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Open banking

A monetization playbook for banks

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EXECUTIVE SUMMARY

The banking landscape in the Gulf Cooperation Council[1] (GCC) region is undergoing a significant transformation with the emergence of regulatory-led open banking initiatives.[2] Open banking involves the consented-to sharing of customer data with trusted third parties, such as other banks, financial technology (fintech) firms, and payment providers. Directives mandating open banking could threaten incumbent banks' market position. However, with the right vision, these banks can turn that challenge to their advantage. They can retain their market share, redefine their identity, create new revenue streams, and forge deeper relationships with their customers.

To seize this opportunity, banks need a playbook composed of three elements:

- **Power the core.** Utilize open banking to enhance banks' existing offerings and increase cross-bank product market share, maximize customer lifetime value, improve the customer experience, and streamline operations.

- **Expand revenue boundaries.** Unlock new product opportunities and monetize banks' data through premium application programming interfaces (APIs),[3] and take advantage of previously underserved market segments through improved assessment of client creditworthiness.

- **Transform.** Exploit bank capabilities, technology, and strategic partnerships to introduce new business models and propositions, including banking-as-a-service (BaaS) and banking-as-a-platform (BaaP), expanding beyond traditional banking roles to explore innovative ecosystem plays.

By using this playbook, banks can do more than monetize open banking. They can place themselves in the vanguard of even larger opportunities within finance and the broader economy.

FROM OPEN BANKING, TO OPEN FINANCE, TO THE OPEN ECONOMY

Open banking revolutionizes the traditional approach to customer data management and payments in financial institutions. Historically, banks closely protected their customer data, rarely sharing it with external parties. Such information was for bank use only. Open banking thus introduces a paradigm shift as it facilitates secure and consent-driven data sharing and payments between banks and trusted third parties, such as other banks and fintechs.

Typical open banking use cases based on account information include faster onboarding of customers, account aggregation, financial management, improved credit scoring for risk management, and adaptive underwriting. Open banking use cases for payments involve various forms of direct transfers from an account—whether single, fixed recurring, or variable recurring—which can happen without having to use card schemes (*see Exhibit 1*).

> Open banking revolutionizes the traditional approach to customer data management and payments in financial institutions.

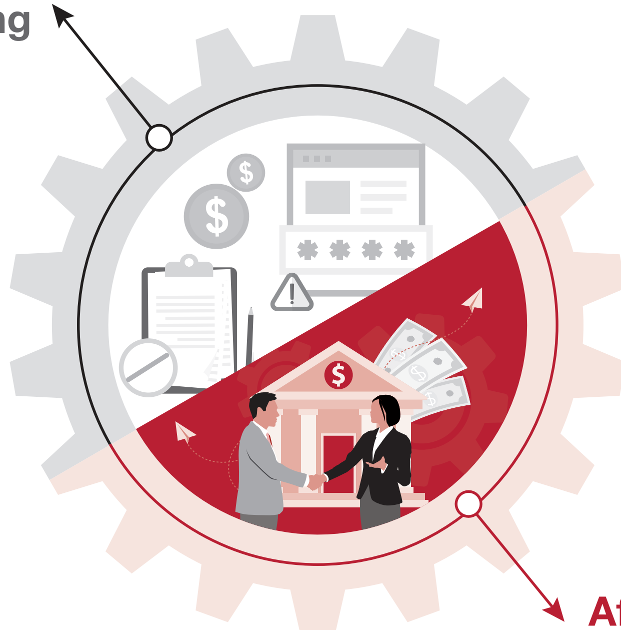
EXHIBIT 1
The transformational impact of open banking

End users
- Limited access to their own financial data
- Fragmented experience across different financial institutions
- Concerns about data security and privacy

Data holders (e.g., banks)
- Centralized control over customer data with no legal requirement to share it externally
- Limited interoperability with other financial institutions and service providers
- High costs and complexity associated with integrating third-party services

Service providers (e.g., fintechs)
- High barriers to entry due to integration challenges and lack of data access
- Difficulty in developing innovative financial products and services
- Reliance on manual processes and screen scraping for data aggregation

Before open banking



After open banking

End users
- Greater control over their financial data through standardized permission dashboards
- Enhanced visibility into their financial position across multiple institutions
- Improved access to personalized financial products and services

Data holders (e.g., banks)
- Facilitated data sharing with authorized third parties through standardized APIs
- Enhanced competition and innovation through collaboration with fintechs
- Improved customer experience and retention through expanded service offerings

Service providers (e.g., fintechs)
- Regulatory clarity and compliance through standardized data use and access protocols
- Access to a broader range of customer financial data
- Enhanced customer acquisition, reduced barriers to entry, and faster time-to-market for new products

Growth ahead

The open banking market is set for global annual growth of 25 to 27 percent, according to MarkNtel Advisors and Grand View Research. It could be worth US$135 billion by 2030, according to Grand View Research.[4] By January 2024, the U.K., a pioneer in the field, had achieved an open banking penetration rate of 13 percent for retail banking customers and 18 percent for small businesses.[5]

This expansion is the result of policy initiatives that fall into two main categories: those in which regulators mandate open banking and those in which policy facilitates, but does not require, open banking. The global trend is moving toward the mandated approach, following the European Union and U.K., where mandates have been in effect since 2017.[6] Other countries have chosen facilitation, such as India, Singapore, and the United States. However, the U.S. is now moving toward regulated data sharing.[7]

Similar trends are expected in the GCC, where Bahrain, Kuwait, Saudi Arabia, and the United Arab Emirates (UAE) are enabling open banking:

- In 2018, the Central Bank of Bahrain introduced a plan to move toward open banking. In 2020, Bahrain went through the first phase of its open banking framework. In 2021, the Central Bank of Bahrain mandated the second phase.[8]

- In 2022, Saudi Arabia announced gradual implementation of use cases for account information services and payment initiation services.[9] The Saudi Central Bank (SAMA) has required banks to issue automated letters of guarantee, reducing friction in financial services, going beyond open banking, and marking a preliminary step toward open finance. Strategy& projects that Saudi Arabia will achieve an open banking penetration rate of 20 percent with retail banking customers by 2030. This growth is expected in part thanks to Saudi Arabia's growing level of digital proficiency, state-of-the-art digital infrastructure,[10] and increasing public trust in the banking sector.[11]

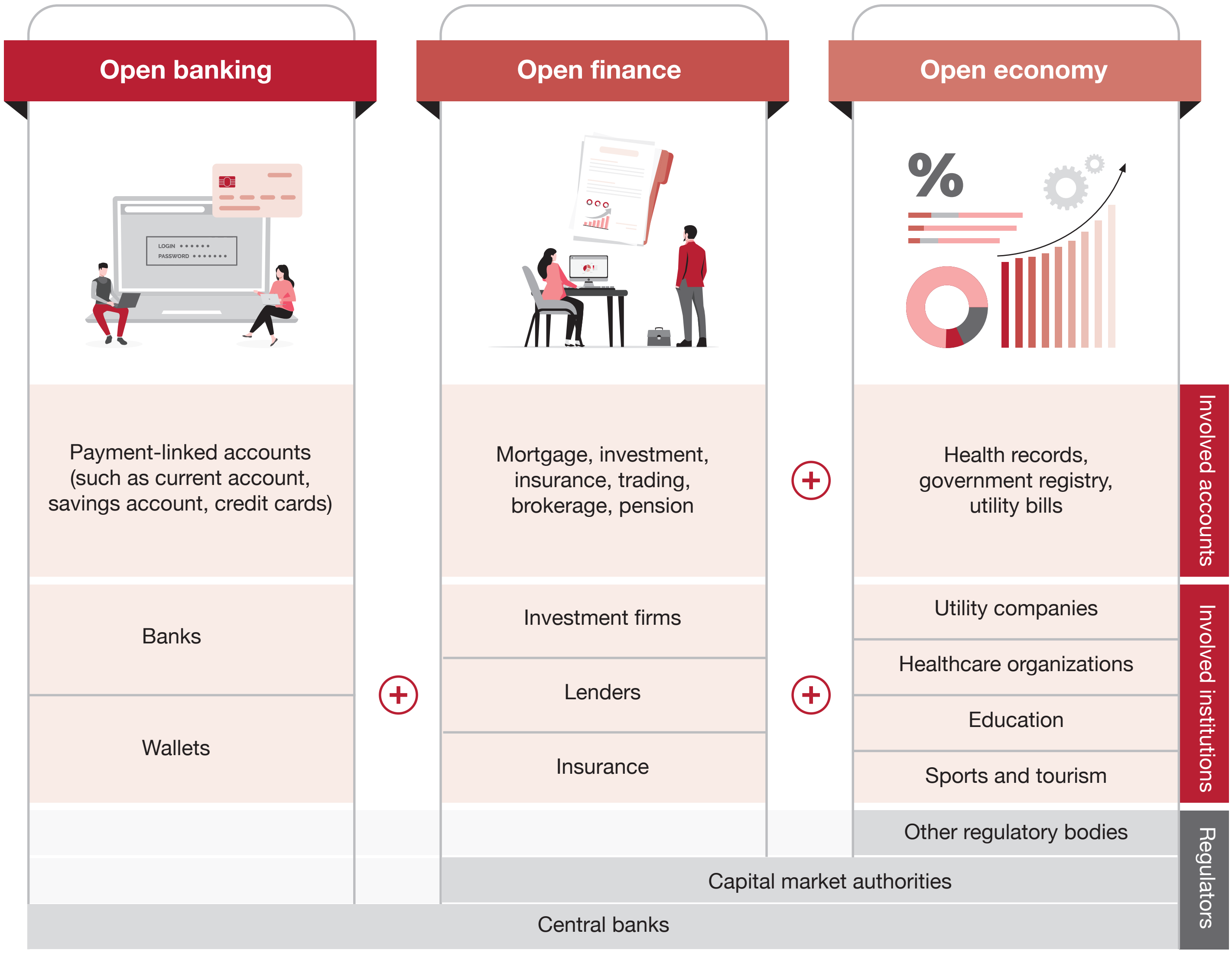
- In 2022, Kuwait initiated the definition of its open banking regulation, co-led by its central and commercial banks, while allowing open banking products to be tested in a regulatory "sandbox."[12]

- In 2023, as part of its Financial Infrastructure Transformation program, the Central Bank of the UAE initiated its open finance initiative, which covers banks and insurers. The Central Bank plans to announce its initial standards in the third quarter of 2024, in what is expected to be a mandated approach.[13]

Along with changes in banking, the sharing of data is quickly developing into what is termed open finance and open economy. As data sharing is mandated for entities beyond banks, it encompasses a wider range of accounts and activities (*see Exhibit 2*).

EXHIBIT 2

Open banking to open economy



Source: Strategy&

SEIZING THE OPEN BANKING OPPORTUNITY

Incumbent banks are understandably concerned about losing their dominant market share in this rapidly changing regulatory landscape. Fintechs and smaller banks could use their access to open data to entice customers and erode incumbents' market share.

However, such a loss of market share is likely only for banks that merely comply with the mandates. Those incumbent banks that understand the opportunity of open banking and open data more broadly possess considerable advantages. Incumbent banks have an established position in the market, they have scale, and they have deep customer relationships with people who trust them with money. They can build on these strengths to offer new services that expand their customer base and increase profitability. In particular, a trusted relationship with customers is a unique asset. People can find the growing array of open banking products confusing because they involve startups and other unknown firms. Savvy incumbent banks can curate open banking services for their customers, countering that confusion by providing reassurance and security.

So, for ambitious banks, the question that prevailed until recently about open banking regulations—"comply or compete?"—is obsolete. These banks can now work on monetizing the disruptive possibilities of open banking by exploiting the capabilities and technologies that they will develop through open banking initiatives.

Banks require a playbook composed of three elements that can redefine their identity. Banks can undertake all three of these initiatives simultaneously: power the core, expand revenue boundaries, and transform.

Power the core

Securing customer consent for data sharing is a crucial step for incumbent banks in defending their market position and preventing the outflow of customer data to competitors in the open banking arena. Without customer consent, banks may be little more than data providers, which their competitors can exploit. With customer consent, banks become consumers of data from external parties, thereby getting to know their customers better and supplying them with financial tools that build loyalty.

Get to know customers better

In order to obtain consent, incumbent banks need to offer open banking products. The easiest one to start with is advanced personal financial management (PFM). Although it started as a basic budgeting and expense categorization tool, PFM now enables customers to manage their expenses, increase savings, choose investments, and automate transfers. By providing such cutting-edge products, banks can secure as much consent as possible from their customers and can improve customer satisfaction.

Customer consent also allows incumbent banks to access data on their customers from other financial institutions. That allows incumbent banks to form a holistic understanding of their customers' financial behaviors, positions, and transactions. Such a grasp of their customers' behavior and financial status allows banks to play a larger role in customer finances. With this increased data, banks can identify emerging segments eligible for premium offerings. They can tailor customer retention strategies, cross-sell products, and sell more products to meet individual customer needs effectively.

A further advantage of such external data is that banks can proactively monitor changes in their customers' finances. For example, banks can implement preemptive measures to mitigate risks and ensure financial stability by detecting early signs of potential delinquencies.

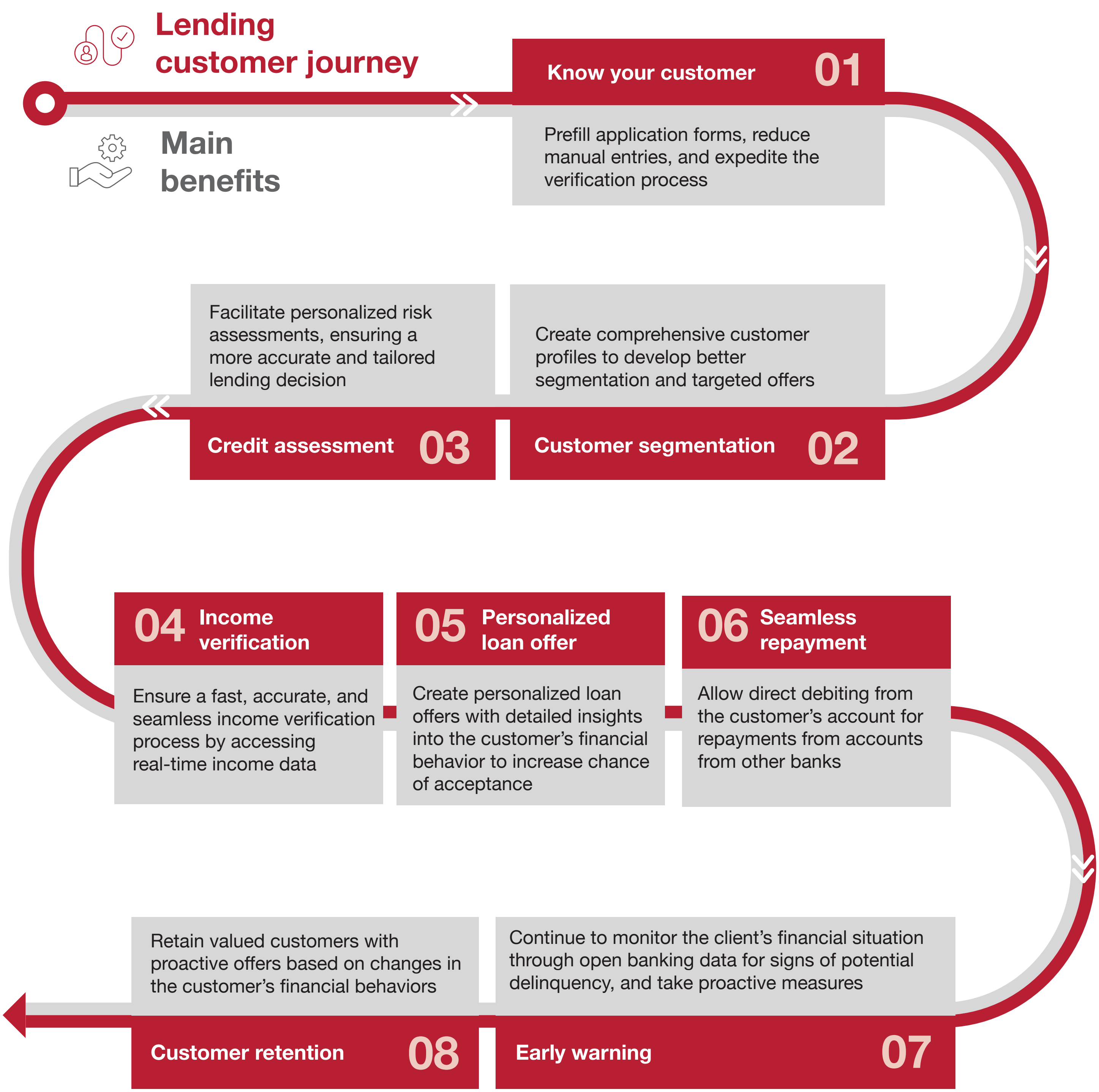
Build on customer trust

Incumbent banks are in a strong position to know their customers better and to provide them more services because they have customers' trust. According to a 2022 survey conducted in Saudi Arabia, most bank customers were willing to use open banking, but less than half were willing to share financial information with apps in exchange for access to payment tools.[14]

Strengthen efficiency gains

Having access to customer data means that banks can streamline their operational processes. Banks are thereby able to serve new and existing customers across their life cycle more efficiently. This increased efficiency typically applies to various use cases, including payments and fraud detection. With customer consent, banks can prefill application forms, reduce manual entries, and complete income verification with relevant financial information that may reside within external accounts. They can expedite the onboarding process, improve the accuracy and completeness of data, and minimize the risk of errors and delays. Open banking can also facilitate payment initiation services, allowing account-to-account transfers (*see Exhibit 3,* page 10).

EXHIBIT 3
Open banking improves the lending life cycle



Source: Strategy&

Expand revenue boundaries

Open banking allows banks to expand their revenue boundaries by targeting previously underserved segments and by offering new products, such as premium APIs.

The sharing of data provides insights into financial behaviors and personalized risk assessments. Using this information, banks can offer new products tailored to previously overlooked segments such as micro and small enterprises, along with gig-economy workers. Open banking provides banks with a better assessment of the creditworthiness and the risk profiles of these potential customers. That is because banks can obtain a wide range of data through linked accounts, including transaction data from business or personal accounts, invoicing, payment history, and cash flow patterns. These details provide more insight than traditional credit bureau information, which means that banks can assess whether these new, but higher-risk, segments can manage credit responsibly.

Banks also can monetize their data and services through premium APIs and by enabling the broader developer ecosystem. These efforts would target many different kinds of enterprises, including large and established companies that want to improve their efficiency and startups that need premium services to serve their customers better. Banks can launch their own developer portals, thereby giving their enterprise customers access to advanced features, data, support and documentation, customization options, and monetization opportunities. Such a move would encourage innovation and growth within the developer ecosystem. Already, European banks such as Barclays, BNP Paribas, NatWest, and Nordea have created premium APIs.[15] These encompass a diverse range of services, including foreign exchange trading, beneficiary account validation, credit scoring, and derivatives trading.

“ Open banking allows banks to expand their revenue boundaries by targeting previously underserved segments and by offering new products, such as premium APIs.

Transform

Open banking allows banks to acquire new customers and revenues by acting less like traditional financial intermediaries and more like technology companies. One of the most important effects of digitization has been to blur boundaries between industries and allow for new business models. Open banking allows incumbent banks to turn that pattern to their advantage. As incumbent banks accumulate capabilities and expertise, they can break down barriers between industries and help to develop banking-as-a-service (BaaS) and banking-as-a-product (BaaP). Such digital offerings would have been unimaginable until recently.

BaaS is the first business model transformation. The bank becomes a provider of capabilities, such as financial products, operations, technology, and licenses for nonbanking organizations to offer financial services. BaaS allows a bank to access new customers by entering third-party distribution channels, whether business-to-business-to-business or business-to-business-to-consumer. For example, a technology company could possess a large number of loyal customers who would benefit from specific financial offerings. However, the technology company lacks the inclination or capability to obtain a banking license or develop its own banking capabilities. Instead, the technology company can offer its customers BaaS by partnering with an incumbent bank, which would receive a share of the revenues.

BaaS can be a profitable way for banks, especially those with a smaller customer base, to use their open banking capabilities to enter new segments. The arrangement also works for the customers, whose relationship can be owned by the bank or BaaS partner, because they obtain seamless access to banking services within the applications, products, or services they already use. These customers do not need to visit a bank branch or switch from platform to platform. An example of BaaS is Walmart joining with a bank, Green Dot, to offer its customers in the U.S. a debit card and checking account.[16] Another is when Standard Chartered Indonesia formed a "strategic partnership" with Bukalapak, a prominent e-commerce platform with over 110 million users and 20 million business owners as customers. Together, they announced the creation of a digital banking venture that combines Bukalapak's e-commerce ecosystem with Standard Chartered's BaaS solution.[17]

BaaP is the second business model transformation, and it is the opposite of BaaS. Instead of another company allowing banks to access its customers, the bank opens its platform and customers to third parties and their value-added products and services. Banks should allow BaaP for those products and services that they cannot, or should not, develop independently. The bank safeguards its customer base by establishing BaaP partnerships that retain the accounts, along with receiving a margin on these offerings.

The fact that banks would offer these third-party value propositions acts as a low-cost means of customer retention. Customers gain the excitement of access to new products and services, part of a better experience that the bank did not have to pay to develop. BaaP is also good for third-party partners because they expand their customer base without the cost of acquisition.

An example is BBVA in the U.S., which has collaborated with tech partners to enhance its banking platform for small and medium-sized enterprises. BBVA's partnership with Xero provides consenting small business customers with an on-demand view of their cash position, which they can manage through privileged integrations with BBVA. A partnership with Execupay enables business customers to seamlessly manage their payrolls and employee direct deposits. BBVA has other BaaP partnerships in place that cover such customer needs as insurance, PFM, security, and utilities.

CONCLUSION

Open banking in the GCC region presents incumbent banks with a chance to go beyond compliance. They can now reinvent their customer relationships and role in the economy by offering their customers tailored products and services—either from the bank itself, or from partners that can do it better. These changes are just the start. Financial services are likely to continue to become more open as regulators increase the scope of mandated data sharing. Banks can position themselves for open finance and the open economy. By transforming their approach to markets, they can broaden their scope with new business models and partnerships across industries.

ENDNOTES

1. The GCC countries are Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates.

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