



# Open Banking Research

2021

# The Target is Customer Satisfaction in Open Banking

**Murat Yıldız**

As of next year, Open Banking regulations will reveal new opportunities and possibilities in the way that both banks and sectors that have financial relations with customers do business. It is aimed to create new business models, increase competition by developing new financial services in line with the customer needs, and integrate new audiences who have not been a part of the financial world.

These new models can make a big difference for the banks, payment corporations, and the insurance and retail industries where customer relations evolve extensively out of financial transactions. However, the biggest concern of the CIOs is to sustain the highest level of security while bringing innovative services online.

In our research, we interviewed CIOs from 4 different sectors, banks in particular, on how they follow the developments in Open Banking regulations, the preparations in their corporations,

and what solutions they would like to adopt during the integration process.

As a matter of fact, businesses that have made their preparations and taken the lead will proceed forward much faster when the Open Banking regulations, which have completed their maturity stage, become effective. Our research results indicate that the CIOs from different sectors monitor the Open Banking regulations closely; however, they have not yet devoted adequate attention to the framework and research on this subject. When we analyze the findings of similar studies conducted abroad, we see that many companies want to quickly use reliable and proven application programming interfaces (APIs) in order to complete the integration aligned with the Open Banking regulations. The main motivation for all these is to offer new solutions and benefits to the customer. In our research, the majority of participating CIOs stated that they aim to meet the demands of their existing customers and create opportunities that

will increase customer satisfaction, in terms of using Open Banking applications.

On the other hand, technology leaders state that they have not had the opportunity to examine Open Banking-related applications and APIs so far. Only 35% of our research participants stated that they have reviewed Open Banking products so far. In addition, we see that there are shortcomings when it comes to following the legislation, products, and developments related to Open Banking. Only 38% of our research participants stated that they regularly monitor the Open Banking legislation.

The findings and the content of this research, which we have conducted with Architech, aim to raise awareness towards Open Banking and to determine the roadmap of corporations. You can find a summary of the results of our research in this report. In the light of this report, you will be able to read our comprehensive dossiers on Open Banking solutions in the CIO Update magazine, in the coming period.

# We Lead the Way

## In Raising Awareness towards Open Banking

As Architech, we have strived to create products that will add value to individuals and corporations, while contributing to the development of the ecosystem by creating state-of-the-art products in the financial sector since 2015. We continue our journey by offering end-to-end solutions to our customers with our product portfolio that includes different solutions.

When we look at the predictions for 12 most disruptive technologies in terms of their economic impact by 2025, which were put forward in the McKinsey Global Institute Report in 2013, we see that the infrastructure of these technologies is provided by the APIs. Having anticipated the upcoming developments, our journey towards a solution specific to Open Banking started before the official recognition of the term "Open Banking" in our country (March 15, 2020). While legislative studies are being carried out in Turkey, our product, in which we have made great progress in accordance with the



**Abdurrahman Çınar - Chief Product Officer**

international standards, offers services to domestic and international customers today. In today's world, where differentiation and developing user-friendly products are an indispensable reality in the face of increasing competition, we invest in our ApiGo product so that its users have the best experience and enable third parties to benefit from this, as well.

While leading the way in raising awareness towards Open Banking in our country, we also aim to attract the attention of other sectors besides banks, such as insurance, telecommunication and retail. We hope that this study, which we have conducted in cooperation with CXO Media, will constitute a basis for this context and benefit everyone who will read it. We would like to thank the participants for their interest and time.

# What is Open Banking?



Open Banking has recently become the new rising value in the financial sector. **So, What is Open Banking?**

In general terms, we can define Open Banking as a digital structure where the customer is at the center and has absolute control over the data. In fact, we can go one step further and claim that we have stepped into a modern financial era, where we begin reaping the fruits of the long-awaited digital

transformation in banking with Open Banking.

As a side note; though we use a general concept such as Open Banking, we also observe that some countries have their own interpretations for this term.

To give a few examples, India uses the UPI (Unified Payment Interface), which is an interface

for unified payments, while Mexico adopts the term Fintech Law (Finance and Technology Law) instead of Open Banking. Since there are also different uses such as the Open API Framework, it is beneficial to be familiar with these differences in order to avoid any confusion in terms of terminology.

## The History of Open Banking around the World

Open Banking first came into existence in the European Union's PSD2 proposal in 2013. PSD, which stands for Payment Service Directive, consisted of the new legal infrastructure determined mostly for the payments of corporations and providers with its second version at that time.

The main difference of PSD2 was that it allowed third party

providers to access data during the payout. This detail in the directive also forms the basis of Open Banking.

Due to this concept, data can be exchanged between corporations under the Finance ecosystem, and of course, this information exchange made in line with the customer's consent and approval will allow the

customer to have more say over their own data. Therefore, it is possible to interpret the word "Open" used to indicate the concept in two ways. While the first one refers to actually enabling the user to control the data, the second one refers to the fact that the data is shared with third-party providers.

# Which Trends Are Driving Open Banking?

If we consider Open Banking, the buzzword in financial services, as a value that can unlock the door for all parties involved, the rapid innovation that is currently taking effect is hardly surprising.

At this point, key trends are emerging that are driving Open Banking:

The first of these trends,

## is **Rapid Innovation.**

Corporations benefit from the opportunities offered by Open Banking in order to use enhanced customer data so that they can offer specific products to certain customers.

## **Consumer Protection**

Companies understand the value of their data and invest heavily to drive innovative customer solutions, build loyalty, and improve operations and benefit from them securely. It is important to execute this without adverse effects on privacy. It is also essential to implement the necessary systems and processes to ensure that customers are responsible for how, when, where, and with whom their data is shared.

**Competition and choice.** The race to stay ahead is now a critical consideration for all market players as financial corporations understand that the main driving force of Open Banking is the increasing competitive pressure among banks.

**Data security.** Banking data is highly confidential and requires organizations to place importance and priority on ensuring that sensitive information is kept in safe hands and stored in line with the strictest data security standards.

**Digital Identity.** Open Banking, in essence, is largely based on an integrated digital identity. The consolidation of the integrated online profile for an individual, organization or electronic device will provide a secure and seamless authentication experience and act as a competitive leverage between banks and other financial service providers.

**Access management.** Banks always need the capability to provide a secure and private connection for a customer to access their own data. This necessitates a framework that governs access rights, usage restrictions, and security in situations where customers need a defined set of standardized or customizable access management protocols for sharing data with third-party service providers and its use.

**Re-focusing on customer relations.** Corporations can use Open Banking as an opportunity to strengthen/re-establish themselves at the center of the customer relationships.

**Improved Know Your Customer (KYC).** There is an opportunity to develop more robust and efficient Customer Identification services as organizations can now improve customer profiles due to the availability of more data.

# How Will Open Banking Change The Retail Sector?



Open Banking will allow different players to be included in the financial ecosystem. One of the most high-profile players among these sectors is the retail sector. The prevalence of PSD2

standards will change some entrenched values, especially in the retail industry. According to the current research of the B2B technology and public relations company CCgroup, the companies in

the retail industry that are not fully compatible with PSD2 can simply be paralyzed should they be caught unprepared for the change. So, how exactly will retail and Open Banking be linked?

## Retail must be fast

If we define PSD2 or Open Banking as a way to facilitate fast payment, we can predict that the shopping volume will increase. The consumer, who will be provided with much more options via a single click, will demand more from the retailer. New payment options will emerge for the retail industry, due to Open Banking and payment companies. The faster the companies adapt to this change, the more successful they will be. Therefore, we are transitioning towards a period in which innovation will become continuous in the retail sector. Hence, the retailers who conduct the transition will have one value

they've always demanded and chased: Data! Yes, while Open Banking also means speed and convenience, it means data in essence. If retailers play their cards right, they'll obtain far more valuable customer data through many different payment and purchasing channels. This data, if analyzed correctly, has the potential to turn into a unique digital tool that will improve customer experience. Despite its numerous pros, only 16% of retailers are prepared to make significant investments in Open Banking, according to research. Unfortunately, we are witnessing that 67% of the industry is not ready for PSD2 at all. This may

spell disaster for the industry. Because, PSD2 will become much more common in the near future, even just for security reasons. Innovative security solutions such as multi-factor system authentication will become the natural choice of customers. An e-commerce giant in our country has stated that they had fallen behind in the market because their system had not supported the 3D Secure payment option when it started operations. A similar technological shortcoming can more deeply affect the retail industry along with Open Banking. Retailers that support Open Banking could be tomorrow's winners.

# How Will Open Banking Change the Insurance Industry?

Customers can encounter a different and more attractive offer every day with Open Banking. This situation requires insurance companies to spend many working hours in order to develop customer-specific offers. Data analysis, once again, plays an important role in developing offers and preparing insurance policies that meet the customer's needs 100% by combining them with innovation. The terms data and insurance are mentioned together so often that we meet the concept of "Insurtech" at this point.

## Does Open Banking bring along open insurance?

Due to this term, which means insurance technologies, insurance companies using technologies such as IoT and Big Data can conduct a customer-specific risk analysis for policies by calculating much more variables. For example, in some car insurance

models, even tire wear can be included or excluded according to the driving dynamics of the driver. However, although insurance companies provide comprehensive services, they generally specialize in areas such as health, art and housing. For this reason, companies

need to develop APIs in line with their fields of expertise as soon as possible and provide their customers with open insurance. In a platform where open insurance is managed correctly, customer confidence and the number of customers will increase.

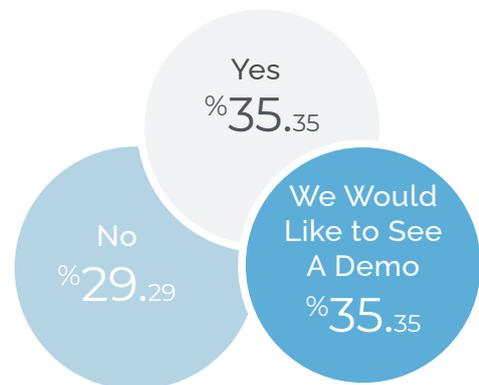
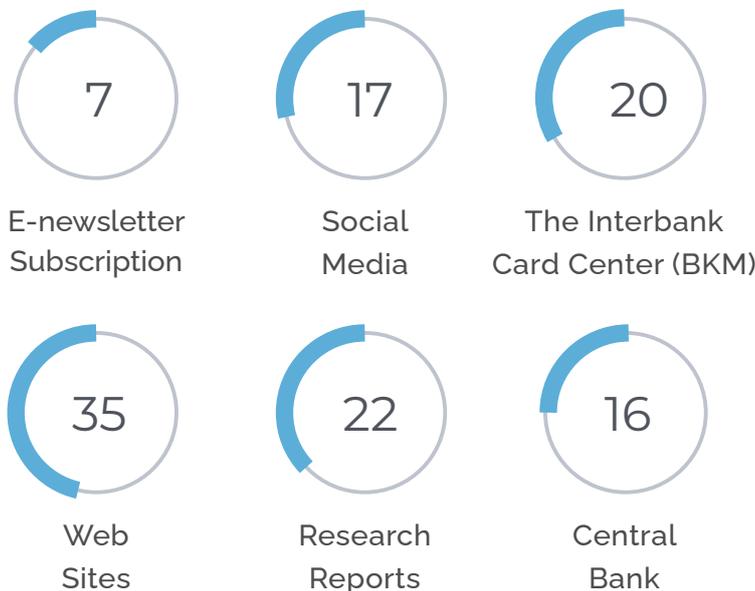
# Open Banking In Pursuit of the CIOs

Can you follow the international and local regulations regarding Open Banking?



Open Banking is a much more recent concept than many technologies. Bank CIOs are following the issue much more closely. However; Insurance, Retail and Payment Systems CIOs are also highly aware of the opportunities that Open Banking will offer them. One of the biggest needs in this regard is the development of suitable products for Open Banking and companies' skills in persuading the senior managements on how these products will be beneficial. Technology leaders are currently trying to follow the Open Banking practices, regulations and case studies through different channels, and prepare their own set of solutions.

## Have you had the opportunity to examine products fully compliant with the Regulations regarding Open Banking?



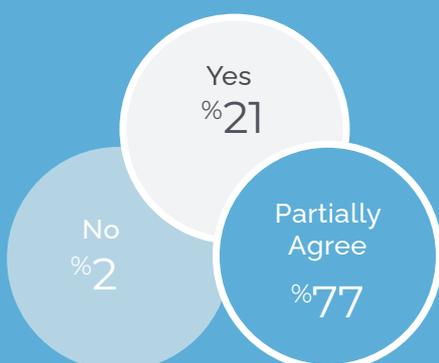
# Impact of Open Banking On the Industry

How big of an impact do you think the introduction of Open Banking secondary regulations will have on the financial sector in Turkey?

Corporations that carry out Open Banking activities are expected to become more widespread when the secondary regulations regarding Open Banking take effect in Turkey. At the same time, a safe environment will be provided in terms of data sharing with the increase in awareness towards Open Banking. In this context, it is inevitable that a new era of financial services will begin with the steps taken by banks and financial technology companies.



**Have you had the opportunity to examine products that are fully compliant with the Regulations regarding Open Banking?**



It is necessary to determine the API standards in order to provide high quality financial services and create an extensive product ecosystem. For this reason, there will be operational differences between the APIs to be used by both banks and other payment service providers in the Open Banking application. Possible conflicts will occur due to these differences between the actors that provide payment services. In order to avoid such possible conflicts, API standards should be determined by international organizations, the European Union or the authorities of the countries themselves. Establishing a standard framework will not only prevent possible disputes between banks, but will also facilitate the widespread use of Open Banking in Turkey.

# The Pandemic Accelerates Transition to Open Banking

One of the driving forces of the Open Banking ecosystem, which is about to bring a number of innovations to the sector, has been the COVID-19 pandemic, which entered our lives on a global scale.

COVID-19 has created new habits and preferences for consumers regarding banking operations. The pandemic, which has brought along countless fundamental changes, made many of these changes

necessary and became the determining force of 2020 in the Banking and Finance sector. Remote work, lockdowns and the shift to a lifestyle with social distancing have accelerated many financial trends in 2020.

## What opportunities do you foresee that Open Banking will provide for the end-consumer?



Development of innovative financial solutions and services



More effective methods for financial access



More informed decision making regarding financial services



Increase in customer satisfaction

**The following 5 key items are listed as the headlines that will have the most impact on the Global Open Banking ecosystem:**

- Mobile banking as customers consider mobile phones an important part of modern life
  - Bitcoin and other crypto currencies
  - New digital experiences, which are the nature of banking and investment, are being redesigned by the innovative moves of industry players.
  - Income/expense account automation systems, which are authorized for concepts such as expense management, corporate purchases, acceptance of payment, and payments.
  - Robotic process automation and artificial intelligence simplify back-office processes and provide more valuable service to customers.
- API integration technology and its ecosystem integrations play an important role and act as a catalyst to deliver these new services to customers.

# Open Banking Investment Plans

Companies' investment plans in Open Banking will take shape within the next 2 years.

## When does your corporation plan to invest in Open Banking?

The investment plans of the companies in Open Banking have not been fully determined yet. A transformation plan on the roadmap regarding Open Banking, particularly in the Retail and Insurance sectors, will take shape within the next 2 years. When we monitor different examples in the world, we see that companies are currently including their transformation plans on their roadmaps, especially in Europe, and they will start to offer the initial solutions in 2021. The transformation in Turkey will accelerate especially if the Open Banking standards and regulations are determined as soon as possible. Many CIOs are currently waiting for the regulations to be set and how the APIs offered by corporations will develop solutions.



Open Banking standards are on the rise around the world. According to Platomable's Q3 2020 Open Banking API Trends, there are 423 Open Banking platforms worldwide as of Q3 2020. They have released more than 2,800 API products.

This has changed the way consumers interact with financial corporations. It has also created new partnership opportunities that were infeasible a few years ago. The number of Open Banking users in the UK increased from one

million in January 2020 to three million in 2021. It is already on the rise in countries like South Korea, which has more than 20 million technology users, and is poised to penetrate the US market and Europe in the coming years.

# Risks and Question Marks

We asked the CIOs the biggest question marks and potential key challenges regarding Open Banking.

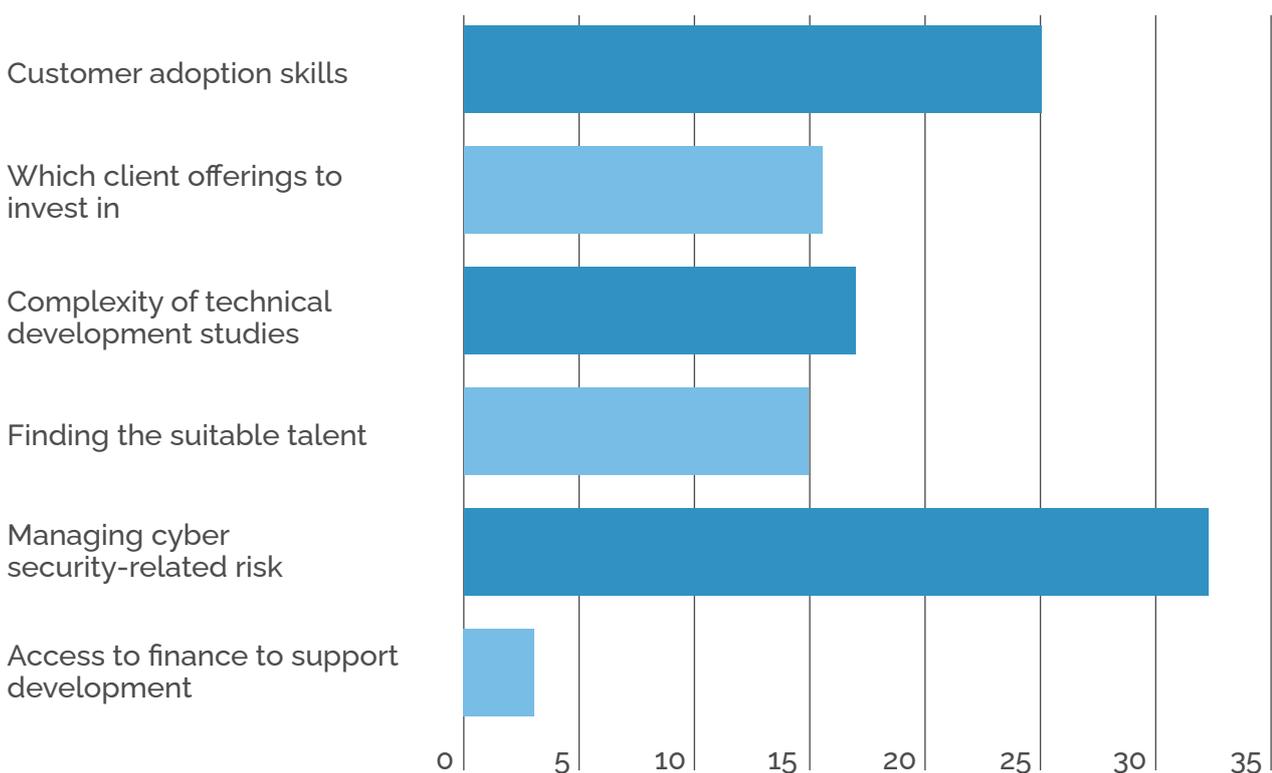
One of the main challenges facing Open Banking is security. The lack of homogeneous technical standards other than specific security requirements, coupled with complex internal technology systems, can make the process vulnerable to corruption and be the main cause of fraudulent activities. It also creates complex data access chains, making it harder to prove who was at

fault after a fraud. Another concern with Open Banking is the identification of the party that bears the responsibility as involving third-party providers in the banking process increases the risk of fraudsters gaining access to customer information and finances. In order to encourage consumers to use Open Banking applications, it is necessary to eliminate these concerns and to know who will

share the responsibility in case of a possible problem.

One of the biggest concerns of the CIOs is finding the right talent to guide them through the transition to Open Banking practices. Solution providers, in particular, need to act with an understanding that can solve the integration within the corporate applications jointly, during the transition to Open Banking applications.

## What are the main challenges towards Open Banking?



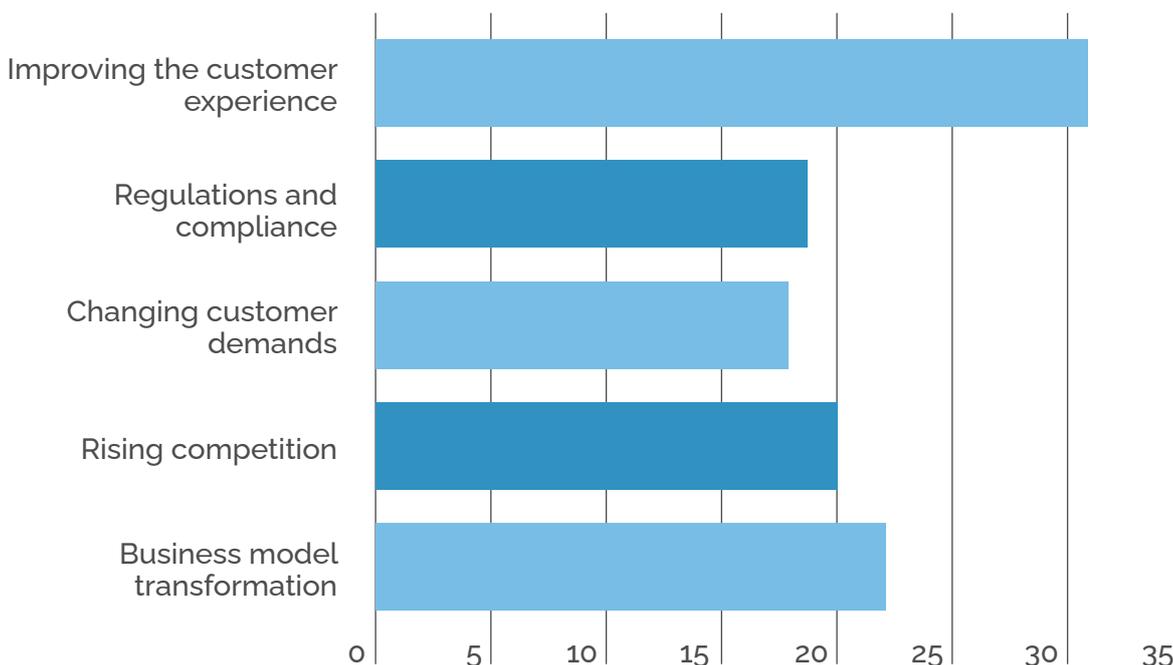
# Driving Force of Open Banking: Customer Experience

What is the most important driving force behind the investments in Open Banking?

The most important opportunity that Open Banking applications create is to be able to provide your customers with fast and important innovations in the financial services market. The data sharing rules of Open Banking aim to encourage competition between banks and assist implementation of new technologies that will make banks more agile.

When financial entrepreneurs have access to the same data that only the traditional banks had before, banks will be much more enthusiastic to create new products and services to stand out among their competitors.

Retail, insurance, or payment companies will gain a deeper insight into their customers when they access this data. In this way, companies will now be able to offer more customized services to their customers. The vast majority of CIOs agree on improving the customer experience. In this way, companies aim to both transform their business models and offer services that will make a difference in an increasingly competitive environment.



# In What Ways Will Open Banking Change SMEs?

Prior to the pandemic, regulations were being amended in the Banking and Finance industry. Systems like Open Banking have been proposed as a way to encourage competition in the industry, allowing smaller companies to enter a market dominated by corporate giants.

Currently, Open Banking is also revolutionizing the way SMEs are financed as it requires banks to make valuable data available through APIs.

## Yes, but how?

The banking industry needs to develop stricter systems to consistently obtain consumer consent for data sharing. At this stage, some studies show that 60% of Americans prefer to share their data over privacy. The type and volume of data shared through the Open Banking framework is much bigger and more extensive.

Several groups are likely to benefit from this if the banking industry is persuaded regarding the positive effects of Open Banking.

With Open Banking, new banking and investment products will be offered to the customer, based

on data analysis much more detailed than what is currently available. Fintech companies that design these products will see their profit margins rise in parallel with the increase in the use of the products.

Having said that, SMEs will be the biggest beneficiaries of Open Banking. The reason for this is not that the Open Banking frameworks offer certain new functionalities that will be beneficial for small and medium-sized enterprises. Research shows that in traditional banking, there is limited ability to see the overall financial position of an SME holding capital in more than one institution or instrument, which makes it difficult to secure financing. In addition, SMEs often have to deal with old and time-consuming interfaces at the point of uploading data to their banks.

Moreover, the payment systems in use provide

very limited feedback. Given these shortcomings, it's not surprising that Fintech startups are willing to grant a loan to small businesses and SMEs are actively seeking new banking products and services. Open Banking promises to accelerate this transformation and significantly improve financial services provided to the average SME. It does this in several ways. Giving third parties access to the data held in banks allows many SMEs' real financial standing to be assessed for the first time.

Currently, many SMEs are facing a funding gap. This is largely because banks have decided to move away from the «balance sheet» model for assessing credit risk. Banks will be able to more accurately assess this risk and provide loans to more businesses by using real-time analytics on an SME's business operations.

# What Should Be Done for an Effective API Integration Platform?

An effective API integration platform provides a simple way to utilize both old and new applications.

Banks and Fintechs can create a powerful API integration platform if they implement the following topics and take a proactive approach:

- Build integrated, high-performance ecosystems consisting of financial applications
- Automate manual processes
- Seamlessly access banking services and sync data with third-party back office applications
- Build seamless new services that monetize data via new ways and create new income streams
- Modernize banking data exchange for retail and corporate customers within all solutions
- Enable direct real-time processing
- Accelerate cash flow through the system, reveal new efficiencies.

**Apart from Open Banking, would you like to use a ready-made product to offer your services to your stakeholders in a secure and manageable way?**



Yes



I have no information on that



Price/performance ratio is important to me



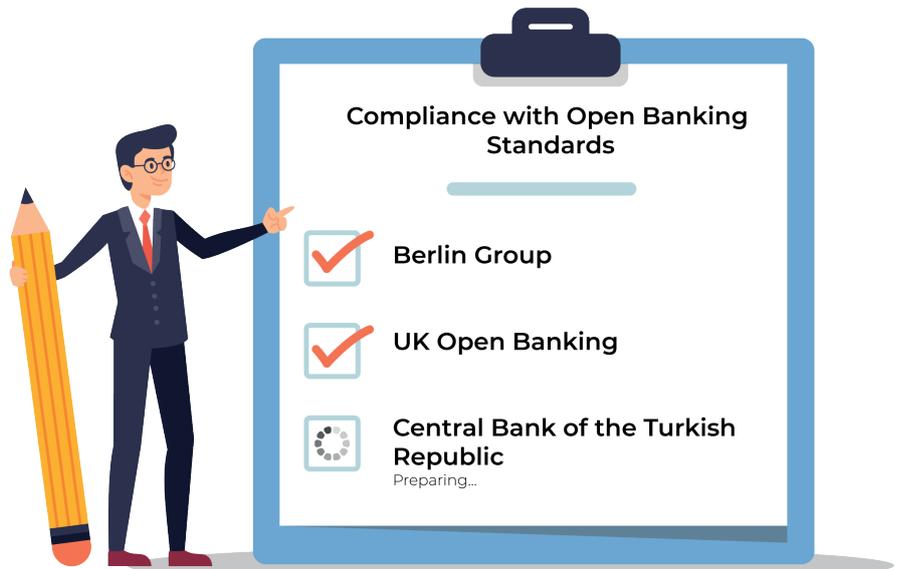
No, we are developing inside.

# Architect Open Banking Solution

Continuing to grow with the vision of building platforms that connect the financial industries all over the world, Architect has added the Open Banking solution ApiGo to its innovative product portfolio in 2020. ApiGo has been developed entirely in-house, using local resources, in order to quickly and easily integrate users into the finance ecosystem of the future.

With its API gateway feature, which enables corporations and Fintech companies to present and manage all their APIs on a single platform, ApiGo meets the needs of its users both as SaaS and on-premise. It is aimed to adopt the product as quickly as possible by closely following the works on Open Banking standards in Turkey, as well as complying with Berlin Group Standards and UK Open Banking Standards with its PSD2 compliance.

ApiGo facilitates the progress of its customers' Open Banking journey within the domestic and European market, by offering high performance and the best user experience, as well as compliance with standards. In this context, Golden Global Investment Bank started to cooperate with Fintech companies through ApiGo, by bringing its APIs together, just three months after its official launch.



Continuing its operations in Germany, KT Bank AG obtained the PSD2 Compatibility license with ApiGo by the German Federal Financial Supervisory Authority (BaFin) in May 2021.

### Consent Management

Regarding the management of customer consent, which forms the basis of Open Banking, ApiGo facilitates the management of the process due to its special solutions for customer verification and authorization processes. It offers application and infrastructure services for B2B and B2C solutions with mutual identity and certificate verification.

**Developer Portal**, which offers the opportunity to create unlimited environments that Fintechs can use as API Portal and Sandbox so that they

can easily access the APIs offered by the corporations, stands out with its flexibility. It provides services such as the instant and easy management of the content on the portal, speeding up communication by enabling the developers to comment on the documents, and testing with sample data.

### End-to-End Protection

It provides the management of security measures with restrictions that enable the configuration of access requests through the admin panel at the gateway. APIs can be securely shared with Fintechs, traffic can be scaled, service requests and customer data can be protected from malware. In addition, data sharing with the Fintech companies is protected end-to-end with the WAF integration of ApiGo.