

Open banking innovation in the context of responsible banking

Abstract

This paper aims to explore the role of open banking as a catalyst for responsible business practices and positive societal transformation. Open banking has become a key player in the technological landscape. By enabling and encouraging the sharing of financial information online with consumer consent, it can incentivize businesses towards more transparent, inclusive, and responsible practices, especially in an era where ethical business and digital innovation are at the forefront of societal change. In the lending industry, open banking allows companies to streamline access and processing of customer data for credit risk assessment, leading to more innovation, competition, and the development of personalized loan offerings. This research will investigate the current gaps in understanding of open banking and responsible business practices, thereby proposing new areas for further investigation to support progress. SDG 17 aligns well with open banking, as collaboration and partnership form the foundation of this system. With strong partnerships, all other SDG goals can potentially be achieved. Effective collaboration across various sectors depends heavily on the regulatory environment, where regulations play a vital role as a supporting pillar.

Background of the research

In current times where it is often common for various people to own more than one bank account, it can become difficult to have a full insight into each of the accounts and this can affect a person's true view on financial health and that can lead to higher or unforeseen expenses, avoidable debts, loan rejections and so on (GoCardless, 2023).

In the financial world, open banking has become a popular word and has been the subject of several meetings and panels of discussions. Open banking is a technology that enables customers and businesses to give consent for their data to be shared with third parties. By doing so, they allow such third parties to assess their data for various purposes such as personalised product recommendations based on their usage and requirements. At the core of open banking, it is assumed that an account holder permits a third party (different from the intermediary holding its bank account) to access the data registered on his/her account (Bianco & Vangelisti, 2023).

At the centre of open banking, it is assumed that the account holder gives permission or consent to a third party (which is a different entity from the intermediary holding the bank account and data) to access the data registered on his or her bank account (Bianco & Vangelisti, 2023).

As open banking implies sharing of customers data between their bank accounts and third parties, this automatically implies partnerships and collaborations. Therefore, for open banking to happen, there must be an enabling environment or ecosystem. This is referred to open banking ecosystem or open banking regime. Few examples of these are the UK's open banking ecosystem, Brazil's open banking regime and Singapore open banking ecosystem.

Open banking regimes differ as they have different set of regulations and business or banking cultures. Open banking regimes can be implemented into countries for two main reasons, the first is to give bank accounts owners the right to share their data safely and to efficiently exploit all possible benefits for themselves. The second reason is to foster competition in the banking sector, thereby fostering the introduction of technologically

advanced intermediaries in the market and pushing traditional banks to adopt new innovative business models (Bianco & Vangelisti, 2023).

The United Kingdom's Open Banking ecosystem is one of the world's leading open banking ecosystems. The UK's open banking's journey started in 2013 mainly after the release of the PSD2 proposal by the European Union (EU) and following a recommendation by the open data institute and fingleton associates which stipulated that banks create a standardised APIs that would be accessible to third parties. The final version of the PSD2 was released in 2016 and members of the EU were required to apply most provisions in the next two years. During this time, the Competition and Markets Authority (CMA) investigated that found that there was low competition in the banking sector. Its investigation showed that older and larger banks in the United Kingdom did not have to compete hard enough for customers' businesses and smaller and newer banks find it difficult to grow as a result. Customers were paying more for banking activities and were not benefiting from new services due to the low competition. To comply with the PSD2 directive, the CMA set an initiative to create a set of standards that will require banks to open APIs to third parties although customers will have to consent to share their data. To bolster competition in the banking industry, the initiative required that the nine largest banks of UK (which at the time, when combined, had over 90% of the UK's consumer and small business accounts) to create an open-source open banking API. The collective of the nine banks was referred to as CMA9 (Open Banking, 2023).

Open banking has great potential and opportunities. Before the open banking mandate by the CMA, older and larger banks in the UK, which are known to be conservative in nature had exclusive access to their customers' financial data. The introduction of the standard APIs by the CMA9 allowed third parties access to this otherwise restricted data. This therefore fostered competition. Most of this data has been stored instead of being used. Open banking opportunities come from use of this large amount of this data to drive innovation. (GoCardless, 2023)

Open banking legislation was created to give customers total control over their financial information (GoCardless, 2023). Now, for a customer to have total control over their financial data, they would have to know the potential use and value of such data. This means that in a way, open banking can improve financial literacy and capacity which can have a ripple effect on financial management, financial resilience and lastly financial inclusion.

Literature Review

Open banking allows third parties to aggregate customers data and provide them with a unified view on all their accounts activities and even recommend better or personalised products and services. This also gives way for innovation with tailored financial products and services such as credit cards options or loans adjusted to their earnings and expenses, all this with their consent of course.

Innovations in payment initiation services in collaboration with open banking allows for improved safety and convenience in completing online purchases, also save time allowing for faster more secure transactions as well as saving cost (GoCardless, 2023).

Another benefit of open banking to consumers is that it allows lending companies to access and include other types of data in their credit risk assessments which makes loans and mortgages accessible to otherwise underserved customers (GoCardless, 2023). For businesses, open banking allows them access to customers data thereby allowing them to create personalised products and services and drive innovation through competition. This also leads to efficiency as various businesses can focus on the data that is important for them and funnel resources into other key areas instead of trying to make sense of all the data (GoCardless, 2023).

With development in technology, businesses can now directly integrate automation in their processes to automatically access and process customer data and deliver faster services. To have a quick refresher on Fintech growth, Zone (2021) has arranged a brief chronological order on the various events. Firstly, in the 1960s, the prominence of ATMs became more profitable than the creation of Bank branches. The adoption of this new technology at the time illustrated the new era of financial inclusion. In the early 1990s, the Internet revolution happened, and this reduced physical contact with banks and led to the development of electronic finance (E-finance). It led to the development of several business models as well as the synergy of trust and technologies such as online banking, mobile payments and mobile banking. Following that, in the mid-2000s, the emergence of smartphones happened, and this led to the flourishing of mobile finance and the revolution of mobile payments and mobile banking. Customers could now access their accounts and make transactions through their mobile devices. It was the introduction of mobile technologies in financial institutions. In 2008, it was the Global financial crisis that took the world by surprise, and thus led to the combination of various economic models in a bid to find solutions. As a result, Internet technologies, social networking services, social media, artificial intelligence, big data analysis, e-finance and mobile technologies were all used for financial solutions. Technology proved itself as a solution and not a threat. Therefore, after the crisis, efforts to develop the use of technologies in finance continued. The internet and mobile devices kept developing and getting better thus transforming the financial ecosystem. The value of such technologies could not be understated as transaction cost were reduced, execution times were faster, management information were updated in real time, internal communications were more fluid all the while potential customers were getting practical and reflected in the demand. Nowadays, new terms are being introduced such as Insurtech, WealthTech, RegTech and the famous Blockchain.

When talking about sustainability, one can easily refer to the sustainable development goals. The sustainable development goals are a result of the 2030 Agenda for Sustainable Development adopted by all the United Nations Member states in 2015. According to the United Nations, they provide a shared blueprint for peace and prosperity for people and the planet now and into the future. A total of 17 sustainable development goals were agreed namely: 1 no poverty, 2 Zero hunger, 3 good health and well-being, 4 quality education, 5 gender equality, 6 clean water and sanitation, 7 affordable and clean energy, 8 decent work and economic growth, 9 industry, innovation and infrastructure, 10 reduced inequalities, 11 sustainable cities and communities, 12 responsible consumption and production, 13 climate action, 14 life below water, 15 life on land, 16 peace, justice and strong institutions, and 17 partnership for the goals (United Nations, 2015).

The SDG 17 seem to resonate well with open banking as collaboration and partnership is the foundation of open banking. With great partnership all the other SDG goals can be achieved. Collaboration and partnership of various sectors depends on the environment and structure of which regulation is an important pillar.

In terms of regulation, the task force on climate related financial disclosures (TCBD) in the United Kingdom is an industry led initiative created to develop a set of voluntary climate related financial disclosures. These disclosures can help companies to provide consistent and comparable information to investors (CDSB, 2022).

Globally, the international Financial Reporting Standards (IFRS), in response to the need of consistent and comparable sustainability information to inform economic and investment decisions, created the IFRS S1 and IFRS S2 standards. IFRS S1 is the General Requirements for Disclosure of Sustainability-related Financial Information and IFRS S2 is the Climate-related Financial Disclosures (IFRS, 2023).

From the literature review, it was shown that open banking could help in financial education, financial management, financial inclusion and increased market competition.

Open banking is about collaboration and partnership, hence cross-sector collaboration linking consumers, policy makers and regulators as well as fintech companies would have the greater potential of achieving responsible business practices and societal transformation.

Good open banking ecosystems could have a great potential in promoting responsible business practices and help towards achieving the SDG goals. There are already some great examples of case studies of companies that make use of data made accessible through open banking to help people take responsible actions. Greenly in France is a company that automatically tracks the impact of every expense a person makes and puts it in a dashboard and gives recommendations on what they can focus on to reduce their carbon footprint. This helps with not only measuring and understanding carbon footprint but also improving it. Svalna is a similar company in Sweden which aggregates the transaction data of individuals and businesses and the type of energy they consume (Tink, 2021).

Objective of the study

1. To analyze how open banking promotes responsible business.
2. To evaluate the impact of open banking practices on financial transparency, consumer empowerment, and economic inclusivity.
3. To showcase evidence from case studies where open banking has demonstrably led to positive outcomes in responsible banking practices.

Methodology

A mixed method is proposed for this research as it can combine qualitative and quantitative research to provide a higher depth to the research using expert interviews as well as surveys. This will allow to gather a diverse perspective from the audience.

From the pragmatist Approach, at first, we will run a cross-sectional, aiming to capture a snapshot of participants' attitudes, behaviours, and experiences at a specific moment (Bryman, 2016) by a survey questionnaire. This uses a quantitative approach to gather data for statistical analysis and draw generalizable conclusions (Creswell, 2014). Questionnaires and online surveys are employed to collect numerical data, enabling statistical exploration of variable relationships (Polit & Beck, 2017). Data analysis involves rigorous statistical techniques. Descriptive statistics summarize sample demographics. Inferential statistics explore relationships between variables, assess differences, and test hypotheses. Complex relationships are investigated with multivariate analyses like factor analysis and structural equation modelling. For qualitative, will conduct semi-structured interview with relevant stakeholders and users. Both the data will reflect in triangulation analysis.

Contribution of study

This research aims to bridge the current gaps in our understanding of open banking and responsible business practices. By doing so, it will propose new areas for further investigation and support progress in this field. By examining the link between open banking and responsible business practices, this research aims to: Fill knowledge gaps in this developing area and identify opportunities for further exploration. Also, it will inform policymakers by suggesting strategies that can promote both open banking growth and responsible practices. Since open banking relies heavily on customer data, the study will investigate: Consumer attitudes toward sharing data with third-party providers and the perceptions of regulations like GDPR and PSD2. This paper will also contribute to general knowledge of the impact that open banking and overall guideline for responsible banking via open banking.

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