is either an agent of an authorized TPP (third-party provider) or is an unregulated provider that uses the service of an authorized TPP. In the subsequent report, we will consider how we can provide a fuller picture of availability, including other types of arrangements.

Table 2: Number of live-to-market open banking-enabled products and services

Date	Number of live to Market Open Banking-Enabled Products and services
31st Dec 2018	16
31st Dec 2019	62
31st Dec 2020	109
31st August 2021	119

Source: Open Banking Report 2021

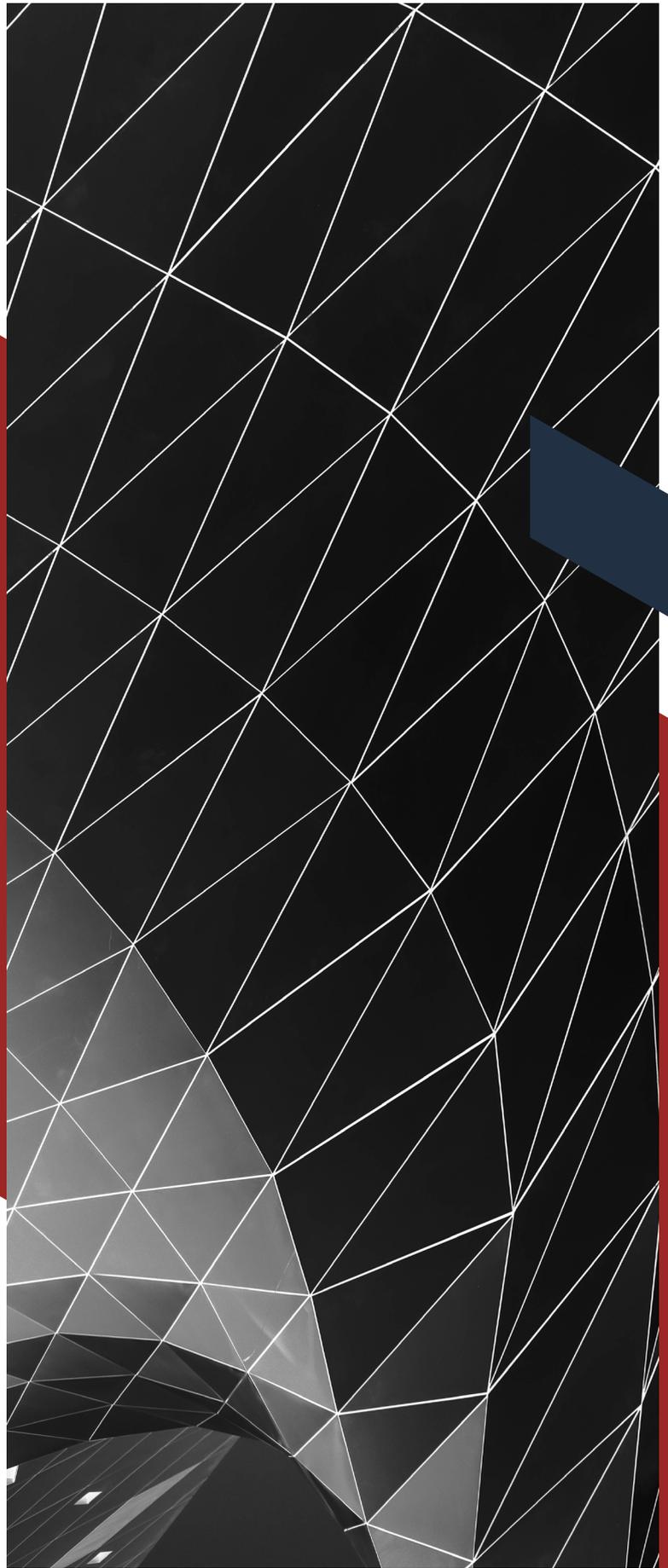
Furthermore, API calls are a core metric demonstrating the amount of activity occurring within the ecosystem. Therefore, it also indicates the number of active users of open banking. In the six months to the end of August 2021, the number of API calls has grown by 83%. However, this growth is significantly more robust than the growth in live-to-market providers suggesting that end users are progressively adopting and using the services in the market. APIs are starting to level off after a period of robust growth.

Table 3: Number of successful API calls

Six Months To	Number of API Calls (Million) CMA9 only	Year-on-Year Growth
Aug 2018	7.4	-
Feb 2019	105.3	-
Aug 2019	404.6	5,368%
Feb 2020	1484.2	1,309%
Aug 2020	2,655.9	556%
Feb 2021	3,883.0	162%
Aug 2021	4,864.7	83%

Source: Open banking 2021 (OBIE based on reporting by the CMA9 banks)

Future Governance of **Open Banking**



The existing governance of the OBIE (Open-banking Implementation entity) noted that it is critical to prepare for the future arrangements of open banking to secure and build on the significant progress to date. CMA (Cash management account) has also considered it necessary to set regulatory expectations for the longer term. They are closely working with the BoE and other regulators (FCA and PSR in particular) alongside relevant government departments to develop a statement that will set out a clear joint vision for the future of open banking and its governance. This vision is intended to help address the period between the end of the implementation phase of open banking and any future regulatory framework that addresses areas beyond retail banking as the CMA consulted on arrangements for the future oversight of open banking.

The adoption of this functionality is to be reinforced as HMRC begins using open banking for tax payments, and it is expected to bring significant volumes to the platform. The largest UK banks adopting the open banking API standards have gone beyond their narrow legal obligations, creating services using open banking functionality. Most banks and building societies that provide current accounts that were not obliged to do so have also adopted the CMA standards. One hundred open banking apps are now available to help consumers, and small businesses save time and money, including apps serving the needs of consumers. And four hundred and fifty more firms are in the pipeline to join the open banking system. Workings are going on towards developing the finance proposals to ensure that the future arrangements for open banking are regulated in a framework based upon the following factors:

- independently led and accountable
- adequately resourced to perform the functions required
- dedicated to serving the interests of consumers and SMEs
- sustainable and adaptable to future needs of the ecosystem

Conclusion

Open banking is an excellent alternative to the current financial system built upon the principles of customer data sharing with due consent to ensure that citizens avail the benefits of emerging fintech. Although the volumes are comparable to a drop in the ocean compared to traditional banking channels, technology catches up quickly, and observers are excited about the prospects of this form of banking.

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About Agpaytech

Agpaytech Ltd. is a company pioneering in the Fintech Space with a focused approach to building robust technologies for eCommerce Card Processing Solutions for Payment Service Providers (PSPs). Additionally, we provide Compliance and Regulatory Umbrella, Remittance-as-a-Service White-Label Solution, Foreign Exchange, Cross Border Payments, and digital currency technology. We have partnered with multiple banks, non-banking financial institutions, and corporate organizations to create a solid service delivery model for them and their customers to ease their international remittances and payments concerns. Website www.agpaytech.co.uk

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