FROM PAYMENT SERVICES TO OPEN BANKING: PITFALLS AND OPPORTUNITIES

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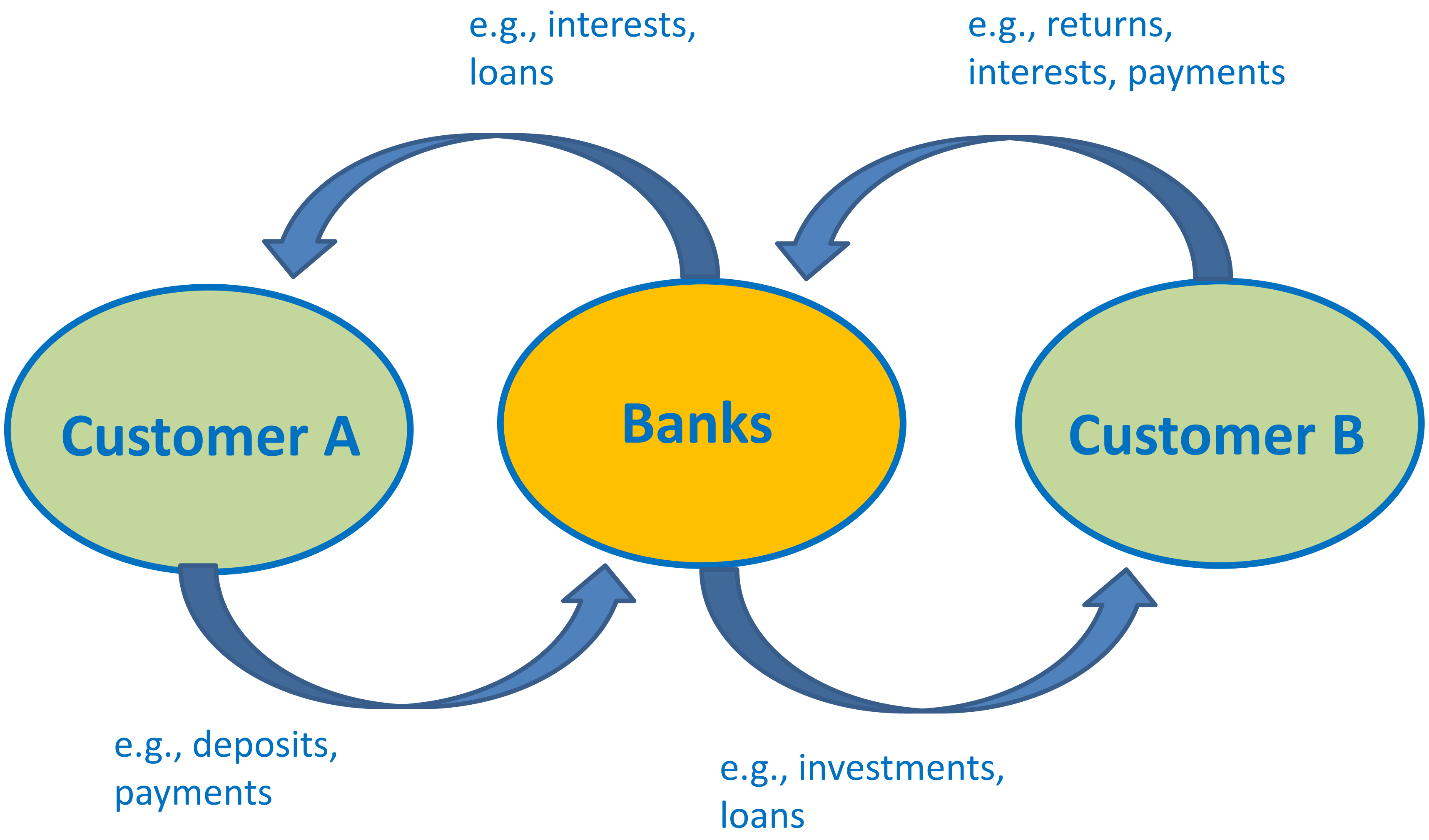
What is open banking?

"Open banking (OB) is a special kind of financial ecosystem governed by certain security profiles, application interfaces, and guidelines with the objective of improving customer choices and experiences"

Kassabe e Laplante, Computer (2022).

The traditional banking system



Is it possible to severe banking relationships?

Banking relationships produce information that is valuable to the bank (e.g., payment information are useful to assess credit capacity)

Information is owned by the bank that records it, but it should be proprietary of the customer that produces it

What is the ‘good’ traded in open banking?

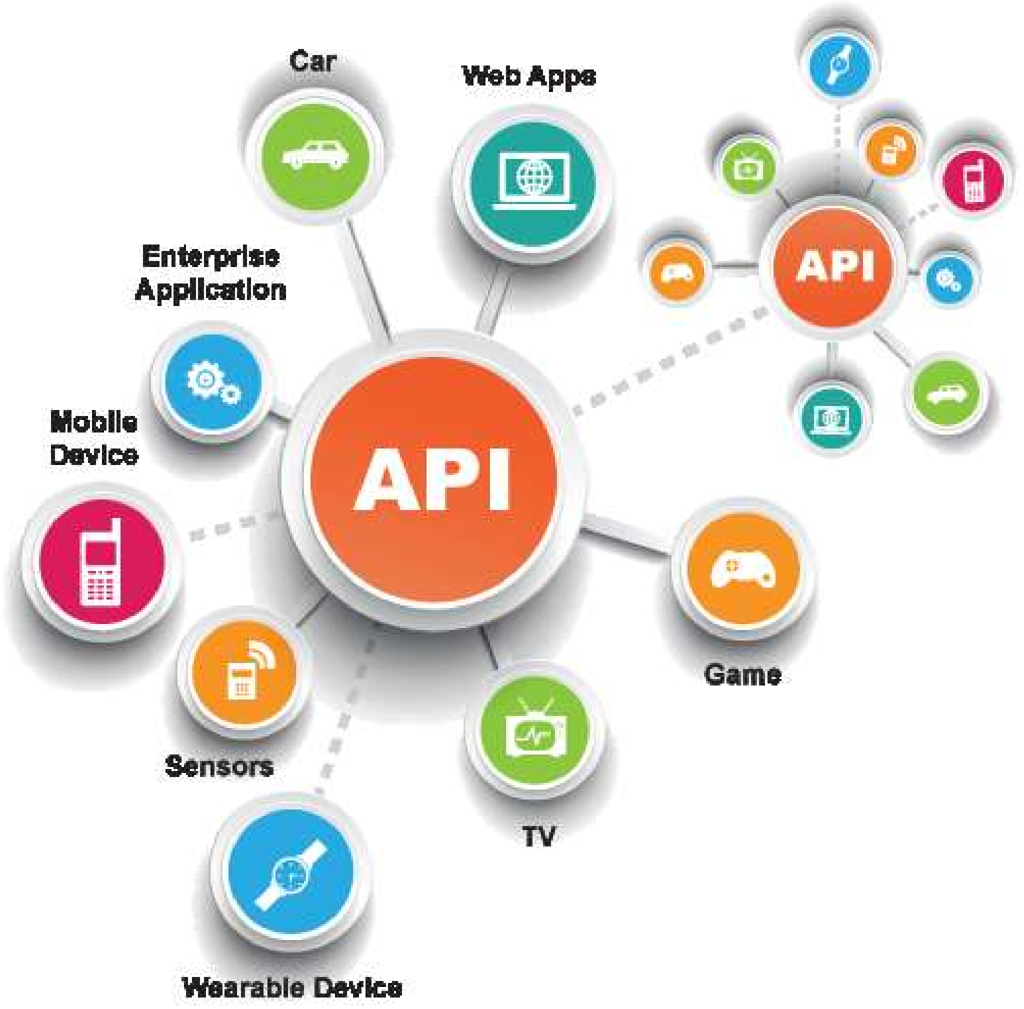
OB is about opening the access to information otherwise captive in a bilateral relationship between a bank and a customer

Information is a (partially) excludable and non-rival good

OB aims at creating a market for customers’ data (originally transaction data obtained from payment information)

How is information transferred?

Through software rules and programs that facilitate the interaction between different computer systems: APIs *(Application Programming Interfaces)*



Where did OB originate?

The kick start of OB comes from regulation

In the European Union, the starting point was the approval in 2015 of PSD2, requiring that financial institutions open up they data to:

- account service information providers (AISP)
- payment initiation service providers (PISP)
- card-based payment instrument issuers (CBPII)

What was the rationale for OB?

Enhancing competition

Favoring financial inclusion

Fostering innovation

Is extant OB regulation enough to achieve these goals?

OB is about transferring information to third parties: its impact will depend on how information will be spread and used

On the supply side, customers are likely to open information to a small number of counterparts of their choice

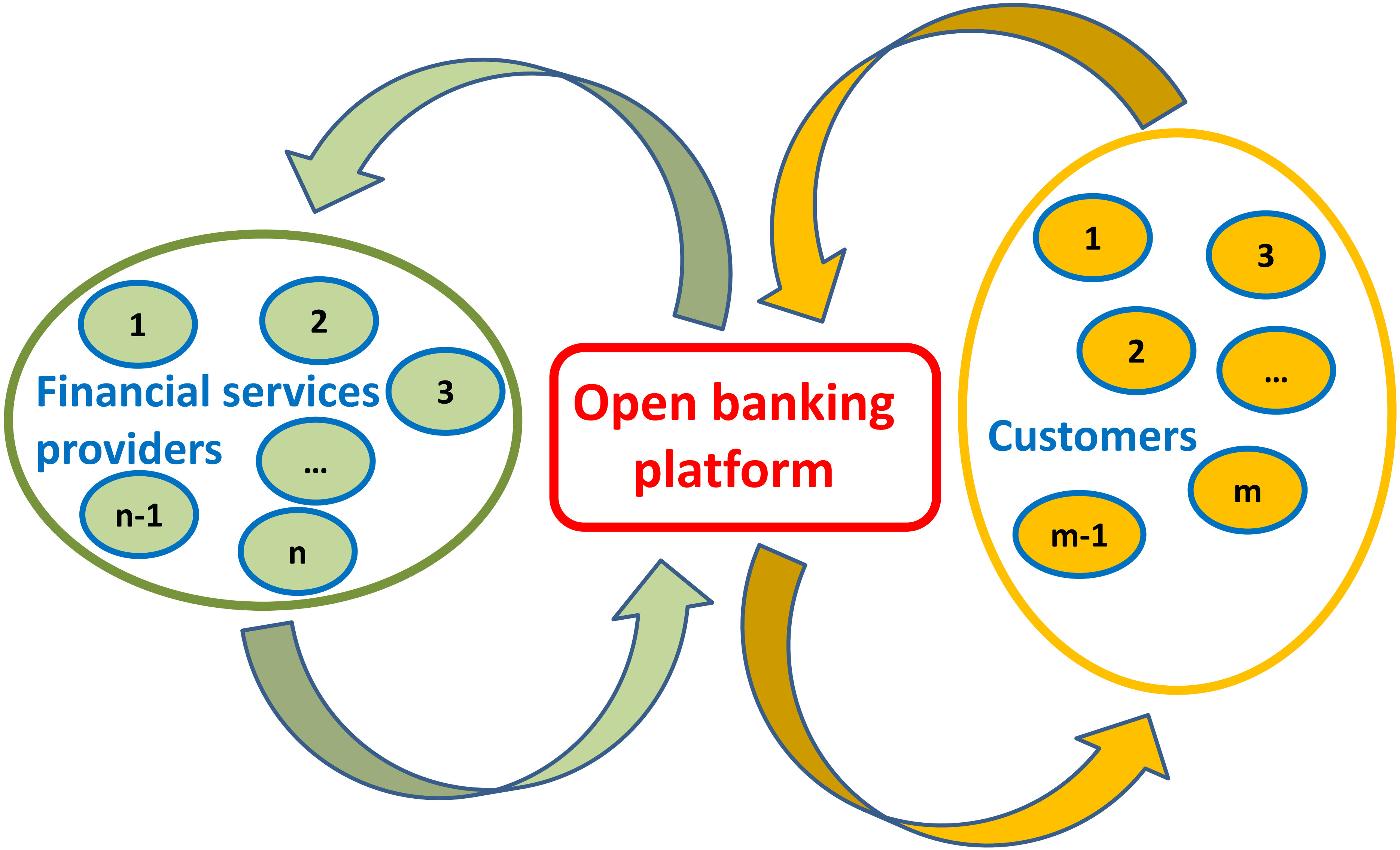
On the demand side, third parties will enter mainly if they have some way of preserving at least part of the value of the information

How will information be made available?

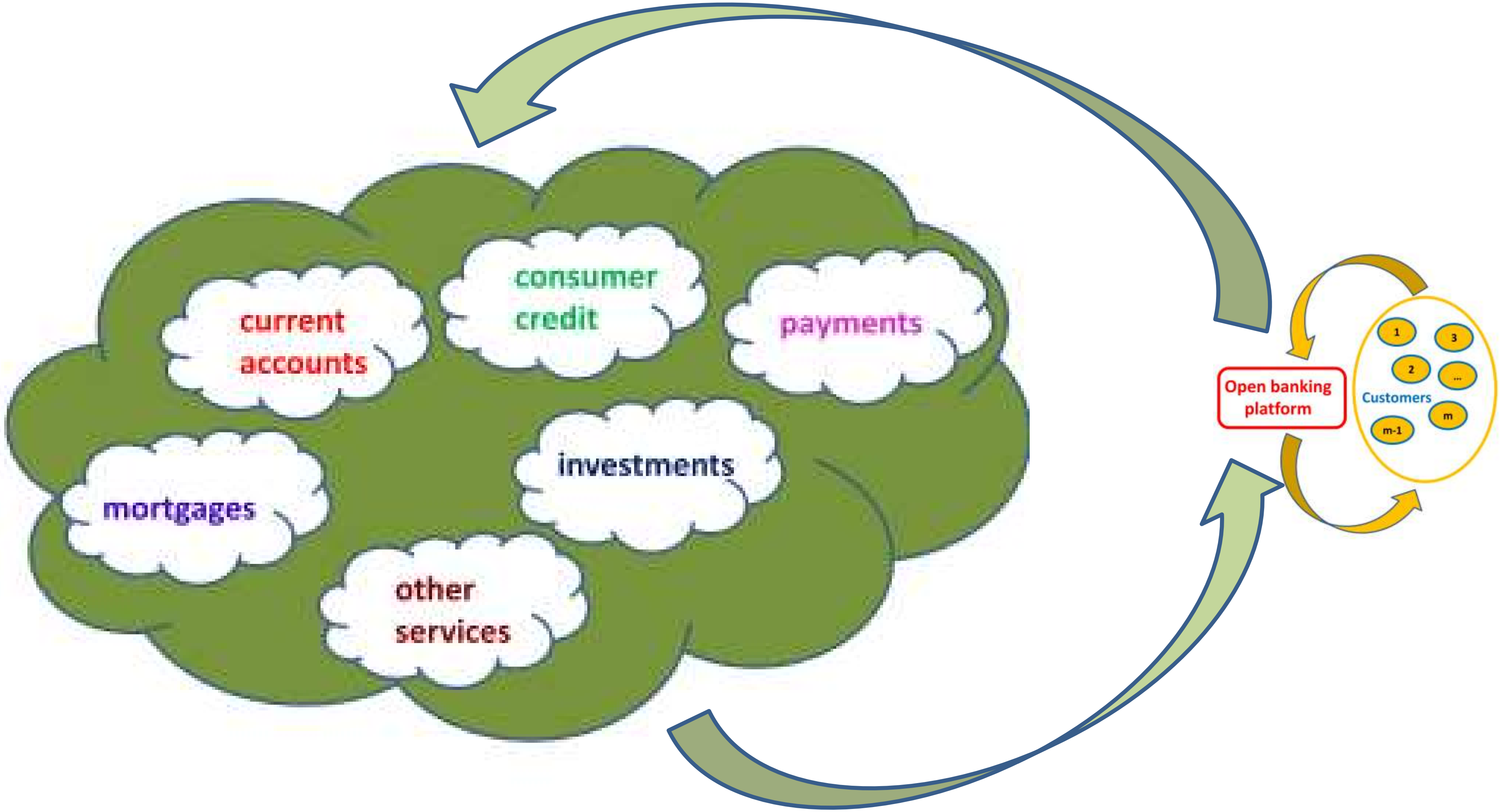
Opening up information to a single new provider can be beneficial (although with differences if it is a Fintech, an established bank or a Bigtech)

But a different scenario unfolds if data were transferred to a platform, which brokers different potential suppliers of financial services

An OB platform model



Different financial services providers



Can a platform model work against the objectives of OB?

The platform is the intermediary in a two-sided market and has the technology to match clients with services

Information is then likely to stay with the platform

The platform will likely enjoy monopoly power and information rents, partly due to network externalities, partly to vertical integration

Market power built on relationship-based financial intermediation might be just replaced by a new network-based market power

Will regulation help?

The long-run effects of OB are challenging to predict, but regulation must play a key role (e.g., on information other than from payments)

Proactive regulation will be crucial to avoid a scenario of late interventions (such as with the Digital Market Act and the Digital Service Act)

THANK YOU!

For additional insights on Open Banking, please see the forthcoming issue of:

EUROPEAN ECONOMY
BANKS, REGULATION, AND THE REAL SECTOR

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